

---

# SME BUSINESS TRAINING AND COACHING LOOP

## Trainee Manual

- PART 1 -

---



---

Published by

**giz** Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH

---

**Published by:**

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Registered offices  
Bonn und Eschborn

Global Programme “Green Innovation Centres for the Agriculture and Food Sector”  
Competence Center Private Sector Development

Friedrich-Ebert-Allee 36  
53113 Bonn  
T +49 228 44 60-0  
F +49 228 44 60-17

E [info@giz.de](mailto:info@giz.de)  
I [www.giz.de](http://www.giz.de)

**Author:**

Verni Vijayarajah

GIZ is responsible for the content of this publication.

Bonn, November 2018

# CONTENTS

**ABBREVIATIONS .....4**

- PART 1 -

**I. INTRODUCTION TO SME LOOP STANDARD TRAINING MATERIALS.....5**

**II. TRAINING 1: BUSINESS ANALYSIS .....5**

- 1. INTRODUCTION TO BUSINESS ANALYSIS..... 7
- 2. THE ART GALLERY: MY BUSINESS JOURNEY IN BRIEF ..... 10
- 3. MY BUSINESS GOAL SETTING..... 11
- 4. INTRODUCTION TO BUSINESS ANALYSIS FRAMEWORK..... 12
- 5. SUCCESSFUL ENTREPRENEURS CHARACTERISTICS ASSESSMENT ..... 16
- 6. PEARL EXERCISE..... 21
- 7. DART EXERCISE..... 23
- 8. PORTER'S FIVE FORCES ..... 26
- 9. THE MARKET EXERCISE ..... 28
- 10. THE BAG MAKING EXERCISE 1 ..... 32
- 11. INTRODUCTION TO PROCESS FLOW CHART ANALYSIS ..... 40
- 12. THE BAG MAKING EXERCISE 2 ..... 42
- 13. FINANCIAL ANALYSIS..... 42
- 14. THE SUCCESSFUL ENTREPRENEUR VISIT..... 44
- 15. BUSINESS AUDIT ..... 45
- 16. SUMMARISING THE BUSINESS ANALYSIS..... 47
- 17. PREPARATION FOR COACHING 1 - STRATEGY FORMULATION ..... 50
- 18. TRAINING 1 WRAP-UP ..... 52

**III: COACHING I: STRATEGY FORMULATION.....54**

- PART 2 -

**IV: TRAINING 2: BUSINESS IMPROVEMENT PLANNING.....56**

- 1. INTRODUCTION TO TRAINING 2 – BUSINESS IMPROVEMENT PLANNING .... 56
- 2. ANSOFF'S MARKET ALTERNATIVES ..... 58
- 3. SIX INNOVATIVE GROWTH STRATEGIES ..... 60
- 4. THE BUSINESS MODEL CANVAS (BMC) ..... 61
- 5. BUSINESS IMPROVEMENT PLAN (BIP) ..... 76
  - 5.1 INTRODUCTION TO BUSINESS IMPROVEMENT PLAN ..... 76
  - 5.2 MARKETING STRATEGY ..... 77
  - 5.3 BUSINESS OPERATIONS STRATEGY ..... 83
  - 5.4 FINANCIAL PLAN (RING FINANCING EXERCISE) ..... 91
- 6. IYB BUSINESS PLANNING..... 103
- 7. BUSINESS PLANNING FOR TRADING ..... 104
- 8. SOURCES OF FINANCING ..... 145
- 9. WORKING CAPITAL..... 148
- 10. BREAK-EVEN POINT ANALYSIS..... 149
- 11. CASHFLOW ANALYSIS..... 154
- 12. FINANCIAL RATIO ANALYSIS ..... 160
- 13. PACKAGING THE BUSINESS IMPROVEMENT PLAN ..... 170
- 14. COACHING 2: BUSINESS IMPROVEMENT & LINKAGES DEVELOPMENT ..... 171
  - 14.1 COACHING PREPARATION ..... 171
- 15. GRADUATION CEREMONY ..... 174

# ABBREVIATIONS

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

# I. INTRODUCTION TO SME LOOP STANDARD TRAINING MATERIALS

## INTRODUCTION

The SME Business Training and Coaching Loop (SME Loop) is an approach for small and medium enterprises (SMEs) to develop their businesses. Therefore, the economic well-being of the nation improves as these supported SMEs generate additional jobs and income. The SME Loop approach is one of the GIZ approaches for private sector development and contains a set of tools for training and coaching for SMEs development, especially linked to the selected value chains. It has been tested and continuously modified on the feedbacks and lessons learnt from countries such as Sierra Leone, Benin, Nigeria, Malawi and other countries. At present, numerous countries implement the SME Loop for enterprise development, successfully showing a great potential for multiplication in other regions and other countries.

A set of Standard Training Materials has been designed to support the implementers. This SME LOOP – Trainee Manual comprises the necessary handouts for SMEs useful in their training and coaching sessions. The Master Coach on the curriculum design selects the relevant sessions from the SME LOOP STANDARD TRAINING MATERIALS. Hence, the Master Coach selects the relevant handouts for SMEs from this.

## II. TRAINING 1: BUSINESS ANALYSIS

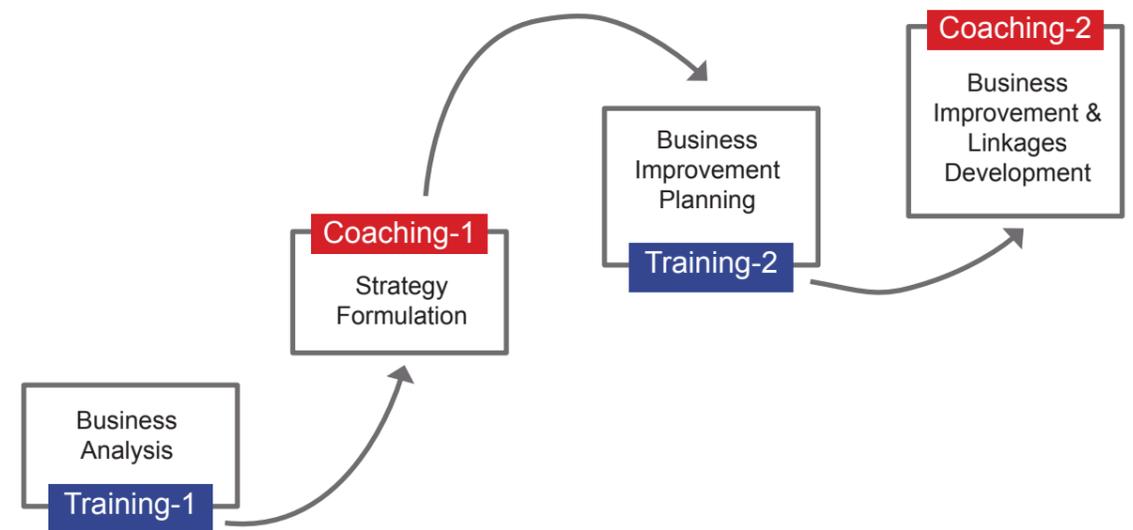


Figure 1: SME Loop Rationale

### 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.

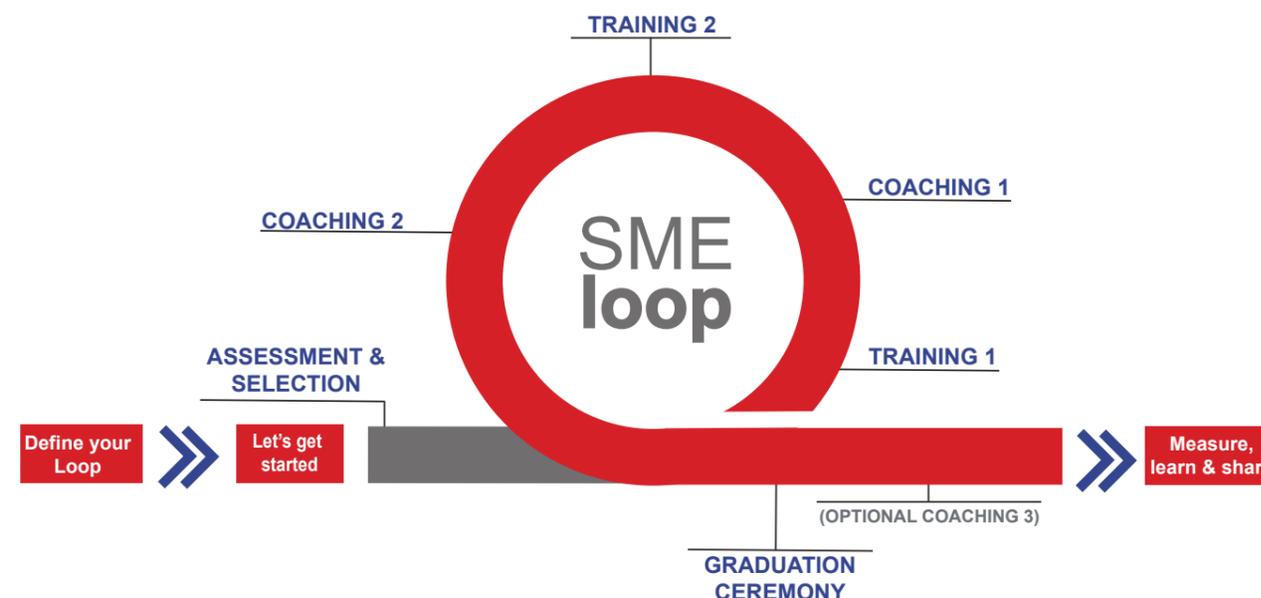
In addition, the training tools are designed and set to bring in marketing, production, organising and financing business management knowledge and competencies while analysing their businesses on their own phasing.

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

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

## 1. Introduction to Business Analysis

### ANNEX 1.1: THE SME LOOP COURSE



ANNEX 1.2: TRAINING-1: BUSINESS ANALYSIS

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

<b>DAY 1</b>	Introduction to Business Analysis Training (BA)
	Art Gallery
	Introduction to Business Analysis Framework: SWOT
	Successful Entrepreneurs Characteristics Assessment
	Business Analysis Framework: SWOT Exercise
<b>DAY 2</b>	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
<b>DAY 3</b>	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

	<b>TIME</b> (starting and ending)
<b>BLOCK A</b>	
<b>LUNCH</b>	
<b>BLOCK B</b>	
<b>END OF THE DAY</b>	

ANNEX: 1.4: DAILY EVALUATION (SMILEY) CHART

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

	<b>Criteria</b>	<b>Happy</b> 	<b>Undecided</b> 	<b>Unhappy</b> 	<b>Remarks</b>
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

	<b>Criteria</b>	<b>Happy</b> 	<b>Undecided</b> 	<b>Unhappy</b> 	<b>Remarks</b>
1	Session objectives and relevance				
2	Session facilitation				
3	Session contents				
4	Handbook				
5	Logistics				

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

### Instructions to prepare your 'My Business in Brief'

1. Think about your past, present and future.
2. Pick some pictures from the magazine which relates to your past, present or future.
3. Think about the way you started the business and describe it with symbols, drawings and pictures.
4. How do you do at present? Elaborate using the pictures and symbols. Avoid using words unnecessarily.
5. What is your dream for future? What are your business goals? No matter how hard to achieve them show drawings and pictures.
6. Find a creative approach for your presentation.
7. When you get your turn, briefly explain. Do not take more than 2 minutes.

## 3. My Business Goal Setting

### ANNEX 3.1: SMART GOAL SETTING

#### Goal Setting

##### A. Modes of Formulating Goals

<b>Doing</b>	Activities considered important	<i>(I want to do... I will work on...)</i>
<b>Owning</b>	Possession of something	<i>(I want to own... I want to have...)</i>
<b>Changing oneself</b>	Setting personal standards in position, expertise and status	<i>(I want to become...)</i>

##### 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

### 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:

<ul style="list-style-type: none"> <li>Access to cheap raw material supply</li> <li>Technical expertise</li> </ul>	<ul style="list-style-type: none"> <li>Comparatively affordable price</li> <li>Good packaging</li> </ul>
--	--

##### 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:

<ul style="list-style-type: none"> <li>No control over raw materials availability</li> <li>Lack of working capital</li> </ul>	<ul style="list-style-type: none"> <li>Lack of promotion</li> <li>Poor design of product</li> </ul>
---	---

##### 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:

<ul style="list-style-type: none"> <li>Few and weak competitors</li> <li>Growing demand</li> </ul>	<ul style="list-style-type: none"> <li>Scarcity of product in the locality</li> <li>Favourable government policy</li> </ul>
--	---

##### 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:

<ul style="list-style-type: none"> <li>Rising raw materials cost</li> <li>Government bureaucracy</li> </ul>	<ul style="list-style-type: none"> <li>Too much competition</li> <li>Shortage of raw materials</li> </ul>
---	---

**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
<b>Internal Analysis</b>		
<b>Strengths</b>		
<b>Weaknesses</b>		
<b>External Analysis</b>		
<b>Opportunities</b>		
<b>Threats</b>		

## 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)

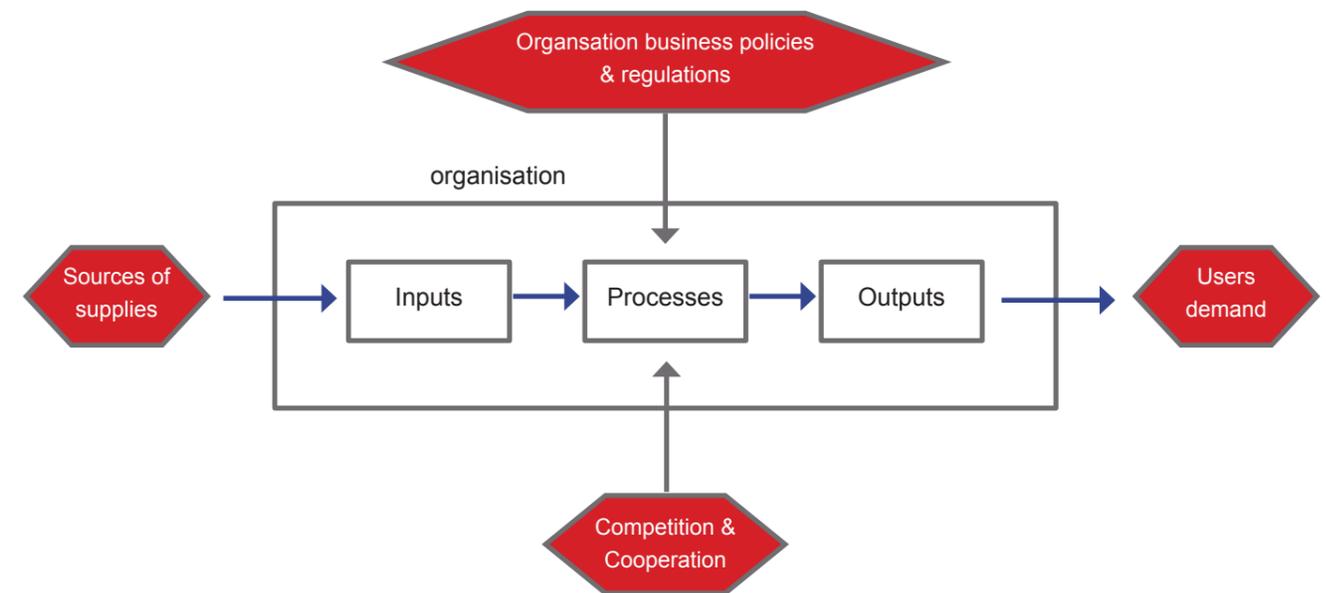
One of the components in the business analysis is contextual analysis for opportunities and threats outside the business. This is the analysis an entrepreneur makes to uncontrollable factors and actors in the business environment. To be able to analyse the positive and negative factors an entrepreneur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



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





## 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

### 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 substitutes, and threats of new entrants.

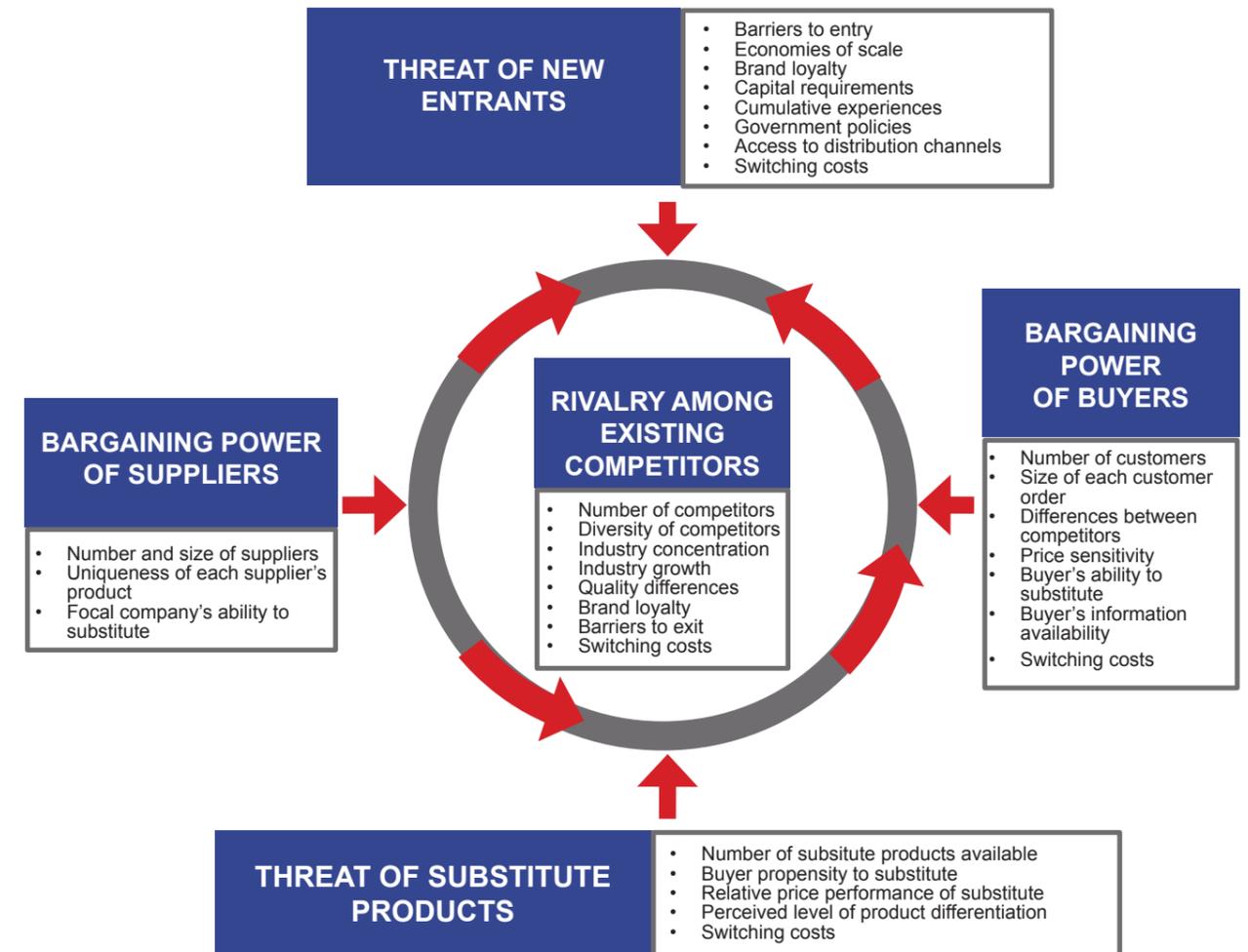
These factors can affect your business in several ways:

- 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



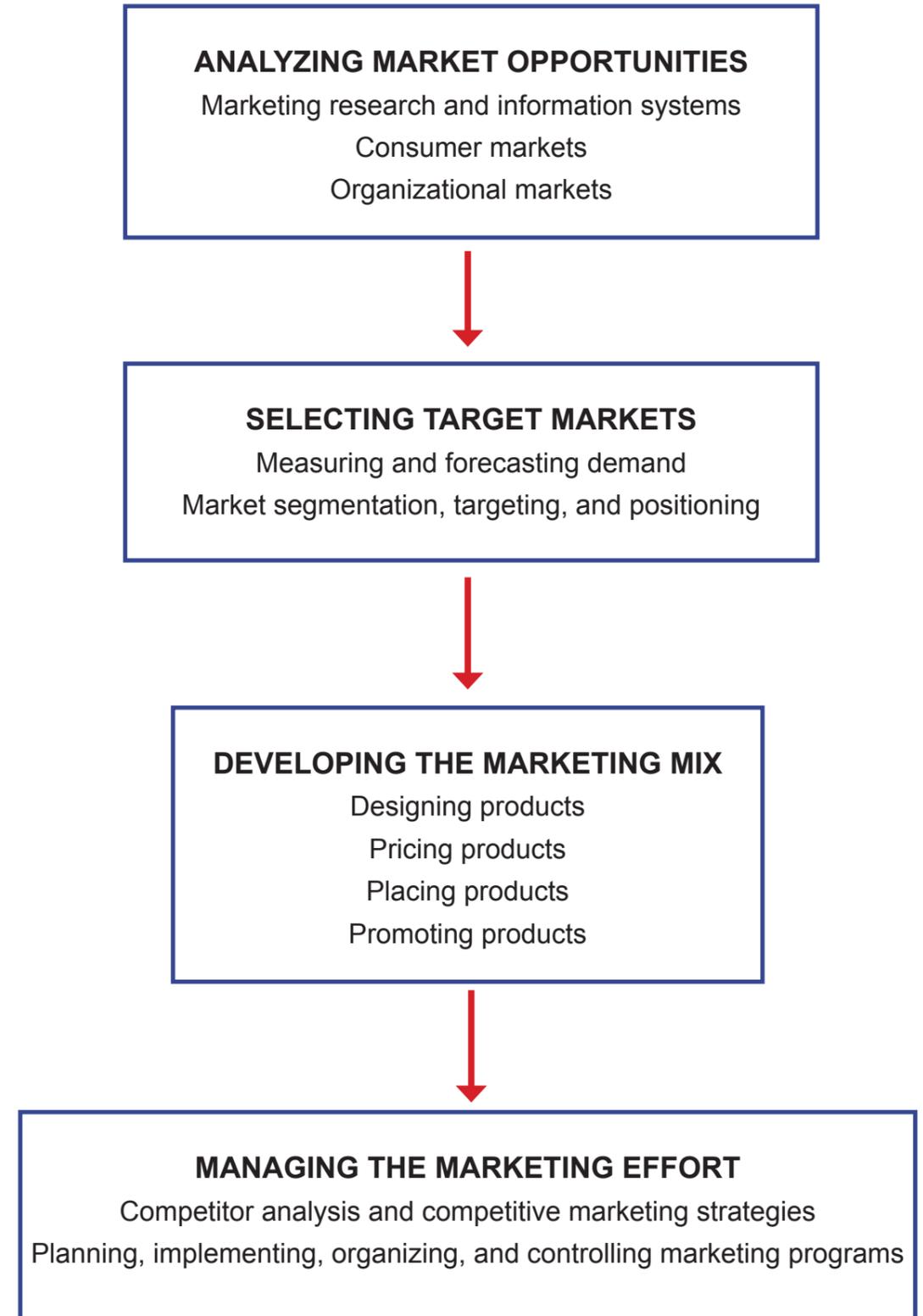
ANNEX 8.2: COMPETITORS ANALYSIS USING FIVE FORCES

	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

ANNEX: 9.1: THE MARKETING MANAGEMENT PROCESS

THE MARKETING MANAGEMENT PROCESS



## 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 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, 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?

# 10. The Bag Making Exercise 1

## 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
<b>Raw material</b>								
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							
<b>1. Total Raw Material Cost</b>								
<b>Direct Labour</b>								
Production worker wage	200							
Quality controller	300							
<b>2. Total Direct Labour</b>								
<b>Production Overheads</b>								
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							
<b>Total Cost of Production (1+2)</b>								
<b>Overheads</b>								
<b>3. Salaries</b>								
Manager	300							
Director	500							
<b>4. Fixed Assets</b>								
Ground Rent (Space)	1,000							
Chair	300							
Table	200							
<b>Total Overhead(3+4)</b>								
<b>Total Cost (1+2+3+4)</b>								

Company Manager: \_\_\_\_\_

Shop manager: \_\_\_\_\_

Date: \_\_\_\_\_

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
<b>Planned SALES</b>				
Low Quality				
High Quality				
<b>Actual Sales</b>				
Low Quality				
High Quality				
<b>LESS: Penalties</b>				
<b>NET SALES</b>				

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													

# 11. Introduction to Process Flow Chart Analysis

## 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.

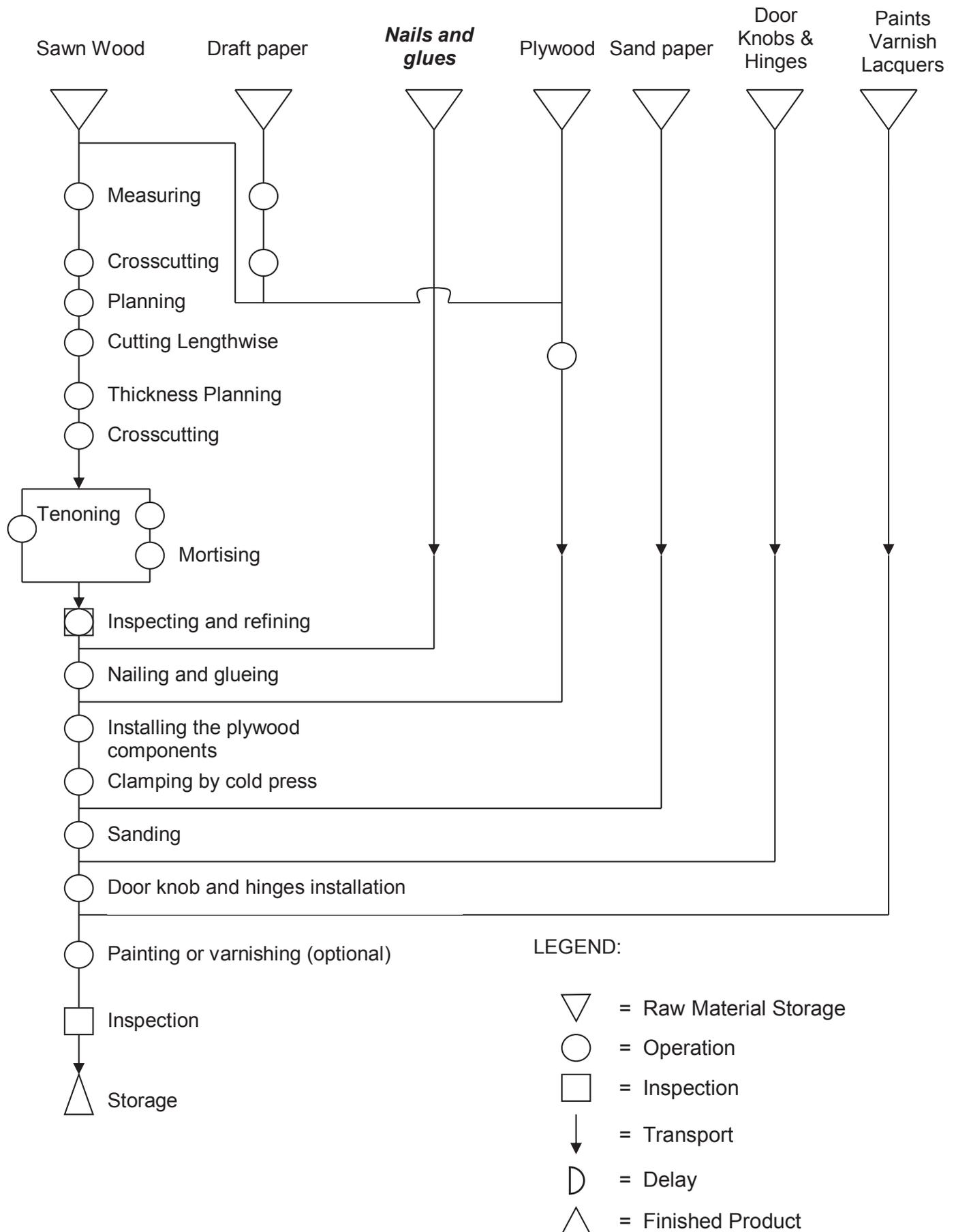
### Procedure and steps for preparing a process flow chart:

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 Exercise 2

ALL ANNEXES USED IN SEESION 10 - THE BAG MAKING EXERCISE 2

---

## 13. Financial Analysis

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.

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

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

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

## 14. The Successful Entrepreneur Visit

Conducting business and managing the business operation on daily basis for a small and medium scale entrepreneur mainly demand entrepreneurial performance. The small and medium entrepreneurs' success depends on their entrepreneurial characteristics. Knowing those characteristics will be helpful to enhance those skills and run the business successfully.

Earlier, we looked into the 10 set of competencies. Here we will look at Seven (7) entrepreneurial characteristics in another angle from tenacity to the ability to tolerate risk.

1. **Tenacity** – it is the ability to deal with failure. Entrepreneurship demands a greater skill and mental capacity to deal with failures and make them as the steps for future success of the business.
2. **Passion** – Usually the successful entrepreneurs exhibit excitement and belief in what do they do. This passion and excitement make them pass through the hard and challenging times in a business.
3. **Tolerance of ambiguity** – It is the ability successfully manage the uncertainty and fear. Fear of humiliation, fear of success, uncertainty of the market context and many other not clear situational challenges always come on the way and successful entrepreneurs are able to manage and handle them.
4. **Vision** – This is the ability to see the future in a way that they see the rare opportunities and happenings in long distanced future. This ability of seeing the future very far and clear enable the successful entrepreneurs to be ahead of the market and overcome the threats with right strategies.
5. **Self- Confidence** – in other term self-belief. The belief in their skills, abilities and the way they calculate the risks. They understand everything thing can change and anything could go against them but they can manage them thrive in the context successfully.
6. **Dynamic** – Being able to change when it necessary but focus on the goals to be achieved.
7. **Persuasive and Networking** -Successful entrepreneurs know how to get what they want from others by negotiating and convincing others.

Source: Successful entrepreneurs' trait – Verni Vijayarajah, The Executive, 2004

# 15. 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.

<b>1</b>	-	<b>Improvement necessary</b>
<b>2</b>	-	<b>Improvement desirable</b>
<b>3</b>	-	<b>Reasonable</b>
<b>4</b>	-	<b>Satisfactory</b>
<b>5</b>	-	<b>Excellent</b>

Function	Details	1	2	3	4	5
<b>Marketing Management</b>	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					
<b>Operations Management (Production/ Service Delivery / Trading)</b>	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					

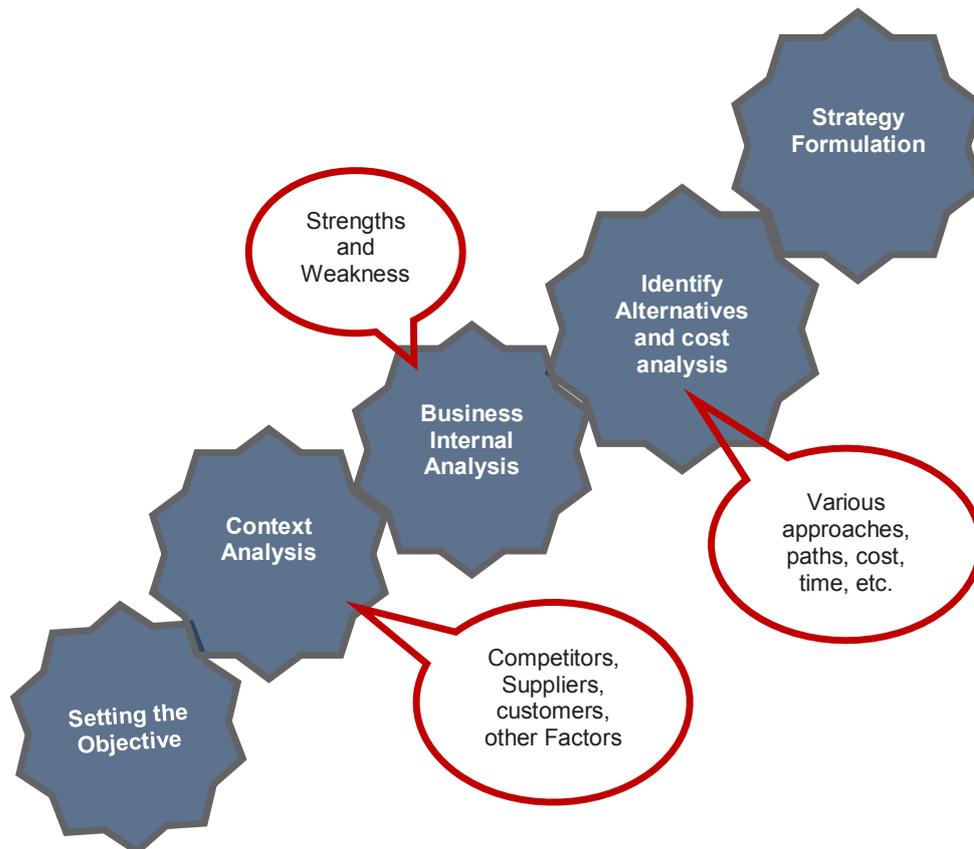
<b>Organisation and General Management</b>	Organizational planning and objectives setting					
	Personnel recruitment and hiring					
	Human resource development					
	Communication					
	Roles and responsibility defined					
	Front office and reception					
	Absenteeism and tardiness					
	Records keeping					
	Housekeeping					
<b>Finance</b>	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						
<b>Entrepreneurs competencies and other supports</b>	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

## 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 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:



- 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.
- 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.
- 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.
- 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.
- 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
<b>Internal Analysis</b>		
<b>Strengths</b>		
<b>Weaknesses</b>		
<b>External Analysis</b>		
<b>Opportunities</b>		
<b>Threats</b>		

**MY BUSINESS AND DEVELOPMENT**



**NAME ADDRESS OF MY BUSINESS:**

**I SELL**  
Write down your product(s) details):

**MY BUYERS:**

**I HAVE INVESTED MWR:**

**MY BUSINESS LOANS:**

**MY POTENTIAL GROWTH:**

**MY BUSINESS CHALLENGES:**

# 17. Preparation for Coaching 1 - Strategy Formulation

## ANNEX 17.1: 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>I find difficult to identify my production delays and unnecessary production wastes in the business operation.</i>	<i>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>	<i>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.</i>

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

# 18. Training 1 Wrap-Up

## ANNEX 18.1: MY LEARNING DIARY

The learning diary is a tool to help you to reflect on your training and coaching experiences in the previous session/ phase of the loop.

You are writing your learning experience in an order which enable you to make decisions and plan activities. These learning diaries lead you towards business improvement strategies.

The SME Loop trainer/coach will explain the content titles and if necessary, ask them and verify your understanding.

Please invest enough time to think and write your learnings and experiences. If you prefer to discuss with your business partners or any other staff in your business for business improvements you can use these diaries for reference.

These learning diaries can be your future referring document. Always take a few minutes to reflect on your learning experiences and insights.

You fill the diary in their own words. Initially the SME Loop trainers/coaches will explain and guide you on how to fill and use the diaries. Verify your understanding with them on the titles and subheading.

Writing out the diary in your own words will enrich your learning and help you to retain the memory longer. This will enable you to put in perspective the learning into actions and decisions.

You are encouraged to do this exercise on your own and as many as times you find it worthwhile. However, the SME Loop Trainers/Coaches will request you to fill the diaries at the end of each phase in the SME Loop Course. It is helpful and healthy to fill the learning diary on daily or phase basis.

## LEARNING DIARY

List the sessions you have attended from beginning to the end of Phase/ Day. Highlight and underline the sessions you have enjoyed the most, liked and found useful.

**What I have learnt in these sessions / phase of the SME Loop Course? List them orderly. Take time to revisit the experience and remember the details.**

**How these learning can be helpful in your business improvement? Brainstorm on various options and list them. Select and highlight the most important learnings and findings.**

**How I will apply these new learnings in my business by doing the following activities and making the decisions:**

**Make a 'To-Do' list (Activities)**

### III. COACHING 1: STRATEGY FORMULATION

It is your task that you ensure the use of coach's time usage. Always ensure that you are ready and prepared for the coaching sessions in advance.

If the coach does not call you prior to the appointment date and time, please call them and ensure that they visit you as per schedule. This way you prove that you are committed to improve your business and serious enough of the SME Loop Course. Further, this way you consume the coaching service at its optimum level.

You are advised not to miss any appointments. Any missing appointments are not given again but counted as one appointment or cancel the whole appointment.

On emergencies or unavoidable special situation, you contact the coach in advance and reschedule the coaching session on your convenience. However, this is not something always the implementers really would like to come across.

# SME BUSINESS TRAINING AND COACHING LOOP

## Trainee Manual

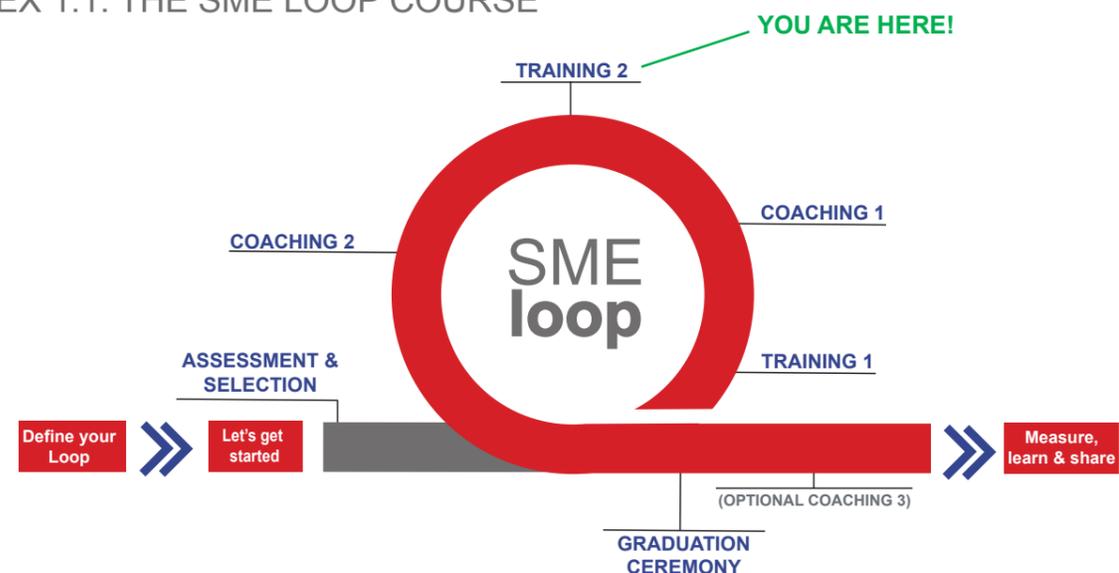
- PART 2 -



## IV. TRAINING 2: BUSINESS IMPROVEMENT PLANNING

### 1. Introduction to Business Improvement Planning

ANNEX 1.1: THE SME LOOP COURSE



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

<b>DAY 1</b>	Introduction to Business Improvement Planning (BIP) T
	The Market Alternatives
	The Business Model Canvas
	Introduction to Business Improvement Plan (BIP)
<b>DAY 2</b>	Marketing Strategy
	Business Operations Strategy
	Sources of Financing
	Introduction to Financial Planning
	Total Project Cost
<b>DAY 3</b>	Cashflow Statement
	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

Published by

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. Ansoff's 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	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:

- Encourage people to buy more
- Encourage more people to buy from them
- 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 riskier 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

### 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)

## 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:

- 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.
- 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.
- 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.
- 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.
- 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:

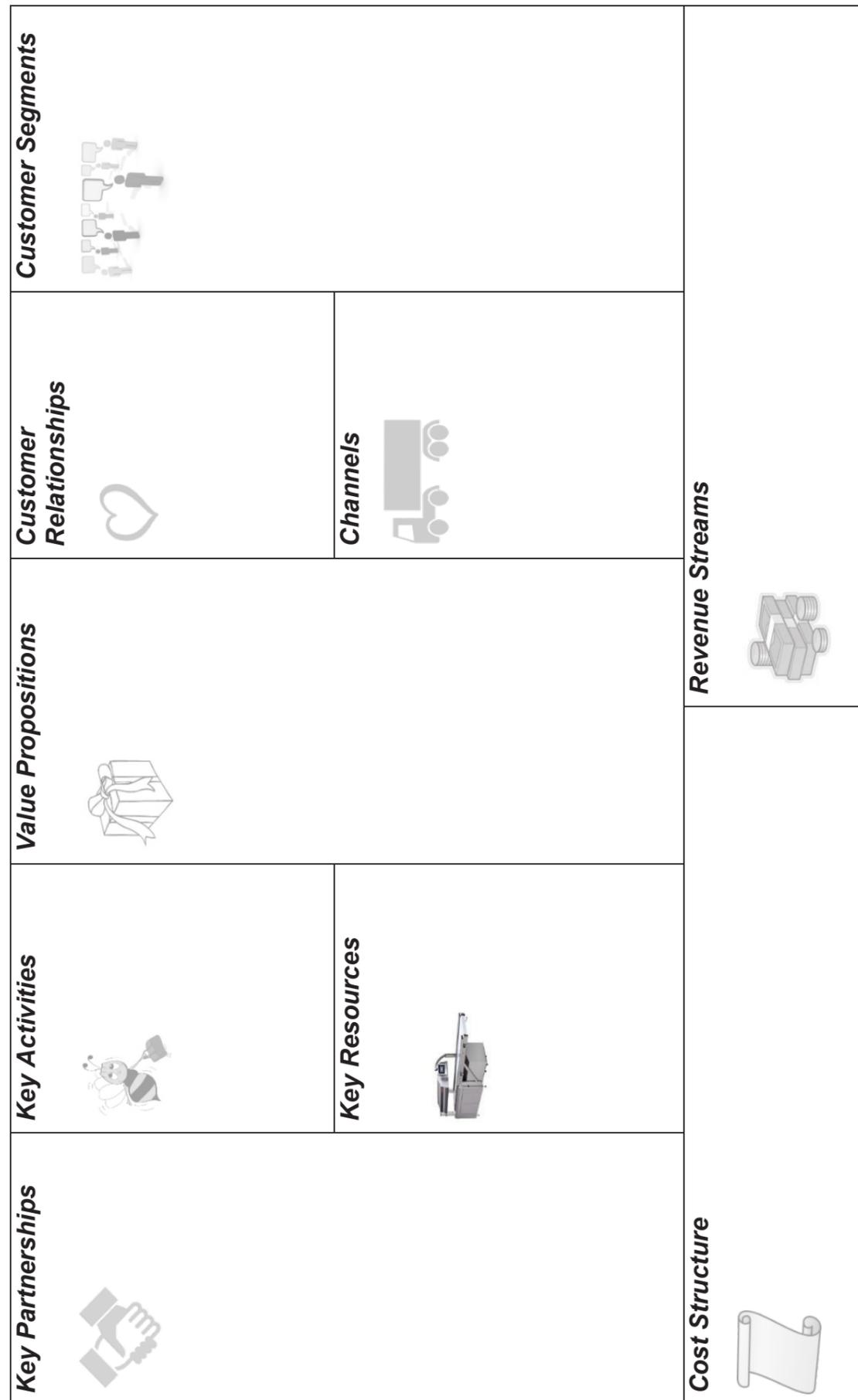
- Customer Segments:** Enterprises service one or several customer segments
- Value propositions:** they seek to solve customer problems and satisfy customer needs with value propositions.
- Channels:** Value propositions are delivered to customers through communication, distribution, and sales channels.
- Customer relationships** are established and maintained with each customer segment
- Revenue Streams** result from value propositions successfully offered to customers
- Key resources** are the assets required to offer and deliver the previously described elements
- Key activities** are number of key activities necessary
- Key partnerships:** Some activities are outsourced and some resources are acquired outside the enterprise
- 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

<p><b>Key Partnerships</b> Who are our Key Partners? Who are our key suppliers? Which Key Resources are acquiring from partners? Which Key Activities do partners perform?</p>  <p>Four types of possible partnerships: - Strategic Alliances-between non-competitors -Cooperation – between competitors -Joint ventures to develop new businesses -Buyer supplier relationships to assure reliable supplies</p>	<p><b>Key Activities</b> What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> 	<p><b>Value Propositions</b> 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?</p>  <p>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)</p>	<p><b>Customer Relationships</b> What type of relationship customers do expect? Costly? How does it integrate with rest of the BMC?</p> 	<p><b>Channels</b> Through which channels do our customers want to be reached and cost-efficient? Are we integrating them with customer routines?</p> 	<p><b>Customer Segments</b> For whom are we creating value? Who are our most important customers?</p>  <p>Customer groups represent different segments, if: - their needs <u>require and justify</u> a distinct offer, - they are reached <u>through</u> different <u>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</u> <u>unique offers</u>.</p>	<p><b>Cost Structure</b> What are our most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> 	<p><b>Revenue Streams</b> 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?</p> 
---	---	--	---	---	---	---	--



## 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         | 5. OPERATIONS PLAN           |
| 2. UNIQUE VALUE PROPOSITIONS | 6. FIXED ASSETS REQUIREMENTS |
| 3. MARKETING MIX             | 7. COST STRUCTURE            |
| 4. SALES FORECASTS           |                              |

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

## 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:

- 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.

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?

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:** *How to communicate about the product to the targeted buyers? Do they use advertising, 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
<b>Product</b>	1.  2.  3.	
<b>Place (Distribution)</b>	1.  2.  3.	
<b>Promotion</b>	1.  2.  3.	
<b>Price Strategy</b>	1.  2.  3.	



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				
Total fixed assets [Carried forward to The Total Investment Cost in section 5, The Financial Plan]					
<b>TOTAL DEPRECIATION</b>					

*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
<b>RAW MATERIAL COST REQUIREMENT FOR ONE YEAR</b>				

**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)
<b>TOTAL PRODUCTION/OPERATION LABOUR COST FOR ONE YEAR</b>				

**C. PRODUCTION /OPERATION OVERHEAD EXPENSES**

Type of Cost	Total monthly cost	Total cost per year
<b>PRODUCTION OVERHEAD EXPENSES FOR ONE YEAR</b>		

[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	
<b>TOTAL PRODUCTION EXPENSES FOR ONE YEAR</b>		

**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)			
<b>TOTAL EXPENSES FOR ONE YEAR</b>				

## 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)

### 5.1. Introduction to Business Improvement Plan

#### 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

### 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  For whom are we creating value? 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)
Eg; Bread	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?  Eg; Choices, home delivery, varieties, cheaper comparatively & tasty	<b>Relevant</b> – explaining how the product will help solve the customer's problem or improve their situation  <b>Quantifiable</b> –clarifying the specific benefits that a customer is going to receive  <b>A differentiator</b> – outlining to your customers how you are different from your competition and why they should buy from you  <b>It is clear and easy to understand</b> <b>Could be read and understood in 8 seconds or less</b>  Eg; "Fresh, hot bread, available from 7 am to 3 pm, taste guaranteed." (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:** *How to communicate about the products to the targeted buyers? Do they use advertising, 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
<b>Product</b>	1. 2. 3.	
<b>Place (Distribution)</b>	1. 2. 3.	
<b>Promotion</b>	1. 2. 3.	
<b>Price Strategy</b>	1. 2. 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					
<b>TOTAL FORECASTED SALES VOLUME</b>					

**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
<b>TOTAL SALES FORECAST FOR THE FIRST YEAR</b>				

## 5.3. Business Operations Strategy

### 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

<u>Activity</u>	<u>Symbol</u>	<u>Meaning</u>
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:



**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
<b>RAW MATERIAL COST REQUIREMENT FOR ONE YEAR</b>				

**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)
<b>TOTAL PRODUCTION/OPERATION LABOUR COST FOR ONE YEAR</b>				

**G: PRODUCTION /OPERATION OVERHEAD EXPENSES**

Type of Cost	Total monthly cost	Total cost per year
<b>PRODUCTION OVERHEAD EXPENSES FOR ONE YEAR</b>		

[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	
<b>TOTAL PRODUCTION EXPENSES FOR ONE YEAR</b>		

### 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)			
<b>TOTAL EXPENSES FOR ONE YEAR</b>				

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)

### ANNEX 5.4.1: PROFIT AND LOSS STATEMENT

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

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

#### 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
<b>CASH IN HAND</b> [Week 1 Sales – (Cost of production -depreciation)]						
SALES						
Bank Loan						
Less: Other						
<b>Total cash in flow</b>						
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						
<b>Total Cash out flow</b>						
<b>Cash in hand /carried forward</b>						

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
<b>CASH IN HAND</b> [Week 1 Sales – (Cost of production -depreciation)]								
SALES								
Bank Loan								
Other INFLOWS								
<b>Total cash in flow</b>								
Wages								
Salaries								
Raw material								
Overheads Expenses								
Loan repayment								
Loan interest								
Any other								
<b>Total Cash out flow</b>								
<b>Cash in hand /carried forward</b>								



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

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.

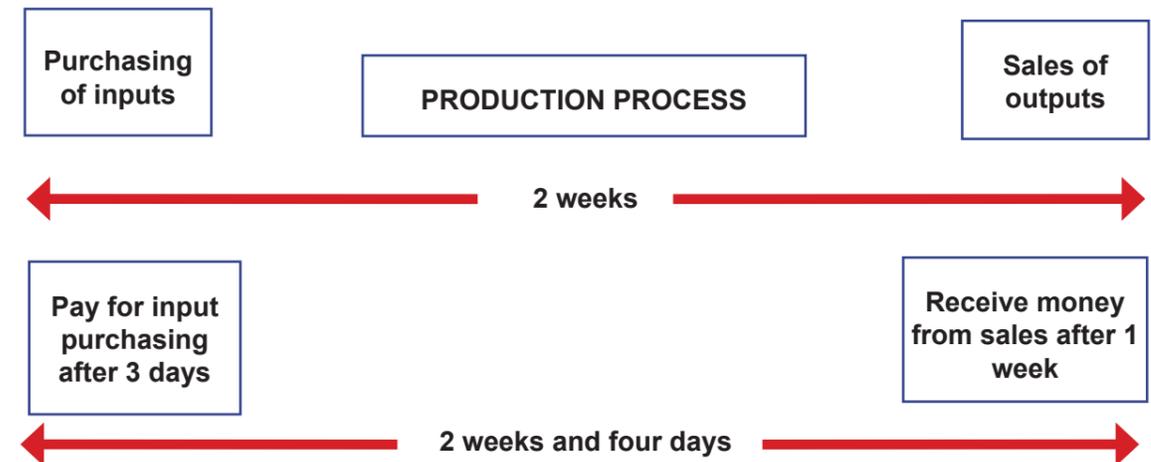
#### THE PRODUCTION PROCESS



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

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

**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.

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**

<b>XYZ ENTERPRISES LTD. BALANCE SHEET AS AT 12/12/2017</b>			
<b>Liabilities &amp; Owners' Equity</b>		<b>Assets</b>	
<b>Equity</b>		<b>Fixed assets</b>	
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
<b>Long term Liabilities</b>		Long term Investments	<u>156,000</u>
Loans	600,000	Total fixed assets	2,551,000
Others	250,000	<b>Less:</b>	
		Provision for depreciation	<u>453,000</u>
<b>Current Liabilities</b>			2,098,000
Short term loans	50,000	<b>Current Assets</b>	
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
	<b>2,840,020</b>		<b>2,840,020</b>

## 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.]

Location	Potential buyers & numbers	Usage rate		Quantity demanded	
		Volume	Value (Rs)	Volume	Value (Rs)
<b>TOTAL</b>					

**Note:**

- 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.
- 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:**



## 1.7. 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

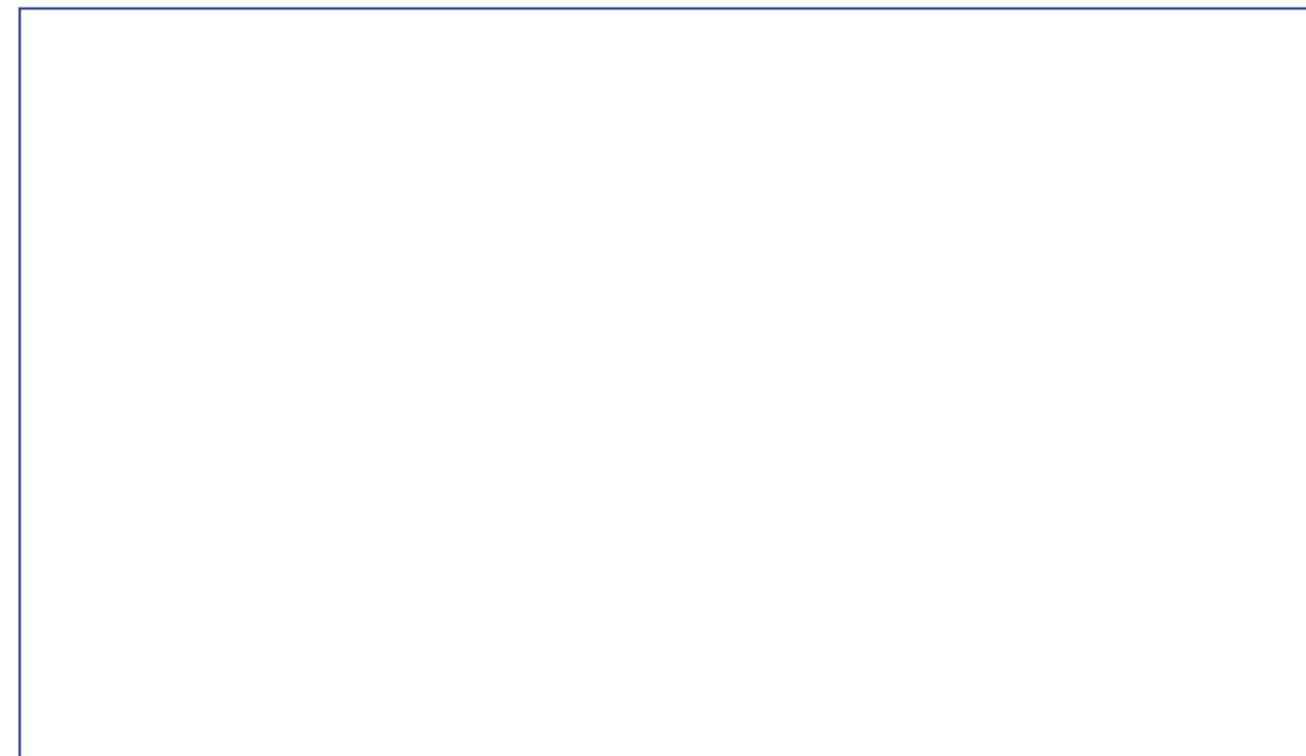
[What promotional methods will you adopt in order to make your products known to your target customers?]

### 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?]

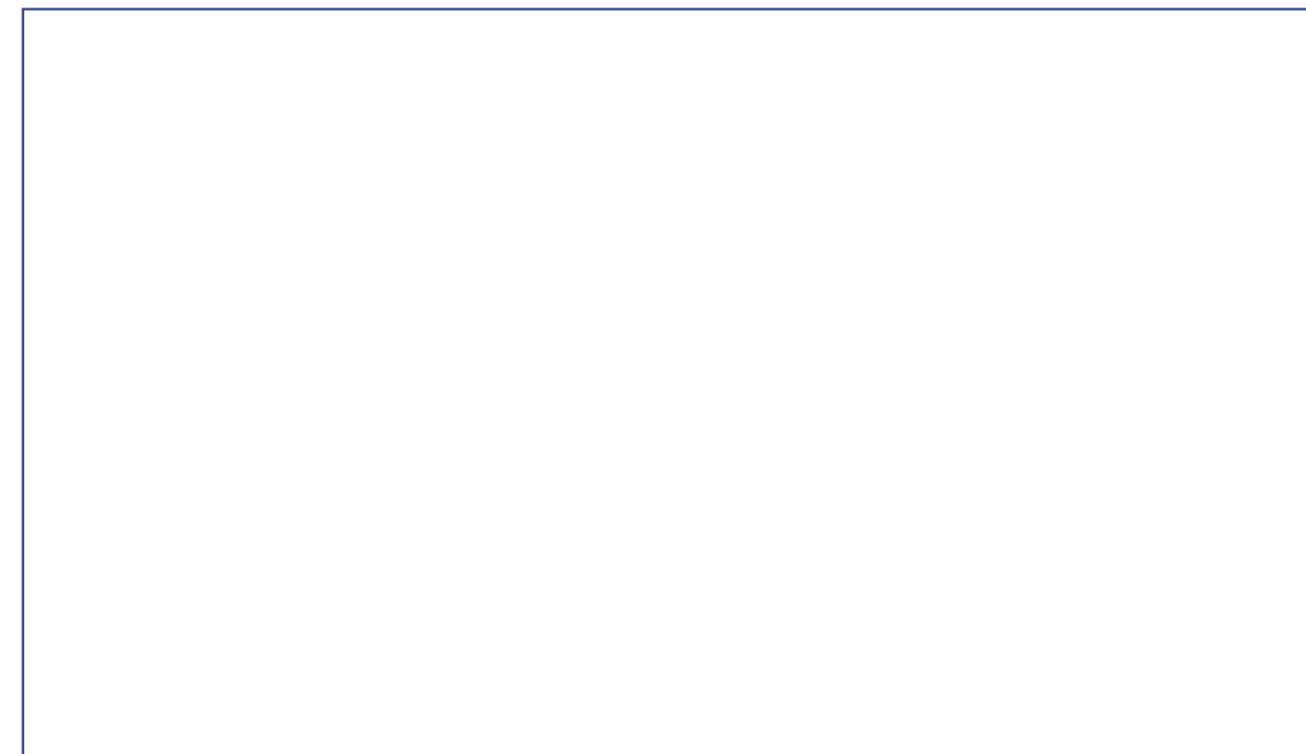
### 1.8.5. LOCATION OF OUTLET

[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
<b>TOTAL SALES IN RS.</b>			

**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.					
	<b>TOTAL</b>				





**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
<b>TOTAL</b>				

### 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
<b>TOTAL</b>				

### 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			
<b>Total before depreciation</b>				
6.	Depreciation			
<b>Total purchasing and stock holding expenses</b>				

### 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 2.1.1 + 2.1.2	Direct purchasing costs 2.1.3	Stockholding expenses 2.7	Total cost of purchasing and storage
1				
2				
3				

### 3. ORGANIZATION AND MANAGEMENT PLAN

#### 3.1. FORM OF BUSINESS

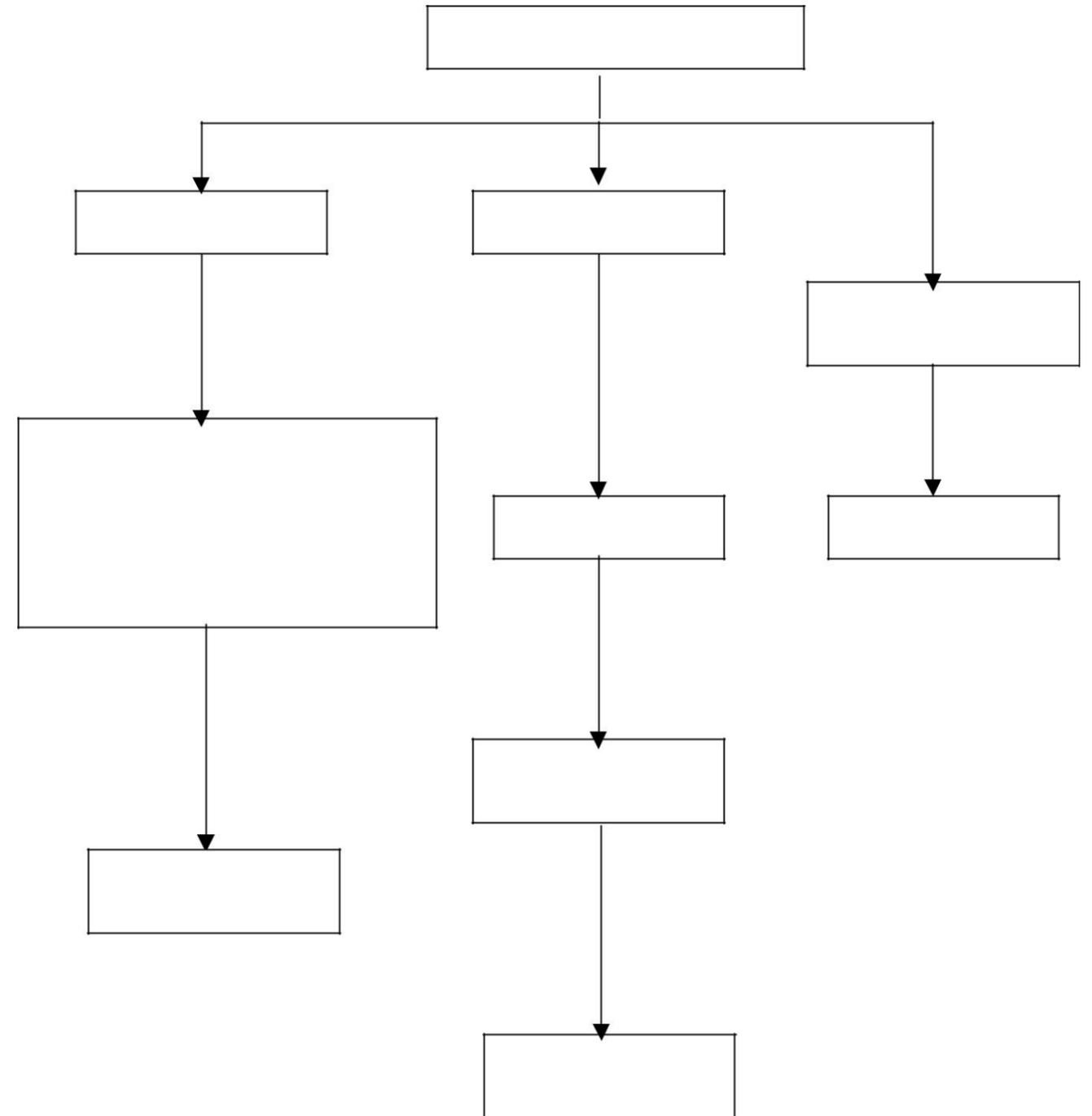
[How would you like your business to be – sole proprietorship, partnership or limited liability company? What are the reasons for opting for it?]

#### 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
<b>TOTAL</b>				

**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)
<b>TOTAL</b>				

**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														
<b>TOTAL</b>														

**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			
	<b>Total organization and management expenses before depreciation and amortization of pre-operating expenses</b>			
12.	Depreciation			
13.	Amortization of pre-operating expenses			
	<b>Total organization and management expenses</b>			



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

#### 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
<b>CASH FLOW</b>				
- Cash sales				
- Collection of accounts receivables				
- Equity				
- Loan proceeds				
- Sale of fixed assets				
Less:				
<b>CASH OUTFLOW</b>				
- Fixed assets				
- Pre-paid expenses				
- Pre-operating expenses				
- Marketing expenses (excluding depreciation)				
- Purchasing and storage expenses (excluding depreciation)				
- Organisation and management expenses (excluding depreciation and POE amortization)				
- Interest expense				
- Loan repayment				
- Tax on sales				
- Income tax payments				
<b>TOTAL CASH OUTFLOW</b>				
<b>= NET CASH FLOW</b>				
<b>(+) Add: Cash Balance, beginning</b>				
<b>= CASH BALANCE, ENDING</b>				

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

#### 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).]

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

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

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

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

#### 4.8. FINANCIAL/INVESTMENT ANALYSIS

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

##### Liquidity ratios

i. Quick ratio

.....  
 .....

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**

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

**Assumption 2**

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

**Assumption 3**

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

**Assumption 4**

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

**Assumption 5**

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

## 8. 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

## ANNEX 9.1: WORKING CAPITAL

### WORKING CAPITAL MANAGEMENT

- 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.
- 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**

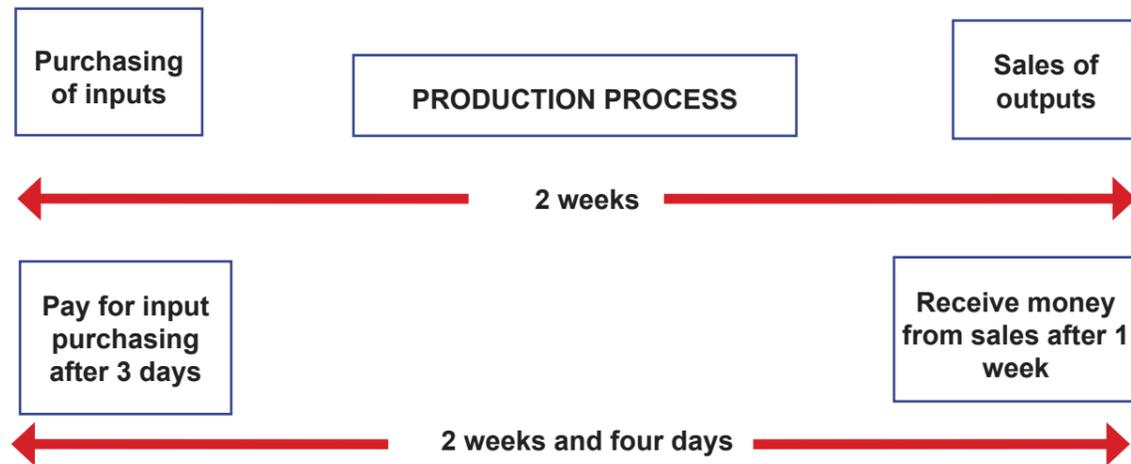


The process starts from purchasing materials and ends in the selling of outputs. The working capital needs depend on the production cycle of the process. How much time will be taken to realize the money invested on raw materials, labour and on other overheads? It very much relates to this production 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

### 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:

$$\begin{aligned} \text{Total sales} &= \text{Total costs} \\ 0 &= \text{Total sales} - \text{Total costs} \\ \text{Total sales} &= \text{Fixed costs} + \text{Variable costs} \\ \text{Sales volume} \times \text{Price} &= \text{Fixed Costs} + \text{Variable costs} \end{aligned}$$

##### 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 constant.

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

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**

$$\text{BEP SV} = \frac{\text{Total fixed cost}}{\text{Sales} - \text{Total variable cost}} \times \text{Sales}$$

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:

- The anticipated level of profit if toy sales are 15,000 sets.
- The level of unit sales at which VTM will break-even?
- 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		<u>600,000</u>
Profit		150,000

$$\begin{aligned}
 2. \text{ BEP} &= \frac{\text{Fixed cost}}{\text{Sales/unit} - \text{Variable cost/unit}} \\
 &= \frac{600,000}{50} \\
 &= 12,000 \text{ sets}
 \end{aligned}$$

$$\begin{aligned}
 3. \text{ BEP (units)} &= \frac{\text{Fixed cost}}{\text{Price / set} - \text{VC/set}} \\
 1,000 &= \frac{15,000}{(P-25)} \\
 P - 25 &= 15 \\
 P &= \text{Rs } 40
 \end{aligned}$$

## 11. Cashflow Analysis

### 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	<u>28,000</u>
	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 1<sup>st</sup> 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
<b>TOTAL</b>			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
<b>TOTAL</b>	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:

	<b>Rs</b>
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
<b>Beginning Cash Balance (A)</b>								
<b>INFLOWS:</b>								
• Sales								
• Collection from Credit sales								
• Equity								
• Loans								
• Other receipts								
<b>TOTAL INFLOWS (B)</b>								
<b>Cash Available for use (A) + (B) = (C)</b>								
<b>OUTFLOWS:</b>								
• Fixed Assets								
• Materials								
• Wages/salaries								
• Rent								
• Stationery								
• Transport								
• Other Expenses								
<b>TOTAL OUTFLOWS: (D)</b>								
<b>ENDING CASH BALANCE (E) = (C) - (D)</b>								

## 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
<b>INFLOWS:</b>													
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													
<b>TOTAL INFLOWS (B)</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
<b>OUTFLOWS:</b>													
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												
<b>TOTAL OUTFLOWS: (D)</b>		46,000	33,250	33,250	35,000	35,000	35,000	35,750	36,717	37,967	37,967	38,467	48,717
<b>ENDING CASH BALANCE (E) = (C) - (D)</b>		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

### 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:**

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Short-Term Investments} + \text{Accounts Receivable}}{\text{Current Liabilities}}$$

$$= \frac{\$32,000}{\$24,000} = 1.3$$

##### 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:**

$$\begin{aligned} \text{Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\ &= \frac{\$56,000}{\$24,000} = 2.3 \end{aligned}$$

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:

$$\begin{aligned} \text{Inventory Turnover} &= \frac{\text{Sales}}{\text{Average Inventory}} \\ &= \frac{\$ 240,000}{(\$ 18,000 + 24,000)/2} \\ &= \frac{\$ 240,000}{\$ 21,000} = 11.43 \end{aligned}$$

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:

$$\begin{aligned} \text{Accounts Receivable Turnover} &= \frac{\text{Net Sales}}{\text{Average Accounts Receivable}} \\ &= \frac{\$ 240,000}{(\$20,000 + \$16,000)/2} \\ &= \frac{\$240,000}{\$ 18,000} = 13.3 \end{aligned}$$

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

$$\text{Profit Margin} = \frac{\text{EBIT}}{\text{Sales}} = 9\%$$

$$\text{Assets Turnover} = \frac{\text{Sales}}{\text{Total Assets}} = 1.5$$

so that:

$$\text{ROI} = \frac{\text{EBIT}}{\text{Total Assets}} = \frac{\text{EBIT}}{\text{Total Sales}} \times \frac{\text{Total Sales}}{\text{Total Assets}}$$

$$\text{ROI} = \frac{\$21,600}{\$160,000}$$

or simply

$$= 9\% \times 1.5 = 13.5\%$$

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:

$$\begin{aligned} \text{ROOI} &= \frac{\text{Net Profit after Interest and Taxes}}{\text{Owner's Investment}} \\ &= \frac{\$9,600}{\$80,000} = 12\% \end{aligned}$$

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, \_\_\_\_\_

<b>Current Assets:</b>		
Cash	4,000	
Marketable Securities	12,000	
Accounts Receivable	16,000	
Inventories	<u>24,000</u>	
<b>Total Current Assets</b>		56,000
<b>Fixed Assets:</b>		
Land	44,000	
Plant	70,000	
Equipment	30,000	
Less: Depreciation	<u>40,000</u>	
Net Plant and Equipment		<u>104,000</u>
<b>Total Fixed Assets</b>		
<b>TOTAL ASSETS</b>		<b>160,000</b>
<b>Current Liabilities:</b>		
Accounts payable	4,800	
Notes payable Due	8,000	
Accrued expenses	800	
Provisions for Income Tax	<u>10,400</u>	
<b>Total Current Liabilities</b>		24,000
<b>Long Term Liabilities:</b>		
Loan	40,000	
Notes Payable	<u>16,000</u>	
<b>Total Long-Term Liabilities</b>		<u>56,000</u>
<b>TOTAL LIABILITIES</b>		80,000
<b>Equity:</b>		
Capital	48,000	
Accumulated Profit	<u>32,000</u>	
<b>Total Equity</b>		<u>80,000</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>160,000</b>

**PROFIT & LOSS STATEMENT**

For the Year Ended December 31, \_\_\_\_\_

Net Sales		240,000
Cost of Goods Sold		<u>204,400</u>
Gross Profit		35,600
Less: Operating Expenses		
Selling	1,760	
General and Administrative	<u>5,440</u>	<u>7,200</u>
Gross Operating Profit		28,400
Depreciation		<u>8,000</u>
Net Operating Profit		20,400
Add: Other Income		
Sale of Old Equipment		<u>1,200</u>
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	<u>1,600</u>	<u>5,600</u>
Net Profit after Interest and Before Income Tax		16,000
Income Tax (assumed at 40%)		<u>6,400</u>
Net Profit after Income Tax		9,600

Source: Financial Management Trainer Manual by Verni Vijayarajah

# 13. Packaging The Business Improvementplan

## 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
<b>1 Cover page</b>	Name of the business Date Your name Contact details: address, telephone, mobile and email
<b>2 Content page</b>	Titles with page numbers
<b>3 Executive Summary</b>	One-page summary of business plan.
<b>4 Marketing Plan</b>	Detailed marketing plan describing the products, marketing strategies, forecasted sales and volume, pricing list, fixed assets (if any) and total marketing expenses.
<b>5 Production/ Service Delivery Plan</b>	Detailed production/service delivery plan describing the factory/stores/ service delivery location, production process flow chart, fixed assets requirements and detailed expenses.
<b>6 Organisation and management plan</b>	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.
<b>7 Financial Plan</b>	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.
<b>8 Annexes</b>	Any additional details that might be relevant 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 Total Project Cost Loan Repayment Profit and Loss Break-even Point Working Capital Management Cashflow Forecast 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		

<sup>i</sup> <http://agilelifestyle.net/unique-value-proposition>

## 15. Graduation Ceremony

This is the final day of the training and coaching for SME Loop Business Training and Coaching Course. Some SMEs may qualify for additional vouchers for coaching, if any. All of the SMEs come together to present their Business Improvement Plans (BIPs) and to receive their completion certificate. In the morning the entrepreneurs present their business improvement plans to the financial institution representatives for viability test and business finance requirements.

The SME Loop trainers facilitate the process of BIPs presentation on one to one basis and process the experience into learning outcomes and wrap up the SME Loop training and coaching services. In the afternoon the Award Ceremony takes place.

### Objectives:

- (1) To test and prove the viability of prepared business improvement plans
- (2) To develop linkages with Business Development Service (BDS) providers including the financial institutions in the region and enable the entrepreneurs' network with and build on business relations.
- (3) To complete the SME Loop and receive the SME Loop Business Training and Coaching Course completion certificate.

Number of business financing and small business granting institutions come to the event in the morning and attend the BIP presentation and assess the individual BIPs using the given forms and provide feedback on viability of the presented BIPs individually at the end of each presentation.

ANNEX 1: BUSINESS PLAN VIABILITY ASSESSMENT FORM

**BUSINESS PLAN VIABILITY TEST ASSESSMENT FORM**

Name of the presenter:

Venue: Date:

Name of the Bank/institution:

Name of the Officer:

Designation:

Please assess the presenter on the following 5 aspects given in the first column using a scale of 0-5 where 0; none and 5; excellent. The total score is 100 which divides into four parts; marketing, production/trading/service delivery, organisation & management, and financial strategies.

	Marketing strategy and planning (25)	Production /trading/ service delivery strategy and planning (25)	Organisation and management strategy and planning (25)	Financial management strategy and planning (25)	Total
1.CONTENT (5)					
2. LOGIC (5)					
3. ORDER (5)					
4. PRESENTATION & COMPETENCIES (5)					
5. PACKAGING (5)					
<b>TOTAL</b>					

Comments and Suggestions:

Signature: Date:

ANNEX 2: SCHEDULE FOR PRESENTATION

**SCHEDULE FOR BIPS PRESENTATION**

Write the name of the SME across the institution and under the time allowed. Ensure Each SME know the name of the institution and time for presentation.

	Name of the Institution and the Officer	08.30 – 09.15	09.15 – 10.00	10.00 – 10.45	10.45 – 11.30	11.30 – 12.15	Remarks
1							
2							
3							
4							
5							