



UNIVERSITY OF MAIDUGURI
Maiduguri, Nigeria
CENTRE FOR DISTANCE LEARNING

ARTS



STUDY GUIDE

GENERAL INFORMATION

Course Code and Title: GST 231: Entrepreneurial Skills

Credit Unit: 2

Year: 2015

Total Hours - 28 hours @ two per Week of Study.

For any queries or Questions contact the Course Lecturer Using your email through the Centre for Distance Learning Portal.

You are welcome to this study Unit. Each Unit is arranged to simplify your study. In each topic of the Unit we have introduction, learning outcome, in-text information, in-text questions and answers, summary and self assessment exercises. In-text questions and answers serve as motivation for your reading and to encourage to pay attention to major points in the text. Tutors will be available at designated contact Centre for Tutorial. Meet them to resolve your questions and other guide. The Centre expects you to plan your work well. Should you wish to read further you could supplement the study with more information from the list of references and suggested reading available in each study Unit.

PRACTICE EXERCISES

SELF ASSESSMENT EXERCISES (SAES)

This is provided at the end of each topic or Study Session. The exercises can help you to assess whether or not you have actually studied and understood the topic/study session. Solutions to the exercises are provided at the end of the Study Unit for you to assess yourself.

HOW TO PREPARE FOR EXAMINATION

To prepare for the examination you should read and understand the Study Materials provided for you on C.D.ROM, prints or downloads from the Portal.

Other things you need to prepare for examination include understanding all sample questions at the end of every Study Session/topic Reading the suggested/recommended reading texts.

ASSESSMENTS

- The continuous assessment for all courses consist of 30%.
- The Examination shall make up 70% of the total Marks.
- Feedback and advice is a component of the continuous assessment

The Examination shall be conducted at the Centre for Distance learning (Centre). Students are to come to the Centre on the Examination date with all the necessary requirements. The Examination is Computer based or e-testing one.

GST 231: ENTREPRENEURIAL SKILLS (2 UNITS)

**DIVISION OF GENERAL STUDIES
(ENTREPRENEURIAL SKILLS)**

GST 231

BY

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GST 231: ENTREPRENEUAL SKILLS (2 UNITS)

INTRODUCTION

This course is a general introduction to Entrepreneurial skills. The course will cover topics such as the nature and scope of Entrepreneurship, the types, functions, characteristics and its contribution to the society. We shall look at the different conceptions of the term 'Entrepreneur'. After this, selected problems in the major branches of Entrepreneur, namely, Business and finance, Marketing and New venture, Business insurance and Business innovation will be discussed. At the end of all these study sessions the students will be given questions in form of exercise at the end of each study session.

The objective of the course is to teach student the different ways of how to establish Business so as not to rely on Government for employment.

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STUDY SESSION 1 ENTREPRENEURSHIP

INTRODUCTION

A country or an economy with qualitative entrepreneurs tends to experience rapid economic growth and development, utilization of both human and material resource and innovation. That is why Nigeria most strives hard to develop its entrepreneurs so as to get rid of unemployment, economic stagnation, wasting of resources and so on.

LEARNING OUTCOMES

In this study session the students are expected to know about the following:

- What is Entrepreneurship
- Types of Entrepreneurs
- Functions of Entrepreneurship
- Traits Associated With Entrepreneurs
- Characteristics of Entrepreneurs
- Contributions of Entrepreneurship
- Rewards of Entrepreneurship
- Problems of Nigerian Entrepreneurs
- Strategies for Developing Nigerian Entrepreneurs
- Factors That Contribute To Development Nigerian Entrepreneurs

IN- TEXT

1.0 ENTREPRENEURSHIP

What is Entrepreneurship?

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Entrepreneurship is the starting of a new business or refreshing an existing one which have some problems. Entrepreneurial activities vary depending on the type of business that one chooses for him/herself.

Opara (2000) defined entrepreneurship as the willingness and ability of an individual to seek out investment opportunities in an environment and be able to establish and run an enterprise successfully, based on the identifiable opportunities.

Who is an entrepreneur?

According to **Joseph A. Schumpeter (1950)** an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation, therefore, making it the stepping stone for economic growth and development.

Opara (2000) defined an entrepreneur as an individual who has the zeal and ability to find and evaluate opportunities, gather necessary resources, take sequential and systematic steps toward utilizing the advantages of such opportunities.

Aromolaram (1973) defined an entrepreneur as an inventor, a coordinator, a risk taker and a high level decision maker.

Nwachukwu (1990) defined entrepreneurs as people who have the ability to see and evaluate business opportunities, gather the necessary resources to take advantages of them and initiates appropriate action to ensure success.

Glueck (1980) defined an entrepreneur an individual who creates a new firm and continues to manage it until it is successful.

Wehrich and koonz (1994) described the entrepreneur as a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture by operating within the organizational environment.

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Entrepreneur is the one who organizes, manages, and assumes the risks of a business or enterprise.

It can also be defined as a person who takes the risk of running an opportunity into profit.

1.1. Types of Entrepreneurs

According to Kayode O. Fasua (2006) there are four types of entrepreneurs, these are explain below

1. Innovating Entrepreneur: this is a type of entrepreneur that always find ways to establish or find new ways or method of production, new processing method, new goods or services and new market for newly introduced goods or services.

2. Imitative Entrepreneur: this type of entrepreneur believe that you should not waste your precious time on inventing what has being invented , just adopt the new technology, method of processing, product or services innovated by the innovative entrepreneur. Thus, making him to imitate the innovative entrepreneur.

3. Fabian Entrepreneur: Here the entrepreneur responds to changes or innovation only when he sees that failure to do so his business will fail woefully. On the other hand, this type of entrepreneur adopt new product, market, processing method or skills only when it is successful in other companies or enterprises.

4. Drone Entrepreneur: This type of entrepreneur resists changes and they are not willing to adopt any innovation or changes even if the enterprises are showing symptoms of failure.

1.2. Functions of Entrepreneurship

1. It encourages economic growth and development.
2. Establishment of small and medium scale enterprises.
3. sources of employment
4. Forge in innovation and new ideas.
5. Training ground for new entrepreneurs.

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1.3. Traits Associated With Entrepreneurs

1. The entrepreneur has high need for achievement and will insist to build it up.
2. The entrepreneur is creative, brainstorming and resourceful.
3. Most entrepreneurs are not willing to work under someone or organization, they prefer to independent.
4. They have optimism in making decision affecting their business.

1.4. Characteristics of Entrepreneurs

1. An entrepreneur is a decision maker.
2. He/she has wholehearted vision.
3. He/she assess market, customers' needs and costs.
4. He/she searches for information and ideas that are not available in the market.
5. Developing vision into success.
6. Transforming ideas into business realities.
7. He/she promote the vision he/she has created.
8. He/she formulates and develops strategies for successful changing of vision into realities.

1.5. Contributions of Entrepreneurship

1. Introduction of new technologies.
2. Introduction of new product and services.
3. Introduction of new industries.
4. Developing new market.
5. Discovery of new sources of raw materials.
6. Mobilize and accumulate capital resources for new business or business expansion.
7. Create employment opportunities for the teaming populace.

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1.6. Rewards of Entrepreneurship

1. Development of more industries.
2. Promote the processing and consumption of local materials.
3. Income generation.
4. increase economic growth
5. Source of employment opportunities.
6. Self employment.
7. Creating job satisfaction.
8. Create healthy competition in the economy.
9. It encourages high quality product and services.
10. It makes goods and services available in the market.
11. Using of modern technologies.
12. Encourage research and development of equipments.
13. It encourages entrepreneurial skills and knowledge.
14. Reduce dependency on the family and government.

1.7. Problems of Nigerian Entrepreneurs

1. The problem of succession.
2. Poor management practices.
3. Poor infrastructural facilities.
4. Resistance to changes.
5. Lack of political will from the government.
6. lack of capital
7. Lack of commitment by some entrepreneurs.

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8. Lack of effective linkage between the small, medium and large scale industries.
8. Problems associated with government regulation and taxation.

1.8. Strategies for Developing Nigerian Entrepreneurs

1. Provision of incentive by the government e.g. tax relief.
2. Giving out loans to the entrepreneurs.
3. Funding of small scale enterprises.
4. Skill acquisition.
5. Training and development.
6. Discourage importation.
7. Strong political will.

1.9. Factors That Contribute To Development Nigerian Entrepreneurs

1. Suitable and conducive business environment.
2. Status mobility system.
3. Need for achievement.
4. High demand for products and services provided by the Nigerian entrepreneurs.
5. Positive attitude toward entrepreneurship.

ITQ: Define the term entrepreneur?

ITA: The term entrepreneur can be defined as an individual who has the zeal and ability to find and evaluate opportunities, gather necessary resources, take sequential and systematic steps toward utilizing the advantages of such opportunities.

ITQ: List four types of entrepreneur and explain two.

ITA: The four types of entrepreneur are;

- Innovating Entrepreneur

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- Imitative Entrepreneur
- Fabian Entrepreneur
- Drone Entrepreneur
- **Innovating Entrepreneur:** this is a type of entrepreneur that always find ways to establish or find new ways or method of production, new processing method, new goods or services and new market for newly introduced goods or services.
- **Imitative Entrepreneur:** this type of entrepreneur believe that you should not waste your precious time on inventing what has being invented , just adopt the new technology, method of processing, product or services innovated by the innovative entrepreneur. Thus, making him to imitate the innovative entrepreneur.

1.10 SUMMARY

Entrepreneurship is the starting of new business or refreshing an existing one which have some problems. Entrepreneurial activities vary depending on the type of business that one chooses for himself. There are four straits associated with of entrepreneur; these are innovation or innovation entrepreneur, initiation entrepreneur, Fabian entrepreneur and drone entrepreneur. Also there are some functions of entrepreneur which include economic growth and development, it is creative, brain storming and resourceful, and also it is optimum in decision making.

SAQ: 1. Outline the characteristics of entrepreneur

SAQ: 2. What are the rewards of entrepreneur

SAQ: 3. Define entrepreneur according to Glueck(1980) and Nwachukwu(1990)

SAQ: 4. Outline six (6) problems of entrepreneur in Nigeria and three (3) factors that contribute to development of entrepreneur in Nigeria.

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1.11 References & Further Reading

1. **Joseph A. Schumpeter (1950):** Capitalism, Socialism and Democracy, (3rd edition) Harper and Row, New York.
2. **Nwackwuku CC. (1990):** The Practice of Entrepreneurship in Nigeria, Feb. Publishers Limited.
3. **Kayode O. Fasua (2006)** Entrepreneurship Theory, Strategies and Practice, Bee Printing and Publishing Company Abuja Nigeria.

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STUDY SESSION 2 STARTING A NEW BUSINESS VENTURE

INTRODUCTION

There are numbers of activities and processes that an entrepreneur has to follow before starting a new business. An entrepreneur need to assess the environment whether an opportunity exist or not, assess himself, describe the prospective business of choice, form of business organization, determine the capital requirement, location, facilities, product or services to offer, marketing strategies to adopt, human resource planning, financial planning, competition, etc. before investing his money into any business.

LEARNING OUTCOMES

In this study session the students are expected to know about the following;

- what is business
- classification of business
- classification by nature of business
- classification by function
- objectives of business
- what is business organization

1.0 What is business?

Business can be defined as the provision of qualitative goods and services to customers at a reasonable price in order to make profit.

Business is any legal activity that is geared toward profit making.

Some define business as anything people do for money.

1.1 CLASSIFICATION OF BUSINESS

Broadly, businesses are divided into two: classification by function and by nature.

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CLASSIFICATION BY NATURE OF BUSINESS

- Industrial and manufacturing,
- Commercial
- Service businesses.

1.3 CLASSIFICATION BY FUNCTION

- Agriculture and mining
- Financial
- Services
- Real estate
- Transportation
- Utility
- Industrial and manufacturing

1.4 OBJECTIVES OF BUSINESS

- Innovation
- Growth
- Diversification
- Expansion
- Make profit
- To provide goods and services in order to meet up with the demand of members of the society.
- To provide employment opportunities to the labor force.
- To protect the interest and wellbeing of the employees.
- To improve good relationship between workers and labor union.

2.0 WHAT IS BUSINESS ORGANIZATION?

It is an organized setting on which all business activities are performed.

Business organization is a legally recognized organization designed to provide goods or services, or both, to consumers. (wikipedia).

2.1 Business Opportunity: According to Biradawa (2003) opportunities refers to those needs of consumers which are not adequately satisfied by the existing businessmen.

Therefore, an entrepreneur can search environment for business opportunities through;

2.1.1 Demographic Environment: This is the study of characteristics and statistics of human population living in a particular geographical setting. The entrepreneur need to know the distribution pattern, density, size, growth, family composition, family size, educational level, occupation, ethnic origin, race ,religion, and marital status.

2.1.2. Economic Environment: An entrepreneur need to appraise economic situations of the environment to see whether there is opportunity or threat. Changes in this environment may bring about good opportunity or threat for the entrepreneur. An increase in wages and salaries means high purchasing power. Increasing in government spending, income distribution, wealth creation, marketing programs, interest rate, money supply, availability of credit facilities etc, may represent an opportunity for the entrepreneur.

2.1.3. Natural Environment: This is scanning of the natural environment to seek opportunity that exist and exploit it for your business benefit, e.g. availability of raw materials, cost of materials, pollution level, climate, etc.

2.1.4. Changing Roles of Government: The government is responsible for the provision of social amenities and infrastructure for its citizen. But now days, government is not able to provide adequate services for the people through its various programs. An entrepreneur may ceases this opportunity and

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provide such lacking services for his target market on commercial basis, e.g. if Borno state government fail to provide adequate and potable water supply to its people, an entrepreneur can invest his resources in water venture business, like drilling of boreholes and water storage facilities.

2.1.5. Technical Environment: an entrepreneur needs to study this environment in order to know whether or not he has the technical competence and to determine the availability of technology needed by the business in question.

2.1.6. Political /Legal Environment

These are the laws, rules and regulation, government agencies, pressure group, and legislation that regulate the business, protect consumers from unfair business practice, protect the society from unbridled business behavior, e.g. NAFDAC, NDLEA, CPC & CAMA.

2.1.7. Socio- cultural environment:

The belief, norms, values and customs shapes the business environment. The entrepreneur has a good chance of opportunity here if he at all makes a good decision that will favor his business venture. He has to know the socio- cultural pattern of his target market.

2.2 Possible Business Opportunities in Nigeria

The possible business opportunities in Nigeria include:

Transportation, Legal Firm, Water Venture, Metal Work, Printing, Agriculture, Creative Arts, Education, Finance, Fisheries, Health, Information and Communication, Housing, Manufacturing, Insurance, Tourism, Entertainment, Veterinary Services, Etc

2.3.0 Feasibility Study

It is an integrated compilation of studies that demonstrates the workability of a business that an entrepreneur intends to start.

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Datol I.G., Danwanzam G.G. and others (2004) Feasibility study is an investigation which is carried out to determine whether an intended business venture will be practicable, viable, feasible and profitable.

The study will help the entrepreneur to know whether the proposed business will meet the needs of its intended target market.

It will help the entrepreneur to know the business operational details taking into consideration the general description of the business, financial, market, socio- economic situation, legal, technical, personnel, and location and facilities studies

2.3.1 Components of Feasibility Study

1. General description of the business: The entrepreneur should make a description of the proposed business, bringing out clearly the major objective of the business, its mission, method of financing, product or services and expected capital investment.

2. Financial Study: Finance is the back bone of every existing human organization, without finance one cannot set, start and sustain a business.

Financial feasibility study map out how to source, and disburse fund for the proposed business for its successful operation e.g. acquiring tools, equipments, settling bills, paying wages, purchases of stationeries, etc.

On the other hand, there should be financial analysis that will test the viability of sales forecast and other financial benefits. This point shows the profitability of the business in future.

3. Market Study: This involves making marketing plan and control, taking into consideration the availability of market for the product or service, which target market you want to serve, competition and presence of similar or substitute products or services.

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4. Socio- Economic Situation Study: In this, an entrepreneur should evaluate the socio- economic situation and see whether it is worthy of citing an investment or not. An entrepreneur can evaluate the prospective business environment by: general description, (e.g. Income, population and population structure), Employment situation, Educational level, Availability of Local infrastructure, Pay back period, and Return on investment.

5. Legal Study: The proposed business will evolve under a legal framework, it has to be registered with the Corporate Affairs Commission and have its valid certificate.

The business will have to register its Name, Location, Product or service, official business address, Name of its official bank, Form of business e.g., sole proprietorship or partnership.

6. Environmental Study: An entrepreneur needs to assess the environment where he wants to cite his business. The availability of materials, qualified man power, security of assets, and well ventilated building should be considered.

Similarly, entrepreneur should study carefully not to cite his business on water way, illegal plots, not surveyed area, or residential areas, where it will bring conflict, losses or even expulsion.

Furthermore, entrepreneur should study the climatology of the environment he wants to cite his business, so that he will know whether it will be favorable for him or not.

7. Technical Study: This study should explain vividly how the entrepreneur will satisfy the technical needs of his prospective business in terms of technical competence and technical requirement e.g. Equipments, tools, machineries, vehicle, building etc.

8. Personnel Study: This should show how the entrepreneur will source qualified workers and staff for successful operations of his prospective business.

It should also show the method of training and developing of staff so as to meet the organizational requirement.

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9. Location: an entrepreneur should make a good decision on choice of location. If he poorly chooses a wrong location for business, definitely the business is going to fail. The location of the business must be at a strategic place where customers can have easy access to the business organization.

10. Facilities: an entrepreneur should evaluate the environment to see the availability of facilities such as the presence of pipe borne water supply, electricity, road network, communication, and drainage which will play very importance role in surviving of his business.

2.5.0. Small Business Readiness Assessment Tool

This assessment tool is designed to help you better understand your readiness for starting a small business. It will prompt you with questions and assist you in evaluating skills, characteristics and experience – as they relate to your preparedness for starting a business.

2.5.1. General Assessment

- Do you think you are ready to start a business?
- Have you ever worked in a business similar to what you are planning to start?
- Would people that know you say you are well suited to be self-employed?
- Do you have support for your business from family and friends?
- Have you ever taken a course or seminar designed to teach you how to start and manage a small business?
- Have you discussed your business idea, business plan or proposed business with a business coach or Small Business Development Center counselor or other economic development advisor?

- Do you have a family member or relative who owns a business?

2.5.2. Personal Characteristics

- Do you consider yourself a leader and self-starter?
- Would other people consider you a leader?

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- Are you willing to invest a significant portion of your savings or net worth to get your business started?
- Do you have enough confidence in yourself and your abilities to sustain yourself in business, if or when things get tough?
- Do you like to make your own decisions?
- Are you prepared, if needed, to temporarily lower your standard of living until your business is firmly established?
- Do others turn to you for help in making decisions?
- Are you willing to commit long hours to make your business work?
- Would others consider you a team-player?

2.5.3. Skills, Experience and Training

- Do you have a business plan for the business you are planning to start?
- Do you know and understand the components of a business plan?
- Do you know what form of legal ownership (sole proprietor, partnership or corporation) is best for your business?
- Do you know why some consider business planning to be the most important factor determining business success?
- Do you know if your business will require a special license or permit and how to obtain it?

2.6 Advantages of Starting a New Business

1. Freedom of making good business plan.
2. Freedom to select service, product, and location for your business.
3. Introducing new product or service into the market.
4. Introducing new technology or method of processing.

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5. Development of goodwill and reputation.
6. It enable the entrepreneur to start the business fresh without inheriting accrued debt (e.g. bills and credits) as in buying existing business.
7. Developing new customer loyalty.

2.7.0. Business Failure

This is a situation where the business cannot meet its financial obligations and which leads to the inability of the company to function or to operate. Therefore an entrepreneur needs to know the causes, symptoms and effect of business failure so as to avoid it.

2.7.1. Causes of Business Failure

Below are the major causes of business failure in Nigeria

1. Inadequate capital.
2. Problem of supervision.
3. Improper accounting system and book keeping.
4. Ineffective control measures.
5. Incompetent management.
6. Wrong choice of business line.
7. Natural disaster.
8. Wrong location of a business.
9. Competition.
10. Premature expansion.
11. Unfavorable government policies/regulations.
12. Religious and tribal conflict.
13. Theft.

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2.7.2. Symptoms of Business Failure

According to Biradawa (2003) below are the symptoms of business failure.

1. Decline in working capital.
2. Retrenchment of staff.
3. Declining in production
4. Declining in sales.
5. High debt ratio.
6. Declining in profit.
7. Losing of some key staff.

2.7.3. Effect of Business Failure

Biradawa (2003) observed that below are the effects of business failure.

1. The owner will lose his capital.
2. He will lose credit worthiness.
3. Personal image destroyed.
4. Creditors will lose their money.
5. Employees will lose their jobs.
6. The government will lose revenue.
7. The community will lose the organization.
8. Falling in the standard of living of the community.

2.8.0 Forms of Business Organization

An entrepreneur that wants to start a new business needs to make a good choice and decision about the form of business he will choose.

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The entrepreneur can make choice depending on his financial strength, skills, knowledge and the nature of the business.

The forms of business available to entrepreneur are:

2.8.1. Individual proprietorship

Sometimes called one man business, in this form of business, there is little or no division of labor or span of control when it comes to management of the organization. The owner of the business holds the entire operation as his personal property, usually managing day to day activities of the organization.

Advantages of Individual Proprietorship

The following are the advantages of individual proprietorship

- He does not need to be regulated internally by law.
- Simple and easy to start up the business.
- There is close supervision because of the physical interaction between the entrepreneur and his employees.
- The owner enjoys the entire profit from the business without sharing it with anybody.
- An entrepreneur in this form of business pays less tax.
- It has very simple and few legal requirement to fulfill.

Disadvantages of Individual Proprietorship

- He is liable for all debt and obligations incurred in connection with the business.
- The business dies up with the owner.
- He finds it very difficult to expand the business.
- He has unlimited liabilities.
- The profit he gets is small because he operates with small capital.
- Some of the proprietors are resistance to changes and innovation.

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2.8.2. Partnership

According to Company and Allied Matters Act of 1990, partnership is the association of two or more persons for the purpose of carrying on a business together and dividing its profits between them.

It may have 2 to 50 members as in the case of large law and accounting firms, brokered houses and advertising agencies. This form of business is own by partners themselves. They may receive varying share of profit, depending on their investment or contribution. When a members leaves or new is admitted, the business must be reconstituted as a new partnership.

Types of Partnership

There are three types of partnership that entrepreneurs need to know. These are:

- a. Active Partner:** is the one who participates actively in the business activities.
- b. Dormant Partner:** is the partner that does not participate in the activities of the business. It is sometimes called sleeping partner.
- c. Nominal Partner:** is the person who lend out his financial resources to the business and he is not expecting any return or interest on it.

Legal Requirement for Partnership

The partners must meet the requirement of the government for registration through Corporate Affairs Commission.

The partnership deed must include:

Name of the business, Objective of the business, Name of persons to be partners, The nature of the business, Location of the business, Date of commencement of the partnership, Amount of capital contributed by the partners, How to share the profit, Account, bank's name, signatories to the account, Duration of partnership, Deposition of share on retiring or deceased of a partner(s).

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Advantages of Partnership

- a. The business can be sustained even with the death of a partner, not like individual Proprietorship.
- b. Mobilization of capital
- c. Simple and easy to set and start.
- d. It has management capabilities.
- e. It has a longer life span than individual proprietorship.

Disadvantages of Partnership

- a. Unlimited liabilities.
- b. Poor management practice.
- c. Decision making sometimes takes very long time.
- d. Resistance to changes.
- e. Distrust and misunderstanding among members may cause the dissolution of the partnership.

2.8.3 Corporation

A company recognized by law as a single body with its own powers and liabilities, separate from those of the individual members.

Corporations perform many of the functions of private business, governments, educational bodies, and the professions, (In Carter dictionary, 2008).

Types of Corporation

1. Company limited by shares:

Basically, there are two types of companies that are limited by shares.

- a. **Private Limited Company:** this is a type of company that cannot sell its shares by public offer. Its membership ranges from two to fifty persons, excluding the employees who work in the company.

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- b. Public Limited Company:** This type of company is very large and is open to the general public. They can advertise and sell shares to the public by inviting applications for issued shares from any interested individual or group. Ownership of this company ranges from seven to as many as possible.
1. **Company Limited by Guarantee:** this is a company usually formed for professional, educational, religious, and charity purpose. The members' liabilities are limited to the amount of money they contributed.
 2. **Unlimited Company:** in this type of company the liabilities of the members are unlimited. They have to pay for all debt and obligations of the company without considering the amount of money that was contributed by the members.

Company Formation

According to the Company and Allied Matters Act of 1990, before a company can be registered, it has to follow all laid down conditions, rules and regulations. Below are the steps in registering a company.

- a. It has to provide the names of the promoters.
- b. They should submit an application for incorporation to Corporate Affairs Commission and this must include memorandum and article of association.
 - **Memorandum of Association:** this is the constitution of the company which regulates its activities. It states the head office, amount of authorized capital and its division into shares at a fixed price, state whether Public limited company or private limited should be used at the end of the name of the company, a document showing that the company is limited or unlimited and conditions for affecting changes to the memorandum.
 - **Article of Association:** this is the rules and regulations that govern the company internally, this includes: procedure for calling Annual General Meetings, duties, responsibilities and rights of the

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directors, how the directors are going to be elected, how the company will take loan facilities and steps in winding up company in case of liquidation.

Advantages of Corporation

- a. It has formal system of management.
- b. The share holders have assets that are legally distinct from their private assets.
- c. It is limited by its liabilities.
- d. It may have opportunity for expansion in future.
- e. It enjoys continuity.
- f. It has easy transfer of share.
- g. The company enjoys legal backing (it is a legal entity).

Disadvantages of Corporation

- a. The company pays very high tax and suffers from double taxation.
- b. Regulated by government.
- c. Difficult to set up.
- d. Very expensive to establish.
- e. There are many competitors.
- f. It does not enjoy privacy, its annual account must be published in newspapers.

4. Cooperative Societies

It is a group of people coming together to form an association or union with the aim of promoting their common interest.

The establishment and management of cooperative societies are treated in most countries under laws distinct from those governing other business associations. The cooperative society is a legal entity but typically owned and controlled by the people who work in it.

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The Directors and Managers are responsible and accountable for to the members of the societies.

This form of association has a strong sense of social purpose to its members and it is particularly associated with Credit, Retailing, Agricultural activities, Marketing, Craft and so on.

ITQ: Define the term business and give four objectives of business

ITA: Business can be defined as the provision of qualitative goods and services to customers at a reasonable price in order to make profit.

ITQ: List six (6) symptoms of business failure and six (6) cause of business failure.

ITA: The six(6) objective of business are;

- Innovation
- Growth
- Diversification
- Expansion

The six (6) symptoms of business failure are;

- Losing of some key staff
- Declining in profit
- High debt ratio
- Decline in working capital
- Retrenchment of staff
- Declining in production

2.9 SUMMARY:

SAQ: 1. Define feasibility study

SAQ: 2. List five (5) component of feasibility study and explain three (3).

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SAQ: 3. Define partnership and explain its types.

SAQ: 4. What do you understand by the term memorandum of association

2.11 REFERENCES AND FURTHER READING

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STUDY SESSION 3 SOURCES OF BUSINESS FINANCE

INTRODUCTION

LEARNING OUTCOMES

In this study session shows how fund will be provided by the entrepreneur to start the business. This consist his past saving or retained profit.

- SOURCES OF BUSINESS FINANCE
 - Owner's Equity
 - Loan from Relatives and Friend
 - Co-operative Societies
 - Short Term Financing
 - Intermediate Term Financing
 - Long Term Financing
 - Financial Planning

3.1 SOURCES OF BUSINESS FINANCE

The following are the sources of business finance for the entrepreneurs.

3.1.1. Owner's Equity: this is the fund provided by the entrepreneur to start the business. This consist his past saving or retained profit. This depends on the owner's source of income.

3.1.2. Loan from Relatives and Friends: an entrepreneur can borrow money from his brothers, sisters, parents, relatives, kinsmen and friend to start a business.

3.1.3. Co-operative Societies: this is very important source of fund for entrepreneur. In this, the society secure it members loan from outside or the members provide fund through contribution for a member.

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There are two methods of doing this: (A) **Ajor**: on periodical basis, the members will contribute certain amount to a member who is having that turn. It is done mostly in one, two, or three months bases. (B) **Adashe**: in this type, the members contribute fixed amount of money either on daily, weekly or monthly basis and this money is given to a member who have the turn. It will continue until it goes round all the members before they start fresh one again.

3.1.4. Short Term Financing

- **Trade credit**: this is purchase of materials on credit, which is payable thereafter. The trade credit is the largest single category of short term credit.
- **Commercial bank loan**: this is a loan that is obtained from commercial bank. Repayment is done in lump sum at the maturity or installment bases throughout the life span of the loan.
- **promissory notes**: is an unconditional promise in writing made by one person to another signed by the maker, promising to pay on demand or at affixed or determinable future time a sum certain in money to or to the order of, a specifies person or to bearer. {CAMA section 83}
- **Secured loan**: this is a type of loan from bank that the entrepreneurs can enjoy. The most common types of collateral to this loan is account receivables and inventories.

3.1.5. Intermediate Term Financing

- **Term loan**: this is a business credit that its maturity last for more than one year.
- **Conditional sales contracts**: this involves obtaining of business asset by agreeing that the amount will be paid on installment over a specified period of time.
- **Hire purchasing**: is a kind purchase that is based on making a certain number of payments until making the last and is according to the terms of agreement between the parties involved.

3.1.6. Long Term Financing

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- **Bonds:** it is a certificate issued by a company promising to pay back borrowed money at a fixed rate of interest on a specified date.
- **Stock:** this is the selling out of shares to the public or company in order to generate funds to finance the current business.

3.2.0. Financial Planning

Financial planning can be defined as a process of determining the financial resource of a business venture for the achievement of its goals within a specified period of time.

3.2.1 Component of Financial Planning

- **Financial Forecasting:** this is seeing into future the financial strength of the business organization.
- **Profit Planning:** this is the deploying of necessary decision making process to enhance the venture's operations so as to plan for future growth. When the profit stream is steady and a bit stable the venture will continue to have profit for which will be retained for its successful operations and sustainability.
- **Budgeting:** this is the plan of operation of the business which is coded into quantitative and monetary terms. it encompasses all aspect of the venture's operation over the planning period.
- **Financial Ratio Analysis:** this is the appraising of the performance of the business asset to liabilities, asset to debt e.g. it provide a clear picture of the extent to which the business can meet its current obligations and responsibilities.

3.2.2 Importance of Financial Planning

- It enables the entrepreneur to source fund at a minimum cost.
- It helps the entrepreneur to properly utilize the financial resource at his disposal.
- It helps the entrepreneur in setting financial objectives for his venture.

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3.3.0 Financial Management

Financial management can be defined as that part of management function which is concerned with the effective and efficient rising and application of fund in an organization. It involves the acquisition and allocation of financial resources and tracking of performance resulting from such allocation.

3.3.1 Importance of Financial Management

- It enables the organization to take the right investment decision.
- To ensure that the organization maximize its profit.
- It ensures prudent spending.
- It enables management to avoid wastage.
- For good reputation of an organization.
- To show transparency of the organization.
- For simple and easy financial assessment of organization.

3.3.2 Component of Financial Management

- ✓ **Budgeting**; it is a quantitative expression of a plan of action an aid to coordination and implementation.
- ✓ **Book keeping**; this is the process of recording all financial transactions into book in a systematic way.
- ✓ **Internal control**; can be defined as measures put in place to safeguard and check the accuracy and reliability of accounting records.
- ✓ **Bank reconciliation**; it is a monthly report that synchronizes bank account statement with that of an organization's books of account.
- ✓ **Financial reporting**; it can be defined as the report that shows the cumulative expenditure and balance outstanding on an organization over a period of time.

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3.3.3 Factors That Enhance Effective Financial Management

- ✓ Availability of a knowledgeable and qualified financial manager.
- ✓ A well developed monitoring system and updated reports of operational budgets.
- ✓ Effective communication among the members of an organization.
- ✓ Identify means to minimize cost.
- ✓ Effective utilization of resources.
- ✓ Establish system that controls and prevent financial risks.

3.3.4 Factors That Hinders Effective Financial Management

- ✓ Lack of qualified and competent financial officer.
- ✓ Lack of planning.
- ✓ Lack of proper monitoring system and control measures.
- ✓ Inability to match available resources with planned activities.
- ✓ Where budget is not adhered to in implementation.

3.4.0 Determining Capital Requirement of a Business

To start up a business an entrepreneur need to ascertain how much fund he need for his investment.

There are two types of capital needed by the entrepreneur in order to start a business;

a. Fixed Asset Capital: this is the capital needed for the acquiring of machines, vehicles, tools and equipments

b. Working Capital: it is the capital that is needed for running day to day operations of the business.

Purchase of stationeries, payment of salaries and wages, settling of current bills and payment of rent.

The variables in capital requirement of business include:

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Start-Up Capital

Requirements	Amount (N)
Start-up Expenses	XXXXX
Rent deposit	XXXXX
Others	XXXXX
Total Start-up Expenses	XXXXX
Start-up Assets	XXXXX
Cash Required	XXXXX
Other Current Assets	XXXXX
Long-term Assets	XXXXX
Total Assets	XXXXX
Total Capital Requirements	XXXXXXXX

	XXX
Start-up expenses to fund	XXXX
Start-up asset to fund	XXXX
Total funding requirement	XXXXX

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ASSETS

Non cash assets from start	xxxxx
Cash requirement from start up	xxxxx
Cash balance on starting date	Xxxxx
Total assets	Xxxxxx

LIABILITIES

Current borrowing	Xxxxx
Short term liabilities	Xxxxx
long term liabilities	Xxxxx
Outstanding bills	Xxxx
Total Liabilities	Xxxxxx

CAPITAL

Planned Investment	
Owner's equity	Xxxxx
Loans	Xxxxx
Total Planned Investment	Xxxxxx

Total capital and liabilities	Xxxxxxx
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Total Funding	Xxxxxxxx
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ITQ: Define financial planning and list 3 components of financial planning.

ITA: Financial planning can be defined as a process of determining the financial resource of a business venture for the achievement of its goals within a specified period of time.

The components of financial planning are;

-financial ratio analysis

-Budgeting

-Profit planning

3.5 SUMMARY

Financial planning can be defined as the process of determining resource of a business of venture for the achievement of its goals within a specific period of time. The source of business finance are:

1. Owners equity
2. Loan from relative and friends
3. Corporative society
4. Commercial bank loan

Importance of financial planning

1. It enables to entrepreneur to source fund at a minimum cost
2. It helps the entrepreneur to properly utilize the financial resource at his disposal

Component of financial management

1. Budgeting
2. Book keeping
3. Internal control

SAQ: List 5 sources of business finance and explain

SAQ: List 3 component of financial management and explain two.

SAQ: What are the factors that enhance financial management?

3.6 REFERENCES AND FURTHER READING

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STUDY SESSION 4.0 Marketing and the New Venture

INTRODUCTION

LEARNING OUTCOMES

4.1. What is Marketing?

McCarthy (1968) defined marketing as the performance of business activities that direct the flow of goods and services from the producers to the consumers or in order to satisfy customers.

Philip Kotler (1988) defined marketing as a societal and managerial process by which the individual and group obtain what they need and want through creating and exchanging products and values with others.

4.2. Functions of Marketing

In summary the following are the functions of marketing

- Promote exchange of goods and services.
- Facilitate exchange of goods and services.
- Improvement of wellbeing of the members of the society.
- Channeling of goods and services from the producers down to the consumers.

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- Product development
- Packaging of products.
- Pricing.
- Distribution.
- Customer service and satisfaction.
- Making consumer know about the product or service (advertisement)

4.3.0. Marketing Planning: The strategic marketing planning is evaluating the present marketing happening and makes plans in advance on how to deal with emerging situations. Therefore this implies the establishment of linkage between the business organization and its environments in which it operates.

This process involves some stages, namely: Selecting of target market, developing strong and reliable marketing mix and Market segmentation.

4.3.1 Target Market: Taking into consideration the availability of resources at your disposal, the nature of your business, the entrepreneur then selects a market which he can serve best.

The entrepreneur will define which needs, and whose needs can he satisfy?

4.3.2 Marketing Mix: This involves creating marketing mix components that fulfill the strategy for the targeted set of customers' needs.

These components are product, price, place, and promotion. These variables are within the control of the entrepreneur, so he has to utilize and manipulate them in order to have the best way of satisfying the target market.

4.3.2.1 Product: These are goods the entrepreneur offers the customers. The product may be physical or non-physical product (service). In case of physical product, the entrepreneur will gather all the necessary information about the features and benefits desired by his target market. Nowadays, before assembling a

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product the marketers will communicate the customers' desires to the engineers who design the product or service, so that it is what the customers' want that is produced and not the engineers' preference. Furthermore, it call for product to be designed and produce based on customer input, which include the packaging, branding, size, color, etc.

4.3.2.2 Price: Price is the term used to describe monetary value of an item. Company determines a price by quality or performance level of the product. But the entrepreneur should expect changes in the cost of production, demand of the product in the market and the presence of competitions or substitute product or services in the market.

4.3.2.3 Place: This is where the goods or services are made available to the customers through the movement of goods from the manufacturer to consumers. It is also called distribution, e.g. when goods moves from plants, warehouses, wholesalers, retailers, and finally to the consumers, it is said that it has followed the channel of distribution.

4.3.2.4 Promotion: This is a communication strategies put in place to make the consumers aware of the product or services and its benefits so that they will be persuaded to start using or patronizing the products or services, or continue patronizing such products or services.

The major tools for promotion are sales force, advertising sales promotion and public relations.

4.4. Market Segmentation

This is a process of dividing the whole market into smaller unit so that the entrepreneur can satisfy the segment that he has chosen. In choosing the market segment an entrepreneur should know what customers need are, and the possible ways of satisfying those needs. Examples of market segments are: Transportation, banking, insurance, oil and gas, food processing, manufacturing, information and communication etc.

The market can be divided base on:

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- a. **Demographic factor:** Family composition, Family size, Educational level, Occupation, Ethnic origin, and Religion.
- b. **Physical characteristics:** Sex, Age, Health status,
- c. **Behavioral pattern:** Brand loyalty, Purchase concentration, Social class status,
- d. **Marketing condition**
 - Channel of distribution
 - Trend and degree of competition

4.4.2 Market Niches: This is dividing of market segment into sub segments or niches. It is a small target group that has special requirement e.g. For a business centre which has faculty of management sciences as its target market, then the department of business management will be its market niche or any other department in the faculty.

4.5.0 Marketing Control: Because markets are changing constantly, a strategy that is effective today may not be effective tomorrow. Therefore, it is imperative to appraise the marketing programs on timely bases to be sure that is achieving its set objectives.

There are four types of marketing control;

4.5.1 Annual Plan Control: This is a managerial objective which is set in order to monitor on monthly or quarterly bases the sales and profitability of an organization.

The entrepreneur can use five tools to monitor planned performance.

- **Sales Analysis:** This is comparing expected sales with actual sales.
- **Market Share Analysis:** It compares the company's sales with those of its competitors.
- **Marketing Expense to Sale Analysis:** Measuring how much entrepreneur spends to achieve its sales goals.
- **Profit to Worth Ratio:** It compares of profit to sales, sales to asset, profit to asset, etc.

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- **Entrepreneur** can measure customer satisfaction as a means of tracking goal achievement.

4.5.2 Profitability Control: It allows the entrepreneur to closely monitor its sales, profit and expenditures. This method demonstrates the relative profit earning capacity of a business organization.

4.5.3 Efficiency Control: This is the analysis of sales force, advertising agencies, sales promotion, and distribution including marketing mix. This is to know the entrepreneur's resources is being used judiciously, i.e. money spent on fuel, telephone, repairs etc.

4.5.4 Strategic Control: This involves detailed and objective analysis of a business organization and its ability to maximize its strength and market opportunities.

The entrepreneur can use;

- Market effectiveness rating review.
- Systematic and periodic analysis to examine its strength in relation to its current and potential markets.

4.6.0 Marketing Facilitators

These are consultants and firms whose primary duty is to handle marketing functions. Because the entrepreneur cannot employ marketing facilitators to be integral part of the organization and these facilitators are required on part time bases.

It is best for him to hire them for a specific period of time.

Secondly, independent marketing facilitators are expertise, effective, efficient and motivated to perform high standard because of the competitive nature of their market.

There are four major types of marketing facilitators that entrepreneurs can utilize:

4.6.1. Advertising Agency: These agencies are responsible for initiating, managing and implementing paid marketing communication.

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Some agencies have diversified into other types of marketing communication. These comprise public relations, sales promotion, interactive media sessions and direct marketing.

4.6.2. Transportation services: The transportation services are responsible for transporting raw materials from areas of availability to where it is needed for processing.

After processing, it is this agency that will move the product from the producers down to the wholesalers, retailers and consumers in different states, countries and continents.

Here, the transportation plays very important role in distribution of goods and services to meet the consumers' needs i.e. most of products we consume in Nigeria are been produced in Lagos or imported through Lagos by ships. From Lagos we need the trailers to transport the goods to the different parts of the country.

We have different means of transportation, these include: Road, Air, airplane, Water, ships and Rail.

If the entrepreneur owns a means of transportation, it is called private carries, e.g. Dangote Group, etc.

On the other hand, when an entrepreneur hire an independent transport firm, is called contract carriers.

4.6.3. Market research firm: This kind of firm gather and analyzed data about customers, competitors, distributors, location, advertising agencies and other market forces. This can help the entrepreneur in making decisions about his business.

4.6.4. Warehousing: This play very important role in storing product for short time or will be kept for a long period of time. i.e. an entrepreneur who is a farmer, after harvesting he will either store his farm produce in his warehouse or rent a space in commercial warehouse.

From the above explanation we have two types of warehouses:

- Distribution warehouse house. (short term storage)
- Storage warehouse. (long term storage)

ITQ: Define the term marketing according to Mccathy?

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ITA: **McCarthy (1968)** defined marketing as the performance of business activities that direct the flow of goods and services from the producers to the consumers or in order to satisfy customers.

ITQ: What did you understand by the term market segmentation?

ITA: The term market segmentation can be define a process of dividing the whole market into smaller unit so that the entrepreneur can satisfy the segment that he has chosen. In choosing the market segment an entrepreneur should know what customers need are, and the possible ways of satisfying those needs. Examples of market segments are: Transportation, banking, insurance, oil and gas, food processing, manufacturing, information and communication etc.

4.7 SUMMAY

Philip kolter(1968) define marketing as a societal and managerial procsss by which the individual and group obtain what they need want through creating and exchanging product and values with others.

Function of marketing

1. Product development
2. Packaging of product
3. Pricing
4. Distribution

Strategies of market

1. Marketing planning
2. Target market
3. Marketing mix

SAQ: Briefly explain the flowing items;

- Sales analysis
- Market share analysis
- Profitability control

SAQ: Define marketing control and market riches?

SAQ: Explain what do you understand by marketing

4.8 REFERENCES AND FURTHER READING

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STUDY SESSION 5 BUSINESS INNOVATION AND INSURANCE

INTRODUCTION

Innovation can be defined as the development of systematic ways, methods, or techniques for making and doing things. The concept encompasses a growing range of ways, processes and ideas in addition to tools and machines. Through innovation, an entrepreneur can manipulate his environment to achieve business successes. An entrepreneur should have a very vibrant insurer so as to give him a proper protection against uncertainties and misfortunes in future. The entrepreneur has to make a careful decision about premium he will pay, whether it will satisfy the entire or some of his business risks.

It can also be defined as a process of applying creative ideas to problems and coming up with solutions.

LEARNING OUTCOMES

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In this study session students will be thought definition of innovation, types transmission and others as follows;

- Reasons for Innovation
- Types of Innovation
- Transmission of Innovation
- Innovation in Different Sectors
- Decision Making Process in Innovation
- Benefits of Innovation
- Insurance and types of insurance
- Types of Business Insurance
- Legal aspect of Insurance
- Conditions for Business Insurance

5.1. Reasons for Innovation

- a. Responding to customers' needs.
- b. Responding to increasing market shares.
- c. To take advantage of being at the forefront of the industry.
- d. If you want to establish a new market.
- e. Improving the quality and speed of service.
- f. Expanding product range.
- g. Meeting government standard and regulations.
- h. Reducing cost of production and processing.

5.2. Types of Innovation

Innovation can manifest itself in business organization in.

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- a. Product:** it can be modification of a product or service or even complete development of new product or service in order to meet the needs of a target market.
- b. Tool and equipments:** this is change in tools or equipments use for production as a result of advent of new product or service.
- c. Skills:** as result new ways of production, the skills of most entrepreneurs and employees became obsolete. Therefore, they have to acquire new skills that will be compatible with the new technology.

5.3. Transmission of Innovation

Innovation can be transmitted through the following:

- Activities of the printing media, e.g. news papers, text books, journals, articles, e.t.c.
- Electronic media, e.g. radio, television, internet, and computers.
- Movement of artifact from one place another may bring about innovation.
- Immigration of craft men into a society.
- Educational institutions.

5.4. Innovation in Deferent Sectors

- a. Medicine:** new improved medicine and drugs are now available in the market. On the other hand because of innovation robot can carry out precise surgical operations, cosmetics surgery, and telemedicine services.
- b. Electricity:** in some countries like Nigeria we still use water {hydro electricity} to generate electricity. While other countries are utilizing solar and nuclear energy for their electricity generation.
- c. Agriculture:** more and more farms are being mechanized with the advent of modern equipments. Making it possible for few farmers to sustain a county. New pesticide, herbicide, improved seed varieties and species and animal breeding.

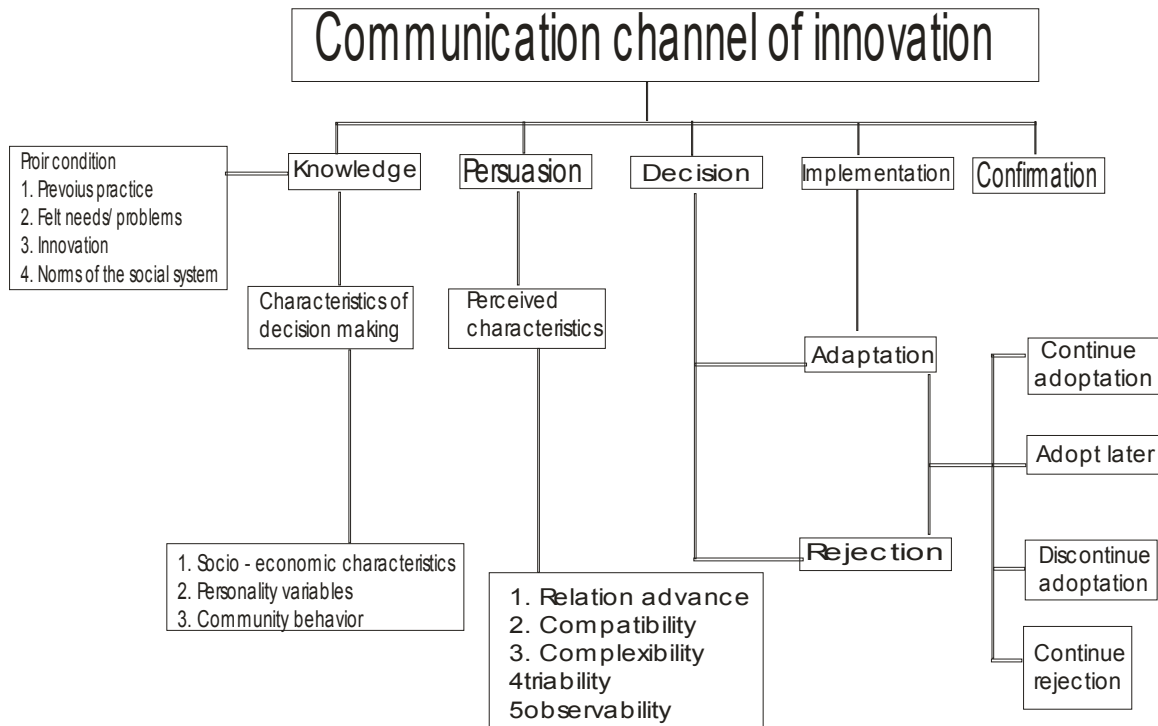
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d. Plastic: twenty years back in Nigeria people were using steel product in their houses, offices and schools. But with coming on of plastic product into the market, most house utensils are plastics. e.g. plastics chairs, tables buckets, plates, parker, e.t.c.

e. Communication: it is easier now than before to communicate to any one across the world. With the coming of Global System Mobile [GSM] and internet the world is now a global table if not global palm.

5.5. Decision Making Process in Innovation

1. **Knowledge:** an entrepreneur is exposed to the existence of innovation and gain understanding of how it functions.
2. **Persuasion:** to form negative or positive attitude for the innovation.
3. **Decision:** an entrepreneur engages in activities that lead to a choice to adopt or reject the innovation.
4. **Implementation:** an entrepreneur engages in activities of adoption or rejects the innovation.
5. **Confirmation:** an entrepreneur seeks reinforcement for the innovation decision but may reverse this decision if exposed to conflicting messages about the product or service.



5.6. Benefits of Innovation

- You will be the first entrepreneur into that market.
- Gain premium prices for product or services.
- You will get best customers.
- You will get large market shares.
- It will help increase the entrepreneur's return on investment.
- It will help in increasing employee motivation and morale.
- It helps in reducing waste level.
- It helps in improving product design and quality.

5.7 What is Insurance?

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It is where a person in consideration of a payment of money agrees to pay a certain sum of money to another person upon the happening of an event uncertain to time. Insurance is a form of risk management primarily used to hedge against the risk of a contingent, certain loss.

Insurance can be defined as equitable transfer of the risk of a loss, from one entity to another, in exchange of for payment.

5.8. Types of Business Insurance

The entrepreneur should evaluate his business insurance needs before choosing an insurance policy. The insurance requirement varies depending on the type of business you operate.

An entrepreneur has a multi choice of choosing the type of insurance he which suits his business venture. Below are the types of business insurance:

1. **General Liability Insurance:** insurance cover includes very wide range of liabilities due to bodily injury, property damage, medical expenses, cost of defending lawsuit, etc.
2. **Product Liability:** this is the insurance that covers the damage or injury occurred to the products. Business is liable for negligence, breach of warranty and defective products.
3. **Workers Compensation:** it is payment made for employee's medical expenses.
4. **Internet Business Insurance:** internet business like the cyber café may be covered by insurance company that offers such services. It is a compensation of liabilities as a result of damage done by hackers and viruses attack.
5. **Criminal Insurance:** this covers areas where the entrepreneur experience vandalism, theft, burglary, etc.
6. **Business Interruption Insurance:** some entrepreneurs may seek cover as a result of losses resulting in interruption of operation e.g. during natural disaster such as flood, fire out break etc.
7. **Auto mobile insurance:**

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8. Key Person Life

Insurance designed to protect a business against the loss of income resulting from the disability or death of an employee in a significant position.

9. Travel: Limited contracts covering accidents that occur only while an insured person is traveling on business for an employer, away from the usual place of business, and on named conveyances.

5.9. Legal aspect of Insurance

The insurance contract has to meet some basic prerequisites and conditions before it become legally binding and valid. These are explained below;

1. **Legal purpose:** the purpose of the contract should be vividly described and understood by both parties involved. The business to be insured by the entrepreneur must be a legal business that has been made lawful by the Nigerian government.
2. **Capacity:** the parties involved in this process must meet the minimum age requirement approved by the Nigerian law, and must be competent to make the contract, e.g. the parties must be sane and sober or the entrepreneur is operating within its legal frame work as defined by the laws, and articles.
3. **Evidence** of meeting by all parties involved. For an insurance contract to be valid there must be offer and acceptance. Usually offer is made in written application.
4. **Consideration:** this is made up of two components, the premium paid by the entrepreneur and promise to adhere to all conditions mentioned in the contract.

5.10. Conditions for Business Insurance

From the insurer's perspective the entrepreneur has to fulfill the following conditions

1. The business properties to be insured must be the one that the insurer can calculate the probable severity of losses.
2. The possible losses must be beyond the control of the entrepreneur.

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3. The business properties must have ways to determine specific and definite events that take place, what constitute a loss and how to measure it.
4. The business property should not be subjected to a location predisposed to risks. e.g. citing business near petrol filling stations, river bank, illegal plots of land, near rail way lines, etc.

ITQ: Define insurance and outline six(6) types of insurance.

ITA: Insurance can be defined as It is a situation where a person in consideration of a payment of money agrees to pay a certain sum of money to another person upon the happening of an event uncertain to time. Insurance is a form of risk management primarily used to hedge against the risk of a contingent, certain loss. Insurance can be defined as equitable transfer of the risk of a loss, from one entity to another, in exchange of for payment.

5.7 SUMMARY

Innovation can be defined as the development systematic ways, method, or techniques for making and doing things. An entrepreneur can manipulate his environment to achieve business success.

Types of innovation

1. Product
2. Tool and equipment
3. Skills

Decision making process in innovation

1. Knowledge
2. Persuasion
3. Decision
4. Implementation

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, certain loss.

Types of insurance

1. General liability insurance
2. Product liability

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3. Workers compensation
4. Travel

Condition for insurance

1. The business property to be insured must be the one that the insurer can calculate the probability of losses.
2. The business property should not be subjected to a location predisposed to risk e.g. citing business near petrol filling station, river bank, illegal plots of land, near railway lines etc.

5.8 SQA

5.9 REFERENCES AND FURTHER READING

1. **Holt David (1999)** Entrepreneurship: New Venture Creation, New Delhi, Prentice Hall of India Private Limited.
2. **Robert I. Mehr, Emerson, Commack, and Terry Rose (1985):** Principles of Insurance 8th Edition.

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BUSINESS PLANNING [SAMPLE]

Taylor and Snarkes [1970] defined planning as the systematic exercise in determining the total resources of the organization for the achievement of its quantified objectives within a specified time frame.

Gibson, Ivan and Donnelly [1976] see planning as including those activities which lead to the definition of ends and determination of appropriate means to achieve defined goals.

Kempter [1978] defined planning as the systematic study of long term company objectives and the strategies required to achieve them.

There is no single format for designing or developing a business plan, but whatever format you use the elements will remain common to all business plans.

1.0 GENERAL DESCRIPTION OF THE BUSINESS [hair and beauty salon]

Galaxy is a full-service beauty salon dedicated to consistently providing high customer satisfaction by rendering excellent service, quality products, and furnishing an enjoyable atmosphere at an acceptable price/value relationship. We will also maintain a friendly, fair, and creative work environment, which respects diversity, ideas, and hard work.

Our Mission: To supply services and products that enhance our clients' physical appearance and mental relaxation.

Our Motto: "The Fashion Begins Here!"

Aisha, Yusuf, Chukwudi, Bolaji and Jummai have worked in a prestigious salon in Maiduguri, for the past five years. Jummai has created a large client following through hard work and dedication. Yusuf, and his

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talented team of beauticians, has what it takes to make this venture an extremely successful one. We expect our growing reputation to lead to new clients and beauticians to support our anticipated growth.

To achieve our objectives, Galaxy salon is seeking additional loan financing. This loan will be paid from the cash flow from the business, and will be collateralized by the assets of the company, and backed by the character, experience, and personal guarantees of the owners.

Highlights

1.1 Keys to Success

The keys to success in our business are:

- **Location:** providing an easily accessible location for customers.
- **Environment:** providing an environment conducive to giving relaxing and professional service.
- **Convenience:** offering clients a wide range of services in one setting, and extended business hours.
- **Reputation:** reputation of the owner and other "beauticians" as providing superior personal service.

2.0 Company Summary

Galaxy will, upon commencement of operations, sell a wide range of beauty services and products. We will provide quality hair, nail, and skin services, along with top lines of beauty products. What will set Trend Setters apart from the competition is our commitment to providing all of these services in one convenient location.

2.1 Capital Requirement [Start-up Summary]

After spending several months searching for a salon to purchase, the owner decided to start a salon from the

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ground up. The start-up capital will be used for the design, leasehold improvements, and equipment of the salon. Leasehold improvements will amount to approximately N32, 500, and salon equipment will cost about N27, 000. The owner will invest N5, 000 for cash-on-hand at starting date.

Start-Up Capital

Requirements	Amount (N)
Start-up Expenses	
Rent deposit	
Other	
Total Start-up Expenses	
Start-up Assets	
Cash Required	
Other Current Assets	
Long-term Assets	
Total Assets	
Total Requirements	

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START-UP FUNDING

Start-up Funding	
Start-up expenses to fund	
Start-up asset to fund	
Total funding requirement	

ASSETS

Non cash assets from start	
Cash requirement from start up	
Cash balance on starting date	
Total assets	

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LIABILITIES

Current borrowing	
Short term liabilities	
long term liabilities	
Outstanding bills	
Total liabilities	

CAPITAL

Panned investment	
Owner's equity	
Loans	
Total planned investment	

Total capital and liabilities	
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Total funding	
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2.2 COMPANY LOCATIONS AND FACILITIES

The salon will be located at Gidan Madara, opposite High Court of Justice. The salon will utilize 1,540 square feet. The location is strategically situated on one of the busiest streets in Maiduguri. It is a high profile area, with easy access from all parts of town.

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3.0 PRODUCTS AND SERVICES

Galaxy is considered an upscale full-service beauty salon. We will offer a wide range of services that include:

- **Hair:** cuts, relaxers, perms, colors, shampoo, conditioning, curling, reconstructing, weaving, and waving.
- **Nails:** manicures, pedicures, polish, sculptured nails.
- **Skin Care:** European facials, body waxing, massage.

3.1 COMPETITIVE COMPARISONS

Galaxy Salon wants to set itself apart from other beauty salons that may offer only one or two types of services. Having come from such a salon, Jummai has realized, from talking with her clients, that they desire all of the services that we are proposing, but they remain frustrated because they must get their hair done at one place, and nails done at another. Although the focus of Galaxy is hair services, we do wish to offer our clients the convenience of these other services in one location.

There are a number of salons like ours, but they are mainly in the very high income parts of Maiduguri. We do not intend to compete with these so called "young star saloon." We wish to offer a middle ground for those clients who can't quite afford those high-end luxury salons.

Our business atmosphere will be a relaxing one where clients can kick back and be pampered. Soft drinks will be offered to clients as they enter for service. Televisions will be located in the waiting and hair-drying area.

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4.0 MARKETING STRATEGY

Our marketing strategy is a simple one: satisfied clients are our best marketing tool. When a client leaves our business with a new look, he or she is broadcasting our name and quality to the public. Most of our clients will be referrals from existing clients.

No major advertising campaigns are anticipated. Our research has shown that word of mouth is the best advertising for this type of business. We will, however, run specials throughout the week. We will also ask clients for referrals, and reward them with discounted or free services depending on the number of clients they bring. We will also offer discounts to the new clients who have been referred.

4.1 SALES FORECAST

The following table and charts show our projected sales. We expect income to increase steadily over the next three years, as the reputation of the salon, its stylists and services become apparent to the general public. Second year revenues also anticipate the addition of one new stylist.

Note that we list no direct cost of sales here for services, only for products, since our service costs are more accurately tracked as regular monthly expenses for supplies in the Profit and Loss table.

Sales Forecast

Barber	
Style 1	

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Style 2	
Nail	
Skin care	
Total product sales	
Total sales	

5.0 METHODS OF TRAINING AND DEVELOPMENT

Galaxy will be organized and managed in a creative and innovative fashion to generate very high levels of customer satisfaction, and to create a working climate conducive to a high degree of personal development and economic satisfaction for employees.

Training classes to help improve employee product knowledge and skills will be conducted on a regular basis. As the business grows, the company will consider offering an employee benefit package to include health and vacation benefits for everyone.

5.1 MANAGEMENT TEAM

Jummai has been a beautician for five years. She has quickly developed the trade skills that have led to her success. She loves dealing with people, and has the drive, ambition, and discipline to manage the business and its employees.

Alhaji Abubakar Kalu: is Managing Director and has a Bachelor's degree in Finance from the University of Maiduguri. He has extensive experience managing people and businesses. He has worked as a business consultant for trust consultancy.

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5.2 PERSONNEL PLAN

The personnel plan calls for a receptionist who will greet customers and receive payments for services and products. There will be five hair stylists, one barber, one nail technician, one facialist, and a massage therapist. Everyone but the receptionist will be contract worker, and will be paid a sliding commission scale based on the amount of revenue created. Future plans include the hiring of a shampoo technician as the business expands.

In the first year, assumptions are that there will only be three hair stylists, a barber, and part time nail, facial, and massage technician until the business can build a reputation that will attract others to work there.

Personnel Plan	
Owner (Stylist)	
Receptionist	
Shampoo Tech	
Skin care specialist	
Total People	

6.0 FINANCIAL PLAN

Our goal is to be a profitable business beginning in the first month. The business will not have to wait long for clients to learn about it since the stylists will already have an existing client base.

The financials that are enclosed have a number of assumptions:

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Revenues will grow at an annual rate of 15%, increasing 20% in November and December 2009 due to Sallah, Christmas. We anticipate this increase to stay steady throughout the following year to account for the normal flow of new clients coming into the salon. Estimates for sales revenue and growth are intentionally low, while anticipated expenses are exaggerated to the high side to illustrate a worst case scenario.

We did not use cost of goods sold in our calculations of net service sales, but included all related recurring expenses, such as payroll and supplies, in the operating expenses area of the profit and loss table. The only direct costs in the sales forecast are for projected product sales.

Product sales are a minimal part of our market. We are not quite sure how much revenue will be derived from products, so we took a low-ball approach and estimated sales of N8, 000 a month. Also in the sales projections table are services such as nails and massages. We are not quite sure how much revenue these two services will generate. We are certain that in time these services will be a large part of our revenue, conservative side, we estimate revenues from these services to be only N15, 000 a month for the first year.

To assure the start-up funds lender that the owners are financially stable, a personal financial statement is enclosed illustrating other sources of income that include interest and dividend income from investments (N2,840), salary income (N29,658), and commission income (N15,000).

6.1 Break-even Analysis

The break-even analysis shows that Galaxy has a good balance of fixed costs and sufficient sales strength to remain healthy. This calculation is focused on service sales, and excludes costs related to product sales. Our conservative forecast shows the salon just passing the break-even point throughout most of the first year, but we expect actual sales to be higher.

6.2 PROJECTED PROFIT AND LOSS

The following table shows our very conservative profit and loss projections for the next three years. The table includes the payments for all independently contracted stylists and technicians, as well for all regularly occurring supply expenses associated with service sales.

Profit and Loss

Sales	xxxxxx
Direct sales	xxxxxx
Others	xxxxxx
Cost of goods sold	xxxxxx
Gross profit	xxxxxx
Less expense	
Marketing	xxxxxx
Depreciation	xxxxxx
Leased equipment	xxxxxx
Insurance	xxxxxx
Rent	xxxxxx
Telephone	xxxxxx

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Total operating expenses	xxxxxx
Profit before interest & taxes	xxxxx
Less interest expenses	xxxxx
Less tax incurred	xxxxx
Net profit	xxxxxxxx

6.3 PROJECTED CASH FLOW

We expect to manage cash flow over the next three years simply by the growth of the cash flow of the business. The business will generate more than enough cash flow to cover all of its expenses.

Cash Received	
Cash from Operations	
Cash Sales	
Subtotal Cash from Operations	
Additional Cash Received	
Sales Tax, VAT	
New Current Borrowing	
New Other Liabilities	
New Long-term Liabilities	
Sales of Other Current Assets	

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Sales of Long-term Assets	
New Investment Received	
Subtotal Cash Received	
Expenditures	
Expenditures from Operations	
Cash Spending	
Bill Payments	
Subtotal Spent on Operations	

6.4 Projected Balance Sheet

As shown in the balance sheet, we expect a healthy growth in net worth.

Assets	
Current Assets	
Cash	
Other Current Assets	
Total Current Assets	
Short-term Assets	
Long-term Assets	
Accumulated Depreciation	
Total Long-term Assets	
Total Assets	

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