Enterprise Development Programs Guide

PREAMBLE

The Key role of Enterprise development by YEDF is "Improving the Socio-economic Status of youth through Income generating and Social Development Activities". By encouraging youth in the country to engage in micro-enterprise, we encourage initiative, risk taking, decision making and income earning. The youth are able to participate in socioeconomic activities in their communities.

Limited technical, literacy and business skills are reasons for low status of youth owned enterprises. Micro-enterprises undertaking requires relatively simple technology and Management. This guide provides valuable guidance in the critical areas entrepreneurs face as they evaluate the potential of their business ideas. Its major strengths include in-depth and practical coverage of each topic in the guide. Our intention is not to make anybody a business management scholar but to reengineer the thinking and tactic of business success.

The overall goal of this manual is to equip trainers, civil society organizations, community-based organizations, youth leaders, as well as other partners with the basic concepts of entrepreneurship and knowledge of business planning essential for the success of an entrepreneur involved in small business The modules of this manual can be delivered as a complete package or appropriately selected based on the specific training needs of the intended participants. The manual has been written in simple language to ease understanding, and adapted to trainees of different levels and needs. It can thus be used to train diverse youth particularly as the facilitator is at liberty to decide which activities are most relevant to the different groups and has the flexibility to adapt various activities to ensure relevance in the local context. The development of this manual is a major success for YEDF's work in empowering entrepreneurs and we hope that you will find it useful.

INTRODUCTION

The manual is divided into 14 modules. The first four modules are devoted to explaining the concept of Self-Help and the principles of group functioning and points that need to be attended to while forming groups. The field worker can use these modules at the stage of group formation. This is followed

- Summary of Business Management
- How to Avoid Business Failures
- Business Plan preparation
- Keeping Business Records
- Employees Management
- Quality Management & Improvement of Your Business Products/Services
- Working Capital Management (Cash , Stock & Credit)
- Competitive costing of products and services
- Simple ways of attracting and retaining customers
- Taxation Issues in Business.
- Youth Loans and products
- Business Registration and
- Need for ICT Adoption in Business
- Effects of HIV/AIDS in your Business.

This guide is expected to be helpful to small business trainers/promoters, small business operators and any other person intending to run a small business.

The main objective of this guide is to provide a package of skills to help the target beneficiaries to improve his or her capabilities in running the existing business. The guide shall also serve as a day-to-day business teacher, ever present at the business place. However, it is important to caution that this guide is by no means everything to a small businessperson. It should be used in conjunction with advices given by business advisors. KIBT is, and shall always, be open to discussion with all small business operators on how to improve this guide so as to improve our service to the MSMEs operators.

CHAPTER ONE
OVERVIEW OF EFFECTIVE BUSINESS MANAGEMENT

1.0 Introduction

Effective business management forms the leading part of the success of any business organization. Management is the process of putting together the business resources towards realizing the business objectives.

With a small amount of starting capital and a relatively good product or service, it is easy to start up a small business. To ensure success, the businessperson must not only have a saleable product or service but also manage the business both efficiently and effectively. Business management ability is quite often the determining factor in the success or failure of a business organization.

1.1.0 Meaning of Key Points

1.1.1 A Business

A business is an income generating activity that is started with the aim of making profit by providing either a product or a service to the market.

1.1.2 A Small Business

This is a business entity that is started with a small amount of capital mainly of sole proprietorship or partnership and employs between 1 and 49 workers.

1.1.3 Business Management

This is a process of using the resources available in a business organization effectively and efficiently with an aim of attaining the set goals/objectives.

These resources may be summed up as:

- Money (Finance)
- Men (Manpower or Labor)
- Materials (Stock, Goods or Services)
- Machines (Tools and Equipment)
- Market (Customers)
- Minute (Time-frame)
- Methods (Expertise, Skills, Technical-know how etc)

1.2.0 Basic Business Management Skills

To achieve the above, the following skills are essential; -

1.2.1 Business Planning

A plan is an indication of activities, time, places, procedures and processes of doing things. A plan is always prepared before doing things. The reason for doing this is that a plan is meant to show:

- What is to be done

- How it shall be done
- How much money is needed and how to get it
- When the various tasks are supposed to be done
- Who to be responsible for the task

1.2.2 Business planning consists of three logical steps.

- Setting business objectives and deciding what you want to achieve
- Outlining procedures and deciding how you will achieve these objectives
- Assigning responsibilities and deciding what people and skills are needed to meet the objectives

1.2.3 Organizing/implementing business activities

Organizing is a process that involves the following steps: -

- Detailing all the work that needs to be done.
- Equitable division of work/activities
- Assigning responsibilities appropriately

1.2.4 Leading/directing

Leading or directing is the setting of direction for your enterprise by communicating activities to employees and motivating them so as to be efficient and effective.

1.2.5 Coordinating

Coordination is ensuring that there is no overlap of duties in an enterprise. No activities are left undone and that the left hand knows what the right hand is doing.

1.2.6 Controlling

By exercising the control function:

- Standards for work performance are set.
- Performance is measured against the set standards and remedial action is taken for deviations.

This brings operations in line with plans.

1.2.7 Staffing

Staffing in an enterprise involves: -

- Recruiting and selecting workers and assigning them relevant tasks
- Motivating the workers through training and development
- Paying the workers accordingly

1.3 Other Managerial Skills

I. Information gathering

The entrepreneur should be able at all times to seek any relevant information concerning the business for its smooth running and growth.

II. Decision-making and Problem-solving

Businesses always face various difficulties especially at the start-up stage. The owner/manager should develop skills in evaluating the risks and making wise decisions concerning the business such as:

- Understanding the problem
- Looking for possible alternative solutions
- Choosing the best alternative identified
- Taking a course of action (implementing

III. Business Financing

In business, money is required for: -

- Start-up
- Daily operations
- Future expansion and development

In addition, a businessman should possess knowledge/skills in the following areas;

- Budgeting for all resources needed e.g. cash inflows/outflows.
- Identifying relevant sources of business Finance e.g. from Banks & Micro Finance institutions
- Effective management of working capital i.e. cash, credit & stock.
- Effective costing and pricing of goods and services.
- Record-keeping and basic accounting. e.g. Cash Book/Ledgers.

IV. Public and Customer Relations Skills

A successful entrepreneur must develop good public and customer relations with all interested parties in his business, i.e. Employees, Customers, Suppliers, Bankers, Competitors, and Government Agencies & General Public.

V. Ability to take Risks

Venturing into business is taking a risk, which continues throughout the life of the business. Developing skills in evaluating the risks will enable the businessman make wise decisions concerning the ventures?

VI. Time Management

A Successful businessperson plans his time first and then plans the time of those working under him. They schedule their time and use it well to avoid waste. Effective time management will increase chances of success.

1.4.0 Conclusion

Success in any business venture becomes a reality when sound management skills are applied.

CHAPTER TWO
STEPS TO PREPARING A SOUND BUSINESS PLAN

2.0.0 Topic Objectives

At the end of the session, the participants should be able to:

- Understand the need for preparation of a business plan.
- Explain the various sections/parts of a business plan.
- Draw up an action plan program for the business.
- Prepare a simple business plan.

2.1.0 Introduction

Planning doesn't just happen. Planning is work. Today's manager is working more at planning than his counterpart did ten or twenty years ago. To ensure the best chances of success, it is important to write down all the details of the business.

Starting a business is like taking a journey into the unknown. Therefore details written down about the business will act as a route map or guide of the journey.

2.2.0 What is a Business Plan?

A plan is an indication of the times, places, procedures and processes of doing things. A plan is ways prepared before doing things. The reasons for doing this are that a plan is meant to show:

- What to be done
- How it shall be done
- How much money is needed and how to get it
- When the various tasks are supposed to be done
- Who is responsible for the tasks

2.2.1 Reasons for Preparing a Business Plan

Business plans assist in -

- Thinking about the project as a whole
- Pointing at needs that may be overlooked
- Giving a framework for decision making
- Providing a yardstick against which actual future performance of the business can be measured.
- Spotting problems and finding solutions before hand
- Setting reasonable objectives and figuring out how to achieve them
- Communicating business ideas to relevant parties

2.2.2 Users of a Business Plan

- The owners
- Financial institutions
- Investors
- Potential Partners.

- Suppliers.

2.2.3 When do we prepare a Business Plan?

- Starting a new business
- Re-starting a business.
- Expanding an existing business
- Want to procure a loan
- Want to partner with another person/business

2.3.1 Parts of a Business Plan

The following are the major parts of a business plan:

- Cover page
- Executive Summary
- Business background
- Marketing Plan
- Organisation & Management Plan
- Production Plan
- Financial Plan
- Action Plan
- Appendices

2.3.2 Introductory Page (Cover Page)

An illustration

Business Plan

Logo
Business Name:
Address:
Telephone No:
Contact Person:
Amount Required:

2.3.3 Executive Summary

This is a brief summary of the entire business plan and it includes key details of all the main sections/plans i.e. market, financial, organizational, production etc.

2.3.4 Business Background

Refers to the general history of the business:

- Location
- Products/Services offered by the business.
- Business Goal
    - Mission Statement
    - Main Objectives
    - Specific Objectives (In terms of Sales, Profitability, Market share etc)
- Form of business ownership

2.3.5 Marketing Plan

Consists of the following:

- Customers
  - List of potential and current customers & their locations.
  - Market segments.

- Competitors
  - List of existing & potential competitors.
  - State their weaknesses and strengths.
  - State any available opportunities that can be taken advantage of.

- Market Share
  - Estimate Initial & Expected share in the market.

- Promotion
  - Various methods(Advertising, Discounts e.t.c)

2.3.6 Organization & Management

The quality of the management team is very important in any business: This section focuses primarily on;

- Organizational chart /structure.
- Duties and responsibilities of the employees.
- Qualifications of the employees.
- Remuneration of the various employees.
- Indicate all the collaborating/supporting organizations e.g. banks, insurance companies.

2.3.7 Production/Operational Plan

This is a section that highlights what is involved in developing/producing a product or service.

It comprises of the following details:

- Production Facilities/Materials- Their sources & Prices.
- Mode of acquisition of the production facilities- Either Hire/Buying.
- Premises and space needed for operation.
- Production Process – (Basic stages of production).
- Production strategy i.e. Use of qualified personnel, Working for extra hours, use of human labour or machines)

Note: Production Plan- For product business
Operational Plan- For service business

2.3.8 Financial Plan

The goal of the business is to be profitable. This part is important in the evaluation of an investment opportunity by anyone who wants to finance your Business.
It involves the preparation of the following statements

- Statement of the Pre-Operational expenses.
- Owners' Equity
- Required borrowing
- Repayment schedule

(a) Tabulation of the Pre-Operational Costs

I. Start-Up Costs

Repairs, Renovations, Painting	xxxx
Counters & Shelves	xxxx
Furniture & Fittings	xxxx
Cost of Installation	xxxx
Machines	xxxx
Tools & Equipment	xxxx
Legal & Professional fees	xxxx
Deposits for utilities	xxxx
Licences & Permits	xxxx
Signs	xxxx
Insurance	xxxx
Goodwill	xxxx
Rent	xxxx
Provision for emergency	xxxx
II. Working Capital Requirements	
Cash	xxxx
Stock	xxxx
Debtors	xxxx
III. Initial Month' Personal Expenses	xxxx
Total Amount Required	**XXXX**

(b) Projected Cash Flow Statement

PARTICULARS	1ST Quarter	2ND Quarter	3RD Quarter	4TH Quarter
Opening Balance	XXXX	XXXX	XXXX	XXXX
Sales	XXXX	XXXX	XXXX	XXXX
Dividends	XXXX	XXXX	XXXX	XXXX
Payment By Debtors	XXXX	XXXX	XXXX	XXXX
Current Borrowing	XXXX	XXXX	XXXX	XXXX
Total Cash Inflows	**XXXX**	**XXXX**	**XXXX**	**XXXX**
Less: Cash Outflows				
Payment –Creditors	XXXX	XXXX	XXXX	XXXX
Purchase-Fixed assets	XXXX	XXXX	XXXX	XXXX

Salaries & Wages	XXXX	XXXX	XXXX	XXXX
Loan Repayment	XXXX	XXXX	XXXX	XXXX
Repairs & Maintenance	XXXX	XXXX	XXXX	XXXX
Selling Expenses	XXXX	XXXX	XXXX	XXXX
Payment for Utilities	XXXX	XXXX	XXXX	XXXX
Total Cash Outflows	**XXXX**	**XXXX**	**XXXX**	**XXXX**
Balance C/F	**XXXX**	**XXXX**	**XXXX**	**XXXX**

(c) Owners' Equity

This is used to refer to amounts that an entrepreneur already possesses before the start of a business/new venture. Can be in form of personal savings, pension income etc.

(d) Required Borrowing

= Total Pre- Operational Expenses Minus Owners' Equity

(e) Repayment Schedule

- Loan (Borrowing) Duration.
- Proposed amount of Installment payment.

Note: As a business grows it would be required to show several statements such as:

- Projected Profit/Loss.
- Proforma balance sheet.
- Initial Year budget.

2.3.9 Action Plan

This particular focuses on the following:

- Activities to be carried out.
- How they will be carried out.
- Who is responsible for the various tasks?
- When the various tasks are scheduled (Dates & Time frame).
- The amounts required for the scheduled tasks.

2.3.10 Critical Risks

This is a part that identifies the potential risks to the business. It shows an entrepreneur's preparedness in dealing with unforeseen events such as;

- Failure to meet production deadlines.
- Problems with supplies and distribution.
- Sales and projections not attained
- Unforeseen business trends
- Unforeseen economic, political, social, and technological developments
- Management inexperience
- Competitive price cutting
- Capital shortages and cyclical fluctuations

2.4.0 Appendices

This section comprises of all information/documents/data that could not have been included in the main parts of the document. They include photographs, title deeds, plot maps, past performance records, recommendation letters, audited reports etc

2.5.0 Conclusion

There is no single correct format for business plans for all businesses. They vary depending on the nature and purpose for each business. Professional advice helps in fine-tuning a plan and gives the benefit of an independent opinion. A stranger may not get to his destination unless he is provided with a map. The entrepreneur who wants to succeed in business should have a business plan in place.

CHAPTER THREE
HOW TO KEEP PROPER BUSINESS RECORDS

3.0 Introduction

Record keeping is sometimes more of an art than a science. Good records can greatly improve many of the management decisions including decisions about marketing, personnel, borrowing, pricing, stock, and product development. Good records will improve control of cost, help to keep track of one's own operations and it will also tell potential lenders or investors about the managerial capabilities.

Almost every business decision may be improved through an analysis of records. The best reason to keep, understand, and use complete records is to help manage the growth and development of the business.

If one wants to run successful business one should have real financial picture of a business. Accurate, up-to-date records are very important for every aspect of the business. It's certainly not fun, but without accurate records, one simply cannot run a successful business.

3.1 What Is Record Keeping?

Record keeping is the process of classifying and summarizing information. In the case of a business, record keeping refers to the process of classifying and summarizing economic events (business transactions) of the business.

3.2 Who are the Stakeholders?

I. Owner/s - Owners are at all time the stakeholders. For them they just want to know exactly how much profit/loss their business is making.

II. Banks – The banks are the stakeholders when they extend loans or overdraft to the business.

III. Government - Government is a major stakeholder in regards to getting tax from business-owners' income. If a business does not keep records, it will be difficult to file tax returns to the commissioner of income tax. The record will also assist if one wants to claim tax rebate.

IV. **Investors/Prospective Buyers** – Investor or prospective buyers are also stakeholders especially when they want to buy the business. They will want to know its performance.

3.3 Why Record-Keeping?

Economic events (business transactions) involving money are usually numerous and unless one keeps track of them, the business may not succeed. Hence, it is important to keep records of every business transaction.

The following are some of the reasons: -

i. To provide the following information of transaction to the owner/s or managers: -
   - How much money has been invested into the business since it started **(capital)**
   - How this **capital** was used
   - How much money is coming into the business daily (**sales revenue**)
   - How much money is going out of the business daily (**Purchases & expenses & personal drawing etc**)
   - How much the business owes outsiders (**creditors**)
   - How much money outsiders owe the business (**debtors**)
   - How much **profit/loss** the business has made in a given period.

ii. Helps in credit dealings.

iii. Helps in planning.

iv. Helps in Tax calculation.

v. It is a tool of management or control of the Business.

vi. It is a proof of financial position of the business.

3.4 Why Fail To Keep Records?

The following are reasons given by some business owners for not keeping records:

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

3.5 Designing Record-Keeping System

Systems of Record-keeping refer to methods and rules to be followed when transactions are recorded. Systems of Record-keeping will depend on: -

- The size of the business.
- The information needed by the owner/s.
- The control needed.
- The kind or the type of business.

However, irrespective of the size and other given factors, the system of Record-keeping should be: -

- Simple and easy to control.
- Quick and easy to use.

3.6.0 Types of Records

To start a simple record-keeping system one will need the following: -

3.6.1 A File

In this file one will keep important documents e.g.

- Business registration certificate
- Copies of trade license
- Insurance policies for the business
- If the organization is a Limited Company then one will have copies of: -
    - (i) Articles of Association
    - (ii) Memorandum of Association
    - (iii) Certificate of Incorporation

- Any agreements or contracts involving business
- Tax returns
- PIN card
- VAT Registration certificate etc

3.6.2 Cash sales receipts book

In this book one will have carbon records of cash sales, which have been paid for in cash.

3.6.3 Invoice book

In this book one will have carbon records of what has been sold on credit. When the debtors pay the debt, one will enter the details in the cashbook and mark the invoice as paid.

3.6.4 Purchases File

In this file, one will keep all the documents, which contain information for cash and credit purchases of the business.

3.6.5 Expenses File

In this file one will keep all the documents, which involves expenses e.g. water bills, electricity bill and etc.

3.6.6 Analyzed Ledger

The ledger is the main book of records because all transactions are recorded in it. In a small business the most convenient kind of ledger is the analyzed ledger. It can be used as the only book of records, by entering all the transactions in it. When in use one does not need to separate Cash Book as it combines the other books.

Generally, the analyzed ledger includes the following books among others:-

- Cash Book
- Bank Book
- Purchases Book
- Sales Book
- Expenses Book
- Stock Book
- Fixed Assets Book
- Debtors Book
- Creditors Book

3.7.0 Financial Reports.

What constitutes a complete set of financial reports varies for any particular business. At a minimum, most businesses prepare a **Profit and Loss Accounts** and a **Balance Sheet**. These are the basic financial reports, which summarize all the business records. Much can be learned about a business from these two reports alone. These reports are common to all types of businesses.

3.7.1 Profit And Loss Accounts

Profit and loss Accounts, when properly prepared, will reveal how much the sales cost of sales, expenses, and net profit or loss for a period has been.

Profit & Loss account is divided into two sections:-

a) Trading section

Provides for Gross profit or Gross loss, which is the excess of sales over cost of goods sold.

(SALES – COST OF GOODS SOLD = GROSS PROFIT)

b) Profit and loss section

Provides for net profit or net loss, which is excess of gross profit over operating expenses.

(GROSS PROFIT – OPERATING EXPENSES = NET PROFIT/LOSS)

3.7.2 Balance Sheet

A balance sheet is a statement of the financial position of a business as at a given date. It discloses the book value of assets and liabilities. It is divided into two parts.

(a) Assets - What the business owns e.g. debtors, cash, land, building

(b) **Liabilities -** What the business owes e.g. capital, creditors, loan

Feb 1, 2006	Fredrick Ouma began business in hardware Kiosk with:	
	Cash in hand …………………………………….........	2,000/-
	Cash at bank ………………………………………….	60,000/-
” 2, 2006	Bought goods on credit ………………………………	32,500/-
” 3, 2006	Sold goods on credit …………………………………	5,000/-
” 6, 2006	Paid Creditors by cheque …………………………….	32,500/-
” 6, 2006	Paid wages in cash …………………………………...	1,500/-
” 8, 2006	Debtors pays in cash………………………………….	2,500/-
” 10, 2006	Bought goods on credit ………..................................	15,000/-
” 12, 2006	Cash sales …………………………………………….	7,500/-
” 13, 2006	Paid wages in cash …………………………………...	1,500/-
” 14, 2006	Paid:- Electricity ……………………………………..	600/-
	Water …………………………………………..	400/-
” 18, 2006	Sold goods on credit …………………………………	20,000/-
” 20, 2006	Paid wages in cash …………………………………...	1,550/-
” 21, 2006	Cash sales …………………………………………….	2,070/-
” 22, 2006	Paid all cash except 500/- into bank …………………	
” 22, 2006	Stock on hand ………………………………………...	22,500/-

Prepare the analyzed ledger, Trading, Profit & Loss Account and Balance sheet as at 22nd February 2006.

Analyzed ledger

		Cash book			Bank Book			Purchases	Sales	Expe-nses	Creditors Book			Debtors Book		
Date	Details	In	Out	Bal	In	Out	Bal	Book	Book	Book	In	Out	Bal	In	Out	Bal
1/2/06	Capital	2000		2000	60000		60000									
2/2/06	Credit Purchase							32500			32500		32500			
3/2/06	Credit Sales								5000					5000		5000
6/2/06	Payment to creditor					32500	27500					32500	-			
6/2/06	Wages		1500	500						1500						
8/2/06	Payment by Debtors	2500		3000											2500	2500
10/2/06	Credit Purchase							15000			15000		15000			
12/2/06	Cash Sales	7500		10500					7500							
13/2/06	Wages		1500	9000						1500						
14/2/06	Electricity		600	8400						600						
14/2/06	Water		400	8000						400						
18/2/06	Credit Sales								20000					20000		22500
20/2/06	Wages		1550	6450						1550						
21/2/06	Cash sales	2070		8520					2070							
22/2/06	Cash to bank		8020	500	8020		35520									
22/2/06	**Balance/ Total**			**500**			**35520**	**47500**	**34570**	**5550**			**15000**			**22500**

Fredrick Ouma Trading,
Profit & Loss Account for the month ended 22/02/06

	Kshs.	Kshs.	Kshs.
Sales ……………………………………………………….			34570
Less: Cost of Goods sold:-			
Opening stock………………………………..	Nil		
Add: purchases ………………………………	47500		
Cost of Goods available for sale……………..	47500		
Less: closing stock ………………………….	22500		25000
Gross Profit ……………………………………………..			*9750*
Less: Expenses ……………………………………….			5550
Net profit ……………………………………………….			***4020***

Fredrick Ouma
Balance Sheet as at 22/02/06

Capital ………………………………	62000	Fixed Assets	
Add *Net Profit* ………………………	*4020*	Fixed Assets ………………..	Nil
	66020		
Current Liabilities		Current Assets	
Creditors ……………………………	15,000	Stock ……………………….	22500
		Debtors …………………….	22500
		Bank ……………………….	32520
		Cash ………………………	500
	81,020		**81020**

3.8 Conclusion

Complete, accurate, and timely records are crucial to the survival and success of any business. Many business failures are directly related to conditions such as high operating expenses, excessive stock, and deteriorating profits. Good records reveal such problems in time to take corrective action. No one can be absolutely sure what the future will bring, but past performance as revealed in records often provides a good indication of what to expect. The business owner needs good records to make decisions based on factual information rather than guesswork. Analysis of records allows the business owner to monitor for daily flow of transactions, to catch shortages, discover trends, spot potential trouble areas, and to plan for the future.

CHAPTER FOUR

EFFECTIVE COSTING AND PRICING FOR PROFITABILITY

4.0 Introduction

The basic knowledge of costing and pricing is of great importance to any entrepreneur, as this may be the determining factor for business success or failure. All entrepreneurs should calculate their costs before setting prices of their products or services. Failure to do so could easily lead to one selling his/her products or services below cost, resulting in loss which may in turn lead to business failure. Other times, businesses overprice themselves out of business.

4.1 Topic Objectives

At the end of the topic, the participant should be able to: -

- Describe costing and pricing concepts
- List the elements of costing a product/service
- Illustrate how to calculate the cost of products/services
- Identify various pricing objectives
- Explain different criteria in setting prices

4.2.0 The training will help you

- To target their market with the right price
- To maximize their business's true potential profit by selling at the most appropriate price.
- To cost products and services with a full understanding of how costing models operate
- To meaningfully understand costing with the objective of making the correct business decision.
- To realize the implications of incorrect costing
- To explore and evaluate alternative methods to maximize profit

4.2.1 Costing defined

Costing is defined as "the process of calculating all the expenses involved in producing and selling a product/service". Costs, once known, provide a reference point for assessing profitability and returns. In addition, costs establish the minimum level below which prices will not normally be set.

4.3 Importance of Costing

The main aim of costing is to show the total costs and their elements so as to exercise control over them. Costing is also done for the following reasons: -

- To assist in providing a basis for price setting - when setting a price for a product or service, the costs should first be ascertained because your price must cover all costs incurred and leave a profit margin.
- To realize the desired percentage of profit.
- To provide information for planning and decision-making.

4.4 Elements of Cost

The cost of a product or service is the amount spent when acquiring or making that product or giving the service.

The following are the elements of cost:-

- **Materials**
  Mainly the raw materials supplied to your business or which you use to manufacture or process a product.

- **Labour**
  This refers to work done by people producing the products. But in costing it is calculated in form of money paid to the workers or anybody hired to help in production of goods or provision of services.

- **Expenses**
  This is the cost of service provided to the business; each expenditure is always looked under the above items, e.g. in making a table the carpenter will incur costs in the following manner;
  Materials – Timber
  Labour -- Wages paid to the person making it
  Others (expenses) – Carriage (transport), License, rent etc.

4.5 Classification of Costs

Costs may be classified in a number of ways, but a common method of classification is DIRECT and INDIRECT costs.

4.5.1 Direct Costs

Direct costs are those that can be *directly* identified with a job, product or service. They comprise the following elements:

- **Direct materials -** the raw materials used in production e.g. leather used in the production of shoes.
- **Direct labour –** the remuneration paid to production workers for work directly related to production or the salaries directly attributed to a saleable service.
- **Direct expenses –** these are expenses incurred specifically for a particular product, job or service e.g. transport charges for bringing in raw materials.

4.5.2 Indirect Costs

These consist of all materials, labour and expenses, which cannot be directly identified with production of a product/service. The three elements of indirect costs (indirect materials, indirect labour and indirect expenses) are collectively known as OVERHEADS. Typical examples of indirect costs are:

4.5.2.1 Indirect materials – stationery, other consumable materials, maintenance materials, spare parts for machinery etc.

4.5.2.2 Indirect labor – wages for factory supervisors, maintenance staff, store men, accountants, clerks etc

4.5.2.3 Indirect expenses – rent, insurance, water, electricity, telephone etc.

4.6 Costing for a Product

Product costing involves adding up all the elements of costs involved in the production of a product or provision of a service.

Thus; **Direct Costs + Indirect Costs = Total Production Costs**
When net profit is added to this, we get the selling price.
The following are some of the simple ways of allocating both the **direct** and **indirect** costs to the product/service: -

4.6.1 Direct Costs

- **Direct materials:** Calculating the materials used in manufacturing a product are done simply by listing all the materials to be used and their cost.
- **Direct labour:** Time taken to manufacture the product as well as salary given to the workers who manufacture the product is both taken into consideration.

4.6.2 Indirect Costs

- Using the pre-determined fixed costs for the year and then apportioning the appropriate indirect costs to the product.
- Using an agreed on percentage of indirect costs to be apportioned to the product.

4.7 Cost Statement

A cost statement is always produced to determine the total cost of the product so that the final selling price is set in a better way.

The cost statement for a given product has three parts (as shown below) viz: -

Part A	The PRIME COST (Direct cost)
Part B	The OVERHEAD (Indirect cost)
Part C	The Total Cost + Net Profit to give Selling Price

4.6.1 Cost Statement for Product

		Shs.	Shs
(a)	**PRIME (DIRECT) COSTS**		
(i)	Direct Materials	…………	…………
(ii)	Direct Labour	…………	…………
(iii)	Direct Expenses	…………	…………
	Total Direct Cost		========
(b)	**OVERHEAD (INDIRECT) COSTS**		
-	Rent		....
-	Salary/wages		....
-	License		....
-	Repairs		....
-	Transport		....
-	Interest on Loan		....
-	Water		....
-	Electricity		....
-	Bad debts		....
-	Others		....
	TOTAL Indirect Costs		....
	TOTAL PRODUCTION COST		=========
(c)	Add profit (…... %)		---------------
	Selling Price		=========

The profit percentage (Mark-up) added on cost to set the selling price depends the level of competition, Government policy, own judgment among others.

Simple Costing Exercise for a Designer-Maker.

STEP 1 Calculate your annual business overheads, i.e. the fixed costs that must be paid regardless of sales (KSHS.14,000 in the following example):

Business overheads (annual)	**KSHS.**
Rent (if working from home, allocate a proportion to the business)	3,000
Business rates	500

Work these out at a weekly rate by dividing the total by the number of weeks you work in a year after allowing for holidays (e.g. 48 weeks, assuming 4 weeks holidays)

i.e. KSHS.14, 000 divided by 48 weeks = **KSHS 291**.

If you spend less time making products for sale, the result will be fewer items produced for sale. The fixed costs stay the same regardless of how many items you sell, so the more items you sell, the cheaper the product or the higher your profit.

Calculate the number of hours spent each week on making the work (i.e. physically producing work). This is important because it will determine the maximum number of items you can make and will help you to decide whether you need to produce faster or use subcontractors.

Assume that you work on average 8 hours a day and a 5-day week. You may spend two days a week on

Telephone	900
Fax	350
Email	400
Insurance	250
Electricity	800
Water	600
Stationery	1,200
Promotional materials	1,200
Leasing agreements	300
Transport	1,200
Advertising (from recruiting subcontractors to promoting products)	1,000
Subscriptions to trade magazines and associations	200
Depreciation (how much the value of your capital assets declines each year)	600
Maintenance	500
Loan repayments	1,000
TOTAL	**14,000**

administration, marketing and selling, leaving 3 days for actually making products. If you spend 8 hours a day, 3 days a week in making, you spend 24 hours a week in making.

(In reality you will probably work much longer hours in the first few years of the business, but you need to base your estimated time for costs on sustainable figures. For example, if you calculate over a 6-day week at 10 hours a day, you will need to keep working to this schedule or increase your prices substantially when you reduce your time.)

Calculate the hourly rate by totaling the number of hours you spend each week (say, 24 hours) on making. Your weekly overheads are **Shs.**291 (annual overheads divided by 48 weeks). Divide that by the number of hours worked, i.e. **Shs.**291 divided by 24 hours, giving an hourly overhead rate of **shs.12** appox. If you spend more hours a week making, this will reduce your hourly rate, e.g. **Shs.**291 divided by 30 hours = **Shs 9.70**, which could result in higher profit, lower prices, etc.

If you spend a great deal of time on non-making activities, e.g. selling and marketing, your hourly rate will increase. This is because you have less time for actually producing the products, and in consequence you are more restricted as to how much you can produce each week. You will therefore have to charge more per hour, and the selling price of your work will need to increase so that you can cover your weekly overheads.

Remember, your notional salary as business manager is fixed. Even if you sell nothing, you still need money in order to live. Your living expenses are not going to stop because you do not have clients. Many designers take a part-time job when starting up. This guarantees a weekly income to cover their living costs and allows time for developing products and markets. If the business thrives, the part-time job can be dropped.

4.7 Pricing

Pricing is defined as "the process of determining the amount of money for which your products/service will sell, based on the costs of producing and marketing your products/services, balanced against what the market will bear."

- Price is what the seller feels the product or service is worth.
- It is the exchange value of a good or service expressed in terms of money.

4.7.1 Pricing Objectives

- **Survival –** Used when one is faced with heavy competition and wants to survive in the market etc.
- **Current profit maximization –** Here the price set will produce the maximum current profit.
- **Market share leadership –** Here pricing aims at obtaining optimum market share in order to reduce costs
- **Product quality leadership –** the objective here is to charge a high price in order to cover high cost of providing quality product /service.

4.7.2 Criteria for Setting Prices

Many pricing methods tend to concentrate on one particular aspect and neglect others. While setting prices right for an existing product is fairly straightforward, setting new prices is not so easy. However, the following guidelines may be useful: -

- **Consider costs**

Make up your own mind about the lowest price you are prepared to consider. Whatever you are trying to achieve – even if it is buying your way into the market – there must be a minimum price below which sales are simply not worth pursuing.

- **Watch the customer**

Prices should be related to demand in the market place and not solely to costs. Try to take account of the non-price benefits that your customers will gain by using your products/services, and estimate what they will be prepared to pay for them.

- **Watch the competition**

Whilst it can be very useful to look at competitors' prices, do remember that you do not have to undercut everybody in sight to break into the market. Then decide on where to position your product/service, on the market and where its price should be relative to others.

- **Do not under price**

If you are offering a better product than others on the market, you should be charging a premium price for it. Anything else, whist may be not a defeat, is certainly a reflection of weak "non-price" marketing. Remember that service can be an important part of the benefits, which your customers are prepared to pay you.

4.7.3 Pricing Approaches/Methods

The following are the common pricing approaches:-

- **Going-rate pricing –** Here Prices are set based largely on competitors' prices. You either charge the same, more or less.
- **Market-skim pricing -** This is a pricing strategy whereby businesses set high prices initially to maximum revenue from the market segment willing to pay a high price.

- **Cost-plus pricing** –This is a pricing method where a standard mark-up is added to the cost of producing a product/service.
- **Psychological pricing –** sellers can influence or use consumer reference prices when setting prices. e.g. how will a buyer perceive a price of 600/= and 599/95 for a shirt?
- **Discriminatory pricing –** Here prices are adjusted to allow for differences in customers, product, location, as well as time.
- **Promotional pricing –** In this strategy businesses temporarily price their product below the list price and even below cost so as to penetrate the market or increase sales.

4.8 Conclusion

Calculating your costs accurately and determining an appropriate price for it will allow you to cover all your costs and sell in sufficient quantities to make a profit and succeed in your business.

CHAPTER FIVE
MANAGEMENT OF CASH, STOCK AND CREDIT

5.0 Introduction

The analogy has often been made that cash is the lifeblood of any business. Take it away and the business 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.

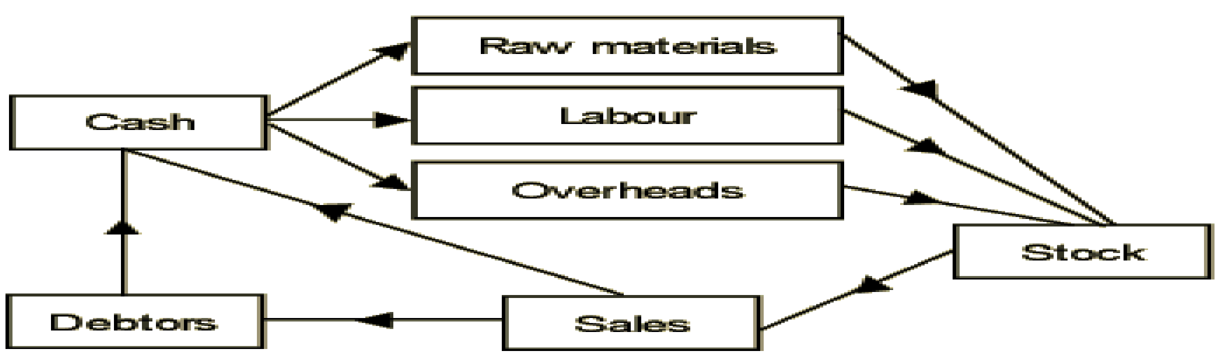
In other words, the financial requirements of any business must be tailored to suit that businesses own particular needs. Working capital requirements should be attended to by short-term finance. It goes without saying that before capital is injected into the business it should first be ascertained whether all unnecessary leakages have been plugged. Otherwise, in time, the transfusion will follow the same route. 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 hub of working capital management.

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

5.1 The working capital cycle

Working capital can be broken down into the following major components: cash (or bank overdraft), stock, debtors and creditors. Each of these items can have a major influence on the working capital (or simply cash) that any business requires on an ongoing basis. For example, 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 cover other overheads such as rent. He then sells his product and this income may be utilized to purchase more stock, pay more wages and overheads and perhaps even have a surplus for his own use. The quicker he can turn his stock over to receive payment, the sooner the working capital cycle will be completed.

5.2 Working capital cycle



In reality, extra considerations must be taken into account. Stock is purchased but 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 a multitude of 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 often tied up in debtors.

5.3 The art of working capital management

It was mentioned earlier that the art of working capital management lies in using each shilling 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 the time it takes for each shilling 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. (It is argued that too little working capital employed in an expanding business environment can lead to an overtrading problem. However, here we are concerned with the effective and productive use of funds and not the availability of funds).

5.3.1 Stock

Cash resources are inevitably committed to a stock holding. Thus the business has a priority to convert the stock back into cash (and profit) in as short a time as possible so that those funds can be reinvested into stock. Business is ongoing so if some of the goods on the shelf are 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 tied up in this manner could have been earning interest if they had been invested. Instead, the owner would need to use his overdraft, thus paying out instead of receiving interest. Paying close attention to various stock turnover rates will indicate 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.

5.3.2 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. The goods are no longer on the shelf, but neither is the cash on hand. Only after the expiry of the credit period is payment likely to 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, 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 debtors' period could well be longer than anticipated. All in all, an item of stock could conceivably 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.

5.4 How can the working capital cycle be improved?

Working capital can be improved by increasing the rate of stock turnover and/or cutting back on debtor days. Within each of these categories there are multiplicities of strategies, e.g. eliminating slow moving/unprofitable lines, offering discounts, arranging consignment stock facilities, prompt billings, charging penalty interest, etc.

5.5 Cash Management

Proper management of cash entails: -

- Separating personal expenses from business expenses.
- Ensuring that you have enough cash to settle your debts and for purchase of stock.
- Making sure that you have only the cash you need in the business.
- Avoiding unbudgeted spending of cash.
- Saving money for business improvement and meeting unforeseen circumstances.
- Being able to prevent cash losses through fraud or theft.

5.6 Methods of Controlling Cash

To effectively control business cash, it is advisable to do the following: -

a) Counting money regularly

- If possible count your money daily.
- Put aside the money that you need the following day and bank the rest.
- Always record cash transactions.

b) Limit your drawings

- Avoid taking money from the business unnecessarily.
- If you can't avoid taking money from the business, you should budget for it and stick to the budget.
- Take only what you need.
- Make a habit of recording your drawings.

c) Banking cash regularly

- Do not keep too much loose cash in your business premises.
- Money not immediately required should be banked.
- All bank transactions must be recorded.

d) Do not mix family expenses with business expenses

- Members of your family should only take money from the business to a certain limit.
- Family members must sign for the money taken from the business.
- Always record the cash taken from the business in your cashbook.

e) Paying yourself

- Allocate yourself a salary.
- Set a specific time frame as to when you can draw money from your business.
- Record all details when paying yourself.

f) Preparing a Cash Budget

It is important to prepare a cash budget for your business.

- The cash budget ensures that sufficient cash is available as and when needed.
- The budget may show any expected shortages and may assist in taking remedial action.

5.7 Management of Stock

There are three types of stock.

- Raw materials.
- Work-in-progress.
- Finished products.

5.7.1 Need for Effective Management of Stock

- Stock should always be available when needed.
- To store enough stock and cut down on storage costs.
- To identify which items to order and when.
- To determine which items move fast or slowly.

5.7.2 How to Control your Stock Levels

(i) Regularly count your stock

- Proper shop layout and display will assist you in counting your stock.
- Draw-up a timetable when you should carry out stock-taking.

(ii) Record your stocks

- Ensure proper stock records are kept.
- Use stock-cards when recording your stock.

5.8 Credit Management

(a) Advantages of Selling on Credit

- A credit sale serves as a way of attracting customers who might go to your competitors.
- Buyers would always like to buy more on credit because it eases their cash flow problems.
- An item though sold on credit is a sale, therefore credit sales increase the total volume of sales.

(b) Disadvantages of Selling on Credit

- Credit sales tie up your business cash, which could have been used to purchase stock and meet other business needs.
- When you sell on credit there are chances that some customers might completely fail to pay, and this will definitely affect your business profitability.

- You may use more money trying to follow up your debtors who have defaulted in payments, which may interfere with your initial investments.
- A lot of time is wasted chasing debtors, which may lead to stress.

5.8.1 Designing a Credit Policy

A good credit policy should consider the following factors: -

(i) Who Should You Advance Credit to?

- Evaluate the would-be debtor.
- Appraise his/her personal background, character and ability to pay.

(ii) The Amount of Credit to Advance

Limit the amount of credit to be given out at any given time. This will depend on customer and what you plan to advance him without affecting your business.

(iii) Credit Period

Establish the length of time you can allow out credit and make sure your customers are clearly informed.

(iv) An Undertaking

Proper business records should be kept for all credit transactions including the customer signing down if need be.

(v) Security (Collateral)

This measure commits whoever is intending to buy from you on credit.

(vi) Debt collection

Establish and design a clear debt collection policy.

5.9 Conclusion

If you don’t want to become the worst enemy of your business, you must always manage your business cash, stock and credit efficiently and effectively. Over and above everything else discipline and shrewdness in your business will be paramount to being a good manager.

CHAPTER SIX
HOW TO EFFECTIVELY MARKET YOUR PRODUCTS/ SERVICES

6.0 Introduction

Every enterprise is based on selling of a product or service for a profit. The product or service is sold to a market. Your most priceless asset must be your customers, not your products, machinery or plant. To reach your customers and improve sales, one needs to undertake certain activities. It is the carrying out of these activities that is called Marketing.

6.1 What is marketing?

Marketing is everything you do to find out who your customers are and what their needs and wants are. It is all about identifying customer needs and how to satisfy them and make a profit by: -

- Providing the product/service they need,
- Setting prices that they are willing to pay,
- Getting your products or services to them, and
- Informing and attracting them to buy your products/services.
- Retaining your customers

6.1.1 Importance of Marketing

In business, marketing is very important because it is at the centre of all business activities. A product or service produced is important if it can be sold and consumed. The following are the main reasons why marketing is important: -

- All businesses are based on the sale of a product or service
- Marketing helps in creating demand for goods and services. This in turn stimulates production
- Through public relations, marketing creates goodwill for the business
- Marketing forms the basis of business budgeting. The first budget to be made is usually the sales budget. Other budgets help in realizing the sales budget.

6.2 What is a Market?

A market is made of customers. Your customers are the people or other businesses that want your products/services and are willing to pay for them.
Your customers are: -

- The people who buy from you now
- The people you hope will buy from you in the future
- The people who stopped buying from you but you hope to get them back

6.2.1 Market information

Market information will help you in making the various marketing decisions on target markets, products, pricing, distribution and promotional activities.

6.2.1.1 Sources of information include: -

- Internal records that you keep in the business e.g. financial and sales records

- Interviewing consumers, customers, middlemen, salesmen and suppliers
- Published materials like; -
    - Government papers/reports
    - Business magazines
    - Trade associations
    - Daily newspapers

6.3 Select appropriate Product/Service

To be successful in business, you must have the products or services your customers want. Products are things like clothes, food, furniture, cars etc. Services are activities like motor vehicle repair, transportation, painting, salon, dry cleaning etc.

Whatever products/services you sell, it must be able to meet customer needs/ wants. The following are some of the things you should consider; -

- What quality
- What quantity
- What price
- What size
- Which design or style
- What colour
- Whether there are any substitutes in the market
- Reasons for purchase – use of the products, benefits

In choosing what products/service to sell, you can use customers to help you decide.

- Find out from customers what they like about your product
- Ask for advice on product and prices you offer
- Note the product customers keep asking for and you do not make or stock. It shows they need that product and you should make/stock it.
- Find out what you could improve in your products/services according to your customer suggestions

6.4 Determining the right Price

In marketing, price means setting a price that your customers are able and willing to pay. You should make sure the price is attractive and gives you enough profit.

Before you set a price for your product or service you need to: -

- Know your costs. To make a profit your price must be higher than your total costs for the product
- Know how much customers are willing to pay
- Know your competitors' prices
- Know how to make your prices more attractive, e.g., by using special offers and discounts.

6.5 Distribution (Place)

Place means where your business is located. It also means different ways of getting your products or services to your customers, i.e., channels of distribution.

6.5.1 Types of Channels

- Producer → consumer/industrial users
- Producer → retailer → consumer/industrial user
- Producer → wholesale → Consumer/Industrial user
- Producer → wholesaler → retailer → consumer
- Producer → Agent → wholesaler → retailer → consumer.

6.5.2 Selecting the Channel

- Decide whether you want to use only one or several channels at the same time
- Look at the nature of the market
- Nature of the product
- Consumer buying habits
- Competition
- Finances and costs
- Geographical areas to be covered

NB. Ensure that the channel used is convenient to you and your customer.

6.6 Promotional Activities

Successful business people do not sit and wait for customers to come to them. They promote their products/services.

Promotion involves three major activities: -

- Informing – advertising and publicity
- Attracting customers – sales promotion
- Personal selling – salesmanship

Promote your products/services in order to sell more and increase your profit by: -

- Advertising – making customers interested
- Sales promotion – getting customers to buy more
- Publicity – getting free promotion
- Improving your skills as salesperson

6.6.1 Advertising

The following are some of the simple ways on how you can advertise your products/ services: -

- Using of word of mouth
- Using posters, price lists and business cards
- Using your business name on a sign post or shop face
- Drawing pictures on the walls of your business premises
- Using newspapers, radio and television
- Distributing handbills to customers

6.6.2 Sales Promotion

Sales promotion is everything you do to make customers buy more of your products or services. The following are some of the simple methods you can use in sales promotion: -

- Giving free samples
- Giving extra free service
- Having demonstration
- Having competitions
- Having attractive displays
- Giving discounts and other incentives

6.6.3 Publicity

This is free promotion, which may be through an article in a newspaper or magazine, which tells people about your products or services. The article promotes your business and can help increase your sales.

6.6.4 Personal Selling

It helps in actual selling and passes ownership of the product to the customer. Without it, the whole marketing effort may be useless. To be a successful salesperson and increase your sales, you need to: -

- Know your customers and their needs
- Know how to treat your customers
- Know your products and how to sell them well

6.7 Handling Customers in your business

There are two types of customers in your business. These are: -

- Internal customers- owner and employees
- External customers- the people buying your services or products and suppliers of your services or products

You should maintain mutual understanding between your business and its customers based on truth, knowledge and information.

6.7.1 What Customers Want

The customers want: -

- To be treated with dignity and respect
- Your product/service to meet their expectations
- To be treated with consideration – they want to feel good about interacting with you
- You to help them solve their problems
- You to respect their time – serve them quickly
- Information on your product or services.

6.7.2 The Indicators of Quality Product or Service to customers

- Ease and convenience of products/service to customers – accessibility

- Quick response – willingness or readiness to provide products/service
- Understanding – efforts to know customers needs
- Competence of employees – skills and knowledge
- Courtesy – employees are friendly, respectful and considerate
- Credibility – trustworthy, honesty, having their interests at heart
- Reliability – consistent and accurate performance and dependability
- Responsiveness – respond quickly to customer requests or problems
- Security of products/service – products/service free from danger
- Understanding the customer needs and complaints
- Tangibles – appearance of premises, people, equipment etc

6.7.3 Effects of Poor Customer Care/Service

- Poor public image
- Bad publicity due to negative word of mouth from angry customers
- High costs of waste, mistakes and repeat work.
- Loss of competitive edge and hence loss of sales
- Lack of pride in the company – no one wants to be associated with the business.

6.7.4 Steps in Good Customer Care

i) Understanding customer needs. This can be done by: -

- Encouraging them to visit you in your office/business
- Establishing suggestion boxes
- Having them write to you
- Having them call you
- Visiting them at their premises
- Carrying out surveys to establish their needs

  NB. Listen to the customers and ensure that you understand their needs well.

ii) **Understanding customer expectations.** Factors that affect customer expectations include: -

- What the customer has heard about the product/service or the provider
- Customer experience with other service providers
- What the customer believes he/she needs
- The communication by the service provider

  Ensure that you understand what the customers expect and where possible shape their expectations to make sure that they are realistic.

iii) **Serving the customer.** Service delivery is determined by several factors. These include: -

- Knowledge, skills a and attitude of the service provider
- Service delivery tools and equipment
- Service delivery environment
- Quality of support and/or supervision received by the service provider

- Availability of service standards.

iv) **Customer assessment of quality of product/service**
Quality of a product/service is the result of the assessment that a customer makes of the product/service he/she receives. Quality is a comparison of the customer's expectations with the performance of the product/service. We can have excellent, satisfactory or poor product/service.

v) **Feedback of service.**
This can be in the form of a complaint. A complaint is a negative feedback that a customer will give when he/she is not fully satisfied with the service given.

6.7.5 Causes of Customer Complaints

- Products/service that do not live up to customers expectations
- Limited choices
- Delays, mistakes etc
- Poor external communication leading to frustration
- Unprofessional behavior by the service provider

6.7.6 Handling Customer Complaints

- Introduce yourself and do not start giving excuses
- Do not become defensive or argue about the complaint
- Do not tell customers what you can't do for them, rather emphasize on what you can do to solve the problem
- Ask for facts
- Admit mistakes and apologize
- Use simple language
- Only make promises on what you can personally deliver.

6.8 Conclusion

Proper application of the marketing techniques can greatly increase your sales and improve your profitability. Remember, business is marketing and marketing is business.

CHAPTER SEVEN
QUALITY MANAGEMENT AND IMPROVEMENT FOR YOUR PRODUCTS/SERVICES

7.0 Introduction

Business people should aim at improving their operational efficiencies by reducing variations and eliminating defects in the business processes, products and services. The goal of a business should be to find out what the customer wants and then fine tune the process to ensure that they get it. Remember, customers' needs keep on changing from time to time.

7.1 What is Quality?

Quality is defined as meeting or exceeding the needs and expectations of the customers. It is the satisfaction of agreed customer requirements. Quality can be measured in terms of performance, added features, and reliability/durability, conformance, serviceability, design and reputation among others.

7.2 Objectives of Quality Improvement

The following are the objectives of quality improvement:-

- Reduction of defects. The errors and defects are automatically eliminated or reduced.
- To drive down operational costs while improving the quality of their products.

7.3 Quality Improvement Process

The following are the steps to be followed:-

- Define the important customer requirements
- Gather information on defects involved in the targeted processes.
- Analyze data to give an idea about the difference between the desired levels and the actual process outputs and determine the extent of improvement required.
- Find and implement solutions that seek to eliminate or reduce the problems identified.
- Control the suggested solutions. This should be monitored periodically for any variations.

7.4 The Benefits of Quality Improvement

- Better quality translates into the business having a 'larger number of satisfied customers'.
- Process improvements lead to increased product durability and reliability and longer product life spans.
- Increased profitability
- The employees develop sense of purpose and ownership in their work.

7.5 Quality Improvement Concepts

Several quality improvement concepts have developed over several decades. The core concepts are:-

- Continuous process improvement
- Customer focus
- Defect prevention
- Universal responsibility

7.6 Continuous Process Improvement

Continuous Improvement is the term used to describe the fact that process improvement takes place in incremental steps. It never stops. However good things may be, they can always be better.

7.7 Customer focus

Everyone has a customer. We have to think of the internal and external customers. It means that every work group has to think about providing value to the people who use their product. This involves finding out exactly what the user needs and wants and ensuring that the process provides it. The starting point for quality improvement is to determine the customer needs.

7.8 Defect Prevention

Defect prevention is concerned with catching the errors as early in the game as possible or preventing them from occurring at all.

7.9 Universal Responsibility

Everyone in the business should be concerned with seeking ways to improve the quality of their own product or service. None should be blamed.

7.10 Techniques for Quality Improvement

I. Benchmarking

Benchmarking is the process of determining who is the very best, who sets the standard and what that standard is. It is the process of identifying, understanding and adapting outstanding practices from organizations anywhere in the world to help your organization improve its performance.

Businesses should benchmark a business that is well known for being a good model.

By Benchmarking you will find out:-

- Who performs the business process very well?
- Who is the most compatible for you to benchmark with?

Once we decide what to benchmark and how to measure it, the objective is to figure out how the winner got to be the best and determine what we have to do to get there.

II. Meeting ISO 9000 Standards

ISO 9000 certificate is the process or system used to manufacture a product or service. ISO 9000 is a family of international standards for quality management and assurance. These standards cover design, procurement, production, quality assurance and delivery processes for everything. The ISO 9000 designation is your assurance that an entrepreneur follows a consistent process while producing products or services that meet the most demanding standards in the industry.

7.11 Quality Management

This is a business working style that results in:-

- Delighted customers
- Empowered employees
- Higher revenue and lower costs
- Zero defect approach

7.12 Problem Solving

Problem solving is concerned with identifying the root causes of a problem and implementing actions to correct the situation.
There is a ranking order for selecting solutions:

- The best solution is one that eliminates the problem altogether
- In some cases, the problem cannot be eliminated and so one may relax the requirements.
- When these solutions are not feasible the problem may be resolved by training personnel to control the circumstances that contribute to the problem.
- The worst solution is to use cautions or warnings of possible hazards

7.13 Value Improvement

Value improvement is aimed at cutting costs while at the same time continuing to surpass customer expectations. It requires that one analyze the cost structure of the product, relate this to the customer requirements and eliminate or reduce those costs that are unnecessary.

7.14 Conclusion

Determining customer needs accurately is an important aspect of quality control. Obviously, it is less costly to rectify a mistake in defining customer requirements before a product is produced or a service is rendered than it is afterwards. You know you need to improve on your quality but you are just too busy. Well, if you do not implement quality management and improvements based on customer expectations, you will find yourself out of business. Then you will have plenty of time to improve your quality, but it won’t matter because it will be too late.

CHAPTER EIGHT
BENEFITS OF UNDERSTANDING TAXATION ISSUES FOR BUSINESS

8.1 Introduction:

A significant number of business people never register as taxpayers. There are many underlying reasons behind this trend, which includes amongst others:

- Perceived Fear.
- Lack of the necessary knowledge on taxation benefits.
- Cumbersome registration process.

However it is noteworthy to state that there are numerous merits enjoyed by being a business taxpayer, such as:

- It enhances the business' image in the eyes of crucial third parties e.g. Lenders, Suppliers e.t.c
- Aids in improving your business environment indirectly i.e. Good roads for easy accessibility of stock, security, garbage collection e.t.c
- Tax compliancy is a core requirement for businessmen/persons wishing to apply for government tenders.

8.2 Definition of the Term "Tax"

It is a compulsory contribution imposed by the government for the common benefit of the people residing in a country. Taxation is a branch of public finance. Public finance entails public revenue and public expenditure.

8.3 Sources of Public Revenue

The central government raises revenue with the objective of financing essential services such as healthcare, security, road programs, education e.t.c and pending obligations e.g. repayment of both Internal & External loans. The major sources of public revenue comprise of:

- **Taxation:** It accounts for 80% of all the annual government revenue. It is chargeable based on various parameters such as income, sales and purchases.
- **Fees:** This is an amount received by the government against any direct services rendered e.g. Import license fee, Road license fees e.t.c
- **Commercial Services:** Income derived from institutions established by the state to undertake varied commercial activities. They include Telkom, KPLC, and Kengen e.t.c.
- **State Assets:** Forests, mines, national parks e.t.c are considered as the property of the government. Income derived from these assets form part of the government revenue.
- **Special Assessments:** Amounts charged for specific government projects e.g. Residents of a particular area may be charged a specific amount of money for the establishment of a communal project e.g. hospital, school e.t.c.

8.4 Why Governments Levy Taxes

- Raising Revenue.
- Economic Stability – During inflation the government imposes taxes to discourage unnecessary expenditure by individuals.

- Social Welfare – Taxes are sometimes imposed on production of commodities which are harmful for human health. E.g. The tax on plastic bags.
- Higher Employment Level: Tax income is utilized in completing public work programs which in essence create employment for the resident citizens.

8.5 Classification of Taxes

- **Direct Taxes:** Taxes whose burden is borne by the same person who pays the tax.
  Examples:
  - **Pay As You Earn (PAYE):** Tax imposed on incomes of individuals.
  - **Corporation Tax:** Tax imposed on profits of limited companies. Current rate is 30%.
  - **Turnover Tax:** Tax imposed on annual sales derived by a business. Current rate 3%.
- **Indirect Taxes:** This is a tax whose burden is borne by an entirely different person other than the one who actually pays it.
  Examples:
  - **Value Added Tax:** Tax levied on the Sales minus Purchases (Value Added) of common goods and services.
  - **Excise Duty:** Tax levied on production cost of some commodities.

8.6 Tax Computation

8.6.1 PAYE (Income Tax)

- This is a direct tax imposed on individuals' income derived Kenya. This income can be derived from employment, rent, business, Pension, investments and any income deemed to be liable to tax. Persons liable to pay tax are all persons resident in Kenya whether or not they are Kenya citizens and all persons not resident in Kenya but deriving income from any property, trade or employment.

- Income tax is charged on income of individuals in a graduated basis as prescribed below.

Monthly Tax Table: Year 2008

Monthly Taxable Income (Kshs)	Tax Rate (%)
First 10164	**10**
Next 9576	**15**
Next 9576	**20**
Next 9576	**25**
Over & Above 38892	**30**

Income Tax Computation Procedure:

Taxable Income	xxxx
Less: Computed Tax	xxxx
Gross Tax	xxxx
Less Personal Relief	xxxx
Net Tax Payable	**xxxx**

Illustration: A trader in the jua kali sector earns a monthly income of Kshs 28000 on average from her small business. Determine the amount of tax he is liable to pay.

Solution:

Monthly Taxable Amounts		**Procedure**		**Calculated Tax**
First 10164		10164*10%		1016
Next 9576		9576*15%		1436
Next 8260		8260*20%		1652
		Gross Tax Payable		4104
	Less	Personal Relief	1162	
		Net Tax Payable	**2942**	

Note: *The above procedure also applies to income derived by partners in a partnership business.*

Assignment: Determine the taxes payable by three sole traders – Amil, Mutoko & Ahmed deriving the following respective incomes from their businesses for the month of May 2008.

- 20000
- 43000
- 15000

8.6.2 Value Added Tax

This a consumption tax charged on the value of Sales less Purchases of commodities. Registered traders play the role of tax collection agents whereas consumers are the actual VAT payers.

Registration

One can be registered as a taxpayer under various circumstances:

- If a business has a minimum turnover of Kshs. 3 Million per year.
- Some businesses are registered irrespective of their turnovers e.g. Dealers in motor vehicles, timber, electronics and professional services like accountancy, advertising e.t.c
- A taxpayer can also register voluntarily even if the turnover is below the threshold required.
- Some professional services have since had their minimum turnover threshold raised to 5 Million e.g. Accountancy e.t.c

VAT Rates

There are three rates of tax applicable in Kenya:

- 16% the general rate.
- 0% for zero rated supplies i.e. Exports, Agricultural machinery, Farm inputs e.t.c.

Illustration: A medium scale trader purchases electronic goods worth

Kshs.400000 and pays VAT at the rate of 16%.After assembling them, the goods are sold for Kshs.500000 and VAT of 16% is charged from the customer.

Required: Compute the amount of tax the trader is liable to pay.

Solution: VAT Payable = Output Tax – Input Tax

Note: Output Tax is tax charged on Sales.

Input Tax is tax charged on Purchases.

Therefore: Output Tax = 16% * 500000 = 80000 --------- (i)

Input Tax = 16% * 400000 = 64000 --------- (ii)

VAT Payable (i)-(ii) **<u>16000</u>**

8.6.3 Turnover Tax:

- This is a new tax that came into force on 1st January 2008.
- It is chargeable on annual turnover (Sales) and is applicable to small businesses irrespective of whether they are making profits or not.
- This tax targets small business operators who have an annual turnover of between half a Million and five Million Kenya shillings
- Payment of this tax to authorities is made on quarterly basis. For instance if a business is liable to pay Kshs.10000 for the first quarter of the year, then this amount must be remitted before or on the 20th day of the month immediately following the quarter i.e. 20th day of April.

Illustration: A trader who sells goods or services worth Kshs.1 Million in a year will be required to pay the following amount as turnover tax.

3%*1 Million = 30000 Annually or (30000/4= 7500) Quarterly

NOTE: *Currently a trader has two options.*

- To register for the new turnover tax.
- To remain in the already existing PAYE tax system.

Hence it is up to the businessperson to evaluate the pros and cons of the two options. It is imperative to say that the new system is not an additional tax but only an alternative.

8.6.4 Comparison Analysis:

- **Case 1:**
  A trader whose annual turnover is Kshs.1 Million and earning an annual Profit of Kshs.300000 will pay the following as tax under the two Systems:
  Turnover Tax = 30000
  Paye System = 28112

- **Case 2:**
  Assuming the trader earns a similar profit as in case 1 but has an annual turnover of Kshs.500000, the following will be the tax liability under the two systems:
  Turnover Tax = 15000
  Paye System = 28112

From the above two illustrations it is notable to state that a business with a reasonably smaller margin between the turnover sales and the profits would be best advised to adopt the new tax system and vice versa. Generally the new turnover tax is easy to compute, convenient specially to small business traders and doesn't involve a stressing registration process.

8.7 Statutory Deductions:

- **National Social Security Fund:**
  - An employer with five or more employees is required to register in this scheme.
  - Currently the fund provides that an employee contributes an amount equivalent to Kshs.200 monthly or 5% of his salary/income whichever is lower. An additional Kshs.200 or 5% of the monthly salary/income whichever is lower is contributed by the employer into the fund on behalf of the employee.
- **National Hospital Insurance Fund:**
  - Individuals earning more than Kshs. 1000 a month are required to contribute.
  - The contribution ranges between Kshs.30 to Kshs. 320 a month depending on the level of income.
  - A beneficiary is eligible for cover from the fund after making at least two months'payment.
  - The fund covers for in-patient expenses only, upto a maximum amount of Kshs.396,000.

8.8 Other Important Concepts:

- **Tax Evasion:** Happens when a taxpayer fails to declare his/her income for tax purposes. This is illegal.
- **Tax Avoidance:** Takes place when a taxpayer arranges his finances in such a manner that he will not be liable to pay tax. This is legal.
- **Electronic Tax Registers (ETRs):** This is a gadget introduced by the Revenue authority recently and is installed in business' cash machines to ensure efficiency and accountability in VAT collection from traders. It is mandatory for all eligible VAT payers to install it. It can be acquired from agents authorized and certified by KRA. Receipts generated by the gadget are sent to the KRA offices and act as documentary evidence for tax payable in a particular period.

8.9 Submission of Returns:

A return is a statement of all income that accrued to a person for a certain year of income.

Tax returns are submitted when:

- The due date for submitting VAT is on or before 20th of the month following that which sales were made. For Turnover tax, the due date is on or before 20th of the month following the Quarter in which the sales were made. On the other hand the due date for submission of PAYE returns is on or before 9th of the month following the month that an income was derived or earned.

- Failure to submit a return, late submission of payment or submission of returns without the tax due is liable to a default fine determined by the revenue authorities.

8.10 Conclusion

The government raises revenue to finance the provision of essential services to its citizens through the taxes that are imposed on individual and corporate incomes/Sales. It is important for traders to ascertain the actual amount of income derived in a particular period in order to avoid over/under paying taxes.

CHAPTER NINE
RETAIL AND WHOLESALE TRADE

9.0 Retail trade

Retailing is carried on by those businesses which sell goods to the final consumer. The obvious example is provided by the shops we all know and deal with. The retailing stage, therefore, is the one where goods reach the end of their journey from the manufacturer. The manufacturer or wholesaler who sells direct to the consumer is acting as a retailer; he adds retailing to his other activities. Whatever channel of distribution is used, the retailing function always exists.

The functions of the retailer

A retailer provides services to those to whom he sells and to those from whom he buys. The functions of retailers are:

a. **They break bulk into saleable portions**
   A retailer is a person who buys goods in large quantities and then reduces them to quantities of a size acceptable to the consumers. For example, a retailer buys a tonne of sugar but his customers will want to buy in 1kg packets. This is not only a convenience to the shopper but also to whomever the retailer bought the sugar from. This is because the supplier will want to dispose of the sugar in large quantities.
b. **They put the goods in saleable condition**
   Consider what happens if you want to buy a chop for your lunch. You would not get it from the man who kills the animal. You must go to a retail butcher because he buys whole carcasses and cuts them up in the ways his customers want the meat. He therefore not only reduces the bulk but he also serves his customers by presenting the goods in an acceptable form.
c. **They make goods immediately available to the customers**

9.1 Setting up business in the retail trade

Many people think that starting a retail business is a simple matter. However, it is not just a question of borrowing money or using ones savings to buy stock. It involves much more. There are several factors to be considered:

1. **Capital.**
   Capital is needed to start a retail business. The amount will depend upon:
   - The required building, whether he wishes to rent one or to have one built.
   - The required furniture and fittings.
   - The amount of stock needed to start.
   - The cost of the goodwill, if he is buying an established business (payment of the goodwill will depend upon where the business is located and also the amount of the turnover)
   - An allowance for sufficient working capital
   - The amount he wishes to leave as reserve

   The proprietor will acquire his capital by;
   - provision from his own savings
   - finding a partner
   - obtaining some of the commodities on credit
   - borrowing from banks and other financial institutions
   - credit on goods purchased from the wholesaler

2. **Experience**
   Experience is the cornerstone of everything. If the person is experienced, he will have an idea about the retail business that he wants to start. If he is not, he might get some help from those he employs or those who volunteer to help him. Nonetheless, he will have to decide which branch of retailing to enter. This will depend upon:
   a. his previous experience as the owner of another retail shop or as an assistant in some other shop;
   b. any training he might have received in such lines as commerce, accounting or salesmanship;
   c. His creativity in starting the business, he will need to have poise, courtesy, sense of humor to enable him to manage properly and to get regular customers.
   d. He will also need to have sound knowledge about the business he starts and be able to:
      - understand market conditions and be able to adjust accordingly;
      - discover the best sources of supply;
      - attract customers.
3. **Locality and Position**
   He has to decide where the business should be located. He should select an area which is suited to the nature of business he proposes to start. Thus he may decide to locate it:
   a. in a rural area;
   b. in an urban area, either in a town centre or in the suburbs.

   The choice will depend on the nature of the business. Wherever it is to be located, certain other aspects should be considered, such as:
      - availability of a market (customers)
      - banking facilities;
      - good communication systems;
      - reliable security;
      - reliable transport system

   Lack of any of the above factors will definitely hinder progress of the business.
4. **Organization of the Retail Shop**
   The organization of the retail business depends on its size. In a large retail business the organization may be broken into various functional departments such as the buying department, the selling department, storing department, display and advertising department and probably a general administration department that controls all the other departments. As for a small business, these various functions may all be combined and housed in one room.
5. **Purchasing of Stock**
   Buying stock is the essence of the business. There are two very important decisions to be made:
   a. The Quality to Buy
   Good quality and up-to-date goods will always attract customers, though the quality will be determined by the type of customers and their standard of living and level of income.

b. The Quantity to Buy

Overstocking should be avoided since:

- fashions may change and goods may expire in the shop;
- the turnover may be very small;
- prices may fall. If this could be foreseen, it would be advisable to buy fewer goods.

Apart from the above factors, it will at times be necessary to buy in small quantities because of;

- lack of capital;
- lack of sufficient storage space

However, under stocking should be avoided as it is necessary to keep a sufficient and varied stock, in order to cater for the different tastes of customers.

6. Delivery

The goods have to be moved from the wholesaler's premises to the retailer's premises. The choice of which mode of delivery to use will depend on the type of goods, the cost involved, the urgency and the quantity. Besides this, the time of delivery and whether the goods are to be sent in one or more consignments have to be arranged. In this case, it should be stated whether the goods will have to be delivered immediately or on a fixed future date. Whether the goods are to be delivered immediately or later, it should be settled whether it is the buyer or the seller who will pay the cost of delivery.

7. Packing

At times the seller will have to pack the goods. This is a service rendered to the buyer by the seller and may be charged for. If so an allowance may be made for the return of packing cases. This is an attraction for the customers.

9.2 Wholesale trade

A wholesaler is any firm or individual who buys goods from the manufacturer in bulk and sells them to retailers. The wholesaler assists in production in that he moves the goods from places where they are not needed to places where they are needed, to be available when they are needed. He thus increases the utility of a commodity by moving it nearer to the consumers. As well as this, he buys goods directly from the manufacturers in bulk and pays the manufacturers promptly. He then transports the goods from the place of manufacture to warehouses in market areas, stores the goods in such a way that they will not deteriorate or be stolen before they are bought, and finally markets the goods.

9.2.1 Functions of the wholesaler

a. services to the manufacturer

- He provides the link between the manufacturer and the retailer. In this way, the manufacturer is able to reach the final consumer.
- He finances the manufacturer. He does this by paying promptly. This helps the manufacturer to meet his costs.
- He relieves the manufacturer the burden of branding goods when the wholesaler prepares goods for sale; he may blend and brand them to sell under his own brand name.

- He relieves the manufacturer of the burden of warehousing by buying large quantities.
- The wholesaler offers transport. Most wholesalers transport the goods they buy from the manufacturer's warehouses to the retailers selling places.
- Since some wholesalers sell the goods under their own brand names, they have to advertise therefore saving the manufacturers advertising costs.

b. services to the retailer

- Since the wholesaler buys goods from various manufacturers, he is able to offer a variety of goods to retailers.
- Unlike the manufacturer, the wholesaler is conveniently located to offer a local supply to retailers. If all retailers were to buy goods from the manufacturers, distribution costs would be greater.
- The wholesaler relieves the retailer of the burden of transport, as he undertakes to transport the goods to the retailer's premises. Sometimes, the wholesaler has his own travelers who call and sale goods at the retailers' premises. This reduces transport expenses.
- The wholesaler offers trade discounts and, sometimes, cash discount to the retailer, which ensures that the retailer has profit margins.
- The wholesaler offers trade credit to the retailer. This helps in financing the retailer with little capital.
- The wholesaler will advise the retailers on buying, elementary accounting, retail personnel and giving credit.

c. services to the consumer

- By buying and storing goods and releasing them from their warehouses at an even rate, the wholesalers help to keep the prices steady.
- Since manufacturers channel their goods through many wholesalers, they have to maintain good quality, which is an advantage to the consumers.
- There is a possibility of lower prices for the consumer, as a result of the wholesaler reducing transport costs.

9.2.2 Categories of wholesalers

Wholesalers are classified according to the range of products they handle, the geographical area in which they operate and their method of operation.

a. General merchandise wholesalers

These are wholesalers dealing with a variety of goods of different types. They stock goods according to the needs of the various retailers they serve.

b. General line wholesalers

They deal in a wide range of products, but within one line, for example, stock all kinds of groceries.

c. Specialized wholesalers

They deal in only one type of goods within a given line of products. For example, in the line of foodstuffs a wholesaler may decide to specialize in the distribution of rice.

d. **Regional wholesalers**
They operate in certain parts of the country only. They may cover a province, district, a number of districts or a location.

e. **cash-and-carry wholesalers**
These wholesalers operate on the same lines as supermarkets. Traders come and pick goods and pay for them over the counter. They usually do not offer transport facilities to the retailers' premises.

9.3 Conclusion

Both the retailer and the wholesaler are important in the effective distribution of products made by the manufacturer. They reduce the cost of the products through efficient distribution process. In their absence, the manufacturer would be forced to distribute his products and therefore increases his cost of production. This means that the consumer would pay more for the products.

CHAPTER TEN
IDENTIFYING APPROPRIATE SOURCES OF BUSINESS FINANCE

10.0 Introduction

Many people dream of starting and managing their own business. Some do start a business and achieve their dream; others keep on dreaming. Why is this so? What separates the successful entrepreneur from the unsuccessful? Availability of Business finance is among the crucial factors that determine the success or failure of business. The issue of finance will always keep coming in your business throughout its life. Some businesses have even collapsed because of lack of finances to meet their daily needs and/or for expansion.

This problem would be minimized if the owners knew the following:

- How much money the business requires.
- The cost of borrowing money, interest rates, other charges and terms given by those who lend money.
- Where to source the business finance.

10.1 What is Business Finance?

Business finance is the money one needs to start, run or expand a business.

10.2 Purpose of Business Finance

- To start a new business
- To expand an existing business
- To meet an emergency situation
- To boost the existing finances
- To meet normal operational cost

10.3 How Much Money does the Business Require?

Every business is different, but it is still possible to get a reasonable idea of how much cash your business is likely to need by estimating expenses and validating the same.

10.4 Estimating Your Expenses

There are certain expenses that virtually all businesses must incur. The following chart will help you estimate your typical expenses. (This is not an all-inclusive list. It provides some of the more typical expenses)

	Shs.
Office space rental	-------
Office equipment	-------
Office supplies	-------
Utilities (phone, electricity, water)	-------
Maintenance	-------
Advertising	-------
Labour	-------
Business licenses	-------

A manufacturing business will also have specific expenses related to production. The following expenses, therefore, should also be considered: -

	Shs.
Raw materials	-------
Machinery and equipment rental	-------
Warehouse or factory space rental	-------
Total estimated costs	-------

10.5 Assessing your Financial Needs

Once you have determined your expenses, you will need to estimate what percentage of the funds you can supply yourself and what percentage you must find elsewhere. At this point, the figure may seem overwhelming. Do not be discouraged. It is much better to have realistically assessed your situation earlier than to rush into business before you've planned adequately.

Almost all businesses need outside funding and yours probably will not be an exception to the rule. You should prepare a month-by-month cash flow projection for the entire first year. If the projection is realistic, it will clearly show how much financing you need. Starting a new business can be risky, but it can also pay big rewards both in personal satisfaction and in economic return.

10.6 The Various Sources of Business Finance

10.6.1 Personal Finance

- Personal savings
- Sale of personal assets
- Group savings
- Merry-go- round.
- Retirement benefits
- Dividends from shares

10.6.2 Retained Earnings

This is part of the net profits that is reinvested back into the business.

10.6.3 Generating Increased Sales

This can be achieved by increasing revenue to impact on overall profit levels.

10.6.4 Trade Credit from Suppliers

This is a case where you buy goods on credit. The person who extends that credit to you is simply financing you – usually for a period of between 1 and 3 months.

10.6.5 Sale of assets

This can be a double-edged sword: - reduces capacity?

10.6.6 Shares

- **Ordinary shares (Equities)**
  - ✓ Ordinary shareholders have voting rights
  - ✓ Dividend can vary

- ✓ They are the last to be paid in the event of collapse
- ✓ Share prices vary with trade on stock exchange.

- ➢ **Preference shares**
  - ✓ They are paid before the ordinary shares
  - ✓ They have a fixed rate of return.
- ➢ **Rights issue**
  - ✓ The existing shareholders are given right to buy shares at a discounted rate.
- ➢ **Bonus or scrip Issue**
  - ✓ This is a change in the share structure
  - ✓ It increases the number of shares but reduces value although the market capitalization remains the same.
- ➢ **New share issue**
  - ✓ Merchant/ investment banks like I.C.D.C on behalf of clients arrange these for sale.

10.6.7 Financial Institutions

- ❖ Commercial Banks
  - ✓ KCB, Barclays, Equity, Cooperative, standard Chartered, etc.
- ❖ Micro Finance Institutions

10.6.8 Government Corporations and Departments

The following are the major Government Corporations and departments that provide financial help to business people.

- Industrial and Commercial Development Corporation (I.C.D.C)
- Kenya Industrial Estates (KIE)
- Ministry of Trade and Industry (Joint Loans Board)
- Kenya Tourist Development Corporation (KTDC)
- Industrial Development Bank (IDB)
- African Development Bank (ADP)
- Agricultural Finance Corporation (AFC)

Each of these has its own lending terms and conditions. In each case, however, you will be required to give some kind of business proposal and evidence of being in business by producing your financial records.

10.7 Donor Agencies and NGOs

There are many donor agencies and NGO's who operate in the country and are willing to give assistance to small-scale enterprises. The Ministry of Culture and Social Services, Ministry of finance and Planning and Development normally have a list of various NGO's operating in the country. The NGO's include:

- Kenya Rural Enterprise Programmes (K-REP)
- Kenya Women Finance Trust (KWFT)
- National Council of Churches of Kenya (N.C.C.K)
- PRIDE (Kenya)

10.7.1 Others

- Shylocks
- Donations from friends and relatives

- Competitions e.g. charity sweepstakes

10.8 Lenders Requirements

Any bank or lender will always look at the following:

10.8.1 Purpose

You must be requiring money for a lawful purpose acceptable to the lending policy of that bank or financial institution.

10.8.2 Amount

The amount you ask for must be within the stated need and the ability to pay back.

10.8.3 Repayment

Repayment method will be determined by the applicant's source of income. But generally, the bank will try not to overburden you to the extent where you might fail to operate the business.

10.8.4 Terms

Terms will depend on the policy of the lender. You can, however, negotiate the terms. Terms will include:

- Repayment period
- Interest rates
- Grace period, if any

10.8.5 Security

The lender will also require you to give some security, or undertaking that you will actually repay. If you fail to repay (default), the bank can recover their money by disposing off the securities. The securities can be in form of title deeds for land and buildings, life assurance policies, share certificates, fixed deposit certificates, chattels, mortgage, etc.

10.9 Five "C's" of Credit Analysis

- **Capacity to repay** – most critical
- **Capital** – money you have personally invested in business; indication of extent of personal risk if business fails
- **Collateral** – additional forms of security or guarantees provided to lender
- **Conditions** – focus on the intended purpose of the loan relative to the current economic environment
- **Character** – general impression you make on the potential lender or investor

10.10 Rules of Negotiating for Business Financing

- Prepare a comprehensive business plan.
- Be prepared to explain uses and benefits of the proposed loan.
- Speak to the appropriate person.
- Do not overstate your financial strength. Be realistic.
- Give complete information about your business.
- Seek a lender with whom you feel comfortable.

- Negotiate interest rates and fees.
- Give an impression of confidence and competence.
- Carefully check all terms of the agreement.
- Dress conservatively.

10.11 Conclusion

Financial boosting in your business is important for normal operation and growth of business. Therefore, it is necessary to critically assess your financial needs and also seek the appropriate and affordable sources of finance. However, because of the uncertainties that are associated with small businesses some lenders do not feel comfortable lending them finances.

CHAPTER ELEVEN
NETWORKING FOR BUSINESS SUCCESS

11.0 Introduction

Business Networking is the process of establishing a mutually beneficial relationship with other business people, customers and /clients.

It is deliberately establishing your new contacts beyond the people you already know. Business networking grows when a group of like-minded people gather and help each other. The overall purpose of business networking is to increase business revenue

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11.1 Stages in Business Networking

- Learning-our needs and those of others
- Investing-in making strong contact with other people
- Nurturing –deeper relationships
- Keeping the momentum going

11.2 Rules of Networking

- You shall drop the "what is in it for me?" attitude.
- You shall listen.
- You shall build a relationship.
- You shall give the first referral.
- You shall not tell others of the referral you require; thou shall "show them" with a story.
- You shall be specific of the type of referral.
- You shall reciprocate when appropriate.
- You shall participate in the network executive, functions, and network time.
- You shall thank the person who gave a referral.
- You shall follow up on the referral within 24 hours.
- Make a positive first impression**.**

11.3 Getting the Most Out of Business Networking

11.3.1 Define Your Business Network

Define the people you want to meet and where you can meet them. Networking groups come and go. You need to build relationship with people you want to have contact with. But do not discriminate-You can still have relationship with your networking friends from groups that are long gone.

11.3.2 Focus on Quality Network, Not the Number (Quantity)

Concentrate on few strong relations.(A small group where people can help each other is better than a large group of business people who do not follow the rules of networking).

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11.3.3 Spend Most Of Your Time With People You Don't Know.

Those you already know or those who already know you, can always get each other, but spend most of your time with those you may never see.

11.3.4 Patience

One must be willing to pt in time waiting i.e. it takes time to establish business relationship.

11.3.5 Work the Net

Go into a function with a goal in mind which is to meet and understand i.e. a win/win situation. After the business networking event is when the real work begins. The networking event is only to meet and build rapport Make follow up after the event.

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11.4 Networking Strategies (The Art of Networking)

11.4.1 Choose The Right Networking Group Or Event

The best results come from attending the appropriate networking events for your particular industry. This should include trade shows, conferences, and associations dedicated to your type of business. Participate in groups where your potential clients meet, e.g. a person who helps people negotiate leases with their landlords should join the local franchise association because most franchisors lease their properties.

If your target group is companies do not join groups of individual business owners .

11.4.2 Focus On Quality Contacts Versus Quantity

The number is not very important. You can meet between two to five new contacts at each networking meeting Focus on the quality of the connection and people will become much more trusting of you.

11.4.3 Give Out Business Cards

Ensure it has your name, position/title, telephone and email address – include your mobile number; Let it look attractive, readable and not overcrowded.

11.4.4 Make positive first impression

You have exactly one opportunity to make a great first impression. Factors that influence this initial impact are your handshake, facial expressions, eye contact, interest in the other person and your overall attentiveness. Develop a great handshake, approach people with a natural, genuine smile and make good eye contact. "Seek first to understand and then to be understood." Comment on their business, ask them to elaborate, or have them explain something in more detail. As they continue, make sure you listen intently to what they tell you. Once you have demonstrated interest in someone else, they will – in most cases – become more interested in you.

11.4.5 Joining Business Organizations

These could be specific or non specific depending on your type of business.

11.5 Benefits of Networking

11.5.1 Business Exposure

This is one of the main reasons for joining any organization and is actually part and parcel with all the other reasons I will list here.

Networking with anyone and everyone is essential to the growth of any business, especially networking with those in your industry. Some industries are still fairly young and by networking with your peers you can all work together to increase the exposure of your specific industry, thus increasing the visibility of each individual member's business.

11.5.2 The Opportunity To Work With Fellow Members

With the increased exposure of various industries, many veteran members may be finding their workloads are getting to a point where they have to outsource some of their projects. If they don't know about you, they won't even have the chance to consider sending you some of their overflow. Not to mention, most members may specialize in certain procedures and, should a task come up for a client that is not one of their specialties, they may need to subcontract the project.

11.5.3 Learning From Your Fellow Members

No matter if you are an experienced business professional or new to the industry, there is always something to learn from others. Veteran members have been there and done that so they have the voice of experience to offer. Those new to the industry can sometimes be an excellent source of new, fresh ideas.

11.5.4 You Have The Chance To Get Involved In New Ventures

Many veteran members collaborate to initiate new ventures and projects to help enhance their industry. Usually, during the start-up phase of these new ventures, it is common to work with those that you know, respect and have them involved in the process. By being a member of an organization and staying involved, you become visible to your fellow members and thus may be requested to become involved in the newest industry-boosting project.

11.5.5 The Joy Of Making New Friends

Many small business owners operate their businesses from home and isolation can become an issue. Being a member of any organization results in making friends with fellow members and reducing the isolation aspect amongst you. These friendships can also result in a mentor type relationship where the two (or more) of you share ideas that will help to boost each other's businesses and even your personal lives

11.6 How To Increase Your Business Referrals

11.6.1 Create a most-wanted list of ten occupational categories whose members are frequently in touch with the type of client you desire. For example, a graphic designer who specializes in working with small start-up businesses might choose accountants, attorneys, bankers, business coaches and consultants, business teachers, career counselors, entrepreneurship center staff, office supply vendors, printers, and secretarial services.

11.6.2 Make the acquaintance of ten people in each occupation. Seek them out, meet with them, and familiarize them with your expertise and the benefits of the service you offer. Find out more about what they do and the type of clients they serve so you can refer business to them as well

11.6.3 When you connect with someone who seems open to sending you business referrals from time to time, you have found a referral partner. Add their name to your list. Ten people times ten occupations equal your circle of 100

11.7. Ways To Get Known

11.7.1 Get on TV.

- The beauty of TV is that viewers see you and if they see you in action, they start to think they know you.
- Search for TV programs that regularly feature guests and might see you as a suitable candidate. Then find out who the right contact person would be and make your pitch for a guest appearance.

11.7.2 Get On The Radio.

Radio is far from dead and being a guest on radio is another great way of getting known that relatively few are using. Seek out radio programs where you would be a good fit as a guest and contact the producer/show host with your pitch.

11.7.3 Write a Book.

Focus on your expertise and come up with ideas for possible titles. Then choose one or more of these titles and write a chapter by chapter outline. (This will give you a sense of whether or not the project would work and how long the finished book would be.)

11.7.4 Create /Sponsor An Event.

Choose an event that you believe is important.

11.7.5 Give Lessons.

Offering lessons to the public related to your product gives you the opportunity to form a relationship with potential customers and introduce them to/kindle their interest in your products. And by giving lessons, you're setting yourself up as an expert. The next time your "student" wants to know something about your topic, you're the one he or she will contact.

11.8 Conclusion

Business Networking enables you to increase revenue and expand your market.

CHAPTER TWELVE
THE NEED FOR ICT ADOPTION IN BUSINESS

12.0 Introduction

Information and communication technology (ICT) involves the use of computers and the internet in various applications like communications, production, marketing and finance. As is the case with all technologies, small businesses are slower than large ones to adopt new ICTs. Potential small business benefits and firm and sector-specific strategies drive the adoption and use of ICTs. Furthermore, sectors are increasingly global and dominated by large firms and the structure of their values chains and operations shape opportunities for small and medium size enterprises (MSMEs). Principal reasons for non-adoption are lack of applicability and little incentive to change business models when returns are unclear.MSMEs also face generic barriers to adoption including trust and transaction security and challenges in areas of management skills, technological capabilities, productivity and competitiveness.

However commercial considerations and potential returns are theprincipal drivers of small business adoption and profitable use. The following points summarize the main policy directions derived from the analysis in the attached report.

12.1 Uses of ICT in Business

12.1.1 Communication

Communication between individuals, departments & customers (both internal and external to the business).

Email or an internal messaging system can send written communications such as letters and memos inside the company. This type of communication will only need a standard computer, without any special hardware.

Email or an external messaging system can send letters to suppliers and customers. This type of communication will only need a standard computer without any special hardware.

Customers may order products using the company's online ordering system on their web site. The web site will need to be on a computer with a large amount of memory and a very fast Internet connection.

12.1.2 Storing & Retrieving Information

Information about Customer and supplier can be stored in databases and makes retrieval very fast.

12.1.3 Access to the Internet

Access to other markets and suppliers, communication and access to market information.

12.1.4 Marketing

The Marketing department is responsible for the image of the organization, research and advertising.

The use of websites has allowed companies to develop new and cheaper ways of reaching new markets, offering customers the opportunity of buying goods and services whenever they want and often at reduced cost, whilst also enhancing the level of customer service.

This has been coupled with the expansion and use of e-mails which again has been used by business to market their goods and services directly to potential customers, as well as communicating with existing customers and suppliers.

Increasingly the marketing campaigns of businesses include the use of technologies such as Contact Management Systems that allows them to co-ordinate, monitor and report on various aspects of their marketing campaigns in new ways making these campaigns more targeted and effective.

12.1.5 Out Of Office Working

For many businesses the need for staff to be away from the office attending meetings etc. or to be based in another geographical location has grown alongside employee demands for more flexible working patterns. However effective communication and ability to access information etc. remains critical to the productivity of these staff members. Therefore through the use of technology many companies now use a range of technologies to enable this. These include mobile phones, e-mail, broadband, laptops, etc. Thus ensuring that companies are able to be flexible and adaptive depending on their business needs.

12.1.6 Human Resources

The Human resources department are primarily concerned with the staffing situation, including aspects such as health and safety and employee rights.

12.1.7 Finance

The finance department is responsible for any and all money going through the organization, from the purchase of resources to larger purchases and spending.

Practically all companies now use software programs e.g. Sage or Excel to manage their accounts. This has allowed them to look at financial information when required, monitor and respond to their customers purchasing patterns by e.g. offering discounts and overall improve the management of their finances. The result of this has been for many companies a reduction in their accountancy fees.

12.1.8 Customer Service - The customer service department are the first point of contact for the customers. When customers speak to the organization, they usually speak to this department.

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12.2 Barriers to The Adoption Of ICT

- Fear of change
- Lack of qualified human resources
- Lack of time and resources to learn ICT

12.3 Benefits of ICT On MSMEs

- Increase in productivity in the production process
- Enhancing and increasing the efficiency of internal operations
- Connecting MSMEs easily and cheaply to external contacts
- Provides easier access to both the firm and its products

- Adoption electronic business (e-business)
- Electronic governance (e-government)
- Globalization (global villages)

12.4 Conclusion

ICT is a very important tool in doing business. Its use in marketing is very important if the MSMEs are to remain competitive in the global market. As more business is being conducted online MSMEs have to adopt this technology to enable them reach markets both locally and abroad. Other applications of ICT will lead to costs reduction and efficiency in the firms.

CHAPTER THIRTEEN
EFFECTS OF GLOBALIZATION ON YOUR BUSINESS

13.0 Introduction

Globalization is the process by which people of the world are unified into a single society and function together. The process is a combination of economic, technological, socio-cultural and political forces; it is often used to refer to economic globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology.

13.1 Overview of Globalization

Globalization, which is very synonymous with free trade, often leads to: the reduction or elimination of tariffs, creation of free trade zones with small or no tariffs; reduced transportation costs, especially resulting from development of containerization for ocean shipping; reduction or elimination of capital controls and the reduction, elimination, or harmonization of subsidies for local businesses.

Given the above attractive features of globalization (free trade), it has its downside in which it leads to among others: harmonization of intellectual property laws across the majority of states, with more restrictions; and supranational recognition of intellectual property restrictions (e.g. patents granted by one country would be recognized in another country).

13.2 Economic Integration

Economic integration is a term used to describe how different aspects between economies are integrated; it tends to precede political integration. Free movement of economic factors across national borders naturally generates demand for further integration, not only economically (via monetary unions) but also politically, thus, economic communities naturally evolve into political unions over time. This integration include among others trade blocks such as;

- ❖ EAC - East African Community (Burundi, Kenya, Rwanda, Tanzania & Uganda)
- ❖ COMESA - Common Market of Eastern and Southern Africa
- ❖ ECOWAS – Economic Community of West African States
- ❖ SADDC – Southern Africa Development Corporation

13.3 Measuring the Impact Globalization

Globalization has had an impact on different cultures around the world, and on economic globalization, it can be measured in different ways which center on the four main economic flows that characterize globalization:

- **Goods and services** - exports plus imports as a proportion of national income or per capita of population
- **Labor/people** - net migration rates; inward or outward migration flows, weighted by population
- **Capital** - inward or outward direct investment as a proportion of national income or per head of population

- **Technology** - international research & development flows; proportion of populations (and rates of change thereof) using particular inventions (especially 'factor-neutral' technological advances such as the telephone, motorcar, broadband)

13.4 Effects of Globalization

Globalization has various aspects which affect the world in several different ways such as:

13.4.1 Industrial

Globalization has led to the emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies; particularly movement of material and goods between and within national boundaries.

13.4.2 Financial

There has been emergence of worldwide financial markets and better access to external financing for borrowers. Simultaneous is the emergence of under or un-regulated foreign exchange and speculative markets.

13.4.3 Economic

Realization of a global common market based on the freedom of exchange of goods, services and capital.

13.4.4 Political

Some people use "globalization" to mean the creation of a world government, or cartels of governments (e.g. WTO, World Bank, and IMF) which regulate the relationships among governments and guarantees the rights arising from social and economic globalization.

Politically, for instance, the United States has enjoyed a position of power among the world powers; in part because of its strong and wealthy economy.

13.4.5 Informational

Increase in information flows between geographically remote locations; arguably this is a technological change with the advent of fibre optic communications, satellites, and increased availability of telephony and internet.

13.4.6 Cultural

Growth of cross-cultural contacts; advent of new categories of consciousness and identities which embodies cultural diffusion, the desire to increase one's standard of living and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture". Some bemoan the resulting consumerism and loss of languages and the transformation of cultures

13.4.7 Ecological

The advent of global environmental challenges that might be solved with international cooperation, such as climate change, cross-boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species. Since many factories are built in developing countries with less environmental regulation, globalism and free trade may increase pollution. On the other hand, economic development historically required a "dirty" industrial stage, and it is argued that developing countries should not, via regulation, be prohibited from increasing their standard of living.

13.4.8 Social (International Cultural Exchange)

This is the increased circulation by people of all nations with fewer restrictions due to globalization.

- Spreading of multiculturalism, and better individual access to cultural diversity (e.g. through the export of Hollywood and Bollywood movies). Some consider such "imported" culture a danger, since it may supplant the local culture, causing reduction in diversity or even assimilation. Others consider multiculturalism to promote peace and understanding between peoples.
- Greater international travel and tourism
- Greater immigration, including illegal immigration
- Spread of local consumer products (e.g. food) to other countries (often adapted to their culture).
- World-wide fads and pop-cultures accessible to those who have Internet or Television,
- World-wide sporting events such as FIFA World Cup and the Olympic Games.

13.4.9 Technical

- Development of a global telecommunications infrastructure and greater trans-border data flow, using such technologies as the Internet, communication satellites, submarine fiber optic cable, and wireless telephones
- Increase in the number of standards applied globally; e.g. copyright laws, patents and world trade agreements.

13.4.10 Legal/ Ethical

- The creation of the international criminal court and international justice movements.
- Crime importation and raising awareness of global crime-fighting efforts and cooperation.

13.5 Pro-globalization (Globalism)

Generally, the ideas of free trade, capitalism, and democracy are widely believed to facilitate globalization. Free trade (globalization) increases economic prosperity as well as opportunity, especially among developing nations, enhances civil liberties and leads to a more efficient allocation of resources. It also leads to a more efficient allocation of resources, with all countries involved in the trade benefiting hence leading to; lower prices, more employment, higher output and a higher standard of living for those in developing countries

13.6 Anti-globalization

This is the political stance of people and groups who oppose the neoliberal version of globalization. “Anti-globalization" may involve the process or actions taken by a state in order to demonstrate its sovereignty and practice democratic decision-making. Anti-globalization may occur in order to put brakes on the international transfer of people, goods and ideology, particularly those determined by the organizations such as the IMF or the

WTO in imposing the radical deregulation program of free market fundamentalism on local governments and populations.

Multi-national corporations, as they exercise power through leveraging trade agreements, in some instances, damage the democratic rights of citizens, the environment , as well as national governments sovereignty to determine labor rights including the right to unionize for better pay, and better working conditions, or laws as they may otherwise infringe on cultural practices and traditions of developing countries.

13.7 Criticisms of Globalization

13.7.1 Poorer Countries are Sometimes at a Disadvantage

While it is true that globalization encourages free trade among countries on an international level, there are also negative consequences because some countries try to save their national markets. The main export of poorer countries is usually agricultural goods. It is difficult for these countries to compete with stronger countries that subsidize their own farmers. Because the farmers in the poorer countries cannot compete, they are forced to sell their crops at much lower price than what the market is paying.

13.7.2 Exploitation of Foreign Impoverished Workers

The deterioration of protections for weaker nations by stronger industrialized powers has resulted in the exploitation of the people in those nations to become cheap labor. Due to the lack of protections, companies from powerful industrialized nations are able to offer workers enough salary to entice them to endure extremely long hours and unsafe working conditions, though economists question if consenting workers in a competitive employers' market can be decried as "exploitation".

13.7.3 The Shift to Service Work

The low cost of offshore workers have enticed corporations to move production to foreign countries. The laid off unskilled workers are forced into the service sector where wages and benefits are low, but turnover is high. This has contributed to the widening economic gap between skilled and unskilled workers. The loss of these jobs has also contributed greatly to the slow decline of the middle class which is a major factor in the increasing economic inequality in the United States. Families that were once part of the middle class are forced into lower positions by massive layoffs and outsourcing to another country. This also means that people in the lower class have a much harder time climbing out of poverty because of the absence of the middle class as a stepping stone.

13.7.4 Weak Labor Unions

The surplus in cheap labor coupled with an ever growing number of companies in transition has caused weakening of labor unions. Unions lose their effectiveness when their membership begins to decline. As a result unions hold less power over corporations that are able to easily replace workers, often for lower wages, and have the option to not offer unionized jobs anymore.

13.8 Benefits of Globalization on MSMEs

- Expanded market for both export and import trade

- Technology transfer at reasonable prices such as (GM foods) Genetically Modified Crops and Animals and opening up countries to foreign companies with new technologies which are adapted in the host country
- Transportation of goods, services and human resource with a large variety of carriers such as commercial aircraft, cargo haulers, ships etc.
- Easy access to finance – NGOs, UNDP, localized foreign banks and other financial institution.
- Fast and easily accessible information transfer through internet, mobile phones, satellites among others.

13.9 Conclusion

Globalization affects every business sector and one cannot escape its effects, however, we can take advantage of its benefits to increase our profitability, productivity and competitiveness. Lately globalization has been embraced so much that arguing against it is like arguing against the laws of gravity.

CHAPTER FOURTEEN
BUSINESS GROWTH AND EXPANSION STRATEGIES

14.0 Introduction

In order for a business to stay competitive within its industry, it must continually grow. Businesses that stagnate quickly get passed by in a rapidly changing and improving global economy. Growing for the sake of growing, however, is a dangerous proposition. It's important to develop strategies for growth to ensure that your business is growing in the right direction.

A business growth strategy describes how a particular business intends to succeed in its chosen market place against its competitors. It therefore represents the best attempt that the management can make at defining and securing the future of that business.

14.1 Dimensions of business growth

Business growth can be defined as an increase in turnover resulting from either one or a combination of the following activities

1. Broadening of the products or product line
2. An increase in the value added features of existing products by increasing the process span e.g. by making more products/features rather than sub contracting
3. Increasing existing market penetration.
4. Expanding the geographic sales territory serviced by the firm.

14.2 Business growth tips

One of the most effective ways of growing a business is to understand and apply the following 5 tips, based on the core principles of marketing.

1. Know your customer needs

Customer needs and preferences keep on changing. New competitors can grab their attention at any stage, usually when you are least expecting it. It is so easy to get contented, and assume that past success will continue into the future. If you really know your customer needs, you can build a successful business; however, if you don’t then you may not have a business for very long.

Customer needs can be assessed easily through:

- Keeping a record of all customer complaints
- Feedback from employees who deal directly with the customers
- Informal conversations with customers
- Ask the right questions to the right people, in a way in which you are likely to get realistic responses.

This information will form the building blocks upon which you can build your business.

2. Differentiate your product/service

One of the most challenging issues for any business to-day is how to stay ahead when new innovations can easily be copied. The best way to succeed is to truly stand for something that truly matters to your customer.

There are many ways to differentiate from your competitors. The following are some of the key ways to consider:

- Being the first & original
- Owning an attribute (e.g. Fastest)
- Being the leader
- Being the longest established
- Being a specialist (niche expert)
- Being truly unique (e.g. Special patented aspect)

Although most businesses focus on differentiating on price or product quality, both of these can be easily copied. So despite their popularity, they are not all that sustainable.

3. Develop the customer experience to meet & exceed expectations

It is now well accepted that it is far cheaper to hold onto the customers you already have, than pay dearly to win over new customers. The objective is to satisfy your current customers and have them act as advocates speaking positively about your business, its products and services. This is a very cost effective way of growing your business.

4. Reach your best prospect customers cost effectively

The following are some effective and cost effective ways of reaching your prospective customers.

- Clearly target only your "Best Prospect" customers, those most likely to be interested in your products / services (ignoring those too costly to chase)
- Promote the "unique benefit" of your product / service that matters to them (not telling them details which they don't need)
- Choose communications media which can reach your best prospect customers cost effectively (word of mouth, fliers etc.)

5. Measure & evaluate your success - is it working?

It is important to have a range of measures in order to measure marketing effectiveness as follows:

- Internally derived (e.g. sales, profit per product / territory / section etc)
- Externally derived (e.g. market share, customer satisfaction surveys etc)

These measures can be determined internally, however, it is often useful to have the benefit of an independent external advisor, who can look more objectively and provide a wide range of measurement techniques.

14.3 Steps towards business growth

1. Take stock of your business as it exists at present. Analyze who your customer is, what your market share is and what your profit margin is. You can never move forward in business unless you have a solid understanding of where you are starting.

2. Analyze existing market conditions to determine areas of opportunity your business can fill. Determine whether there is a need within your industry that is not being met.

3. Develop strategies to take greater advantage of existing customers. Your existing customers already trust your organization, so soliciting them to give your company more business is often very doable. Come up with ways in which you can meet more of your customers needs, and your business will grow with little investment.

4. Create a plan to attract new customers. Consider approaching new markets through advertisement, expansion or information technology. Increasing your client pool can cause immediate business growth.

5. Streamline your products and services. By focusing on the parts of your business that are successful and cutting out the parts that are unproductive, your company can begin its growth from the strongest position possible.

6. Invest in human capital. One way to grow your business is to bring on top talent to work for you and create an efficient organizational structure that makes the best use of that talent.

7. Invest in upgrading outdated IT systems. Companies that are behind the times in terms of information technology often have difficulty growing their business, because they cannot meet the ever-evolving needs of their customers. You may be able to keep existing customers with your current IT systems, but you will not be able to compete for new customers with leading edge companies that employ modern IT systems.

8. Develop a plan to go global. Entering into the global market can grow your business exponentially, but it requires a significant investment of resources and can be risky. Unless your company is capable of exporting goods and services immediately, you'll need to create strategies to get your business to a point where it can afford the risk of going international.

14.4 Conclusion

There is no magic formula to growing any business, it is to understand and apply the basic business management principles.

CHAPTER FIFTEEN
HOW TO HIRE, MOTIVATE AND RETAIN EMPLOYEES

15.0 Introduction

Hiring, motivating and retaining employees is the core business of any organization viz a viz making profits since employees are the backbone of business success since they have emotions, perceptions and needs which they desire to fulfill. Clearly the above three elements are interrelated with performance in an organization.

15.1 Recruitment and Selection

15.1.1 Definition

Recruitment is the first part of the process of filling a vacancy; it includes the examination of the vacancy, the considerations of sources of suitable candidates, making contact with those candidates and attracting applications from them.

Recruitment goals include;

- attracting large number of applicants
- attracting highly qualified applicants
- attracting applicants willing to accept offers
- filling vacancies quickly
- filling vacancies at a minimal cost
- hire people who perform well

In these cases considerations may be given to the following points:

- It may be possible to fill the vacancy from within the company.
- It may be filled by an external source.

15.2 Internal Source

The advantages of filling the vacancies internally are;

- Better motivation of employees because their capabilities are considered and opportunities offered for promotion.
- Better utilization of employees, because the company can often make better use of their abilities in a different job.
- It's more reliable because is known more thoroughly.
- A present employee is more likely to stay in the company.
- Internal recruitment is quicker and cheaper.

15.3 External Source

Very many vacancies are filled from external sources even when an internal candidate is transferred or promoted the final result is usually a vacancy elsewhere in the company which has to be filled from outside.

The disadvantages of external sourcing are;

- Time consuming
- Expensive
- Uncertain

External source may be divided into two classes;

- Those which are comparatively inexpensive but offer a limited choice like;
    - ✓ Unsolicited applications

- ✓ job centers
- ✓ Direct links with school and colleges.

- Those which are comparatively expensive but give employer a wide range of candidates like;
  - ✓ advertising
  - ✓ use of private agencies

15.3.1 Colleges and Agencies

Many employers maintain connections with universities, colleges and schools. Candidates are usually available from these sources only at one time of the year.

15.3.2 Government Agencies

The carrier service and various services of the department of employment provide a means of recruitment which is either free of charge or cost very little.

15.3.3 Private Agencies

These are organizations which are run as commercial enterprises for supplying employers with candidates for jobs and are of two main types:

- Office staff employment agencies, which mainly deal with, clericals; typing and office machine operator. Then employer informs the agency of the vacancy, and the agency submits any suitable candidate on its register.
- Selection agencies for senior staff, which usually undertakes the complete recruitment process. The agency analysis the job, prepares job and personnel specifications, advertises, sends out application form and interviews the selected candidates sometimes testing them also. The employer is then presented with a list of successful candidates.

Agencies have two **disadvantages** as follows;

- In many cases it is impossible for an outside body to understand in a short time what kind of a person fit in with the present management of the company.
- Its very difficult for the agency to follow up and validate its recommendations

15.3.4 Headhunting

Very senior managers are sometimes recruited by a process known as ‘executive’ search’ or ‘headhunting’. On receipt of a commission from a client the head hunter will search for potential candidates in;

- Competing businesses
- The membership lists of professional bodies, trade association’s year books, newspapers and magazines.
- Confidential headhunting networks.

Advantages of headhunting

- Headhunters should posse’s expert knowledge of the salary levels and fringe benefits necessary to attract good caliber candidates.
- Recruiting firms are assured that candidates presented to them will almost certainly be well equipped for the vacancy position

Disadvantages of executive search

It's highly disruptive to successful businesses which stand to lose expensively senior managers.

- It can be used to avoid equal opportunities laws on recruitment and selection.
- An unsuitable candidate might bribe the headhunter to recommend that person for the vacant job.
- Headhunters fee are far higher than for conventional employment agencies.

15.3.5 Advertising

The most popular method of recruitment is to advertise the vacancy and invite candidates to apply to the company.

Advertising may be more effective and less expensive if the following principles are observed;

- ❖ It should contain job and personnel specification as follows;
  - Job title
  - Description of job and employer
  - Experience ,skills and qualification required
  - Age range
  - Working conditions e.g. wage or salary, fringe benefits etc
  - Training given.
- ❖ It should appear in the appropriate publication e.g. local press.
- ❖ Careful records should be kept showing;
  - Which publication was used
  - Which date and day of the week
  - Which position on the page
  - Names of candidates replying to each advertisement
  - Names of candidates who were selected for interview
  - Name of candidate who is successful.
- ❖ Response should be analyzed so that advertising expenditure can be directed towards the publication.
- ❖ Rejected candidates should be sent a prompt and courteous letters.

15.4 Selection

Selection is the next stage, i.e. assessing the candidates by various means, and making a choice followed by an offer of employment as follows;

15.4.1 Application Form

Whatever method of recruitment used the candidate should be asked to fill in application form. The layout of application form varies but most of them contain the following headings;

- Job applied for
- Name, address, telephone number.
- Date and place of birth, nationality
- Education
- Training and qualification

- Medical history e.g. serious illnesses, whether disabled
- Employment history
- Any other information the candidate wishes to provide
- Signature under the words
- Date

Application forms are also useful for;

- Projecting a favorable image of the recruiting organization.
- Obtaining names and addresses of people to contact when future vacancies arise
- Researching the effectiveness of various recruitment advertising media
- Monitoring the effectiveness of equal opportunities policies.

15.4.2 Selection Method

Manager’s next step is to compare the application form with the personnel specifications, looking for attributes which shows the candidate to be apparently suitable for the job and shortcomings which may either rule out the candidates for considerations.

15.4.3 Offer of job

The initial offer of job needs special care particularly as regards the following points;

- The wage and salary offered must not only be appropriate to the job and attractive to the candidate but consistent with the earnings of the present employees
- The job must be named and any special conditions stated.e.g.training.
- The candidate must know the essential conditions of employment e.g. working hours, holidays, bonuses and fringe benefits.
- Any provisions must be clearly stated e.g. subject to satisfactory references and medical examinations.

15.5 Staff Motivation

Keeping staff motivated is good for business. Here are some examples why:

- Motivated workers are more productive and higher **productivity** usually means higher profits.
- In a service industry, workers who are well motivated will provide a better level of customer service, keeping the customers happy.
- Staffs who are well motivated are more likely to stay with the company. They grow in experience and become even more valuable to their employer.
- If a business successfully keeps the staff it has, the cost of recruiting and training new staff is reduced.

15.5.1 Non financial motivators

Most people work to satisfy needs of one kind or another. Non financial **motivators** are things other than money that motivate people to work. **Abraham Maslow** developed his **hierarchy of needs** based on research about what motivates people to work. He suggested that there were 5 levels of need that influence a person's behavior.

- Basic needs: for food, drink and shelter
- Safety needs: protection against danger, threat, deprivation
- Social needs: the need for belonging, acceptance, friendship
- Self-esteem needs: reputation, status

- Self-actualization: the need for realizing one's own potential for continual self-development

In a **hierarchy** the things at the top are more important than those at the bottom. Maslow said the lower levels have to be satisfied first. Only when these needs have been satisfied will the individual strive to satisfy the higher needs. For example, hungry, cold people will seek food and shelter first. Once they are well fed and comfortable, they will turn their attention to higher needs, for example the pleasure of being with colleagues.

How can a business provide for these needs?

- **Basic needs:** A fair wage, a meal and rest facilities.
- **Safety needs:** Job security, safe working conditions, and pension schemes.
- **Social needs:** Met by introducing team work and perhaps providing social facilities like a club or sports pitch.
- **Self-esteem needs:** This is about how others see us at work and can be provided for by rewarding staff with status symbols like cars, offices and new job titles. Allowing staff to gain qualifications at work can boost self-esteem too.
- **Self-actualization:** Achieving your full potential. A business must ensure that promotion is possible and that there are opportunities to use initiative.

15.5.2 Financial motivators

Money, and the way it is paid, can affect motivation to work. In your exam, you may be asked to calculate wages and bonuses or to compare one type of payment scheme to another. These are some of the most usual payment systems:

- **Time rate or 'wages':** Paying by the number of hours worked.
- **Piece rate**: Paying by the number of items (pieces) produced.
- **Overtime**: Extra pay for work done over and above normal working hours. It is usually paid at a higher hourly rate, e.g. **double time** means twice the normal hourly rate.
- **Shift payments:** Usually paid for working unsocial hours such as night work.
- **Bonus payments**: A special single payment for achieving a target.
- **Profit sharing**: A percentage of the company's profit is shared amongst the workers.
- Paying extra money for jobs with difficult hours will usually encourage people to apply for the work.
- A **loyalty bonus** can be used to persuade workers to stay with their employer for a long period of time. Employees may not want to work longer than their contracted hours but they can often be persuaded to do so by receiving a higher rate of pay.
- A **perk** is a payment in kind. Instead of giving money the employer might provide:
    - ✓ cars
    - ✓ health insurance
    - ✓ free uniform
    - ✓ discounted products
    - ✓ first class travel

It is often cheaper for the employer to provide goods rather than the money to buy them with. A good perk will make an employee reluctant to leave the business.

You are the Human Resources Manager of a large company. Feedback suggests many of the workers are unhappy and are looking for new jobs. Recent figures show productivity has fallen. You know that the Managing Director has said there will be no wage increases this year. What improvements could you suggest at the next management meeting which would improve motivation and productivity?

The Answer:

A good answer will suggest introducing some of the following things:

- Providing a pleasant room for staff to use during breaks.
- Providing subsidized meals or improving the existing canteen.
- Giving permanent contracts of employment
- An occupational pension scheme
- Introducing team working and giving teams more say in how things are done
- Advertising job opportunities internally
- Introducing a newsletter or regular briefing for all staff
- Rewarding staff with perks like company cars, insurance schemes or discounted goods

Motivation: The desire to do a job well.
Motivator: Something that encourages an employee to work.
Productivity: A measure of the amount of work done in a given time. For example, the number of goods produced in a week.
Staff turnover: The number of employees leaving a business in a set time period.
Human Resources Manager: The person who is responsible for making sure employees are managed effectively in a business.
Hierarchy: The order or levels in a structure, each level being more important than the one below it.

15.6 Staff Retention

Employees' retention becomes an important item on the human resource agenda when organizations are faced with skills shortage. When labor is in reasonably good supply, leavers can easily be replaced by new starters. These are some of significant initiatives employers can adopt as a means of improving retention rates among their employees;

- Turn over rates and trends
- Staff retention strategies include;
    - Pay
    - Managing expectations
    - Induction

Induction has a number of distinct purposes as follows;

- It plays an important part in helping new employees top adjust emotionally to the new work place
- It provides a forum in which basic information about the organization can be transmitted

- ❖ It can be used to convey to new employees important cultural messages about what organization expects and what employees can expect in return
- ❖ Fill into new positions
- ❖ Job security
- ❖ Job satisfaction
- ❖ Retention
- ❖ Confidence
- ❖ acceptance

There is no clear cut for the length of induction provided employees are properly introduced both to the organization and to their particular role within it.

a) **Family** – friendly human resource practices
Many employees voluntarily resign from jobs due to the inability of juggling the demands of a job with those of the family.

b) **Training and development**
Many organizations hold that training makes employees more employable and hence likely to leave in order to develop their careers elsewhere; on the other hand training opportunities enhance commitment to an employer making employees less likely to leave voluntarily than they would if no training were offered.
Its pertinent, to know that, training which is paid for by the employer is a good deal less likely to raise job mobility than that paid for by the employee.
Long term courses of study such as an MBA or accountancy qualifications sends a signal that if employees stay they can look forward to substantial career advancement.

c) **Managing wages and salaries (compensation);**
Wages and salaries are paid for one or more of the following reasons;
- to fulfill legal obligations
- To obtain a sufficient share of the relevant labor market-competitive reason.
- to provide a fair reward to those performing specified roles
- to provide incentive for employees
- to keep pace with the inflation

d) **Providing incentives and rewards;**
Incentives are given to employees for the following reasons;
- To encourage high performance
- To motivate them
- To minimize wastages of resources and breakages

Various types of incentives and rewards may include;
- Employee counseling
- Legal aid
- Food services
- Recreational programmes
- Credit for employees
- Stores and discounts
- Music and work

- Bonuses
- Pay increase
- Overtime pay
- Risk pay and allowance
- Employees share ownership scheme
- Housing and transportation

e) **Health and Welfare**

Staff health and welfare are of great importance in any employing organization. These may include the following;

- Safety programmes and workman's compensation
- Compensation for illness
- Temporary disability insurance
- Paid sick leave
- Group health programmes
- Old age assistance
- Private pension

f) Employee's Benefits and Service

These can be attributed to the following;

- hours of work
- shift differential
- paid holidays
- paid vacation
- rest pause and coffee breaks

15.7 Conclusion

Successful staff recruitment, motivation and retention are measured by the eventual job performance of new entrants and if the company, its policies and its organizations are not thoroughly understood by the interviewer and eventually by the interviewee there is little hope of achieving high performance.

CHAPTER SIXTEEN
IMPACT OF HIV/AIDS ON BUSINESS

16.0 Introduction

HIV / AIDS is a dreaded viral disease of pandemic proportions whose cure has not been found to-date. Once inside the body, it causes destruction to the body's immune system rendering the person susceptible to numerous opportunistic infections.
The amount of money used to contain the virus once infected is quite enormous and can use up all savings or interfere with money set aside for the business.

It is therefore imperative that every person be it in formal or self-employment, take care of himself and herself to avoid contracting this virus.

It is important to know what HIV / AIDS is, how it is contracted and how you can prevent yourself from contracting the virus and just in case you have been infected already, what are the survival tips.

One needs to clearly understand how HIV/ AIDS attacks and destroys the body and its immune system .This is as outlined below.

16.1 Definition

HIV/AIDS is a viral illness, caused by H.I Virus, and affects the immune system of the host rendering the body susceptible to multiple opportunistic infections . There is still no known cure or vaccination for the virus .
AIDS stands for Acquired Immune Deficiency Syndrome.

- Acquired - Not inborn but you get.
- Immune - Resistant to infections
- Deficiency – Lack of protection, against infection
- Syndrome – is a collection of signs/symptoms, or diseases.

16.2 The Nature of HIV/AIDS Infection

The Human Immuno Deficiency Virus (HIV) is the cause of Acquired Immuno Deficiency Syndrome (AIDS). HIV infection weakens the body's natural ability to fight diseases. As the immune system fails, a person infected with HIV may develop a variety of life-threatening illnesses such as deep skin lacerations, TB, pneumonia, cancer, extensive damage to the nervous system and herpes zoster, just to mention a few. The person would then be diagnosed as having AIDS. However, HIV infected individuals may not show signs of illness for many years usually from 8-12 years. An individual with a significantly suppressed immune system is more likely to develop active TB infection and other ailments faster than a healthy person.

16.3 Modes of Transmission

Everyone needs to know how the virus is transmitted and therefore precautionary measures can be adopted.

3 currently known and documented, modes of transmission are: -

- Sexual Intercourse : oral/anal, Vagina (Unprotected sex with infected person)
- Contaminated Instruments –Needles, syringes, razors, skin piercing , tattooing , circumcision.
- Blood transfusion –
    - Accidents, Treatment, Delivery, Accidental pricks.
- Mother to Child – In Womb, during delivery, Breast feeding (MTCT-Breast feeding).
- “French” or open and deep passionate kissing of the mouth of a partner with advanced gum disease or other conditions where blood is present in the mouth of a person with an advanced HIV infection.

Many a times , business people, unlike their counterparts in the formal sector , may find themselves perpetually having money which can be source of temptation to a promiscuous lifestyle .This calls upon the entrepreneur to discipline self socially and financially .

One should not allow himself to have floating money around and should distinguish between personal and business finances. In so doing excess money shall be instantly banked to avoid temptations.

As a business person, one needs to realize that the business is your employer has and needs you to steer it to success. Long periods of absence due to sickness may spell doom for the business and therefore every precaution must be put in place to safeguard oneself against the virus . It is also worth noting that being diagnosed with the disease is not necessarily a death verdict to the victim .
Early diagnosis of the presence of the virus will enable one to take requisite remedial measures to curtail the spread of the virus.

Knowing the tell-tale symptoms of the presence of this virus is therefore paramount.

16.4 Diagnosis of AIDS

World Health Organisation (WHO) has a definition on the diagnostic criteria for HIV / AIDS Africa ? These are grouped into two categories depending on frequency and seriousness of patient / person.

- Major Signs/Symptoms
- Minor Signs/Symptoms

According to the WHO Criteria, AIDS in an adult can be defined as the presence of 2 major signs and 1 minor sign.

16.4.1 Major Signs in Adults

- Diarrhea
- Loss of weight more than 10% body weight in the past 3 months without Reasonable cause.
- Prolonged fever for more than one month with no cause.
- Kaposis sarcoma or Meningitis or PTB is confirmatory.

16.4.2 Minor Signs in Adults

- ✓ Persistent dry cough for more than a month, not responding to treatment
- ✓ Generalized itchy skin, rash or ulcers
- ✓ Recurrent multiple blisters, painful with fluids – H. zoster
- ✓ Chronic white coating of the mouth, tongue and throat – Oral Candidiasis or Thrush
- ✓ PTB is almost confirmatory signs of Aids.
- ✓ Swelling of glands in the body Many

It is therefore very important that once you detect these symptoms in self you take remedial measures to curtail the spread of the virus before it weakens the body. The business needs you much as the family is also looking unto you .

Many businesspeople may fear the cost involved in all these especially considering the fact that many may not be contributing towards healcare programmes . It it is worth noting that Anti-Retroviral therapy and drugs are prescribed free of charge in government hospitals including Voluntary Testing and Counselling which are spread all-over .
It is also worth stressing that any diagnosis of STI in self should be treated immediately because these conditions are conducive for HIV infection.

16.5 Relation between STI and HIV Infection

- ➢ The behavior that puts a person at risk of contracting STDs puts the person at risk of HIV infection e.g. drugs/substances abuse, multiple partners, non-systematic use of drugs.
- ➢ A person with weak immune system due to HIV infection has a higher risk of contracting STI
- ➢ STDs with open/broken skin (e.g. Sores ulceration) make easier for HIV to be transmitted.
- ➢ Persons who are HIV have reduced immunity, making treatment of STI difficult.

16.6 Prevention and Control

- A = Abstain
- B = Be faithful
- C = Condom use
- Proper and systematic use of condoms (one condom per sexual act)

- Avoid direct contact with contaminated body fluids e.g. blood, human waste and semen.
- Prompt and proper treatment of STI and other OP.1 (Opportunistic Infections
- Screen blood for transfusion
- Decontamination / Disposal of waste products e.g. dressing linen
- Proper handling of contaminated objects e.g. use of gloves
- Single use of needles, and other sharp objects

16.7 Management

- Prevention and Protection
- Behavioral change
- Treat Opportunistic infection
- Good nutrition and personal hygiene
- Voluntary Counselling and Testing
- Promotion of condom use
- Community Education
- Home Based Care for those with full blown AIDS.

16.8 Conclusion

HIV/AIDS is an infection that weakens the body's natural ability to fight diseases. As the immune system fails, a person infected with HIV may develop a variety of life-threatening illnesses. The infected individuals may not show signs of illness for many years usually from 8-12 years. An individual with a significantly suppressed immune system is more likely to develop active TB infection and other ailments faster than a healthy person.

N/B HIV/AIDS has no vaccination and cure.

Remember that you are either affected or infected. So take care.

CHAPTER SEVENTEEN
CAUSES OF BUSINESS SUCCESS / FAILURE

17.0 Introduction

Many businesses are started every year. Most of them fail after a short period of time, say less than three years of existence. This can be attributed to a number of factors, both internally or externally. It is good for businesspersons to remember from day one that success and failure are two given possibilities in business and therefore must guard against failure while cherishing success.

17.1 Business Success

- ✓ A business is said to be successful if it is able to meet its stated objectives.
- ✓ This will be manifested in the business being able to survive long periods of profitability and continued expansion.
- ✓ Success does not just happen but is an end result of personal initiative, determination and commitment to the spirit of entrepreneurship.

17.1.1 Questions to Ask When Going Into Business

i. **Why am I going into business?**
Money and becoming their own bosses. However there are other rewards and responsibilities associated with having your own business. Discover them before you start.

ii. **What business am I going into?**
It is important that every entrepreneur considers carefully the business he ventures into as the requirements for some businesses may be beyond his capability .You must understand the business well.

iii. **Why do some entrepreneurs succeed while others fail in business?**
It is important that a prospective businessperson find out why some businesses fail while others succeed.
These questions if well answered, give the person a good background of how to start and ensure business success.

Factors that contribute to business success

a) Have a solid foundation upon which to build the business.
b) Have a good credit policy. Assess;
    - Credit risk
    - Amount of credit that can be given at once.
    - Credit period
    - Security for credit
    - Collection policy
c) Obtaining accurate financial information about the business regularly through proper and adequate record keeping
d) Carrying out adequate survey of target market.

e) Knowing your competitors in the business chosen.
f) Dynamism –Be ready for change: Consumer tastes and preferences change with time.
g) Networking with others in similar business**.**
h) Choosing a right pricing strategy.
i) Going into business for the right reason
j) Projecting and putting aside operating capital the business will need
k) Staffing the business with the right staff

17.2 Business Failure

A business becomes a failure when it fails to meet its objectives. This is manifested when the business closes down or fails to make profit among other factors.

17.2.1 Symptoms of Business Failure:

- Shortage of working capital
- Accumulating losses and declining profits
- Declining sales
- Failure to meet customer demand, e.g. decreasing stock.

17.2.2 Factors that contribute to business failure:

External factors

- Political temperature
- Economic conditions
- Technological changes
- Legal changes

Internal factors

- Poor choice of business.
- Lack of planning (business planning)
- Lack of self-assessment : some people can never be good business people
- Inadequate cash reserves.
- For capital assets
- Working capital
- Family sustenance
- Failure to clearly define and understand the market.
- Poor Pricing.
- Failure to adequately anticipate cash flow.
- Failure to anticipate or react appropriately to competition, technology or other changes in the market. Accept change as an inevitable part of business.
- Over-generalization. Becoming a jack-of-all-trades at the start may adversely affect your business, .i.e. Learn the business first.
- Over-dependence on a single customer.
- Uncontrolled growth / expansion
    - Slow and steady growth wins every time.
    - Believing you can do everything yourself.
    - Delegate and employ other skills.
- Lack of managerial skills.

- ❖ Poor debt management /credit policy
- ❖ Limited market segment.
    - ▪ Failure to diversify markets / products

17.3 Other Factors

- ✓ Family pressure (on time & financial resources)
- ✓ Financial indiscipline
- ✓ Lack of focus.
- ✓ Inadequate experience
- ✓ Poor / inadequate record – keeping.
- ✓ Internal conflict (partnerships).
- ✓ Poor location
- ✓ Poor customer / public relations
- ✓ Lack of motivated staff

17.4 Conclusion

- While no person should start a business venture anticipating failure, one should have a clear plan for success and should put in place actions to take when things go wrong.
- While some of the best prepared and planned for businesses can still go wrong, an understanding of the contributive factors for failure can help against the same.
- In venturing into business, be honest and objective, know your limitations and be ready to be involved in the management of the business.