# SME BUSINESS TRAINING AND COACHING LOOP

# Standard Training Materials

## - PART 1 -

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# ABBREVIATIONS

| | |
|---|---|
| **AA** | Action Area |
| **AG** | Advisory Group |
| **BDS** | Business Development Service |
| **BEP** | Break-even Point |
| **BMCA** | Business Managerial Competencies Assessment |
| **BMP** | Business Management & Planning |
| **BP** | Business Plan /Planning |
| **CBT** | Competency-Based Training |
| **CSF** | Critical Success Factor |
| **CEFE** | Competency-based Economies through Formation of Enterprises/ Entrepreneurs |
| **CW** | Capacity Works |
| **DC** | Development Corporation |
| **FL** | Financial Literacy |
| **FMBNP** | Nigerian Federal Ministry of Budget and National Planning |
| **ILO** | International Labour Organization |
| **IT** | Information Technology |
| **LTE** | Long-Term Expert |
| **M&E** | Monitoring and Evaluation |
| **NGO** | Non Government Organisation |
| **OH** | Overhead |
| **O&M** | Organisation and Management |
| **PDG** | Product Development Group |
| **PECs** | Personal Entrepreneurial Competencies |
| **PS** | Planning, Promotion, Business Orientation & Selection |
| **P&L** | Profit & Loss Statement |
| **ROI** | Return on Investment |
| **ROOI** | Return on Owners' Investment |
| **SEDIN** | Sustainable Economic Development in Nigeria |
| **SLEs** | Structured Learning Experiences |
| **SMEDAN** | Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) |
| **SMEs** | Small and Medium sized enterprises |
| **SIYB** | Start and Improve Your Business |
| **STE** | Short term Expert |
| **TC** | Technical Corporation |
| **ToR** | Terms of Reference |
| **ToTCs** | Training of Trainers/Coaches |
| **TPC** | Total Investment/Project Cost |
| **VC** | Value Chain |
| **4Ps** | Product, Price, Place and Promotion |





# I. INTRODUCTION TO SME LOOP STANDARD TRAINING MATERIALS

GIZ has developed the SME Business Training and Coaching Loop (SME Loop) in projects in Sierra Leone and Benin, piloted it with some encouraging results in Nigeria and Malawi and intends to roll it out into other regions. At the moment , the number of countries implementing the SME Loop successfully show a great potential for multiplication in other regions and other countries. A set of Standard Training Materials has been realised to support the implementers and this SME Loop Trainer Manual is being designed to serve this particular requirement.

## a. Unique Element of the SME Loop

The unique features of the approach are the systematic integration of coaching and training interventions and solving the follow-up requirements with coaching processes. Further, the SME Loop, is a highly systematised approach of SME development, combining training and coaching interventions with a domino effect or in a chain reaction where a cumulative-effects are created when one sets off and other rolls on. A careful consideration requires to build on the cumulative-effects by ensuring the bridging components in the training and coaching delivery.

## b. Methodology

Coaching is intended to be an accelerator of the overall process to develop and then implement quality business improvement strategies. The SME Loop implementers can use various training and coaching methodologies and resources available in the market. The recommendation is to use Adult Learning and Experiential Learning principles for the training modules and the GROW and Appreciative Coaching approaches for coaching sessions. For material-based participatory based-approach is essential where many participatory tools encourage the participation and learning. However, the SME Loop Trainer Manual adopts adults learning and experiential the approaches for the trainer guidance design and coaching follow-up and preparation session which comes in the beginning and at the end of Training 1 and Training 2. For coaching guidance, please refer the SME Loop Coaching Guide.

## c. SME Loop Trainers and Coaches

The implementation requires trained SME Loop trainers and coaches, from the local market or from the pool of facilitators of the partners (via partner cooperation). However, all personnel involved in the implementation, requires material and SME Loop approach familiarisation for a successful SME Loop implementation. The Master Coach guides in selecting right set of training materials which are determined by a number of factors, such as: SMEs to be trained and their level of literacy, the type and nature of business and value chains, capacity of the SME Loop trainers and coaches, the programme indicators and monitoring and evaluation requirements, culture, etc. It is advisable to set the training materials prior to all capacity development activities.

## d. Curriculum

The SME Loop design focuses on existing entrepreneurs who want to expand their business or set up additional new businesses, as experience shows that quicker results can be achieved this way. Hence, the combination of coaching and modularised trainings for SME development and improvement obliges one to plan, design and pick and choose the right modules for the training and coaching phases. It is a prerequisite to start with curriculum designing prior to involve in capacity development. The SME Loop Trainer Manual serves the SME Loop Master Coaches, by showcasing various training modules and sessions, elaborating the sessions' learning objectives and purposes, and by enabling one to plan and design the SME Loop curriculum. On deciding the training modules, the Master Coaches can start planning the capacity development of the SME Loop implementing partners, the BDS providers.

## e. Minimum Quality Standards

The manual has incorporated the SME Loop Quality Standards and recommends the SME Loop Master Coaches using the manual in combination. The materials presented in the manual are modules for both, Training 1 as well as Training 2 and exercises that can be chosen from and help convey the content of the modules in a way that is respectful of the intrinsic knowledge and know-how of the individual person as well as basic ideas of adult learning.

## f. SME Loop Structure

**The 'standard' SME-Loop process as in use comprises:**

1. Assessment & Selection
2. Training 1- Business Analysis (3 days)
3. Coaching 1 – Strategy Formulation (2 coaching sessions per month for 2 months)
4. Training 2 - Business Improvement Planning (3 days)
5. Coaching 2 - Business Improvement & Linkages Development (3 coaching sessions per month for 2 months)
6. Graduation Ceremony (1 day);
7. Coaching 3 (optional 3 coaching vouchers)

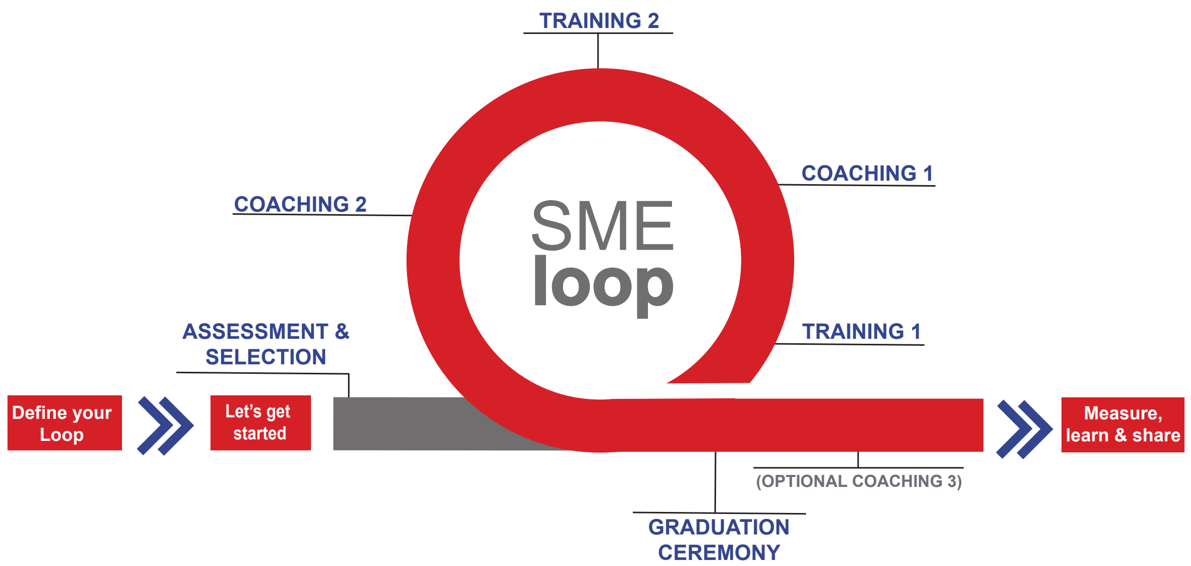



**Figure 1: SME Loop Structure**

## g. The Strengths and the Challenges

**Strengths of the SME Loop:**

- Systematic combination of assessment & selection, enterprise development training and coaching cycles, with a clear and time bound structure
- Demand-orientation of training and coaching modules
- Use of local resources (whatever business development training modules and capacities are available locally including CEFE, ILO, Financial literacy, and others)
- Flexibility and adaptability to different country situations.





**The Challenges of the SME Loop approach implementation BY experience are – as in the case of most models:**

- Access to finance
- High degree of subsidization of the enterprise development supports and interventions
- Various levels of understanding on coaching practices

# II. CURRICULUM DESIGN AND MATERIAL SELECTION

Without knowing we are we, we are unable to improve and develop ourselves the same applies to business improvements and developments. Generally, a systematic analysis of a business reveals avenues for improvement and development of the business and further diversification potentials.

For example, some of these questions only a systematic business analysis reveals the answers:

"Are we doing well with marketing?"
"Are we using the cash right?"
"How high are our production cost?"
"What is the bottleneck for my business improvement?"

On this rationale, the manual presents Training 1 and Training 2 standard training materials. The Training 1 materials are mainly for business analysis while the Training 2 materials provides variety of business development planning sessions. The manual encourages the SME Loop Master Coach to carefully pick and choose the sessions considering the various factors mentioned previously.

The coaching represents the bridging and enhancing element in the SME Loop. Coaching 1 helps the SMEs to identify and formulate business development strategies. This provides the essential preparation ground for the SMEs to prepare the business development plan as shown in the Figure 2: SME Loop curriculum rationale. Coaching 2 empowers the SMEs to modify and to finalise the business development plans, enables to build necessary financing and other necessary linkages with various Business Development Service (BDS) providers in the context via researching, initiating, communicating and networking.

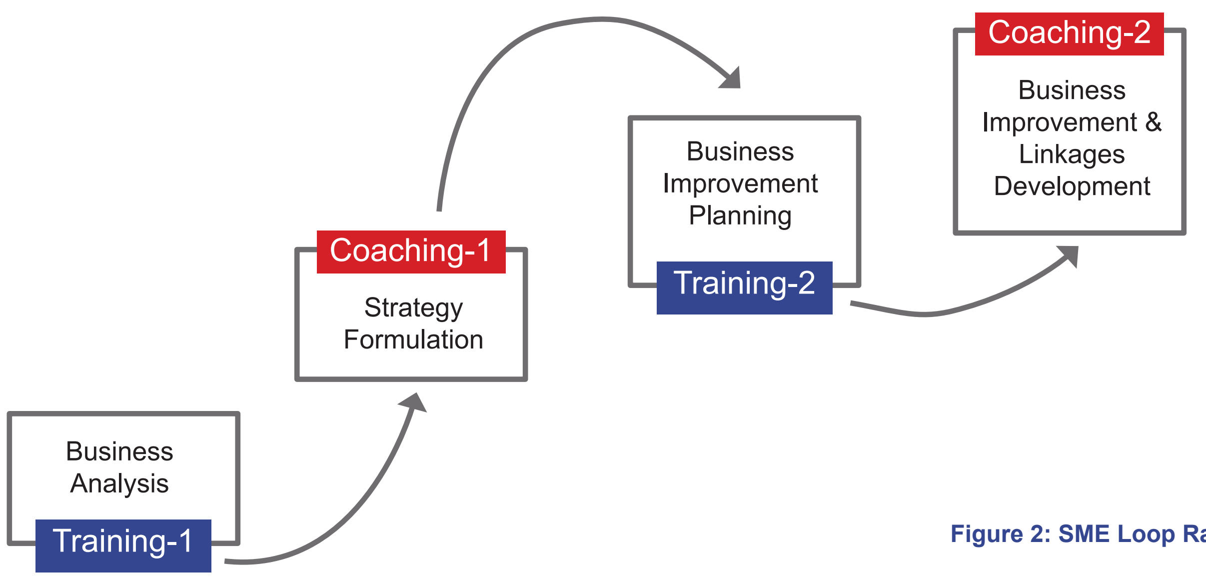



**Figure 2: SME Loop Rationale**

It is recommended to use the IYB manuals for Coaching 1 and Coaching 2. However, Coaching 1 is about finding the business improvement strategies and entrepreneurs may look for very specific details of a subject. In Coaching 2, as the focus is all about linkage development with various Business Development services and networks, the subjects could be very broader. Therefore, all the six IYB manuals can be useful for the coach to update the knowledge and to coach the entrepreneur on their preferences and demands.

## a. The SME Loop Training 1 Material Selection Grids

There are number of options in training sessions and coaching topics. The Table 1: SME Loop Training 1 Material Grid provides a complete set of sessions with training subjects, learning objectives, purposes and the time frame. A Master Coach can pick, choose and match with the particular group of SME training requirements. This process of selecting various training sessions is called designing the curriculum.

The sessions are given with learning objectives (in short), purpose and time requirements. Please consider the following guiding principles in selecting the sessions:

I. Training 1 and Training 2 have a total of 3 days each. Each 8 hour-day includes 1 hour lunch break and 2 times 15 minutes resting breaks. This leaves a day with 6 hours and 30 minutes for session and a total of **19.5 hours** for **one** training module.

II. Apart from the time allocations and the **sequence of sessions** also requires consideration.

III. In the Grid the Shaded sessions are **compulsory.** They are the session/tool recommendations for introduction, core of the module, coaching preparation or closing the training courses.

IV. There are no restrictions on number of tools. You can pick and choose any number on the necessity. However, please remember that business analysis or business improvement planning processes do not necessarily require many numbers of tools, but the right set of tools. This can be more than a single tool covering the both internal and external business environment and various managerial aspects.

V. Do not mix and match sessions across the trainings. This could confuse the participants, breaks the flow logic and against SME Loop rationale.





**Table 1:** The SME Loop Training 1 – Business Analysis Material Selection Grid

| Session number and options | Name of the Tool | Learning Objectives / Purpose | Duration | Remarks |
|---|---|---|---|---|
| 1 | Introduction to Training 1: Business Analysis Training | Introduction to the SME Loop Course, participants and set the administrative details | 1 hour | Compulsory |
| 2: Option 1 | Art Gallery: My Business Journey in Brief | Creating a learning environment & Visioning | 2 hours | Please pick one of the tools |
| 3: Option 2 | My Business Goal Setting | Creating a learning environment & Goal setting | 2 hours | |
| 4 | SWOT Analysis | Business Analysis; Internal and Context | 2 hours | Compulsory |
| 5 | Successful Entrepreneur Characteristics Assessment | Successful Entrepreneurial Competencies Assessment: Achievement, Planning and Power | 2 hours | |
| 6 | Pearl Exercise | Successful Entrepreneurial Competencies Assessment and Enhancement | 3.5 hours | |
| 7 | Dart Exercise | Successful Entrepreneurial Competencies Assessment, Business and Enhancement Business Strategy | 2 hours | You have in total of around 11 hours. Pick and choose any of these sessions fitting in this time period |
| 8 | Porter's Five Forces Model | Business Competitive Analysis | 2 hours | |
| 9 | The Market Exercise | Marketing Management Competencies Assessment and Enhancement | 3 hours | |
| 10 | The Bag Making Exercise 1 | Production Management Competencies Assessment and Enhancement | 2 hours | |
| 11 | Process Flow Chart Analysis | Business operation process and productivity | 2 hours | |
| 12 | The Bag Making Exercise 2 | Production Management Competencies Assessment & Reinforcement | 2 hours | |
| 13 | Financial Analysis: Profitability and ratios | Business Financial Analysis | 2 hours | |
| 14 | Successful Entrepreneur Visit | Personal Entrepreneurial Competencies Enhancement | 2 hours | |
| 15 | Business Audit | Familiarize with various business management Elements and Assessment | 2 hours | |
| 16 | Summarising the Business Analysis | | 1 hour | Compulsory |
| 17 | Preparing for Coaching 1: Strategy Formulation | | 2 hours | Compulsory |
| 18 | Wrap-up of Training 1: BA | | 30 minutes | Compulsory |

A sample of Training 1 curriculum is given in Table 2: Sample Curriculum for Training 1. In this curriculum design, the Art Gallery: My Business Journey in Brief has been picked against the Goal Setting Exercise. Both are unfreezing exercises. The SWOT Analysis tool is a good tool to analyse a business and to set paths for business strategy formulation. It is the overall tool and end of each analysis the SMEs stock up their SWOT. For example, after the personal successful entrepreneurial competencies (PECs) analysis, the SMEs can list their strengths, weaknesses, opportunities and threats in relevant to the PECs. You may notice that in the sample curriculum every session is followed up by a SWOT exercise.

To cover the various managerial aspects on day 2, Market Exercise and the Bag Making Exercise have been picked up. This is the curriculum tested in Malawi and it worked well. The Process Flow Chart helps to analyse any type of businesses. For Agri-business traders it helps to identify the trading process. The Agri-service providers can analyse their service delivery process. It is also helpful for a manufacturing business to analyse the production process for the raw material flow where the producer can find ways to improve productivity and reduce wastages and defaults.

**Table 2:** Sample Curriculum for Training 1

| Session number and options | Name of the Tool | Learning Objectives | Duration |
|---|---|---|---|
| 1 | Introduction to Training 1: Business Analysis Training | Introduction to the SME Loop Course, participants and set the administrative details | 1 hour |
| 2: Option 1 | Art Gallery: My Business Journey in Brief | Creating a learning environment Visioning | 2 hours |
| 3 | SWOT Analysis | Business Analysis; Internal and Context | 2 hours |
| 4 | Successful Entrepreneur Characteristics Assessment | Entrepreneurial Competencies Assessment: Achievement, Planning and Power | 2 hours |
| 6 | The Market Exercise | Marketing Management and Strategy | 3 hours |
| 7 | The Bag Making Exercise 1 | Production Management and Process Flow Chart | 2 hours |
| 8 | Process Flow Chart Analysis | Business operation process Analysis | 2 hours |
| 10 | Financial Analysis: Profitability and ratios | Business Finance Analysis | 2 hours |
| 16 | Summarising the Business Analysis | | 1 hour |
| 17 | Preparing for Coaching 1: Strategy Formulation | | 2 hours |
| 18 | Wrap-up of Training 1: BA | | 30 minutes |





## b. The SME Loop Traning 2 Material Selection Grids

The Training 2 is to support SMEs in Business Improvement Planning. The tools are listed in the Table 3: The SME Loop Training 2 Material Selection Grid. The Grid lists the sessions or tools for business growth strategies and flowing into business improvement planning and financial planning. If the Training 1 curriculum does not cover many financial aspects, it is necessary to include enough focus on financial planning which is essential for business improvement.

**Table 3:** The SME Loop Training 2 – Material Selection Grid

| Session number and options | Name of the Tool | Learning Objectives | Duration | Remarks |
|---|---|---|---|---|
| 1 | Introduction to Training 2: Business Analysis Training | Introduction to the SME Loop Course, participants and set the administrative details | 1 hour | A must session |
| 2: Option1 | Ansoff's Market Alternatives Growth Strategies | Verify and confirm Growth Strategies | 2 hours | Please pick one of the tools |
| 3: Option2 | Six Innovative Ways to Improve Business | Creating a learning environment Goal setting | 2 hours | |
| 4: Main Option 1 | Business Model Canvas and Planning | Business Improvement Planning | 7 hours | Pick one of the main options 1-4. |
| 5: Main Option 2 | Business Improvement Planning | Business Improvement Planning | 7 hours | |
| 6: Main Option 3 | IYB Business Planning | Business Improvement Planning | 7 hours | |
| 7: Main Option 4 | Business Planning | Business Improvement Planning | 7 hours | |
| 8 | Sources of Business Financing | Business Financing | 1 hours | You have in total of around 6 hours. Pick any of these sessions fitting in this time period |
| 9 | Working Capital Management | Working Capital Management | 2 hours | |
| 10 | Break-even Point | Costing | 2 hours | |
| 11 | Cashflow Forecast | Cashflow Management | 2 hours | |
| 12 | Financial Analysis: Profitability and ratios | Business Finance Analysis | 2 hours | |
| 13 | Packaging the Business Improvement Plan | | 1 hour | A must session |
| 14 | Preparing for Coaching 2: Business Improvement and Linkages Development | | 2 hours | A must session |
| 15 | Wrap-up of Training-2: BIP | | 30 minutes | A must session |

**A sample curriculum for Training 2 is given in Table 4: Sample Curriculum for Training 2:**

**Table 4:** Sample Curriculum for Training 2

| Session no. and options | Name of the Tool | Learning Objectives | Duration |
|---|---|---|---|
| 1 | Introduction to Training 2: Business Analysis Training | Introduction to the SME Loop Course, participants and set the training floor. | 1 hour |
| 2: Option1 | Ansoff's Market Alternatives Growth Strategies | Verify and confirm Growth Strategies | 2 hours |
| 5 | Business Model Canvas | Business Improvement Planning | 7 hours |
| 8 | Sources of Business Financing | Business Financing | 1 hours |
| 11 | Cashflow Forecast | Cashflow Management and Forecasting | 2 hours |
| 12 | Financial Analysis: Profitability and ratios | Business Finance Analysis | 2 hours |
| 13 | Business Taxation | Taxation | 1 hour |
| 14 | Packaging the Business Improvement Plan | | 1 hour |
| 15 | Preparing for Coaching 2 -Business Improvement and Linkages Development | | 2 hours |
| 16 | Wrap-up of Training 2: BIP | | 30 minutes |

# III. TRAINING 1: BUSINESS ANALYSIS

## BUSINESS ANALYSIS (BA)
## (3 days)

During this training entrepreneurs analyse their businesses, as well as entrepreneurial and business management competencies while using systematically a number of tools. Two SME Loop certified trainers will facilitate the workshop using adult learning principles and experiential learning cycle concept for a class of approximately 25 and not more than 30.

Generally, there are number of factors determining the success of a business. Starting from the concept of the business, business model, entrepreneurial competencies, business management knowledge and managerial skills (ex: marketing, production or trading, financial management and business organisation & management), the business environment, optimum use of business development services and supporting systems, and the influence of other actors in the market (ex: competitors, buyers, customers, suppliers). In addition to these dynamics access to finance and to markets, business linkages various networking capacities are also determining the success of a business.

The **objectives** of the phase are:

- to enable entrepreneurs to identify the strengths, weaknesses, opportunities and threats of their businesses:
- to enhance and develop business management knowledge & skills and entrepreneurial competencies:
  - to prepare entrepreneurs to coaching sessions which facilitates them to formulate business development strategies.

In addition, the training tools are designed and set to bring in marketing, production, organising and financing business management knowledge and competencies while analysing their businesses on their own phasing.





| Session number and options | Name of the Tool | Learning Objectives / Purpose | Duration |
|---|---|---|---|
| 1 | Introduction to Training 1: Business Analysis | Introduction to the SME Loop Course, participants and set the administrative details | 1 hour |
| 2: Option 1 | Art Gallery: My Business Journey in Brief | Creating a learning environment & Visioning | 2 hours |
| 3: Option 2 | My Business Goal Setting | Creating a learning environment & Goal setting | 2 hours |
| 4 | SWOT Analysis | Business Analysis; Internal and Context | 2 hours |
| 5 | Successful Entrepreneur Characteristics Assessment | Successful Entrepreneurial Competencies Assessment: Achievement, Planning and Power | 2 hours |
| 6 | Pearl Exercise | Successful Entrepreneurial Competencies Assessment and Enhancement | 3.5 hours |
| 7 | Dart Exercise | Successful Entrepreneurial Competencies Assessment, Business and Enhancement Business Strategy | 3 hours |
| 8 | Porter's Five Forces Model | Business Competitive Analysis | 2 hours |
| 9 | The Market Exercise | Marketing Management Competencies Assessment and Enhancement | 3 hours |
| 10 | The Bag Making Exercise 1 | Production Management Competencies Assessment and Enhancement | 2 hours |
| 11 | Process Flow Chart Analysis | Business operation process and productivity | 2 hours |
| 12 | The Bag Making Exercise 2 | Production Management Competencies Assessment & Reinforcement | 2 hours |
| 13 | Break-even Point Analysis | Costing and knowing the breaking point (No Profit No Loss) | 2 hours |
| 14 | Cashflow Analysis | Cashflow management | 2 hours |
| 15 | Financial Analysis: Profitability and ratios | Business Financial Analysis | 2 hours |
| 16 | Successful Entrepreneur Visit | Personal Entrepreneurial Competencies Enhancement | 2 hours |
| 17 | Business Audit | Familiarise with various business management Elements and Assessment | 2 hours |
| 18 | Summarising the Business Analysis | | 1 hour |
| 19 | Preparing for Coaching 1: Business Strategy | | 2 hours |
| 20 | Wrap-up of Training 1: BA | | 30 minutes |

# 1. Introduction to Business Analysis

| | |
|---|---|
| **What is it?** | The tool sets guidance to accomplish several tasks starting from setting up the 3 day training floor, introducing the SME Loop and the business analysis to laying down the necessary foundation, essential for establishing a favourable and encouraging environment for learning for adults.<br><br>Starting from an unfreezing introductory energiser/exercise, and continuing with course expectations levelling, training course objectives introduction, house rules, day schedule and learning contract agreements to introduction to feedback mechanisms, everything is high in density and could load the trainees. Facilitating the session professionally requires preparations and teamwork.<br><br>The session necessitates extraordinary efforts in implementation in a progressive mode. All trainers come together for preparations and arrangement of visual aids. For example, prior to implementation, trainers work on their expectation statements and learning contracts and write down on cards. This initial preparation helps to avoid repetitions and biased statements. |
| **Objectives:** | • To relax the trainees and to set an atmosphere conducive to openness and learning<br>• To introduce the phase, objectives, day schedule, evaluation and house rules<br>• To familiarise with the SME Loop Trainee Handbook |
| **Aims/Results:** | • A conducive environment for learning and a team spirit<br>• Setting a foundation for training tools application |
| **Initial Preparations:** | • An energizer for participants introduction<br>• The essential visual aids (expectation levelling cards, SME Loop provision, Coaching 2 objectives, Day schedule, and feedback (smiley) chart)<br>• Shaping seating arrangements<br>• Daily attendance signature sheet<br>• Announcement of awards, if any such as best business improvement plans, top viable business improvement strategy, etc. |
| **Required Resources:** | • SME Loop Trainee Handbooks for distribution<br>• Flip chart board and charts<br>• Pin boards with necessary stationery<br>• Zopp cards, pins and marker pens<br>• Notebooks and pens for participants<br>• Name cards/masking tape<br>• Two colours of ‘Post It Notes’ (one for expectations and another for learning contracts)<br>• Daily evaluation forms<br>• Refreshments |
| **Checklist:** | ✓ SME Loop visual<br>✓ Introduction energizer<br>✓ SME Loop Handbooks<br>✓ All other prepared visual aids<br>✓ Daily evaluation copies and signature sheet |





| Time min. | Brief Content | Guidance |
|---|---|---|
| **10** | Introduction to Training 1 | Welcome of trainees for Training 1: Business Analysis (BA). Introduce the SME Loop while using the visuals prepared in advance. Point out Training 1 and link to the other Trainings and Coachings and the Graduation Ceremony. Give details of each phase. |
| **10** | Energizer | Implement the prepared ‘**Introduction Energizer**.’ |
| **15** | Levelling the Expectation | This sub-tool helps us to verify the selection of SMEs. Here, participants are invited to express their expectations. They write one expectation per ‘Post-it’ Notes or using the Zopp Cards and their names. These expectations are kept until the final day and refer by the trainers and check whether they are achieved or not.<br><br>Trainers provide their expectations as examples and trainees are encouraged to write their expectations. They can write as many expectations one per card/ Post-it Notes.<br><br>Read loudly and if necessary, clarify with the person who wrote the expectation. Ensure they write their names on the expectations. Proceed with notes, one by one. Post on the soft board. Classify the expectations/cards into three different columns named ‘SME Loop’, ‘Training 1’, and ‘Other’.<br><br>When you get many notes under the column ‘Other’ which are entirely different to the SME Loop course and business development, clarify with the note owners of their expectations for the course attendance. The explanations may vary. If the trainer finds that an expectation fails to meet the course objectives and purpose entirely, it could be an indication for bad selection. Identify the owners of those notes. Discuss with them during a break privately about their participation purpose. If necessary, inform the implementers/partner organisation about your guess and understandings. |
| **10** | Introduction to SME Loop | Introduce the SME Loop in full using the visual. Point Training 1 and summarise the selection process briefly. |
| **5** | House Rules | To ensure fulfilling all parties’ reasonable expectations and the course objectives, house rules are essential. Set the relevant house rules with the trainees using a participatory approach. Some clues for the house rules are therefore:<br><br>• Punctuality and the schedule<br>• Discussions in brief<br>• No criticism<br>• Maintaining confidentiality<br>• Evaluations and feedbacks<br>• Latecomers<br>• Handbook usage and availability<br>• Mobile phones |

| | | |
|---|---|---|
| **5** | Daily Evaluation | Introduce the **Smiley Chart**; the SME Loop Trainers feedback. Inform them that day 2 & 3 start with evaluation summary and trainees fill their evaluation forms end of all three days. |
| **10** | Learning Contract | Explain in detail the SME Loop, course and the present stage. Refer to objectives of the phase and the relevant expectations when appropriate. Emphasise the necessity of commitment.<br>Trainers present their contract/commitment written in notes.<br><br>Example: Preparations for the training session, punctuality, readily available and act professionally. Invite the trainees to write down their learning commitments on notes. This time use a different colour Note, if available. Collect, read loudly, verify and post the cards against their expectation cards. Summarise and reiterate those commitments importance. |
| **5** | Privacy & Confidentiality | Talk about the privacy and confidentiality policy in the course. Distribute the SME Loop handbook and introduce it. Encourage participants to keep it confidential and available throughout the course. Trainers will guide them in the usage. Explain the necessity for sharing the details in the handbook for learning, monitoring and evaluation purposes. Link to the house rules and obligations. |
| | Summarise & Closing | Request the trainees to sign the attendance daily. Link to the next session and display the necessary visuals (time schedule, house rules, list of expectations, etc.) for the rest of the days.<br><br>Verify all questions. Post the visuals (SME Loop Course, Business Analysis course schedule, daily schedule, daily evaluation, expectations and learning contracts). Ensure every participant wear the name tag.<br><br>Inform about the Graduation Ceremony and the B2B event where entrepreneurs can talk and present their Business Development Plans to various agents for finance and support services in the end of SME Loop course competition. Encourage the trainees to take part in the course seriously. Invite participants for refreshments and break. |

**Follow up:**

- Follow the house rules
- When necessary refer to the expectations
- In the end the expectations and learning contracts will be reviewed

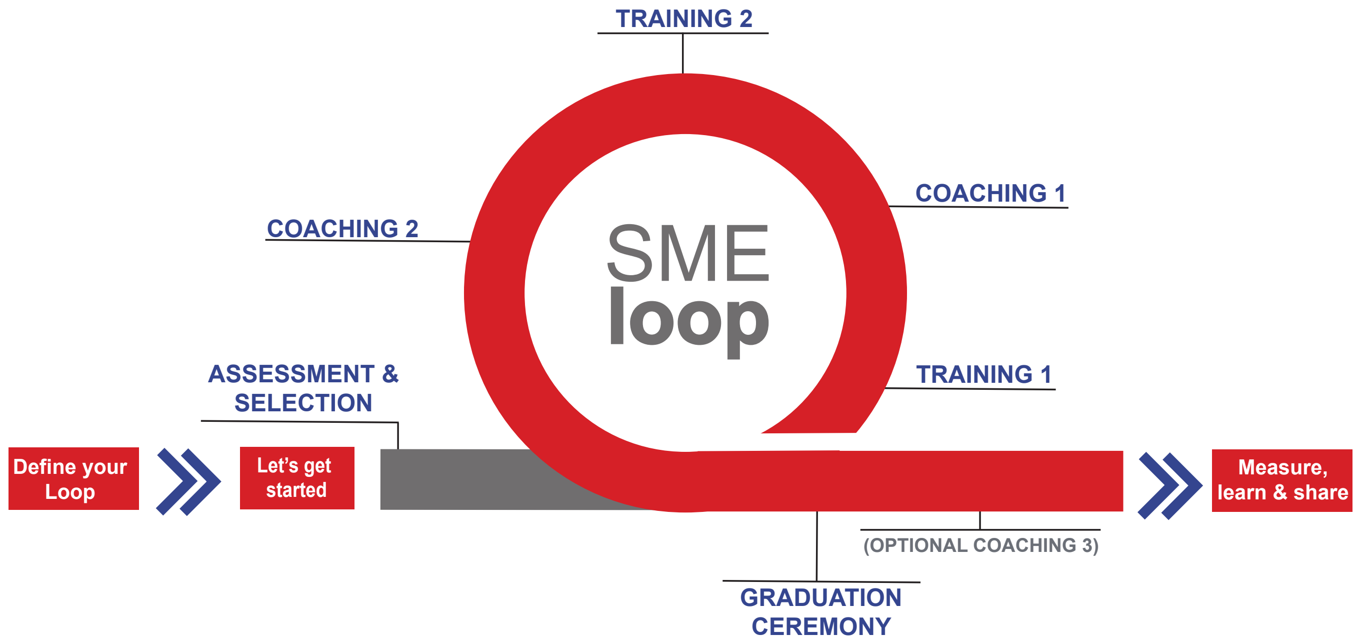
**Annex:**

ANNEX 1.1: THE SME LOOP COURSE
ANNEX 1.2: BUSINESS ANALYSIS (BA)
ANNEX: 1.3: DAILY SCHEDULE
ANNEX: 1.4: SMILEY CHART





## ANNEX 1.1: THE SME LOOP COURSE




## ANNEX 1.2: TRAINING-1: BUSINESS ANALYSIS

**(Provide the actual course schedule. Below given is the sample)**

| | |
|---|---|
| **DAY 1** | Introduction to Business Analysis Training (BA) |
| | Art Gallery |
| | Introduction to Business Analysis Framework: SWOT |
| | Successful Entrepreneurs Characteristics Assessment |
| | Business Analysis Framework: SWOT Exercise |
| **DAY 2** | Business Analysis Framework: The Market Exercise (Marketing Management) |
| | Business Analysis Framework: The Bag Making Exercise (Marketing Management) |
| | Process Flow Chart Analysis |
| | Financial Analysis: Profitability and Ratios |
| **DAY 3** | Business Analysis Framework: Successful Entrepreneur Visit and the Context Analysis |
| | Summarising the Business Analysis: The Business Audit |
| | Preparing for Coaching 1: Business Development Strategy Formulation and Training 1 wrap-up |

## ANNEX: 1.3: DAILY SCHEDULE

| | **TIME** (starting and ending) |
|---|---|
| **BLOCK A** | |
| **LUNCH** | |
| **BLOCK B** | |
| **END OF THE DAY** | |

## ANNEX: 1.4: DAILY EVALUATION (SMILEY) CHART

**Tick the right column and provide the reason for selection under remarks**

| | Criteria | Happy ☺ | Undecided 😐 | Unhappy ☹ | Remarks |
|---|---|---|---|---|---|
| 1 | Session objectives and relevance | | | | |
| 2 | Session facilitation | | | | |
| 3 | Session contents | | | | |
| 4 | Handbook | | | | |
| 5 | Logistics | | | | |

-------------------------------------------FOR PRINTING PURPOSE-------------------------------------------

## DAILY EVALUATION (SMILEY) CHART

**Tick the right column and provide the reason for selection under remarks**

| | Criteria | Happy ☺ | Undecided 😐 | Unhappy ☹ | Remarks |
|---|---|---|---|---|---|
| 1 | Session objectives and relevance | | | | |
| 2 | Session facilitation | | | | |
| 3 | Session contents | | | | |
| 4 | Handbook | | | | |
| 5 | Logistics | | | | |





# 2. The Art Gallery: My Business Journey in brief

| | |
|---|---|
| **What is it?** | This session is an unfreezing exercise preparing the entrepreneurs to think and share their business(s) and life with co-participants.<br><br>The session helps the entrepreneurs to think about how they started their businesses, pinpoint where they are now and to share how they want to develop their businesses. It is the past, present and future of business in brief.<br><br>During the session participants prepare an artwork to present their business journeys using pictures (from magazines), drawings and symbols. Finally, they present and share their work in the Gallery. |
| **Objectives:** | • To unfreeze and disclose oneself without shyness<br>• To look back their past, analyse the present and prepare for better future<br>• To create an environment conducive for further learning |
| **Aims/Results:** | • Unfreezing<br>• Create a conducive environment for learning |
| **How to use it? Application/Uses:** | • Business Analysis Introduction<br>• Unfreezing Exercise |
| **Initial Preparations:** | Prepare a title card “My Business Journey in Brief”<br>Prepare your own “My Business Journey in Brief” and the title is your name. Try to visualise while using symbols, pictures and drawings. Avoid writings. |
| **Required Resources:** | • Lead and co trainers<br>• Soft board<br>• Flipchart papers<br>• Marker pens<br>• Old magazines or newspapers with colourful pictures<br>• Scissors<br>• Gum bottles/sticks |
| **Checklist:** | At the end of presentation space to visualise the artwork. |

| | |
|---|---|
| **Training Steps Guidance:** | (1) Invite and welcome everyone for the Art Gallery. In this Art Gallery everyone is an artist and a visitor. Now, it is the time we prepare our artworks.<br>(2) Present your artwork. Explain in brief how did you come into the business, how are you doing the business now and what you want to achieve in the future. Introduce the Title for the Artwork. It is your name. Make the presentation simple and brief. Do not take more than 3 minutes.<br>(3) Request the participants to prepare their "My Business Journey in Briefs". Allocate 20 minutes for preparations and 2 minutes for the presentation. Verify the understanding and distribute the flipcharts (half), magazines and the stationaries.<br>(4) For the presentation start with volunteers and maintain the time with the bell or sign card.<br>(5) Sometimes continuous presentations can be tiring for the participants. Maintain the floor with enthusiasm by clapping and encouraging supports for the presentations.<br>(6) You also can highlight the future business expectations of the presenter now and then in general.<br>(7) At the end of each presentation invite for few questions and avoid arguments and serious discussions. Fix the presentations to the wall for display. |

**Follow up:** Introduction to Business Analysis Framework: SWOT

**Annex:** None.





# 3. My Business Goal Setting

| | |
|---|---|
| **What is it?** | This session is an unfreezing exercise preparing the entrepreneurs to think and share their business(s) and life with co-participants.<br><br>The session helps the entrepreneurs to think about how they started their businesses, pinpoint where they are now and to share how they want to develop their businesses. It is the past, present and future of business in brief.<br><br>During the session participants prepare their goals for the future using the SMART concept. |
| **Objectives:** | • To unfreeze and disclose oneself without shyness:<br>• To encourage setting reasonable goals<br>• To create an environment conducive for further learning. |
| **Aims/Results:** | • Unfreezing<br>• Goal Setting<br>• Create a conducive environment for learning |
| **Initial Preparations:** | • Prepare a title card "Goal Setting"<br>• SMART Goal Setting (Annex 3.1: SMART Goal Setting)<br>• Prepare your own "Goal Setting" and the title is your name. Try to visualise using symbols, pictures and drawings. Avoid writings. |
| **Required Resources:** | • Lead and co trainers<br>• Soft board<br>• Flipchart papers<br>• Marker pens<br>• Old magazines or newspapers with colourful pictures<br>• Scissors<br>• Gum bottles/sticks |
| **Checklist:** | At the end of presentation space to visualise the artwork. |

| **Training Steps Guidance:** | (1) Welcome everyone and introduce the exercise.<br>(2) Explain the SMART Goal Setting and present your sample goal setting for the future. Remember this is the visual you prepared using pictures and drawings. Avoid using writings.<br>(3) Once you presented allow participants also prepare their Goal Setting Artwork. Give then 20-30 minutes.<br>(4) Invite everyone for presentation. Using a masking tape post the visuals on the wall while the owner of the artwork explains about his/her goals.<br>(5) For the presentation start with volunteers and maintain the time with the bell or sign card.<br>(6) Sometimes continuous presentations can be tiring for the participants. Maintain the floor with enthusiasm by clapping and encouraging supports for the presentations.<br>(7) You also can highlight the future business expectations of the presenter now and then in general.<br>(8) At the end of each presentation invite for few questions and avoid arguments and serious discussions. Ensure all the presentations are done and fixed on the wall. |
|---|---|

**Follow up:** Introduction to Business Analysis Framework: SWOT

**Annex:** ANNEX 3.1: SMART GOAL SETTING





# ANNEX 3.1: SMART GOAL SETTING

## Goal Setting

### A. Modes of Formulating Goals

| | | |
|---|---|---|
| **Doing** | Activities considered important | *(I want to do… I will work on…)* |
| **Owning** | Possession of something | *(I want to own… I want to have…)* |
| **Changing oneself** | Setting personal standards in position, expertise and status | *(I want to become…)* |

### B. Golden Rules for Goal Setting

Goals can be career, family, social, personal or religion. Goals achievement requires focus and continuous efforts. These are golden rules for the SME Loop!

**Rule #1:** It is important to set goals that motivate you.
If you don't really value the outcome, or set goals that don't have a high priority in your life, you are likely to lose focus and interest in the goal

**Rule #2:** Follow SMART rules. They are a powerful set of rules.
Following SMART rules ensure Specific, Measurable, Achievable, Relevant and Time-bound goals.

**Rule#3:** Take a bite-size approach to larger goals.
Set weekly, monthly yearly goals to reach life goals!

**Rule #4:** Reward yourself for the (goals) achievement!
Reward yourself for each and every progress you make. Link them with your set goals.
Example: A bowl of ice-cream or going out picnic with friends.

**Rule #5:** Plan and maintain a schedule to review the progress!
Keep weekly/monthly schedule ideally with reminders set in your phone.

# 4. Introduction to Business Analysis Framework

| | |
|---|---|
| **What is it?** | This is an exercise to introduce the Business Analysis Framework chosen for the class. This framework introduction lays down the necessary foundations for all other business analysis exercises.<br><br>The SWOT Analysis (SWOT) consists two parts: The external analysis of the environment to identify opportunities and threats and the internal analysis of the organisation and the entrepreneur to identify the existing strengths and weaknesses. |
| **Objectives:** | • To explore entrepreneurs' capabilities and weaknesses in terms of the business: strengths and weaknesses.<br>• To realize the importance of assessing the external environment before making a business decision.<br>• To assess entrepreneurial and managerial competencies |
| **Aims/Results:** | • A BUSINESS ANALYSIS on existing businesses<br>• Business Managerial Assessment |
| **How to use it? Application/Uses:** | (1) Business Analysis<br>(2) Business Strategy Development |
| **Initial Preparations:** | Read and understand the Business Analysis Framework<br>Preparation of visual aids |
| **Required Resources:** | • One Lead facilitator<br>• Zopp cards in 4 colours<br>White board/pens |
| **Checklist:** | In the end, trainees are ready to use the business analysis framework. |
| **Training Step Guidance:** | (1) Invite participants for an exercise which will demand their analytical, creative, logical and fact-finding thinking. Open their minds.<br>(2) Briefly explain the concept of Business Analysis Framework.<br>(3) The trainer needs to use details of his/her Business Analysis for their business for better explanations. Start with introducing the business. Complete the exercise with details matching the business chosen.<br>(4) Verify the understandings and invite for questions.<br><br>(5) Inform participants that they are going to use the framework all these three days to analyse their business step by step. Check with their pages in the handbook. |

**Follow up:** The Market Exercise

**Annex:** ANNEX 4.1 The Business Analysis Framework
ANNEX 4.1 Business Management Competencies
ANNEX 4.3 Personal Entrepreneurial Competencies
ANNEX 4.4 Context Analysis





## ANNEX 4.1: THE BUSINESS ANALYSIS FRAMEWORK (SWOT ANALYSIS)

The SWOT Analysis is a useful tool to assess a business. SWOT is an acronym for **Strengths, Weaknesses, Opportunities** and **Threats**. SWOT Analysis provides a matrix screen for identifying and assessing the internal environment of the business (under the control of the entrepreneur like strengths and weaknesses) and the external environment affecting the business operations (beyond the power of the entrepreneur like opportunities and threats). It determines whether specific internal or external factors in the environment are favourable or unfavourable.

### COMPONENTS OF SWOT ANALYSIS

#### Strengths

Strengths are within the control of the entrepreneur and they occur at present! Strengths should be capitalised and harnessed to make the weaknesses redundant.

Examples:

| | |
|---|---|
| ▪ Access to cheap raw material supply<br>▪ Technical expertise | ▪ Comparatively affordable price<br>▪ Good packaging |

#### Weaknesses

Weaknesses are within the control of the entrepreneur; they occur at present. They are "lack of…", "missing….", or weak points. Weaknesses should be eliminated as much as possible!

Examples:

| | |
|---|---|
| ▪ No control over raw materials availability<br>▪ Lack of working capital | ▪ Lack of promotion<br>▪ Poor design of product |

#### Opportunities

Opportunities are positive or favourable factors in the environment which the entrepreneur should take advantage of or which make his project idea potentially viable. They are, however, mostly beyond the control of the entrepreneur. They are different from strengths in the sense that strengths are positive internal factors of the business.

Examples:

| | |
|---|---|
| ▪ Few and weak competitors<br>▪ Growing demand | ▪ Scarcity of product in the locality<br>▪ Favourable government policy |

#### Threats

Threats are adverse or unfavourable external factors in the environment and generally beyond the control of the entrepreneur. The purpose of analysing threats is to look for ways of hedging against them, i.e., trying to avoid them or lessening their negative impact by making counterbalancing actions.

Examples:

| | |
|---|---|
| ▪ Rising raw materials cost<br>▪ Government bureaucracy | ▪ Too much competition<br>▪ Shortage of raw materials |

**Example**: For my business Nina Beauty Parlour

Strengths / Marketing – I understand social media marketing and I operate a personal Facebook account. I have 678 followers.

**Conclusion:** I will create a Business Facebook page. I have a good number of Facebook followers in my private Facebook account. I can invite all of them to like my new business page. I can post pictures on my business page weekly

## BUSINESS ANALYSIS FINDINGS AND FRAMEWORK

| | FINDINGS | CONCLUSION |
|---|---|---|
| **Internal Analysis** | | |
| **Strengths** | | |
| **Weaknesses** | | |
| **External Analysis** | | |
| **Opportunities** | | |
| **Threats** | | |





## ANNEX 4.2 BUSINESS MANAGEMENT COMPETENCIES

The tool helps the entrepreneurs to understand the parameters of the business management competencies.

| | DESCRIPTION |
|---|---|
| 1 | **Marketing Management** |
| 1.1 | Describing my target market and customers |
| 1.2 | Formulating and implementing the marketing strategy: Product, Price, Place and Promotion |
| 1.3 | Computing my sales forecast |
| 1.4 | Marketing budget preparations and implementation |
| 1.5 | Access to various markets |
| 2 | **Operations Management** |
| 2.1 | Buying and stock control |
| 2.2 | Calculating the production volume and production/ service cycle |
| 2.3 | Estimating my business operation/running cost |
| 2.4 | Able to visualise the business operations flow chart |
| 2.5 | Technology |
| 3. | **Organization and management** |
| 3.1 | Forming the business and business registration |
| 3.2 | Planning and controlling my business operation & employees |
| 3.3 | Assigning various roles and responsibilities for the staff |
| 3.4 | Business communication |
| 3.5 | Customer relations and building on customer database |
| 4. | **Finance** |
| 4.1 | Calculating total investment required |
| 4.2 | Find out various sources of finances and their implications (business loan) |
| 4.3 | Taxation for the business |
| 4.4 | Record Keeping |
| 4.5 | Cashflow projection (including working capital) |

# ANNEX 4.3 PERSONAL ENTREPRENEURIAL COMPETENCIES (PECS)

Competencies can include motives, needs, wants, skills, knowledge, self-concept, values, aspirations and attitudes. Entrepreneurial competencies can be classified in to three major categories: Achievement, Planning and Power.

**A successful entrepreneur has the following competencies:**

## ACHIEVEMENT COMPETENCIES

1. **Opportunity seeking**
   - Looks for and acts on new business opportunities
   - Seizes unusual opportunities to obtain financing, equipment, workspace and others
2. **Persistence**
   - Takes repeated or different actions to overcome an obstacle
   - Makes personal sacrifice or expends extraordinary efforts to complete a job
   - Sticks with own judgement in the face of opposition or early lack of success
3. **Commitment to work contract**
   - Accepts full responsibility for problems in completing a job for customers
   - Expresses a concern for satisfying the customers
4. **Demand for quality and efficiency**
   - Acts to do something that meets or beats existing standards of excellence
   - Strives to do things better, faster or cheaper
5. **Risk taking**
   - Takes what is perceived to be moderate risks
   - States a preference for situations that involve moderate risks

## PLANING COMPETENCIES

6. **Goal setting**
   - Sets clear and specific short-term goals
   - Sets clear and long-term goals
7. **Systematic planning and monitoring**
   - Develops and uses logical step-by-step plans to reach goals and evaluates alternatives
   - Monitors progress and switches to alternative strategies when necessary
8. **Information seeking**
   - Personally, seeks information on clients, suppliers and or competitors
   - Consults experts for business or technical advice
   - Uses contacts or information networks to obtain useful information

## POWER COMPETENCIES

9. **Persuasion and networking**
   - Uses deliberate strategies to influence or persuade others
   - Uses business and personal contacts accomplish own objectives
10. **Self-confidence**
    - Has strong belief in self and own abilities.
    - Stick on to own judgements





# ANNEX 4.4: CONTEXT ANALYSIS

## Context Analysis (Factors and Actors)

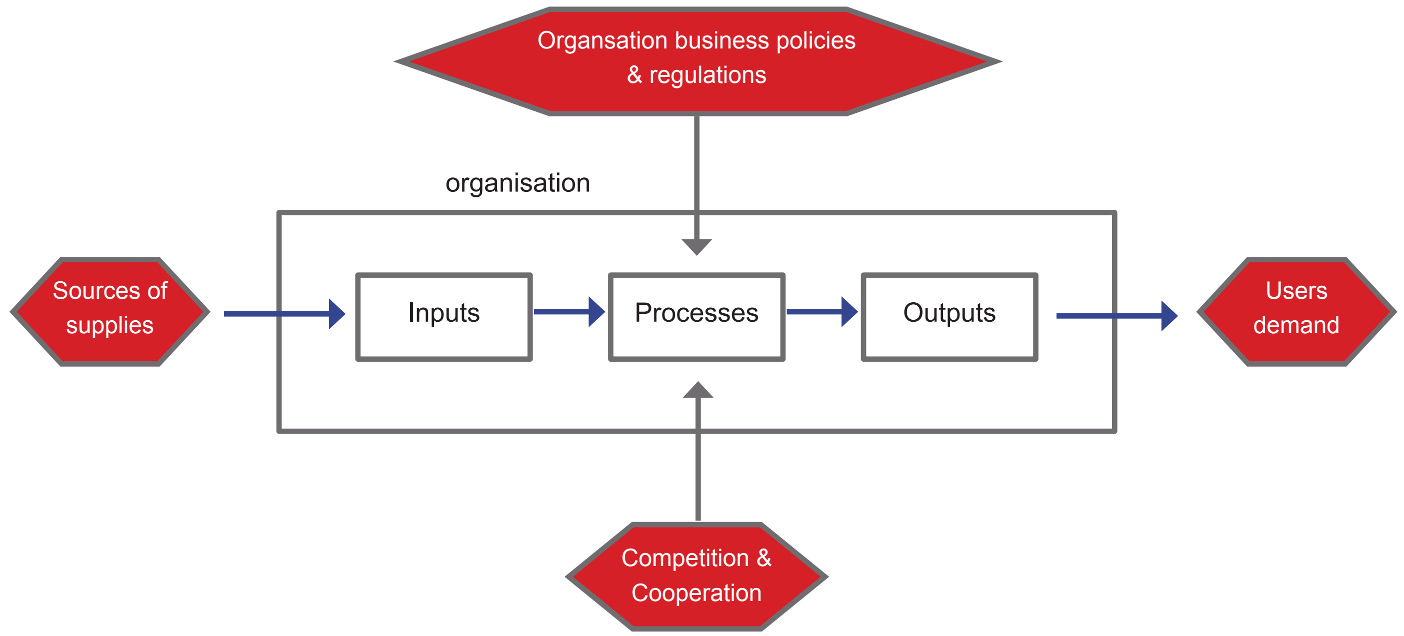
One of the components in the business analysis is contextual analysis for opportunities and threats outside the business. This is the analysis an entrepreneur makes to uncontrollable factors and actors in the business environment. To be able to analyse the positive and negative factors an entrepreneur needs to ask questions, such as,

- Which are the negative and positive relevant factors (political economic, social, technical and other factors) and actors (input suppliers, customers, government representative, village leader, distributer, buyer and others) both positive and negative influencing the business?
- What is the importance of these factors for the business success and development?
- What is the degree of power that the business has over the factor/actor?
- What can be done to address the factor?
- What coalition partners can be used to influence those factors that cannot be influenced directly? Etc.

Therefore, the project manager has to look beyond the business entity and his/her organisation to be able to ascertain the opportunities and threats for the business operation and development. For this the entrepreneur requires to scan the business environment. There are three approaches recommended for the business context analysis.

## 1) Input-output related classification

A business organisation or a business entity is an input-output system.




It follows that the environmental factors influencing an organisation can be classified in 4 categories:

✓ factors and actors related to the **supply** of inputs (staff, material, equipment, capital, etc.)
✓ factors and actors related to the **demand** for the products/services by the target groups
✓ **policies/regulations** influencing the operations of the business entity
✓ factors and actors of **competition and co-operation** influencing operations of the business organisation

### 2) Classification by discipline

- ✓ Physical factors (e.g. draught risks affecting agriculture)
- ✓ Infrastructural (e.g. roads, power supply, communication lines, affecting commercialization)
- ✓ Technological (e.g. new technological developments)
- ✓ Commercial/economic/financial (financial services, economic trends, etc.)
- ✓ Psychological/sociocultural (e.g. attitudes towards credit risks, buying, etc.)
- ✓ Political/legal (e.g. government regulations on interest rates)

### 3) Classification by geographical scope

- ✓ local factors/developments influencing the business (e.g. local power struggles)
- ✓ regional factors/developments influencing the business (e.g. regional economic trends)
- ✓ national factors/developments influencing the business (e.g. national politics)
- ✓ international factors/developments influencing the business (e.g. social media and global trend, export market customers attitudes towards the country of the business organisation, etc.).

## 5. Successful Entrepreneurs Characteristics Assessment

| | |
|---|---|
| **What is it?** | This is an exercise to implement a systematic assessment on each entrepreneur's **P**ersonal **E**ntrepreneurial **C**ompetencies using a **PEC**s self-assessment questionnaire. The questions are processed to find out individual entrepreneur's rating on the selected set of ten characteristics (PECs) in relation to achievement, planning and power.<br><br>The questionnaire has two parts: the questionnaire and processing the answers to find out the assessment scores. |
| **Objectives:** | • To assess the personal entrepreneurial competencies<br>• To find a base for personal entrepreneurial improvement strategies and plan |
| **Aims/Results:** | Competencies assessment |
| **Application/Uses:** | Personal Entrepreneurial Characteristics |
| **Initial Preparations:** | • The essential visual and the assessment calculations<br>• U-shape seating arrangements |
| **Required Resources:** | • Flip chart board and charts<br>• Lead and co trainers |
| **Checklist:** | • Trainees have their handbook with pencils.<br>• Trainees have completed the self-assessment questionnaires before starting the processing the assessment (part 2).<br>• Prepared the visual aids for Part 2 of the assessment preferably in a flip chart. |





| | |
|---|---|
| **Training Step Guidance:**<br><br>**Experiencing:** | (1) Welcome trainees to the PECS assessment session. Introduce the questionnaire and explain how to fill the questions.<br><br>(2) Ensure everyone has completed it.<br>(3) Proceed with the assessment introducing one part of assessment at a time and until the trainees acquire the final scores.<br>(4) Look for the trainees' reactions and feelings. Ask for any surprises. Did anyone get low score in all the ten PECs?<br>(5) Appreciate the high scores. Identify the PECs for achievement and high scored trainees. Take a note of trainees' strong and weak PECs.<br>(6) Encourage all the trainees and inform them that regardless of their scores everyone can improve their PECs. Inform them this is the score in Traning 1. They can assess their PECs at the end using the same questionnaire (Coaching 2) to see their improvements. There are many exercises where they can practice their PECs and improve. To improve PECs, they need to understand each competency in detail.<br>(7) Inform the entrepreneurs that participating in the training will help them to enhance their PECs and there are other ways too. They can develop their PECs competencies by studying the questions. Explain with an example.<br>(8) To enhance the PECs, an understanding in detail of each PEC is essential. One way of understanding the PECs is identify the questions used in the PECs Self- Assessment with the PECs handout. Discussing and looking for examples is also helpful.<br>(9) Provide examples of behaviours, attitudes and skills related to those competencies.<br>(10) Help the trainees identify their strong and weak competencies.<br>(11) Inform the participants about second day 'Successful Entrepreneur Visit' session. It is an opportunity for them to witness and identify the PECs of the entrepreneur who will do a presentation for the class. They also can see how an entrepreneur scans the environment for opportunities and threats for the business using these competencies.<br>(12) Summarise Day 1 sessions. Invite participants for the SWOT exercise, the next session. |

**Follow up:** Business Analysis and Successful Entrepreneur Visit

**Annex:** ANNEX 5.1 PECS SELF RATING QUESTIONNAIRE (PART 1)

AANEX 5.2 PECS SELF RATING ASSESSMENT (PART 2)

# ANNEX 5.1 PECS SELF RATING QUESTIONNAIRE (PART 1)

## PECs Self-Assessment PART 1

There are 50 brief statements. Read each statement and decide how well it describes you. Be honest about yourself. Remember, no one does everything very well, nor is it even good to do everything very well. Besides that, your rating of the individual questions remains your secret and you may take this questionnaire home.
Select one of the numbers below to indicate how well the statement describes you:

**5 - Always**
**4 - Usually**
**3 - Sometimes**
**2 - Rarely**
**1 - Never**

Write the **<u>number</u>** you select, on the line to the right of each statement.

***Example:***
*I remain calm in stressful situations* <u>2</u>

*The person who responded to the item above wrote "2" to indicate that the statement describes him very little.*
*Some statements may be similar but are not exactly alike. It is fun answering questions. Take your time and please <u>answer all the questions!</u>*

## PECs Self Rating Questionnaire

| | | |
|---|---|---|
| 1. | I look for things that need to be done. | |
| 2. | When faced with a difficult problem, I spend a lot of time trying to find a solution. | |
| 3. | I complete my work on time. | |
| 4. | It bothers me when things are not done very well. | |
| 5. | I prefer situations in which I can control the outcome as much as possible. | |
| 6. | I like to think about the future. | |
| 7. | When starting a new task or project, I gather a great deal of information before going ahead. | |
| 8. | I plan a large project by breaking it down into smaller tasks. | |
| 9. | I get others to support my recommendations. | |
| 10. | I feel confident that I will succeed at whatever I try to do. | |
| 11. | I do things that need to be done before being asked to do so by others. | |
| 12. | I try several times to get people to do what I would like them to do. | |
| 13. | I keep the promises I make. | |
| 14. | My own work is better than that of other people I work with. | |
| 15. | I don't try something new without making sure I will succeed. | |
| 16. | It's a waste of time to worry about what to do with your life. | |
| 17. | I seek the advice of people who know a lot about the tasks I'm working on. | |
| 18. | I think about the advantages and disadvantages or different ways of accomplishing things. | |





| | | |
|---|---|---|
| 19. | I do not spend much time thinking about how to influence others. | |
| 20. | I change my mind if others disagree strongly with me. | |
| 21. | I like challenges and new opportunities. | |
| 22. | When something gets in the way of what I'm trying to do, I keep on trying to accomplish what I want. | |
| 23. | I am happy to do someone else's work if necessary to get the job done on time. | |
| 24. | It bothers me when my time is wasted. | |
| 25. | I weigh my chances of succeeding or failing before I decide to do something. | |
| 26. | The more specific I can be about what I want out of life, the more chance I have to succeed. | |
| 27. | I take action without wasting time gathering information. | |
| 28. | I try to think of all the problems I may encounter and plan what to do if each problem occurs. | |
| 29. | I get important people to help me accomplish my goals. | |
| 30. | When trying something difficult or challenging, I feel confident that I will succeed. | |
| 31. | I prefer activities that I know well and with which I am comfortable. | |
| 32. | When faced with major difficulties, I quickly go on to other things. | |
| 33. | When I'm doing a job for someone, I make a special effort to make sure that the person is happy with my work. | |
| 34. | I'm never entirely happy with the way in which things are done; I always think there must be a better way. | |
| 35. | I do things that are risky. | |
| 36. | I have a very clear plan for my life. | |
| 37. | When working for a project for someone, I ask many questions to be sure I understand what the person wants. | |
| 38. | I deal with problems as they arise rather than spend time anticipating them. | |
| 39. | To reach my goals, I think of solutions that benefit everyone involved in the problem. | |
| 40. | I do very good work. | |
| 41. | I try things that are very new and different from what I have done before. | |
| 42. | I try several ways to overcome things that get in the way of reaching my goals. | |
| 43. | My family and personal life are more important to me than the work deadlines I set for myself. | |
| 44. | I do not find ways to complete task faster at work and at home. | |
| 45. | I do things that others consider risky. | |
| 46. | I am as concerned about meeting my weekly goals as I am for my yearly goals. | |
| 47. | I go to several different sources to get information to help with tasks or project. | |
| 48. | If one approach to a problem does not work, I think of another approach. | |
| 49. | I am able to get people who have strong opinions or ideas to change their minds. | |
| 50. | I stick with my decisions even if others disagree strongly with me. | |

# ANNEX 5.2 PECS SELF RATING ASSESSMENT (PART 2)

## Recording PEC Self-Rating Questionnaire Scores

1. You have completed 'PECS Self-Assessment' the questionnaire in Training 2. Place the ratings on the lines above the item numbers in brackets. **Notice**, that the item numbers in each column are consecutive. Item No. 2 is below item No. 1 and so forth.
2. Do the addition and subtraction in each row to compute each PEC score.
3. Add all the PEC scores to compute the total score.

| Rating of Statements | | | | | | | | | Score | PEC |
|---|---|---|---|---|---|---|---|---|---|---|
| ........... (1) | + | ........... (11) | + | ........... (21) | - | ........... (31) | + | ........... (41) | =........... | Opportunity Seeking |
| ........... (2) | + | ........... (12) | + | ........... (22) | - | ........... (32) | + | ........... (42) | =........... | Persistence |
| ........... (3) | + | ........... (13) | + | ........... (23) | + | ........... (33) | - | ........... (43) | =........... | Commitment |
| ........... (4) | + | ........... (14) | + | ........... (24) | + | ........... (34) | - | ........... (44) | =........... | Demand for Quality & Efficiency |
| ........... (5) | - | ........... (15) | + | ........... (25) | + | ........... (35) | + | ........... (45) | =........... | Risk Taking |
| ........... (6) | - | ........... (16) | + | ........... (26) | + | ........... (36) | + | ........... (46) | =........... | Goal setting |
| ........... (7) | + | ........... (17) | - | ........... (27) | + | ........... (37) | + | ........... (47) | =........... | Information seeking |
| ........... (8) | + | ........... (18) | + | ........... (28) | - | ........... (38) | + | ........... (48) | =........... | Systematic planning & monitoring |
| ........... (9) | - | ........... (19) | + | ........... (29) | + | ........... (39) | + | ........... (49) | =........... | Persuasion & networking |
| ........... (10) | - | ........... (20) | + | ........... (30) | + | ........... (40) | + | ........... (50) | =........... | Self-confidence |





**PECs Profile Sheet**

Use the scores to draw a diagram in the chart below and it is your PEC Profile

| | | 0 | 5 | 10 | 15 – 20 |
|---|---|---|---|---|---|
| **Achievement Competencies** | Opportunity Seeking | | | | |
| | Persistence | | | | |
| | Commitment | | | | |
| | Demand for quality and efficiency | | | | |
| | Risk Taking | | | | |
| **Planning Competencies** | Goal setting | | | | |
| | Information Seeking | | | | |
| | Systematic Planning & Monitoring | | | | |
| **Power Competencies** | Persuasion & Networking | | | | |
| | Self-confidence | | | | |

0 5 10 15 20

# 6. Pearl Exercise

| | |
|---|---|
| **What is it?** | The Pearl Exercise is a highly recommendable tool to impart successful personal entrepreneurial competencies and to self-assess one's own competencies in conducting business.<br><br>The tool creatively sets out a business environment where participants produce and sell pearl bracelets using the pearls in groups. There is no real money used however, all the sales are counted to assess various participating groups performance. |
| **Objectives:** | • To introduce the importance and types of personal entrepreneurial competencies<br>• To enable SMEs in self-assessing their personal entrepreneurial competencies (PECs) and experience them in real life business.<br>• To unlock and reinforce entrepreneurial competencies such as opportunity seeking, information seeking, demand for quality, commitment to work contract, and persistence. |
| **Aims/Results:** | • PECs assessment<br>• Introduction to PECs |
| **Initial Preparations:** | • Lead trainer and two assistance as buyers<br>• The essential visual aids (instructions for rounds, charts, and drawing of the sample pearl with colours)<br>• Sample pearl bracelets<br>• High quality thread with buyers<br>• The needles (kept with the lead trainer who will distribute on request only) |
| **Required Resources:** | • Pearls in min. 5 colours/sizes for 4-5 groups production<br>• Containers for pearls<br>• Pair of scissors<br>• Thread rolls -cotton and nylon<br>• Rulers<br>• Flip chart board and charts<br>• Pin boards with necessary stationery<br>• Zopp cards, pins and marker pens<br>• Needles in various sizes |
| **Checklist:** | ✓ Visuals -Charts, instructions with time allocations, drawings of the pearl bracelets<br>✓ Samples<br>✓ All the resources to make the pearl bracelets – pearls in colours and sizes, threads, containers for pearls for all groups and others<br>✓ Set up for buyers with name boards<br>✓ Stationery shop<br>✓ Lead trainer keeps the needles and on request only supply them to the participants. |





## SESSION IMPLEMENTATION

| Time Min. | Brief Content | Guidance |
|---|---|---|
| **10** | Introduction | Welcome trainees for the Pearl Exercise. Inform them that the exercise helps them to understand number of skills essential and enable success in business.<br><br>Introduce the exercise using the visuals. It is a market where two buyers, local and and from the city, have come to buy pearl bracelets. All the trainees are producing the pearl bracelets to sell them to both buyers. They can work in groups or as individuals.<br><br>The market is enormous and the buyers will buy any quantities adhering their quality standards. The groups can produce many bracelets and they need to sell as many as possible before the season ends.<br><br>Share the visual of the pearl bracelet and the samples. Encourage them to produce as many as they can.<br><br>The groups need to make contracts with the buyers to sell their products. They need to supply the exact agreed quantities of pearl bracelets with set and agreed qualities. They also can try with both buyers and are allowed to sell more than their agreed quantities.<br><br>Introduce the stationery shop and the buyers<br><br>No real money is used but the sales and agreements will be recorded to assess the group. Introduce the chart. |
| **65** | Round 1 | Introduce the Round 1 instructions:<br><br>**Planning**<br>Time allocation – 15 minutes<br>Receive the raw materials from the stationery shop<br>Check the materials<br>Make sales agreement with the buyers<br>Prepare for production<br><br>**Production**<br>Time allocation – 30 minutes<br>Produce the pearl bracelets in groups<br><br>**Marketing and selling**<br>Time allocation – 15 minutes<br>Sell the products |
| **15** | Processing the Results | Show the chart with results. Use the Annex 6.1: Pearl Exercise -Results Chart.<br><br>Ask about their experience.<br><br>Briefly discuss about various things. By this time sometimes one or two groups would have approached the lead trainer for the needles. If possible, highlight the production quantity differences among groups who use needles with others who don't. Otherwise motivate the class to look for right resources. Motivate and encourage the groups to produce more as buyers buy any quantity. |

| | | |
|---|---|---|
| **50** | Round 2 | Introduce the Round 2 instructions.<br><br>**Planning**<br>Time allocation – 5 minutes<br>Receive the raw materials from the stationery shop<br>Check the materials<br>Make sales agreement with buyers<br>Prepare for production<br><br>**Production**<br>Time allocation – 30 minutes<br>Produce the pearl bracelets in groups<br><br>**Marketing and selling**<br>Time allocation – 10 minutes<br>Sell the products<br><br>Highlight the changes in the time allocation. |
| **15** | Processing | Show the results chart.<br><br>Appreciate the winning group if possible, with a small treat.<br><br>Ask for production and marketing experiences. Look for reasons why some groups sold many and others less.<br><br>Ask for the success factors and link them to the personal entrepreneurial skills such as information seeking – finding the needles and good threads; look around for more information; commitment to work contract and quality, etc. |
| **20** | PECs Self -Rating Assessment | Carry on the discussion towards PECs and introduce the set of PECs. |
| **05** | Summarise and Conclude | Summarise the exercise and conclude. Link to the next session. |

**Follow-up:** PECs self- assessment and SWOT Analysis

**Annex:** ANNEX 6.1: Personal Entrepreneurial Competencies
ANNEX 6.2: Pearl Exercise- Results Chart



| STM PART 1

# ANNEX 6.1: PERSONAL ENTREPRENEURIAL COMPETENCIES (PECs)

Competencies can include motives, needs, wants, skills, knowledge, self-concept, values, aspirations and attitudes. Entrepreneurial competencies can be classified in to three major categories: achievement, planning and power.

**A successful entrepreneur has the following competencies:**

## ACHIEVEMENT COMPETENCIES

1. **Opportunity seeking**
   - Looks for and acts on new business opportunities
   - Seizes unusual opportunities to obtain financing, equipment, workspace and others
2. **Persistence**
   - Takes repeated or different actions to overcome an obstacle
   - Makes personal sacrifice or expends extraordinary efforts to complete a job
   - Sticks with own judgement in the face of opposition or early lack of success
3. **Commitment to work contract**
   - Accepts full responsibility for problems in completing a job for customers
   - Expresses a concern for satisfying the customers
4. **Demand for quality and efficiency**
   - Acts to do something that meets or beats existing standards of excellence
   - Strives to do things better, faster or cheaper
5. **Risk taking**
   - Takes what is perceived to be moderate risks
   - States a preference for situations that involve moderate risks

## PLANING COMPETENCIES

6. **Goal setting**
   - Sets clear and specific short-term objectives
   - Sets clear and long-term goals
7. **Systematic planning and monitoring**
   - Develops and uses logical step-by-step plans to reach goals and evaluates alternatives
   - Monitors progress and switches to alternative strategies when necessary
8. **Information seeking**
   - Personally, seeks information on clients, suppliers and or competitors
   - Consults experts for business or technical advice
   - Uses contacts or information networks to obtain useful information

## POWER COMPETENCIES

9. **Persuasion and networking**
   - Uses deliberate strategies to influence or persuade others
   - Uses business and personal contacts accomplish own objectives
10. **Self-confidence**
    - Has strong belief in self and own abilities
    - Stick on to own judgements

ANNEX 6.2: PEARL EXERCISE- RESULTS CHART

**RESULTS CHART**

| Individual producers' name | Group producers' group name | ROUND 1 | | | ROUND 2 | | |
|---|---|---|---|---|---|---|---|
| | | Contract Quantity | Production Quantity | Sales Quantity | Contract Quantity | | Sales Quantity |
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| STM PART 1

# 7. Dart Exercise

| | |
|---|---|
| **What is it?** | The exercise requires extensive preparation in terms of charts and floor preparations. The trainers require a clear understanding and work as a team. The exercise is played with real money.<br><br>The groups represent companies consisting of 5-7 members each and compete in the 'Dart Market'. The exercise goes on three rounds with little different changing market conditions. Each group selects three players for their company and sends them to the market to play. The risk the players take are measured with the distance chosen to throw the dart and the group decides for their players.<br><br>The companies' success or failure depends on their players' capabilities and skills. The exercise is also useful to bring out business strategy. |
| **Objectives:** | • To introduce and unlock the Personal Entrepreneurial Competencies (PECs)<br>• To practice the PECs<br>• To familiarise with changing market conditions and adapting business strategies. |
| **Results / Aims:** | • An awareness and recognition about PECs<br>• PECs enhancement<br>• Market and business strategy |
| **Application / Use:** | PECs introduction and enhancement<br>Marketing Management |
| **Initial Preparations:** | • Results Charts<br>• Visuals<br>• Grouping energiser<br>• Dart game setup |
| **Required Resources:** | • SME Loop Lead and Co Trainers<br>• Real money change<br>• Dart board and 2 types darts<br>• Masking tape<br>• Marker pens and flipcharts<br>• Soft board and zopp cards |
| **Checklist:** | ✓ All visuals (Dart board score chart, distance multiplier, results chart, instructions and time allocation)<br>✓ Real money (trainers and trainees)<br>✓ Dart board is placed on the wall at shoulder level<br>✓ 8 meters of masking tape on the floor indicate distance to the dart board in meters<br>✓ Initially trainees sit in U-shape and then with their groups facing front, the Dart Board<br>✓ Group the trainees at the end of instructions, only using an energiser.<br>✓ For demonstration the trainer practice in advance dart throws in private. Do not let the trainees witness it. |

**Training Steps Guidance:**

(1) Welcome and complete the daily recurring activities.

(2) Introduce the dart game. Announce it is the market for dart skills.

(3) The trainees form groups to do business in the dart market.

(4) The companies require real money to register and to buy a throw. A company can have three throws, one per player. It means a company plays three times with three different players.

(5) Demonstrate a dart throw. Trainees can touch the darts, but cannot practice or throw. During the demonstration the trainer deliberates about the distance and tries to reach the 'Bull's Eye'.

(6) Introduce the scoring on the dart board. Introduce the distance multiplier. Score the demonstration as an example. Encourage and motivate the trainees to play the game (Annex 7.1 and Annex 7.2).

(7) Companies need real money to register (e.g. 200 Euro). They also need to buy three darts, one per player (e.g. 20 Euro per dart).

**Experiencing:**

(8) Explain the income sharing policy based on gained scores. The highest scoring company receives the highest income.

$$\text{Income} = \frac{\text{Total collection}}{\text{Total score of all groups}} \times \text{Group score}$$

Trainees share the investment and income within the group.

(9) There are three rounds. Each round is different.

(10) Group the trainees. You can use an energiser. A group can have 5-7 members. Invite for company registration and buying of darts. Give 10 minutes. For registration the trainees need to provide a name for the company and 3 players name and the money. The Co-Trainer can collect and enter data in the results chart.

(11) Players throw darts. Lead trainer announces the name of company and player. Also announce loudly the score gained by each player. Therefore, the co-trainer enters data in the results sheet. Before the next player plays, the lead trainer ensures that the data entries are complete. (A good communication and coordination is necessary between the two trainers.)

**Data processing:**

(12) All companies complete round 1.

**Experiencing:**

(13) The lead trainer visualises the results. Announce the total money and the market income. Share the income with groups based on their scores as explained earlier.

(14) Briefly explain how the scores came out.

(15) For round 2 introduce trial throws. Companies can train their players. They can buy trials (e.g. 10 Euro per trial). No limit for trials. Further, there is a new better dart. Announce new dart price. (e.g. 30 Euro).





(16) Complete round 2. Announce the winner. Share the income. Share the results of the exercise with trainees.

(17) Invite for round 3. The lead trainer informs that there are supports and consultancies available in the market. Companies can use the opportunities and can win. But companies may pay for the service.

**Data processing:**

(18) Complete round 3. Announce the winner and share the income.

**Conceptualisation:**

(19) You can take a break, so the trainers can take time to complete the Income Chart while trainees have their refreshments.

(20) Invite all the trainees to sit in U-shape now and process the data and bring out behaviours in relation to 10 PECs.

(21) Start from achievement competencies and then gradually ask questions about planning and power competencies.

(22) Introduce 10 PECs. Take time and explain each PEC with examples mainly picked from the Dart Exercise.

(23) Give examples picked from the exercise.

**Application in real life:**

(24) Ask about their PECs assessment they have completed in Training 2: Business Planning (Group Coaching) Session 6.

(25) Explain and verify their understanding of each PEC.

(26) Request the participants to commit with one action to improve their personal entrepreneurial competencies.

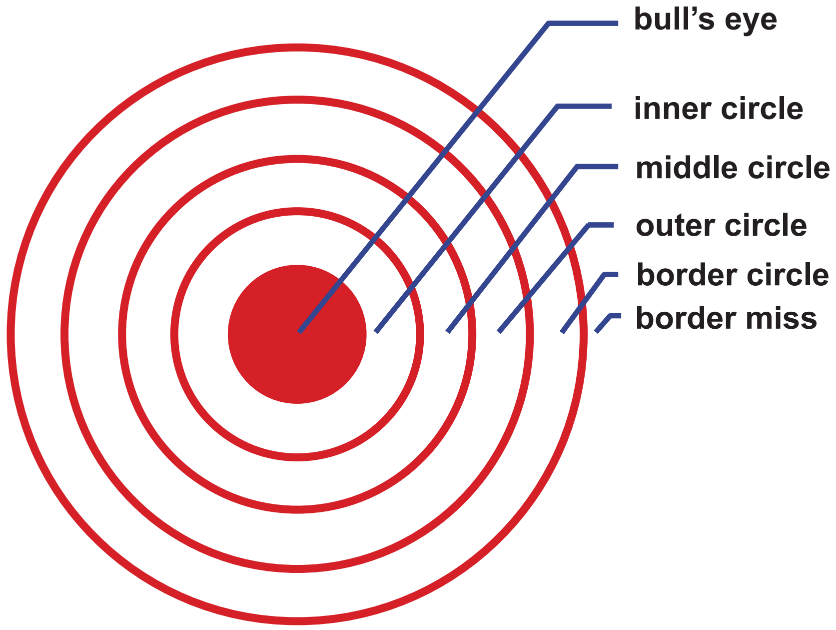
(27) Inform the trainers they will be given an opportunity to identify the PECs with a successful entrepreneur.

(28) Invite the trainees for the next session.

**Follow-up:** Successful Entrepreneur's Visit

**Annexes:**
ANNEX 7.1: DART BOARD SCORE CHART
ANNEX 7.2: DART DISTANCE MULTIPLIER CHART
ANNEX 7.3: DART RESULTS CHART
ANNEX 7.4: DART INCOME CHART
ANNEX 7.5: PERSONAL ENTREPRENEURIAL COMPETENCIES

## ANNEX 7.1: DART BOARD SCORE CHART




| SCORING | |
|---|---|
| Bull's Eye | + 40 points |
| Inner Circle | + 30 points |
| Middle Circle | + 20 points |
| Outer Circle | + 10 points |
| Border Circle | -10 points |
| Border Miss (even if the dart fails to stick) | -20 points |
| Dart falls (hit inside, middle or outer circle but fails to stick for at least three seconds) | 0 points |

## ANNEX 7.2: DART DISTANCE MULTIPLIER CHART

Dart Distance Multiplier Chart

| Distance | Multiplier |
|---|---|
| 2m | 1 |
| 3m | 2 |
| 4m | 4 |
| 5m | 8 |
| 6m | 16 |
| 7m | 32 |
| 8m | 64 |

Final Score = Scored from throw x Multiplier





## ANNEX 7.3: DART RESULTS CHART

| COMPANY 1 | | | | | COMPANY 2 | | | | | COMPANY 3 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Player | Distance | SCORE | | | Player | Distance | SCORE | | | Player | Distance | SCORE | | |
| | | R1 | R2 | R3 | | | R1 | R2 | R3 | | | R1 | R2 | R3 |
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## ANNEX 7.4: DART INCOME CHART

| | COMPANY 1 | | | COMPANY 2 | | | COMPANY 3 | | |
|---|---|---|---|---|---|---|---|---|---|
| | R1 | R2 | R3 | R1 | R2 | R3 | R1 | R2 | R3 |
| Total Score | | | | | | | | | |
| Market Share | | | | | | | | | |
| Income | | | | | | | | | |
| Investment<br>Registration<br>Trials<br>Throws<br>Others | | | | | | | | | |
| Total Investment | | | | | | | | | |
| Excess income | | | | | | | | | |
| Return on Investment (ROI) | | | | | | | | | |

## ANNEX 7.5: PERSONAL ENTREPRENEURIAL COMPETENCIES (PECS)

Competencies can include motives, needs, wants, skills, knowledge, self-concept, values, aspirations and attitudes. Entrepreneurial competencies can be classified in to three major categories: achievement, planning and power.

**A successful entrepreneur has the following competencies:**

### ACHIEVEMENT COMPETENCIES

1. **Opportunity seeking**
   - Looks for and acts on new business opportunities.
   - Seizes unusual opportunities to obtain financing, equipment, workspace and others.
2. **Persistence**
   - Takes repeated or different actions to overcome an obstacle.
   - Makes personal sacrifice or expends extraordinary efforts to complete a job.
   - Sticks with own judgement in the face of opposition or early lack of success.
3. **Commitment to work contract**
   - Accepts full responsibility for problems in completing a job for customers.
   - Expresses a concern for satisfying the customers.
4. **Demand for quality and efficiency**
   - Acts to do something that meets or beats existing standards of excellence.
   - Strives to do things better, faster or cheaper.
5. **Risk taking**
   - Takes what is perceived to be moderate risks.
   - States a preference for situations that involve moderate risks.

### PLANING COMPETENCIES

6. **Goal setting**
   - Sets clear and specific short-term objectives.
   - Sets clear and long-term goals.
7. **Systematic planning and monitoring**
   - Develops and uses logical step-by-step plans to reach goals and evaluates alternatives.
   - Monitors progress and switches to alternative strategies when necessary.
8. **Information seeking**
   - Personally, seeks information on clients, suppliers and or competitors.
   - Consults experts for business or technical advice.
   - Uses contacts or information networks to obtain useful information.

### POWER COMPETENCIES

9. **Persuasion and networking**
   - Uses deliberate strategies to influence or persuade others.
   - Uses business and personal contacts accomplish own objectives.
10. **Self-confidence**
    - Has strong belief in self and own abilities.
    - Stand on his/her judgements





# 8. Porter's Five Forces

| | |
|---|---|
| Another approach to analysing your business is to look at risk factors that can reduce the profitability of your business and might even lead to its collapse. They are commonly known as the 5 forces. | |
| **Objectives:** | • To enable participants to use another business analysis by using the five forces model<br>• To make aware of variety of actors and their actual and potential influences to the business<br>• To improve market orientation<br>• To formulate and finalise a growth strategy |
| **Aims/Results:** | Business Analysis<br>Competitive Analysis |
| **Initial Preparations:** | Read and understand the Porter's Five Forces Model<br>Get ready with local examples<br>Visual Aids |
| **Required Resources:** | • SME Loop Trainer<br>• Soft board<br>• Flipchart papers<br>• Marker pens |
| **Checklist:** | Examples<br>Visual Aids<br>Understanding of Five Forces Model |

| Time Min. | Brief Content | Session Implementation Guidance |
|---|---|---|
| 30 | Introduction to Five Forces | Welcome to the session.<br>Link to their previous sessions.<br>Ask about their business analysis progress and question about their competitors, discuss about the competitors influence in the business.<br>Brainstorm in the open forum asking who else have influence in the business and list them. Discuss.<br><br>It was required to verify that we have considered all the factors and actors influencing our business. In this way, Michael Porter's Five Forces model enables to look in to all the competitive forces.<br><br>Introduce the Five Forces model. Use visuals to explain and differentiate each force. Verify the understandings. Provide examples. |
| 30 | Market Alternatives Exercise | Invite participants for this group exercise.<br><br>**Instructions**<br>Time – 25 minutes<br>Pick a business from the members with his/her agreement.<br>Work on the Five Forces analysis<br><br>Let the groups works on the exercise.<br><br>Ask about the findings from the members whose businesses were borrowed by their groups. Let them speak about the findings. Invite them to share new findings they got to aware using the analysis. |
| 50 | Self-Analysis | Invite all participants to do their own analysis using the model.<br>Help them individually to complete their analysis and findings.<br>Ensure all have understood and completed their analysis. |
| 10 | Summarise and conclude | Invite for new finding sharing. Let a couple of volunteers talk about their findings in general. Ask with others about their analysis and outcomes.<br>Summarise and conclude the session. Link to the next session. |

**Follow up:** The Marketing Management Analysis

**Annex:** ANNEX 8.1: PORTER'S FIVE FORCES MODEL
ANNEX 8.2: COMPETITORS ANALYSIS USING FIVE FORCES





# ANNEX 8.1: PORTERS FIVE FORCES

## PORTER'S FIVE FORCES MODEL

This an anlysis using the forces within the industry and around the business , called Porter's Five Forces. This approach help to analyse a business looking at five major competitive relevant risk factors that can reduce the profitability of your business and might even lead to its collapse. They are commonly known as 5 forces: rivalry among existing competitors, bargaining power of buyers, bargaining power of suppliers, threats of substitues, and threats of new entrants.

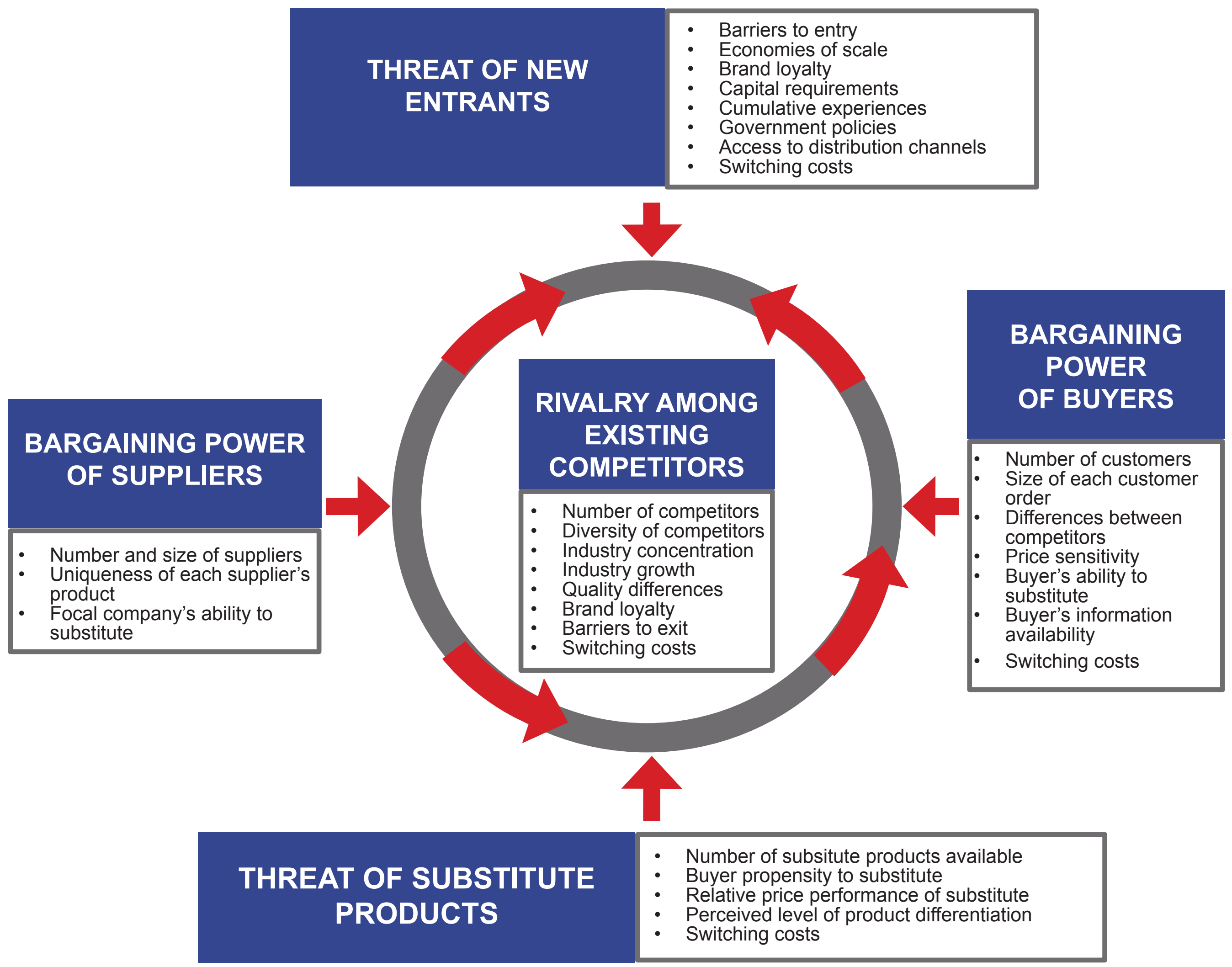
These factors can affect your business in several ways:

- High competitive rivalry can put strong downward pressure on prices.
- Ease of entry of new competitors can also drive prices down reducing profits. Availability of alternative products can bring down patronage thereby reducing profits.
- Having fewer customers can give them a higher bargaining power to negotiate or drive down prices.
- Having fewer supplies may also lead to driving up of prices of inputs.

Understanding these factors and knowing how to use the factors to analyse your business can:

- Help you to access the strength of your business and its ability to make sustained profit in your sector.
- Show where you need to focus on (for each factor)
- Move the balance of power more in favour of your business.

## FIVE FORCES ANALYSIS



## ANNEX 8.2: COMPETITORS ANALYSIS USING FIVE FORCES

| | How strongly is the force influencing your business? (HIGH – MEDIUM – LOW | What are the reasons? | What can you do to manage the force to your advantage? | Further remarks |
|---|---|---|---|---|
| **Existing rivalry between competing businesses** | | | | |
| **Entry of new competitors offering the same products or services** | | | | |
| **Alternative products or services** | | | | |
| **Bargaining power of customers to negotiate low price** | | | | |
| **Bargaining power of suppliers to insist on high price** | | | | |





# 9. The Market Exercise

| | |
|---|---|
| **What is it?** | The Market Exercise is a market experience for the entrepreneurs to introduce the marketing management and marketing mix/strategy concepts. This will help them to develop their marketing management competencies and to analyse their businesses in terms of marketing management.<br><br>In order to analyse the business in terms of marketing management practices the entrepreneur need to understand the basic marketing concepts.<br><br>In this exercise, all participants act as sellers as well as buyers. They sell self-made or self-owned items or services to the trainers and co-participants. |
| **Objectives:** | • To enable trainees to understand markets and its sales function<br>• To create an understanding on basic business marketing management. Therefore they are able to assess their own businesses in terms of marketing management. |
| **Aims/Results:** | Introduction to marketing Management |
| **How to use it? Application/Uses:** | • Business Analysis: Marketing Management<br>• Market orientation |
| **Initial Preparations:** | Plan and organise the market.<br>Bring some money to buy products/services in the market.<br>In one corner of the room, a table is prepared with materials which participants can use for their marketing. A board says 'Nothing is Free'.<br>Visual aids. |
| **Required Resources:** | • Lead and co trainers<br>• Zopp cards and pin boards<br>• Flipchart board and papers<br>• Marker pens<br>• The market name board<br>• Materials for the participants<br>• A basket containing sheets of paper, magazines, scissors, Zopp cards, pearls, ribbons, buttons, threads, masking tape. |
| **Checklist:** | ✓ The market arrangements and invitations<br>✓ A basket containing sheets of paper, magazines, scissors, Zopp cards, pearls, scrap of cloth, buttons, threads, masking tape.<br>✓ Real money to buy products from sellers<br>✓ Tax collector<br>✓ Flip Charts: Market exercise instructions and Annex 9.5: Market Data Gathering (blank)<br>✓ Visuals on marketing management process and marketing mix. |

| Training Steps Guidance: | |
|---|---|
| | (1) Complete all the daily recurring activities (energiser, daily evaluation summary, total money collected as penalty for late coming and first day recap). Ensure the market is setup. Check invited participants for the market exercise.<br>(2) Explain the exercise to the participants: every participant has 5 minutes to set up their stall and another 5 minutes after explaining the market instructions using the prepared flip chart once again.<br>**The Market Instructions:**<br>• It is a real market using real money and real exchange.<br>• Prepare your product and your shop (please do not sell products you don't have an ownership)<br>• Preparation time - 5 minutes<br>• Buying and selling – 30 minutes<br>Request the participants to understand the rules carefully as you will repeat the instructions only once.<br>(3) Do not allow participants to touch additional materials other than the basket of materials allocated.<br>(4) After 5 minutes announce the market opening for 30 minutes. The trainers are buyers and will buy real products/ services you like to consume/use. Use real money and complete the transactions. If any participant is selling products without ownership make a note of it.<br>(5) The trainer who sets up the material shop goes around as the tax collector. The tax collector charges on materials used by sellers. Make it at minimum but do not forget to collect the money. (Later you can add to the penalty money collection and use for gifts.)<br>(6) Go around and buy if you are interested in any real product. Use the real money and exchange. If you recognize any fake transactions/selling products/services such as an iPad try to negotiate for a cheap price and buy them. If you recognize any product that the seller does not own, warn them that you know it is not their product.<br>(7) Ensure everyone is returned and settled. Ask for their feelings about the market. Recognise the most happy and successful people. Ask for any unhappy people. Don't forget to get buyers feelings. Only talk about their feelings.<br>(8) Use the prepared schedule for data gathering flip chart and enter the sales details discussion in an open forum. (Annex P1.6.5.)<br>(9) After clarifying and entering the data identify the winner. Announce the winner and appreciate the winner with the class.<br>(10) Gather information around marketing, sales techniques, packaging, competitor analysis, marketing strategies, marketing opportunities, customer service and satisfaction. Post the key words related to marketing management and mix 4 Ps: Price, Place, Product and Promotion.<br>(11) Introduce the marketing mix with examples picked from the class during the market exercise. Verify the understanding on each **marketing mix elements and refer trainee handbook pages**. Inform and briefly talk about the 7 Ps. |





| | |
|---|---|
| | (12) Ask about their own business marketing mix elements. Introduce the marketing mix as marketing strategy.<br>(13) Strategy requires a series of activities and it is the marketing management process. Introduce the marketing management process using the prepared visuals.<br>(14) Conclude on basic marketing concepts. Introduce the Annex P1.6.4 questions sets. Verify on social media marketing understanding and necessity.<br>(15) Invite them to think about their own business marketing management and to complete the SWOT analysis.<br>(16) Invite them for next session on Operations Management exercise, the Bag Making. |

**Follow up:** Operations Management.

**Annex:** Annex 9.1: The Marketing Management Process
Annex 9.2: The Marketing Strategy
Annex 9.3: The steps in setting a face book page
Annex 9.4: Marketing Mix 4P's Questions
Annex 9.5: The Market Data Gathering Chart

ANNEX: 9.1: THE MARKETING MANAGEMENT PROCESS

## THE MARKETING MANAGEMENT PROCESS

**ANALYZING MARKET OPPORTUNITIES**
Marketing research and information systems
Consumer markets
Organizational markets

↓

**SELECTING TARGET MARKETS**
Measuring and forecasting demand
Market segmentation, targeting, and positioning

↓

**DEVELOPING THE MARKETING MIX**
Designing products
Pricing products
Placing products
Promoting products

↓

**MANAGING THE MARKETING EFFORT**
Competitor analysis and competitive marketing strategies
Planning, implementing, organizing, and controlling marketing programs



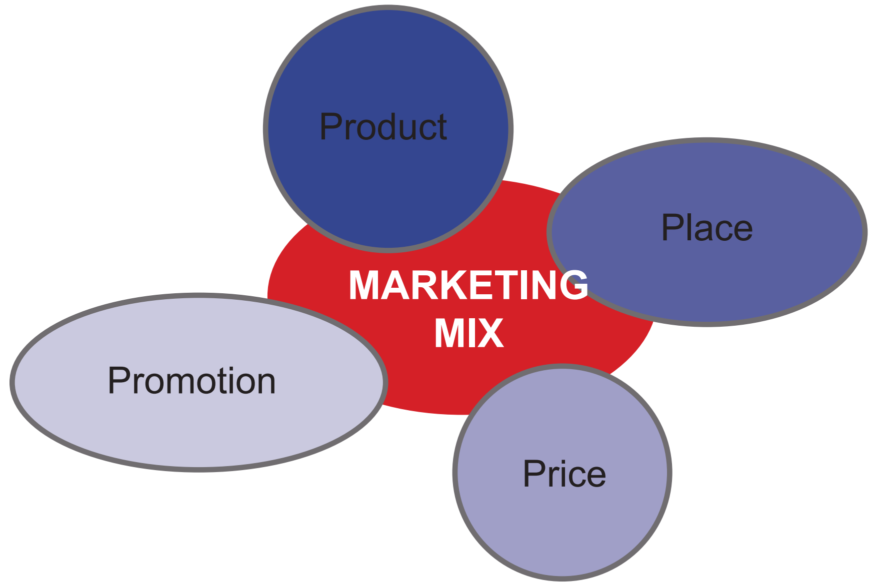


ANNEX: 9.2 MARKETING MIX AND STRATEGY

## THE MARKETING MIX AND MARKETING STRATEGY

Marketing Management is the process of planning, developing and implementing marketing strategies which includes product/service, price, place and promotion. A planned mix of the controllable elements of a product's marketing plan commonly termed as 4Ps: **p**roduct, **p**rice, **p**lace, and **p**romotion. These four elements are adjustable and controllable. An entrepreneur can modify and adjust each item in a way that he/she finds the right combination that serves the needs of the product's customers while generating maximum income.

### The Marketing Mix Elements




1. **PRODUCT**

Customers are not buying goods or services – they are really buying specific benefits and value from the total offering. We term this total offering to customers "the offer"; it represents those benefits that customers derive from the purchase of good or services. The tangible and intangible features, attributes and benefits, which cluster around the core product. These include packaging, advertising, financing, availability, advice, warranty, reliability, etc.

2. **PRICE**

Price plays a pivotal part in the marketing mix because pricing attracts revenues to a business. Pricing decisions are significant in determining the value for the customer and play a role in the building of an image for the firm. It also gives a perception of the quality level. Branding also allows homogeneous products to be differentiated and allows a premium pricing strategy to be adopted. Simple cost-plus price structures loose many of the advantage that can be gained. Therefore, pricing needs to be viewed from a marketing-oriented perspective.

3. **PLACE**

Location is concerned with the customer convenience, the business location and the reach. An entrepreneur can use various existing channels to reach the target customers. These channels are distribution channels. Using middlemen, agents, distributors and retail chains are some of the place strategies. For example, online shops vs. Retail shop. When deciding on a place strategy, some questions are:

- What does the market require? Is servicing a big factor?
- What are the trends within the sector? Could a competitive advantage be obtained by getting closer to the customer?
- Does the organisation have an obligation to locate in convenient sites?

4. **PROMOTION**

Promotion is the means by which the firm communicates with its target markets. Within the communication mix there are a wide variety of alternative communication and promotion tools which can be used. The steps to integrate them within a promotion and communication program consist of several key tasks.

Promotion Message Development

The customer moves through stages of attention, interest, desire and action.
- Message content – What to say?
- Message structure – How to say it logically?
- Message style – How to create a strong presence?
- Message source – Who does the presentation?

## THE 7 PS OF SERVICES MARKETING






# ANNEX 9.4: MARKETING MIX – 4 P'S QUESTIONS

## MARKETING MIX – 4 P'S QUESTIONS

During the SWOT analysis exercise participants can ask the following questions related to your marketing mix.

### Product Strategy

1. What does the customer need and want from my products/services?
2. What features do my products/services have to meet the needs and wants?
3. How and where will the customer use it?
4. What is my range of products/services?
5. How are the products/ services branded?
6. How do customers call or categorise my products in the market?
7. How do my products outstand or differ from my competitors?

### Price Strategy

1. What is the value/worth of the product/service to the buyers/customers?
2. What is the market value for my products and services in this market/area/region
3. Is the customer price-sensitive?
4. Do the products have established prices?
5. Do I offer any discounts for regular or trade customers?
6. How will my price compare with the competitors?
7. Do I price right?

### Place Strategy

1. Where do the buyers look for my products/services?
2. If they look in a store, what kind?
3. How can I access the right distribution channel?
4. How do my competitors do distribution?
5. How do I differentiate my products/services availability to reach sales volume?

### Promotion Strategy

1. How do I communicate about my product/service to the buyers/customers?
2. What are the good promoting channels suitable for my business?
3. When are the best time slots for my business promotions?
4. What are my competitors' promotion activities?
5. What does it cost?

## ANNEX 9.5: THE MARKET DATA GATHERING CHART

| Seller name | Sold products and services | Buyer name | Total Sales | Cash received? Yes/No |
|---|---|---|---|---|
| | | | | |
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# 10. The Bag Making Exercise 1

| | |
|---|---|
| **What is it?** | Bag making is a production exercise to bring in production and operation related management issues. The first round of the simulation exercise focus on production process. |
| **Objectives:** | • To simulate the environment of a small production business and production function.<br>• To gain significant practical exposure in production management function and the process designs.<br>• To bring out the importance of productivity. |
| **Aims/Results:** | • Production management plan<br>• Production process<br>• Quality management |
| **Initial Preparations:** | • Preparations for the exercise implementation - A stationery shop set up with price tags, buyers stall. No real money is used<br>• Role briefing for observers and buyers<br>• Calculators<br>• Copies of forms and handouts<br>• Sample bags 1 per group<br>• Price the materials carefully and fill it in the order form before copying them<br>• Ensure completed delivery contracts are with the buyers<br>• Fix the upper limit of the buying price of bags for the buyers based on the cost estimates. Penalties should also be fixed which should consider the rejects and the undelivered.<br>• Prepare the Bag Making Exercise Results Charts given in the Annex. |
| **Required Resources:** | • Lead and co trainers<br>• Zopp cards in 4 colours<br>• Pin boards and pens<br>• Flipchart board and papers<br>• Brown papers, magazines and newspapers (bag making)<br>• Calculators<br>• Pencils, scissors, rulers, cutters, blades, staplers with clips, masking tape, cardboards to use as a template, gum bottles (for 4-5 groups bag production)<br>• Copies of handouts and forms (Annex 10.1 - Annex 10.7) |
| **Checklist:** | ✓ Visuals – such as result chart and name boards for the shop and both buyers, open and close signs for the stationery shop, instructions, etc.<br>✓ Copies of order forms and contracts<br>✓ Sample bags marked 'Sample' (1 per group)<br>✓ Price tags and understanding the cost calculations<br>✓ Calculators<br>✓ Identification of 1 observer per group. Remember to go through the observer notes in detail with each observer. Verify their understandings. Do not let them take more than 3 minutes for presentation. Encourage them to list and summarise their findings and plan presentations in clearly written points under selected topics<br>✓ Ensure that the buyers do not let the group focus too much on marketing effort. This is not a marketing exercise, but production. Clarify with the buyers their roles. |

## Training Steps Guidance:

(1) Welcome and invite the trainees for the bag making industry. Show the sample bags. Ask how many entrepreneurs are interested in the bag making business.

(2) Inform all who are going to operate a bag making business. There is a huge demand for bags in the market and many buyers are looking for buying various bags.

(3) This is the real business exercise. Real money will not be used but the values of the business purchases and sales will be accounted to see who makes the most profit.

(4) Introduce the exercise rules and regulations using visuals starting from introducing the village and town buyers, and the stationery shop keeper.

(5) Everyone can produce and sell any number of bags. There are two rounds. We are going to do the exercise for round 1. Inform that they need to hire furniture, floor, raw materials, labour, and equipment for the production.

(6) Round 1 has four periods. Explain the various tasks they need to implement for each period. Verify the understanding and the order of tasks implementation. Emphasis on the time allocation.

**Planning for production** **30 minutes**

- Meet the buyers and agree on the delivery agreement (contract) (a sample bag is essential)
- Plan the production and complete order forms
- Purchase materials with order forms
- Prepare a template
- Setup production and quality control
- Decision on roles for each member

**Production** **30 minutes**

- Production of bags
- Quality control
- Packaging

**Marketing** **5 minutes**

- Meet the buyers and sell the bags
- Collect money

**Record keeping** **5 minutes**

- Record the costs and sales.
- Calculate cost per unit

(6) Assign observers for groups. One observer per group. Find a gap or let the co trainer go through the observer notes in detail. They take notes and during marketing period they start to prepare for their presentations in brief. Ask them to keep their role private and no communication to the group.

(7) While the co-trainer briefs the observers and buyers, divide the class into three groups using a grouping energiser.

(8) Announce the planning period. They can approach both buyers: village and town for sales contracts which is necessary for planning production. They need to fill the order forms and hand over to the shop owner. The shop owner gets ready the materials and they can go and collect the materials.





(9) During planning they can do trial production and prepare a template. The bags made during planning period are getting as samples. No actual production happens during planning.

(10) Handover a set of equipment and materials for a trial production. Verify the understanding of the rules and tasks. Let the groups settle in their places. Remind them that they need to hire furniture, floor, raw materials, labour, and equipment for the production. **They cannot use their own resources. Everything will be charged.**

(11) The bag making exercise starts now. Start round 1. Announce the planning period with time. Ensure the instruction flip chart is visible to everyone. Announce each period and enforce the time allocation. Ensure that all groups complete their tasks before going to next period. Maintain the periods and the time allocation strictly.

(12) At the end of each period gather information from the sellers and stationery shop keeper and enter them to the results chart.

(13) Verify the necessary instructions and understandings throughout the round. At the end of the marketing period strictly request the **sellers to close their shops**. Request them to help in filling the charts with sales details.

**(14)** **Ask the observers what additional materials** and resources they use for the production. Assign a cost on the use of personal items.

(15) Share the results on the Bag Making Results Chart briefly. Conduct a short processing. Identify any groups making profits. Praise the group for making the profit.

(16) Let the observers briefly present their findings in point form, taking more than 3 minutes per observer. Go through the results charts. Differentiate the planned and actual sales. Ask few questions about the buyers. Ask the buyers on their buying experience in general. Discuss the results chart briefly.

(17) Start sharing the structure of the results chart. Read loudly groups' actual sales, penalties, cost and profit. There is a room for improvement to increase sales.

(18) To increase the sales, we need to improve the price and the quantity sold. Price increase has a limitation. Therefore, we need to increase the volume of production.

(19) Examine the motivation for round 2. Inform them that round 1 is their first experience. They can make better profits and success in the business during round 2 when they implement production operations management and strategies.

(20) There is a way to improve the business operation. Does anyone would like to learn about the ways to improve their bag making business?

(21) Invite the group for the next session Process Flow Chart.

**Follow up:** Operation Process Flow Chart

**Annex:**







# ANNEX: 10.1 BAG MAKING EXERCISE ORDER FORM

## BAG MAKING ORDER FORM

**Company Name:**

| Item | ROUND 1 | | | | ROUND 2 | | | |
|---|---|---|---|---|---|---|---|---|
| | Price/ unit (MWK) | Qty. | Cost | Total | Price/ unit (MWK) | Qty. | Cost | Total Cost |
| **Raw material** | | | | | | | | |
| Brown paper | 300 | | | | | | | |
| Magazine (20 pages) | 400 | | | | | | | |
| Newspaper (10 pages) | 200 | | | | | | | |
| A4 paper (5 in a pack) | 50 | | | | | | | |
| Flipchart paper | 200 | | | | | | | |
| Used flipchart paper | 50 | | | | | | | |
| Gum /Glue | 50 | | | | | | | |
| Decorating Stickers | 100 | | | | | | | |
| Colour pens (markers) | 100 | | | | | | | |
| **1. Total Raw Material Cost** | | | | | | | | |
| **Direct Labour** | | | | | | | | |
| Production worker wage | 200 | | | | | | | |
| Quality controller | 300 | | | | | | | |
| **2. Total Direct Labour** | | | | | | | | |
| **Production Overheads** | | | | | | | | |
| Scissors | 100 | | | | | | | |
| Cutter | 200 | | | | | | | |
| Ruler | 50 | | | | | | | |
| Pencil (3 in a pack) | 100 | | | | | | | |
| Cardboard sheet | 150 | | | | | | | |
| Zopp Cards (5 in a pack) | 100 | | | | | | | |
| Eraser | 50 | | | | | | | |
| Pencil Sharpener | 100 | | | | | | | |
| High lighter | 300 | | | | | | | |
| **Total Cost of Production (1+2)** | | | | | | | | |
| **Overheads** | | | | | | | | |
| 3. **Salaries** | | | | | | | | |
| Manager | 300 | | | | | | | |
| Director | 500 | | | | | | | |
| 4. **Fixed Assets** | | | | | | | | |
| Ground Rent (Space) | 1,000 | | | | | | | |
| Chair | 300 | | | | | | | |
| Table | 200 | | | | | | | |
| **Total Overhead(3+4)** | | | | | | | | |
| **Total Cost (1+2+3+4)** | | | | | | | | |

Company Manager: ____________________
Date: ____________________

Shop manager: ____________________
Date: ____________________

(Note: Definitions of cost category are designed only for the Bag Making Exercise)

# ANNEX: 10.2 BAG MAKING EXERCISE ROLE BRIEFING NOTES SHOP MANAGER

## BAG MAKING EXERCISE ROLE BRIEFING NOTES SHOP MANAGER

A co-trainer or volunteer acts as a shop manager and will follow the instructions mentioned below:

- The shop will have **all the materials mentioned** in the order form and any other materials necessary and available within the training hall. He/she needs to **display price tags** for most articles on the lead trainer's advice.
- The Shop is set up **with a name board** and open and close signs. Only during planning period for each round, the shop opens.
- The shop manager ensures the **total cost of purchase before finalising and signing the order**. He/she will maintain a record of the shop sales for each group. He will have a calculator.
- The shop manager takes **care of the shop supplies**. Trainees may plan to steal supplies or try to confuse the shopkeeper. Therefore, he/she adapts 'one at a time inside shop' policy if necessary. The shop manager also can collect the orders and deliver to the factories.
- The shop manager **treats all customers with same price plans** unless anyone negotiates for better bargains for the products not listed in the standard order form.
- Collect the order form, fix the total cost with the group and deliver the products **in the end of the planning** period
- End of the planning period close the shop. **Go around** and ensure only the bought materials, equipment and furniture are used. Anything additional the group will get charged.
- **Ensure the totals in the order forms are right**. Help to enter the cost in the results chart.





# ANNEX: 10.3 BAG MAKING EXERCISE ROLE BRIEFING NOTES OBSERVER

## BAG MAKING EXERCISE ROLE BRIEFING NOTES OBSERVER

A trainee or number of trainees can volunteer to serve as observers on lead trainer's invitation. They are not allowed to communicate in any form with the group throughout the exercise. An observer can follow 1 group. They observe the groups in action on the following topics.

**Round 1**:

- Planning activities of the bag making business
- Do they allocate tasks to group members
- Economic use of materials
- Anything not paid but used
- Any personal resources used but not costed
- Teamwork and efficiency
- Do they have a way to specialisation – allocate specific tasks to a worker and go for **batch** production
- Creativity and negotiation
- Maximum use of paid labours

**Round 2:**
**In addition to the above any improvement on**

- Do they use a process flow chart sequence? Or do they use the intended improvement ideas?
- Have they **improved** their production function? How?
  (Raw material and labour usage, efficiency, look for quality and adhere to work contract specifications, etc.)
  E.g. they cut the papers instead of one by one in batches, use of a **template**
- Number of bags produced increased/improved in quality
- Look for creativity and efficiency for value addition
- Product development and modifications
- Cost calculations
- Concern on the productivity improvement
- Any other relevant information

**Note:**
1. Take the notes on the group's business operations. Focus on the planning and production periods.
2. Before the end of the marketing period, start writing your observations in a flip chart/ 7 Zopp Cards.
3. First pick 5-7 points from your notes. Write those points as headings and avoid detail writing. Rehearse your presentation and don't use more than **3 minutes to present**.

# ANNEX: 10.4 BAG MAKING EXERCISE

## ROLE BRIEFING NOTES BUYERS – VILLAGE BUYER

### Bag Making Exercise- Role Briefing Notes Village Buyer

A co-trainer or volunteer can be assigned as buyers. There are two buyers: village and town buyer. You are in this exercise the Village Buyer.

**Buyer 1 – Village Buyer**

1. Dresses up like a village person, you buy **bags mainly made out of magazine, newspapers and used flip charts**.
2. Accept all qualities and pay a low price RS 1500 per bag.
3. **Request contract** from the group at the time of planning. If agreed quantities are **not delivered, show less interest** in dealing with these groups.
4. Always sign and agree on the contract on buying quantity and price.
5. **Buy any quantity of bags** in all qualities at lower price.
6. **Focus is on the production and delivery**. Offer service for supports to find out used papers and other better materials.
7. Maintain records using the contract forms by groups.

**Notes:**

1. **Do not focus too much on sales and price negotiations** but on the volume and basic qualities of the bags produced.
2. During planning period, when groups produce bags **stamp them with a marker as samples**. These bags are not for sales. And remember not to buy them during marketing period.
3. You buy bags at the price of **RS 1,500** per bag. Any additional feature convinced for the bag you can increase the price. Always buy good bags only.
4. You can buy work-in-process bags too. Buy them for RS 500 per bag.
5. Do not waste time on unnecessary negotiations and sales agreements. Remember **the focus is not on sales and marketing function**.





# ANNEX: 10.5 BAG MAKING EXERCISE ROLE BRIEFING NOTES BUYERS TOWN BUYER

## BAG MAKING EXERCISE- ROLE BRIEFING NOTES TOWN BUYER

Co-trainers or a volunteers can be assigned as buyers. There are two buyers: village and town buyer. You are in this exercise the Town Buyer.

**Buyer 1 – Town Buyer**

1. Dresses up like a town buyer, and buys bags made of **quality papers**: **Kraft papers and fresh flip charts**
2. Accepts only good quality bags but pay starting from the market price MWK 2,500 per bag.
3. **Arranges** for good quality raw materials with the shop manager on request.
4. Always sign and agree on the contract on buying quantity and price
5. . If agreed quantities are **not delivered, show less interest** in dealing with these groups.
6. Buy any quantity of bags in **good qualities** at market price.
7. Maintain records using the contract forms for each group separately.

**Notes:**

1. **Do not focus too much on sales and price negotiations** but on the volume and basic qualities of the bags produced.
2. During planning period, when groups produce bags **stamp them with a marker as samples**. These bags are not for sales. And remember not to buy them during marketing period.
3. You buy bags at the price of **MWK 2,500** per bag. Any additional feature convinced for the bag you can increase the price by MWK 500 per feature.
4. Always buy good bags only.
5. Do not waste time on unnecessary negotiations and sales agreements. Remember **the focus is not on sales and marketing function**.

# ANNEX: 10.6 BAG MAKING EXERCISE DELIVERY CONTRACT

## BAG MAKING EXERCISE

### DELIVERY CONTRACT

**Name of the company:**

We promise to deliver the following quantities of bags according to the quality standards of our attached sample as accepted by you within the specified time of production.

**ROUND 1**

| Design No | Description | Price per unit | Agreed quantity | Delivered quantity | Rejections and returns |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| | | | | | |

We agree to pay penalty for non-delivered bags @ ________________________________________

Signature of the Manager: _______________ Signature of the Buyer: ______________ Date: ________

**ROUND 2**

| Design No | Description | Price per unit | Agreed quantity | Delivered quantity | Rejections and returns |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| | | | | | |

We agree to pay penalty for non-delivered bags @ ________________________________________

Signature of the Manager: _______________ Signature of the Buyer: ______________ Date: ________





**Summary for results chart:**

| | Round 1 | | Round 2 | |
|---|---|---|---|---|
| | UNIT | MWK | UNIT | MWK |
| **Planned SALES** | | | | |
| Low Quality | | | | |
| High Quality | | | | |
| **Actual Sales** | | | | |
| Low Quality | | | | |
| High Quality | | | | |
| **LESS: Penalties** | | | | |
| **NET SALES** | | | | |

ANNEX: 10.7 BAG MAKING EXERCISE RESULTS CHART

**BAG MAKING EXERCISE RESULTS CHART (FOR EACH GROUP)**

| | GROUP 1 NAME | | | | GROUP 2 NAME | | | | GROUP 3 NAME | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Round 1** | | **Round 2** | | **Round 1** | | **Round 2** | | **Round 1** | | **Round 2** | |
| | **UNIT** | **MWK** | **UNIT** | **MWK** | **UNIT** | **MWK** | **UNIT** | **MWK** | **UNIT** | **MWK** | **UNIT** | **MWK** |
| **Planned SALES** | | | | | | | | | | | | |
| Low Quality | | | | | | | | | | | | |
| High Quality | | | | | | | | | | | | |
| **Actual Sales** | | | | | | | | | | | | |
| Low Quality | | | | | | | | | | | | |
| High Quality | | | | | | | | | | | | |
| **LESS: Penalties** | | | | | | | | | | | | |
| **NET SALES** | | | | | | | | | | | | |
| Less: Cost of goods sold (Stationery list 1+2) | | | | | | | | | | | | |
| GROSS PROFIT | | | | | | | | | | | | |
| Less: Overheads (Stationery list 3+4) | | | | | | | | | | | | |
| NET PROFIT BEFORE FINANCE COSTS | | | | | | | | | | | | |



| STM PART 1

# 11. Introduction to Process Flow Chart Analysis

| | |
|---|---|
| **What is it?** | Process Flow Chart is a tool to design and analyse any business operation, for example trading, production, service delivery or farming.<br><br>In this session the trainer introduces the tool to review the bag making business production operation. The groups will prepare their production process flow chart for the **product: BAG**, not the whole business operation. This will help to save some time and to increase participants' confidence in using the tool.<br><br>Later, the knowledge and skills learned on the tool will help them to analyse (SWOT) their own business operation. For that they will pick one or two products or processes of their choice. In Training 2 - Business Improvement Planning they will use this tool for planning purposes. This is another **important tool for SME Business Training and Coaching Loop.** |
| **Objectives:** | • To introduce another business-analyse tool and to impart skills and confidence in using the tool.<br>• To gain significant practical exposure using the process flow chart.<br>• To bring out the importance of productivity. |
| **Aims/Results:** | • Business operation analysis and resign<br>• Production process analysis<br>• Improve productivity and quality management |
| **How to use it? Application/Uses:** | • Business Analysis<br>• Operations management<br>• Operations management strategy formulation |
| **Initial Preparations:** | • Visual aids – Symbols for process flow chart and the instructions<br>• An example case to demonstrate the process flow chart techniques. |
| **Required Resources:** | • Pin board, cards and pens<br>• Flipchart board and papers |
| **Checklist:** | ✓ Visuals<br>✓ Process flow chart steps – read and understand the steps in preparing the process flow chart.<br>✓ An understanding on the process flow chart technique and the example given in Annex. |

| | |
|---|---|
| **Training Steps Guidance:** | (1) Welcome the participants for a short presentation of the process flow chart technique.<br>(2) The bag making industry is very young in this class. Buyers will buy any amount of bag. Now the groups/businesses have experience in the bag making production. They can produce large volumes.<br>(3) Enquire about the bag making production challenges. Highlight on the time limitations. We need to produce bags in large quantities. Therefore, we need to have templates, better techniques, skilled labour and quality assurance within the business.<br>(4) There is a second round to prove they can do better. This is the time we learn how to do better. To do better we need to analyse the operation process. Then we can find spots for improvement.<br>(5) Explain the production process flow chart symbols with examples.<br>(6) Introduce the steps in preparing the process flow chart. Use the example given in the Annex: P1.8.2. Verify the understandings.<br>(7) Give the groups 25 minutes to prepare their process flow chart for their actual bag making production in Round 1. Distribute flipcharts and markers for their drawings.<br>(8) Go around the class and ensure they understand the exercise. Ask questions to verify their understanding. In the end ask them to present their flowcharts in front of their groups on the flow and identify three improvements they want to implement for Round 2.<br>(9) Ensure all three groups have their three production improvement strategies. Wind up the session inviting them to the bag making exercise round 2. Challenge them that only efficient bag making companies will survive in Round 2! |
| **Follow up:** | Bag making exercise round 2 |
| **Annex:** | ANNEX: 11.1: PRODUCTION FLOW CHART<br>ANNEX: 11.2 SAMPLE DETAILED FLOW CHART OF PLAIN FLUSH DOOR - MANUFACTURING PROCESS |





# ANNEX: 11.1: PRODUCTION FLOW CHART

## PRODUCTION FLOW CHART

**Flow chart** is the simplest tools for investigating manufacturing processes. By tracing the manufacturing sequence, it pinpoints actions that can be eliminated, combined or rearranged to achieve efficiency and economy.

Flow charts are of two types: general and detailed. General Flow Chart sketches the manufacturing sequence's overall picture highlighting the relationships between a process and other processes. Detailed Flow Chart's microscopic version - provides greater detail by classifying all manufacturing steps into either: operation, delay, storage, inspection or transport, using a symbolic language. The following are the symbols representing the different activities involved in a manufacturing process.

| Activity | Symbol | Meaning |
|---|---|---|
| OPERATION | ○ | The activity that brings the product to its further completion. |
| TRANSPORTATION | \| | Any movement of material or men in the operation. |
| INSPECTION | □ | Checking for quality. |
| DELAY | **D** | Signifies temporary delay or failure to accomplish a step. |
| STORAGE | △ | Material storage. |

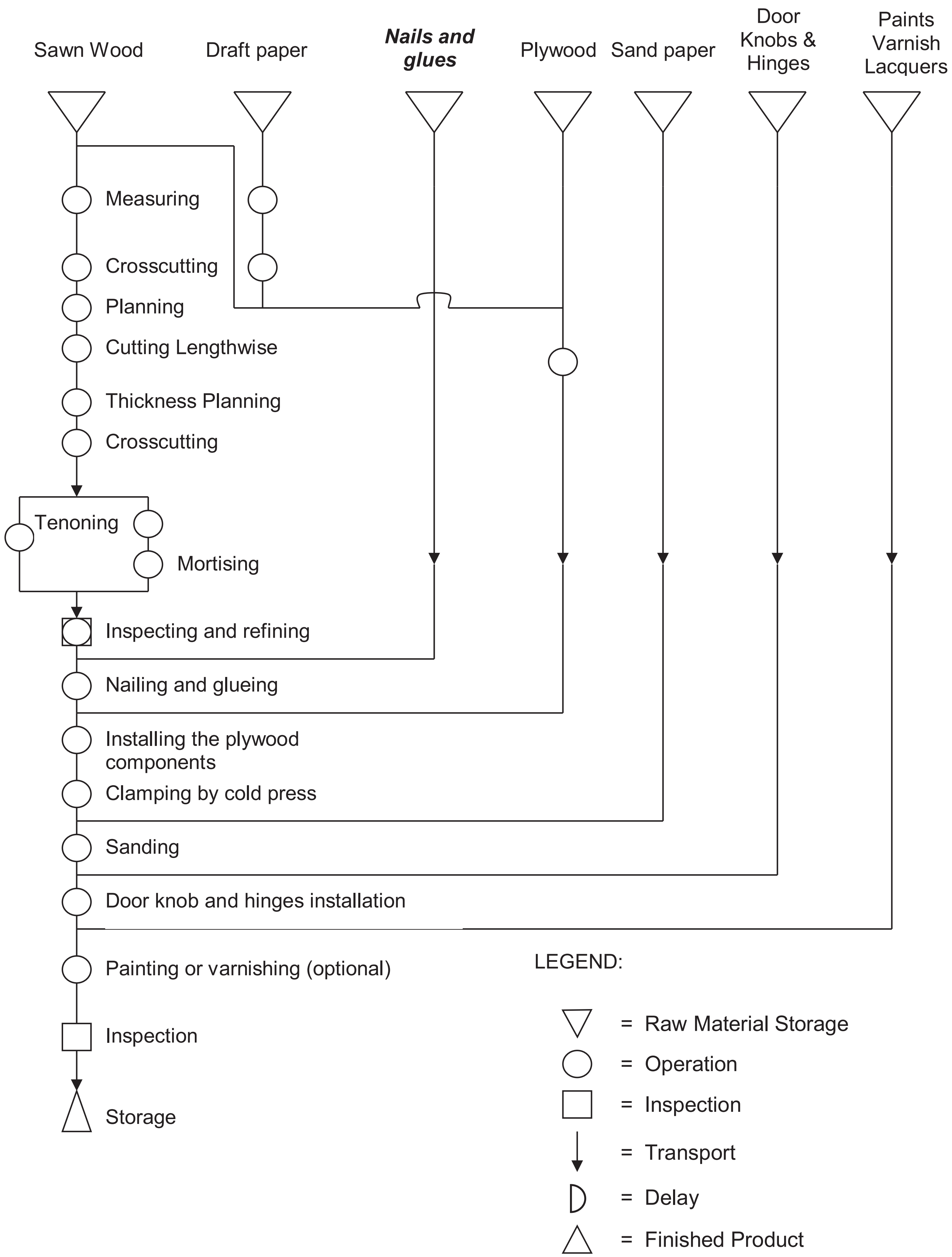
### Procedure and steps for preparing a process flow chart:

1. Select the **product or process** to chart.
2. Select the **flow to chart**. Unless otherwise specified, most flow charts show materials flow.
3. **Trace** the flow. In materials flow, start from raw materials storage and end in finished products storage.
4. **Analyse the results**. There are two ways to analyse flow charts. First**, eliminate or minimize** transports, inspections, delays and storages. **Second, critically question a value-adding operation**. Can it be eliminated or combined with other steps? If a value-adding operation is eliminated, a set of "make-readies" and "put-away" steps are likewise eliminated.

### Application:

1. Gain familiarity of a manufacturing process. There is **no better way to master the manufacturing process than by recording all the steps undertaken**.
2. **Improve** the manufacturing process. The flow chart's main purpose is to effect improvements in manufacturing sequence. It is a valuable tool for identifying manufacturing inefficiencies.
3. "Sell" improvements in manufacturing process. By contrasting the flow charts of existing against improved situations, flow charts, dramatize the changes needed.
4. Identify production bottlenecks. By superimposing the estimated output of each manufacturing step in a general flow chart, you can pinpoint production bottlenecks-steps that reduce outputs unnecessarily. These bottlenecks can then be subjected to more detailed studies.

# ANNEX 11.2: SAMPLE DETAILED FLOW CHART OF PLAIN FLUSH DOOR - MANUFACTURING PROCESS








# 12. The Bag Making Excercise 2

| | |
|---|---|
| **What is it?** | Bag making is a production exercise to bring in production and operation related management issues. The round 1 of the simulation exercise focus on production process. This is the second round of the exercise where groups will have improved bag making production after the process flow chart analysis.<br><br>The round 2 targets productivity improvement by improving the production process and links to general organisation and management improvements aspects.<br><br>The exercise outcomes are the basic data and information to bring up the financial analysis and tax responsibilities. |
| **Objectives:** | • To simulate the environment of a small production business and production function.<br>• To experience the importance of productivity<br>• To enhance process flow chart application skills. |
| **Aims/Results:** | • Production management plan<br>• Production process<br>• Quality management |
| **How to use it? Application/Uses:** | • Business Analysis<br>• Operations management<br>• Operations management strategy formulation |
| **Initial Preparations: (Similar to Round 1)** | (1) Preparations for the exercise implementation - A stationery shop set up with price tags, buyers stall. No real money is used.<br>(2) Role briefing for observers and buyers.<br>(3) Calculators<br>(4) Forms and handouts used in round 1<br>(5) Sample bags 1 per group<br>(6) Price the materials carefully and fill it in the order form before copying them.<br>(7) Ensure completed delivery contracts are with the buyers.<br>(8) Fix the upper limit of the buying price of bags for the buyers based on the cost estimates. Penalties should also be fixed which should consider the rejects and the undelivered.<br>(9) Prepare the Bag Making Exercise Results Charts given in the Annex. |
| **Required Resources:** | • Lead and co trainers<br>• Zopp cards in 4 colours<br>• Pin boards and pens<br>• Flipchart board and papers<br>• Brown papers, magazines and newspapers (bag making)<br>• Calculators<br>• Pencils, scissors, rulers, cutters, blades, staplers with clips, masking tape, cardboards to use as a template, gum bottles (for 4-5 groups bag production)<br>• Copies of handouts and forms (Annex 10.1 - Annex 10.1) |

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| **Checklist:** | ✓ Visuals – such as result chart and, name boards for the shop and both buyers, open and close signs for the stationery shop, instructions, etc.<br>✓ Copies of order forms and contracts<br>✓ Sample bags marked 'Sample' (1 per group)<br>✓ Price tags and understanding the cost calculations<br>✓ Calculators<br>✓ Appoint the observers to their groups as in Round 1. Remember to go through the observer notes in detail with each observer especially the round 2 instructions. Verify their understandings. Do not let them take more than 3 minutes for presentation. Encourage them to list and summarise their findings and plan presentations in clearly written points under selected topics<br>✓ Ensure that the buyers do not let the group focus too much on marketing effort. This is not a marketing exercise but production. Go through with buyers their roles. |
| **Training Steps Guidance:** | (1) Welcome every group for the second round. Check that each group has their production process improvement ideas. Encourage and motivate them to use the ideas therefore their bag production volume and quality improves.<br>(2) They will stick to their groups as was in round 1. For round 2 time allocations are altered. Share the instructions using the prepared visuals.<br><br>**<u>Planning for production</u>** 20 minutes<br>• Meet the buyers and agree on the delivery agreement (<u>contract</u>) (<u>a sample bag is essential</u>)<br>• Plan the production and <u>complete order forms</u><br>• Purchase materials with order forms<br>• Prepare a <u>template</u><br>• Setup production and quality control<br>• Decision on roles for each member<br><br>**<u>Production</u>** 30 minutes<br>• Production of bags<br>• Quality control<br>• Packaging<br><br>**<u>Marketing</u>** 5 minutes<br>• Meet the buyers and sell the bags<br>• Collect money<br><br>**<u>Record keeping</u>** 10 minutes<br>• Record the costs incurred and sales revenue<br><br>(3) Highlight the change in the time allocations for round 2. They start with planning period and go through other periods and relevant tasks. They can use their experience and networking from previous round.<br><br>(4) Implement the round 2. Follow the instructions. Post the data on the Bag Making Results Chart.<br>(5) Invite all the participants to the open forum. Share the results chart and find out the winning group. Praise and calm down the class. Request them to concentrate on the learning and experience sharing.<br>(6) Give all three observers to present their findings on the topics given in the observer note. Verify with the group understanding. |





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| | (7) Ask these questions to the buyers and the class and write the answers in the flip chart.<br>- Was round 2 better?<br>- Who did use process flow chart / its findings to improve the production function?<br>- Who does use a template?<br>- Which group produced high number of bags?<br>- Whose bag is high in quality?<br>(8) Highlight with the results chart data. Start with the winning group sales, and continue comparing with other group data on penalties, cost of production, overhead and net profit before tax.<br>(9) Do they see a reason behind the winning group? Can they find the answer in the list of answers written on the flipchart? Highlight the reason behind the success? Ask the group to comment on it. Build the winning strategy with the class having a detail discussion.<br>(10) Invite other groups to comment on their operations very briefly.<br>(11) Request all the groups to comment on that, if there is a round 3 what will they do differently? List their ideas on the flip chart.<br>(12) Do they believe that the process flow chart tool will help their business? Ask for few participants to comment on it. List few of their ideas on application on the flip chart and elaborate further.<br>(13) Check with the class how many of them will be comfortable using the tool for their business. Encourage all of them to use the tool for business analysis.<br>(14) They are requested to draw their own main business operation process flow charts. All types of business operations (trading/farming /services/ manufacturing) can use the tool and draw their process flow chart. If time permits, give the class 20-30 minutes to start drawing their (own) business operation process flow charts.<br>(15) Entrepreneurs can draw more than one process flow chart. For that they need to understand the steps. Go through in their handbook the process flow chart drawing steps again with symbols. Ask them to do it as homework.<br>(16) Link the exercise to the production management competencies. Summarise the exercise outcomes linking to round 1 and process flow chart introduction sessions. |

**Follow up:** Financial Analysis

**Annex:** All Annexes used in session 10. Bag Making Exercise.

# 13. Financial Analysis

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| **What is it?** | This is the session to introduce simple financial analysis based on bag making experience. In the end entrepreneurs will be able to analyse their business on financial management.<br><br>It is a prerequisite that the SME Loop trainers understand and possess accounting knowledge and skills to facilitate the session though the tool explains every step in details. |
| **Objectives:** | • To understand the importance of financial aspects in the business analysis.<br>• To test the financial viability of one's business |
| **Aims/Results:** | • Financial management<br>• Financial Analysis |
| **Initial Preparations:** | • Ensure the results chart prepared for the Bag Making Exercise for round 1&2 is available for analysis.<br>• Prepare all the ratio calculations in advance and check their accuracy before starting the sessions. During the session the trainer can use them as reference to save time and maintain the accuracy.<br>• Prepare the visuals of ratios.<br>• Link to the Bag Making exercise experience. |
| **Required Resources:** | • Lead and co trainers<br>• Flip charts and the board<br>• Calculators |
| **Checklist:** | ✓ The Bag Making Exercise Processing visuals<br>✓ Understand all the financial ratios<br>✓ Pre-prepared the ratios based on the bag making results chart.<br>✓ Calculators |
| **Training Steps Guidance:** | (1) Welcome everyone for the session. Introduce the session. Request the participants to get ready with notebooks, handbooks and the calculators. They sit in their bag making group. Tell them it is the competition to calculate financial ratios for their group results. Introduce the session.<br>(2) Go through the bag making results chart quickly. Ensure everyone understand see the result chart clearly.<br>(3) Start with the Net profit ratio.<br>Visualise the ratio and explain the ratio calculation. Ask all three groups to tell their ratio. Check with your answer and right on the result chart using a different colour pen.<br>(4) Likewise go one by one and post the answers. (Annex P1.10: Ratio Analysis)<br>(5) Compare each group posted answers. Analyse generally.<br>(6) Ask the class that can they do their own business analysis on finance using these ratios.<br>(7) Give them 15 minutes to do their analysis and fill the SWOT exercise on Financial Management. If they do not have financial records or don't keep proper records, they can't analyse their business performance in terms of finance. |





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| **Training Steps Guidance:** | (8) Encourage them to maintain business record keeping. If they need supports on record keeping, they can use the Coaching 1 for business record keeping.<br>(9) Talk about the importance of the record keeping function in a business. If they do not have record keeping function for their business, it is a weakness. By formulating and implementing a record keeping strategy they can rectify this weakness and gain a new strength (proper record keeping).<br>(10) Remind them about their homework. They need to accomplish their SWOT on Marketing, Production, organisation and management, and financial management.<br>(11) They also need to prepare their process flow charts. Tomorrow first session is helping the participants in their process flow charts and the business analysis workings.<br>(12) Participants are expected to finish their business analysis by tomorrow. At present they know five business analysis tools. They are:<br>- **SWOT Analysis**<br>- **Personal Entrepreneurial Competencies Assessment**<br>- **Business Operations Process Flow Chart**<br>- **Contextual Analysis**<br>- **Financial Analysis**<br>(13) By tomorrow end of the day, participants will do a business audit to ensure that they cover all the aspects of their business for business analysis. It is something setting the limiting sky.<br>(14) Remind them about the logic behind the business analysis. When we don't know how well we are doing in our business, the avenues for business improvement are limited.<br>(15) Further, looking at a business as a third party improves the analysis. This approach helps us to bench mark and to see the holistic picture of the business in a bigger context. Though we do the analysis in these three days within this class room, we are covering many aspects of the business conducts.<br>(16) In addition to these approaches and tools another aspects helps us to enhance our business related competencies by learning from co-participants. Our group works in this training helps us to learn many things from our co-participants.<br>(17) Encourage participants to complete their business analysis and come ready for day 3.<br>(18) By viewing participants work in the handbooks assure that all the participants have applied these tools to analyse their businesses.<br>(19) Ensure that all the participants have signed their signature sheets and complete the daily evaluation forms.<br>(20) Wind up the day |

**Follow up:** Business Analysis

**Annex:** ANNEX: 13.1 FINANCIAL RATIOS

# ANNEX: 13.1 FINANCIAL RATIOS

## FINANCIAL RATIO ANALYSIS

Financial ratios are the most common and popular tools used to analyse a business. Ratios are easy to understand and simple to compute. Below are some of the profitability ratios widely used to analyse a business.

Profitability ratios are used to examine an enterprise's operating performance during an accounting period. These are of particular interest to the creditors, the suppliers and others who have interest in the business. They measure the net result of the business operation that is profit or loss in relation to the investment.

The common ratios used are net profit, gross profit, and return on investment (ROI).

### 1. Net Profit Ratio or Margin

Net Profit margin is a commonly accepted measure of profitability. The ratio is also called percentage return on sales, margin on sales or net profit percentage. Divide earnings before interest and taxes (EBIT) by sales.

$$\text{Net Profit Margin} = \frac{\text{EBIT}}{\text{Sales}}$$

The higher the ratio, the greater the profit margin is. A low profitability may be caused by several factors such as high cost of production and marketing in relation to the sales volume generated or ineffective marketing in relation to the sales volume generated, or ineffective marketing strategies, among others.

### 2. Gross Profit Ratio

This is calculated using the gross profits percentage return on Sales.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

**Gross Profit Margin**
If needed, he/she can break this ratio further into its constituent ratios: cost of goods sold over sales, administrative expenses over sales, interest over sales, and so on.

### 3. Return on Investment (ROI)

Return on investment is an indicator of the effectiveness with what the business resources were or would be used. It relates profits (returns) to a given level of asset investment (resources) used to generate profits.

$$\text{Return on Investment (ROI)} = \frac{\text{Net profit after tax}}{\text{Total Investment}}$$





### 4. Break-even Analysis (BEP)

BEP is a point of sales where no profit no loss made. Knowing the BEP helps businesses to set sales targets and ensure profitability of the business. The break-even point can be expressed in terms of sales volume (quantity), selling price (with volume), or sales (amount).

Calculate your BEP using one of the formulas.

$$\text{BEP sales (Quantity)} = \frac{\text{Total fixed cost}}{\text{Unit selling price - Unit variable costs}}$$

$$\text{BEP selling price} = \frac{\text{Total fixed costs + Total variable costs}}{\text{Total sales volume (Quantity)}}$$

$$\text{Cash BEP (Sales volume)} = \frac{\text{Total cash fixed costs}}{\text{Unit selling price - Unit cash variable cost}}$$

# 14. The Successful Entrepreneur Visit

| | |
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| **What is it?** | Trainers invite a local successful entrepreneur to talk about his/her business operations to inspire the trainees. While listening to the successful entrepreneur's story, the trainees identify the personal entrepreneurial characteristics of that entrepreneur and the local business context.<br><br>The entrepreneur needs a briefing about what to talk and share. However, there is no need to brief about PECs: Personal Entrepreneurial Competencies. |
| **Objectives:** | • To experience the business strategy formulation on context analysis<br>• To link to the successful business development.<br>• To introduce the personal entrepreneurial competencies applications. |
| **Aims/Results:** | • Context analysis and business strategy development<br>• PECs knowledge and<br>• PECs improvement plan |
| **How to use it? Application/Uses:** | Contextual Analysis<br>Personal Entrepreneurial Competencies |
| **Initial Preparations:** | • The successful entrepreneur's visit<br>• U-shape seating arrangements<br>• Successful Entrepreneur briefing and introduction |
| **Required Resources:** | • Lead and co trainers |
| **Checklist:** | ✓ Trainees have completed the self-assessment questionnaires and scoring. They know their strong and weak Personal Entrepreneurial Competencies (PECs).<br>✓ Trainees in groups understand their assignment, ready for the guest speaker's presentation and prepared to make a presentation in the end to the class.<br>✓ The guest-entrepreneur understands that the trainees are looking for skills, contextual analysis and better business strategies.<br>✓ The guest-entrepreneur has selected his/her presentation mode (question and answer or discussion is in the end). |





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| **Training Step Guidance:** | (1) Inform the participants that it is time to meet a successful entrepreneur from this area. It does not mean that the participants are not entrepreneurs. The guest-entrepreneur comes to the training to share his/her side business experience; therefore, participants can see how other entrepreneurs develop and improve their business using various strategies.<br>(2) Participants are requested to listen to the entrepreneur's presentation. Inform about the presentation mode the guest-entrepreneur has picked up.<br>(3) The tasks for the groups are written on a flip chart.<br>**- Were there any strategies used by the guest-entrepreneur for his business improvement or expansion? What are those strategies?**<br>**- Explain how does the entrepreneur scan the environment for opportunities and threats and build his/her business capacity using the strengths and weaknesses?**<br>**- What are those main three PECs you see in the entrepreneur?**<br>(4) Verify their understanding. Inform them that they will have 5 minutes to present their group finding in the end. They need to write their points on cards or flipchart.<br>(5) Group the class into four groups.<br>(6) Welcome the successful entrepreneur to the class and introduce the guest-entrepreneur. Give a good introduction about entrepreneur's name, business, scale, details and a motivating appreciation to the entrepreneur. Thank for the willingness to share the time and experience. Remind the guest entrepreneur that he can make his/her own decision to answer any question the class ask about his/her business.<br>(7) The entrepreneur will talk about the business he/she operates mainly the way he/she overcomes challenges and how does she/he identify and use business opportunities.<br>(8) Let the entrepreneur present and facilitate the discussion (question and answer) that follows.<br>(9) Thank the entrepreneur. Appreciate the entrepreneur for sharing his time and story. Summarise his story and discussion in brief. If possible, have a break and serve refreshments. Give him a good send off.<br>(10) Ask the class about their feelings of the successful entrepreneur. Gather few comments asking few questions. Did they enjoy and like the presentation? What do they learn from the presentation? Invite the participants to present their findings. Provide 45 minutes for a group work. Use the flip chart visual to reinforce their tasks.<br>(11) End of the discussion let the groups to present one by one. Carry on a discussion to finalise the findings<br>(12) Explain the contextual analysis, how the factors and actors from context influence their businesses. Point out examples from the class findings. Invite them to do their own analysis taking their own contextual facts. |

**Follow up:** Business Strategy Formulation

**Annex:** None

# 15. Business Audit

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| **What is it?** | This is the session to help the entrepreneurs to complete their business analysis by summarising their analysis findings and identify the key points.<br><br>During this session they gather all of their business analysis outcomes and conclude on their findings summarising the strengths, weaknesses, opportunities and threats. They find a few improvements or alterations using their process flow charts.<br><br>Up to this session participants applied various business analysis tools. They are:<br>- **SWOT Analysis**<br>- **Personal Entrepreneurial Competencies Assessment**<br>- **Business Operations Process Flow Chart**<br>- **Contextual Analysis**<br>- **Financial Analysis**<br>- **Business Audit**<br>It is time for participants to summarise their findings and identify possible business development avenues. |
| **Objectives:** | - To enable the entrepreneurs, prepare their findings for business strategy formulation. |
| **Aims/Results:** | • Conclusion on Business Analysis<br>• Identify the business improvement goals.<br>• Prepare the visuals. |
| **Required Resources:** | • Lead and co trainers<br>• Flip charts and boards<br>• Pin boards, cards and pens<br>• Calculators<br>• Pencils |
| **Checklist:** | ✓ Entrepreneurs have completed their business analysis and findings.<br>✓ They have all the details necessary with them. |





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| **Training Steps Guidance:** | (1) Invite the entrepreneurs to look at their business analysis findings. If necessary, give 15 minutes to complete and get ready their details in place. Ensure all have their handbooks and additional working sheets.<br>Check how many people have completed their SWOT Analysis?<br>Go through their works quickly.<br>(2) Invite them to list all their findings grouping and gathering in to points form.<br>(3) Check for the process flow charts. And the ratio analysis. If necessary, help them to complete. Give them 45 minutes to work on their analysis. Guide them individually with the co trainer.<br>(4) Ensure all have summarised and listed their SWOT findings and process flow charts. Invite them for the audit check.<br>(5) Explain the audit check in **Annex 15.1: The Business Audit and request them to complete**. Sometimes, some of the questions in the audit are not relevant for them. Help them to complete.<br>(6) Ask them to complete the business audit as much as possible.<br>(7) Once the audit is done request the entrepreneurs to go back to their business analysis framework and update the Information from the audit.<br>(8) Request them to finalise their findings and complete the **SWOT SUMMARY SHEET** in the handbook.<br>(9) Inform them that they have completed their business analysis. They have used number of tools with the SWOT analysis. List them as given below:<br>- **SWOT Analysis**<br>- **Personal Entrepreneurial competencies (PECs) assessment**<br>- **Process Flow Chart**<br>- **Contextual Analysis**<br>- **Financial Analysis**<br>- **The Management Audit.**<br>(10) Ensure they all have used the tools and completed their analysis.<br>(11) Invite them for Coaching 1 as they all qualify by completing their business analysis. Let's prepare for the coaching session in the next session, our last session. Summarise and wind up the session. |

**Follow up:** Coaching 1: Business Strategy Formulation Coaching preparations

**Annex:** ANNEX 15.1 THE BUSINESS AUDIT

# ANNEX 15.1 THE BUSINESS AUDIT

## THE BUSINESS AUDIT

This is not an examination. It is an audit you do to check whether you have considered all the necessary elements of your business operation or not. Go through all the functions and details. Think about your business. Using the scale given below, rank your business accordingly. Put a mark (X) in the right column across the detail.

| | | |
|---|---|---|
| **1** | **-** | **Improvement necessary** |
| **2** | **-** | **Improvement desirable** |
| **3** | **-** | **Reasonable** |
| **4** | **-** | **Satisfactory** |
| **5** | **-** | **Excellent** |

| Function | Details | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **Marketing Management** | Market segmentation | | | | | |
| | Competing in the marketplace | | | | | |
| | Product Strategy | | | | | |
| | Distribution strategy | | | | | |
| | Promotional strategy | | | | | |
| | Pricing strategy | | | | | |
| | Sales force management | | | | | |
| | Customer relations and after sales service | | | | | |
| | Export marketing | | | | | |
| | Sales forecasting | | | | | |
| | Digital marketing and social media | | | | | |
| | Strategic Marketing | | | | | |
| | Marketing budget | | | | | |
| | | | | | | |
| | | | | | | |
| **Operations Management (Production/ Service Delivery / Trading)** | Operation planning | | | | | |
| | Production scheduling | | | | | |
| | Production process and system | | | | | |
| | Production capacity utilization | | | | | |
| | Factory/storage/office layout | | | | | |
| | Materials management | | | | | |
| | Technology advancement | | | | | |
| | Buying and Stock Control | | | | | |
| | Maintenance and repairs | | | | | |
| | Labour management and productivity | | | | | |
| | Work conditions and environment | | | | | |
| | Workers' safety | | | | | |
| | Security | | | | | |
| | Production costs management | | | | | |
| | Costing | | | | | |





| | | | | | | |
|---|---|---|---|---|---|---|
| **Organisation and General Management** | Organizational planning and objectives setting | | | | | |
| | Personnel recruitment and hiring | | | | | |
| | Human resource development | | | | | |
| | Communication | | | | | |
| | Roles and responsibility defined | | | | | |
| | Front office and reception | | | | | |
| | Absenteeism and tardiness | | | | | |
| | Records keeping | | | | | |
| | Housekeeping | | | | | |
| | | | | | | |
| | | | | | | |
| **Finance** | Financial planning | | | | | |
| | Bookkeeping | | | | | |
| | Cash flow management | | | | | |
| | Credit and collection | | | | | |
| | Financial control | | | | | |
| | Profitability | | | | | |
| | Liquidity | | | | | |
| | Assets performance | | | | | |
| | Financial leverage | | | | | |
| | Cost accounting | | | | | |
| | Capital budgeting | | | | | |
| | Working capital | | | | | |
| | Loans and loan repayment | | | | | |
| | | | | | | |
| **Entrepreneurs competencies and other supports** | Planning Competencies | | | | | |
| | Achievement Competencies | | | | | |
| | Power competencies | | | | | |
| | Leadership qualities | | | | | |
| | Business managerial competencies: Marketing, operation, organising and financial management | | | | | |
| | Family supports | | | | | |
| | Networking and other links | | | | | |
| | Knowledge of the business | | | | | |
| | Gaining community supports (Association, clubs, etc.) | | | | | |

# 16. Summarising the Business Analysis

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|---|---|
| **What is it?** | In this session the trainers ensure that all the participants gather and summarise their findings. |
| **Objectives:** | • To finalise, gather and summarise the business analysis findings<br>• To provide the foundation for business strategy formulation. |
| **Aims/Results:** | • Business operation analysis and summarise |
| **Initial Preparations:** | • Visual aids<br>• Inform the participants on the previous day that we are going to summarise all the findings. So, they will complete all the analysis and gather the findings in advance. |
| **Required Resources:** | Flipchart board and papers |
| **Checklist:** | ✓ Visuals<br>✓ The advance notice about the session so participants complete their analysis and come ready for the session.<br>✓ Both trainers conduct the session. |
| **Training Steps Guidance:** | (1) Introduce the process of the strategy formulation using the Annex 16.1.<br>(2) Verify the understanding.<br>(3) Ask them to gather all their business analysis findings in terms of SWOT and fill the table given in their handbook (Annex 16.2).<br>(4) Once they listed ask them to revisit to the strategy formulation process and think about their business development strategies.<br>(5) Provide them time to complete. Ask about their competition and summarise and conclude.<br>(6) Invite them for the coaching preparation session.<br>(7) Ensure all are ready for the coaching preparations. |

**Follow up:** Preparation for Coaching 1

**Annex:** ANNEX 16.1: STRATEGY FORMULATION PROCESS
ANNEX 16.2: BUSINESS ANALYSIS FINDINGS

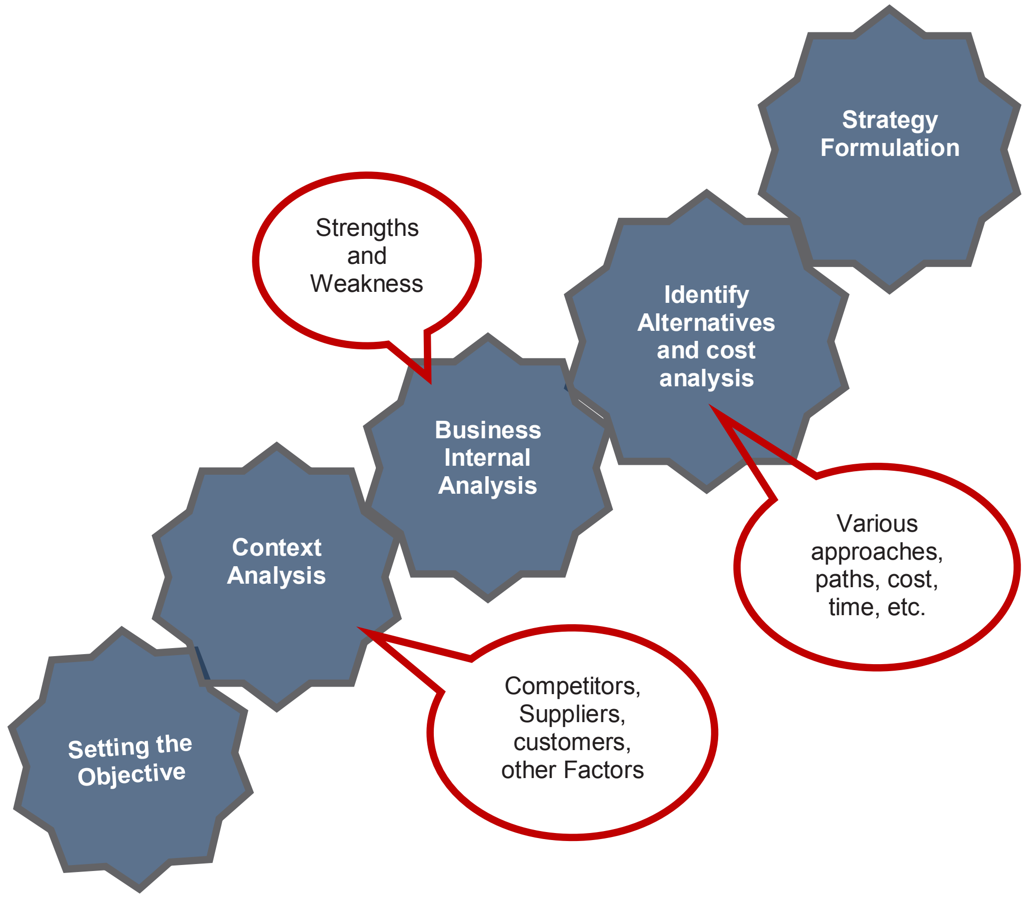




## ANNEX 16.1: BUSINESS STRATEGY FORMULATION PROCESS

### STRATEGY FORMULATION PROCESS

A business strategy is a set of activities an entrepreneur takes to bring his/her business to towards the set business goals. It bridges 'where are we now' to the point where we want to be? A business strategy becomes successful when the entrepreneur implements the strategy successfully assessing the context for ways to implement the strategy and analyse his and his organisation capacities to implement the planned strategy in terms of skills, facilities, cost and time. Strategy formulation is a process. Five major elements in this process are given below. They are:




a. Setting business development objectives: It is essential that we know where do we want to go? What are the business goals? Setting the goals with SMART (Specific, Measurable, Achievable, Relevant and Time bound) features is fundamental for strategy formulation.

b. Context Analysis: Analysing the business context (Factors and Actors) enable the entrepreneur to identify the opportunities and the treats. What are the opportunities the business can use/exploit? How to overcome an important threat? Who are our direct and indirect competitors? What are their strategies? Who is leading the market? How we can differentiate our product? A context analysis will answer these kinds of questions.

c. Business organisation internal analysis: The capacity of the business in terms of strengths and weaknesses in personal entrepreneurial and business managerial competencies of the entrepreneur, the business entity, and other links and networks of the organisation including the technical capabilities will come out in this analysis.

d. Identify alternative business strategies: to select the right strategy the business requires more than one strategy. This enables the entrepreneur/the business to compare the cost, time and capacity elements of various strategies and to select the appropriate strategy.

e. Strategy Formulation: A strategy requires details. Major and sub activities, cost of each action, time required, who are responsible, the policies and procedures and many other details will be included in this stage.

ANNEX 16.2: BUSINESS ANALYSIS FINDINGS

## BUSINESS ANALYSIS FINDINGS

| Findings | Findings | Conclusion |
|---|---|---|
| **Internal Analysis** | | |
| **Strengths** | | |
| **Weaknesses** | | |
| **External Analysis** | | |
| **Opportunities** | | |
| **Threats** | | |





## MY BUSINESS AND DEVELOPMENT

**BUSINESS**
**DEVELOPMENT**

| | |
|---|---|
| **NAME ADDRESS OF MY BUSNESS:** | |
| **I SELL** Write down your product(s) details): | |
| **MY BUYERS:** | |
| **I HAVE INVESTED MWR:** | |
| **MY BUSNESS LOANS:** | |
| **MY POTENTIAL GROWTH:** | |
| **MY BUSINESS CHALLENGES:** | |

# 17. Preparation for Coaching 1 - Strategy Formulation

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| **What is it?** | This is the last session for the last day and for Training 1: Participants have analysed their businesses using number of tools: the SWOT analysis, Personal Entrepreneurial competencies (PECs) assessment, Contextual Analysis, Process Flow Chart and finally the management audit.<br><br>In the last session, they have summarised their all business analysis findings towards business development strategy formulation.<br><br>The details and preparations need to go beyond the classroom set up to verify data, information on various aspects covered in the analysis.<br><br>In this context, the next step, Coaching 1, serves the purpose of preparing each trainee on individual coaching session for business strategy formulation.<br><br>In order to optimise the coaching benefits, preparing them for the individual coaching sessions is essential. This session helps the entrepreneurs to plan and prepare themselves for the forthcoming coaching service by setting business development goals. They will use these goals as coaching goals.<br><br>The following are some of the topics recommended by SME Loop:<br><br>- **Record Keeping**<br>- **Buying and stock keeping**<br>- **Marketing**<br>- **Costing**<br>- **People and productivity**<br>- **Personal Entrepreneurial Competencies Enhancement**<br><br>Considering above areas as limiting sky they set their business development goals for coaching sessions in this session. |
| **Objectives:** | • To prepare entrepreneurs for Coaching 1 - Strategy formulation and Individual coaching |
| **Aims/Results:** | • Introduction to Coaching 1 on Strategy Formulation |
| **How to use it? Application:** | Coaching 1 preparation |
| **Initial Preparations:** | • SME Loop Visual |
| **Required Resources:** | • Lead and co trainers<br>• Pin boards and marker pens |
| **Checklist:** | ✓ Handbooks<br>✓ Participants completed their analysis<br>✓ A Calendar marked on possible dates for coaching sessions shows coaches availabilities will be very helpful. |





| | |
|---|---|
| **Training Steps Guidance:** | **Strategy Formulation Coaching Preparations**<br><br>(1) Congratulate the participants for qualifying for Coaching 1, which is very intensive and important for business development and improvement.<br>(2) **Coaching 1** provides basic foundations for **Training 2- Business Improvement Planning**). To formulate business improvement strategies, we need to find out possible business improvement avenues.<br>(3) It is time to prepare ourselves Coaching 1: All participants have four one to one coaching sessions 1-2 hours. Coaches travel to participants working premises to provide the service. It is an expensive and important service for their business development. We need to prepare for that by setting business development goals.<br>(4) Identifying business development avenues are expected outcomes of business analysis training and activities. So far, we have completed the business analysis using six tools and have summarised our findings. We are in the final stage and going to identify our business development avenues using the findings from the analysis.<br>(5) The exercise of finding three major challenges of the business at present will help them to identify the business development avenues and opportunities.<br>(6) Any problem has another side we call opportunities. Opportunities originate from problems and challenges. Explain them with some examples pick from the class.<br>- No good packaging for product-problem leads to improve packaging and marketing which increase market expansion opportunities.<br>- Realising no record keeping in the business will help the entrepreneur to setup good recordkeeping practices within the business and ability to access right information for costing and financial ratio analysis)<br>(7) You have almost identified development avenues of your business while doing the analysis. However, we need to check and ensure the goals are practical and viable. Invite them for the exercise **<u>of business development goals</u>**.<br>(8) Invite them to identify major three challenges of their business development. Using the problem statement framework given in the handbook, request them to do an exercise in three steps:<br>**Step 1:** List major three challenges for business improvement<br>**Step 2:** Describe the challenges in details<br>**Step 3:** Describe the scenario assuming that the challenges were solved and there is improvement in the business.<br>(9) Provide them 30 minutes on the exercise. Go around with the co-trainer and provide one to one guidance.<br>(10) In the end, request them to set up their business development goal and write in the handbook clearly.<br>(11) Inform them that their business development goals can be related to the following topics. List them on the flip chart clearly:<br><br>- **Record Keeping**<br>- **Buying and stock keeping**<br>- **Marketing**<br>- **Costing**<br>- **People and productivity**<br>- **Personal Entrepreneurial Competencies Enhancement** |

| | |
|---|---|
| | (12) Inform about the coaching session details. Schedule for coaching sessions using the format given in the Annex 17.1 Schedule for Coaching Sessions.<br>(13) Remind them that changing the dates and times are not possible. However, in emergency situations time changes are possible and participants need to inform the coach in advance preferably a few days before. Punctuality is highly expected.<br>(14) Request participants to get ready for coaching session ensuring that they switch off the phone, settled with coach in a private location without many interruptions and prepare themselves mentally for 1-2 hours for the session. They have 2 months for the 4 coaching sessions.<br>(15) Failing to attend a coaching session is not recoverable. No additional bookings for coaching are allowed. Complete the coaching schedule commitments with participants using post it notes. (Participants write their dates for four sessions with minimum 1-week gap in-between.)<br>(16) A Calendar marked on possible dates for coaching sessions shows coaches availabilities will be very helpful. Verify the capacities from coach side using the calendar and the schedule on the board. |

**Follow up:** Coaching 1 - Strategy Formulation

**Annex:** ANNEX P1.14.1: SCHEDULE FOR COACHING SESSIONS
ANNEX 17.2: COACHING





## ANNEX P1.14.1: SCHEDULE FOR COACHING SESSIONS

### COACHING 1: SCHEDULED COACHING SESSIONS

A Calendar marked on possible dates for coaching sessions shows coaches availabilities will be very helpful. Verify the capacities from coach and implementers side using the calendar and this prepared schedule.

| | Name of the participant | Coaching Session 1 Date & time | Coaching Session 2 Date & time | Coaching Session 3 Date & time | Coaching Session 4 Date & time |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
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| 28 | | | | | |

# ANNEX 17.2: COACHING PREPARATION

## COACHING PREPARATION

The Business Strategy Coaching is to provide you six individual sessions where you can work with a SME Start-up Loop Coach on issues around business planning and business start-up.

Prepare yourself for these coaching sessions. The preliminary coaching preparations help you benefit the coaching session at the most and use the supports well.

**Step 1:** Identify all the problems you have while preparing the business plan and starting your business. List the problems. Identify the most important three problems and list the finalised three problems in the table below.

**Step 2:** Explain in detail each problem. How badly affects it or will it affect your business plan and implementation? How serious is it?

**Step 3:** Convert the problem statement(s) in to a positive statement(s), as if no problem is prevailing. Explain how it will change / have impact in your business planning and start-up.

*Example 1*

| Step 1: Problems | Step 2: Problems in Details | Step 3: Convert into Positive |
|---|---|---|
| *I find difficult to identify my production delays and unnecessary production wastes in the business operation.* | *I am not sure of the production process. Each process step has expenses. As I could not estimate my expenses, I could not proceed with my financial planning and profit calculations. Without knowing the profitability of the business, I find it is difficult to proceed with business improvement and development.* | *I know the production process and I understand the details. Therefore, I can calculate the expenses will incur at various stages. This helps me to understand my cost of products. I am very confident on my cost and profit calculations. I can improve the productivity and reduce unnecessary wastes.* |





| Step 1: Problems | Step 2: Problems in Details | Step 3: Convert into Positive |
|---|---|---|
| | | |
| | | |
| | | |

# 18. Training 1 Wrap-Up

| | |
|---|---|
| **What is it?** | The final session is to wrap-up Training 1. In this session the trainers will go through all the activities taken place in the last three days and summarise the learnings. |
| **Objectives:** | • To wrap-up Training 1 - Business Analysis<br>• To summarise all the sessions and the relevant learning objectives.<br>• To recognise and identify the achievement of Training 1 objectives |
| **Aims/Results:** | Training 1 - Business Analysis wrap-up |
| **Initial Preparations:** | • Expectation levelling posts<br>• Learning contracts<br>• SME Loop Visual |
| **Required Resources:** | • Flipchart board and papers |
| **Checklist:** | ✓ All necessary visuals<br>✓ Daily schedule<br>✓ List of sessions |
| **Training Steps Guidance:** | (1) Visualise the SME Loop. Point out the present position to the group (end of Training 1).<br>(2) Enquire for the trainees' feelings and satisfaction. Where are they in the process of business development? Who is going to develop the business and when?<br>(3) Are they progressing and gaining confidence?<br>(4) Summarise Training 1: taking time for session details of all three days. Remind the entrepreneurs about day 1. Request them to visit their expectations, learning contract and 'My Life in Brief' artwork displayed on the walls.<br>(5) Distribute the day 3 evaluation (which may differ from first two days on criteria).<br>(6) Ensure everyone has signed in the signature sheet.<br>(7) Wind-up the Training 1 with Coaching 1. |

**Follow up:** Coaching 1 sessions





# IV. EXKURSUS: COACHING

## Coaching 1: STRATEGY FORMULATION

Coaching 1 includes a series of **4 <u>individual coaching sessions</u>** fortnightly or twice a month. SME Loop Coaches use the GROW Coaching and Appreciative Coaching approaches. The coaching subjects and issues vary depending on the type of SME, the capacity of the coachees (the entrepreneurs) and the business strategy formulation requirements.

Coaches need to remember that the main focus in this phase, is to enable SMEs to identify business improvement avenues and formulate business strategies therefore, in Training 2 they are able to prepare their Business Improvement Plans (BIP). A standard SME Loop Curriculum has 4 one to one coaching sessions in this phase to come out with right business strategies.

The coachees have a 'bigger say' on the topics of the sessions. At this level,they are in the process of analysing and identifying the future improvement possibilities. They can opt for various coaching topics depending on their identified needs and priorities. However, during Training 1in the last session, the trainers guide the coachees to select their topics for coaching. These topics generally be their business improvement strategy identification requirements. These are the **<u>main demands</u>** for coaching and SME Loop Coaches deliver these demands in 4 coaching sessions. The following IYB manuals are useful as coaching guiding materials:

I. IYB Marketing
II. IYB People & Productivity
III. IYB Record Keeping
IV. IYB Buying and Stock Taking
V. IYB Costing

SME Loop coaches using these manuals can benefit saving and buying more time for the planned coaching sessions. For example, the coach can print out a section in the IYB Record Keeping manual page numbers 36 and 37 to introduce Inventory Record Keeping. There is no need to force or strictly adopt these materials during coaching sessions.

(***Please refer the SME Loop Coaching Guide.)***

## Coaching 2 : BUSINESS IMPROVEMENT AND LINKAGES DEVELOPMENT

Coaching 2 includes a series of **six individual coaching sessions** fortnightly or 3 times a month. SME Loop Coaches use the GROW Coaching and Appreciative Coaching approaches. The coaching subjects and issues vary depending on the type of SME, the capacity of the coachee (the entrepreneur) and the business improvement plan requirements.

Coaches need to remember that the main focus in this phase, is to enable SMEs to complete their Business Improvement Plan and build financing and other linkages in the context. In this task SME Loop Coaches always ensure that at the end of each session the entrepreneurs have a special take-home assignment. These assignments are generally enabling them to build linkages around their business such as check out competitors' prices, negotiate with suppliers, visit to the bank enquiring about business loans and requirements, looking for other market details, or checking online a machinery or an asset, participating in a B2B events, conducting customer surveys, opening a Facebook page, contacting the business networks, looking for skills and short courses, etc.

A standard SME Loop Curriculum has 6 one to one coaching sessions. The coachee has a bigger say on the topics of the sessions. The coachees, at this level, are in the process of improving their business and improving their planning (the business improvement plan). They can opt for various coaching topics depending on their identified needs and priorities.
However, during Training 2, in the last session, the trainers guide the coachees to select their topics for coaching. These topics generally be their business improvement requirements while optimising the coach time and service. These are the main demands for coaching and SME Loop Coaches deliver these demands in 6 coaching sessions. The following IYB manuals are useful as coaching guiding materials:

I. IYB Marketing
II. IYB People & Productivity
III. IYB Record Keeping
IV. IYB Buying and Stock Taking
V. IYB Costing

SME Loop coaches using these manuals can benefit saving and buying more time for the planned coaching sessions. For example, the coach can print out a section in the IYB Record Keeping manual page numbers 36 and 37 to introduce Inventory Record Keeping. There is no need to force or strictly adopt these materials during coaching sessions.

***(Please refer the SME Loop Coaching Guide.)***

SME BUSINESS TRAINING AND COACHING LOOP

# Standard Training Materials

- PART 2 -


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# V. TRAINING 2: BUSINESS IMPROVEMENT PLANNING

## BUSINESS IMPROVEMENT PLANNING

Training 2 is about training provision for developing a business improvement plan. The entrepreneurs who have completed both the Training 1 and Coaching 1, are the participants of this training course. The SME Loop participants so far have analysed their businesses including the business context using number of business analysis tools under SWOT Framework (Training 1) and have completed four individual coaching sessions on identifying business improvement strategies (Coaching 1). The previous phases participation is the prerequisite for the Training 2 provision as the course builds on the outcomes of the two previous training and coaching phases.

The contents of the training deliver a number of themes such as finalising the identified business improvement strategies with available time and resources, explore on various activities and responsibilities towards business improvement implementation, prepare a business improvement plan, identify various sources of financing and business support functions such as record keeping, business formation, costing, etc., and preparing for Coaching 2 Business Improvement & Linkages Development.

Two SME Loop certified trainers facilitate the training which is of 3 days duration. The methodology is adult learning principles and experiential learning cycle with participatory approaches. Approximately 25 and not more than 30 SMEs form a class and the preferable venue is in close proximity to SMEs.

The **objectives** are:

- to enable entrepreneurs to finalise business improvement strategies and planning
- to enhance the knowledge of various sources of financing and their implications on business operations and profit margins
- to create an understanding of necessary supporting functions in the business such as record keeping, costing, business registration, etc.
- to prepare entrepreneurs to coaching sessions which facilitates them to finalise their business improvement plans.

The preparation of SME Loop trainers, who implement the course, requires 1 day. The final outcome expected in this phase is that all the SME Loop course participants have completed a draft version of business improvement plans.

# i. Training Material Selection Grid

(PLEASE REFER THE SECTION II CURRICULUM DESIGN FOR SELECTING SESSIONS)

| Session number and options | Name of the Tool | Learning Objectives | Duration | Remarks |
|---|---|---|---|---|
| 1 | Introduction to the Training 2: Business Improvement Planning | Introduction to the SME Loop Course, participants and set the administrative details | 1 hour | A must session |
| 2: Option 1 | Ansoff's Market Alternatives Growth Strategies | Verify and confirm Growth Strategies | 2 hours | Please pick one of the tools |
| 3: Option 2 | Six Innovative Ways to Improve Business | Creating a learning environment<br>Goal setting | 2 hours | |
| 4: Main Option 1 | Business Model Canvas and Planning | Business Improvement Planning | 7 hours | Pick one of the main options 1-4. |
| 5: Main Option 2 | Business Improvement Planning | Business Improvement Planning | 7 hours | |
| 6: Main Option 3 | IYB Business Planning | Business Improvement Planning | 7 hours | |
| 7: Main Option 4 | Business Planning | Business Improvement Planning | 7 hours | |
| 8 | Sources of Business Financing | Business Financing | 1 hours | You have in total of around 6 hours. Pick any |
| 9 | Working Capital Management | Working Capital Management | 2 hours | |
| 10 | Break-even Point | Costing | 2 hours | |
| 11 | Cashflow Forecast | Cashflow Management | 2 hours | |
| 12 | Financial Analysis: Profitability and ratios | Business Finance Analysis | 2 hours | |
| 13 | Business Taxation | Taxation | 1 hour | |
| 14 | Packaging the Business Improvement Plan | | 1 hour | A must session |
| 15 | Preparing for Coaching 2: Business Improvement and Linkages Development | | 2 hours | A must session |
| 16 | Wrap-up of Training 2: BIP | | 30 minutes | A must session |





# 1. Introduction to Business Improvement Planning

The introduction session tool sets guidance to accomplish several tasks primarily for setting up the 3 day training floor and integrating with the previous Coaching 1 outcomes. The SME Loop Trainer introduces the complete SME Loop and especially Training 2, while laying down the necessary administrative requirements, and creating the learning environment.

Starting from an unfreezing introductory energiser/exercise, and continuing with course expectations levelling, training course objectives introduction, house rules, day schedule and learning contract agreements to feedback mechanisms introduction, everything is high in density and could load the trainees. Therefore, the facilitation requires additional efforts and preparations. The both SME Loop Trainers work together and exhibit a teamwork.

SME Loop trainers are expected to use their preparation day to deliberate the facilitation techniques in this session carefully.

| | |
|---|---|
| **Objectives:** | • To relax the trainees and to set an atmosphere conducive to openness and learning.<br>• To introduce the phase, objectives, day schedule, evaluation and house rules.<br>• To familiarise with the SME Loop Trainee Handbook.<br>• To implement any M&E related activities on previous phases. |
| **Aims/Results:** | • A conducive environment for learning<br>• Training 2 objectives are made clear to participants; house rules are set; and learning contracts are done. |
| **Initial Preparations:** | • An energizer for participants' introduction<br>• The essential visual aids (expectation levelling cards, SME Loop provision, Training 2 objectives, Day schedule, and feedback (smiley) chart)<br>• U shape seating arrangements<br>• Daily attendance signature sheet<br>• Any awards for SME Loop participants e.g. the best Business Improvement Plan (BIP) |
| **Required Resources:** | • SME Loop Trainee Handbooks for distribution<br>• Flip chart board and charts<br>• Pin boards with necessary stationery<br>• Zopp cards, pins and marker pens<br>• Notebooks and pens for participants<br>• Name cards<br>• Refreshments |
| **Checklist:** | ✓ SME Loop visual<br>✓ Introduction energizer<br>✓ SME Loop Handbook<br>✓ All prepared visual aids<br>✓ Daily evaluation copies and signature sheet |

## SESSION IMPLEMENTATION

| Time min. | Brief Content | Guidance |
|---|---|---|
| 10 | **Introduction to Training 2** | Welcome trainees for SME Loop Training 2: Business Improvement Planning. Introduce the SME Loop in full using the visual. Point Training 2 and summarise Training and Coaching 1. |
| 10 | **Energizer** | Implement the prepared 'Introduction Energizer.' |
| 20 | **Levelling the Expectation** | This sub-tool indirectly helps us to assess the accuracy of the selection process. In this tool implementation, participants write and share their expectations (hopes) for Training 2.<br>The Lead Trainer levels each trainee's written 'expectation' with SME Loop and the Training 2 objectives.<br>Start with the 'SME Loop' visual. Indicate Training 2 and share your trainer expectation(s) with other trainers. Invite trainees to write down their 'expectation' on a card. They can write many expectations but one per card with their names. Give them 2 minutes of preparation. Distribute zopp cards and marker pens. Collect each written card and visualise them.<br><br>Read loudly and clarify with the person who wrote the card. Proceed with every card, one by one. Post on the soft board. Classify the expectations/cards into three different columns named 'SME Loop', 'Training 1', and 'Other'.<br><br>When you get many cards under the column 'Other' which are entirely different to the SME Loop course and Business Improvement Planning, clarify with the card owners of their expectations for the course attendance. |
| 15 | **Learning Contract** | Explain in detail the SME Loop, Training 2 and the present stage. Refer to objectives of the phase and the relevant expectations when appropriate. Emphasise the necessity of commitment.<br><br>Trainers present their contract/commitment written in cards.<br>Example: Preparations for the training session, punctuality, readily available and act professionally. Invite the trainees to write down their learning commitments on cards. Collect, read loudly, verify and post the cards against their expectation cards.<br><br>Summarise and reiterate those commitments importance. |
| 05 | **Private & Confidentiality** | Talk about the privacy and confidentiality policy in the course. Distribute the SME Loop handbook 2 and introduce it. Encourage participants to keep it confidential and available throughout the course. Trainers will guide them in the usage. Explain the necessity for sharing the details in the handbook for learning, monitoring and evaluation purposes. Link to the house rules and obligations. |



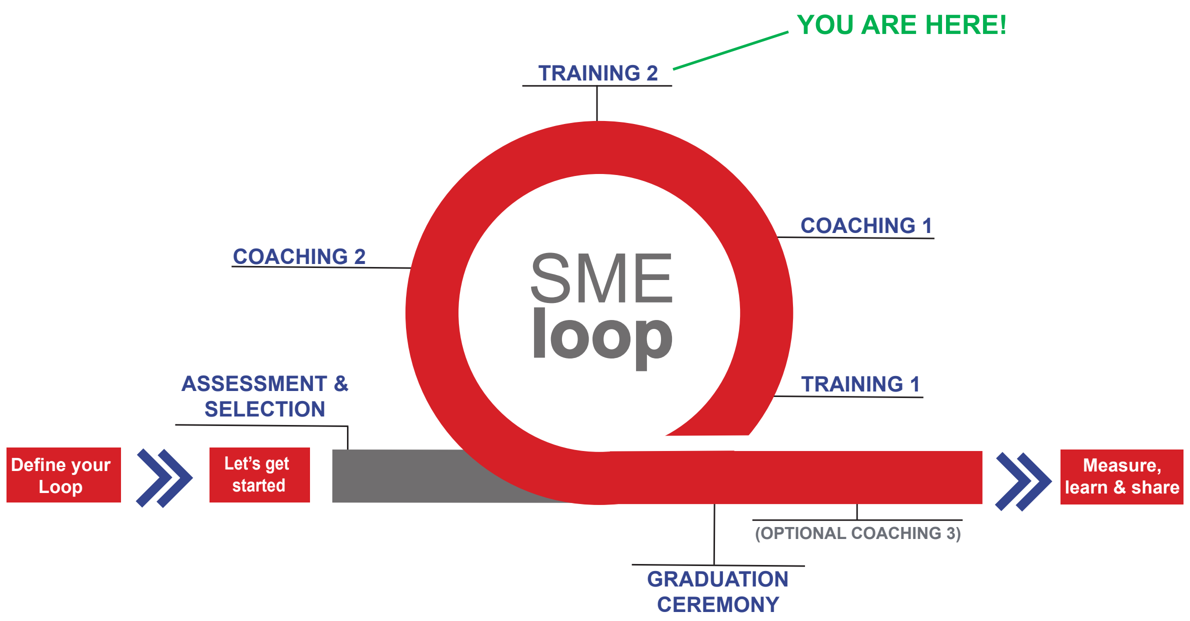


| | | |
|---|---|---|
| 05 | **House Rules** | To ensure fulfilling all parties' reasonable expectations and the course objectives, house rules are essential. Set the relevant house rules with the trainees using a participatory approach. Some clues for the house rules are therefore:<br><br>a. Punctuality and the schedule<br>b. Discussions in brief<br>c. No criticism<br>d. Maintaining confidentiality<br>e. Evaluations and feedbacks<br>f. Latecomers<br>g. Handbook usage and availability<br>h. Mobile phones |
| 05 | **Daily Recurring Activities** | Introduce the Smiley Chart; the SME Loop Trainers feedback. Day 2 & 3 start with evaluation summary and trainees fill their evaluation forms all three days.<br><br>Request the trainees to sign the attendance daily. Post the visuals (SME Loop Course, Training 2Course Schedule, Daily Schedule, Daily Evaluation, Expectations and Learning Contracts). Ensure every participant wear their name tag. |
| 10 | **Summary & Conclusion** | Verify and answer all questions.<br>Link to the next session and display the necessary visuals (Time Schedule, House Rules, List of expectations, etc.) for the rest of the days.<br><br>Inform about the Graduation Ceremony and the B2B Events, if any where entrepreneurs can talk and present their Business Improvement Plan (BIP)s to various agents for finance and support services in the end of SME Loop course competition. Encourage the trainees to take part in the course seriously. Invite participants for refreshments and break. |

**Follow up:**
(1) Follow the house rules
(2) When necessary refer to the expectations
(3) In the end the expectations and learning contracts will be reviewed.

**Annex:**
ANNEX: 1.1: THE SME LOOP COURSE
ANNEX: 1.2: TRAINING 2: BUSINESS IMPROVEMENT PLANNING (SAMPLE)
ANNEX: 1.3: DAILY SCHEDULE (SAMPLE)
ANNEX: 1.4: SMILEY CHART (SAMPLE)

## ANNEX 1.1: THE SME LOOP COURSE




## ANNEX 1.2: TRAINING 2 – BUSINESS IMPROVEMENT PLANNING (SAMPLE)

| | |
|---|---|
| **DAY 1** | Introduction to Business Improvement Planning (BIP) T |
| | The Market Alternatives |
| | The Business Model Canvas |
| | Introduction to Business Improvement Plan (BIP) |
| **DAY 2** | Marketing Strategy |
| | Business Operations Strategy |
| | Sources of Financing |
| | Introduction to Financial Planning |
| | Total Project Cost |
| | Cashflow Statement |
| **DAY 3** | Break-even Point Analysis |
| | Working Capital Management |
| | Final Accounts: Profit & Loss and Balance Sheet |
| | Ratio Analysis |
| | Preparing for Coaching 2: Business Improvement and Linkages Development and Training 2 wrap-up |





## ANNEX: 1.3: DAILY SCHEDULE (SAMPLE)

| | **TIME** (starting and ending) |
|---|---|
| **BLOCK A** | |
| **BREAK** | |
| **BLOCK B** | |
| **LUNCH BREAK** | |
| **BLOCK C** | |
| **BREAK** | |
| **BLOCK D** | |
| **END OF THE DAY** | |

## ANNEX: 1.4: DAILY EVALUATION (SMILEY) CHART (SAMPLE)

### DAILY EVALUATION

Please tick ✓ appropriately. Please provide necessary remarks.

| | Criteria | Happy | Undecided | Unhappy | Remarks |
|---|---|---|---|---|---|
| 1 | Session learning objectives and relevance | | | | |
| 2 | Session Facilitation by SME Loop Trainers | | | | |
| 3 | SME Loop Handbook 2 and handouts | | | | |
| 4 | Learning from co-participants | | | | |
| 5 | My confidence | | | | |

Other comments:

# 2. Asoff's Market Alternatives

The Market Alternative is a strategy tool is built on Ansoff's Matrix which was developed by Igor Ansoff and initially published in the Harvard Business Review.

Ansoff suggested that there are only two ways of developing a business growth strategy: varying what is sold (product /service growth) and whom it is sold (market growth). These two growth potentials of a business in combination deliver four strategic options and it is shown in Ansoff's Matrix.

| | |
|---|---|
| **Objectives:** | • To stimulate on possible growth alternatives and finalise the growth strategies<br>• To improve market orientation<br>• To formulate and finalise a growth strategy |
| **Aims/Results:** | • Participants will have well formulated business growth strategies |
| **Initial Preparations:** | • Read and understand the Market Alternatives and Ansoff's Matrix strategic options<br>• Visual Aids<br>• Examples to apply on the matrix |
| **Required Resources:** | • SME Loop Trainer<br>• Soft board<br>• Flipchart papers<br>• Marker pens |
| **Checklist:** | ✓ Examples to apply on the Matrix<br>✓ Visual Aids<br>✓ Understanding the concept of Ansoff's Growth Matrix |





| Time min. | Brief Content | Session Implementation Guidance |
|---|---|---|
| 25 | **Introduction to Ansoff's Matrix** | Welcome to the session.<br><br>Link to their previous Coaching 1 sessions.<br>Ask about their strategies, outcomes of coaching sessions and what do they like to do now.<br>Ask for their strategies. List them on two headings: Product/ Service Growth and Market Growth. Explain those growth potentials.<br>Introduce the two growth strategies and the Ansoff's Matrix.<br>Let them identify the four strategic options: market penetration, product development, market development and diversification.<br>Verify the understanding of the matrix and explain with examples.<br>E.g. peanuts<br><br>Market penetration - increase the sale<br>Market development - Sell peanuts in other markets<br>Product development - peanut butter to the current market<br>Diversification - Export coconut scrapes |
| 60 | **Market Alternatives Exercise** | Invite participants for an exercise. It is to finalise and formulate their growth strategies.<br>Request to work on the worksheet in their handbook2. Explain the workbook exercise.<br>Provide 30 minutes to do the exercise. Go around and coach them.<br>Check on their workings |
| 5 | **Summarise and conclude** | Do they have done the exercise?<br>What kind of growth strategies do they have? Ask them to name. Do they have more than one strategy? Let them name their strategies with the right strategic option.<br>Invite them for the Business Model Canvas session. |

**Follow up:** Business Model Canvas

**Annex:** ANNEX 2.1: MARKET ALTERNATIVES

# ANNEX 2.1: MARKET ALTERNATIVES

**THE MARKET ALTERNATIVES**

Ansoff suggested that there are only two ways of developing a business growth strategy: varying what is sold (product /service growth) and whom it is sold (market growth). These two growth potentials of a business in combination deliver four strategic options and it is shown in Ansoff's Matrix.

Every business for its own development needs to identify various strategies for growth. A business, whether it is micro, small, medium or large, have only four growth strategic options. When an enterprise can strengthen the current market position, by increasing the sales via improving its distribution channels, marketing promotions and communications, is called market penetration. Secondly the entrepreneur can find new markets to sell the same product using a market development strategy. On the other hand, they can provide various products to the same target group; the existing market. This is called product development strategy. A new product to new market is diversification strategy. These four types of strategic options are illustrated as given below:

**Ansoff's Growth Matrix**

| | | PRODUCT: EXISTING | PRODUCT: NEW |
|---|---|---|---|
| MARKET | EXISTING | MARKET PENETRATION STRATEGY | PRODUCT DEVELOPMENT STRATEGY |
| | NEW | MARKET DEVELOPMENT STRATEGY | DIVERSIFICATION |





1. **Market penetration strategy** is a lowest risk strategy for an enterprise to sell its existing products to the existing markets. This is the strategy of increasing sales of existing products in a current market by improving the distribution channels, marketing promotions and communications, changing the pricing policies, and sales promotions. This strategy deals with competition with price discounts and promotional activities.

   Basically, the enterprise increase sale by three ways:

   a) Encourage people to buy more
   b) Encourage more people to buy from them
   c) Gain the bigger market share

   However, this strategy works where markets are still growing and developing or the enterprise has a way to gain bigger share. E.g. seasonal offers in a textile shop.

2. **Market development strategy** builds upon the existing product range that the enterprise has established but seeks to find a new group of customers. Taking existing products to new markets is considered to be risker than market penetration. Sometimes understanding the new market complexities consumes time and resources. The key change in the marketing mix is the place strategy. The enterprise finds new channels to reach new markets. This may demand renewal of promotion activities entirely. To understand the new target groups' buyer patterns, it may require a market study or research. E.g. a farm shop opens another branch in neighbouring state.

3. **Product development strategy** is another alternative to selling existing products into new markets. An enterprise may choose to develop new products for its existing markets. The enterprise may have built up a fairly good understanding of its market and may seek to offer a wider range of products in addition to what is currently being sold. E.g. a saloon sells shampoos and hair products in addition to hair dressing services. Here, the product and promotion mix of the marketing mix will change. The risk is higher than market penetration. The successful product development strategy implementation demands a market research and the enterprise resources and capabilities enhancement.

4. **Diversification strategy** is the most risky among all four in implementation. It is about developing new products for new markets. This does not necessarily mean totally abandoning the present factors of production (labour and machinery) but generally using those to manufacture new products for new markets have greater demand and sales potential. This means an enterprise moving into unfamiliar market and requires a detailed research to understand the buyer behaviours and patterns. Here all elements of the marketing mix changes. E.g. A farmer changes soya cultivation for maize cultivation for another buyer.

# 3. Six Innovative Growth Strategies

The tool is an alternative to the Ansoff's Market Alternatives Matrix which is also business growth strategy finalisation tool. In this session participants choose one of the 6 innovative ways as their growth strategy.

| | |
|---|---|
| **Objectives:** | • To stimulate on possible growth alternatives and finalise the growth strategies<br>• To improve market orientation<br>• To formulate and finalise a growth strategy |
| **Aims/Results:** | • Participants will have well formulated business growth strategies |
| **Initial Preparations:** | • Read and understand the six innovative ways to improve the business<br>• Visual Aids<br>• Examples to apply |
| **Required Resources:** | • SME Loop Trainer<br>• Soft board<br>• Flipchart papers<br>• Marker pens |
| **Checklist:** | ✓ Examples<br>✓ Visual Aids<br>✓ Understand 6 Innovative Growth Strategies |

| Time min. | Brief Content | Session Implementation Guidance |
|---|---|---|
| 25 | **Introduction to Six Innovative Ways** | Welcome to the session.<br>Link to their previous Coaching 1 sessions.<br>Ask about their strategies, outcomes of coaching sessions and what do they like to do now.<br>Let them talk about their strategies. List them on 6 headings as per the 6 innovative ways. Explain those growth potentials.<br>Point out their growth strategies, request for more details in general. Look for the reasons behind their selection of particular growth potentials.<br><br>Introduce the Six Innovative ways. Discuss generally their choices comparing these 6 innovative ways. |
| 60 | **Six Innovative Ways Exercise** | Invite participants for an exercise. It is to finalise and formulate their growth strategies.<br>Request to work on the worksheet in their handbook2. Explain the workbook exercise.<br>Provide 30 minutes to do the exercise. Go around and coach them.<br>Check on their workings. |
| 5 | **Summarise and conclude** | Do they have done the exercise?<br>What kind of growth strategies do they have? Ask them to name. Do they have more than one strategy? Let them name their strategies with the right strategic option.<br>Invite them for the Business Model Canvas session. |



| STM PART 2

**Follow up:** Business Model Canvas

**Annex:** ANNEX 3.1: SIX INNOVATIVE WAYS FOR GROWTH STRATEGIES

## ANNEX 3.1 SIX INNOVATIVE WAYS FOR GROWTH STRATEGIES

### SIX INNOVATIVE GROWTH STRATEGIES

1. **Renew the processes:** Most of the times we follow a pattern and cannot find a way out of it. Likewise, in businesses we have many processes; we operate as a routine and follow them without rethinking of the necessity of the activities. This way we accommodate many unnecessary time and cost consuming activities in our processes. Reviewing our processes using a process flow chart helps us to cut down production, marketing, delivery and other costs.

   E.g. using the truck delivery service instead of the cart, automates for efficiencies, and approach via business networks.

2. **New Experiences:** Sell more of the stuff to the same people who buy our products. This requires powerful connection with customers to increase the retention. Instead of buying one, the customer buys many to gain a discount.

   E.g '3 for 2' promotion in a retail shop, 'Match and Pick Any' option, and 'Bigger the package cheaper the option' promotions. Many say these are compelling and tempting options.

3. **New Features.** Sell enhanced stuff to the same people by adding improvements that drive incremental buying.

   E.g. Soya beans are now sorted into class A and B. The Class A comes in good packaging. Class B comes in powder form and with nutrients details.

4. **New Customers.** Find new customers for the existing products. Introduce the products to new markets with needs similar to the product core, or to markets. The products are used for same or different purposes.

   E.g: Sell the soya powder to process soya bean curd factory instead of selling in the local market.

5. **New Offerings.** Sell new products and services. Develop a new product or service not the modification to the existing. More than the existing product can complement or supplement and bring in a range of products.

   e.g. Sell the peanut instead of maize or soya bean.

6. **New Models.** Sell your products in a new way. Reimagine how to go to market by creating new revenue streams, channels and ways of creating value. This can be as simple as moving to a subscription model or transformative.

   **e.g.** open an Amazon shop for your product.

# 4. The Business Model Canvas (BMC)

The Business Model Canvas (BMC) helps to test the financial viability of a business growth strategy. It describes the rationale of how an enterprise creates, delivers and captures value.

SME participants may go on designing business growth strategies successfully but those strategies require scrutiny and financial viability checks prior to preparing for planning. This exercise helps as a pre-planning for their Business Improvement Plan (BIP)s.

A growth strategy requires serious scrutinizing in number of activities. After identifying and formulating a suitable growth strategy, the business needs to undergo a quick financial viability check. BMC exercise helps to sharpen the strategy and to find out necessary resources, activities and other elements of the growth strategy.

| | |
|---|---|
| **Objectives:** | • To explore further on the chosen growth strategy possibilities<br>• To develop a plan for business improvement<br>• To prepare for strategy implementation and financial viability check<br>• To identify the right form of business model |
| **Aims/Results:** | • Identified the financial viability<br>• Business improvement planning<br>• Identified the right form of business model |
| **Initial Preparations:** | • Read and understand the BMC concept<br>• Get ready with relevant examples<br>• Visual Aids |
| **Required Resources:** | • SME Loop Trainer<br>• Soft board<br>• Flipchart papers<br>• Marker pens<br>• Zopp cards<br>• Post-it Notes |
| **Checklist:** | • SME Loop Handbook 2<br>• Visual Aids with nine blocks pictures.<br>• Post-it Notes |





| Time min. | Brief Content | Session Implementation Guidance |
|---|---|---|
| 30 | **Introduction to the Session** | Welcome participants for an open plan session.<br>Discuss generally about the business expansion failures and right type of business formations. What are the common mistakes? With a small brainstorm exercise introduce the common mistakes in planning using visuals.<br>To avoid these major pitfalls (**Annex 4.1: The Five Common Mistakes**), we are going to have a systematic approach using the Business Model Canvas and plan our business improvements. |
| 30 | **Business Model Canvas** | Introduce the BMC (**Annex 4.2: BMC**).<br>Introduce the all 9 building blocks one by one. The recommendation is to start with the picture and brainstorm for details. Then introduce the building blocks.<br>Look for questions. Verify the understandings. |
| 40 | **BMC Group Exercise** | Introduce the exercise instructions:<br><br>**a.** 10 minutes allocated<br>**b.** Pick a business growth strategy from your group.<br>**c.** A group can work on minimum 1 building block within the time frame.<br>**d.** Use a flip chart and colour marker pens<br>**e.** Be specific and present briefly.<br><br>Verify the understanding. If necessary provide some examples.<br>Group them into 9 with an energiser. Let them choose one element from the blocks.<br>During the group exercise visit the groups and check their progress.<br>Let them present very briefly their workings. Comment appropriately. |
| 40 | **BMC Individual Exercise** | Introduce the BMC Plan (**Annex 4.3: BMC Plan).**<br>Invite participants to work on their own BMCs in the handbook. Verify the understandings.<br>Let them continue the work on their business improvement growth strategies.<br>Go around and encourage them starting from Customer segments and to other building blocks. |
| 30 | **Unique Value Propositions** | Introduce the format given in **Annex 4.4: Unique Value Propositions** and explain.<br>Request to work on their own Unique Value Propositions |
| 30 | **Marketing Mix** | Introduce the worksheet for customer segmentation (**Annex 4.5: Marketing Mix**) and ask them to continue completing the section. |
| 40 | **Sales Forecasts (Revenue Streams)** | Introduce and explain the computing sales forecast (**Annex 4.6: Sales Forecast)** and help them complete the section |
| 30 | **Operations Plan (Key Activities)** | Introduce and explain the computing operations plan (**Annex 4.7: Operations Plan)** and help them complete the section |
| 30 | **Fixed Assets Requirements** | Introduce and explain the computing cost of assets (**Annex 4.8: Fixed Assets Requirements)** and help them complete the section |
| 40 | **Cost Structure** | Introduce and explain the computing all the relevant costs (**Annex 4.9: Cost Structure)** and help them complete the section |

| | | |
|---|---|---|
| 30 | **Executive Summary** | Help them to get a draft BMC Plan by looking at their difficulties in completion and training them to give an Executive Summary (**Annex 4.10: Executive Summary**). |
| 30 | **Summarise and Conclusion** | Summarise the Business Model Canvas.<br>Link to the Business Improvement Plan (BIP) and invite to the session. |

**Follow up:** Introduction to Business Improvement Plan (BIP)

**Annex:** ANNEX 4.1: THE COMMON 5 MISTAKES

ANNEX 4.2: THE BUSINESS MODEL CANVAS (BMC)

ANNEX 4.3: BUSINESS MODEL CANVAS PLAN

ANNEX 4.4: UNIQUE VALUE PROPOSITIONS

ANNEX 4.5: MARKETING MIX

ANNEX 4.6: SALES FORECASTS

ANNEX 4.7: OPERATIONS PLAN

ANNEX 4.8: FIXED ASSETS REQUIREMENTS

ANNEX 4.9: COST STRUCTURE

ANNEX 4.10: EXECUTIVE SUMMARY



| STM PART 2

## ANNEX 4.1: THE 5 COMMON MISTAKES

### THE FIVE COMMON MISTAKES

A Business Improvement Planning (BIP) process requires serious concerns and willingness of the entrepreneur. The most five common mistakes happen during the planning process can be described as follows:

a. **Defining the customer segments broad**
   For e.g. females, men, teachers. We need to narrow the definition describing 'a day-in-the-life' of this target customer. Later we can expand, if necessary.
b. **Wrong focused value propositions**
   Instead of focusing on being the best, focus on being unique. This will help you create unique value to your customers.
c. **Key Activities are similar to those of the competitors**
   We need to identify our competitive advantage and differentiate in all ways to create the unique value.
d. **Cost structure is not matching to the unique activities and resources**
   We need to include all the costs to considering the viability. E.g. micro and small enterprises do not include a salary to their time and efforts. The total costs have to be less than the predicted revenue streams.
e. **Not sure about what are the activities you should not perform**
   We try to be everything to everyone. Not always more is better. Identify the 'Not to do' lists.

## ANNEX 4.2 THE BUSINESS MODEL CANVAS

### THE BUSINESS MODEL CANVAS (BMC)

The business model canvas exercise helps the entrepreneurs plan for and describes the rationale of how to create, deliver and capture value. It has nine building blocks showing logic of how an enterprise intends to make money. The nine building blocks cover four main areas of the business; customers, offer, Infrastructure and financial viability.

Participants have worked on their business analysis and strategic options. The Business Model Canvas helps them to test the financial viability of their strategy and enables preparing their Business Improvement Plan (BIP)s.

The nine building blocks are:

1. **Customer Segments**: Enterprises service one or several customer segments
2. **Value propositions**: they seek to solve customer problems and satisfy customer needs with value propositions.
3. **Channels:** Value propositions are delivered to customers through communication, distribution, and sales channels.
4. **Customer relationships** are established and maintained with each customer segment
5. **Revenue Streams** result from value propositions successfully offered to customers
6. **Key resources** are the assets required to offer and deliver the previously described elements
7. **Key activities** are number of key activities necessary
8. **Key partnerships**: Some activities are outsourced and some resources are acquired outside the enterprise
9. **Cost structure**: The business model elements result in the cost structure.

Using these building blocks an entrepreneur visualise various aspects using 'Post –it' notes which will be later provide facts for the Business Improvement Plan (BIP).

*Source: Adapted from Business Model Generation; Alexander Osterwalder & Yves Pigneur; 2010*

# THE BUSINESS MODEL CANVAS

### Key Partnerships
*Who are our Key Partners? Who are our key suppliers? Which Key Resources are acquiring from partners? Which Key Activities do partners perform?*

Four types of possible partnerships:

- Strategic Alliances- between non-competitors
- Coopetition – between competitors
- Joint ventures to develop new businesses
- Buyer supplier relationships to assure reliable supplies

### Key Activities
*What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?*

### Key Resources
*What key Resources do our Value Propositions require? The Distribution Channels? Customer Relationships? Revenue Streams?*

### Value Propositions
*What values do we deliver to the customer? Which one of customer's problems are we helping to solve? Which customer needs are we satisfying?*

Value proposition may come from
- newness (fresh harvest),
- cost reduction (special price)
- performance (easy cook),
- customization (organic, cleaned),
- convenience/usability (special packaged),
- price (supermarkets, special provision stores, mobile banks), and
- risk reduction (service guarantees)

### Customer Relationships
*What type of relationship customers do expect? Costly? How does it integrate with rest of the BMC?*

### Channels
*Through which channels do our customers want to be reached and cost-efficient?*

*Are we integrating them with customer routines?*

### Customer Segments
*For whom are we creating value?*

*Who are our most important customers?*

Customer groups represent different segments, if:

- their needs <u>require and justify</u> a distinct offer,
- they are reached <u>through different distribution</u> channels,
- they require <u>different</u> types of <u>relationships</u>,
- they have <u>different profit earning potentials</u>, and
- they are <u>willing to pay for unique offers</u>.

### Cost Structure
*What are our most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?*

### Revenue Streams
*For what value are the customers willing to pay? For what do they pay? How do they currently pay? What is the payment preference? How much does each Revenue Stream contribute to overall revenues?*

*Source: Adapted from Business Model Generation; Alexander Osterwalder & Yves Pigneur; 2010*

### Key Partnerships

### Key Activities

### Key Resources

### Value Propositions

### Customer Relationships

### Channels

### Customer Segments

### Cost Structure

### Revenue Streams

# ANNEX 4.3: BUSINESS MODEL CANVAS PLAN

## WHY DO WE NEED A PLAN (BMC PLAN)?

A Plan is a written tool that helps increase the odds for success and an accumulation of information and decisions made during the planning process of a business expansion and development. It helps you articulate how you are going to seize and execute your growth strategies. The preparation of a plan is an essential step in the business expansion process.

The prime feature of a plan is, the details of the business growth strategy identified, formulated and modified in the past training and coaching sessions is presented with marketing, financial forecasts and a roadmap for implementation. The BMC PLAN document is the SME Loop course outcome and helps to justify each participant's graduation. The document is also supporting SMEs accessing various Business Development Services (BDS) especially the business financing. Coaching 2 - Business Improvement and Linkages Development helps them reach these necessary BDSs.

At the end of Training 2, participants complete structuring their BIPs, understanding various business managerial know-hows and gathering essential facts to process. The plans are presented for viability test in the morning session of the Graduation Ceremony. On this day, in the morning each participant has an opportunity to present individually his/her prepared the BMC plan to one or more of the officers coming from financial institutions (business finance) and donor agencies (matching grants funds and micro financing options).

On this day, whether the participants are looking for business finance or not, everyone requires undergoing the viability test process which has a scoring system to evaluate the viability of the BIPs they have prepared and enabling them qualifying for the SME Loop graduation certificate.

In brief, a **BMC plan is:**

- A document which spells out the business growth strategies and implementation process.
- A structured guideline to achieve business expansion goals.
- A road map.
- A proposal that describes a business opportunity to financing agencies or investors and a discussion paper for possible funding assistance from banks and investors.
- A detailed action outlining every conceivable aspect of the proposed business development strategy.
- It is a record of the entrepreneurs' intentions, the historic background of the business development strategy, their reasons for undertaking it; and the different stages of strategy implementation.

## ELEMENTS OF BUSINESS MODEL CANVAS PLAN

Generally, business improvement is looked at as an additional financing requirement. SMEs tend to postpone a business development and improvement connecting with lack of finance. Training 1 and Training 2 coaching sessions help them to think and act out of the box and now they have their business growth strategies.

It is time to act on the growth strategy. A BMC PLAN prepares the SME to implement the growth strategy with systematic deliberations and steps. It is also helpful to identify additional financial requirements over the time period.

BIP as a road map guides the SME in its implementation and enable the SMEs to focus their efforts and commitments in the business improvement journey. The following are the elements of a BMC PLAN:

1. **EXECUTIVE SUMMARY**
2. **UNIQUE VALUE PROPOSITIONS**
3. **MARKETING MIX**
4. **SALES FORECASTS**
5. **OPERATIONS PLAN**
6. **FIXED ASSETS REQUIREMENTS**
7. **COST STRUCTURE**





# ANNEX 4.4: UNIQUE VALUE PROPOSITIONS

## VALUE PROPOSITIONS AND UNIQUE VALUE PROPOSITIONS

List the identified value propositions and the products and services of your business and describe them in detail. Describe the range of products/services and if possible, paste a picture with descriptions. Write the varieties, sizes, shapes, colours and any other special features your products/services. Find out Unique Value Propositions.

| Products / Services | Value Propositions | Unique Value Proposition (UVP) |
|---|---|---|
| | *What values do we deliver to the customer?*<br> *Which one of customer's problems are we helping to solve?*<br>*Which customer needs are we satisfying?* | **Relevant** – explaining how the product will help solve the customer's problem or improve their situation<br>**Quantifiable** –clarifying the specific benefits that a customer is going to receive<br>**A differentiator** – outlining to your customers how you are different from your competition and why they should buy from you<br>**It is clear and easy to understand**<br>**Could be read and understood in 8 seconds or less** |
| *E.g; Bread* | *E.g; Choices, home delivery, varieties, cheaper comparatively & tasty* | *E.g; "Fresh, hot bread, available from 7 am to 3 pm, taste guaranteed."*<br>*(It is relevant, beautifully includes three product benefits and a meaningful time – not quick, soon, fast but a minute.* |
| | | |
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# ANNEX 4.5: MARKETING MIX

## MARKETING MIX

Marketing Management is the process of planning, developing and implementing marketing strategies which includes product/service, price, place and promotion. A planned mix of the controllable elements of a product's marketing plan commonly termed as 4Ps: product, price, place, and promotion. These four elements are adjustable and controllable. An entrepreneur can modify and adjust each item in a way that he/she finds the right combination that serves the needs of the product's customers while generating maximum income.

### The Marketing Mix Elements


## PRODUCT

Customers are not buying goods or services – they are really buying specific benefits and value from the total offering. We term this total offering to customers "the offer"; it represents those benefits that customers derive from the purchase of good or services. The tangible and intangible features, attributes and benefits, which cluster around the core product. These include packaging, advertising, financing, availability, advice, warranty, reliability, etc.

## PRICE

Price plays a pivotal part in the marketing mix because pricing attracts revenues to a business. Pricing decisions are significant in determining the value for the customer and play a role in the building of an image for the firm. It also gives a perception of the quality level. Branding also allows homogeneous products to be differentiated and allows a premium pricing strategy to be adopted. Simple cost-plus price structures lose many of the advantage that can be gained, therefore, pricing needs to be viewed from a marketing-oriented perspective.

## PLACE

Location is concerned with the customer convenience and the business location and the reach. An entrepreneur can use various existing channels to reach the target customers. These channels are distribution channels. Using middlemen, agents, distributors and retail chains are some of the place strategies. For example, online shops Vs Retail shop. Some questions an entrepreneur can ask when deciding on place strategy are:



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- What does the market require? Is servicing a big factor?
- What are the trends within the sector? Could a competitive advantage be obtained by getting closer to the customer?
- Does the organization have an obligation to locate in convenient sites?

## PROMOTION

Promotion is the means by which the firm communicates with its target markets. Within the communications mix there are a wide variety of alternative communications and promotions tools which can be used. The steps to integrating them within a promotion and communication program consist of several key tasks.

<u>Promotion Message Development</u>

The customer moves through stages of attention, interest, desire and action.

- Message content – what to say?
- Message structure – how to say it logically?
- Message style - creating a strong presence, and
- Message source – who does the presentation?

Please refer your Training 1: Business Analysis Handbook for details about Marketing Mix. Always start with competitors' strategies and their Value Propositions. Here, you elaborate the UPV in more details using the 4P's elements as given below:

This part of the exercise will help you to identify the cost elements easily.

***Product strategy**:* *What are the special features? You can focus on quality, branding, packaging, customer service, etc.*

***Place /Distribution Strategy**:* *How are the products made available to the customers? Explain the major distribution channels.*

***Promotion Strategy:*** *Howtocommunicateabouttheproductstothetargetedbuyers?Dotheyuseadvertising,personal selling, sales promotion, direct marketing or publicity?*

***Price Strategy:*** *What is the pricing strategy? Is it demand, cost or competitor-oriented?*

| Marketing Strategy elements | Competitors' Marketing Strategy | The Business Marketing Strategy |
|---|---|---|
| **Product** | 1.<br>2.<br>3. | |
| **Place (Distribution)** | 1.<br>2.<br>3. | |
| **Promotion** | 1.<br>2.<br>3. | |
| **Price Strategy** | 1.<br>2.<br>3. | |





## ANNEX 4.6: SALES FORECASTS

### SALES FORECAST

The sales forecast is crucial. The sales forecast decides the rest of the projections. It is important to make realistic assumptions. Take into account the nature of product and their returns and damages, which may incur during storage, sales and marketing.

**STEP 1:** The total volume is the figure you carry forward to your operations strategy. Can you produce this volume of products or services in one year.

- ✓ You can forecast based on how much you can produce. How much can you produce per month and multiply by 12 to get the yearly sales volume.
- ✓ You can also use the demand analysis where you will think about how many people would like to buy from you? You can start for a month and multiply by 12.
- ✓ Identify the realistic sales volume you can meet for the year. **Important!**

| Product name | Target Segments (your buyers) | How much you can sell? (one customer at a time and the quantity) | How many people will buy? | Indicate the quantity of sales per month | Mention the quantity of forecasted sales per year |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| | | | | | |
| | | | | | |
| **TOTAL FORECASTED SALES VOLUME** | | | | | |

**STEP 1:** Introduce your range of products/services and their unit price list. Consider the wholesale and retail prices, discounts, promotion pricing, etc. Total Sales Value should tally with the Total sales Forecast.

| Products or service | Unit Per season / month | Price per unit | Total Sales Units (Year) | Total Sales (Year) Money Value |
|---|---|---|---|---|
| | | | | |
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| | | | | |
| **TOTAL SALES FORECAST FOR THE FIRST YEAR** | | | | |

# ANNEX 4.7: OPERATIONS PLAN

## OPERATION STRATEGY

This is the chart showing the key activities, responsible person, managerial tasks, required resources, time plan and the budget requirement.

You will summarise all the activities identified in the previous sessions mainly BMC, Marketing Strategy and the Process Flow Chart. Identify the relevant cost and time requirements. If necessary, break down the Key Activities into sub activities.

| Key Activities | Time requirement Mention by months/ weeks | Required Physical Resources | Required Human Resources | Management & Responsible Persons | Budget Allocation Requirement |
|---|---|---|---|---|---|
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# ANNEX 4.8: FIXED ASSETS REQUIREMENTS

## FIXED ASSET FOR BUSINESS OPERATION AND DEPRECIATION COST

What are the fixed assets required for THE BUSINESS OPERATION? Check the purchase price of those fixed assets and enter them here. Allocate the depreciation using the depreciation table given below.

| | Description of assets | Specifications | Purchase price (a) | Estimated life in years (b) | Depreciation per year (a/b) |
|---|---|---|---|---|---|
| | Name Board | | | | |
| | | | | | |
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| | | | | | |
| Total fixed assets *[Carried forward to The Total Investment Cost in section 5, The Financial Plan]* | | | | | |
| | | | | TOTAL DEPRECIATION | |

***Note: Depreciation or capital allowance rates vary nation to nation. Please prepare in advance to get the right depreciation rates for various assets.***

## ANNEX 4.9: COST STRUCTURE

### A. RAW MATERIAL REQUIREMENTS AND EXPENSES

[What raw materials do you require? How much do you expect to need to produce per month? Then calculate it for a year. Then find out the cost per year. Start with the sales forecast.]

| Description of Raw Material | Unit Price | Total Quantity required per month | Total cost per month (a) | Total cost per year (a) x 12 |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **RAW MATERIAL COST REQUIREMENT FOR ONE YEAR** | | | | |

### B. LABOUR REQUIREMENTS AND COST

[What type of labour you need? How many of them do you require? How much do you pay?]

Consider the total forecasted sales as a basis to assume your production volume for the year.

Calculate your raw material and labour requirement including your labour.

| Type of Labour (Direct and Indirect, Skilled, seasonal or fully time etc.) | Number of employment (A) | Salary per month including tax/pension contributions (B) | Total monthly cost (A x B) | Total cost per year (AxBx12) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **TOTAL PRODUCTION/OPERATION LABOUR COST FOR ONE YEAR** | | | | |



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### C. PRODUCTION /OPERATION OVERHEAD EXPENSES

| Type of Cost | Total monthly cost | Total cost per year |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| **PRODUCTION OVERHEAD EXPENSES FOR ONE YEAR** | | |

[What are the overheads requirements? These are mainly the energy, insurance, water, rent, rates and other bills we pay monthly.]

### D. SUMMARY OF TOTAL PRODUCTION EXPENSES

[What is the total production cost?]

| | Category | Year 1 |
|---|---|---|
| 1 | Total raw materials cost | |
| 2 | Total production labour cost | |
| 3 | Total production overheads | |
| 4 | Depreciation of fixed assets - production | |
| **TOTAL PRODUCTION EXPENSES FOR ONE YEAR** | | |

## E. THE TOTAL BUSINESS OPERATIONS

What expenses do you envisage to incur on your business operations for the coming years? For example, what will be the cost of sales personnel, and other overheads such as promotion, rent, electricity, etc.?

Consider all the key activities relevant to the business activities. Check all your previous works on the BMC, Marketing Strategy and Process Flow Chart

| | Expenses | Cost per unit/ month/period | Number of unit/ month/ period | Total for the year (Naira) |
|---|---|---|---|---|
| 1. | Fixed Assets Depreciation | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| 2. | Business Operation –production/service delivery/ trading | | | |
| | Raw materials (Use the table below to calculate the raw materials requirement and cost) | | | |
| | Direct Labour Requirement (Use the table below to calculate the direct labour requirements) | | | |
| | Operation Overheads (Use the table below to calculate the Operations Overheads) | | | |
| | | | | |
| 3. | Marketing Expenses | | | |
| | | | | |
| | | | | |
| | | | | |
| 4. | Management Expenses (e.g. your wages and salary) | | | |
| | | | | |
| | | | | |
| 5. | Financial Expenses (e.g. loan interest) | | | |
| | | | | |
| | | | | |
| | **TOTAL EXPENSES FOR ONE YEAR** | | | |





## ANNEX 4.10: EXECUTIVE SUMMARY

### EXECUTIVE SUMMARY

*An executive summary summarises the key points of the plan for its readers, saving them time and preparing them for upcoming content.*

**[Briefly introduce yourself, your business experience and your business]**

**[Describe briefly your business growth strategy and its rationale]**

**[Explain the business model in brief]**

**(Explain in brief your marketing strategy]**

**[Write a few lines about your operation strategy, management and the time plan]**

**[Mention the Total Project Cost, the expected additional capital and the loan (if any), the BEP and the ROI and Profitability ratios.**

# 5. Business Improvement Plan (BIP)

Preparing the Business Improvement Plan (BIP) is the main purpose and primary learning objective in this phase. All participants engage in the process of preparing their plans. The process requires many preliminary works which have been realised in the past phases and in this training day 1 sessions. It is time to introduce a format for a BIP.

The prime feature of the BIP is, the details of the business growth strategy identified, formulated and modified in the past training and coaching sessions is presented with marketing, financial forecasts and a roadmap for implementation. The BIP document is the SME Loop course outcome and helps to justify each participant's graduation. The document is also supporting SMEs accessing various Business Development Services (BDS) especially the business financing. Coaching 2 - Business Improvement and Linkages Development helps them reach these necessary BDSs.

At the end of Training 2, participants complete structuring their BIPs, understanding various business managerial know-hows and gathering essential facts to process. The BIPs are presented for viability test in the morning session of the Graduation Ceremony. On this day, in the morning each participant has an opportunity to present individually his/her prepared BIP to one or more of the officers coming from financial institutions (business finance) and donor agencies (matching grants funds and micro financing options).

On this day, whether the participants are looking for business finance or not, everyone requires undergoing the viability test process which has a scoring system to evaluate the viability of the BIPs they have prepared and enabling them qualifying for the SME Loop graduation certificate.

## 5.1. Introduction to Busines Improvement Plan

This is an exercise to introduce the business improvement plan elements in a participatory approach. Participants act as bankers and ask questions relevant to their given topics.

| | |
|---|---|
| **Objectives:** | • To introduce the BIP structure and elements;<br>• To enable participant preparing their own BIPs for their finalised business growth strategies;<br>• To present systematically the identified, formulated and finalised business growth strategy |
| **Aims/Results:** | • Participants understand the necessity of preparing the BIPs, gain management knowledge and skills and start preparing their BIPs. |
| **Initial Preparations:** | • Read and understand the BIP structure<br>• Write down all the elements in cards differentiating the elements by using colour cards<br>• Other Visual Aids |
| **Required Resources:** | • SME Loop Trainer<br>• Soft board<br>• Marker pens<br>• Coloured Zopp cards |
| **Checklist:** | ✓ Grouping energiser<br>✓ Ready to play the role of an entrepreneur with a sample business growth strategy<br>✓ BIP elements written on cards<br>✓ Visual Aids |





| Time min. | Brief Content | Session Implementation Guidance |
|---|---|---|
| 15 | **Introduction** | Introduce the BIP and the prime feature of the BIP. Refer the session brief above.<br>Check with participants their interest to prepare the BIPs and invite them recapitulating the importance of BIP.<br>*[The prime feature of the BIP: the details of the business growth strategy are identified, formulated and modified in the past training and coaching sessions. Also they are presented with marketing, financial forecasts and a roadmap for implementation. The BIP document is the SME Loop course outcome and helps to justify each participant's graduation. The document is also supporting SMEs accessing various Business Development Services (BDS) especially the business financing. Coaching 2 Business Improvement and Linkages Development helps them reach these necessary BDSs.]*<br><br>Inform the participants that at the end of Training 2, they complete structuring their BIPs, and will be able to understand various business managerial know-hows and gather essential facts to process. The BIPs are presented for a viability test in the morning session of the Graduation Ceremony. On this day, in the first session, each participant has an opportunity to present individually his/her prepared BIP to one or more of the officers coming from financial institutions (business finance) and donor agencies (matching grants funds and micro financing options).<br><br>Hence, on this day, whether the participants are looking for business finance or not, everyone requires undergoing the viability test process which has a scoring system to evaluate the viability of the BIPs they have prepared and enabling them qualifying for the SME Loop graduation certificate.<br>It is time to get to know the elements of a BIP. |
| 45 | **Role play exercise** | Invite participants to play a role-play exercise. It is an exercise where the participants play the role of a financial institution; the bank and the trainer is played by an entrepreneur.<br>Inform them that the entrepreneur have come to the bank for business financing solution.<br>Here, the class is the bank and the participants are the officers asking questions about the entrepreneur's business finance requirement.<br><br>**<u>Instructions:</u>**<br>a. Officers work in groups under given title<br>b. They can ask 7 questions relevant to their topic.<br>c. The right questions are given scores.<br>d. The competition is about which group gain more scores. (If possible announce a gift)<br>e. The group has a preparation time of 10 minutes to prepare for the questions.<br><br>Group the class into **<u>four using an energizer</u>**. Name each group: Business Model, Marketing, Operations and Finance Management.<br><br>After 10 minutes of preparations sit in front of the class with already prepared cards. Refer for BIP elements ***Annex :5.1.2: Elements of BIP***.<br><br>Formerly introduce yourself as an entrepreneur to the class. Inform them that you are looking for business finance and have visited their banks number of times. On their request, today you have come for a discussion with your BIP ready. (If they ask for a copy of BIP, give a blank paper, otherwise, avoid talking about BIP copies). |

| | | |
|---|---|---|
| | | Invite each group to ask their questions in order. Post the title card on the soft board.<br>If the question the group ask is right and relevant, answer the question and post the relevant BIP element card on the soft board under their title. One card depict one score for the group. Maximum a group can get 7 scores. One score per question. When the group ask a question not relevant to their title or BIP don't answer. Instead invite for another question and don't let them ask more than 7 questions.<br><br>Give all four groups their opportunities to ask their 7 questions. At the end, count the scores/cards pinned on the board and announce the winning group. Appreciate the winning group.<br><br>If time permits and not enough questions are coming and groups are not scoring at all switch the titles among groups. Invite them to ask 1 or two questions per group.<br><br>Introduce the full set of elements using the balance cards. |
| 10 | Handbook Exercise | Request the participants to find out the BIP Elements and the exercise in the handbook. Go through briefly.<br>Invite them to start preparing their BIPs.<br>Request them to verify their understandings about BIP and the elements by going through the details. |
| 10 | Business Description | Invite participants to start writing their BIP. Introduce the session 1: Description of the Business and the Business Growth Strategy.<br>Guide them |
| 10 | Summary & Conclusion | Remind them about their homework on BMC and refer the Handbook page. (BIP Section 2: Business Formation)<br>Summarise and conclude.<br>Remind about the homework on BMC.<br>Distribute the Daily Evaluations.<br>Wind-up for the day. |

**Follow up:** Business Model Canvas Homework
Marketing Strategy

**Annex:** ANNEX: 5.1.1: WHY DO WE NEED A BIP?

ANNEX: 5.1.2: ELEMENTS OF BIP





# ANNEX: 5.1.1 WHY DO WE NEED A BIP?

## WHY DO WE NEED A BUSINESS IMPROVEMENT PLAN (BIP)?

A Business Improvement Plan (BIP) is a written tool that helps increase the odds for success. A Business Improvement Plan (BIP) is an accumulation of information and decisions made during the planning process of a business expansion and development. It helps you articulate how you are going to seize and execute your growth strategies.

The preparation of a Business Improvement Plan (BIP) is an essential step in the business expansion process. The BIP prepares you for the strategy implementation and for making decisions about the business formation and business financing.

The prime feature of the BIP is, the details of the business growth strategy identified, formulated and modified in the past training and coaching sessions is presented with marketing, financial forecasts and a roadmap for implementation. The BIP document is the SME Loop course outcome and helps to justify each participant's graduation. The document is also supporting SMEs accessing various Business Development Services (BDS) especially the business financing. Coaching 2 -Financing and Linkages Development helps them reach these necessary BDSs.

At the end of this Training 2, participants complete structuring their BIPs, understanding various business managerial know-hows and gathering essential facts to process. The BIPs are presented for viability test in the morning session of the Graduation Ceremony. On this day, in the morning each participant has an opportunity to present individually his/her prepared BIP to one or more of the officers coming from financial institutions (business finance) and donor agencies (matching grants funds and micro financing options).

On this day, whether the participants are looking for business finance or not, everyone requires undergoing the viability test process which has a scoring system to evaluate the viability of the BIPs they have prepared and enabling them qualifying for the SME Loop graduation certificate.

In brief, **A Business Improvement Plan (BIP) is:**

- A document which spells out the business growth strategies and implementation process.
- A structured guideline to achieve business expansion goals.
- A road map.
- A proposal that describes a business opportunity to financing agencies or investors and a discussion paper for possible funding assistance from banks and investors.
- A detailed action outlining every conceivable aspect of the proposed business development strategy.
- It is a record of the entrepreneurs' intentions, the historic background of the business development strategy, their reasons for undertaking it; and the different stages of strategy implementation.

ANNEX: 5.1.2 ELEMENTS OF BIP

## ELEMENTS OF BUSINESS IMPROVEMENT PLAN (BIP)

Generally, business improvement is looked at as an additional financing requirement. SMEs tend to postpone a business development and improvement connecting with lack of finance. The Phase 1&2 training and coaching sessions help them to think and act out of the box and now they have their business growth strategies.

It is time to act on the growth strategy. A BIP prepares the SME to implement the growth strategy with systematic deliberations and steps. It is also helpful to identify additional financial requirements over the time period.

BIP as a road map guides the SME in its implementation and enable the SMEs to focus their efforts and commitments in the business improvement journey. The following are the elements of a BIP:

Executive Summary

1. **Description of business and the current Status**
   a. Products and Services
   b. Business Growth Strategies

2. **Business Formation**
   The nine building blocks of the Business Model Canvas

3. **Marketing Strategy**
   a. Customer Segments and Area Coverage
   b. Value Propositions and Unique Value Propositions
   c. Marketing Mix
   d. Sales Forecast
   e. Marketing Expenses

4. **Business Operations Strategy – Process Flow Chart and Gantt Chart**
   a. Process Flow Chart
   b. Key Activities with time
   c. Human Resource Requirements, Responsibilities and Management
   d. Required Resources and Budget Estimation
   e. Critical Success Factors

5. **Financial Plan**
   a. Total Project Cost & Business Financing
   b. Cashflow Forecast
   c. Break-Even Point analysis
   d. Profit & Loss Account and Balance sheet
   e. Financial Ratio Analysis





# 5.2. Marketing Strategy

This is the session about the marketing strategy description of the business growth strategy. Participants are familiar with marketing mix and marketing strategy. They had a market exercise and analysis of their existing marketing strategy during the Training 1: Business Analysis. However, the value propositions and unique value propositions are new for them. The Trainers need to invest time and efforts to bring out the concepts and build in the marketing strategy.

Here, the session helps them to describe their marketing strategy in detail with sales and marketing expenses forecasts. Participants do their working mainly in their handbooks.

| | |
|---|---|
| **Objectives:** | • To introduce the elements of marketing strategy<br>• To guide and coach for market strategy Preparations<br>• To enable the participants identify their **Competitive Advantage** and formulating their **Unique Value Propositions (UVP)** |
| **Aims/Results:** | • Participants prepare the BIP: Marketing Strategy which includes their Unique Value Propositions differentiating the business from competitors and highlighting their competitive advantage. |
| **Initial Preparations:** | • Read and understand the Market Strategy<br>• Prepare examples of UVPs<br>• Read the handbook: Marketing Strategy<br>• Visual Aids |
| **Required Resources:** | • SME Loop Trainer<br>• Soft board<br>• Flipchart papers<br>• Marker pens<br>• Zopp cards |
| **Checklist:** | ✓ Examples of UVPs<br>✓ Visual Aids |

| Time min. | Brief Content | Session Implementation Guidance |
|---|---|---|
| 5 | **Introduction** | After the Daily Recurring Activities remind their homework on BMC.<br>Check on their completion.<br><br>Introduce the Marketing Strategy Elements<br><br>**Marketing Strategy**<br>a. Customer Segments and Area Coverage<br>b. Value Propositions and Unique Value Propositions<br>c. Marketing Mix<br>d. Sales Forecast |
| 20 | **Value Propositions and Unique Value Propositions** | Explain the Value Propositions<br><br>Value Propositions<br>What values do we deliver to the customer?<br>Which one of customer's problems are we helping to solve?<br>Which customer needs are we satisfying?<br><br>Value is in the eye of the beholder. Value Proposition is kind of a **Cost Vs Benefits** Formula.<br><br>The benefits of buying your products are evaluated subconsciously and automatically in your customers mind when they encounter your marketing touch point.<br><br>Think of it as an equation, balancing the perceived benefits and perceived cost of transacting with your brand.<br><br>On the other hand "*A Value Proposition is a promise of value to be delivered and acknowledged and a belief from the customer that value will be appealed and experienced.*"<br><br>eg.: Choices, home delivery, varieties, price and quality design, brand name, cheaper comparatively & tasty<br><br>Explain the **Unique Value Propositions and help them to formulate their 8 second statement using the five main criteria.**<br><br>**1)** **Relevant** – explaining how the product will help solve the customer's problem or improve their situation<br>**2)** **Quantifiable** –clarifying the specific benefits that a customer is going to receive<br>**3)** **A differentiator** – outlining to your customers how you are different from your competition and why they should buy from you<br>**4)** **It is clear and easy to understand**<br>**5)** **Could be read and understood in 8 seconds or less**<br><br>*E.g; "Fresh, hot bread, available from 7 am to 3 pm, taste guaranteed."*<br>*(It is relevant, beautifully includes three product benefits and a meaningful time – not quick, soon, fast but a minute.]* |





| | | |
|---|---|---|
| 30 | **Sales Forecasts** | The sales forecast is crucial. The sales forecast decides the rest of the projections. It is important to make realistic assumptions. Take into account the nature of product and their returns. Also damages which may occur during storage, sales and marketing need to be considered.<br>1) List your products and services and the related target groups.<br>2) For each customer or target group: think about how much you can sell (quantity) per month or season (column 3). You can forecast based on how much you can produce.<br>3) For each customer or target group: think about how many people can buy (number of people) per month or season (column 4). You can use the demand analysis where you will think about how many people would like to buy from you.<br>4) Think about and provide your assumptions and reasons behind your sales forecasts.<br>5) To estimate the quantity of sales (volume) per month or season, multiply the numbers contained in column 3 and 4.<br>6) To estimate the sales volume per year, convert the sales volume per month or season into a 12-month period. For example: if you have a monthly forecast, multiply by 12 to get the annual forecast.<br>7) To get the money value of your sales forecast multiply the quantities by the matching prices. Finally add all products total to get total sales forecast. |
| 5 | **Summarise and Conclude** | Summarise the Marketing Strategy contents. Ensure that everyone understand the exercise in their handbook.<br><br>There are marketing expenses which we need to consider in next session.<br>Invite them to do the operation strategy. |

**Follow up:** Operation Strategy

**Annex:** ANNEX: 5.2.1: ELEMENTS OF MARKETING MIX
ANNEX: 5.2.2: MARKETING STRATEGY (PLAN)

# ANNEX: 5.2.1: ELEMENTS OF MARKETING MIX

## ELEMENTS OF MARKETING MIX

A planned mix of the controllable elements of a product's marketing plan commonly termed as 4Ps: product, price, place, and promotion. These four elements are adjustable and controllable. An entrepreneur can modify and adjust each item in a way that he/she finds the right combination that serves the needs of the product's customers while generating maximum income. They are given below:

### 1. PRODUCT

Customers are not buying goods or services – they are really buying specific benefits and value from the total offering. We term this total offering to customers "the offer"; it represents those benefits that customers derive from the purchase of good or services. The tangible and intangible features, attributes and benefits, which cluster around the core product. These include packaging, advertising, financing, availability, advice, warranty, reliability, etc.

### 2. PRICE

Price plays a pivotal part in the marketing mix because pricing attracts revenues to a business. Pricing decisions are significant in determining the value for the customer and play a role in the building of an image for the firm. It also gives a perception of the quality level. Branding also allows homogeneous products to be differentiated and allows a premium pricing strategy to be adopted. Simple cost-plus price structures lose many of the advantage that can be gained, therefore, pricing needs to be viewed from a marketing-oriented perspective.

### 3. PLACE

Location is concerned with the customer convenience and the business location and the reach. An entrepreneur can use various existing channels to reach the target customers. These channels are distribution channels. Using middlemen, agents, distributors and retail chains are some of the place strategies. For example, online shops Vs Retail shop. Some questions an entrepreneur can ask when deciding on place strategy are:

- What does the market require? Is servicing a big factor?
- What are the trends within the sector? Could a competitive advantage be obtained by getting closer to the customer?
- Does the organisation have an obligation to locate in convenient sites?

### 4. PROMOTION

Promotion is the means by which the firm communicates with its target markets. Within the communications mix there are a wide variety of alternative communications and promotions tools which can be used. The steps to integrating them within a promotion and communication program consist of several key tasks.
Promotion Message Development

The customer moves through stages of attention, interest, desire and action.
- Message content – what to say?
- Message structure – how to say it logically?
- Message style - creating a strong presence, and
- Message source – who does the presentation?





# ANNEX: 5.2.2: MARKETING STRATEGY (PLAN)

## MARKETING STRATEGY

The marketing strategy contains a clear description of the products / services (the Value Propositions), target segments, sales forecasts, marketing mix and the estimated marketing expenses.

### A: TARGET CUSTOMER SEGMENTS AND AREA COVERAGE

I. List the products or services of your business you identified earlier

II. To whom do you plan to sell the products /services? Describe the target customer segments in the second column by referring to characteristics such as age group, income group, living area, family size, etc.

III. Where do you plan to sell the products/services? Describe the market area coverage for each product/ service. Pick a realistic proximity for area coverage. Name the place.

| Products / Services | Target Customer Segments<br><br>*For whom are we creating value?*<br>*Who are our most important customers?* | Area Coverage |
|---|---|---|
| *E.g; Bread* | *E.g; Working people, Elderly people coming to the hospital, young families with children live in Splott* | *E.g: Splott* |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

## B. VALUE PROPOSITIONS AND UNIQUE VALUE PROPOSITIONS

List the identified Value propositions and the products and services of your business and describe them in detail. Describe the range of products/services and if possible, paste a picture with descriptions. Write the varieties, sizes, shapes, colours and any other special features your products/services. Find out Unique Value Propositions.

| Products / Services | Value Propositions | Unique Value Proposition (UVP) |
|---|---|---|
| | *What values do we deliver to the customer?*<br> *Which one of customer's problems are we helping to solve?*<br>*Which customer needs are we satisfying?* | **Relevant** – explaining how the product will help solve the customer's problem or improve their situation<br>**Quantifiable** –clarifying the specific benefits that a customer is going to receive<br>**A differentiator** – outlining to your customers how you are different from your competition and why they should buy from you<br>**It is clear and easy to understand**<br>**Could be read and understood in 8 seconds or less** |
| *Eg; Bread* | *Eg; Choices, home delivery, varieties, cheaper comparatively & tasty* | *Eg; "Fresh, hot bread, available from 7 am to 3 pm, taste guaranteed."*<br>*(It is relevant, beautifully includes three product benefits and a meaningful time – not quick, soon, fast but a minute.* |
| | | |
| | | |
| | | |
| | | |
| | | |





## C: MARKETING MIX

Please refer your Training 1: Business Analysis Handbook for details about Marketing Mix. Always start with competitors' strategies and their Value Propositions. Here, you elaborate the UPV in more details using the 4P's elements as given below:

This part of the exercise will help you to identify the cost elements easily.

***Product strategy***: *What are the special features? You can focus on quality, branding, packaging, customer service, etc.*

***Place /Distribution Strategy***: *How are the products made available to the customers? Explain the major distribution channels.*

***Promotion Strategy:*** *Howtocommunicateabouttheproductstothetargetedbuyers?Dotheyuseadvertising,personal selling, sales promotion, direct marketing or publicity?*

***Price Strategy:*** *What is the pricing strategy? Is it demand, cost or competitor-oriented?*

| Marketing Strategy elements | Competitors' Marketing Strategy | The Business Marketing Strategy |
|---|---|---|
| **Product** | 1.<br>2.<br>3. | |
| **Place (Distribution)** | 1.<br>2.<br>3. | |
| **Promotion** | 1.<br>2.<br>3. | |
| **Price Strategy** | 1.<br>2.<br>3. | |

## D: SALES FORECAST

The sales forecast is crucial. The sales forecast decides the rest of the projections. It is important to make realistic assumptions. Take into account the nature of product and their returns and damages, which may incur during storage, sales and marketing.

**STEP 1:** The total volume is the figure you carry forward to your operations strategy. Can you produce this volume of products or services in one year.

- ✓ You can forecast based on how much you can produce. How much can you produce per month and multiply by 12 to get the yearly sales volume.
- ✓ You can also use the demand analysis where you will think about how many people would like to buy from you? You can start for a month and multiply by 12.
- ✓ Identify the realistic sales volume you can meet for the year. **Important!**

| Product name | Target Segments (your buyers) | How much you can sell? (one customer at a time and the quantity) | How many people will buy? | Indicate the quantity of sales per month | Mention the quantity of forecasted sales per year |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| | | | | | |
| | | | | | |
| TOTAL FORECASTED SALES VOLUME | | | | | |

**STEP 1:** Introduce your range of products/services and their unit price list. Consider the wholesale and retail prices, discounts, promotion pricing, etc. Total Sales Value should tally with the Total sales Forecast.

| Products or service | Unit Per season / month | Price per unit | Total Sales Units (Year) | Total Sales (Year) Money Value |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| TOTAL SALES FORECAST FOR THE FIRST YEAR | | | | |





# 5.3. Business Operations Strategy

SMEs have worked on their Business Formation Strategy using the Business Model Canvas. In the previous session: Marketing Strategy they have identified the Unique Value Propositions (UVPs) and their future predicted sales. The sales forecasts are justified with their marketing mix and UVPs. However, to meet these forecasted sales, the SMEs require production or service delivery capacity. Otherwise, all these forecasts may go wrong with the business operation capacity.

In this session they prepare their business operations strategy to ensure that they have the capacity to handle the predicted sales producing the right kind of products/ services, right time with right quality.

In this planning for production/service delivery/business operation task, they will modify their already prepared Operation Process Flow Chart in Training 1. The tool will help them to ensure the operation capacities in terms of machineries, equipment, labour, management, access to raw materials and other resources. In the end, they identify relevant expenses and costs which bridge the way to plan the finance requirements and additional capital requirements.

| | |
|---|---|
| **Objectives:** | • To plan operation capacity and identify necessary resources requirements<br>• To plan the growth strategy implementation<br>• To identify and compute the relevant expenses |
| **Aims/Results:** | • Business Improvement Plan (BIP) for the growth strategy |
| **Initial Preparations:** | • Read and understand the Handbook workings<br>• Read the Process Flow Chart Guidance<br>• Visual Aids preparations for each expense tables<br>• Examples for Process Flow Chart and Calculations |
| **Required Resources:** | • SME Loop Trainer<br>• Soft board<br>• Flipchart papers<br>• Marker pens<br>• Flip Chart Board |
| **Checklist:** | ✓ Visual Aids<br>✓ Examples |

| Time min. | Brief Content | Session Implementation Guidance |
|---|---|---|
| 10 | **Introduction** | After welcoming participants to the session and introducing the topic, remind them about their Training 1 - Business Analysis, where they prepared a process flow chart. (If they had a session on Process Flow Chart, otherwise introduce the symbols).<br>Introduce participants and request for their own process flow charts. Tell them now they are going to identify their major process in order to develop the operations strategy and the growth strategy implementation plan. |
| 30 | **Process Flow Chart** | Help the participants to identify major processes or products for the process flow charts. It may vary on the participants products /services and the growth strategy.<br>They can identify from their Business Model Canvas working – Key Activities or by a small brainstorming activity.<br>Introduce the symbols and introduce the Steps in preparing the process flow chart.<br><br>**STEPS:**<br>1. Select the product or process to chart.<br>2. Select the flow to chart. Unless otherwise specified, most flow charts show materials flow.<br>3. Trace the flow. In materials flow, start from raw materials storage and end in finished products storage.<br>4. Analyse the results. There are two ways to analyse flow charts. First, eliminate or minimize transports, inspections, delays and storages. Second, critically question a value-adding operation. Can it be eliminated or combined with other steps? If a value-adding operation is eliminated, a set of “make-readies” and “put-away” steps are likewise eliminated.<br><br>Guide them through each step.<br><br>Have they considered all the Key Activities identified in BMC? Check with them. |
| 40 | **Operation Strategy** | Explain the Operation Strategy table with an example.<br>For example: Ground nut butter production Key Activities are:<br><br>1. Purchase class 1 quality nuts<br>2. Inspection<br>3. Shelling and cleaning the nuts<br>4. Roasting the nuts at 425 °F (218 °C) for 50 minutes using an oven<br>5. Cooling down<br>6. Remove the skins by gentle brushing<br>7. Inspection<br>8. Clean the nuts (remove bad and brown nuts)<br>9. Ground the nuts using the motor mill for 10 minutes.<br>10. Add salt, preservative and anti-oxidant chemical (to prevent rancidity)<br>11. Pack in jars<br>12. Label the jars<br>13. Box them<br>14. label<br>15. Store |





| | | |
|---|---|---|
| | | These activities have labour, assets and expenses elements. Participants can identify the<br>fixed assets, labour and expenses requirements.<br>Encourage them to combine and group the activities according to the requirements and process. Let them prepare their Operations strategy.<br>Clear the doubts.<br>They need to come back again here to correct the details.<br>Coach them on preparing the table. They need to consider the sales volume which is the production volume. |
| 15 | **Fixed Assets and Depreciation** | Introduce the Fixed Assts and Depreciation table.<br>Invite them to list the necessary fixed assets identified in the previous task.<br>Ask them to classify lands, machinery, equipment, tools and fixers, computers. Introduce the depreciation concept. The rates are given in the SME Trainee Handbook 2.<br>Ask them to separate the production related fixed assets and their depreciations. |
| 15 | **Operation Expenses** | Introduce the Operation Expenses schedule.<br>Start with Fixed Assets Depreciation. They need to produce the volume which has been forecasted in the sales. Introduce the raw material, labour and other calculations using the tables given in the SME Loop Handbook2.<br>First help them to identify the production/service delivery expenses then proceed with filling the operation expenses table.<br>Remember |
| 5 | **Summary & Conclusion** | Summarise<br>Remind them they have time to complete the Operation Strategy part. The next exercise is Ring making. It will give them more understanding about costing and expenses.<br>They also receive coaching to prepare these schedules.<br><br>Invite them to the Ring Financing Exercise |
| | **Follow up:** | Ring Financing Exercise |
| | **Annex:** | ANNEX: 5.3.1 OPERATIONS STRATEGY (PLAN) |

ANNEX: 5.3.1 OPERATIONS STRATEGY

## BUSINESS OPERATIONS STRATEGY

### A: PROCESS FLOW CHART

**Flow chart** is the simplest tools for investigating manufacturing processes. By tracing the manufacturing sequence, it pinpoints actions that can be eliminated, combined or rearranged to achieve efficiency and economy.

What are the techniques, methods and processes that will be used in business and growth strategy implementation? Outline the steps involved in the right sequence

| Activity | Symbol | Meaning |
|---|---|---|
| OPERATION | ○ | The activity that brings the product to its further completion. |
| TRANSPORTATION | \| | Any movement of material or men in the operation. |
| INSPECTION | □ | Checking for quality. |
| DELAY | D | Signifies temporary delay or failure to accomplish a step. |
| STORAGE | △ | Material storage. |

**Follow the steps to prepare for your charts**

| STEPS | PREPARATIONS |
|---|---|
| 1. Select the product or process to chart. | |
| 2. Select the flow to chart. Unless otherwise specified, most flow charts show materials flow. | |
| 3. Trace the flow. In materials flow, start from raw materials storage and end in finished products storage. | |
| 4. Analyse the results. There are two ways to analyse flow charts. First, eliminate or minimize transports, inspections, delays and storages. Second, critically question a value-adding operation. Can it be eliminated or combined with other steps? If a value-adding operation is eliminated, a set of “make-readies” and “put-away” steps are likewise eliminated. | |





**Draw your Process Flow Charts here:**

## B: OPERATION STRATEGY

This is the chart showing the Key Activities, responsible person, Managerial tasks, required resources, time plan and the budget requirement.

You will summarise all the activities identified in the previous sessions mainly BMC, Marketing Strategy and the Process Flow Chart. Identify the relevant cost and time requirements. If necessary break down the Key Activities into sub activities.

| Key Activities | Time requirement Mention by months/weeks | Key resources required (Raw materials, Fixed Assets, building, machinery, equipment, energy, etc.) | Required Human Resources | Management & Responsible Persons | Budget allocation required |
|---|---|---|---|---|---|
| | | | | | |
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## C: FIXED ASSET FOR BUSINESS OPERATION AND DEPRECIATION COST

What are the fixed assets required for THE BUSINESS OPERATION? Check the purchase price of those fixed assets and enter them here. Allocate the depreciation using the depreciation table given below.

| | Description of assets | Specifications | Purchase price (a) | Estimated life in years (b) | Depreciation per year (a/b) |
|---|---|---|---|---|---|
| | Name Board | | | | |
| | | | | | |
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| | | | | | |
| | | | | | |
| **Total fixed assets** *[Carried forward to The Total Investment Cost in section 5, The Financial Plan]* | | | | | |
| | | | | **TOTAL DEPRECIATION** | |

### Checklist:

- ✓ Fixed assets are the assets you use in the business purposes such as advertisement and name boards, machineries, computers, equipments and tools, distribution vehicle, Promotion LED Monitors, etc. These are the assets you can use in the business more than a year.
- ✓ The fixed assets you already own and bring into the business marketing required to be valued at market value as the purchase price. These fixed assets are used by the business and we include them here.
- ✓ **For depreciation rates refer below.**
- ✓ We encourage you to have at least one name board for the business and it has a depreciation cost 50% (2 years life span). Please allocate the cost of the name board for your business.

## D: DEPRECIATION RATES /CAPITAL ALLOWANCE

**(This is an example and vary country to country)**

| | Assets | Annual Rate (%) | Initial | Years |
|---|---|---|---|---|
| 1 | Furniture and fittings | 10 | 20 | 10 |
| 2 | Office Equipment | 40 | 20 | 5 |
| | Computers | 40 | 20 | 2.5 |
| 3 | Motor Vehicle | 20 | 20 | 5 |
| 4 | Plant and equipment | 20 | 40/100 | 5 |
| 5 | Building | 5 | 10 | 20 |

## E: RAW MATERIAL REQUIREMENTS AND EXPENSES

[What raw materials do you require? How much do you expect to need to produce per month? Then calculate it for a year. Then find out the cost per year. Start with the sales forecast.]

| Description of Raw Material | Unit Price | Total Quantity required per month | Total cost per month (a) | Total cost per year (a) x 12 |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **RAW MATERIAL COST REQUIREMENT FOR ONE YEAR** | | | | |



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## F: LABOUR REQUIREMENTS AND COST

[What type of labour you need? How many of them do you require? How much do you pay?]

Consider the total forecasted sales as a basis to assume your production volume for the year.

Calculate your raw material and labour requirement including your labour.

| Type of Labour (Direct and Indirect, Skilled, seasonal or fully time etc.) | Number of employment (A) | Salary per month including tax/pension contributions (B) | Total monthly cost (A x B) | Total cost per year (AxBx12) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **TOTAL PRODUCTION/OPERATION LABOUR COST FOR ONE YEAR** | | | | |

## G: PRODUCTION /OPERATION OVERHEAD EXPENSES

| Type of Cost | Total monthly cost | Total cost per year |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| **PRODUCTION OVERHEAD EXPENSES FOR ONE YEAR** | | |

[What are the overheads requirements? These are mainly the energy, insurance, water, rent, rates and other bills we pay monthly.]

## H: SUMMARY OF TOTAL PRODUCTION EXPENSES

[What is the total production cost?]

| | Category | Year 1 |
|---|---|---|
| 1 | Total raw materials cost | |
| 2 | Total production labour cost | |
| 3 | Total production overheads | |
| 4 | Depreciation of fixed assets - production | |
| **TOTAL PRODUCTION EXPENSES FOR ONE YEAR** | | |





## I. THE TOTAL BUSINESS OPERATIONS

What expenses do you envisage to incur on your business operations for the coming years? For example, what will be the cost of sales personnel, and other overheads such as promotion, rent, electricity, etc.?

Consider all the key activities relevant to the business activities. Check all your previous works on the BMC, Marketing Strategy and Process Flow Chart

| | Expenses | Cost per unit/ month/period | Number of unit/ month/ period | Total for the year (Naira) |
|---|---|---|---|---|
| **1.** | Fixed Assets Depreciation | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **2.** | Business Operation –production/service delivery/ trading | | | |
| | Raw materials (Use the table below to calculate the raw materials requirement and cost) | | | |
| | Direct Labour Requirement (Use the table below to calculate the direct labour requirements) | | | |
| | Operation Overheads (Use the table below to calculate the Operations Overheads) | | | |
| | | | | |
| **3.** | Marketing Expenses | | | |
| | | | | |
| | | | | |
| | | | | |
| **4.** | Management Expenses (e.g. your wages and salary) | | | |
| | | | | |
| | | | | |
| **5.** | Financial Expenses (e.g. loan interest) | | | |
| | | | | |
| | | | | |
| **TOTAL EXPENSES FOR ONE YEAR** | | | | |

**Remember you need all these working to proceed further and you will come back here, when you prepare the financial planning.**

## 5.4. Financial Plan (Ring Financing Exercise)

This is a simulation to introduce the financial management and planning concepts: total project cost and sources of financing, profit and loss statement, loan repayment, cash flow, break-even Point and working capital.

Participants produce rings using paper with a fixed capital and working capital credit. Later they improve the quality and features of the rings in return their sales price per ring increases from 300 to 500 money value. On their record keeping ability they convince their bank to provide a business finance up to 10,000 money value. Increase the production scale. They also can save and accumulate their own capital. The groups have a lucky draw and the winning group will have an interest free business finance capital of 10,000 money value. It is a month of four weeks and each week is a round.

| | |
|---|---|
| **Objectives:** | • To introduce the financial planning and forecasting<br>• To experience and introduce the sources of financing and their pros & cons<br>• To enhance the financial management competencies<br>• To introduce the importance of record keeping<br>• To enable the participants to complete the financial part of the BIP |
| **Aims/Results:** | • Financial Management Competencies<br>• BIP: Financial Planning<br>• Sources of Financing |
| **Initial Preparations:** | • Read and understand the simulation<br>• Make ready all the visuals for implementation and financial projections<br>• Understand the financial planning concepts and elements in detail<br>• Set up the Lucky Draw Corner and Shop Corner (Raw Material supply and buying Rings)<br>• Visual Aids and Charts including the instructions<br>• Seating arrangements with tables with chairs for groups with Round 1: Pair of Scissors, ruler, Red and Amber coloured Post-it notes and 30 pieces of cut papers.<br>• **A written Zopp card placed on each group's table:**<br>Equity Capital € 10,000<br>Depreciation 10% per week<br>Overhead Cost € 1000, required to pay at the end of the Week 2/ Round 2.<br>A grouping energiser<br>30 cut pieces paper bundles |
| **Required Resources:** | • SME Loop Trainers<br>• Soft board<br>• Flipchart board<br>• Flipchart papers<br>• Marker pens<br>• Rulers<br>• Scissors<br>• 3 colours post it notes<br>• Cut papers (8 pieces from one A4 paper) bundled (30 pieces per bundle) -15<br>• Sample Ring<br>• Value added sample Ring<br>• Visual Aids (Annex 5.4.1 – Annex 5.4.8)<br>• Calculators<br>• Shop Name Boards<br>• Four Empty boxes<br>• Print outs of Annex 5.4.9: Month Calendar<br>• Pencils<br>• Bell<br>• Stop watch |



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| | |
|---|---|
| **Checklist:** | ✓ isual Aids<br>✓ Instructions<br>✓ Shops<br>✓ Grouping Energiser<br>✓ Written Zopp cards and Post it notes |

| Time min. | Brief Content | Session Implementation Guidance |
|---|---|---|
| 20 | **Introduction to the exercise** | Introduce the Exercise: Ring Financing Exercise, a Ring production game with two steps (fold and insert).<br>The objective of the exercise to introduce the financial planning and concepts in an easy and practical way.<br><br>Show the cut piece of a paper and fold in halves and insert the ends to make the Ring. This is the Ring they are going to produce. The market is immense and they can sell any amount. The buyer come to you to buy the Rings at € 500 per Ring. The supplier supplies the materials at the door for € 100 per sheet.<br><br>Introduce the Weekly Month Calendar given in **Annex 5.3.9**. There are 4 weeks. They will do the activities for 3 weeks. Each Day of the Weeks have a fixed task.<br>Mondays- buying raw materials<br>Tuesday – hiring the labour, appointing accountant for record keeping and fixing managerial responsibilities (how much to buy and sell, production management and looking for business improvements).<br>Wednesday – production of Rings and 5 minutes. They can produce any amount.<br>Thursday – selling the Rings<br>Friday – paying the supplier, salaries and wages.<br>Saturday – buying Groceries and home consumables. You say each one spends €300 at the shop. The accountant finalises the accounts.<br>Sunday – resting day and they can plan their week ahead.<br><br>The time periods are shorter except the wednesday all other days are 1-2 minutes. The Lead Trainer announces the day with the bell. Groups don't adhere time will lose the production and sales time.<br><br>No real money is handled. The values are recorded in a post it notes;<br>Sales – Green<br>Expenses – Red<br>Credit - Amber<br>Group them into **<u>7-member group</u>** using an energizer **<u>quickly.</u>** Don't waste time with an energizer. Every group has same number of members. Any extra person can go as an observer. Their task is preparing the accounts of the groups with the co-trainer.<br>Let the groups sit on their tables. Observers are assigned groups. |

| | | |
|---|---|---|
| 20 | **Round1 Week 1** | **Round 1- Week 1**<br>The capital is €10,000 on fixed assets; Depreciation 10% per week;<br>Overheads expenses € 1000 as per shown in the cards placed on their tables. **They pay the overheads at the end of Week 2 total €2000.** This is same for each group and we will see how groups improve their businesses.<br><br>The raw material supplier gives a credit of € 3, 000 i.e. 30 pieces. They are also placed on the table. On Friday you can pay back the credit in full. Distribute the Amber Post-it Notes written Credit € 3,000 to each group. The Post-it notes are used for money transactions. After verifying the understanding and their readiness to play the game, start the exercise, ringing the bell.<br><br>**Monday**<br>Their raw materials are on the table. Are they happy? When group agrees ring the bell. Don't give more than 2 minutes.<br><br>**Tuesday**<br>**NO PRODUCTION** on Tuesdays!<br>They need to hire and appoint personnel.<br>Do the groups appoint an accountant to do record keeping? Encourage and ensure they have a person to do accounting and records keeping.<br>How many labours are working in the factory? Who is the manager/owner? Give them Designation tags using the Post-it notes/Zopp cards. Ring the bell.<br><br>**Wednesday**<br>Production happens! Give 3 minutes! If they have not produced let them have 1 or 2 more minutes. Ring the Bell.<br><br>**Thursday**<br>Sales day!<br>You both trainers go with an empty box count the Rings and buy. Please don't engage in any marketing or sales promotions. Count and buy. Any rings not in the form of a Ring discard. Multiply the quantity by the price €500 and write in the Green Post-it Note the Sales amount and give to the Accountant. E.g. Total Sales €500 x 30 = €15,000.<br><br>**Friday**<br>**Pay** Day!<br>Ask them to pay the salaries and wages using the Red colour Post-it notes.<br>Labours - €1000 per person<br>Manager/owner - €2000<br>Accountant -€2000<br>e.g. in an 8-member group<br>Labours - €1000 x6 =6,000<br>Manager - €2000<br>Accountant -€2000<br>Total salaries and wages paid € 10,000.<br>Ask them to pay the Supplier € 3,000.<br><br>**Saturday**<br>It is a shopping day for labours and the manager/the owner. Each one spends €300 at the super market and give them a €2,100 Red Post-it notes.<br>Accountant prepares the accounts.<br><br>**Sunday**<br>Rest Day!<br>The owner can plan ahead.<br>Announce the end of Round 1- Week 1. Invite for sharing the learning.<br>Trainer complete the **Annex 5.4.1: PROFIT & LOSS ACCOUNT.** Don't provide more than 2 minutes. |



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| | | |
|---|---|---|
| 20 | **Processing the learning** | Ask about their profits. It will be € 5,000 or less their unsold Rings.<br>Ask them to prepare their P&L statement for the Week1. Remind them about the Overheads and Depreciation. They may add the as management expenses. Ask for verifications. Give them 3 minutes only.<br>Present your P&L for all groups. Check with their preparations. Explain and correct.<br>Profit & Loss can show your business profits as gross and net. Business in early years do not make high profits. As an entrepreneur eventually, you will learn by running the business. Some businesses do not give profit in first year at all.<br>Invite them for Week 2 where they are going to prepare P&L and Cash flow. |
| 20 | **Round 2 Week 2** | This week they have more than the double the money to buy raw materials. Supply the raw materials as per their requirement. But don't increase the credit. Raw material 30 pieces on credit and additional on cash.<br><br>In addition, the bank also gives them a loan of €2,000 @30% interest per week to buy raw materials.<br>Encourage the groups to get the loans and if they are willing give them a credit note (Amber Post-it note) of €2000.<br><br>Supply the raw materials and run the days as earlier.<br>On Saturday they need to prepare the P&L and the Cash flow Statement. |
| 30 | **Processing the Learning** | Ask for their record keeping.<br>First check with the P&L Statement prepared. This time they will have a better profit.<br><br>Present the cash flow statement given in **Annex 5.4.2; Cashflow Statement.** Give them 15 minutes to prepare the cashflow statement. Present the **Annex 5.4.3: Cashflow by Days.**<br>Ask them to present and check on the accuracy. Get the supports of the observers.<br>**Ensure the personal spending of €300 x7 per member don't come to the business accounting including the owner's expenses.**<br>If they get a loan, that come in the cashflow. |
| 30 | **Loan Re-payment** | For the cash flow statement did they consider the loan repayment? Did they pay the loan fully? Do they have money to produce for week 3?<br>Did they pay the both week Overheads expenses €2,000?<br>Introduce the loan repayment schedule in **Annex 5.4.4; Loan Re-payment Schedule.**<br>The bank is giving them an additional loan on 25% interest.<br>Request them to prepare their Loan Repayment Schedule for €5000. The cost of loan is €300. |
| 30 | **Break-even Analysis** | Explain the Break-even Analysis using the **Annex 5.4.5; The Break-even Analysis.**<br>Request them to prepare their Break-even Points. Explain further. |
| 30 | **Working Capital** | Explain the working capital taking their examples. Use the handout given in the **Annex 5.4.6; Working Capital** Analysis using the Ring Finance Exercise Results |
| 30 | **Total Project Cost** | Introduce the Total Project Cost and Financing as given in the **Annex 5.4.7: Total Project Cost & Financing.** |

| | | |
|---|---|---|
| 30 | **Balance Sheet as at…** | Introduce the Balance sheet given in the **Annex 5.4.8; Balance Sheet as at….** And ask them to prepare their Balance sheet as at end of Week 2. |
| 40 | **Round 3 Week 3** | If time permits run the Week 3.<br>Add the following to the exercise.<br>The owner has to train the trainers. It costed him €10,000.<br>He bought additional machinery for €10,000<br>He invested in another business €10,000. |
| 15 | **Summarise and Conclude** | Slowly verify their understandings of all the financial planning. If necessary, explain further. Encourage them prepare the plan.<br>Go through all the statements using their handbook<br>Conclude and invite them to prepare their own financial plan. |

**Follow up:** Sources of Financing and Preparation for Financial Plan

**Annex:** ANNEX 5.4.1: PROFIT & LOSS ACCOUNT
ANNEX 5.4.2: CASHFLOW STATEMENT FOR GROUPS
ANNEX 5.4.3: CASHFLOW BY DAYS
ANNEX 5.4.4: LOAN RE-PAYMENT SCHEDULE
ANNEX 5.4.5: BREAK-EVEN POINT ANALYSIS
ANNEX 5.4.6: WORKING CAPITAL ANALYSIS
ANNEX 5.4.7: TOTAL PROJECT COST
ANNEX 5.4.8; THE BALANCE SHEET AS AT….
ANNEX 5.4.9: THE CALENDAR





## ANNEX 5.4.1: PROFIT AND LOSS STATEMENT

### THE PROFIT & LOSS STATEMENT FOR THE PERIOD OF WEEK1

| | GROUP1 | GROUP2 | GROUP3 |
|---|---|---|---|
| **SALES** | | | |
| *Less:* Returns (5%) | | | |
| **NET SALES** | | | |
| *Less:* Cost of production | **10,000** | **10,000** | **10,000** |
| **RAW MATERIAL** | 3,000 | 3,000 | 3,000 |
| **LABOUR (For a 7-member group)** | 5,000 | 5,000 | 5,000 |
| **OVERHEADS INCLUDING DEPRECIATION ON FIXED ASSETS 10%. i.e. €1,000+€1,000** | 2,000 | 2,000 | 2,000 |
| **Gross Profit** | | | |
| *Less:* | | | |
| Marketing Expenses | | | |
| **Management Expenses**<br>**MANAGER'S SALARY**<br>**ACCOUNTANT'S SALARY** | 2,000<br>2,000 | 2,000<br>2,000 | 2,000<br>2,000 |
| Finance Expenses (Loan interest, bank charges, etc.) | | | |
| **Net Profit Before Tax** | | | |
| Less: Tax% | | | |
| **Net Profit After Tax** | | | |

NOTES:

1. **For week 1, there is no marketing or finance expenses. You only need the Cost of production and the management expenses. Only Sales may vary.**
2. **The money spent at the shop for personal consumption should not come here!**
3. **For other weeks, check whether participants prepare their P&L with right figures. You don't have to prepare. But observers prepare.**

# ANNEX 5.4.2: CASHFLOW STATEMENT

## CASHFLOW STATEMENT -WEEK 2

| | Group 1 | | Group 2 | | Group 3 | |
|---|---|---|---|---|---|---|
| | **Week1** | **Week2** | **Week1** | **Week2** | **Week1** | **Week2** |
| **CASH IN HAND** [Week 1 Sales – (Cost of production -depreciation)] | | | | | | |
| SALES | | | | | | |
| Bank Loan | | | | | | |
| *Less:* Other | | | | | | |
| **Total cash in flow** | | | | | | |
| Wages | 5000 | 5,000 | 5000 | 5,000 | 5000 | 5,000 |
| Salaries | 4000 | 4,000 | 4000 | 4,000 | 4000 | 4,000 |
| Raw material | 3000 | | 3000 | | 3000 | |
| Overheads | | 2000 | | 2000 | | 2000 |
| Loan repayment | | | | | | |
| Loan interest | | | | | | |
| Any other | | | | | | |
| **Total Cash out flow** | | | | | | |
| **Cash in hand /carried forward** | | | | | | |

As mentioned above, two basic financial statements of importance to entrepreneurs and management are balance sheet and profit & loss. We know that the balance sheet gives a summary of the business's resources (assets) and obligations (liabilities and equity) at a point in time; the profit & loss statement reflects the results of the business operations by summarising revenues and expenses during a period of time. Both these statements fail to explain the liquidity status of the business.

The liquidity aspects of the business show the business's ability to meet current obligations. The cash in hand and the assets easily convertible into cash make the business's liquidity status, which are very important to solve the day-to-day current obligations. Therefore, the management becomes interested in forecasting, planning and monitoring the cash flows in a business in order to ensure positive cash flows into the business and to take effective decisions in purchasing, loan repayment and working capital. Hence, the statement prepared for this purpose showing the cash in and out flows is called the Cash Flow Statement. An analysis of cash flows is useful for short-run planning.





Cash flow statement is a statement of changes in financial position on cash basis summarising the causes of changes in cash position between dates of two balance sheets. It indicates the sources and uses of cash. Sales, loans and equity make up inflows. The business is dependent on its customers, financiers and stakeholders. But in the process of producing goods and services, cash flows out to pay for materials, salaries (including the entrepreneur's), rent, electricity, water, interest, supply, transport, etc.

It has been identified that whatever the size of the business, its success depends on its cash inflow generation. The cash outflows are supposed to generate more cash inflows. Businesses having more cash outflows than cash inflows will soon get into trouble. They will not be able to pay for their expenses as they fall due. This is a difficult situation that every prospective entrepreneur should avoid.

But many entrepreneurs fail to realize the importance of cash flow planning. They constantly run the risk of being unable to settle most of their bills. Poor cash planning practice is a major cause for many small business failures.

The cash planning process begins with figuring out how much cash is generated from receipts as well as other sources like loans, etc. for a particular time period. This figure represents cash inflows. Obviously, credit sales are excluded since they are not cash until they are fully paid for. Then, figure out how much cash is needed to settle all expenses for materials, rent, salaries, and others. This figure represents cash outflows. Credit purchases are excluded since they are not cash transactions until they are fully paid for.

Preparing cash flow projection is easy and fun. It consists of cash **inflows** (or cash receipts) and cash **outflows** (or cash payments). Likewise, it will have spaces for beginning balance for the next month. The difference between cash inflows and cash outflows represents the **ending cash balance**. This cash balance within a period, say for a month, will automatically become the beginning balance for the next month. The aim is to ensure that the available cash will be sufficient to meet the needs and obligations of the proposed business. If there are more cash outflows than inflows, then measures, such as selling more products, converting personal assets to cash, borrowing some money, etc., must be initiated.

The profit figure generated by the profit and loss is not the cash in the business. In fact, some businesses can have very high profits but cash-less. Why?

Recall that profit consists of cash and non-cash items. Cash on the other hand, refers only to coins, bank deposits, notes and cheques. The non-cash items in profits consist of: credit sales, credit purchases, unpaid expenses, stocks, and depreciation.

Consider a situation in which all the sales are given on credit in a month. Using the formula, Sales - Costs = Profit, and if the situation yields more sales than costs, then a profit figure will be registered. But since all sales are on credit (i.e., customers have not paid yet), then there is profit but no cash.

# ANNEX 5.4.3: CASHFLOW BY DAYS

## CASHFLOW BY DAYS FOR GROUPS

**GROUP NAME:**

**WEEK:**

| | Mon | Tue | Wed | Thu | Fri | Sat | Sun | Total |
|---|---|---|---|---|---|---|---|---|
| **CASH IN HAND** [Week 1 Sales – (Cost of production -depreci-ation)] | | | | | | | | |
| SALES | | | | | | | | |
| Bank Loan | | | | | | | | |
| Other INFLOWS | | | | | | | | |
| **Total cash in flow** | | | | | | | | |
| Wages | | | | | | | | |
| Salaries | | | | | | | | |
| Raw material | | | | | | | | |
| Overheads Expenses | | | | | | | | |
| Loan repayment | | | | | | | | |
| Loan interest | | | | | | | | |
| Any other | | | | | | | | |
| **Total Cash out flow** | | | | | | | | |
| **Cash in hand /carried forward** | | | | | | | | |



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# ANNEX 5.4.4: LOAN REPAYMENT SCHEDULE

## LOAN REPAYMENT AND INTEREST CALCULATION

The calculation is to identify a repayment plan includes the loan and the interest.

The repayment varies as per the borrowing conditions. Here, we assume an interest rate close to the market average (Ex: Average 30% per annum in Malawi) and plan the repayment within 3-5 years for practical reasons. The loan identified in the TPC calculation is the principal.

The Loan Amount: ………………………..  Repayment Method: ………….............................

Interest Rate: …………………………  Period of Repayment:…………. ............................

Grace Period (If any): ………………………....  (During Grace Period, only the interest is collected)

| Year | Beginning Balance | Interest | Principal Payment | Total Annual Payment | Monthly payment (Just for knowledge) | Ending Balance |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | TOTAL | | | | | |

**Checklist:**

- ✓ Identify the total interest to be paid for the period. This will go to the next page Profit and Loss Statement under finance expenses.
- ✓ The interest varies from 18% -35% in Malawi. Pick your right interest rate.

ANNEX 5.4.4: BREAK-EVEN POINT ANALYSIS

## BREAK-EVEN ANALYSIS

### 1. Introduction

Break-even analysis, which is sometimes called cost volume- profit analysis, is a technique used to measure the firm's returns (points) against various cost structures and level of sales. In general, break even analysis requires the derivation of certain relationships among revenues and costs in order to:

-  determine the level of operations it must maintain to cover all operating costs; and,
-  evaluate the profitability associated with various levels of sales.

### 2. What is the Break Even Point (BEP)?

To appreciate this analysis two major assumptions have to be presented:

1. that costs can be reasonably classified into fixed and variable components, and;
2. all cost-volume-profit relationships are linear.

Break even is defined as the level of sales or revenues equal to all costs and expenses. It is also expressed as a point where the firm does not realize any gain nor incur any loss. Hence, the break-even point is the take off point to profitability.

The break-even point could be presented in equations such as:

| | | | | |
|---|---|---|---|---|
| Total sales | = | Total costs | | |
| 0 | = | Total sales | - | Total costs |
| Total sales | = | Fixed costs | + | Variable costs |
| Sales volume x Price | = | Fixed costs | + | Variable costs |

### 3. Relevant Concepts

By definition, ***fixed costs*** are expenses that do not directly change with production or sales volume changes. These are expenses that are mostly a function of time, not sales, and are typically contractual. Examples of these types of costs are depreciation expenses, salaries of administrative personnel, rental expenses, and the like. ***Variable costs*** vary directly with sales and are a function of volume rather than time. Examples of variable costs are raw materials, direct labour, sales commissions and sales tax. On a unit basis, the fixed cost per unit changes while the variable cost per unit is contact.

When the costs have been classified into fixed and variable components, it is useful to compare revenues with variable costs. If the price is assumed constant, total revenues will be proportional to volume. Because variable costs are also proportional to volume, the difference between revenues and total variable cost will vary directly with volume. The difference between revenues and variable costs is called the ***contribution margin***.

The contribution margin plays a key role in the analysis of volume-profit relationships. When the contribution margin is equal to fixed costs, the firm will have zero profit, or break even. When the contribution margin is less than the fixed costs, the firm will lose money. Only when the contribution margin is greater than fixed costs the firm will make profits.

### 4. Approaches to Break-even Point Determination

The break-even point can be expressed in terms of **sales volume** (quantity), **selling price** (with volume), or **sales** (amount).





| | | |
|---|---|---|
| BEP sales (Quantity) | = | $\dfrac{\text{Total fixed cost}}{\text{Unit selling price - Unit variable costs}}$ |
| BEP selling price | = | $\dfrac{\text{Total fixed costs + Total variable costs}}{\text{Total sales volume (Quantity)}}$ |
| BEP sales (amount) | = | $\dfrac{\text{Total fixed cost}}{1-\dfrac{\text{Total variable cost}}{\text{Total sales}}}$ |
| Cash BEP (Sales volume) | = | $\dfrac{\text{Total cash fixed costs}}{\text{Unit selling price - Unit cash variable cost}}$ |

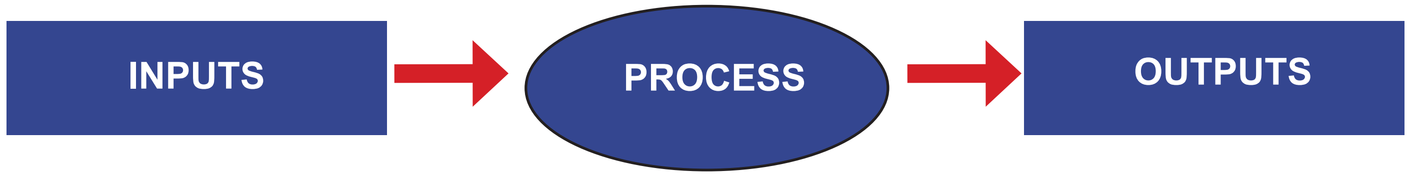
The cash break-even point is the level of sales necessary to meet all the cash expenses of the firm (including the cash outlay in loan principal amortizations if the intention is to measure the adequacy of cash flow from operations to meet all cash obligations). In computing this, all non-cash expenses like depreciation and amortization of pre-operating expenses will have to be deducted or removed to the fixed and variable costs.

## ANNEX 5.4.6: WORKING CAPITAL ANALYSIS

### PRODUCTION CYCLE AND WORKING CAPITAL

Production cycle refers to the operation cycle of a business, which determines the time needed to realize the money to be invested in short-term. Diagram 1 depicts the operation of a business regardless of the nature of industry.

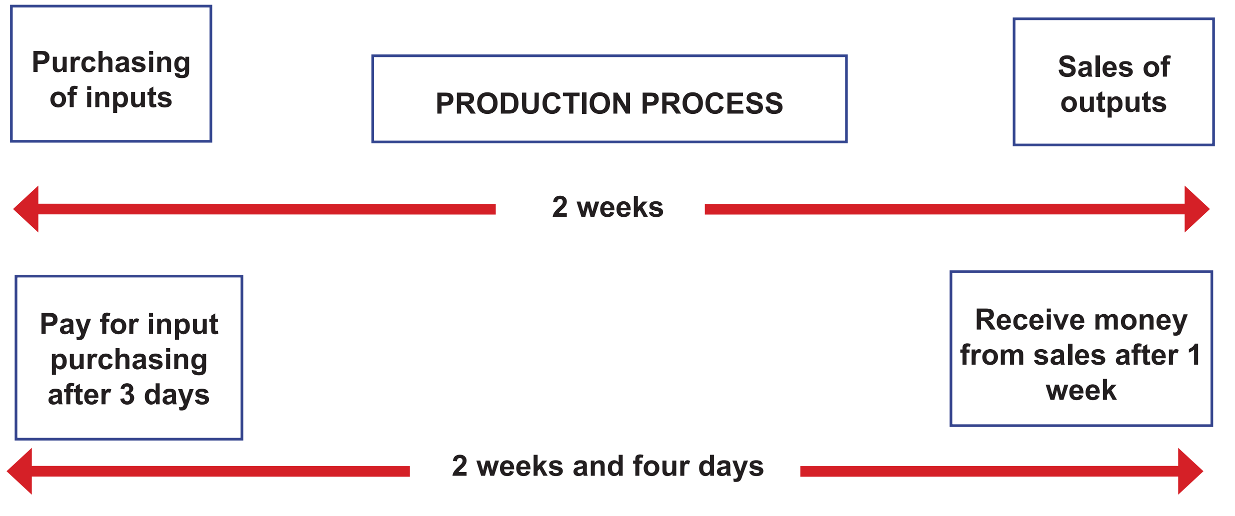
### THE PRODUCTION PROCESS




The process starts from purchasing materials and ends in the selling of outputs. The working capital needs depend on the production cycle of the process. How much time will be taken to realize the money invested on raw materials, labour and on other overheads? It very much relates to this production cycle. Basically, we can indicate the time period, where it starts with the payment made for the inputs and ends at the time of realizing sales income.

It varies from industry to industry and organisation to organisation within an industry, depending on their efficiency and financial policies.

#### TIME PERIOD OF THE PRODUCTION CYCLE




Therefore, working capital is the amount of money needed for the operation period of 2 weeks and four days. On the other hand, we can say that working capital is current assets minus liabilities. If we go through the elements of current assets, we can understand the need for working capital and the current liabilities elements show the sources of short-term finance.

Working capital needs must be included in the capital budgeting in case of business expansion or creation.





## ANNEX 5.4.7: TOTAL PROJECT COST

### TOTAL INVESTMENT COST

[What is the Total Investment/Project Cost (TPC) of my business?
The purpose of the TPC is to identify total investment and plan financing strategy.]

| | Items | Total Value | Sources | |
|---|---|---|---|---|
| | | | Equity | Loan |
| A. | Fixed Assets<br>*(List all the fixed assets identified under the three previous plans)* | | | |
| | Land | | | |
| | Building | | | |
| | Machinery | | | |
| | Equipment and Tools | | | |
| | Vehicles | | | |
| | Furniture | | | |
| | Other assets | | | |
| | | | | |
| | | | | |
| | Total Fixed Assets | | | |
| B. | Working Capital requirement<br>[based on the production cycle or 2 months marketing, production, O&M and finance expenses] | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | Total Working Capital | | | |
| C. | Pre-operating Expenses | | | |
| | **Total Project Cost(A+B+C)** | | | |
| | **Financing in percentage** | | | |

**Checklist:**

- ✓ The production Cycle is the period in between production and sales. Otherwise simply take the 2 -3 months of the total marketing, production, O&M expenses.
- ✓ Fill the total value and then decide the equity and loan value. Get the total loan requirement, if any.

## ANNEX 5.4.8: THE BALANCE SHEET AS AT….

**Projected Balance Sheet as at** (Date) .............................................

*[Balance Sheets are Profiles of a business on a given date. Balance Sheets should have a date. Prepare the three year-end Balance Sheets estimates to see the business at the end of Year 1-3.]*

| | | YEAR 1 |
|---|---|---|
| **Current Assets:** | | |
| Cash (year-end balance) | | |
| | | |
| **Total Current Assets (A)** | | |
| **Fixed Assets:** | | |
| Less: Depreciation | | |
| | | |
| **Total Fixed Assets (B)** | | |
| **TOTAL ASSETS (A) + (B)** | | |
| **Current Liabilities:** | | |
| Provisions for income Tax | | |
| | | |
| | | |
| **Total Current Liabilities (C)** | | |
| **Long Term Liabilities:** | | |
| Loans | | |
| **Total Long-Term Liabilities (C)** | | |
| **TOTAL LIABILITIES** | | |
| **Equity:** | | |
| Capital | | |
| Accumulated Profit | | |
| Total Equity (D) | | |
| **Total Liabilities and Equity (C) + (D)** | | |

**Checklist:**

✓ Remember that the tax payable, year-end cash and the net profit are entered in the right place.

✓ Always show the total fixed assets and the deducted depreciation. Only the net fixed assets are added with the total current assets.

✓ Pre-operating expenses balance is recorded as current asset.



| STM PART 2

The balance sheet takes a **snapshot within a specified time** of what a business owns and what it owes. It has two sides. One side records its properties, i.e., anything it can claim it owns and of value e.g., cash, accounts receivables, debtors, stocks, machines, tools, fixtures, etc. These are called the **assets**. The other side shows where the money to finance the purchases of such properties came from, e.g., it may have come from bank loan, owner's equity, creditors, etc. This side is called **liabilities** and **owner's equity**. Its heading consists of the name of the business, title of the statement and the date prepared.

**Assets** are the resources of value, which are owned by the business (cash, securities, receivables, merchandise, buildings, land, etc.), **Liabilities** are funds or other resources transferred to the business that will be repaid in the future.

**Owner's equity** is the resource invested by the owner/s of the business. For sole proprietorships, it is called "proprietor's equity"; for partnerships, "partners' equity"; and for corporations, "stockholders' equity".

In a balance sheet, the assets must balance or equal the liabilities and owners' equity. Hence, the equation:

**ASSETS = LIABILITIES + OWNERS' EQUITY**

This means that any change in assets must have a corresponding change in either liabilities or owners' equity or both. For example, an increase in assets corresponds to an increase in liabilities or owners' equity or both.

Based on its ease of conversion to cash, assets can be classified into:

(a) current
(b) fixed, and
(c) Deferred charges and other assets.

Each type is briefly described below:

**Current Assets** are cash-on-hand and in-bank, marketable securities and accounts receivable (all of which are termed quick assets). Inventory, prepaid expenses, advances to suppliers, marginal deposits on letters of credit, etc., which will be used during a normal operating cycle.

**Fixed Assets** are relatively long-lived resources such as land, buildings and structures, machinery and equipment, transportation and delivery equipment, furniture and office equipment, etc. In some cases, intangible assets such as goodwill, right of trademark, patent right, etc., and investments are also included.

**Deferred Charges** are expenses that are expected to yield benefits for several accounting periods and should be amortised over its estimated useful life. This includes organisation costs, pre-operating costs, research and development costs, franchises, etc.

As with assets, liabilities are also classified into:

(a) current
(b) long-term Liabilities

**Current Liabilities** are short-term debts including accounts payable, creditors, salaries payable, accrued expenses, advanced payment received, etc.

**Long-term Liabilities** refer to long-term debts. In some cases, businesses set aside reserve accounts for later use or special purposes such as retirement benefits, bad debts, price fluctuations, etc.

**Owners' Equity** is total assets minus total liabilities. This means that in the event of liquidation, claims of creditors are paid first. The owner/s would get only whatever is left. This consists of (a) capital stock and (b) retained earnings.

**Sample Balance Sheet as at 12.12.2017**

**XYZ ENTERPRISES LTD.**
**BALANCE SHEET AS AT 12/12/2017**

| Liabilities & Owners' Equity | | Assets | |
|---|---|---|---|
| **Equity** | | **Fixed assets** | |
| Owners' Equity | 1,100,000 | Land & building | 1,250,000 |
| Retained Profit | 225,000 | Machinery | 350,000 |
| Reserves | 320,000 | Vehicles | 650,000 |
| | | Furniture & fittings | 145,000 |
| **Long term Liabilities** | | Long term Investments | 156,000 |
| Loans | 600,000 | Total fixed assets | 2,551,000 |
| Others | 250,000 | **Less:** | |
| | | Provision for depreciation | 453,000 |
| **Current Liabilities** | | | 2,098,000 |
| Short term loans | 50,000 | **Current Assets** | |
| Tax payable | 64,020 | Stock -Raw material | 45,000 |
| Creditors | 150,670 | -Work in progress | 6,780 |
| Bank over draft | 48,600 | -Finished goods | 7,890 |
| Payables | 31,730 | Debtors | 152,600 |
| | | Short term investments | 250,750 |
| | | Prepaid Expenses | 57,000 |
| | | Other receivables | 27,000 |
| | | Bills receivable | 45,000 |
| | | Bank | 125,000 |
| | | Cash | 25,000 |
| | 2,840,020 | | 2,840,020 |

## ANNEX 5.4.9 THE CALENDAR

There are 4 weeks in the month. They will do the activities for 3 -4 weeks.
Each Day of the Weeks have a fixed task.

| | |
|---|---|
| **MONDAY** | buy raw materials |
| **TUESDAY** | hire the labour, appointing accountant for record keeping and fix managerial responsibilities (how much to buy and sell, production management and looking for business improvements). |
| **WEDNESDAY** | production of Rings and 5 minutes. They can produce any amount. |
| **THURSDAY** | sell the Rings |
| **FRIDAY** | pay the supplier, salaries and wages. |
| **SATURDAY** | buy Groceries and home consumables. You say each one spends €300 at the shop. The accountant finalises the accounts. |
| **SUNDAY** | rest day and they can plan their week ahead. |

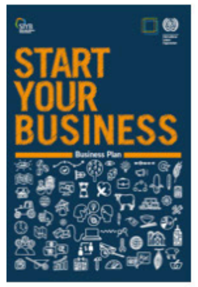




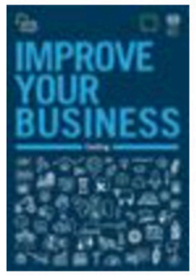
# 6. IYB Business Planning


GENERATE YOUR BUSINESS IDEA (GYB) >


START YOUR BUSINESS (SYB) >




START AND IMPROVE YOUR BUSINESS (SIYB), BUSINESS PLAN >




IMPROVE YOUR BUSINESS (SIYB) COSTING >


IMPROVE YOUR BUSINESS (IYB) MARKETING >


IMPROVE YOUR BUSINESS (IYB) BUYING AND STOCK CONTROL >

# 7. Business Planning For Trading

## EXECUTIVE SUMMARY

### 1. MARKETING PLAN

1.1. Description of product(s)
1.2. Target market segments
1.3. Target market area
1.4. Demand analysis
1.5. Supply analysis
1.6. Gap analysis
1.7. Competitors' marketing strategies
  1.7.1. Product strategy
  1.7.2. Distribution strategy
  1.7.3. Promotion strategy
  1.7.4. Price strategy
1.8. Project's marketing strategies
  1.8.1. Product strategy
  1.8.2. Distribution strategy
  1.8.3. Promotion strategy
  1.8.4. Price strategy
  1.8.5 Location of outlet
  1.8.6. Layout of the outlet
1.9. Forecast of sales
1.10. Fixed assets for marketing
1.11. Total marketing expenses

### 2. PURCHASING AND STORAGE PLAN

2.1. Total purchases for trading
  2.1.1. Local purchases
  2.1.2. Imports
  2.1.3. Direct purchasing costs
2.2. Stock management strategies
2.3. Storage of stocks
  2.3.1. Location of stores/warehouse
  2.3.2. Storage systems and facilities
  2.3.3. Retrieval procedures
  2.3.4. Security mechanisms
2.4. Fixed assets required for purchasing and storage
2.5. Maintenance and repairs
2.6. Manpower requirements
2.7. Stock holding expenses
2.8. Total purchasing and storage expenses





### 3. ORGANISATION AND MANAGEMENT PLAN

3.1. Form of business
3.2. Business name and logo
3.3. Capability profile of project proponents
3.4. Organizational structure
3.5. Descriptions of key positions and responsibilities
3.6. Recruitment, selection and training of staff
  3.6.1. Recruitment strategy
  3.6.2. Selection strategy
  3.6.3. Training strategy
3.7. Cost of personnel for administration
3.8. Fixed assets required for office administration
3.9. Maintenance and repairs
3.10. Office layout
3.11. Pre-operating activities and expenses
3.12. Total organization and management expenses

### 4. FINANCIAL PLAN

4.1. Total investment cost
4.2. Security on loan
4.3. Loan repayment and interest calculation
4.4. Projected profit and loss statement
4.5. Projected cash flow statement
4.6. Projected balance sheet
4.7. Break–even analysis
4.8. Financial/investment analysis
4.9. Financial assumptions

## EXECUTIVE SUMMARY

[This section is to be written only after the four sub plans have been completed. It should be an abstract of the total business plan giving highlights of each sub plan.]

### Brief Description of the Business
[What will be the name of your business? What products will it offer?]

### Brief Profile of the Entrepreneur
[Briefly describe your background, experience and future plans. If others will be involved in managing the business, give details of them too.]

### Summary of the Marketing Plan
[Briefly describe your target groups and the strategies you will adopt.]

### Summary of the Purchasing and Storage Plan
[Briefly describe the process for local purchases and imports. How do you intend to store and retrieve them?]

### Summary of Organization and Management Plan
[Briefly describe the form of business and how you will be organizing it.]

### Summary of the Financial Plan
[Briefly indicate the total investment cost, the financing plan, projected profits and other financial highlights of the business.]

### Conclusion on the Project
[Briefly state the socio-economic benefits, which would arise by setting up the proposed business.]





## 1. MARKETING PLAN

### 1.1. DESCRIPTION OF PRODUCT(S)

[Describe the product range(s) to be offered by your business. Write the varieties, sizes, shapes, colours and any other special features your product(s) will have.]

**Draw a few product samples here.**

## 1.2. TARGET MARKET SEGMENTS

[To whom do you plan to sell the products - individual customers or institutional customers or both? If individuals, write whether they would belong to any age group, income group, living area, family size etc. If institutions, describe the key features and basis of segmentation.]

| Segment | Features |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |





## 1.3. TARGET MARKET AREA

[To which geographical locations do you intend making your products available? It can be areas where your customers, either live, work or shop. Mention the names of the districts, towns, etc. Why do you think they are the best places for you to sell your product(s)? Remember! This will influence your distribution strategy.]

| Segment | Area | Reason |
|---|---|---|
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |

### 1.4. DEMAND ANALYSIS

[How much do your target customers buy in quantity and value? First, identify all those who either currently use the product or may use the product in the future. Find out how much they buy or intend buying for a day/month/quarter/year and at what price.]

| | | Usage rate | | Quantity demanded | |
|---|---|---|---|---|---|
| Location | Potential buyers & numbers | Volume | Value (Rs) | Volume | Value (Rs) |
| | | | | | |
| | TOTAL | | | | |

**Note:**

1. **Usage rate**
   (Volume) - This refers to the quantity purchased for consumption during a particular period. Period could be a day or month or year.

   (Value) **-** This refers to the amount spent for purchasing the particular product or complimentary product during a particular period. Period could be a day or month or year.

2. **Quantity demanded**
   This refers to the total figure, which is derived by multiplying.

   Quantity Demanded = Usage Rate x No. of target buyers in the target area
   (Volume)(Volume)

   Quantity Demanded = Usage Rate x No. of target buyers in the target area
   (Value)(Value)

**Assumptions:**





### 1.5. SUPPLY ANALYSIS

[How much products are supplied to the target customers? This analysis has to be done in 2 steps. First, identify your existing and potential competitors. Next, find out how much they supply to the market per day/month/quarter/year.]

| Location | Name of competitor (RS) | Name of Product | Supply | |
|---|---|---|---|---|
| | | | Volume | Value (RS) |
| | | | | |
| | TOTAL | | | |

**Assumptions:**

## 1.6. GAP ANALYSIS

[The gap which exists between demand and supply per day/month/quarter/year.]

| Total demand (a) | Total supply (b) | Gap (a - b) |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| TOTAL | | |

**Note:**

1. Total demand (a) – Refer section 1.4 demand analysis
   This figure refers to the quantity demanded - volume in the demand analysis

2. Total supply (b) – Refer section 1.5 supply analysis
   This figure refers to the quantity supplied in the supply analysis

3. Gap (a - b)
   Subtracting total demand from total supply derives this figure.

**Assumptions:**



| STM PART 2

## 1.7. COMPETITORS' MARKETING STRATEGIES

### 1.7.1. PRODUCT STRATEGY

[What special features do your competitors' products have in order to make them marketable? You can focus on quality, branding, packaging, customer service etc.]

| Competitor | Competitor's product strategy |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |

### 1.7.2. DISTRIBUTION STRATEGY

[How do your competitors make their products available to the customers and through what channels?]

| Competitor | Competitor‘s distribution strategy |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |





### 1.7.3. PROMOTION STRATEGY

[How do your competitors communicate about their products to the target buyers? Do they use advertising, personal selling, sales promotion, direct marketing or publicity?]

| Competitor | Competitor‘s promotion strategy |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |

### 1.7.4. PRICE STRATEGY

[What pricing strategies do your competitors adopt in pricing their products? Is it demand-oriented, cost-oriented or competitor-oriented?]

| Competitor | Competitor's pricing strategy |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |





## 1.8. PROJECT'S MARKETING STRATEGIES

### 1.8.1. PRODUCT STRATEGY

[What special features will your products have in order to make them marketable? You can focus on quality, branding, packaging, customer service etc.]

### 1.8.2. DISTRIBUTION STRATEGY

[How will you make your products available to the customers and through what channels?]

### 1.8.3. PROMOTION STRATEGY

[What promotional methods will you adopt in order to make your products known to your target customers?]

### 1.8.4. PRICE STRATEGY

[What pricing strategy will you adopt in pricing your products? Will it be demand-oriented, cost-oriented or competitor-oriented?]

### 1.8.5. LOCATION OF OUTLET

[Where will the retail outlet be located? Draw and indicate its strategic advantages in locating it there. Will there be parking space for vehicles?]

### 1.8.6. LAYOUT OF THE OUTLET

[How will the layout be in your trading outlet? Draw and show the basic layout you have planned.]





### 1.9. FORECAST OF SALES

[What is the amount of sales per year you anticipate for your products for the next 3 years? If you sell more than 5 products, choose a few which make-up large portion of your business income. This should be derived based on the demand, supply and gap analysis – Sections 1.4,1.5 and 1.6 of the marketing plan.]

| Product(s) | Sales Value | | |
|---|---|---|---|
| | Year 1 | Year 2 | Year 3 |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| **TOTAL SALES IN RS.** | | | |

**Assumptions:**

(The sales forecast is crucial as the rest of the projections are based on the estimated sales. It is important to make realistic assumptions. Take into account the nature of product and losses, which may incur during storage, sales and marketing. State by what percentage the sales were increased/ decreased from year to year by product, increase/ decrease in selling price by product and any other relevant assumptions made in arriving at the sales forecast).

## 1.10. FIXED ASSETS FOR MARKETING

[What are the fixed assets required for marketing? Check the purchase price and learn to provide for depreciation so that replacement becomes easier. ***If you already own the fixed assets, use the current market value as the purchase price***.]

| | Description of assets | Specifications | Purchase price in Rs. (a) | Estimated life in years (b) | Depreciation per year in Rs. (a/b) |
|---|---|---|---|---|---|
| 1. | | | | | |
| 2. | | | | | |
| 3. | | | | | |
| 4. | | | | | |
| 5. | | | | | |
| 6. | | | | | |
| 7. | | | | | |
| 8. | | | | | |
| 9. | | | | | |
| 10. | | | | | |
| | | TOTAL | | | |





## 1.11. TOTAL MARKETING EXPENSES

[What expenses do you envisage to incur on your marketing efforts for the next 3 years? For example, what will be the cost of sales personnel, and other overheads such as promotion, rent, electricity etc.]

| | Expenses | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| 1. | Salaries of marketing manager | | | |
| 2. | Salaries of sales agent | | | |
| 3. | Drivers' salaries | | | |
| 4. | Helpers' salaries | | | |
| 5. | Commissions | | | |
| 6. | Maintenance of fixed assets | | | |
| 7. | Fuel | | | |
| 8. | Supplies | | | |
| 9. | Telephone | | | |
| 10. | Miscellaneous expenses | | | |
| 11. | **Total expenses before depreciation** | | | |
| 12. | Depreciation of fixed assets in marketing | | | |
| 13. | **Total marketing expenses** | | | |

## 2. PURCHASING AND STORAGE PLAN

### 2.1. TOTAL PURCHASES FOR TRADING

[Your purchases may include local purchases as well as imports.]

#### 2.1.1. LOCAL PURCHASES

[Indicate your planned purchases to be made locally. Base it on your sales forecast on a monthly, quarterly or annual basis. Period could vary depending on the nature of the business. However, it should indicate the total estimated purchases for a year.]

| Item | Quantity to be purchased | Cost/unit | Total cost/item | Source of supply |
|---|---|---|---|---|
| | | | | |
| TOTAL COST/YEAR 1 | | | | |
| TOTAL COST/YEAR 2 | | | | |
| TOTAL COST/YEAR 3 | | | | |





#### 2.1.2. IMPORTS

[Indicate your planned purchases from foreign suppliers. Base it on your sales forecast on a monthly, quarterly or annual basis. Period could vary depending on the nature of the business. However, it should indicate the total estimated purchases for a year. Take into account the exchange rates and the effects of its fluctuations.]

| Item | Quantity to be purchased / month | Cost/unit | Total cost/item | Source of supply |
|---|---|---|---|---|
| | | | | |
| TOTAL COST/YEAR 1 | | | | |
| TOTAL COST/YEAR 2 | | | | |
| TOTAL COST/YEAR 3 | | | | |

### 2.1.3. DIRECT PURCHASING COSTS

[You need to take into account the costs directly related to purchasing goods for (trading). They may be costs incurred in purchasing goods locally or with imports.]

| Cost item | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Freightage inwards | | | |
| Cartage inwards | | | |
| Wharfage | | | |
| Import duty | | | |
| | | | |
| TOTAL | | | |

## 2.2. STOCK MANAGEMENT STRATEGIES

[What stock management strategies will you adopt? What amounts of stocks will you hold for local purchases and what stock levels will you maintain for imports? What will be the re-order level, re-order quantity etc.?]

## 2.3. STORAGE OF STOCKS

### 2.3.1. LOCATION OF STORES/WAREHOUSE

[Where will you store the stocks? What are the reasons for selecting this location?]





### 2.3.2. STORAGE SYSTEMS AND FACILITIES

[What type of storage systems will you adopt? Will the products be stored in bins, shelves or in some other manner? How will they be labelled? Will there be humidity control? Will there be refrigerator facilities? etc.] ]

### 2.3.3. RETRIEVAL PROCEDURES

[What type of retrieval procedures will you adopt? Will the products be retrieved on a last in first out basis or first in first out basis?]

### 2.3.4. SECURITY MECHANISMS

[Describe what security measures will be adopted to safeguard and protect the goods and stores from theft, pilferage and spoilage?]

## 2.4. FIXED ASSETS REQUIRED FOR PURCHASING AND STORAGE

[List fixed assets required for purchasing & storage, their description, cost and depreciation.]

| Asset | Capacity/ Specification | Acquisition Cost | Estimated life in years (b) | Depreciation per year |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| TOTAL | | | | |





## 2.5. MAINTENANCE AND REPAIRS

[Describe how maintenance and repairs will be carried out on fixed assets.]

## 2.6. MANPOWER REQUIREMENTS

[Describe briefly the manpower requirement and cost of staff who will be directly/indirectly involved in purchasing and storage.]

| Position | Monthly salaries and benefits | Year 1 salaries and benefits | Year 2 salaries and benefits | Year 3 salaries and benefits |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | TOTAL | | | |

## 2.7. STOCKHOLDING EXPENSES

[What will be the expenditure incurred in stock holding? Take into account overheads such as indirect materials, indirect labour, insurance, etc.]

| Expenses | | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| 1. | Indirect materials | | | |
| 2. | Indirect labour (storekeeper etc.) Take from manpower requirements 2.6. | | | |
| 3. | Electricity | | | |
| 4. | Insurance | | | |
| 5. | Others | | | |
| **Total before depreciation** | | | | |
| 6. | Depreciation | | | |
| **Total purchasing and stock holding expenses** | | | | |

## 2.8. TOTAL PURCHASING AND STORAGE EXPENSES

[What will be the total cost of purchasing and storage of the product lines to be marketed?]

| Year | Total purchases for trading<br>2.1.1 + 2.1.2 | Direct purchasing costs<br>2.1.3 | Stockholding expenses<br>2.7 | Total cost of purchasing and storage |
|---|---|---|---|---|
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |





## 3. ORGANIZATION AND MANAGEMENT PLAN

### 3.1. FORM OF BUSINESS

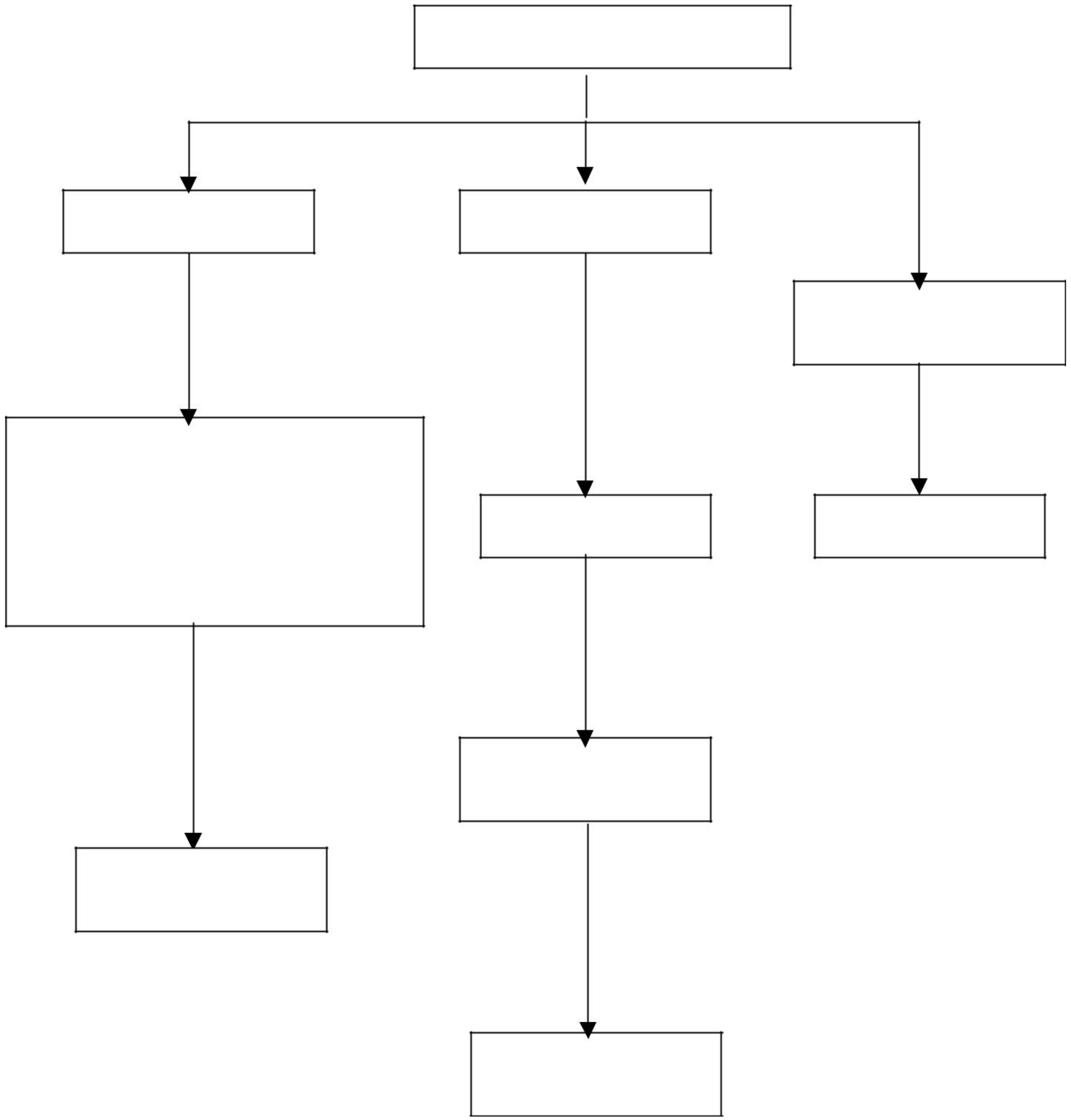
[How would you like your business to be – sole proprietorship, partnership or limited liability company? What are the reasons for opting for it?]

### 3.2. BUSINESS NAME AND LOGO

### 3.3 OWNERS CAPABILITIES

## 3.4. ORGANIZATIONAL STRUCTURE

[Draw the structure of your business – the way in which the different roles or positions in the business will be organized. Before you draw the structure, think about the different tasks and who will be responsible for what.]







## 3.5. DESCRIPTIONS OF KEY POSITIONS AND RESPONSIBILITIES

[Based on the above structure, describe what is to be performed by each of the key positions.]

### 3.6.1. RECRUITMENT STRATEGY

[How will you attract people to apply to join your business?]

### 3.6.2. SELECTION STRATEGY

[How will you select people among those who have applied? What criteria will you use?]

### 3.6.3. TRAINING STRATEGY

[How will you train the people whom you select to join your business?]

### 3.7. COST OF PERSONNEL FOR ADMINISTRATION

[State details of personnel who will be involved in office administration. Estimate the cost of employing them.]

| Position | Monthly salaries and benefits | Year 1 salaries and benefits | Year 2 salaries and benefits | Year 3 salaries and benefits |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| TOTAL | | | | |





### 3.8. FIXED ASSETS REQUIRED FOR OFFICE ADMINISTRATION

[What are the fixed assets required for office? How much will they cost?]

| Asset | Capacity/ Specification | Acquisition Cost (LC) | Estimated life (years) | Depreciation per year (LC) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | TOTAL | | | |

### 3.9. MAINTENANCE AND REPAIRS

[Describe how maintenance and repairs will be carried out on fixed assets.]

## 3.10. OFFICE LAYOUT

[Draw in the outline below how the fixed assets will be placed in the office. Indicate the areas for movement.]





## 3.11. PRE-OPERATING ACTIVITIES AND EXPENSES

[Identify all the activities which have to be carried out before the commencement of the business, at which month and how.]

| | Activity | Months | | | | | | | | | | | | Cost |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| 1. | Business plan preparation | | | | | | | | | | | | | |
| 2. | Business registration | | | | | | | | | | | | | |
| 3. | Import permits | | | | | | | | | | | | | |
| 4. | Loan application and approval | | | | | | | | | | | | | |
| 5. | Construction of building | | | | | | | | | | | | | |
| 6. | Contracting of supplier of materials | | | | | | | | | | | | | |
| 7. | Purchase and installation of equipment | | | | | | | | | | | | | |
| 8. | Purchase and installation of furniture and fixtures | | | | | | | | | | | | | |
| 9. | Recruitment and training of personnel | | | | | | | | | | | | | |
| 10. | Obtaining samples | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| TOTAL | | | | | | | | | | | | | | |

## 3.12. TOTAL ORGANIZATION AND MANAGEMENT EXPENSES

[Describe the expense items and the amount to be incurred.]

| | Items | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| 1. | Salaries | | | |
| 2. | Stationery and other office supplies | | | |
| 3. | Telephone | | | |
| 4. | Electricity and water | | | |
| 5. | Renewal of permits and licenses | | | |
| 6. | Staff training and development | | | |
| 7. | Newspapers/magazines | | | |
| 8. | Fuel | | | |
| 9. | Repairs and maintenance | | | |
| 10. | Donations | | | |
| 11. | Miscellaneous | | | |
| | **Total organization and management expenses before depreciation and amortization of pre-operating expenses** | | | |
| 12. | Depreciation | | | |
| 13. | Amortization of pre-operating expenses | | | |
| | **Total organization and management expenses** | | | |





## 4. FINANCIAL PLAN

### 4.1. TOTAL INVESTMENT COST

[What is the total investment cost of your project? Make use of the other three sub-plans you have completed to obtain data for this section. Under the columns loan and equity, indicate how you intend financing the fixed assets.]

| Items | Total Rs. | Sources | |
|---|---|---|---|
| | | Equity Rs. | Loan Rs. |
| **A. Fixed Assets** | | | |
| • Land<br>• Buildings<br>• Machinery<br>• Equipment<br>• Transport items<br>• Furniture and fixtures<br>• Other assets | | | |
| **TOTAL FIXED ASSETS** | | | |
| **B. Working Capital (14 days)** | | | |
| • Marketing expenses<br>• Purchasing and storage expenses<br>• Organization & management expenses | | | |
| **TOTAL WORKING CAPITAL** | | | |
| **C. Pre-operating expenses** | | | |
| **TOTAL (IN AMOUNT) A + B + C** | | | |
| **TOTAL (IN PERCENTAGE)** | 100 % | | |

### 4.2. SECURITY ON LOAN

[The bank will request for security against which the loan can be provided and you need to be prepared for it. The security will depend on the amount of loan.]

**Land** Extent –

Market value –

Owned by –

**Building** Area –

Market value –

Owned by –

**Other assets**

## 4.3. LOAN REPAYMENT AND INTEREST CALCULATION

[Interest has to be paid on the amount borrowed while the principal has also got to be returned to the bank. You know the amount to be borrowed and hope you know the terms of borrowing. Now you have to work out a schedule for repayments.]

**Amount of loan** Rs. ___________

**Interest rate** ______%

**Payment period** ______ years

**Grace period** ______ months (During the grace period, repayment on principal is not required. However, the period has to be negotiated and it depends on many factors.)

**Repayment method** ____________________________________________

### LOAN REPAYMENT SCHEDULE

| Year | Beginning balance | Interest payments | Payments on principal | Total annual payments | Ending balance |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| TOTAL | | | | | |





## 4.4. PROJECTED PROFIT AND LOSS STATEMENT

[The logic of the profit and loss statement is simple: you are only better off if incomings exceed outgoings. Make use of all the estimates you derived in your sub plans to decide whether you will make a gain or loss in this business.]

| Items | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| **SALES** | | | |
| (-) Less: Returns | | | |
| **= Net Sales** | | | |
| **COST OF SALES** | | | |
| Merchandise beginning inventory<br>(+) Add: Total purchases<br>+ Direct purchasing costs | | | |
| = Merchandise available for sale<br>(-) Less: Merchandise ending inventory | | | |
| **= Cost of Sales** | | | |
| **GROSS PROFITS** (Net sales less Cost of sales) | | | |
| (-) Less:<br>**Operating Expenses:**<br>Marketing expenses<br>Stock holding overheads<br>Organization and management expenses | | | |
| **TOTAL OPERATING EXPENSES** | | | |
| **= Profits Before Interest and Taxes**<br>(-) Less: Interest expense | | | |
| **= Profits Before Interest and Taxes**<br>(-) Less: Interest expense | | | |
| **= Net Profits After Taxes** | | | |

## 4.5. PROJECTED CASH FLOW STATEMENT

[The logic of preparing a cash flow statement is simple: you are only better off if you have a cash inflow, which is more than your cash outflow. This is to ensure that your business is liquid. Make use of all the estimates you derived in your sub plans to decide whether you will make a gain or loss in this business.]

| Particulars | Pre-Op Period | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **CASH FLOW** | | | | |
| - Cash sales<br>- Collection of accounts receivables<br>- Equity<br>- Loan proceeds<br>- Sale of fixed asets | | | | |
| Less:<br>**CASH OUTFLOW** | | | | |
| - Fixed assets<br>- Pre-paid expenses<br>- Pre-operating expenses<br>- Marketing expenses (excluding depreciation)<br>- Purchasing and storage expenses (excluding depreciation)<br>- Organisation and management expenses (excluding depreciation and POE amortization)<br>- Interest expense<br>- Loan repayment<br>- Tax on sales<br>- Income tax payments | | | | |
| **TOTAL CASH OUTFLOW** | | | | |
| **= NET CASH FLOW**<br>**(+) Add: Cash Balance, beginning** | | | | |
| **= CASH BALANCE, ENDING** | | | | |





## 4.6. PROJECTED BALANCE SHEET

[The logic of preparing a balance sheet is to find out the financial status of the business as at a particular date. Between an opening balance sheet and the closing balance sheet, the changes are depicted in the profit and loss statement.]

| Particulars | Pre-Op Period | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets<br>Cash<br>Accounts receivables<br>Inventory<br>Pre-paid expenses | | | | |
| **TOTAL CURRENT ASSETS** | | | | |
| Fixed Assets (at current value after deducting the accumulated depreciation)<br>- Land<br>- Building<br>- Machinery and equipment<br>- Vehicles<br>- Furniture and fixtures<br>- Telephones<br>- Telephone and other utilities installation<br>- Tools<br>- Signboards | | | | |
| **TOTAL FIXED ASSETS** | | | | |
| Other Assets<br>Pre-operatingexpenses<br>Less: accumulated amortization | | | | |
| **TOTAL OTHER ASSETS** | | | | |
| **TOTAL ASSETS** | | | | |
| **LIABILITIES** | | | | |
| Current Liabilities<br>Loans payable<br>Taxes payable | | | | |
| **TOTAL CURRENT LIABILITIES** | | | | |
| Long Term Liabilities<br>Long term loan | | | | |
| **TOTAL LONG-TERM LIABILITIES** | | | | |
| **TOTAL LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Capital beginning<br>Add: Retained earnings | | | | |
| **TOTAL EQUITY** | | | | |
| **TOTAL LIABILITIES AND EQUITY** | | | | |

## 4.7. BREAK-EVEN ANALYSIS

[Identify at what point of quantity (units) or value (Rs.) there is no profit or loss. The break-even point can be expressed in terms of **sales volume** (quantity), **selling price** (with volume), or **sales** (amount).]

**BEP sales (Quantity)** $= \dfrac{\text{Total fixed cost}}{\text{Unit selling price - Unit variable costs}}$

**BEP selling price** $= \dfrac{\text{Total fixed costs + Total variable costs}}{\text{Total sales volume (Quantity)}}$

**BEP sales (amount)** $= \dfrac{\text{Total fixed cost}}{1 - \dfrac{\text{Total variable cost}}{\text{Total sales}}}$

**Cash BEP (Sales volume)** $= \dfrac{\text{Total cash fixed costs}}{\text{Unit selling price - Unit cash variable cost}}$

## 4.8. FINANCIAL/INVESTMENT ANALYSIS

[Identify and analyze the financial ratios which help in decision making.]

### Liquidity ratios

i. **Quick ratio**

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..............................................................................................................................

ii. **Current ratio**

..............................................................................................................................

..............................................................................................................................

### Leverage ratio

iii. **Debt/equity ratio**

..............................................................................................................................

..............................................................................................................................





### Activity ratios

iv. **Inventory turnover**

..............................................................................................................................

..............................................................................................................................

v. **Accounts receivables turnover**

..............................................................................................................................

..............................................................................................................................

vi. **Assets turnover**

..............................................................................................................................

..............................................................................................................................

### Profitability ratios

vii. **Profit margin**

..............................................................................................................................

..............................................................................................................................

viii. **Return on investment**

..............................................................................................................................

..............................................................................................................................

ix. **Return on owners' investment**

..............................................................................................................................

..............................................................................................................................

### 4.9. Financial assumptions

[State assumptions made in arriving at the financial plan. It is important to make realistic assumptions, by taking into account the practice in credit sales, cash sales, credit terms and many other financial practices adopted in the area and in your industry.]

**Assumption 1**

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.............................................................................................................................................

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**Assumption 2**

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**Assumption 3**

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**Assumption 4**

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**Assumption 5**

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# 8. Sources of Financing

This is a short lecture about Sources of Financing. The discussion has to reveal the various sources of financing from long term to short term credits and their pros and cons.

| | |
|---|---|
| **Objectives:** | • To familiarise and introduce various sources of financing<br>• To create the awareness on the different financing sources and their implications in the business |
| **Aims/Results:** | • Business Financing Access |
| **Initial Preparations:** | • Read and understand the handout |
| **Required Resources:** | • SME Loop Trainer<br>• Soft board<br>• Flipchart papers<br>• Marker pens |
| **Checklist:** | ✓ Examples to explain<br>✓ Read and understand the handout<br>✓ Visual Aids |
| **Guidance:** | Explain as per the attachment |

**Follow up:** Business Model Canvas

**Annex:** ANNEX 8.1; SOURCES OF FINANCING

# ANNEX 8.1: SOURCES OF FINANCING

## SOURCES OF FINANCE FOR SMALL AND GROWING BUSINESSES

Small and medium sized enterprises can be defined as having three main characteristics:

- Companies which are not quoted on a stock exchange – they are "unquoted"
- Ownership of the business is typically restricted to a few individuals. Often this is a family connection between the shareholders
- Many SME's are the means by which individuals (or small groups) effectively achieve self-employment

Finance is needed throughout a company's life. The type and amount of finance required for a business depends on many factors: type of business, success of firm and state of the economy.

There are two main types of money that a company needs. Capital budgeting is an extremely important aspect of a firm's financial management. Although capital assets usually comprise a smaller percentage of a firm's total assets than do current assets, capital assets are long-term. Therefore, a firm that makes a mistake in its capital budgeting process has to live with that mistake for a long period of time.

***Capital expenditure:*** Used for buying fixed assets where large sums of money are involved but they are not purchased often e.g. new premises.

***Working capital:*** Day to day money required for running the business.

**Why do SME's Find Financing a Problem?**

The main problem faced by SME's when trying to obtain funding is that of uncertainty:

- SME's rarely have a long history or successful track record that potential investors can rely on in making an investment;
- Larger companies (particularly those quoted on a stock exchange) are required to prepare and publish much more detailed financial information – which can actually assist the finance-raising process while smaller companies may manipulate the figures;
- Banks are particularly nervous of smaller businesses due to a perception that they represent a greater credit risk.

Because the information is not readily available, SME's end up creating it when they seek finance. They need to give a business plan detailing asset, experience of directors and managers and come up with the required security to guarantee the finance.

Prospective lenders – usually banks – will then make a decision based on the information provided. The terms of the loan (interest rate, term, security, repayment details) depend on the risk involved and how the lender wants to monitor the investment.

Banks will generally be unwilling to increase loan funding without an increase in the security given (which the SME owners may be unable or unwilling to provide) and this remains a common problem everywhere.

A particular problem of uncertainty relates to businesses with a low asset base. These are companies without substantial tangible assets, which can be used to provide security for lenders.

When an SME is not growing significantly, financing may not be a major problem. However, the financing problem becomes very important when a company is growing rapidly, for example when contemplating investment in capital equipment or an acquisition.

Few growing companies are able to finance their expansion plans from cash flow alone. They will therefore need to consider raising finance from other external sources. In addition, managers who are looking to buy-in to a business ("management buy-in" or "MBI") or buy-out (management buy-out" or "MBO") a business from its owners, may not have the resources to acquire the company. They will need to raise finance to achieve this.





**Sources of Finance for SME's**

There are two main sources of finance to meet the needs of small and growing businesses, these are internal sources and external sources.

**Internal sources include:**

- Retained profit - profit made is reinvested into the business.
- Controlling working capital - reducing costs, delaying outflows and speeding up inflows.
- Sale of assets - Assets the company owns can be sold and then leased back, which frees up a large amount of capital in the short term.

**External sources of finance include:**

- Owner's savings - the owners investing money into the business.
- Bank loans – medium, or long-term loans but interest is charged.
- Leasing - instead of buying.
- Increasing trade credit - delaying payments on purchases for as long as possible.
- Factoring - use a company to collect all debts.
- Overdraft - an agreement with a bank to be allowed to overdraw a certain amount.
- Grants - an agreed amount of money given for a special reason by government or other organisation.
- Venture capital - people invest in the company when it is unable to float on the stock market.
- Debentures - business equivalent of a mortgage. Loan for a set length of time at a set interest rate.
- Share issues - selling of new shares to raise capital.

A key consideration in choosing the source of new business finance is to strike a balance between equity and debt to ensure the funding structure suits the business.

The main differences between borrowed money (debt) and equity are that bankers request interest payments and capital repayments, and the borrowed money is usually secured on business assets or the personal assets of shareholders and/or directors. A bank also has the power to place a business into administration or bankruptcy if it defaults on debt interest or repayments or if its prospects decline.

In contrast, equity investors take the risk of failure like other shareholders, whilst they will benefit through participation in increasing levels of profits and on the eventual sale of their stake.

The overall objective in raising finance for a company is to avoid exposing the business to excessive high borrowings, without unnecessarily diluting the share capital. This will ensure that the financial risk of the company is kept at an optimal level.

## SOURCES OF FINANCE SCHEDULE

| Type of loan (Long/short term) | Source of borrowing | Usage | Repayment | Problem |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |





# 9. Working Capital

**Objectives**

(1) To reiterate the importance of working capital management

(2) To create awareness on the alternative sources or working capital finance

(3) To understand the production cycle and its importance in working capital management

Requirements

(1) Flip chart board

(2) Texta pens

(3) Calculators for participants and facilitators

**Steps**

(1) Introduce the production cycle (refer handout given in Annex 2.5.5). Carry on a discussion towards the nature of production cycles varying from company to company within an industry and industry to industry.

(2) Question the reasons for its varying nature and divert the discussion towards the credit policies of organizations in terms of creditors as well as debtors. Also direct the discussion towards inventory and the capital blocked in stocks: raw material, work-in-progress and finished goods.

(3) Explain the length of production cycle and its reduction and expansion depend on the debits given and credits received as shown in the handout. (Annex 9.1).

(4) Give examples of production cycles of different projects or businesses. Confirm the participants' understanding of production cycle.

## ANNEX 9.1: WORKING CAPITAL

### WORKING CAPITAL MANAGEMENT

**1. Fundamentals of Capital Budgeting**

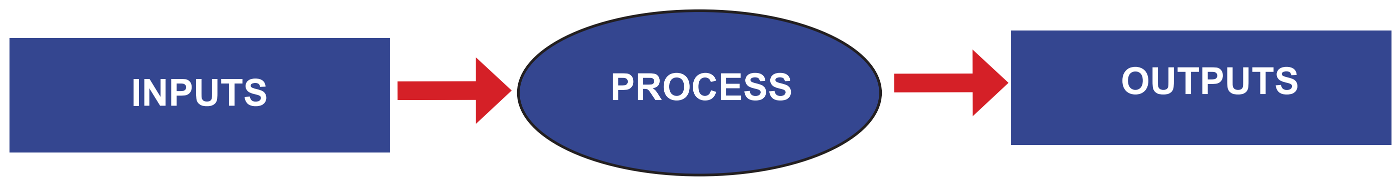
Capital budgeting is the process of determining how much to spend and on what to spend. It is essential that one knows how to raise capital.

The capital need can be categorized mainly into two: long-term investments and short-term investments. Spending on long-lived assets is called fixed or long-term investment and spending on net current assets is called working capital. As we explained earlier in sources of finance, one of the critical factors in business is to use long-term finances on fixed assets and short-term finances for working capital.

**2. Production Cycle and Working Capital**

Production cycle refers to the operation cycle of a business, which determines the time needed to realize the money to be invested in short-term. Diagram 1 depicts the operation of a business regardless of the nature of industry.

**DIAGRAM 1**
**The Production Process**

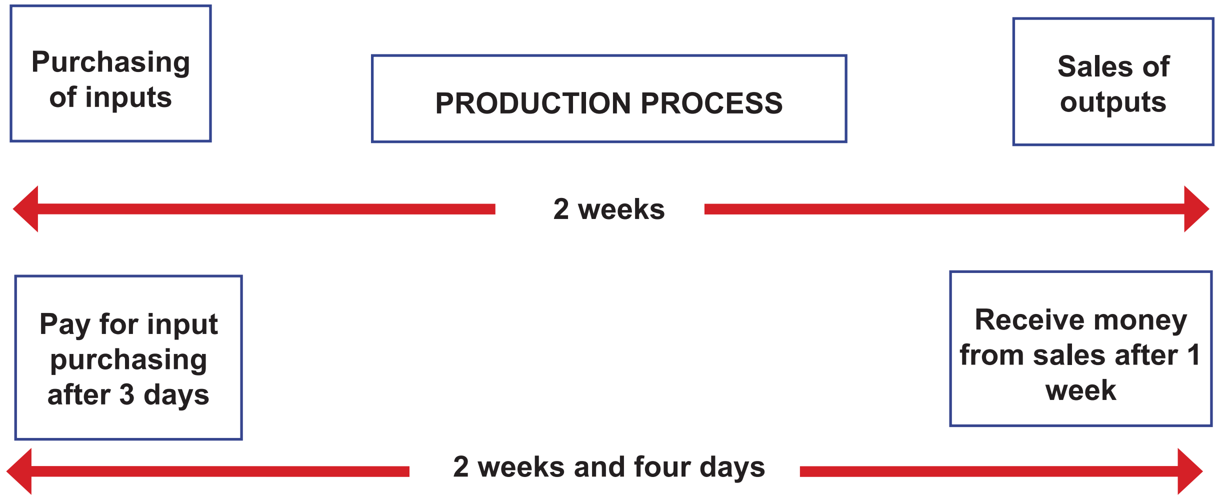


The process starts from purchasing materials and ends in the selling of outputs. The working capital needs depend on the production cycle of the process. How much time will be taken to realize the money invested on raw materials, labour and on other overheads? It very much relates to this production cycle. Basically we can indicate the time period, where it starts with the payment made for the inputs and ends at the time of realizing sales income.

It varies from industry to industry and organization to organization within an industry, depending on their efficiency and financial policies.

The time period of the production cycle is shown in Diagram 2.

**DIAGRAM 2**
**Time Period of the Production Cycle**




Therefore, working capital is the amount of money needed for the operation period of 2 weeks and four days. On the other hand, we can say that working capital is current assets minus liabilities. If we go through the elements of current assets, we can understand the need for working capital and the current liabilities elements show the sources of short-term finance.

Working capital needs must be included in the capital budgeting in case of business expansion or creation.





# 10. BREAK-EVEN POINT ANALYSIS

**Objectives**

(1) To explain the importance of break-even analysis in short-run decision-making and profit planning;
(2) To be able to seek the most profitable combination of costs and volume for the business;
(3) To apply the tool in analysing participants' own business performance in short-run.

**Requirements**

(1) Lead facilitator
(2) Flip chart board
(3) Marker pens
(4) Break Even Analysis (Annex 10.1)
(5) Vaani Toy Manufacturers (Annex 10.2)
(6) Solution to Vaani Toy Manufacturer's Case (Annex 10.3)
(7) Profit & loss statement prepared by the participants for their business
(8) 1 calculator per participant

**Setting**

U shape seating arrangement

**Steps**

(1) Ask the participants the factors on which business success depends on. Lead a discussion until you get the answer 'sales' or other related words.

(2) Explain that in business there is a necessity to analyse the minimum sales that should be generated in order to avoid losses and to determine the sales volume at which the profit goal of the firm will be achieved.

(3) Introduce the two types of costs: fixed and variable. Give examples of fixed and variable costs. Explain that for a certain amount of fixed costs the business can have different amount of sales, as fixed costs will remain the same. The variable costs vary with the volume of sales (or volume of manufactured).

(4) Draw a diagram showing the two different costs lines in short-run: variable cost varies and fixed cost remains the same even when the output increases.

(5) Explain the break-even concept (BEP) (refer Annex 10.1). The BEP analysis establishes a relationship between revenues and costs in relation to volume. It indicates the level of sales at which costs and revenues are in equilibrium.

REVENUE = COSTS

The equilibrium point is commonly known as the break-even point. It is a no-profit, no-loss point.

(6) Introduce the concept of contribution.

Sales - Variable Costs = Contribution
Selling Price - VC/unit = Contribution/unit
Total Contribution = Total Fixed Cost + Profit

At break-even point, profit will be zero, and therefore, total contribution will be equal to the total fixed costs.

(7) Workout one example with the participants selecting one of their profit & loss statements. You also can take the earlier profit & loss statements prepared by participants in the Finance Exercise or Best Game.

(8) Introduce other equations and the graphical method. Slowly explain the BEP computation for multi-product businesses.

(9) Make clear that the significant aspect of the BEP analysis is to examine the effects of changes in costs, volume and prices on profits and how to use this information in improving the profit plan.

(10) Allocate 30 minutes to work out the case given in Annex 3.1.2.

(11) Discuss with the participants the information generated from the BEP analysis and their use in formulating the profit plan.

**Caution**

(1) While introducing the BEP concept, participants may get confused. Therefore, the facilitator should explain the BEP in units first.

(2) Sometimes, the participant's may set their focus on the break-even point rather than the information. Stress the importance of BEP analysis for short-term profit planning.

**Annex:** ANNEX 10.1: BREAK-EVEN ANALYSIS
ANNEX 10.2: VAANI TOY MANUFACTURERS
ANNEX 10.3: VAANI TOY MANUFACTURER'S CASE SOLUTIONS





# ANNEX 10.1: BREAK-EVEN ANALYSIS

## BREAK-EVEN ANALYSIS

### 1. Introduction

Break-even analysis, which is sometimes called cost volume- profit analysis, is a technique used to measure the firm's returns (points) against various cost structures and level of sales. In general, break even analysis requires the derivation of certain relationships among revenues and costs in order to:

- determine the level of operations it must maintain to cover all operating costs; and,
- evaluate the profitability associated with various levels of sales.

### 2. What is the Break Even Point (BEP)?

To appreciate this analysis, two major assumptions have to be presented:

- that costs can be reasonably classified into fixed and variable components
- all cost-volume-profit relationships are linear

Break-even is defined as the level of sales or revenues equal to all costs and expenses. It is also expressed as a point where the firm does not realize any gain nor incur any loss. Hence, the break-even point is the take off point to profitability.

The break-even point could be presented in equations such as:

| | | | | |
|---|---|---|---|---|
| Total sales | = | Totale costs | | |
| 0 | = | Total sales | - | Total costs |
| Total sales | = | Fixed costs | + | Variable costs |
| Sales volume x Price | = | Fixed Costs | + | Variable costs |

### 3. Relevant Concepts

By definition, ***fixed costs*** are expenses that do not directly change with production or sales volume changes. These are expenses that are mostly a function of time, not sales, and are typically contractual. Examples of these types of costs are depreciation expenses, salaries of administrative personnel, rental expenses, and the like. ***Variable costs*** vary directly with sales and are a function of volume rather than time. Examples of variable costs are raw materials, direct labour, sales commissions and sales tax. On a unit basis, the fixed cost per unit changes while the variable cost per unit is contact.

When the costs have been classified into fixed and variable components, it is useful to compare revenues with variable costs. If the price is assumed constant, total revenues will be proportional to volume. Because variable costs are also proportional to volume, the difference between revenues and total variable cost will vary directly with volume. The difference between revenues and variable costs is called the ***contribution margin***.

The contribution margin plays a key role in the analysis of volume-profit relationships. When the contribution margin is equal to fixed costs, the firm will have zero profit, or break even. When the contribution margin is less than the fixed costs, the firm will lose money. Only when the contribution margin is greater than fixed costs the firm will make profits.

## 4. Approaches to Break-even Point Determination

The break-even point can be expressed in terms of **sales volume** (quantity), **selling price** (with volume), or **sales** (amount).

| | | |
|---|---|---|
| BEP sales (Quantity) | = | $\frac{\text{Total fixed cost}}{\text{Unit selling price - Unit variable costs}}$ |
| BEP selling price | = | $\frac{\text{Total fixed costs + Total variable costs}}{\text{Total sales volume (Quantity)}}$ |
| Cash BEP (Sales volume) | = | $\frac{\text{Total cash fixed costs}}{\text{Unit selling price - Unit cash variable cost}}$ |

The cash break-even point is the level of sales necessary to meet all the cash expenses of the firm (including the cash outlay in loan principal amortizations if the intention is to measure the adequacy of cash flow from operations to meet all cash obligations). In computing this, all non-cash expenses like depreciation and amortization of pre -operating expenses will have to be deducted or removed to the fixed and variable costs.

## 5. Applications of the Break-even Analysis

There are four major areas of application of the BEP analysis. These are:

- New product decisions in terms of minimum sales volume to achieve, given expected selling prices and costs
- Pricing decisions such as effect of changing prices and volume relationships on total profits
- Modernization or automation decision where in certain variable costs could be made into fixed costs through automation programs
- Expansion decisions wherein the relationships between total sales for all products and total costs for all products are examined in order to identify potential changes in these relationships

## 6. BEP Analysis for Multi Product Firms

BEP analyses maybe applied not only to a single product company but also to one with multiple products. One approach is to aggregate the total variable costs and sales for all the products to arrive at overall BEP sales for the company. Once this is determined, multiplying each product's percentage contribution to total sales to the BEP sales can derive the individual BEP for each product. Exhibit 2 shows an illustration of calculating multi product BEP points.





## 7. Break-even for Multi Product Firm

$$\text{BEP SV} = \frac{\text{Total fixed cost}}{\text{Sales - Total variable cost}} \times \text{Sales}$$

Given'

| Product | Sales (Qty.) | Selling Price | Total Sales | % | UVC | TVC | Fixed Cost |
|---|---|---|---|---|---|---|---|
| A | 4,000 | $100 | $400,000 | 22 | $50 | $200,000 | $400,000 |
| B | 3,000 | $250 | $750,000 | 41 | $100 | $300,000 | $400,000 |
| C | 2,000 | $500 | $100,000 | 5 | $250 | $500,000 | $400,000 |
| D | 1,000 | $600 | $600,000 | 32 | $300 | $300,000 | $400,000 |
| Totals | | | $1,850,000 | | | $1,300,000 | $400,000 |

$$\text{BEP SV} = \frac{\$400{,}000}{\$1{,}850{,}000 - \$1{,}300{,}000} \times \$1{,}850{,}000 = \$\ 1{,}345{,}455$$

| Product | Selling Price | % to Sales | Total BESV | BE in units |
|---|---|---|---|---|
| A | $100 | 22 | $295,889 | 2,959 |
| B | $250 | 41 | $551,429 | 2,206 |
| C | $500 | 5 | $ 67,248 | 134 |
| D | $600 | 32 | $430,384 | 717 |

## ANNEX 10.2: VAANI TOY MANUFACTURERS

### VAANI TOY MANUFACTURERS (VTM)

Vaani Toys produces animal soft-toys (monkey, dog, cat, rat and rabbit), which are packed in a polythene bag and sold as a complete unit.

The cost structure of VTM is as follows:

| | MWK |
|---|---|
| Average price per set | 80 |
| Variable manufacturing costs per unit | 25 |
| Variable selling and distribution cost per unit | 5 |
| Fixed manufacturing costs (annual) | 400,000 |
| Fixed selling and administration costs (annual) | 200,000 |

Vaani needs your help to compute the following:

1. The anticipated level of profit if toy sales are 15,000 sets.
2. The level of unit sales at which VTM will break-even?
3. There is excess production capacity and Vaani was able to convince a client for an order of 1,000 additional sets for export. The distribution cost for this special order will be Rs 15,000. Variable cost will remain at Rs 25 per set. What is the minimum price per set that VTM can accept and still break-even on this special order?

## ANNEX 10.3: VAANI TOY MANUFACTURER'S CASE ANSWERS

### SOLUTION TO VAANI TOY MANUFACTURER'S CASE

**1. Total contribution at sales level of 15,000 sets**

| | | Rs |
|---|---|---|
| | 15,000 x 50 | 750,000 |
| Fixed cost | | 600,000 |
| Profit | | 150,000 |

**2. BEP**

$$\text{BEP} = \frac{\text{Fixed cost}}{\text{Sales/unit} - \text{Variable cost/unit}} = \frac{600{,}000}{50} = 12{,}000 \text{ sets}$$

**3. BEP (units)**

$$\text{BEP (units)} = \frac{\text{Fixed cost}}{\text{Price / set - VC/set}}$$

$$1{,}000 = \frac{15{,}000}{(P-25)}$$

$$P - 25 = 15$$

$$P = \text{Rs } 40$$





# 11. Cashflow Analysis

**Objectives**

(1) To increase awareness on the importance of cash flow in business planning and project viability testing;

(2) To develop the ability to prepare cash flow projections.

**Requirements**

(1) Lead facilitator
(2) Cash Flow Statement (Annex 11.1)
(3) Cash Flow Exercise: Varsha Jam Case (Annex 11.2)
(4) Cash Flow Statement Format (Annex 11.3)
(5) Solution and workings of the case (Annex 11.4)
(6) Flip chart
(7) Overhead projector
(8) Texta pens
(9) Calculators

**Steps**

(1) Introduce the concept of cash flow (Annex 2.2.1). Further, explain and clarify cash and non-cash transactions with examples. Discuss the non-cash aspect of depreciation and other non-cash transactions, which take place in a business.

(2) Point out and discuss that whatever profit generated by a business does not matter if the cash flow is not positive, i.e., the cash coming in is less than cash going out.

(3) Explain with a diagram of a tank where the water is saved from several paths and diverted into different directions. The success of the function depends on two processes: (a) inflows; and (b) outflows. Both should be planned and monitored in order to balance the whole function. The same mechanism could be related to a business where the outflows and inflows of cash are essential.

(4) Further explain that on the other hand the entrepreneur who creates and runs business projects and maximize his/her wealth by ensuring that the cash outflows made from the business create more cash inflows to the business. In a way, the success of a wealth creation mechanism depends on the rate of cash out goings and cash in comings.

(5) Finally, discuss the difference and relationship between the P&L and the cash flow statements. In the P&L the non-cash transactions will be considered while in the cash flow only the cash transactions. Differentiate the profit earned and the cash in hand as they are not the same always.

(6) Introduce the cash flow format given in Annex 2.2.3. Explain the common inflows and out flows.

(7) By a grouping exercise, group the participants into groups of 5 -7 members and distribute the "Cash flow Exercise: Varsha Jam Case" (Annex 2.2.2).

(8) Give 30 minutes to work on the exercise.

# ANNEX 11.1: CASHFLOW STATEMENT

## CASH FLOW STATEMENT

Two basic financial statements of importance to entrepreneurs and management are balance sheet and profit & loss. We know that the balance sheet gives a summary of the business's resources (assets) and obligations (liabilities and equity) at a point in time; the profit & loss statement reflects the results of the business operations by summarizing revenues and expenses during a period of time. Both these statements fail to explain the liquidity status of the business.

The liquidity aspects of the business show the business's ability to meet current obligations. The cash in hand and the assets easily convertible into cash make the business's liquidity status, which are very important to solve the day-to-day current obligations. Therefore, the management becomes interested in forecasting, planning and monitoring the cash flows in a business in order to ensure positive cash flows into the business and to take effective decisions in purchasing, loan repayment and working capital. Hence, the statement prepared for this purpose showing the cash in and out flows is called the Cash Flow Statement. An analysis of cash flows is useful for short-run planning.

Cash flow statement is a statement of changes in financial position on cash basis summarizing the causes of changes in cash position between dates of two balance sheets. It indicates the sources and uses of cash. Sales, loans and equity make up inflows. The business is dependent on its customers, financiers and stakeholders. But in the process of producing goods and services, cash flows out to pay for materials, salaries (including the entrepreneur's), rent, electricity, water, interest, supply, transport, etc.

It has been identified that whatever the size of the business, its success depends on its cash inflow generation. The cash outflows are supposed to generate more cash inflows. Businesses having more cash outflows than cash inflows will soon get into trouble. They will not be able to pay for their expenses as they fall due. This is a difficult situation that every prospective entrepreneur should avoid.

But many entrepreneurs fail to realize the importance of cash flow planning. They constantly run the risk of being unable to settle most of their bills. Poor cash planning practice is a major cause for many small business failures.

The cash planning process begins with figuring out how much cash is generated from receipts as well as other sources like loans, etc. for a particular time period. This figure represents cash inflows. Obviously, credit sales are excluded since they are not cash until they are fully paid for. Then, figure out how much cash is needed to settle all expenses for materials, rent, salaries, and others. This figure represents cash outflows. Credit purchases are excluded since they are not cash transactions until they are fully paid for.

Preparing cash flow projection is easy and fun. It consists of cash **inflows** (or cash receipts) and cash **outflows** (or cash payments). Likewise, it will have spaces for beginning balance for the next month. The difference between cash inflows and cash outflows represents the **ending cash balance**. This cash balance within a period, say for a month, will automatically become the beginning balance for the next month. The aim is to ensure that the available cash will be sufficient to meet the needs and obligations of the proposed business. If there are more cash outflows than inflows, then measures, such as selling more products, converting personal assets to cash, borrowing some money, etc., must be initiated. The format of a cash flow statement is given in Annex 2.2.3.

The profit figure generated by the P&L is not the cash in the business. In fact, some businesses can have very high profits but cash-less. Why?

Recall that profit consists of cash and non-cash items. Cash on the other hand, refers only to coins, bank deposits, notes and cheques. The non-cash items in profits consist of: credit sales, credit purchases, unpaid expenses, stocks, and depreciation.

Consider a situation in which all the sales are given on credit in a month. Using the formula, Sales - Costs = Profit, and if the situation yields more sales than costs, then a profit figure will be registered. But since all sales are on credit (i.e., customers have not paid yet), then there is profit but no cash.





# ANNEX 11.2: CASH FLOW EXERCISE

## CASH FLOW EXERCISE:

## VARSHA JAM CASE

Varsha, a young and ambitious entrepreneur, has plans to venture into processing and bottling of jam. He intends starting the operations in year 2000. At present he is getting ready and has invested into Varsha Jam business Rs 378,000 in the form of:

| | Rs |
|---|---|
| **Fixed Assets** | |
| Land & building | 200,000 |
| Vehicle | 100,000 |
| Furniture and fittings | 50,000 |
| Utensils & Others | 28,000 |
| | 378,000 |

He spent Rs 7,500 for a market survey. Further, he applied for a Rs 40,000/- working capital loan, which the Bank of Ceylon will sanction in the month of July. He will invest further Rs 24,000 on January 1, 2000 to purchase raw material for Rs 24,000 and intends paying cash. At the date of start-up he expects to have Rs 18,500 for the operations.

Varsha needs help from you to prepare his Cash Flow Statement on a monthly basis in order to complete his short-term planning for a smooth business start-up. While you assist him in this matter please consider the following facts:

1. On January 1st he will be ready with the fixed assets and materials needed for his business.

2. At the end of each month he has to pay salaries as follows:

| Description | Number of employees | Monthly salaries (Rs) | Total salaries (Rs) |
|---|---|---|---|
| 1. Distributor | 1 | 5,000 | 5,000 |
| 2. Labour | 2 | 3,750 | 7,500 |
| 3. Assistants | 1 | 2,000 | 2,000 |
| | | **TOTAL** | 14,500 |

3. He has forecasted his sales as follows:

| Month | Cash Sales (Rs) | Credit Sales (Rs) |
|---|---|---|
| January | 35,000 | 10,000 |
| February | 35,000 | 10,000 |
| March | 42,000 | 10,000 |
| April | 42,000 | 10,000 |
| May | 42,000 | 10,000 |
| June | 45,000 | 10,000 |
| July | 45,000 | 12,000 |
| August | 50,000 | 12,000 |
| September | 50,000 | 12,000 |
| October | 52,000 | 12,000 |
| November | 52,000 | 13,000 |
| December | 55,000 | 13,000 |
| **TOTAL** | 545,000 | 134,000 |

4. He believes that he will be able to collect only 95% of the credit sales made in the following month.
5. The raw material cost is 25% of total sales of the month and could be purchased on one month credit.
6. The interest rate on the loan will be 14%. He has decided and agreed to repay his loan in four blocks at the end of each year starting from this year.
7. The following expenses has to be settled at the end of each month:

| | ***Rs*** |
|---|---|
| Electricity | 750 |
| Water | 250 |
| Maintenance cost | 1,000 |
| Others | 500 |

Varsha will withdraw Rs 5,000 from the business as his salary.





ANNEX 11.3 CASH FLOW FORMAT

**CASH FLOW STATEMENT FORMAT**

| | **Pre-operating Period** | **January** | **February** | **March** | **April** | **..........** | **..........** | **December** |
|---|---|---|---|---|---|---|---|---|
| **Beginning Cash Balance (A)** | | | | | | | | |
| **INFLOWS:**<br>• Sales<br>• Collection from Credit sales<br>• Equity<br>• Loans<br>• Other receipts | | | | | | | | |
| **TOTAL INFLOWS (B)** | | | | | | | | |
| **Cash Available for use (A) + (B) = (C)** | | | | | | | | |
| **OUTFLOWS:**<br>• Fixed Assets<br>• Materials<br>• Wages/salaries<br>• Rent<br>• Stationery<br>• Transport<br>• Other Expenses | | | | | | | | |
| **TOTAL OUTFLOWS: (D)** | | | | | | | | |
| **ENDING CASH BALANCE (E) = (C) - (D)** | | | | | | | | |

## ANNEX 11.4: SOLUTION TO CASH FLOW EXERCISE: VARSHA JAM CASE

| | Pre-operating period | January | February | March | April | May | June | July | August | September | October | November | December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Beginning cash balance **(A)** | | 18,500 | 31,500 | 42,750 | 61,000 | 77,500 | 94,000 | 113,500 | 172,250 | 196,933 | 220,367 | 245,800 | 270,733 |
| **INFLOWS:** | | | | | | | | | | | | | |
| Sales | | 35,000 | 35,000 | 42,000 | 42,000 | 42,000 | 45,000 | 45,000 | 50,000 | 50,000 | 52,000 | 52,000 | 55,000 |
| Collection from credit sales | | | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 | 11,400 | 11,400 | 11,400 | 11,400 | 12,350 |
| Equity | 404,000 | 24,000 | | | | | | | | | | | |
| Loans | | | | | | | | 40,000 | | | | | |
| Other receipts | | | | | | | | | | | | | |
| **TOTAL INFLOWS (B)** | | 59,000 | 44,500 | 51,500 | 51,500 | 51,500 | 54,500 | 94,500 | 61,400 | 61,400 | 63,400 | 63,400 | 67,350 |
| Cash available for use (A) + (B) = (C) | | 77,500 | 76,000 | 94,250 | 112,500 | 129,000 | 148,500 | 208,000 | 233,650 | 258,333 | 283,767 | 309,200 | 338,083 |
| **OUTFLOWS:** | | | | | | | | | | | | | |
| Fixed assets | 378,000 | | | | | | | | | | | | |
| Materials | | 24,000 | 11,250 | 11,250 | 13,000 | 13,000 | 13,000 | 13,750 | 14,250 | 15,500 | 15,500 | 16,000 | 16,250 |
| Wages/salaries | | 14,500 | 14,500 | 14,500 | 14,500 | 14,500 | 14,500 | 14,500 | 14,500 | 14,500 | 14,500 | 14,500 | 14,500 |
| Varsha's salary | | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Rent | | | | | | | | | | | | | |
| Electricity and water | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Maintenance cost | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Other expenses | | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| Loan repayment + interest | | | | | | | | | 467 | 467 | 467 | 467 | 10,467 |
| Market survey | 7,500 | | | | | | | | | | | | |
| **TOTAL OUTFLOWS: (D)** | | 46,000 | 33,250 | 33,250 | 35,000 | 35,000 | 35,000 | 35,750 | 36,717 | 37,967 | 37,967 | 38,467 | 48,717 |
| **ENDING CASH BALANCE (E) = (C) - (D)** | | 31,500 | 42,750 | 61,000 | 77,500 | 94,000 | 113,500 | 172,250 | 196,933 | 220,367 | 245,800 | 270,733 | 289,367 |





## WORKINGS OF CASH FLOW EXERCISE: VARSHA JAM CASE

| | Pre-operating period | January | February | March | April | May | June | July | August | September | October | November | December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash sales | | 35,000 | 35,000 | 42,000 | 42,000 | 42,000 | 45,000 | 45,000 | 50,000 | 50,000 | 52,000 | 52,000 | 55,000 |
| Credit sales | | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 12,000 | 12,000 | 12,000 | 12,000 | 13,000 | 13,000 |
| 95% of Credit sales | | | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 | 11,400 | 11,400 | 11,400 | 11,400 | 12,350 |
| 5% of Credit sales | | | | - | - | - | - | - | - | - | - | - | - |
| Total sales | | 45,000 | 45,000 | 52,000 | 52,000 | 52,000 | 55,000 | 57,000 | 62,000 | 62,000 | 64,000 | 65,000 | 68,000 |
| Raw materials 25% of total sales | | 11,250 | 11,250 | 13,000 | 13,000 | 13,000 | 13,750 | 14,250 | 15,500 | 15,500 | 16,000 | 16,250 | 17,000 |
| Loan interest | | | | | | | | | 467 | 467 | 467 | 467 | 467 |

# 12. Financial Ratio Analysis

**Objectives**

(1) To explain the different financial measures of liquidity, leverage, activities and profitability;

(2) To appraise the financial performance of a business in a case study through the use of various financial ratios;

(3) To develop ability to interpret ratios and implement actions for improvement of business performance in the future.

**Time**

4 hours

**Requirements**

(1) Lead facilitator
(2) Flip chart board
(3) Marker pens
(4) Handout on Financial Ratio Analysis (Annex 12.1)
(5) Calculators

**Steps**

(1) Inform the participants that financial statements on their own can only provide raw information. But when analysed together and with the use of ratios, the results can be very revealing.

(2) Proceed to explain the four performance measures of the business, namely:

- liquidity ratios
- leverage ratios
- activity ratios
- profitability ratios

(3) Explain the significance of each ratio with relevant rules of thumb.

(4) Via a grouping exercise divide the participants into groups of 3.

(5) Distribute Annex 3.2.2 and request the groups to find out the ratios which you announce. Start with current ratio and allow time for the groups to find out the current ratio.

(6) Once the groups have completed the working on current ratio, find out the answers from the groups. Find out reasons for variation and explain the application and limitation of the current ratio.

(7) Continue until all the ratios, which are given in the handout (Annex 3.2.1), are completed. Now distribute the handout.

(8) Request the participants to start working on the ratios using the financial statements of their business. Allow sufficient time. Walk around and assist participants who seek clarifications and further information.

(9) Request volunteers to share the findings and interpretation of the ratios analysed for their business.

(10) Find out what actions could be planned to improve business performance based on the ratios.





## ANNEX 12.1: FINANCIAL RATIO ANALYSIS

Analysis of an enterprise financial performance based on the figures found in the financial statements (balance sheet and income statement) can be done with the use of financial tools, which are called financial ratios. The method of relating these figures is very simple: one number is divided by another number, hence the term “ratio”. The result can be multiplied by 100 and expressed as a percentage, or it can be expressed as a decimal figure without the percentage conversion step.

Ratio analysis provides a systematic way of making various financial comparisons, thus giving the entrepreneur a good picture of the financial condition of an enterprise. It provides him or her with some indications of business problems to be investigated other than finance.

There are four major types of financial ratios, namely liquidity ratios, leverage ratios, activity ratios and profitability ratios. They are described in detail below. For purpose of illustration, the balance sheet and income statement in Annex 3.2.1 are used.

### 1. Liquidity Ratios

The entrepreneur can use the liquidity ratios to measure a company’s ability to meet its maturing and short-term obligations by relating financial resources such as cash, investments and accounts receivable to current liabilities. Liquidity is very critical to any business’ profitability and growth. An enterprise which is unable to settle its maturing obligations will get a poor credit rating, may experience difficulties procuring materials to sustain production and sales levels, and may be forced to buy supplies on credit at higher prices.

Two common liquidity ratios are quick ratio and current ratio.

### 1.1 Quick Ratio

Description – Quick ratio, also called acid test ratio, provides a vigorous and important test of a business’ ability to meet its current obligations. Generally, a ratio of 1:1 is considered satisfactory. Quick assets are those current assets, which are quickly convertible to cash. These include cash, short-term investments like marketable securities and accounts receivable.

**Example:**

$$\text{Quick Ratio} = \frac{\text{Cash + Short-Term Investments + Accounts Receivable}}{\text{Current Liabilities}}$$

$$= \frac{\$32{,}000}{\$24{,}000} = 1.3$$

### 1.2 Current Ratio

Description – Current ratio is a test of the business’ ability to remain current on its payment. An enterprise’s current assets should exceed current liabilities by a reasonable margin. This margin (current assets less current liabilities) is called working capital.

Current assets are those assets of the business that are ultimately intended to be consumed or converted into cash within a year from the date of the balance sheet. Current liabilities are debts that are payable within one year from the date of the balance sheet. Creditors view working capital as a margin of safety against shrinkage in current assets and liability accounts.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Example:**

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{\$56,000}{\$24,000} = 2.3$$

This means that the business' current assets can pay its current liabilities 2.3 times.

Application – This ratio tells the entrepreneur whether the business has a healthy current ratio. It indicates whether more current assets are free from debt claims of creditors and whether prompt payment for maturing current liabilities can be expected.

## 2. Leverage Ratios

Entrepreneurs can use the leverage (also called solvency) ratios to measure the extent to which the business has been financed by debt and to determine the following: (1) whether the entrepreneur has provided only a small proportion of the business' total financing, in which case the risk of the business is borne largely by the creditors; (2) by raising funds through debt, whether the entrepreneur gains the benefit of controlling his/her business with a limited investment; and (3) whether the business earns more on borrowed funds than it pays in interest.

Two common leverage ratios are: debt equity ratio and times interest earned.

### 2.1. Debt /Equity Ratio

Description - debt/equity ratio is the most common solvency ratio. It is a measure to assess the business' ability to service its debts in the event that the business will have to be liquidated. The ratio tells the business counsellor the extent of capital provided by creditors as against that of the entrepreneur. Debt includes all obligations, both current and long-term. Equity means owner's capital. Total debt plus equity equals total assets.

**Procedure – Divide total debt by equity**

$$\text{Debt/Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}}$$

Example:

$$\text{Debt/Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}} = \frac{\$80,000}{\$80,000} = 1$$





A debt/equity ratio of 1 signifies that the creditors and the entrepreneur provide equal amounts of funds to the business.

Application - Creditors generally prefer a low debt/equity ratio, as it would indicate that a large percentage of the business funds are provided by the entrepreneur. Low debt means low monthly outlays for principal and interest, implying a reduced risk of non-payment if sales and earnings fall. High risk-taking entrepreneurs, on the other hand, prefer to increase the debt/equity ratio to a limit that financial institutions or accepted local practices would allow. The reasons for the entrepreneur's preference for more debt are:

a) Debt allows, "trading on equity" that is, using cheaper funds to increase the business profitability. (The business may earn 10% and pays only 5% on its debts).

b) Debt does not involve dilution of the entrepreneur's control of the business.

Limitation - There is no standard debt/equity ratio. Although some financial experts would suggest 60-40 and 70-30 proportion in favor of debt, a good debt/equity ratio depends on several variables like the nature of the business (for instance, businesses engaged in metal fabrication would normally have a higher debt/equity ratio compared to those businesses engaged in food processing), cost structure of the business and the financial policies of the entrepreneur.

### 2.2 Times Interest Earned

Description – This ratio tells the business counsellor whether the business can readily pay interest on its loans and how adequately the interest is covered by the business' profit. Although the business may be heavily financed by debt, it is possible that profit generated is more than adequate to cover the required interest charges.

**Procedure- Divide net earnings before interest and taxes (EBIT) by annual interest charges.**

$$\text{Times Interest Earned} = \frac{\text{EBIT}}{\text{Interest}}$$

Example:

$$\text{Times Interest Earned} = \frac{\text{EBIT}}{\text{Interest}} = \frac{\$21,600}{\$5,600} = 3.8$$

The result shows that earnings cover interest payments almost 4 times.

Application - The higher the coverage, the more adequate the earnings are to meet the interest charges. A rough rule of thumb is that an investment is considered safe if the interest coverage is at least four times over. Also, creditors generally determine safer debt limits by referring to an industry standard or historical performance of the business.

This ratio also measures the extent to which profits can fall without resulting in financial embarrassment to the enterprise because of inability to pay annual interest charges. Failure to meet this obligation can lead to legal action by the creditors and can adversely affect the credit image of the business. Since income taxes are computed after interest expenses are deducted, the ability to pay current interest is not affected by current taxes.

Limitation - This ratio does not consider the payment of principal loan instalments in addition to interest, called the debt service burden.

## 3. Activity Ratios

These ratios reveal how the firm is using its resources. They are also called performance measures or turnover ratios. The three most popular activity ratios are: inventory turnover, accounts receivable turnover, and assets turnover.

### 3.1 Inventory Turnover

Description - Inventory turnover indicates how fast the products are being sold. It shows the number of times the funds invested in inventory are turned into sales, thereby providing insights regarding the effectiveness of the entrepreneur's policies. Commonly, high turnover is indicative of sound inventory management.

**Procedure - Divide sales by average inventory, where average inventory is calculated by adding beginning inventory plus ending inventory divided by 2.**

$$\text{Inventory Turnover} = \frac{\text{Sales}}{\text{Average Inventory}}$$

Example:

$$\text{Inventory Turnover} = \frac{\text{Sales}}{\text{Average Inventory}}$$

$$= \frac{\$\ 240{,}000}{(\$\ 18{,}000 + 24{,}000)/2}$$

$$= \frac{\$\ 240{,}000}{\$\ \ 21{,}000} = 11.43$$

The ratio shows that inventory turned 11.43 times to generate the above sales figure or approximately once every 32 days (365 days divided 11.43 times).

Application - To improve turnover, the entrepreneur needs to purchase more conservatively or stimulate sales from stocks inventory. The ratio answers the questions as to whether the business has too much or too little money tied up in inventory. The higher the ratio, the greater the turnover capacity and the more probable the freshness, salability and liquidating value of the inventory.

An enterprise with a low turnover may indicate excessive inventories, existence of obsolete stocks, and over-valuation of stocks or ineffective inventory controls. On the other hand, an enterprise that stocks a larger-than-normal inventory will have a lower turnover than another that can generate the same sales with a lower inventory investment. By doing so, the latter minimizes funds invested in excessive, and sometimes slow-moving goods and reduces related inventory carrying costs (such as storage, insurance, deterioration, obsolescence, taxes). Frequently, to achieve reductions in these costs, the entrepreneur should stock only certain sizes and lines of raw materials. This is especially true to an enterprise engaged in garment manufacturing which caters to a specific clientele and whose products are prone to rapid style changes.

Limitation - Inventory turnover varies with the nature of the business. It will be higher for a trading than for a manufacturing firm. Turnover is also affected by seasonality of the business. Differences in inventory turnover of a similar business maybe explained by differences in their product mix, technology and processes, location, etc. Too much attention on minimal inventories and high turnover can lead to stockouts, lost sales and lost customers. Furthermore, quantity discounts and low freight rates may be unavailable because of low purchase volume.





### 3.2 Accounts Receivable Turnover

Description - This ratio shows the number of times each year receivables turn into cash. It provides the business counsellor some indication of the quality of both the receivables and the collection efforts.

**Procedure - Divide net sales by the average accounts receivable during the year. Average receivables is calculated by adding the beginning and ending receivables and dividing by 2.**

$$\text{Accounts Receivable Turnover} = \frac{\text{Net Sales}}{\text{Average Accounts Receivable}}$$

**Example:**

$$\text{Accounts Receivable Turnover} = \frac{\text{Net Sales}}{\text{Average Accounts Receivable}}$$

$$= \frac{\$\ 240{,}000}{(\$20{,}000 + \$16{,}000)/2}$$

$$= \frac{\$240{,}000}{\$\ \ 18{,}000} = 13.3$$

Application - Tied to the concept of accounts receivable turnover is the average collection period experienced by the business to collect its receivables. In our example, the fact that receivables turned over 13.3 times indicates an average collection period of about 27 days (365 days divided by 13.3 times).

### 3.3 Assets Turnover

Description - Assets turnover is the sister constituent ratio of profit margin to arrive at return on investment (ROI). The ratio determines efficient or inefficient assets utilization. The ratio is also called asset management ratio or investment turnover.

$$\text{Assets turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

Example:

$$\text{Assets Turnover} = \frac{\text{Sales}}{\text{Total Assets}} = \frac{\$240{,}000}{\$160{,}000} = 1.5$$

This means that assets are turned 1.5 times to generate the sales figure above. The higher the ratio, the better the prospect for the business to increase its profitability.

Application - A high ratio indicates fast turnover and better management/utilization of assets. A fall in the turnover ratio may indicate to the entrepreneur inefficient inventory and collection policies, overvalued assets, ineffective product, market policies resulting in declining sales volume, or existence of unproductive or obsolescent assets.

Limitation - Since assets turnover varies with the type of industry (for example, the more capital-intensive the business is, the lower will be its turnover), the ratio must not be indiscriminately compared across different industries. Likewise, to identify which factors are responsible for an increase or decline in the turnover rate, the entrepreneur should break down the assets turnover ratio into its constituent ratios, i.e., inventory turnover and accounts receivable turnover.

## 4. Profitability Ratios

Profitability ratios are used to examine an enterprise's operating performance during an accounting period. These are of particular interest to the creditors, the suppliers and others who have interest in the business. They measure the net result of the business operation that is profit or loss in relation to the investment.

The common ratios used are profit margin, return on investment (ROI) and return on owner's investment (ROOI)

### 4.1 Profit Margin

Description - Profit margin is a commonly accepted measure of profitability. The relationship of profit to sales indicates the entrepreneur's ability to operate the business with sufficient success not only to recover all costs from revenues for the period but also to leave a margin of reasonable compensation to him for providing his capital at risk. It essentially expresses the cost/price effectiveness of the business operation. The ratio is also called percentage return on sales, margin on sales or net profit percentage.

**Procedure - Divide earnings before interest and taxes (EBIT) by sales.**

$$\text{Profit Margin} = \frac{\text{EBIT}}{\text{Sales}}$$

**Example:**

$$\text{Profit Margin} = \frac{\text{EBIT}}{\text{Sales}} = \frac{\$\,21{,}600}{\$240{,}000} = 9\%$$

Application - The higher the ratio, the greater the profit margin. A low profitability may be caused by several factors such as high cost of production and marketing in relation to the sales volume generated or ineffective marketing in relation to the sales volume generated, or ineffective marketing strategies, among others. The business counsellor should be adept in diagnosing the causes of changes in the profit margin. Any significant variance compared with the past or with competitors or with the targeted margin gives adequate notice to the business counsellor to probe the situation. If needed, he/she can break this ratio further into its constituent ratios: cost of goods sold over sales, administrative expenses over sales, interest over sales, and so on.

Limitation - Profit margin ratio is one of two constituent ratios of return on investment (ROI), hence, a better picture of the business' profitability is obtained by jointly using its twin ratio of assets turnover.





### 4.2 Return on Investment (ROI)

Description - Return on investment is an indicator of the effectiveness with what the business resources were or would be used. It relates profits (returns) to a given level of asset investment (resources) used to generate profits.

**Procedure - Divide earnings before interest and taxes (EBIT) by total assets.**

$$\text{ROI} = \frac{\text{EBIT}}{\text{Total Assets}}$$

**Example:**

$$\text{ROI} = \frac{\text{EBIT}}{\text{Total Assets}} = \frac{\$\;21{,}600}{\$\;160{,}000} = 13.5\%$$

ROI is actually composed of two constituent ratios: profit margin and assets turnover, where

$$\text{Profit Margin} = \frac{\text{EBIT}}{\text{Sales}} = 9\%$$

$$\text{Assets Turnover} = \frac{\text{Sales}}{\text{Total Sales}} = 1.5$$

so that:

$$\text{ROI} = \frac{\text{EBIT}}{\text{Total Sales}} = \frac{\text{EBIT}}{\text{Total Sales}} \times \frac{\text{Total Sales}}{\text{Total Assets}}$$

$$\text{ROI} = \frac{\$21{,}600}{\$160{,}000}$$

or simply

$$= 9\% \times 1.5 \quad = 13.5\%$$

The above computation permits the business counsellor to determine courses of action to increase the rate of return. The business can increase net profits by reducing expenses. Alternatively, it can reduce the investment by reducing working capital, accounts receivable, inventory, plant and equipment.

Application - The higher the ratio, the greater the profitability. ROI as a decision tool focuses the attention of the business counsellor and the entrepreneur on opportunities open to the business for improving results through better use of existing resources. It is also used in making future-oriented decisions, which involve a choice among alternative investment opportunities.

Limitation - ROI does not take into account the timing of the cash inflows and outflows during the life of the project. In evaluating future profitability of alternative projects that have different probabilities over a number of years, it is not sufficient to rely on an annual calculation of profitability. Instead, it is necessary to determine the overall profitability of the project by using discounting methods.

## 4.3 Return on Owner's Investment (ROOI)

Description - These measures the profit generated on the funds provided by the entrepreneur. It is expressed as a percentage so that it can be compared with other possible avenues of investment the entrepreneur might be considering.

**Procedure - Divide net profit after interest and taxes by the amount of owner's investment.**

$$\text{ROOI} = \frac{\text{Net Profit after Interest and Taxes}}{\text{Owner's Investment}}$$

**Example:**

$$\text{ROOI} = \frac{\text{Net Profit after Interest and Taxes}}{\text{Owner's Investment}}$$

$$= \frac{\$9,600}{\$80,000} = 12\%$$

Application - This financial tool is used in determining the feasibility or attractiveness of investing the entrepreneur's own funds in the business compared to other investment alternatives.

Limitation - ROOI should not be made the sole basis for investment decision-making or determining project attractiveness. Other factors to be considered include personal independence of the entrepreneur, security and risk of alternative investments, as well as the need of the business for funds in relation to its ability to generate cheaper funds from outside.





**ABC Manufacturing**

**Balance Sheet as of December 31, __________**

| | | | |
|---|---|---|---|
| **Current Assets:** | | | |
| Cash | 4,000 | | |
| Marketable Securities | 12,000 | | |
| Accounts Receivable | 16,000 | | |
| Inventories | 24,000 | | |
| *Total Current Assets* | | | 56,000 |
| **Fixed Assets:** | | | |
| Land | 44,000 | | |
| Plant | 70,000 | | |
| Equipment | 30,000 | | |
| Less: Depreciation | 40,000 | | |
| Net Plant and Equipment | | | 104,000 |
| *Total Fixed Assets* | | | |
| **TOTAL ASSETS** | | **160,000** | |
| **Current Liabilities:** | | | |
| Accounts payable | 4,800 | | |
| Notes payable Due | 8,000 | | |
| Accrued expenses | 800 | | |
| Provisions for Income Tax | 10,400 | | |
| *Total Current Liabilities* | | | 24,000 |
| **Long Term Liabilities:** | | | |
| Loan | 40,000 | | |
| Notes Payable | 16,000 | | |
| ***Total Long-Term Liabilities*** | | 56,000 | |
| **TOTAL LIABILITIES** | | 80,000 | |
| Equity: | | | |
| Capital | 48,000 | | |
| Accumulated Profit | 32,000 | | |
| Total Equity | | | 80,000 |
| **TOTAL LIABILITIES AND EQUITY** | | | **160,000** |

**PROFIT & LOSS STATEMENT**

**For the Year Ended December 31, ___________**

| | | |
|---|---|---|
| Net Sales | | 240,000 |
| Cost of Goods Sold | | 204,400 |
| Gross Profit | | 35,600 |
| Less: Operating Expenses | | |
| Selling | 1,760 | |
| General and Administrative | 5,440 | 7,200 |
| Gross Operating Profit | | 28,400 |
| Depreciation | | 8,000 |
| Net Operating Profit | | 20,400 |
| Add: Other Income | | |
| Sale of Old Equipment | | 1,200 |
| Net Profit before Interest and Tax | | 21,600 |
| Less: Other Expenses | | |
| Interest on Notes Payable | 800 | |
| Interest on First Mortgage | 3,200 | |
| Interest on Debentures | 1,600 | 5,600 |
| Net Profit after Interest and Before Income Tax | | 16,000 |
| Income Tax (assumed at 40%) | | 6,400 |
| Net Profit after Income Tax | | 9,600 |

*Source: Financial Management Trainer Manual by Verni Vijayarajah*





# 13. Packaging The Business Improvementplan

| | |
|---|---|
| **What is it?** | Participants prepared their business plans which has been initiated from Coaching 1 and continued to Training 2: Business Improvement Planning.<br>All these times, trainees concentrate on details in four headings: Marketing, Production, Organisation and Management and Financial Management. To present a business plan for financing requires orderly arrangement of the parts of business plan and summarise the essential details in an Executive Summary. Packaging means more than arranging the parts of the business plan. It is also about getting ready for the pitching for external investment requirements and business loans. |
| **Objectives:** | (1) To review, summarise and package the prepared business plan<br>(2) To get ready for the business plan presentation in during the Graduation Ceremony.<br>(3) To prepare the potential entrepreneur for pitching experience. |
| **Results / Aims:** | (1) Business plans are packaged<br>(2) Potential entrepreneurs are aware how to prepare and face the business plan presentation during the Graduation Ceremony. |
| **Initial Preparations:** | Visuals are prepared based on Annex 14.1: Packaging the Business Plan |
| **Required Resources:** | (1) Soft boards and pins<br>(2) Flip charts and papers |
| **Checklist:** | Participants have prepared their business improvement plans. |
| **Training Steps Guidance:** | (1) Welcome, greet and introduce the session.<br>(2) Verify with participants how far they have completed the business plans. Check one by one.<br>(3) Are they ready for pitching? Do they know how much their total investment is and their financing strategies? How much do they need to borrow?<br>(4) Let them understand it is time for getting ready for packaging the business plans.<br>(5) Use the Annex P4.2.1 and introduce the business planning packaging.<br>(6) Request the participants to refer page 64 in the handbook.<br>(7) Encourage the participants to package their business plans. It is better to computerise the business plan, but it is not a must requirement.<br>(8) Ask participants to fill in their learning diaries related to Business Plan Packaging. |

**Follow-up:** Graduation Ceremony

**Annex:** ANNEX 13.1: PACKAGING THE BUSINESS PLAN

## ANNEX 13.1: PACKAGING THE BUSINESS PLAN

The business plan presentation happens during the Graduation Ceremony. Bank officers and other lending organisations come on invitation and assess the business plans prepared by the start-up Loop participants. It is an opportunity for them to present their business plans for viability test and access financing.

All participants are encouraged to present their business plans. It is the time to check the details and package the business plan. A presentable business plan will have the following:

| | Item | Details |
|---|---|---|
| 1 | **Cover page** | Name of the business<br>Date<br>Your name<br>Contact details: address, telephone, mobile and email |
| 2 | **Content page** | Titles with page numbers |
| 3 | **Executive Summary** | One-page summary of business plan. |
| 4 | **Marketing Plan** | Detailed marketing plan describing the products, marketing strategies, forecasted sales and volume, pricing list, fixed assets (if any) and total marketing expenses. |
| 5 | **Production/ Service Delivery Plan** | Detailed production/service delivery plan describing the factory/stores/service delivery location, production process flow chart, fixed assets requirements and detailed expenses. |
| 6 | **Organisation and management plan** | Detailed organisation and management plan describing the form of the business, organisation chart, your profile, fixed assets and total expenses. In addition, the Pre-operating Gantt Chart with costs. |
| 7 | **Financial Plan** | Detailed financial plan including the total investment cost, loan requirement (if any), loan repayment schedule, profit and loss statement, cashflow forecast, balance sheet and the ratio calculations. |
| 8 | **Annexes** | Any additional details that might be relevant<br>These could be: your curriculum vitae, detailed process flow charts, fixed asset quotations and others. |





# 14. Coaching 2: Business Improvement & Linkages Development

Coaching 2 includes a series of six group coaching sessions over a period of 1.5 - 2 months. Entrepreneurs prepare business development plans during the training 2 will have their draft business development plans ready for coaching.

The coaching sessions objectives are

- to finalise the business development plan

  and

- to develop linkages with other necessary BDS providers including financial institutions and granters.

During the coaching sessions, coachees are encouraged to identify challenges related to the business development plan preparations and its implementations.

## 14. 1. Coaching Preparation

Prepare yourself for these coaching 2 six sessions. The preliminary coaching preparations help you benefit the coaching session at the most as well as enable you to use the coaching sessions to improve your Business Improvement Plan (BIP) and the business. Simply follow the steps:

**Step 1:** Identify all the problems you have and are encountering in preparing the Business Improvement Plan (BIP) and improving your business. There are topics given in the column 1: TOPIC. List the problems in Table 1- Column 2. Try to list problems as much as possible whether they are important or ignorant.

**Step 2:** Rank them on their importance using the scale from 0-none to 5-high and select 5 topics for coaching.

**Step 3:** Select the 5 topics for coaching session. The final and sixth session is about finalising the BIP-Business Improvement Plan (BIP) and you don’t have options for it.

**Table 1: List of Problems**

| Discussion Topic in brief | Briefing about the problems | Importance (Scale from 0-none to 5 – high) | Select the topic for coaching |
|---|---|---|---|
| Identifying Value Propositions and Unique Value Propositions | | | |
| Forecasting your future sales | | | |
| Marketing Strategy including customer relations | | | |
| Operations Strategy - process flow chart, costing and expenses, implementation plan, human resources, others | | | |
| Sources of business financing | | | |
| Financial Plan<br>Total Project Cost<br>Loan Repayment<br>Profit and Loss<br>Break-even Point<br>Working Capital Management<br>Cashflow Forecast<br>Financial Ratio Analysis | | | |
| Any Other | | | |
| Finalising the Business Improvement Plan and Preparing for presentation | It is the set coaching session | No options | Coaching Session 6 |





## YOUR COACHING SESSION-SCHEDULE

The coaching topics have been identified for five sessions. Please end of the coaching enter the details in the schedule given below:

| Coaching Session Number | Place | Time | Discussion Topic in brief | Name of the Coach | Actions Agreed (A simple step at a time) |
|---|---|---|---|---|---|
| 1 | | | BMC | | |
| 2 | | | Marketing Strategy | | |
| 3 | | | Operations Strategy | | |
| 4 | | | Financial Plan | | |
| 5 | | | BIP packaging | | |
| 6 | | | Finalising the Business Improvement Plan and Preparing for presentation | | |

i http://agilelifestyle.net/unique-value-proposition

# 15. Training 2 Wrap-Up

| | |
|---|---|
| **What is it?** | The final session is to wrap-up Training 2. In this session the trainers will go through all the activities taken place in the last three days and summarise the learnings. |
| **Objectives:** | • To wrap-up Training 2 - Business Analysis<br>• To summarise all the sessions and the relevant learning objectives.<br>• To recognise and identify the achievement of Training 2 objectives |
| **Aims/Results:** | Training 2 - Business Analysis wrap-up |
| **Initial Preparations:** | • Expectation levelling posts<br>• Learning contracts<br>• SME Loop Visual |
| **Required Resources:** | • Flipchart board and papers |
| **Checklist:** | ✓ All necessary visuals<br>✓ Daily schedule<br>✓ List of sessions |
| **Training Steps Guidance:** | (1) Visualise the SME Loop. Point out the present position to the group (end of Training 2).<br>(2) Enquire for the trainees' feelings and satisfaction. Where are they in the process of business development? Who is going to develop the business and when?<br>(3) Are they progressing and gaining confidence?<br>(4) Summarise Training 2: taking time for session details of all three days. Remind the entrepreneurs about day 1. Request them to visit their expectations, learning contract and 'My Life in Brief' artwork displayed on the walls.<br>(5) Distribute the day 3 evaluation (which may differ from first two days on criteria).<br>(6) Ensure everyone has signed in the signature sheet.<br>(7) Wind-up the Training 2 with Coaching 2. |

**Follow up:** Coaching 2 sessions