

## **CHAPTER 4: PRODUCTION/OPERATION PLAN**

This chapter is crucial to your business plan. It outlines your strategies concerning the operation of your business. In this section you outline how you will come up with products or services you wish to offer to customers and all the aspects of production.

### **PARTS OF CHAPTER FOUR;(FORMAT)**

1. Production facilities and capacity
2. Production strategy
3. Production process
4. Rules and regulations

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#### **4.1 Production facilities and capacity**

The common facilities required in operating a business include;

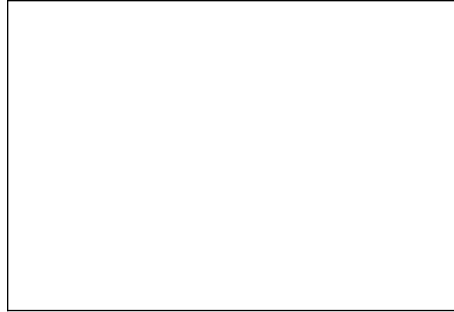
i. Capital

State your total capital investment and the sources.

ii. Premises

- Describe the premises of your business showing whether it will be rented or personal. If rented, indicate the rent per month in Ksh.
- Draw the ground plan of your business layout showing the parts/sections of the business premises and the functions/activities to be carried out in them.

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- Will the work shop space allow for future expansion? If not what are your plans for expansion?

iii. Tools, Machines and Equipment

- Prepare a table showing the type of machine, tools or equipment: Their capacity, quantity/ number required, price per unit, total price and source/supplier.

Refer to the table below

ITEM	QUANTITY	SUPPLIER	UNIT COST	TOTAL COST
computer	1	Samsung	30000	30000
Sauce pans	2	Quickmatt	@300 each	600

TOTAL

=220000

- Explain your plans for maintaining and repairing; machines, tools, and equipment
- Who will maintain and carry out repairs?
- Will the spare parts for the major items be locally available?

iv. Labour.

- State the type of labour force that you will need for your business. Eg skilled or unskilled labour or both

v. Social amenities

- State the types of social amenities you will need when operating your business.  
e.g schools/ hospitals, churches, shopping and recreational centers etc

## **4.2 PRODUCTION STRATEGY**

In this part, outline your production plan and objectives, which will lead to optimum production levels, minimum production costs and maximum utilization of business resources in order to maximize your profits.

Project your monthly costs for materials, labour and production overheads.

- a. Describe your monthly material requirements, costs and sources.

Type of material	Sources	Quantity	Unit cost	Total cost
Maize flour	Eastmatt	5 bails	1000	5000



TOTAL SALARY				= 120000

c. Expenses/overheads

Describe your monthly production expenses.

Expenses	Amount
Rent	10000
Water	2000
Total expenses	= 40000

### 4.3 PRODUCTION PROCESS

The production of each particular product or operation of any service follows certain steps and procedures. Outline the procedures to be followed, describing in details the activities to be carried out from the start of the process up to the last stage where the product is ready for the distribution or to the point where the customer picks and pays for the product or service.

**Follow the steps below:**

a) What product steps will be involved in producing your proposed products.?

b) What will be the main features of offering your proposed services?

**NOTE.** (Give a step by step process showing the work done, the person doing the work, the equipment used, and the materials involved.)

c) What external and internal factors are likely to affect the production process?

d) What plans do you have to overcome the internal production factors?

e) What plan do you have to minimize the impact of the internal factors?

**4.4 RULES AND REGULATIONS AFFECTING OPERATIONS**

Indicate the government regulations, compliances and approvals that will affect your business operations. Mention the following

1. Permits and licenses required, the cost and the source

2. Local taxes payable and amounts

3. Other regulations likely to have an impact on the nature of your business venture. Eg health regulations, trademarks, safety regulations and environmental regulations

**CHAPTER FIVE: FINANCIAL PLAN.**

In the financial plan, you will deal with financial aspects of your proposed business. To gauge your future financial potential, you will prepare pro – forma balance sheets, pro – forma profit and loss accounts and a projected cash flow statement. You will also determine the break – even level of sales and calculate the expected profitability ratios of your business. Finally, you will indicate your financial requirement and proposed capitalization.

## PARTS OF CHAPTER FIVE

- 1.Pre-operational costs
- 2.Calculation of working capital
- 3.Pro-forma cash flow projections
- 4.Pro-forma income statements
- 5.Pro-forma balance sheets

**INDICATE YOUR PRE – OPERATIONAL COSTS.**

1. What costs will you incur before you become operational? (Consider installation costs, licenses, and permits, deposits for water, electricity and telephones.)

**ITEM**

**AMOUNT**[illegible]





## 1. WORKING CAPITAL REQUIREMENTS

Indicate your capital requirements for the first three years of operation. State any assumptions you made in arriving at your figures.

### Working capital requirements

<i>ITEM</i>	<i>YEAR 1</i>	<i>YEAR 2</i>	<i>YEAR 3</i>
<b><i>Current Assets</i></b>	_____	_____	_____
Stock of raw materials	_____	_____	_____
Work in progress	_____	_____	_____
Stock of finished goods	_____	_____	_____
Debtors			
Cash	_____	_____	_____
Total current assets	_____	_____	_____
<b><i>Current liabilities</i></b>	_____	_____	_____
Creditors	_____	_____	_____
Short term loans		_____	

Bank overdraft	_____	_____	_____
	_____		
Total current liabilities	_____	_____	_____
Working capital (ca – cl)	_____	_____	_____
	_____	_____	_____

## 2. PRO – FORMA INCOME STATEMENT

An income statement shows how much money a company has earned during an accounting period. The most commonly presented statement is for one year. In the business plan a projected income statement is included as an essential illustration of the profitability of the enterprise to the entrepreneur, potential investors and potential financiers. It also acts as a tool of monitoring the actual performance of the enterprise against the projected performance. It's also called trading, profit and loss account.

Prepare your pro – forma income statements for the first three years using the format below.

Pro – forma income statement for years ending

<b>ITEM</b>	<b>YEAR 1</b>	<b>YEAR 2</b>	<b>YEAR 3</b>
Sales	_____	_____	_____
Cost of goods sold	_____	_____	_____
Gross profit	_____	_____	_____

Expenses:

Wages and salaries	<hr/>	<hr/>	<hr/>
Rent	<hr/>	<hr/>	<hr/>
Water	<hr/>	<hr/>	<hr/>
Telephone	<hr/>	<hr/>	<hr/>
Electricity	<hr/>	<hr/>	<hr/>
Advertisement	<hr/>	<hr/>	<hr/>
Stationery			
Postage	<hr/>	<hr/>	<hr/>
Transport	<hr/>	<hr/>	<hr/>
Depreciation	<hr/>	<hr/>	<hr/>
Interest	<hr/>	<hr/>	<hr/>
Repairs and maintenances		<hr/>	<hr/>
Total expenses			
Net profit before tax	<hr/>	<hr/>	<hr/>
Provision for tax	<hr/>	<hr/>	<hr/>

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Net profit after tax.....

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### 3. PRO – FORMA BALANCE SHEETS

The balance sheet lists everything a business owns and everything it owes at a moment in time. It shows where all of the business money has come from and how it has been used. It is a fundamental principle that all sources and uses of money be equal.

Prepare your pro – forma balance sheets at start – upto and the end of the first two years of operation.

<b>ITEM</b>	<b>AS AT OPENING</b>	<b>AS AT END OF 1<sup>ST</sup> YEAR</b>	<b>2<sup>ND</sup> YEAR</b>
	Date _____	Date _____	Date _____

**ASSETS**

Current assets	_____	_____
Cash	_____	_____
Debtors	_____	_____
Stock of finished goods		
Stock of raw materials	_____	_____
	_____	_____
Total current assets	_____	_____
<b><i>FIXED ASSETS</i></b>		
Machinery and equipments (cost)	_____	_____
Accumulated depreciation	_____	_____
Vehicles (cost)	_____	_____
Accumulated depreciation	_____	_____
Furniture and fittings (cost)	_____	_____
Accumulated depreciation	_____	_____
Other (specify) fixed		
Assets (cost)	_____	_____

Accumulated depreciation	_____	_____
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	_____	_____
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Total fixed assets	_____	_____
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***LIABILITIES***

Current liabilities	_____	_____
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Creditors	_____	_____
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Other (specify) liabilities		
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Total current liabilities	_____	_____
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Long term liabilities	_____	_____
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Bank loan	_____	_____
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Other (specify)	_____	_____
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Owner's Equity	_____	_____
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Total liabilities and Equity.....

**4. PROJECTED CASH FLOW STATEMENT**

The cash flow projection is the most important financial planning tool available to an entrepreneur. Cash flow projections are an important component of the financial planning because they indicate to the entrepreneur when the business may have surplus cash or cash shortages. Hence the need for short term investment or financial plans, also the projections allow the entrepreneur to identify possible cash flow problems





## **BREAK EVEN ANALYSIS**

Calculate the expected breakeven level for your business.

6. What will your sales and total direct costs be? Calculate the gross profit in the following way:

Gross profit

Sales – total direct costs = .....Kshs

7. Calculate the gross profit margin in the following way:

Gross profit margin

Gross profit x 100 = .....Kshs

Sales

8. What are the total overheads/ expenses for year 1? (Example : heat, rent, rates.)

Total overheads / expenses = .....Kshs

9. What will the break – even level of sales be? Use the following formular.

Break – even level

Overheads/expenses x 100 = .....Kshs

Gross profit margin

## 5. EXPETED PROFITABILITY RATIOS

Calculate the expected profitability ratios of your business.

16. What will be the gross profit margin of your business for the first three years? Calculate the percentage for the first three years of operation, and write them in the space provided.

Gross profit margin

$$\frac{\text{Gross profit}}{\text{Sales}} \times 100 = \text{.....}\%$$

Sales

<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>
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*Percentage .....*

17. What will be the return on equity (ROE) of your business for the first three years? Calculate the return on equity for the first three years of operation, and write them in the spaces provided.

Return on equity

Net profit after tax x 100 = .....%

Owner's equity

*Year 1*

*Year 2*

*Year 3*

*Return on equity* .....

18. What will the return on investment in your business for the first three years be? Calculate the return on investment for the first three years of operation and write them in the spaces provided.

Return on investment

Net profit after tax + interest x 10 = .....Kshs

Total Investment

*Year 1*

*Year 2*

*Year 3*

*Return on investment .....*

## **6. FINANCIAL REQUIRMENTS/ DESIRED FINACING**

***Indicate the total amount of money required to start off your business.***

7. How much money will you require at start – up? (Consider pre – operational costs, working capital, fixed assets (specify), and other requirements (specify).)

**ITEM**

**AMOUNT**

*Pre – operational costs.....*

*Working capital .....*

*Fixed assets (specify).....*

*Others (specify) .....*

*Total financial requirements.....*

## 8. PROPOSED CAPITALIZATION

*Provide a brief description of your proposed capitalization.*

9. What will be the total investment in your business?

Total investment = .....Kshs

10. How much of the total investment will you finance from your own private sources?

Owner's contribution = .....Kshs

11. How much do you intend to borrow and from whom?

Total borrowed = .....Kshs

12. What security will you give? (Consider: fixed assets, mortgage, collateral security e.g. land title deeds or property title deeds, other acceptable security (specify).)

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13. What will be your preferred loan repayment terms? (Consider the amount of the loan repayment period, loan interest percentage, grace period and monthly installments.)

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**SUMMARY**



In developing a business idea, you would be making an important step towards starting the business. However, for you to get a clear picture of the business you are interested in, you need to conduct a market research and to prepare a business plan before finally implementing it.

**NOTE:**

A business plan is a tool for organizing and analyzing information collected by the entrepreneur

**ACTIVITIES**

Prepare a business plan and implement the business.

**SELF – TEST QUESTIONS**

1. Define a business plan
2. Explain the important of a business plan in a business enterprise.



## **GLOSSARY**

1. **Assets:** Resources that belong to the business.
2. **Balance sheet:** A financial statement that indicates a venture's position at a particular time (end of the year) with respect to assets, liabilities, and net worth.
3. **Creativity:** The ability to bring something new into existence.
4. **Current assets:** cash or assets that can be easily converted to cash in the short term and used to clear current liabilities
5. **Current liabilities:** Business obligations that must be paid in the short term, usually from current assets.
6. **Fixed assets:** capital assets of a permanent nature that are used in the venture or business.
7. **Patents:** Legal protection afforded to inventions after registration with the government.
8. **Trade credit:** Credit extended by suppliers and vendors on purchases of materials, inventory and services.
9. **Trade mark:** A distinguishing symbol, figure or artistic rendering that can include a unique combination of letters to identify a company, product, or business concept.

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