## LECTURE FIVE: ESTABLISHING AN ENTERPRISE

I welcome you to lecture five where we will study the following topics: Reasons for starting an enterprise, types of start-up firms, Legal aspects of business, Selecting business location

Kindly, make sure that:

* You complete this lecture before proceeding to the next one.
* Refer to the suggested additional resources to get further information on each topic
* Make notes as to simplify your study
* Complete all activities and questions as you progress
* Spend at least 3(three) hours to complete each topic for you to understand and apply the knowledge and skills acquired

Once again welcome and let us begin. Good luck

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| By the end of the lecture, you should be able to:  I Define the term business enterprise.  ii Describe reasons for establishing a business enterprise.  iii. Explain the different types of firms.  iv. Analyze the various form of ownership.  v. Identify the factors to consider while selecting a business location. |

1. The world desperately needs entrepreneurs. Entrepreneurs create wealth, so one should aim at being a wealth creator. Don’t worry about the many missed opportunities. Bwisa a Professor of entrepreneurship says POOR stands for Passing Over Opportunities Repeatedly BUT there is always a new beginning. According to Richard Branson the owner of Virgin groups ‘***’business opportunities are like buses, there is always another one coming ‘***the days everyone wants to own a business. some have great ideas , others have money but there is one thing stopping them from starting and that is **FEAR. Ie fear of losing your savings, property, house etc .**Fear is the biggest stopper. it is human nature to think more negative than positive, that is why one cannot find a book in the market entitled ‘’ how to think negative?’’ All the books are on ‘’ Positive Thinking ‘’ because very few people think positive and those who so become achievers in this world e.g People like Steve jobs, Richard Branson and Donald Trump.
2. Everyone makes mistakes. Mistakes are part of the success process that is when you learn. One may make mistakes that can cause business failure and loss of everything. At this point one should not give up but to get up and start over again- that is life. You are neither the first nor the last it happens in life.

There are more people starting businesses today than any other time in history and it’s the best time to do businesses. Today, all the three factors information, technology and communication are working together to accelerate the speed of change beyond anything that we have ever imagined.

1. **Reasons for starting an enterprise**
2. To be their own boss
3. To pursue their own ideas

- Desire to see ideas realized

- Corporate entrepreneurs – want their ideas known

- Hobby – leisure activity, everyday life, recognize a need not fulfilled thus pick it up.

1. Pursue financial rewards

Attracted by successful role models thus want to be in business.

**Types of Small Firms**

Small business enterprises in Kenya are clustered on the basis of the various productive activities they engage in including trade, commerce, distribution, transport, construction, agriculture, manufacturing, and maintenance and repair services. Most of these activities can be grouped into the following categories:

**Manufacturing:**

These firms will be engaged in production of basic items, using labor intensive methods. These firms may also provide components or parts to larger industries. The level of investment in these firms is low. For example metal fabricators, leatherworks firms and furniture industries.

**Construction**

Due to the high level of investment requires in this industry most firms will operate as sub-contractors or provide certain services to larger firms such as electrical wiring, plumbing works, furniture fittings, roofing works, painting and graveling of rural access roads.

**Retail & Wholesale Trade**

This sectors account for the majority of small business firms in Kenya. They will mainly act as intermediaries or middlemen of factories and other distribution businesses. For example retail shops or kiosks which sell food items, mobile airtime and stationery items

**Service Business**

The service sector is large and many small firms will provide essential specialized and technical services to other businesses, institutions and the general public. Such services include hair stylists, book-keeping, motor repairs and mechanics etc.

**Legal Forms of Business in Kenya**

A business organization represents the institutionalized (structured) arrangement to carry out the business activity. Different forms of organization give a definite legal status to the organization. Business organization and structure defines the ownership, the scope and limitations of the business. Upon deciding to start a business, an entrepreneur needs to decide what type of business structure will be suitable under their circumstances. This choice can be made from the following:

* Sole proprietorship
* Partnership
* Limited Company
* Cooperative Society.

**Sole Proprietorship**

A sole proprietorship also known as a sole trader or simply proprietorship is a type of [business entity](http://en.wikipedia.org/wiki/Business_entity) which is owned and run by one individual and where there is no legal distinction between the owner and the business. All profits and all losses accrue to the owner (subject to taxation). All assets of the business are owned by the proprietor and all debts of the business are their debts and they must pay them from their personal resources. This means that the owner has unlimited liability. It is a "sole" proprietorship in the sense that the owner has no partners ([partnership](http://en.wikipedia.org/wiki/Partnership)). A sole proprietor may do business with a [trade name](http://en.wikipedia.org/wiki/Trade_name) other than his or her legal name. This also allows the proprietor to open a business account with banking institutions.

## Advantages

The main advantages of a sole proprietorship are as follows:

* They are easy to start up;
* They are subject to fewer regulations relative to other types of businesses,
* The owner has full autonomy with regard to business decisions,
* They are easy to discontinue.
* That one takes all the profits of the business.
* A sole proprietor usually has a quick decision process and doesn't have any opposition when making a decision as he or she has total control of his or her business.
* The owner does not have the tension regarding conflicts among the partners as there are no partners.

## Disadvantages

* A business organized as a sole trader will likely have a hard time raising capital since it has to make up for all the business's funds.
* The owner of the business has unlimited liability as he is responsible for the business's debts because he has control over the business.
* Another disadvantage of a sole proprietorship is that as a business becomes successful, the risks accompanying the business tend to grow. To minimize those risks, a sole proprietor has the option of forming a [Limited Liability Company](http://en.wikipedia.org/wiki/Limited_Liability_Company).

**Partnership**

A partnership is an association of two or more persons to carry on a business. It is limited to a maximum of 20 people. In a partnership partners (owners) share with each other the profits or losses of the business. Partnerships are often favored over [corporations](http://en.wikipedia.org/wiki/Corporation) for taxation purposes, as the partnership structure does not generally incur a tax on profits before it is distributed to the partners (i.e. there is no [dividend tax](http://en.wikipedia.org/wiki/Dividend_tax) levied). However, depending on the partnership structure and the [jurisdiction](http://en.wikipedia.org/wiki/Jurisdiction) in which it operates, owners of a partnership may be exposed to greater personal liability than they would as [shareholders](http://en.wikipedia.org/wiki/Shareholder) of a corporation.

**Type of Partners:**

**Active partners -** The partners who actively participate in the day-to-day operations of the business are known as active partners. They contribute capital and are also entitled to share the profits of the business. They also share the losses that the business faces.

**Dormant partners -** Those partners who do not participate in the day-to-day activities of the partnership firm are known as dormant or “sleeping partners”. They only contribute capital and share the profits or bear the losses, if any.

**Nominal partners -** These partners “only” allow the firm to use their “name” as a partner. They “do not” have any real interest in the business of the firm. They do not invest any capital, or share profits and also do not take part in the business of the firm. However, they do remain liable to third parties for the acts of the firm.

**Minor as a partner -** In special cases a minor can be admitted as partner with certain conditions. A minor can only share the profit of the business. In case of loss his liability is limited to the extent of his capital contribution for the business.

**Partnership Deed**

The formation of a partnership requires an understanding among the partners in the form of an agreement because partnership arises not from status but from contract. The partnership agreement may be oral or in writing. The document in which all the important terms and conditions regarding the partnership business are written is called partnership deed.

A partnership deed is written agreement which contains terms and conditions as to the relationship of the partners among each other. There is no prescribed format for a partnership deed but it must be stamped and signed by all the partners. A Partnership deed is drawn to avoid misunderstanding and undesirable litigation. Where it is decided to have a partnership deed in written form, it should be stamped according to the provisions of Stamp Act, in Kenya. It is not regarded as a public document like memorandum of association and articles of association in a limited liability company. It is otherwise known as agreement, deed or articles of partnership.

A properly drafted partnership deed contains the following points:

* The name of the firm and the names of the partners.
* The place where the head office is situated and the business is carried on.
* Nature and kinds of business operation.
* The amount of capital contribution by the partners.
* The commencement and the duration of partnership.
* The proportion in which the profits are to be shared.
* The provisions for interest on capital, if any.
* Nature of loans and advances and the provisions for interest on loan.
* The amount of withdrawal to be made by the partners to any partner for this special service to the firm.
* Provisions for maintenance of books of accounts and the procedure of audit of accounts.
* The name of the partners for signing cheques and other important documents.
* Procedure for valuation of goodwill at the time of admission and retirement.
* Arbitration clause for settlement of disputes among the partners.
* Procedure for dissolution of partnership and partnership firm.
* Provisions for determining the amount of capital payable to the retiring partner or to the heir of a deceased partner.
* The method of revaluation of assets and liabilities.
* The procedure of settlement in case of dissolution of partnership.

**Advantages of Partnership   
*Easy to Form -*** The partnership, like the sole proprietorship, can be easily organized. There are no complicated legal formalities involved in the establishment of partnership business. The partners enter into a partnership agreement and start business.   
  
***Large Capital -*** In case of sole proprietorship, the capital is limited to the savings of one owner or his borrowing capacity. Partnership can bring more capital to the business by the joint efforts of the partners. The partnership is normally in strong position to raise capital and expand the business.   
  
***Greater Management Ability -*** As there are many partners involved in the operation of a business, the firm can distribute the duties and responsibilities to each partner for which one is best qualified and suited. Division of labour and specialization, thus, can promote efficiency of the firm.   
  
***Union of Business Ability -*** There is a old adage that says that two heads are better than one. In case of partnership the partner mutually consults each other about the lay out, production procedure, marketing channels, etc. and as a result, a wise course of procedure results.   
  
***Profit Incentive -*** The profits are shared by the partners as per agreement. They are encouraged to do more work to earn more profit. Higher the profits, higher will be the partners share.  
  
**Advantages of Secrecy**   
The partners can keep the business secrets to themselves. The firm is not required by law to publish its profit and loss account and balance sheet.   
  
***Retention of a Skilled Worker -*** If an employee in the partnership business is found to be a man of outstanding talent and ability, he with the mutual consultation of other partners can be given a status of a partner in the business.

***Brake on Hasty Decisions -*** As liability of partners is unlimited, the partners, therefore, tend to be careful in taking business decisions. They adopt sound practices in the conduct of business. There is a brake on hasty decisions.   
  
***Special Protection to Minor -*** A death or lunacy of a partner may not cause dissolution of the partnership. His minor can be admitted only to the benefits of partners with the consent of other partners.   
  
***Increase in The Spirit of Cooperation* -** The success of business depends upon mutual trust and cooperation of the partners. The partners are fully aware that a sight difference can cause the end of partnership. This increases in them the spirit of working together.   
  
***Tax Advantage* -** The profits of a registered firm, after payment of super fax, are divided among the partners. They pay tax to the government on their shares of profit. Thus the partners of registered firm get the benefit of lower assessment.   
  
***Ease of Dissolution -*** The partnership can also be legally dissolved much difficult by mutual consent of the partners or in accordance with a contract by the partners. There are no formal documents required to be drawn up as in the case of a joint stock company.   
  
**Disadvantages or Demerits of Partnership**   
The partnership form of organization suffers from certain disadvantages also. These in brief are as follows.   
  
***Unlimited Liability of Partners -*** One of the basic defects of partnership is that the partners are personally and jointly responsible for all the debts of the firm. In case the business suffers losses and the business assets are not sufficient to satisfy the claimants on liquidation, the personal property of one or more than one partners can be sold under the Court order for the clearance of the debts of the business.

***Limited Life of Firm -*** The duration of the partnership is always uncertain. If a partner dies, gets injured, withdraws, sells his interest, or a new partner is admitted into the business, or there arises differences, the partnership may come to an end. There are every possibilities of the dissolution of the firm due to internal differences.   
  
***Frozen Investment* -** It is very easy for a partner to invest money but it is most difficult to withdraw the from the business. A person who wishes to withdraw investment has to consult his partners, find a substitute with equal business ability. Unless the above conditions are fulfilled, the funds remain difficult to transfer and as such remain a frozen investment which creates lack of interest.   
  
***Disputes Among The Partners -*** The partners should be like minded, have a common objective, be large hearted, have a cool temperament, should not unnecessarily cause friction and confusion among the partners. In case of dispute among the partners, quick action should be taken by all the partners for the remedial measures.   
  
***Possibility of Misuse of Resources -*** It is known to each and every partner that the resources of the firm are owned jointly. There can and does arise the misuse of resources by a partner/partners.    
  
***Loss of Business Opportunities* -** In case of differences among the “partners, a delay may take place in decision-making. This can cause loss to the firm.   
  
***Divided Control -*** In a partnership, the work of the business is divided among the partners according to their ability, choice and taste. Divided control - and responsibility sometimes creates confusion and delay in making decisions. The lack of efficiency on the part of one partner can upset the whole structure of the business and ultimately lead to dissolution of the firm.   
  
***Lack of Public Confidence* -** Partnership form of organization may not enjoy public confidence due to lack of publicity and absence of regulations.   
  
***Implied Authority***  - Implied authority is the authority vested in a partner to bind the firm with any of his acts done in connection with the business of the firms. In partnership form of organization, each partner binds other partners by his acts done on behalf of the firm: Thus the other partners may have to pay for the follies and dishonesty of a fellow partner.   
  
**Conclusion**   
Partnership form of ownership is suitable where business is of medium size, the partners are of equal status, ability and resources.

**2.4 Limited Liability Company**

A limited liability company is a group of persons associated together for the purpose of undertaking some form of business activity.

**A Private Limited Company:**

* Has a minimum of two members and a maximum of fifty members;
* Shares of the company are not freely transferable;
* It is prohibited from inviting members of the public to subscribe to its shares and debentures

**A Public Limited Company:**

* Also called a joint stock company;
* Has a minimum of seven members and no maximum;
* Allowed to transfer shares and can invite members of the public to buy its shares;
* Usually operates within a fixed regulatory framework

**Memorandum & Articles of Association**

Operations of limited liability companies are guided by two documents mainly the memorandum and articles of association.

*Memorandum of Association:* Memorandum of Association of a [company](http://en.wikipedia.org/wiki/Company_%28law%29), often simply called the memorandum is the document that governs the relationship between the company and the outside. It is one of the documents required to incorporate a [company](http://en.wikipedia.org/wiki/Company_%28law%29) in Kenya and is also used in many of the [common law](http://en.wikipedia.org/wiki/Common_law) [jurisdictions](http://en.wikipedia.org/wiki/Jurisdiction) of the [Commonwealth](http://en.wikipedia.org/wiki/Commonwealth_of_Nations). It is basically a statement that the subscribers wish to form a company under the Company’s Act Cap 486 the Laws of Kenya and, have agreed to become members and, in the case of a company that is to have a share capital, to take at least one share each. It also states the name of the company, the type of company (such as public limited company or private company limited by shares), the location of its registered office, the objects of the company, and its authorized share capital.

*Articles of Association:* The articles of association of a company, often simply referred to as the **articles** are the regulations governing the relationships between the shareholders and directors of the company, and are a requirement for the establishment of a [company](http://en.wikipedia.org/wiki/Company_%28law%29) under the Kenyan laws. Together with the [memorandum of association](http://en.wikipedia.org/wiki/Memorandum_of_association), they form the constitution of a company. Articles of association typically cover the issuing of [shares](http://en.wikipedia.org/wiki/Shares) (also called [stock](http://en.wikipedia.org/wiki/Stock)), the different voting and dividend rights attached to different classes of share, restrictions on the transfer of shares, the rules of board meetings and shareholder meetings, and other similar issues.

***Advantages of Limited Liability Companies***

* Limited liability companies provide personal liability protection for members;
* Members can bring more capital to the business by the increasing their share capital;
* Benefits from professional management;
* Interests of shareholders are protected through legal requirements;
* Ease of transfer of shares especially for Public limited companies;

***Disadvantages***

* Ownership and management are separate entities;
* Small shareholders often have no say in running of the business;
* Formation is expensive and complicated

**2.5 Cooperative Societies**

This is a voluntary and democratic association of persons based on equality of opportunity and equity of distribution and mutuality from the promotion of the common interests of members as producers or consumers. The cooperative is a collective endeavor to service and promote certain common interests of its members with cost effectiveness and equal rights for all its members.

**Characteristics of Co-operative Firms Include:**

* Democratic control;
* Limited interest on capital;
* Equitable distribution of surplus;
* Co-operation among co-operative;
* Co-operative education;

***Advantages of Cooperatives***

* Members get goods and services at lower prices;
* Saves members from exploitation by middlemen;
* One member one vote prevents domination;
* Encourages pooling of resources;

***Disadvantages***

* Politicization of business
* Inefficiency in functioning
* Government interference
* Corruption and nepotism

BUSINESS LOCATION

**Choosing a Business Location: Factors You Must Consider**

Starting a business involves a pretty complex set of issues, so make sure you are completely informed down to the minutest of details. Establish priorities, research well, and above all, maintain an open mind. A successful business will be crucial to your lifestyle. This could very well be one of the most fundamental decisions you will ever have to make in your lifetime. If you are also in the process of starting a business and getting a good location is proving quite a challenge for you, then below are factors you must consider before choosing a small business location.

Don’t overlook the importance of choosing the right location for your business. Even the state where you choose to open your business can be important; make sure the state you choose is entrepreneur friendly. Sales and income taxes are different for each state as well as regulatory requirements. Now that you know that location is not just about the right building, here are eight other items to contemplate:

**Cost**   
Is it within your budget? Will your employees and customers be able to afford it, i.e. potential parking fees, etc.?  
**Convenience**   
Will your business be easy to locate and is there nearby parking?  
 **Prestige**   
Having a downtown address could increase your credibility.  
 **Safety**  
This is extremely important for both employees and customers. Will the location be well lit and have security on site?  
**Traffic**   
Restaurants and retailers will benefit from drive through traffic, but not particularly office workers.  
 **Building Requirements**   
Will you need things such as specialized wiring, meeting space or other special needs? Sharing space for meetings could be an option.  
 **Zoning**   
Make sure your business will be allowed in your chosen city before lease signing.  
 **Visibility/Accessibility**   
Will your business be easy to see/access for car traffic and pedestrians alike? Being close to similar clientele is also a plus. Even something as simple as what side of the street you will be on can make a huge difference. You don’t want customers having to make U-turns just to get to you; they may bypass you altogether.

**Availability of raw materials**

If you intend running a manufacturing or production business, then the nearness or availability of raw materials is a factor you must not joke with when choosing your business location. If your business is not sited close to these raw materials, then sourcing and transportation will reduce your profit margin.

**Nearness to market**

The next important factor to consider is the nearness of your business to its customers. Are your customers resellers or end users? Answering this question will help you determine the best area to locate your business. Remember that for your business to succeed, you must make it easy for customers to find your product.

**Availability of basic infrastructure**

Availability of basic infrastructure can affect your choice of small business location. Amenities and infrastructure such as water supply, power supply, good road network and security are things to consider when locating your business.

**Economic policy**

The economic policy or system of a particular region may also affect your decision and choice of location. Some economy favour capitalists and others are driven by socialism; where the government controls all businesses. Other sub-factors to consider are government’s policy, fiscal and monetary policy, exchange rates, taxes, levies and duties.

**Demographics**

Demographics as a factor can have a big influence on your choice of business location. The type of product or service your business offers and the status of the customers will play a vital in your choice of small business location. I will share an example: Suppose you are into the business of selling stationeries. That means your demographics should be made up of students, so your best bet of location should be within school vicinity.\

**Psychographics**

The mind-set of your customers or the aura of a particular region is also a factor to consider when choosing a location for your small business. For example; if you site your business in a region where tribalism thrives, then you are doomed if you are not a member of the tribe. Another example is this; if you are in the pornographic industry, you will be making a grievous mistake to site your business within a region where the inhabitants are highly religious.

**Industrial Clusters / areas**

Some entrepreneurs may decide to site their business in industrial areas or clusters due to the infrastructure and amenities already on ground. Industrial areas are areas mapped out specifically for commercial purposes especially manufacturing firms. These areas are sometimes given special attention such as good road network, constant power supply, etc. In some certain regions, heavy duty manufacturers are forced by the government to site their companies in these industrial areas.

**Export processing zones**

Locating your business in an export processing zone may be a smart choice for you especially if are an exporter. Locating your business in such regions means a reduction in transportation cost, faster inspection and clearance of your products by custom officials and so on

**Free trade zones**

International free trade zones and trade fair centres are also good places to site your business because it is accessible and normally receives wide publicity.

**Distributive channel**

If your business don’t deal directly with end users or final consumers, then it’s wise to put your distributive channel into consideration when choosing a location for your small business. The more you make it easier for your distributors to access your products, the better for your business.

As a final note, i want to stress that product accessibility is directly hinged on the location of your business. So when choosing a location for your small business, the following factors listed above can give a hand in decision making.

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| **!pause and reflect** | If you were to start a business today which form of ownership would you choose and why? |
|  | **Summary**  In this topic we have learnt about a business enterprise , reasons for establishing a business enterprise, different types of firms, various form of ownership and the factors to consider while selecting a business location. |
|  | **Self-Assessment Question (SAQ)**  1.What are the reasons of establishing a business enterprise  2. Discuss the different types of firms in Kenya.  3. Highlight the types of business ownership giving the advantages and disadvantages of each.  4. What are the critical factors to consider while selecting business location.   |  | | --- | |  | |

LECTURE SIX: BUSINESS PLANNING-

INTRODUCTION

Welcome to our sixth lecture of business planning, in our previous lecture we learnt about establishing a new enterprise. A business plan is a tool that increases chances of success and reduces chances of failure. So in this lecture we shall study about a business plan, its benefits, and components of a business plan and the process of writing.

Kindly, make sure that:

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* Complete all activities and questions as you progress
* Spend at least 3(three) hours to complete each topic for you to understand and apply the knowledge and skills acquired

Once again welcome and let us begin. Good luck

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| By the end of the lecture, you should be able to:  i. Define the terms business plan and business planning.  ii. Explain the components of a business plan  iii. Demonstrate how a business plan is written  iv. state the importance of a business plan  v. Analyse a case study.  - |

**WHAT IS A BUSINESS PLAN**

business plan is a document that describes your business, its objectives, strategies, target market and financial forecasts. It's a blueprint to your business's future. Business plans can vary enormously in length, style and content, but the key is to ensure the document is realistic, practical and regularly reviewed. It should not only set the direction for your business but act as a reference point for measuring performance.

A business plan precisely defines your business, identifies your goals and serves as your firm's resume. Its basic components include a current and pro forma balance sheet, an income statement and a cash flow analysis. It helps you allocate resources properly, handle unforeseen complications, and make the right decisions. Because it provides specific and organized Information about your company and how you will repay borrowed money, a good business plan isa crucial part of any loan package.  
Additionally, it can tell your sales personnel, suppliers and others about your operations and goals.

***PRODUCTION PLAN:***

1. Production
2. Materials
3. Machinery
4. Premises

**BUSINESS PLAN**

**MARKETING PLAN:** 1. Overall market

2. Target market

3. Competition

4. Market

**MANAGEMENT:**

1. Organization structure
2. Duties
3. Qualification
4. Personnel policies

**FINANCIAL PLAN:**

1. Cost schedule
2. Cash flow
3. Income statement
4. Projections
5. Balance sheet

**What is business planning**

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

Therefore, business planning has the following elements:-

* 1. Setting goals and objectives
  2. Forecasting various resources
* Materials
* Financial
* Human

c. Developing activities, allocation of resources and putting them on a time scale.

These are plans.

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

**WHY DO A BUSINESS PLAN?**

It may seem like a lot of work at the outset, but a well prepared business plan can save you time and money in the long run and help you secure major contracts or funding.

Most importantly, a business plan incorporating a feasibility study will help you determine whether your idea is commercially viable and any issues you need to address or plan for along the way. It will help you:

* apply for finance from a financial institution;
* secure investors, sponsors, suppliers and staff;
* clearly outline your goals and long-term vision;
* determine the commercial viability of your idea;
* examine your business idea from many different angles;
* test your commitment and motivation;
* identify your business's strengths, weaknesses, opportunities and threats;
* develop strategies to successfully operate and market your business; and
* establish measures to evaluate your business success.

**IMPORTANCE OF PLANNING**

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

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| **?** | **Activity to pause and reflect**  **If you were to write a business plan what areas would you consider as critical and why?** |

**TYPES OF PLANNING**

Plans in business can be seen from two ways:-

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

**TIME:**

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

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

**VARIUORS ASPECTS OF BUSIENSS**

They can be seen terms of the following:-

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

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

**PROCESS OF PLANNING**

The following is the major steps in the process of planning

1. setting of business goals and objectives
2. assessment o business environment
3. assessment of business resources
4. forecasting the resources
5. assessment of alternative causes of action to achieve goals
6. selecting the best alternative
7. listing the activities to be done in accomplishing the goal and objectives
8. developing activities in terms of time when everything has to be done

**3.3 PLANNING MARKETING ACTIVITIES**

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

1. The requirements (Needs and wants of the TARGET MARKET.)
2. the products needed by customers
3. Prices
4. Distribution
5. Promotional activities

**PLANNING PRODUCTION**

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

The following are areas that need planning:-

1. Units to be produced in certain periods according to the needs of the market
2. The amounts of raw materials
3. The production process or systems
4. That quality assurance

**PLANNING FINANCES**

This is also called BUDGETING

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

1. Cash flow budget
2. Sales and costs budget
3. Project of your business worth( balance sheet)

**IMPORTANCE OF A BUSINESS PLAN.**

A business plan is useful in the following ways:

(1) It is a financial tool

A good business plan should provide more information than merely what is required to secure a loan from financial institution. A separate loan package will not therefore be required. It should be objectively prepared for it to be accepted by a financier.

2) A business plan is a blueprint

A business plan serves as a blue-print for starting, expanding and/or operating a business. Just as a builder draws plans before starting the construction of a house, a businessman should plan his business operations prior to implementation.

3) A business plan reduces fire fighting. Many small business persons spend time solving small problems and they never have opportunity to do anything else. By preparing a business plan, problems can be anticipated and decision as to how they should be avoided can be determined.

4) A business plan forces owners to justify their plans of action

Often, a decision is made to do something because it ‘sounds’ or feels’ right. Alternatively, something may be done because traditionally that is the way it has always been done. Preparing a business plan forces owners to prove the validity, or explain the reasoning of the plan. The ability of management is-demonstrated. All management is involved in the planning, the budgeting, forecasting and reporting process of repairing the business plan

5) A business plan tests ideas on paper

It is much better to do a business plan and find Chat the business is likely to be. Unprofitable than to start a business and find out the same thing (i.e. that it fails).

6) A business plan indicates the owner’s ability and commitment

A well prepared business plan is an important document. It shows outsiders such as loan officers, potential partners and suppliers that the owner understands the business. The fact that the owner has spent time to prepare the business plan shows commitment to the business.

The business plan has many uses. By analysing the industry market and the firm, the owner will become aware of many important issues. These issues can be put into a clearer perspective through the preparation of a written business plan. The business plan can provide guidance to employees in the firm. The documents can also be used with banks, investors and management consultants.

**QUALITIES OF A GOOD BUSINESS PLAN**

One of the reasons why you may be compelled to prepare a business plan is when you want to get a loan either from a bank, a non-bank financial institution or any other lending institution.

To you, your business is of supreme interest and importance to a bank or fund manager, your plan is just like any other document that he finds on his desk. You must win his approval and keep his interest while reading it. For it to do this, your business plan should have the following qualities:

Simplicity and clarity

Brevity

Logical

Truthful

Be backed up with figures whenever possible.

**Simplicity and Clarity**

The person reading your business plan is busy. Quite often he has other things to think about and can be attracted and motivated to read your business plan only if it is simple and clear. The following tips will aid you in this: Keep your language simple, Avoid trying to put too many ideas into one sentence, Let one sentence flow on logically from the last, Avoid ambiguous words, Tabulate wherever possible.

**Brevity: If** the banker or manager gets bored while reading your business plan, you are unlikely to get the sympathetic hearing you deserve. So prune and shorten, keeping only the essentials of what your reader ought to be told. In short, be brief and to the point.

**Logic:** The facts and ideas you present will be easier to take in and make more impact if they follow one another in a logical sequence. Avoid series of unconnected paragraphs. Also, let your chapters and headings or sub-headings follow each other systematically.

**Truth :**The business plan, as has been seen, is not only meant for acquiring a loan, it is also a blueprint, used for monitoring the operations of the business. You should therefore tell the truth in your plan. Do not overstate your case for it may do more harp; than good.

**Use of figures :**The banker or financier reading your plan thinks in terms of numbers. Words will not impress him/her unless they are backed by figures that you have made as precise as possible. Therefore, try to quantify your ideas wherever possible

**USES OF A BUSINESS PLAN**

Business plans are commonly used to:

Obtain business finance from banks, other financiers and investors

Provide guidelines for opening a new business or expanding an existing one

Serve as a tool for managing, every aspect of a business operation

Communication to outsiders the goals, objectives and activities of a business.

**THE BENEFITS OF FORMAL BUSINESS PLANNING**

1. Encourages potential entrepreneurs to establish written goals and objectives for their proposed businesses.

2. Enables potential entrepreneurs to establish written goals and objectives for their

proposed businesses.

3. Assists is identifying the potential customers, marketing opportunities, pricing strategy, promotional activities, distribution strategy and the competitive conditions needed for business success.

4. Enables identification of the number of employees needed, the skills they should possess, the tasks they will perform and the methods of remuneration to be adopted.

5. Assist entrepreneurs to establish the financial needs of a business and suggest the possible sources of finance.

6. Helps to identify critical factors or the successful entry and growth a business in a given market.

7. Exposes entrepreneurs to the whole planning, budgeting, forecast and reporting process necessary for starting or expanding a business.

**COMPONENTS OF A BUSINESS PLAN**

Executive Summary

Business description

Marketing plan

Management and operational plan

Financial plan

1. The Executive Summary is a brief of the business venture. It summarizes the business description, marketing, organizational, operational and financial plans of proposed or for an existing business enterprise. It is usually written last during the preparation of a business but appears first.

2. The business description covers, in detail, the background of the business owner, type of business, the location of the business, the products/services offered and the entry and growth strategies of the business. The business description is the first item to be written in preparing a business plan.

3. The marketing Plan describes how the business intends to sell its product (s) or offer its service(s). It identifies the customers and the competition. It also outlines the pricing, selling, promotional and distribution strategies.

4. Management and operation plan Management plan explains how the business will be staffed and coordinated to accomplish its objectives. It shows the organizational structure. It identifies key management personnel, their duties and responsibilities. It also provides proposals regarding salaries and incentives for personnel.

5. The operational plan describes how the product(s) of the business will be manufactured. It shows a breakdown of the equipment, materials and other costs which will be incurred during the production process. For a service business, the plan indicates the requirements for providing a service.

6. The financial plan determines the financial requirements of the business. It also provide proposals for sources and uses of funds. Further financial information is contained in pro-forma income statements, pro-for-ma balance sheet and projected cash-flow statement

**Preliminary pages:** cover page, acknowledgement, dedication, Executive Summary, table of content, list of tables, list of figures, acronyms

**SECTION ONE**

**Business Description** Your background

The proposed business name and the starting date

Location of the business

Major activities of the business

Uniqueness of your product/services

What attracted you to this opportunity?

Explain your plans to exploit the opportunity

What are your plans to diversity the business?

What plans do you have for growth and expansion?

**SECTION TWO The Marketing**

Identify your consumer segments

How will your products reach the customers?

Outline your competitors, their strengths and weaknesses.

Explain your competitive edge.

**SECTION THREE The Management Team**

Outline the skills and experiences of the management team

Prepare a brief profile for each member of the management team

Indicate the number and level of the other employees you require.

**SECTION FOUR Production/Operations**

Requirements —\_output and

Controls — quality and procedure

Factors considered

**SECTION FIVE Financial Plan**

Indicate the total amount of money required to finance the business.

Where will this money come from?

How, will the money be used?

State your break-even point

Indicate clearly the feasibility and profitability of the venture Carried out towards the end but follow preliminaries

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| **!** | Key note |
|  | Summary |
|  | Self-Assessment Question (SAQ) |
|  | Further reading |