DEPARTMENT OF BUSINESS AND SOCIAL STUDIES

COURSE TITLE: BUSINESS PLAN

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INTRODUCTION

A key factor in determining the success of an entrepreneur is the ability to plan. Preparing a formal business plan is crucial to the ultimate success of an enterprise. A business plan evaluates the viability of the venture, assists an entrepreneur in establishing goals and objectives and guides him in selecting the appropriate methods of achieving the goals and objectives.

In this introductory chapter, we will give the meaning and importance of a business plan and its components. Qualities of a good business plan will be analyzed. The chapter ends by presenting how a business description can be written.

DEFINITION OF A BUSINESS PLAN

A business plan is a written document that describes the goals and objectives of the business and lists the steps that will be taken to achieve those goals and objectives.

IMPORTANCE OF A BUSINESS PLAN.

A business plan is useful in the following ways:

(1) It is a financial tool

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

2) A business plan is a blueprint

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

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

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

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

5) A business plan tests ideas on paper

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

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

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

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

Qualities of a good Business plan

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

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

Simplicity and
clarity Brevity
Logical
Truthful

Be backed up with figures whenever possible.

Simplicity and Clarity

The person reading your business plan is busy. Quite often he has other things to think about and can be attracted and motivated to read your business plan only if it is simple and clear. The following tips will aid you in this:

Keep your language simple
Avoid trying to put too many ideas into one sentence.
Let one sentence flow on logically from the last.
Avoid ambiguous words.
Tabulate wherever possible.

Brevity

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

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

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

Use of figures

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

USES OF A BUSINESS PLAN

Business plans are commonly used to:
Obtain business finance from banks, other financiers and investors
Provide guidelines for opening a new business or expanding an existing
one Serve as a tool for managing, every aspect of a business operation
Communication to outsiders the goals, objectives and activities of a business.

THE BENEFITS OF FORMAL BUSINESS PLANNING

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

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

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

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

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

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

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

COMPONENTS OF A BUSINESS PLAN

Executive Summary
Business description
Marketing plan
Management and operational
plan Financial plan

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

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

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

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

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

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

CHAPTER ONE

1.0 The Business Description

Objectives:
General Objective:
To equip the learners with knowledge and skills to describe the proposed business

Learning Objectives:
a) To describe the sponsor's background
b) To describe the nature of the proposed business
c) To identify and justify the location of the proposed business
d) To justify the need for the proposed business venture
e) To identify and describe the industry of the proposed business
f) To explain the nature of the product/service
g) To explain the entry and growth strategy of the proposed business

1.1 The Sponsor(s)

Sponsors background
Full name (and age – where applicable_ Marital Status
Residence
Educational, Entrepreneurial, Management Skills, Training, Experience and Professional qualification
Relevant business experience
Plans to acquire necessary experience
Amount to be invested in the business. Amount to be borrowed from a specified source Sponsor Roles and Contributions to the business

1.2 The Business

State the name of your proposed business When to the business
Whether it will be operated as a sole proprietorship, partnership or a company The major activities of your business
Other activities of your business
Activities involved and nature of product/services
Hour (s) of operation, week or season
The principal customers of your business

1.3 Justification of the Business

SWOT analysis versus competitors
Specific needs business to satisfy
Contribution of the business to the community
Personal, resource and environmental factors
Sustainability of the business

1.4 Business status/form/type of ownership

Businesses can be at difference stages e.g.

Start ups: a business start-up means creating a new business, which stands alone, and is not tied to other organizations, except in the normal course of trading. It does not mean the idea is necessarily new, only that the vehicle which is set up to exploit it is.
Franchise: a franchise is a method for starting a new business within the frame work of an existing, larger business entity. it is a legally separate enterprise operating in some way under the umbrella of another organization .

Buying an existing business
Outright purchase: this involves buying an existing business from somebody else; although there is a new business owner, the business does not start from scratch but is already trading in some way.

Buy-out: a buy-out is buying an existing business from within, rather than from the outside recently, this has become an increasingly popular form, as larger corporations have sold off parts of their corporation to the existing management team , same buy –outs , such as National freight , are large enough not to be classified as small business at all.

Buy-in: this occurs when the existing owners accept a new partner, or shareholder, who buys into a small firm which already exists

Forms of business

Sole proprietorship: This is a type of business owned and managed by one person called a sole proprietor.
Capital for a sole proprietorship can be raised from:

i. Borrowing from friends, relatives or financial institutions.
ii. Inheritance.
iii. Donations
iv. Credit buying or hire purchase
v. Profits ploughed back
vi. Leasing and renting out property.
vii. Personal savings

Characteristics

i. It is owned and managed by one person
ii. The owner of the business provides all the capital required and is responsible for all the debts of the business
iii. The owner may or may not employ some people to assist in operations of the business
iv. The law does not distinguish the owner of the business from the business.
v. The owner has unlimited liability .therefore, if the business owes debts which it is unable to pay, the owner of the business will be required to pay the debt from personal sources. Personal property may have to be sold to pay the debts.
vi. All the profits of the business belong to the owner.
vii. All business decisions are made by the owner, who does not have to consult with any one else.
viii. When the business makes losses, the owner bears them all. This means losing part or all of the capital infested in the business
ix. Most sole proprietorships tend to stay small in size due to limited capital business resources.

Advantages

The following are some of the advantages of sole proprietorship:

i. Few legal requirements to start.
ii. Decision making and implementation is fast.
iii. The owner exercises direct personal control.
iv. The trader has close and personal contact with customers.
v. Trader is accountable to him/herself
vi. The trader can maintain top secrets of the business.
vii. The owner enjoys all the profits alone.
viii. Can get assistance from family members.
ix. Capital required to start and sustain the business is relatively small.

Disadvantages

Some of the disadvantages of the sole proprietorship are as follows:

i. Has unlimited liability
ii. Limited amount of capital
iii. The proprietor work for long hours with little time for recreation.
iv. The business may experience management difficulties if the owner falls sick.
v. May not benefit from economies of large scale operations
vi. Death of the owner may lead to dissolution of the business.
vii. May perform poorly due to lack of specialization.

Dissolution of a sole proprietorship
Dissolution means termination of a business. For a sole proprietorship, thus may arise as a result of:

a) Decision by the owner to dissolve the business
b) Death, insanity or bankruptcy of the owner.
c) If the business is involved in unlawful practices.
d) Court order.

Partnership
This is a business unit owned by two or more people called partners.
Characteristics

i. Formed by two to twenty members (partners) except for a professional partnership that may have a maximum of 50 members.
ii. Managed by members who may share the responsibilities according to their skills .where this is not possible they may employ skilled man power to manage there business.
iii. The partners contribute capital to the business according to the agreed proportions.
iv. Can either be a general partnership (liability of all the partners are unlimited) or a limited partnership however, there should be at least one member whose liability is unlimited.
v. A partnership can be either permanent or temporary. A temporary partnership is also called a joint venture.

Partnership agreement
During the formation of the partnership the partners prepare an agreement which would govern the operations of a partnership**.** The agreement **ca**n be either oral or written .A written agreement is referred to as a **Partnership deed.** The contents of the partnership agreement may include:

Name of the business and address of the head office.

i. Capital to be contributed by each partner.
ii. Rate of interest on capital.
iii. Profit and loss sharing ratio.
iv. Salaries and commissions to be paid to partners.
v. Rate of interest on drawings by partners.
vi. Objectives of the business
vii. Rate of interest on loans by partners to the firm.

Where a partnership agreement is missing or where it is ambiguous, the **Partnership Act** applies in case of a dispute:

i. All partners are entitled to equal contribution of capital.
ii. No salaries allowances or commissions to any partner.
iii. No interest on capital.
iv. NO interest on drawings.
v. Profits and losses are shared equally
vi. Each partner who incurs personal expenditure or loss while executing the duties of the business should be compensated.

Types of partners

The following are some various types of partners:

a) Active partner: one who takes active part in the running of the business.
b) Dormant (sleeping) partner: one who does not take active part in running the business.
c) General (unlimited liability) partner: one whose liabilities are not limited.
d) Limited partner: one whose liabilities are limited.
e) Minor partner: one who is under eighteen years.
f) Major partner: one who has attained the age of majority.(eighteen years)
g) Real partner: one who has actually contributed capital into the business.
h) Nominal partner: A person who is not a real partner but appears as one.

Advantages of a partnership

Some of the advantages of a partnership are:

i. A partnership is able to raise more money than a sole proprietorship.
ii. Different talents are combined.
iii. Work is distributed among the partners.
iv. Losses and liabilities are shared.
v. Fewer legal requirements than in a limited liability company.

Disadvantages of a partnership

Some of the disadvantages of a partnership are as follows:

i. Liabilities of some or all the members are unlimited.
ii. Continued disagreements among members can lead to dissolution.
iii. Decision making may take long.
iv. Mistake made by one partner may result into losses that are shared by all the partners.
v. A partnership that h3avily relies on one partner may be adversely affected on retirement or death of a partner.
vi. A hard working partner may not be equitably rewarded.
vii. A partnership may have limited access to wid3e source of capital and managerial skills compared to a limited liability company.

Dissolution of a partnership

Dissolution of a partnership may arise from:

i. Mutual agreement by all the partners to dissolve the business.
ii. Death, insanity or bankruptcy of a partner.
iii. Completion of the intended purpose or on the expiry of the agreed period, if the partnership was temporary.
iv. Court order.
v. Written request by a partner to dissolve the business.
vi. If the partnership is engaged in unlawful practices.
vii. Retirement or admission of a partner.
viii. Continued disagreements among the partners.

Sources of capital for a partnership

All the partners of a partnership are jointly responsible for raising capital for the business. The capital may be raised from various sources which include the following:

a) Personal savings
b) Loans friends
c) Loams from financial institutions
d) Trade credit
e) Hire purchase
f) Profit from the business

Limited liability Company

This is an association of persons, called share holders who contribute capital to carry out business together with a view of making profit. A company is however a legal entity separate from the shareholders.

Formation of a limited liability company

The people who decided to form a company are referred to as promoters' .During the formation; the promoters prepare the following documents:

i. Memorandum of association

This document defines the relationship of the proposed business with the outsiders. The following are some of the clauses it contains:

Name clause
Objects clause
Situation clause
Liability clause
Capital clause
declaration

ii. Articles of association

This document governs the internal operations of the proposed company. it also contains rules and regulations relating the shareholders to the company and the relationship among shareholders themselves. Some of its other contents are:

Rights of each type of shareholder.
Methods of calling and conducting meetings.
Rules governing the election of officials.
Rules governing preparation and auditing of accounts. Powers, duties and rights of directors.

iii. List of directors

This contains the names of the directors, their addresses, occupations shares subscribed by each of them and their acceptance to serve as directors.

iv. Directors statement of agreement

The directors sign in this document to indicate their acceptance to act as directors.

v. Declaration

This is a document in which the promoters declare that all legal requirements have been complied with .Once the above documents are ready, they are lodged with the registrar of companies and business names who issues a certificate of incorporation. (Registration)

Sources of capital for Limited Liability

Company 1. Shares

A share is a unit of capital in a company. Members contribute to the company by buying shares .There are two types of shares: Ordinary (equity) shares and preference shares .Some of the characteristics of ordinary shares are:
Have voting rights,
No fixed rate of interest
Have a claim to dividends after the preference shares. Are paid lastly if the company is winding up.

Some of the characteristics of preference shares are:
Have a fixed rate of dividends.
Have a prior claim to dividends over the ordinary shares.

No voting rights.
Can be either redeemable or irredeemable.
Can be cumulative or non cumulative
Can be convertible into ordinary shares.

2. Debentures

   Debentures are loans from the public to the company. They therefore carry interest at fixed rates which is payable whether profits are made or not. Debentures can be redeemable or irredeemable. They can also be secured (mortgaged) or unsecured (naked).

3. Loans from banks and other financial institutions.
4. Profits ploughed back.
5. Bank overdrafts.
6. Leasing and renting of property.
7. Credit and hire purchase buying.

Types of limited companies

Limited liability companies may be classified into either private or public limited company:

1. Private companies.

   A private limited company may be identified by the following characteristics: Can be formed by two to fifty members.
   Does not invite subscription for shares and debentures from the public. Restricts the transfer of shares and debentures.
   Can be managed by at least one director.
   Can start business immediately after receiving a certificate of incorporation.
2. Public limited companies

   A public limited company may be identified by the following characteristics:

   Formed by a minimum of seven members and no maximum.
   Cannot start business before it receives a certificate of trading. Accounts are required to be published.
   Shares and debentures are freely transferable.
   Invite the public to subscribe for shares and debentures.

Advantages of a limited liability company

The following are some of the advantages of a public limited company:

i. Wide range of sources of capital.
ii. Limited liability.
iii. Can afford specialized management.
iv. Not affected by death, insanity or bankruptcy of a share holder.
v. Enjoys economies of scale.
vi. En joy legal personality status.
vii. Can afford to put in place schemes meant to motivate employees.

Disadvantages of a limited liability company

The following are some of the disadvantages of a limited liability company:

i. High cost and long procedures of formation.
ii. Operations are inflexible and rigid.
iii. Alienation of members from the business.
iv. Lack of secrecy.
v. Directors' personal interest might conflict with those of the company.
vi. Decision making might take long.
vii. May suffer from diseconomies of large scale.
viii. Taxation on profits and also on dividends results into double taxation.

Dissolution of public limited companies

A company may be liquidated under the following circumstances:

i. Bankruptcy.
ii. Decision by share holders to dissolves the business
iii. If the company acts contrary to the provisions of the objects clause of the memorandum of association (*Ultra-vires).*
iv. Court order.
v. Amalgamation /absorption.

The different between private limited and public limited company

Private limited company	**Public limited company**
a) Formed by a minimum of two and maximum of fifty share holders	Formed by a minimum seven but no maximum
b) Managed by at least one director who may be the principal owner or elected among the owners of the company	Managed by at least two directors and maximum not specified by law
c) There is no free selling or buying of	There is free transferability of shares.

d) There is no need of a prospectus to show how the company is to generate capital as required by the registrar of companies.	The company has to draw up a prospectus to show how it will generate the minimum and maximum capital
e) The company starts operating after receiving the certificate of incorporation.	The company has to wait for submission and approval of the prospectus and license of trading to commence its business
f) Audit of the company books of accounts and publication by professional and qualified auditor is not compulsory.	Audit and publication of the accounts is compulsory and have to be filed with the registrar of companies and presented to the shareholders on an annual basis.

1.5 Business location and contact

Business Location: This explains where the business is going to be located. To be included Here are:

The town

The street

Lane, building or floor where the business is going to be situated Choice of business location

Area size, population and infrastructure

Features of the location and its worthiness

Choice of store/building/premises and suitability

Compatibility with other business adjacent

Contract/communication modes

1.6 The Industry

Identify the industry

Describe the size of the industry of your business

Industry size

Which industry does your proposed business belong to? How large is the industry?

What is the industry's sale in shillings per year? How profitable is the industry?

Industry Trends

The following questions should be asked and answered and sought
It is industry growing, declining or stable?

What were the sales figures last year compared to two years ago? Compared to five years ago? Etc.

Is there any significant differences in the number of competitors between last year and 2, 5 or 10 years ago?

Industry outlook

Try to find out what is expected to happen within the industry in the future. Are the sales, profits and competitors expected to increase, decrease or stabilize? Show figures. What new product or new production methods are expected? Will the industry become more or less competitive with other industries?

Proprietary position

Do your products and/or services have any competitive advantage because of patents, copyrights, trademarks, franchise or dealership rights and the like? If so, explain the advantages and state how long this proprietary position is likely to last.

State any other factors that give you a competitive advantage.

Industry Characteristics

Determine the important characteristics of the industry and list those that are relevant to your business.

List those characteristics which could have an impact upon your business, beneficially or adversely. Some characteristics that you might wish to consider are:-

Capital requirements

Distribution channels

Technology to use- modern, outdated sophiscated or simple

Whether it is capital or labour intensive

Competition from imports

Market segmentation and size of competitors

Describe the seasonal factors that are experienced in the industry.

Industrial trends and prospect

Describe the trends and prospect of sales in the industries – indicate sign of growth, stability or decline.

Describe the trends and prospects of technological development in the industry

Competitive trend in the industry and what future holds for the industry e.g product innovations

1.7 The Product / Service

Describe the products of service of your business:

List and describe the products or services you sell. For each business offering, cover the main points, including what the product or service is, how much it costs, what sorts of customers make purchases, and why. What customer need does each product or service line fill? You might not want or need to include every product or service in the list, but at least consider the main sales lines.

It is always a good idea to think in terms of customer needs and customer benefits as you define your product offerings, rather than thinking of your side of the equation–how much the product or service costs, and how you deliver it to the customer.

As you list and describe your sales lines, you may run into one of the serendipitous benefits of good business planning, which is generating new ideas. Describe your product offerings in terms of customer types and customer needs, and you'll often discover new needs and new kinds of customers to cover. This describes;

Main product/services and their subsidiaries (brands)

Main features of proposed products/services indicate colour, shape, texture, quality and packaging of the product(s).

Benefits of products to customers and the customers needs, Indicate the performance,

Convenience, economy, comfort, durability, usage flexibility, service and warranties of the
product(s) or service(s).

Competitive advantage of your services/products and
uniqueness Why customers should buy your products/services

Packaging strategy

Trade marks or other proprietary features

Strategic formulation and implementation

Once the business unit has developed its principal strategies, it must work out details supporting programmes .even the unit has decided to attain technological leadership, it must plan programmes to strengthen its Research & Development department, gathers technological evidence, develop leading –edge products, train the technical sales force, and develop advertisements to communicate its technological leadership.

1.8 Entry and growth strategy

Explain acceptance of your products/services in the market

Indicate superior pricing, advertising, distribution or
promotion Measures to sustain your business in the market

Plans for growth and development of opportunities

- ❖ Trends which signal growth and opportunities
- ❖ Taking advantages of opportunities

Strategic alliance. Small businesses can also form strategic alliances with other small firms in ways that enhance mutual competitive strength. statistics suggests that about a half of all small businesses maintain one or more strategic alliances with businesses that are smaller or equal in size , especially when it comes to outside contractors , licensing partners , import /export operations , marketing agreements and shared manufacturing .

Strategic alliances allow business firms to combine their resources without compromising their independent legal status. Strategic alliance match makers can help small businesses find suitable alliance partners, entrepreneurs can improve their chances of creating and maintaining a successful alliance by establishing productive connections, identifying the best person to contact being prepared to confirm benefits of that alliance learning to speak the partner-s "language", and monitoring the progress of the alliance.

Marketing alliances
Many strategic alliances take the form of marketing alliances they fall into four categories ,

1. Product or service alliance: one company licenses another to produce its product, or two companies jointly market their complementary products or new products –two service business—have also joined together in a marketing alliance.

2. Promotional alliances: one company agrees to carry out a promotion for another company's product or service. Mc Donald's, for example, has often teamed with Disney to offer products related to current Disney films t people buying its food.

3. Logistics alliances: one company offers logistical services for another company's products.

4. Pricing collaborations: one or more companies join in a special pricing collaboration. it is common for hotel and car companies to offer mutual price discounts

Companies need to give creative thought to finding partners that might compliment their strengths and offset their weaknesses. Well – managed alliances allow companies to obtain a greater sales impact at less cost. To keep their strategic alliances thriving, corporations have begun to develop organizational structures to support them and have come to view their ability to form and manage partnerships as core skills in and of themselves (called Partner Relationship Management, PRM) companies can designate a core group in charge of partnerships, even if it is not formal, to manage and monitor alliances.
Goals indicate what a business unit wants to achieve, strategy is a game plan to getting there. Every business must design a strategy for achieving its goal consisting of a marketing strategy compatible with technology strategy and sourcing strategies.

1.9 Review Questions

1. What is a business Plan
2. Explain the purpose of writing a business plan
3. Explain the importance of the entrepreneurs' background in the planning of a business.
4. Explain why entrepreneurs need to justify the need for any proposed business venture
5. State the factors that entrepreneurs need to consider before locating any business enterprise
6. Explain the importance of highlighting the characteristics of the proposed product/service in the business plan.

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CHAPTER TWO

2.0 The Marketing Plan

Objectives

General Objectives:
a) To appreciate the importance of marketing strategy
b) To equip the learners with the knowledge and skills of preparing the marketing plan

Specific Objectives:
a) To identify and describe the potential customers
b) To identify and describe the potential competitors
c) To explain the pricing strategy of the proposed product/service
d) To describe the sales tactics
e) To describe the advertising and promotion strategy
f) To describe the distribution strategies
g) To identify and explain distribution problems and possible solutions

The marketing plan is the second stage of preparing your business plan. This phase is highly critical because it provides the basis for the organizational, operational and financial plans. You will need to conduct a market research i.e., an in-depth analysis of your intended market. This will enable you to describe your market opportunities and challenges. You can then develop the marketing strategies, tactics and policies required to exploit the market opportunities. You should note the sources of any market data you use and present your facts convincingly.

2.1 Customers

Describe your potential customers
Classify your customers into groups
Conducting Market Research and Analysis
You need adequate information about your market so that you can have a good marketing plan. This information can be attained through marketing research.

In this part of the marketing plan, you are required to gather information relating to the following:
Customer profiles.

Market area, size and
trend Competition.

You can then use the information gathered to estimate your market share and sales. Discussed below are the pertinent information that you will need in relation to the above (i.e. customer profiles, competition and market area, size and trend).

Customer profile
It is important to understand your potential or current customers because without customers, there is no business.

Steps in researching your customers
You can use the following steps when conducting research about your customers.

1. Determine who your customer are Customers can be:
   - Wholesalers – businessman who buy the product to re-sell to retailers and sometimes to final customers.
   - Retailers – businessman who buy the product and sell to the final consumers.
   - Final consumers or end-users – Persons or groups of persons who use the products to sanctify their needs. Final consumers may be individuals, households and institutions such as schools, churches, hospitals,

etc. Determine the key characteristics of the potential customers

Income
Age
Sex
Education
Occupation and any other relevant characteristics
Characteristics of the customers, income and occupation – demographic and location of customers.

This information will be useful in determining the appropriate pricing, promotion and advertising strategies.

Determine why customers buy certain products and/or services. Some of reasons could be **Value propositions** Businesses address needs by putting forth a value proposition i.e. a set of benefits they offer to customers to justify their needs e.g. the intangible value proposition is made physical by an offering that can be a combination of products s, services information and experience
A brand is also am offering and all businesses strife to build brand strength i.e. a strong favourable brand image, the offering will be successful if it delivers value and satisfaction to the target buyer.

Customers buy products and/or services to satisfy various needs and determine the factors that influence the customers to buy or not buy products and/or service.

Many factors influence the customers to buy product and/or service. Some of the factors you should investigate are
Product considerations
Price
Quality
Appearance (colour, texture, shape, materials, etc.) Packaging
Size (Weight and volume)
Fragility, ease of handling, transportability
Servicing, warranties, durability
Operating characteristics (efficiency, adaptability, etc)

Business considerations
Location and facilities
Reputation of company
Methods of selling
Timing (hours of operation, delivery times) Credit facilities
Advertising and promotion
Variety of goods and/or services.
Capability of employees

Other considerations
Shift in income
Seasonality, or weather changes
Changing customers attitudes and lifestyles
Changes in the economy (recession, depression, inflation, etc). When and why they purchase

2.2. Market Share

Market area size and trend

Market area : Specify your intended market. In what geographical area is your market to be located?

Market size: Once you have identified your market, determine the size of that market. This may be done in unit sales and in Kenya shillings. It is useful to have several years of sales figures so that comparisons can be made.

Market trends and outlook

While historical data in market size is important, it is not correct to merely project from that data into the future. Other factors may cause the market to change drastically. One way of estimating the outlook for the future is to analyse the trends that are occurring or are expected to occur in the market. The analysis of these trends is important because it is not only used to determine the market size, but also to determine how best you can operate in the market. For example, if you intend to open up a food store, you may find that there is a definite trend of people eating away from home, particularly at fast food restaurants. This trend, if it continues, will have a positive effect in the food stores. Knowing the trend tells you much about the expected size of your market and also points out questions that you will want to consider when deciding to operate your store, e.g.

Will you want to locate your store in an area where there are many or few fast food outlets/

Will you want to include fast food items in your stores?

Will you want to advertise the advantages of eating at home and the disadvantages of eating out?

To determine your research may require primary and secondary data sources.

To determine the trends in the market you have to identified the trends that are relevant and of interest to you;

Marketing analysis

One of the greatest needs of the owners of small businesses is to understand and develop marketing programmes for their products and services. Small business success is based on the ability to build a growing body of satisfied customers. Modern marketing programmes are built around "the marketing concept" and performance, which directs the owners to focus their efforts to identifying, satisfying and following the customer's needs all at a profit.

The marketing concept

The marketing concept rests on the importance of customers to a business and states that: a) all business policies and activities should be aimed at satisfying customer needs,(b) profitable sales volume is a better company goal than maximum sales volume

When applying the marketing concept, a small business should:

1. Determine the needs of their customers (market research)
2. Analyze their competitive advantages (market strategy)
3. Select specific markets to serve (target marketing)
4. Determine how to satisfy those needs (market mix)

Market research
In order to manage the marketing functions successfully, information about the m rket is necessary. Frequently a small market research program, based on a questionnaire presented to present customers and or prospective customers, can disclose problems and areas of dissatisfaction that can be easily remedied, or new products or services that could be offered successfully.
Market research should also encompass and identify trends that may affect sale profitability levels. Population shifts legal developments, and the local economic situation should be monitored to enable early identification of problems and opportunities. Competitor activity also should be monitored; competitors may be entering or leaving the market. For example it is very useful to know your competitors strategies are (i.e , how do they compete?).

Marketing strategy
Marketing strategy includes identifying customer groups (target markets) , which a small business can serve than its large competitors , and tailoring its product offerings prices , distribution, promotion al efforts and services towards that particular market segment (managing the market mix). Ideally the strategy should try and address customer needs which currently are not been met in the market place and which represent adequate potential size and profitability. A good strategy implies that a small business cannot be all things to all people and must analyze its market and it's on capabilities and so as to focus on a target market.

Target marketing
Owners of small businesses have limited resources to spend on marketing activities. Concentrating their marketing efforts in one or two key segments is the basics of target marketing**. Market segmentation** is the process of dividing the total market for a product or service into groups with similar needs, such that each group is likely to respond favorably to a specific marketing strategy in order to divide the total market into appropriate segments an entrepreneur must consider segmentation variable which are parameters that identify the particular dimensions that distinguish one form of business behavior from another The major ways to segment a market are:

1. Geographical segmentation: specializing in serving the needs of customers in a particular geographical are. (for example a neighborhood shop may send advertisements only to people living one half kilometers of the shop)

2. Customer segmentation: identifying and promoting to those group of people who are most likely to buy the product. In other words, selling to heavy users before developing new users

3. Demographic segmentation: these refer to certain characteristics that describe customers and their purchasing power for example age, marital status, gender, sex and income.

Managing the market mix

There are four key marketing decisions areas in a marketing program. They are:

a) Product and services: product decisions will transform the basic product or service idea into a bundle of satisfaction. Effective product strategies for a small business may include concentrating in a narrow product line developing a highly specialized product or service or providing a product –service e package containing unusual amount of service.

b) Promotion: promotion activities will communicate the necessary information to target markets this marketing decision area includes advertising, salesmanship and other promotional activities in general. High quality salesmanship is a must for small businesses because of their limited ability to advertise heavily.

c) Price: pricing declensions will set an acceptable exchange value on the total product or service determining price levels and/ pricing policies (including credit policy)is the major factor affecting total revenue . Generally, higher prices mean lower volumes and vice versa; however small businesses can often command higher prices because of the personalized service they can offer.

d) Distribution: these are distribution activities regarding the delivering of the products to the customers. The manufacturer and wholesaler must decide how to distribute their products. working through established distributors or manufacturers ' agents generally is most visible for small manufacturers small retailers should consider cost and traffic flow as two major factors in location and site selection , especially advertising rent can be reciprocal. In other words, low-cost, low-traffic, location means you must spend more in advertising to build traffic.

The marketing mix is used to describe how owners can combine these four areas into an overall marketing program.

The nature of the product or service also is important in location-al decisions. in purchases are made largely on impulse (e.g. . , soda or candy)then high traffic and visibility are critical on the other hand , location is less a concern for products or /-services that customers are willing to go out of their way to find (e.g. hotel supplies).

Evaluating marketing performance after marketing programme decisions are made, owners need to evaluate how well decisions have turned out. Standards of performance need to be established so that results can be evaluated against them sound data on industry norms and past performance provide the basis for comparing against present performance. Owners should evaluate their business performance at least quarterly.

The key questions to ask are:

1. Is the business doing all it can to be customer –oriented?

2. Do the employees make sure the customer's needs are truly satisfied and leave the customers with a feeling that they would enjoy coming back?
3. Is it easy for the customer to find what he or she wants and at a competitive price?

Technology

Sometimes, technology can be vital to a service company, such as the case of the Internet provider that uses wireless connections as a competitive edge, or the local company that offers conference rooms for video conferencing. An accounting practice might gain a competitive advantage from proprietary software or wide-area network connections to its clients. A medical laboratory might depend completely on certain expensive technologies for medical diagnostics. A travel agency might depend on its connection to an airline reservation system.

Technology can be critical to a manufacturing business in at least two ways: first, the technology involved in assembly or manufacturing, such as in the manufacture of computer chips; and second, the technology incorporated in your product, such as proprietary technology that enhances the value of the product. In either case, technology can be a critical competitive edge. If you are writing a plan for outsiders, then you need to describe the technology and how well or thoroughly you have the technology protected in your business, through contracts, patents, and other protection.

Technology might be a negative factor, something to be included in a plan because a threat should be dealt with. For example, that same travel agency that depends on a computerized reservation system might also note growing competition from Internet reservations systems available to consumers who prefer to buy direct.
Not all businesses depend on technology. Technology might also be irrelevant for your business. If so, you can delete this topic if it doesn't seem important.

Future products

Now you want to present your outlook for future products or services. Do you have a long-term product strategy? How are products developed? Is there a relationship between market segments, market demand, market needs, and product development?
Here again, what you include depends on the nature of your plan. In some cases future products are the most important point for investors looking to buy into your company's future. On the other hand, a bank is not going to lend you money for product development or hopes for future products; so in a plan accompanying a Loan Application, there would probably be much less stress on this point.
You may also need to deal with the issue of confidentiality. When a business plan includes sensitive information on future products, then it should be carefully monitored, with good

documentation of who receives copies of the plan. Recipients might reasonably be asked to sign non-disclosure statements and those statements should be kept on file.

Sales literature

It is generally a good idea to include specific pieces of sales literature and collateral as attachments or appendices to your plan. Examples would be copies of advertisements, brochures, direct mail pieces, catalogs, and technical specifications. When a plan is presented to someone outside the company, sales literature is a practical way to both explain your services and present the look and feel of the company.

If it is relevant for your business, you should also use this topic to discuss your present situation regarding company literature and your future plans. Is your sales literature a good match to your services and the image your company wants to present? How is it designed and produced? Could you improve it significantly, or cut the cost, or add additional benefits?

Depending on the purpose of your plan, you should provide good, practical information on the products or services you sell. Give your plan readers what they will need to evaluate the plan. Make sure they understand the need you serve, how well you satisfy that need, and why your customers buy from you instead of somebody else. Ideally, the descriptions in this chapter make your sales forecast seem realistic. Your point of view may change, but if you start with a well thought out point of view at least you will have the perspective and data to make considered changes.

Milestones are simply interim way points or goals. They should be constructed so that the completion of a milestone provides a powerful indicator that you are on the right course. Missing a milestone requires that you consider the reasons for failure, rethink the ultimate goals of the company, or both.

When I help companies construct milestones I usually like to bucket them into three categories: Technology, Market and People. I also like to consider what stage the company is in, again I usually like to bucket stages into three categories – Proof of Concept, Going to Market and Scaling to Profitability. Different milestones are appropriate for each stage but in general you want to pick things that are pivot points for both risk and opportunity.

In the proof of concept stage technology milestones should focus on proving the feasibility of the core technology. For example, in a software or Internet company, there are often key algorithms that need to be developed. What milestones need to be achieved so that these algorithms provide compelling results to justify the essence of your company’s value proposition?

Market milestones should be chosen so that completion provides substantial proof that a large enough market exists to continue to the next stage. For example, you might complete a compellation of published market research on existing and related markets, gather market sizing information for your target market and conduct primary research and interviews with a representative set of your target customer base.

With Milestones, you can:
Plan your PR and advertising campaigns.

Track sales and see if your efforts are paying off.
Relate sales trends to marketing activities.
Present implementation schedules to your customers.
Plan and track all of your marketing and sales projects.
Keep lines of communications open on team projects.

In addition to storing, maintaining and ordering your inventory, we have trained and qualified team of agents available to quickly pick, pack, label and ship your products within minutes, not days.

A complete business plan describes what you sell: either products, services, or both. This part of the plan is mainly description. Sometimes it will include tables that provide more details, such as a bill of materials or detailed price lists. More frequently, however, this section is mainly text. It normally appears in the plan, after the company description, but before the market analysis.

The most important marketing milestones will provide further validation of the market and identify missing elements of the product through feedback from broad cross sections of target customers. It's equally important to have milestones around developing a product specification based on that feedback as well as a marketing plan that includes initial sales or customer acquisition targets. Choose milestones and market metrics that prove to you and your Board the company is establishing market traction.

In the go-to market stage the company will hopefully be scaling quickly, requiring people to do a variety of jobs and exercise additional skills. Implement the milestone process deeper into the company will allow you to develop a broader evaluation process for more people than you put in place in the proof of concept phase.

Once you have firmly established yourself in the market (good initial customer base, broadly used by consumers etc.), the next stage is scaling to profitability. For technology milestones you will want to consider milestones around product cycle times, cost to deliver and other goals that will allow you to deliver a cost and feature competitive product.

Marketing milestones will largely revolve around scaling the sales or customer acquisition process economically. If you are an Internet company you should carefully monitor customer acquisition costs against lifetime value of the customer and drive towards making the customer profitable. In a more traditional software or hardware company, focus on milestones that guide you to a set of customers and sales processes that are repeatable.

2.3 The Competition

A very important part of your market research is the investigation of your potential competitors. When doing this investigation, don't think of your competitors as 'enemies', consider them as a source of information. Look at what your would be competitors are doing, analyse the factors that have contributed to their success or failure. Determine if there are any gaps to be filled. Capitalise on these gaps and areas of weaknesses. The following are some of the items that are included in this section:

Competitive comparison

Use this topic for a general comparison of your offering as one of several choices a potential buyer can make. Use a separate topic, in the market analysis section, for detailed comparison of strengths and weaknesses of your specific competitors.

You should discuss how your product lines and retail offering compare in general to the others. For example, your outdoor store might offer better ski equipment than others, or perhaps it is located next to the slopes and caters to rental needs. Your jewelry store might be mid-range in price but well known for proficiency in appraisals, remounts, and renovation. Your hobby shop has by far the largest selection of model trains and airplanes.

In other words, in this topic you want to discuss how you are positioned in the market. Why do people buy from your business instead of from others in the same market? What do you offer, at what price, to whom, and how does your mix compare to others?

Think about specific kinds of benefits, features, and market groups, comparing where you think you can show the difference. Describe the important competitive features of your products and/or services. Do you sell better features, better price, better quality, better service, or some other factor?

Sourcing and fulfillment

Explain your product sourcing and the cost of fulfilling your service. Manufacturers and assemblers should present spreadsheet output showing standard costs and overhead.

Distributors should present discount and margin structures. Service companies sh uld present costs of fulfilling service obligations.
For example, sourcing is extremely important to a manufacturing company. Your vendors determine your standard costs and hold the key to continued operation. Analyze your standard costs and the materials or services you purchase as part of your manufacturing operation. Look for strengths and weaknesses.

Manufacturing companies want to have ample information about resource planning and sourcing of vital materials, especially if you are preparing a plan for outsiders, such as bankers or investors, or for business valuation. In this case, you may have additional documentation you can copy and attach as appendices, perhaps even contracts with important suppliers, standard cost breakdowns, bills of materials, and other information.

Where materials are particularly vital to your manufacturing, you might discuss whether second sources or alternative sources are available, and whether or not you use them or maintain relationships with them. This is also a good time to look at your sourcing strategy, and whether or not you can improve your business by improving your product sourcing.

But sourcing is not just for product-based companies. For example, a professional service company, such as an accounting practice, medical practice, law practice, management consulting firm, or graphic design firm, is normally going to provide the service by employing professionals. In this case, the cost is mainly the salaries of those professionals. Other service businesses are quite different. The travel agency provides a service through a combination of knowledge, rights, and infrastructure, including computer systems and databases. The Internet provider or telephone company provides a service by owning and maintaining a network of communications infrastructure. A restaurant is a service business whose costs are a combination of salaries (for kitchen and table waiting) and food costs.

Description of competitors
Size of competitors.
Profitability of competitors
Operating methods

Description of competitors
Identify those businesses which will be competing with yours

Size of competition
Determine the assets, sales volume and market share of the major competitors

Profitability of competitors
Try to determine how profitable the business is for those businesses already in the field.

Determine:

Which business are making profits
Which ones are making losses and
How much (profit or loss).

Operating methods

For each of the major competitors, try to identify the relevant operating methods. Consider the following.

Price of the product and/or service
Quality of the product and/or service
Hours of operation; ability of personnel
Servicing, warranties and packaging
Methods of selling; distribution channels
Credit terms; volume, discounts.
Location, advertising and sales
promotion Reputation of the business, etc

Once you have identified your competitors you need to further classify these as
Primary

Secondary
Potential

This is because:-
The classification makes your research easier
Your marketing strategy may be different for each group.

How can you find out the size and profitability of your competitors' businesses? You may use the following tips:

Read the publications that cover the business scenes, e.g. annual reports.

Conduct primary research by contacting business directly. This may not be very useful.
Contact the firm's suppliers or other individuals who are in a position to know or estimate the position.

Make a reasonable estimate from the bits and pieces of information you have collected.

Table 1
Analysis of Competition

NAME OF COMPETING FIRM	ASSETS (KHS)	PROFITS (KHS)	SALES (KSHS)	PRICING	CREDIT TERMS	CUSTOMER SERVICE	LOCATION	PROMOTION MIX	DISTRIBUTION CHAIN

Choose an area where you can gain a competitive advantage; one based on your expected business strengths. Try to match your strengths against your competitor's weaknesses. For a quick comparison, fill in the table below:

Table 2
Matching your operational capabilities against the competitors.

Customers seek	Competitors' offers	Your offer
Price Quality Warranty Location Servicing Warranties Credit terms Customer advice Delivery Reliability of product Exclusiveness		

List the changes that will improve your competitive position.

Identify your competitors, strengths, weaknesses and their market share. What advantages do you have over your competitors?
What advantages do your product/services have
Compare your products with those of competitors
What is your overall strengths, weaknesses and how will it be easy to compete effectively.

What is your unique selling point?

Table 3
Competition size

Your business Competitor 1 Competitor 2 Competitor 3 Competitor 4

Assets:…………………………………………………………………………………….
Sales volume: …………………………………………………………………………….
No. of employees: ………………………………………………………………………..
No. of brands: ……………………………………………………………………………
Others specify:…………………………………………………………………………..

Table 4
Comparing your proposed product(s) or service(s) with those of your competitors
How do your product(s) or service(s) compare with those offered by your competitors? For each area of comparison, given a score on a scale of 1 (very low), 2 (low), 3 (moderate), 4 (high) and 5 (very high). (Consider performance, quality, reputation, after-sales service, and other areas specific to your business).

Your business Competitor 1 Competitor 2 Competitor 3 Competitor 4

Performance: ……………………………………………………………………………
Quality: ……………………………………………………………………………………
Reputation:………………………………………………………………………………
After-sales service: ……………………………………………………………………..
Pricing:…………………………………………………………………………………..
Credit terms: ……………………………………………………………………………….
Staff motivation:…………………………………………………………………………
Other (specify): …………………………………………………………………………….

2.4 Pricing Strategy

In order to achieve the targeted sales, the way you price your products and/or services matter a lot.

Examples of overall marketing strategies include:
Market penetration
Product development strategy

When developing pricing strategy, you have to consider the following factors:-
Methods of calculating the selling price of your products and/or services.
Factors which will influence your price setting e.g. competitors' price, demand for the product, production costs.

Actual selling prices of your products and/or services.
Credit terms to be offered.
Discounts, e.g. trade discount, cash discount.
Any after-sales services and relevant costs.

Justify your prices, particularly if they are substantially above or below the prices of similar products and/or services in the market place. Demonstrate that your pricing decision is based on your company's ability to make a profit.

Show calculations for determining your selling price (methods of coming up with price)
How does this compare with the price charged by each of your competitors – impact of products/services
Cost price reduction approach
What is your gross profit margin
What price structures have you in place to cover quantity discounts – structure What credit terms will you offer to your customers?
What discounts will you offer your agents, distributors
What pricing policies do you have for after sales services?
Describe the size of your competitors. Are they small, medium, or large in relation to your business. (Consider assets, sales volumes, number of employees, and number of brands).

2.5 Sales Tactics

Describe the methods you will use to make sales

These selling techniques,
including: Personal selling
Selling indirectly e.g. use of
agents Getting orders
Satisfying customer needs
Customer interviews
Sales appeals
Recruitment and retention of the sales force
Ways of selecting and motivating distributors/agents and/or sales people

2.6 Servicing, Warranties And Packaging

In this part of a business plan, you are required to:-
Discuss the types of packaging that you will use.
The policies that you set regarding servicing and warranties

Discuss the purpose of the packaging, servicing and warranties
Explain how they fit in your overall marketing approach
Explain why you feel that they will increase sales and profits.

1. For packaging,
   (i) Explain what features will be responsible for sales, it is The appearance of the packaging
   Colour
   Texture
   or Design

   The packaging may make it easier for the customer to carry It may reduce the chances of breakage

   (ii) Discuss the cost of the packaging

2. For servicing:
   (i) Describe your servicing programme.
   What features are included in this programme?

   (ii) Explain your purpose for each of these services
   Are they additional sources of income?
   Do they result in future sales by increasing customer satisfaction or by enhancing your reputation?

   (iii) Explain who will provide the services and under what arrangements:
   Do you intend to continue the servicing without additional change?
   If not, will the customer be able to buy a service contract or will he/she merely pay cash for each servicing?
   What will you charge for the servicing and what will your costs be?

2.7 Advertising And Promotion

Making your products and services known to your potential customers is essential in increasing sales. In this part of your business plan you should discuss your planed advertising and promotion programme.

When setting an advertising and promotion programme, consider the following:

1. Decide on the purpose of the programme

For example:
Are you try to generate immediate profit and trying to build up your business mage?
Are you trying to create awareness of your products?

2. Identify the advertising and promotion target.
   Will your advertising and promotion be directed toward the general population, your entire market or a portion of the market?

3. Determine what media to be used. Use most appropriate media for your target market.

4. Determine the amount to be spent, the frequency of the advertisement and the content of the advertisement.

5. Decide in advance how you will measure the effectiveness of the advertising programme.

6. Determine the plans for initial promotional campaign and plans for regular promotional methods.

7. Determine the cost for each promotional event.

8. Determine how you will measure the promotional effectiveness.

For your business plan, include as much information as you have.

What will be the frequency of your advertising?
How do you intend to promote each product/service?
What promotional activities do your competitors use?
What is your advertising and promotional budget?
How will you measure the effectiveness of each promotional activity?

2.8 Distribution Strategy

Reaching the market: Marketing channels
These refer to how goods reach the market place. For a business there are two choice of channels:

1. To distribute to end users

2. through intermediaries

Multi- level marketing these is used to describe a variety of ways of reaching consumers: by a chain of direct selling agents this includes pyramid selling which is legally regul ted as many self employed people were duped into buying a stock of product which was being sold to fill up the distribution lines and rarely to end users. Multi-level or net ork marketing involves setting up a pyramid structure of sales agent, who earn commission on their sales to consumers and to other agents and both on their sales to consumers and to other agents the agent does not need to buy stock in order to make a sale, other than for demonstration purposes thus if final users are not buying the product the system breaks down

In describing the channels distribution you tend to use. Consider the following:

Types of channels of distribution available
Nature and channels you will utilize

Location/premises improvement resources

Outline your distribution channels geographical area you intend to serve
What means of transport will you use and how much will it cost?
What problems do you anticipate in your distribution
network? Indicate methods of solving the problem

2.9 Review Questions

1. Explain why prospective entrepreneurs need to consider the following in chapter two of the business plan:
   a) Potential customers
   b) The competition
   c) The market size

2. Explain the importance of a pricing strategy to potential entrepreneurs

   Describe the:

   a) Sales Tactics
   b) Advertising and promotion strategies.
   Potential entrepreneurs may employ in their prospective businesses

3. Explain the distribution strategies entrepreneurs may employ in their businesses

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CHAPTER THREE

Objectives

General Objectives:

a) To equip the learner with the knowledge and skills of preparing the organizational plan

Specific Objectives:

a) To prepare the organizational structure of the proposed business
b) To identify and describe the management team of the proposed business
c) To identify and explain the other personnel required
d) To describe and explain how to evaluate, remunerate and develop the employees
e) To identify and describe the support services required

3.0 Organization and Management Plan

In the organizational plan for the business, you will develop policies for staff development and human resource management. This will enable you to achieve the efficient product of goods of effective performance of services. You will present in detail the job analysis and descriptions, employee evaluations, training and staff compensation plans. You also indicate the support staff and services required for your business.

3.1 Organizational Structure

Developing an organizational structure
In developing the structure for your organization the following have to be considered:
The extent to which you will manage the business yourself.

Duties and responsibility for your management team, key personnel as well as those of other level.

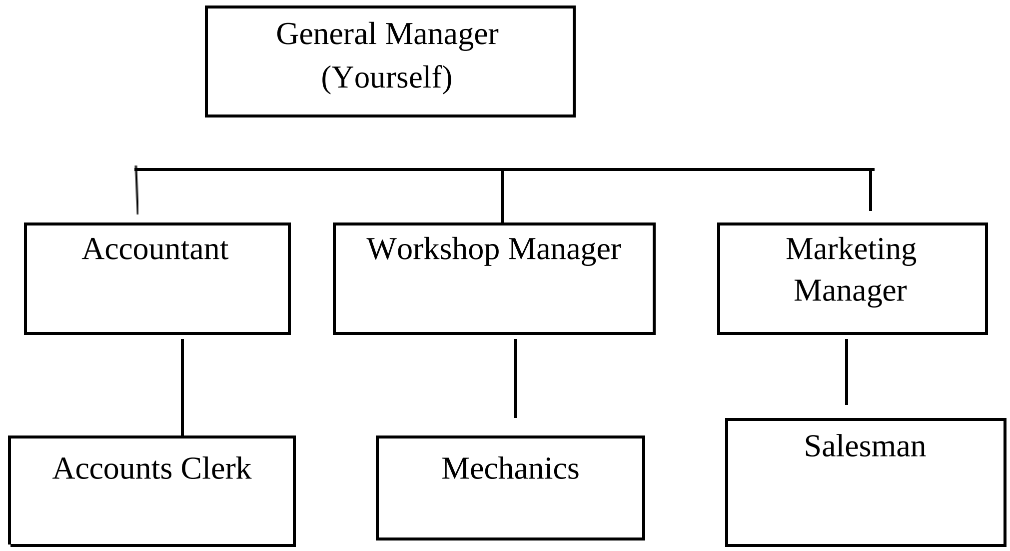
The structure of the organizational to show which departments or levels of authority/decision making the organization will have.

Draw organization chart indicating authority levels e.g.

To level
(1)

Middle level
(2)

Lower level
(3)



Those in lower level report respectively to those in middle level who in turn report td those in the top level. This means that each key person in the middle level controls his department more effectively while you are able to preside over all the departments and coordinate them effectively for the achievement of the desired results.

The key features in this area are:
(i) The extent of control and authority for each level.
ii) Duties and responsibilities for each per n in each of each level.
iii) Salary you will pay to each person.
(iv) Salary you personally intend to pay yourself monthly so as to keep personal issues away
from those of the business.
(v) A chart should be drawn as above specific to your business and placed at a prominent place
for all to see.

3.2 Key Management personnel

This is a very important area as you will need skilled, experienced and hardworking people. You have to start in a strong way to be able to penetrate &e market. The key people are those employees without whom you may not start your .business at all.

Features to consider in this area are:
(i) The importance of the job to the organization.
(ii) What type of person to hold the job and who he/she will be responsible to.

iii) Position, duties and responsibilities of each member of the team
(iv) Proposed salaries for the management team.
(v) Incentives you wish to provide for members of the team.

The most important issue here is differentiating between yourself and your business, So you have to decide and:-

(i) Pay appropriate salary to yourself
(ii) Pay appropriate salary to your other employees.

3.3. Other Personnel

Caliber of employees
Outline their job specifications

Incentives and Employment Agreement

Human beings are known to work harder if they are given some respective staff it is better to determine some extra payment like commission as reward for hard work. It is also important and a legal requirement to have a written and signed contract of employment letter with all your employees – permanent or casual alike. In the contract, you have to state:-

(i) Salary and other benefits
(ii) Leave days per year
(iii) Duties to be performed
(iv) To whom the respective staff reports and who reports to him
(v) Sick-leave days if any
(vi) Retirement benefits or pension plan
(v) Health insurance cover, etc

Describe how you will evaluate, develop and remunerate your staff
Outline staff regulations
Describe how you will evaluate the performance of
employees How will you reward outstanding performance

3.4 People System

Recruitment and selection
Sourcing and appointment
Training of employees/employer
Needs analysis and mechanics
Promotional: Appraisal and retention
Policy and monitoring
Remuneration and
incentives Pay systems
Communication channels

3.5 Support services

Bank

Auditor/Accountant

Lawyer

Small business

brokers Postal services

Insurance

Telephone/fax

E-mail address

Printers

3.6 Review Questions

1. Explain why the prospective entrepreneur should be part of the management team.
2. Why should prospective entrepreneurs plan for the reward and development of their employees.
3. Explain the importance of any support services to businesses.
4. Describe the purpose of the organizational chart.
5. Explain ways of attracting qualified employees

3.7 Reference

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iii) Ms & Swanepoel, Sm TNayagen, Mvan des Mrewe*: Introduction to entrepreneurship & Small Business Management.*

iv) Mburugu JB and Thiong'o JM *Essentials in entrepreneur training and practice GOK\ILO\UNDP ,*

v) Moore/Petty/Palich/Longenecker: *Managing Small Business Fourteenth Edition.*

vi) Phillip Kotler *, Marketing management 11th Edition prentice hall marketing 2004*

CHAPTER FOUR

4.0 Operational/Production Plan

Objectives

General Objectives:
To equip the learners with knowledge and skills of preparing the Operational/Production Plan

Specific Objectives:
a) To identify and describe the production/operation facilities and their capacity
b) To describe the production/operation strategy
c) To explain the production process
d) To identify and explain the government regulations affecting production / operation of the proposed business.

In the operational phase of business planning, you will describe the facilities, labour and overheads required to manufacture your propose product(s) or render your proposed services(s). If you are in the manufacturing business, your will explain the manufacturing process for making your products. For a service business, you will describe the key process of offering your service(s). In both manufacturing and service industries, you should indicate any regulations, compliances and approvals that will affect your operations.

4.1 Plant, Facilities And Equipment

Type of Facilities Required
List all equipment, machinery showing the cost, model and their capacities.
List any other facilities required to set up the business and show your cost; lease purchases.
Explain your plans for repairs and maintenance of the machinery Show your factory/office layout
Levels of production (max. and mm)
Explain expansion and future plans of your office/factory

4.2 Production Strategy

Describe your product development from ideation to sellable product or services
Indicate costs you will incur when developing your new product
What kind of technology will you use?
What changes do you anticipate in technology and how will you cope with them? Describe your material requirements
Who will be your main suppliers
What alternative sources are available?
What stock level do you anticipate?
Describe the skills required for efficient production both for direct and indirect workers.
Describe monthly production costs per product/service.
What will be the total production costs in a month?
Purchasing and stock control
Production information evaluation

4.3. Production Process

Show stages to follow in producing the products/services Procedure/methods involved.
What external factors are likely to affect your production process? How will you minimize the effects of external factors?

4.4. Regulations Affecting Operation

Outline the Government regulations and approvals that will affect your business Describe the required licenses and cost of procuring them.
Are you legible for VAT, Income Tax and Local Authority Rates?
What other approvals are required before commencing operations? (Consider health, trademarks, copyrights, safety regulations and environmental regulations

4.5 Review Questions

1. Why should a prospective entrepreneur plan for production/operational facilities and their capacity?
2. In explaining the production/operation strategies, what are some of the factor prospective entrepreneurs need to consider?
3. Explain the importance of a production/operation process of any business
4. Explain any government regulations that may affect the operation of any business.

4.6 Reference

i) David Stokes and Nicholas Wilson*: Small Business Management & Entrepreneurship*

ii) Irwin MeGraw Hill: *Entrepreneurship Fourth Edition*

iii) Ms & Swanepoel, Sm TNayagen, Mvan des Mrewe*: Introduction to entrepreneurship & Small Business Management.*

iv) Mburugu JB and Thiong'o JM *Essentials in entrepreneur training and practice GOK\ILO\UNDP ,1992*

v) Moore/Petty/Palich/Longenecker: *Managing Small Business Fourteenth Edition.*

vi) Phillip Kotler , *Marketing management 11th Edition prentice hall marketing 2004*

CHAPTER FIVE

5.0 Financial Plan

Objectives

General Objectives:

To equip the learners with knowledge and skills of preparing the financial plan

Specific Objectives:

a) To identify all the financial assumptions to be used in the financial plan
b) To identify the pre-operational costs to be incurred in the proposed business
c) To be able to estimate the working capital requirements for the first three years of operation.
d) To prepare a pro-forma profit and loss account (income statement) for the proposed business for the first three years of operation
e) To prepare a pro-forma balance sheet for the proposed business for the first three years of
   a. operation.
f) To prepare a projected cash flow statement on monthly basis for the first year of operation
g) To prepare the Break-even analysis for the proposed business
h) To determine the desired business financing
i) To determine the proposed capitalization for the proposed business
j) To determine the expected profitability ration for the proposed business

The financial plan is an important part of the business plan because it is here that the profitability of the intended business is demonstrated to the entrepreneur and to the potential financiers. It provides a tool for monitoring the financial performance of the business. In this section of the module, an analysis of financial requirements of a business is presented. The financial plans development is also illustrated.

5.1 Financial assumptions

5.2 Pre-Operational costs

ITEM	AMOUNT
Equipment and installations costs	…………………………
Trading license	…………………………
Water deposit	…………………………
Electricity Deposit	…………………………
Telephone deposit	…………………………
Renovations/remodeling	…………………………
Project research on	…………………………
Starting Inventory	…………………………
Professional fees	…………………………
Advertising and information for opening	…………………………
Miscellaneous	

5.3 Working Capital/Operational Costs

Estimate your working capital requirement for the last 3 years

Items	Year 1	Year 2	Year 3
Current assets			
Stock of raw material			
Stock in-progress			
Stock of finished goods			
Debtors			
Pre-paid expenses			
Current liabilities			
Creditors			
Unpaid expenses			
TOTAL	XXXX	XXXX	XXXX

NB: Working capital = Current assets – current liabilities

5.4 Projected Cash Flow Statement

Prepare your cash flow statement on a monthly basis for the first year of operation

Receipt (IN FLOWS)

Cash sales
Credit sales
Capital Introduction
Other income

Total Receipts
Payments (OUTFLOWS)

Cash purchase
Payments to creditors
Salaries wages
Rent
Electricity
Water
Advertising
Maintenance
Repair
Postage
Stationery
Transport
Taxes
Interest
Total Cash Outflow
Net Cash
Accumulative Cash

5.5. Pro-Forma Profit And Loss Account (Income Statement)

This is to summarize all the incomes and expenses incurred during that accounting period and show the net profit or loss incurred.
Prepare your Pro-forma Income Statements/Income Statement for the first years 3 years of operation.
Use the format below

ITEM	Year 1	Year 2	Year 3
SALES			
Cost OF Sales			
Discount			
Gross Profit			
Overhead Expenses			
Salaries/Remunerations			
Rent			
Water			
Telephone			
Advertising			
Electricity			
Postage			

Stationery/Office
supply Transport
Repairs and
maintenance Legal fee
Depreciation
Professional
fee Interest
Miscellaneous

Net profit before tax
Provision for tax%
Balance b/f

5.6. Pro-Forma Balance Sheet

This financial statement depicts the financial structure of a business at the end of an accounting period. It has three major components: assets, liabilities, and stockholders' equity. They show what the business owns or controls, how much is owed to creditors, and the residue net worth of the enterprise after asset value has debt subtracted from it. Put another way, a balance sheet shows how assets are financed: either by debt (shown in the liabilities section) or by its owners' capital (shown in shareholders' equity).

Therefore: assets = liabilities + owner's equity.

At the end of each accounting period, profit after taxes is added to the retained earnings accounts in the balance sheet.

Outline your proforma balance sheet at the start of business and at the end of the first two years.

	Year 1	Year 2	Year 3
Fixed			
Current			

LIABILITIES

CAPITAL

5.7 Break Even Analysis

The break-even analysis is used to analyze the effect on profits of different costs, volumes, and prices. This analysis shows the level of sales required to support the overhead of the business. The break-even point is that point at which the business will cover all its costs but will make me profit.
The figures that we will use in the analysis can all be taken from your profit and losses.

The first step is to break down all expenses, including cost f goods sold, into three categories: fixed, variable, and semi-variable. Fixed costs are those which remain the same regardless of the amount of sales. Some examples that are commonly fixed are: rent, management salaries, depreciation, interest, and professional services. Variable expenses are those expenses that vary directly with sales volume. Variable costs are direct material, sales commissions, and shipping costs. Semi-variable costs are those costs which vary with sales, but not indirect proportion. For example, if you double your sales, your utility expenses may increase but it probably will not double; on the other hand, it your sales drop to 0, utility expenses may fall, but it will not fall to.

Work out the break even point for your business.

Sketch the break even graph for the first year.

- Determine the total sales for year one
- From your operation expenses work out your variable costs and fixed costs
- Calculate the total contribution margin

  = Sales – Total Variable Cost

- Calculate the contribution margin percentage

$$= \frac{\text{Contribution Margin x 100}}{\text{Sales}}$$

- Determine the total fixed costs
- Calculate the break even level of sales in shillings

$$\text{Break even level (sh)} = \frac{\text{Fixed Cost\%}}{\text{Contribution Margins}}$$

$$\text{Alternative BEP} = \frac{\text{Fixed Expenses}}{(100\%\ (\underline{\text{variable expenses x 100})]}}$$

Sale

5.8 Desired Business Financing

Determining the total amount of money required to start off your business. Consider the following.

Item	Amount
Pre- operational costs	....
Working Assets	…………….
Fixed Asset	…………….
Others (specify)	…………….
Total (Start-up Finance	…………….

5.9 Proposed capitalization

Indicate the sources of your desired capital

Item	**Amount**
Equity	
Bank Loan	
Family	
Friends	
Total Investment	

5.10 Expected Profitability Ratios

Expected profitability ratios

Chapter eight will guide you on how to work out business ratios. Most finances will be interested in

i) Gross Profit Percentage = $\frac{\text{Gross Profit x 100}}{\text{Sales}}$

ii) Return on Investment = $\frac{\text{Net Profit after tax x 100}}{\text{Total Investment}}$

iv) Return on Sales = $\frac{\text{Net Profit after tax x 100}}{\text{Net sales}}$

5.11 The Implementation Schedule

Include a time line chart showing significant milestones and their priority for completion. Demonstrate that you know what must be done and how you will pursue these goals in a realistic way within a reasonable time frame. Identify the critical milestones. Summarize the implications of not reaching them and your alternative action plans.

5.12 Critical Risks And Possible Solutions

The aim of this last component of the business plan is to demonstrate your knowledge of inheritable or potential problems and risks and to show your willingness and ability to face them and deal with them.

Relevant questions

What are the inherent and potential problems , risk and other negatives your business may or will be faced with
Will your intended business face any stringent regulatory requirements
What potential legal liability or insurance problems might you face
How can you avoid this problem, manage them or minimize their impact Can any problem be turned into opportunities?

Types of critical risks and problem

The are three types of critical risks and problems that you may wish to consider

i. Inevitable risks and risks and problems
   Describe the nature of the problem and risks that your venture will be faced with, discuss how you will avoid or minimize their impacts
ii. Potential risks and problems
   Discuss the circumstances and situations that would prompt this risks and problems and how you will deal with them if they did
iii. Worst case scenario
   Give a worst case scenario of all inherent and potential risks that your intended business may suffer. summarize the consequences and what, if anything could be salvaged or recovered if these risks materialize .

5.13 Review Questions

1. Explain the term pre-operational costs
   Identify any pre-operational costs a start-up business may need
2. Explain why the working capital is important for any business.
3. Explain why prospective entrepreneurs need to prepare the following in their business plans:
   a) The pro-forma profit and loss account
   b) The pro-forma balance sheets
   c) The projected cash-flow
   d) The profitability rations

5.14 Reference

i) David Stokes and Nicholas Wilson*: Small Business Management & Entrepreneurship*

ii) Frankwood: *Accounting Revised Edition*

iii) N.A Saleemi: *Accounting simplified*

iv) Irwin MeGraw Hill: *Entrepreneurship Fourth Edition*

v) Ms & Swanepoel, Sm TNayagen, Mvan des Mrewe*: Introduction to entrepreneurship & Small Business Management.*

vi) Mburugu JB and Thiong'o JM *Essentials in entrepreneur training and practice GOK\ILO\UNDP ,1992*

CHAPTER SIX

6.0 Executive Summary

6.1 Business Description

Your background
The proposed business name and the starting date Location of the business
Major activities of the business
Uniqueness of your product/services
What attracted you to this opportunity
Explain your plans to exploit the opportunity
What are your plans to diversity the business?
What plans do you have for growth and expansion?

6.2. The Marketing

Identify your consumer segments
How will your products reach the customers?
Outline your competitors, their strengths and weaknesses. Explain your competitive edge.

6.3. The Management Team

Outline the skills and experiences of the management team
Prepare a brief profile for each member of the management team
Indicate the number and level of the other employees you require.

6.4. Production/Operations

Requirements – output and
Controls – quality and procedure Factors considered

6.5. Financial Plan

Indicate the total amount of money required to finance the business. Where will this money come from?
How, will the money be used?
State your break-even point
Indicate clearly the feasibility and profitability of the venture
Carried out towards the end but follow preliminaries

6.6 Review questions

1. By use of relevant examples, explain why the executive summary is a very important part of a business plan.
2. Explain the contents of an executive summary

REFERENCES

APPENDICES:

Consider the following;
Mark-up table for pricing
Sample brochures and fliers Loan repayment schedule Sample receipts
Sample appraisal forms
Sample credit and discounting policies

PRELIMINARIES PAGES

Cover page
Declaration
Dedication
Acknowledgement
List of abbreviations and acronyms List of tables
List of figures
Table of contents
The conceptual framework

NB: Preliminaries be brought at the fore front before the executive summary

REFERENCES

i) David Stokes and Nicholas Wilson*: Small Business Management & Entrepreneurship*

ii) Irwin MeGraw Hill: *Entrepreneurship Fourth Edition*

iii) Ms & Swanepoel, Sm TNayagen, Mvan des Mrewe*: Introduction to entrepreneurship & Small Business Management.*

iv) Mburugu JB and Thiong'o JM *Essentials in entrepreneur training and practice GOK\ILO\UNDP ,1992*

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vii) Norton Paley (2004) *Successful Business Planning – Energizing your Company's potential.*

viii) Peter F. Drucker (1985) *Innovation and entrepreneurship practice and principles* *ix)* Bhalla A S (1991 United Nations) *Small and medium enterprises technology policies and options.*

x) Jeffry I, Andrew Z and Stephen S, (2004) *Business Plans That Work, McGraw-Hill*

xi) Lomash (2008) *Business Policy And Strategic Management, Vikas Publising House Pvt Ltd*

xii) Frankwood: *Accounting Revised Edition*

xiii) N.A Saleemi: *Accounting simplified*

CONTINUOUS ASSESSMENT TEST (CAT 1)

INSTRUCTIONS
Attempt all questions

1) Explain the meaning of a business plan (2 marks)
2) Explain any **FOUR** qualities of a good business plan (8 marks)
3) Describe any **FIVE** entry strategies for a start-up business (10 marks)
4) State the components of a marketing plan (10 Marks)

CONTINUOUS ASSESSMENT TEST (CAT 1) MARKING SCHEME

1.Explain the meaning of a business plan

A business plan is a written document that describes the goals and objectives of the business. It also lists the steps that will be taken to achieve those goals and objectives

(2 marks)

2.Explain the **FOUR** qualities of a good business plan.

a) simplicity and clarity
b) brevity
c) logical
d) truthful
e) use of figures (8 marks)

3. Describe any **FIVE** entry strategies for a start-up business a) advertising
b) promotion
c) affordable prices
d) quality products/services
e) distribution
f) any relevant point (10 Marks)

4.State the components of a marketing plan
a) the potential customers
b) the competition
c) the pricing strategy
d) the sales tactics
e) advertising and promotion
f) distribution
g) any relevant point

(10 Marks)

SAMPLE PAPERS

BUSINESS PLAN

END OF SEMESTER EXAM

INSTRUCTIONS: Answer Question ONE and any other TWO questions

1. a) Explain the components of a business plan (10 marks)

   b) Explain any **FOUR** reasons that can lead to the failure of a business plan. (8 marks)

   c) State any **SIX** costs entrepreneurs may incur before the start of a business (6 marks)

   d) Explain **FOUR** uses of business plan (6 marks)

2. a) State the information to be included in the industry analysis of a proposed business **(** 8 marks**)**

   b) Explain any **SIX** factors that a potential entrepreneur should consider before locating his/her business (12 marks)

3. a) Explain **FIVE** factors entrepreneurs consider when setting prices for their products/services. (10 marks)

   b) Describe any **FIVE** support services potential entrepreneurs may need for their proposed businesses (10 marks)

4. a) Explain any **FIVE** ways entrepreneurs can use to motivate their employees (10 marks)

   b) Explain how an entrepreneur can evaluate and develop his/her employees (10 marks)

5. a) Describe any FIVE government regulations that may affect the operation of a start-up business. (10 marks)

   b) Explain any FIVE external factors that affect the production/operation of a business (10 Marks)

MARKING SCHEME

1 a) Explain the components of a business plan

i) The Executive Summary
ii) The Business Description
iii) The Marketing Plan
iv) The Organizational and Management Plan
v) The Production/ Operational Plan
iv) The financial Plan (10 marks)

b) Explain any FOUR reasons that can lead to the failure of a business plan.

i) Unreasonable goals set by the entrepreneur
ii) goals not measurable
iii) the entrepreneur has no experience in the planned business
iv) the entrepreneur has not made total commitment to the business
v) no customer need was established for the proposed product or service
vi) the entrepreneur has no sense of potential threat or weaknesses to the business
vii) any relevant point (8 marks)

(c) Explain any SIX costs entrepreneurs may incur before the start of a business

(i) professional fees
(ii) purchase of machinery and equipment
(III) furniture and fittings
(IV) registration and licensing
(V) Installation costs (VI)
Deposits for utilities (VII)
Opening stock
(VII)Any relevant point (6 marks)

d) Explain FOUR uses of business plan

i) Obtain business finance from bank, other financiers and investors
ii) Provide guidelines for opening a new business or expanding and existing one.
iii) Serve as a tool for managing every aspect of a business operation
vi) Communicate to outsiders the goals, objectives and activities of a business (6 marks)

2. a) State the information to be included in the industry analysis of a proposed business

i) industry size
ii) technology used in the industry

iii) capital requirements
iv) labor requirements
v) seasonal factors
vi) competitive trends
vii) general level of sales and profitability
viii) distribution channels
ix) any relevant point (8 marks)

b) Explain any **SIX** factors that a potential entrepreneur should consider before locating his/her business.

i) the target customers
ii) the competition
iii) security
iv) accessibility
v) convenience
vi) potential suppliers
vii) auxiliary services
viii) other business services
viii any relevant point (12 marks)

3 (a) Explain **FIVE** factors entrepreneurs consider when setting prices for their products/services.

i) direct costs
ii) indirect costs
iii) profit
iv) demand
v) competitors (10 marks)

b) Describe any **FIVE** support services potential entrepreneurs may need for their proposed businesses (10 marks)

i) banking
ii) auditing
iii) insurance
iv) postal
v) legal
vi) advisory
vii) any relevant point

4a) Explain any **FIVE** ways entrepreneurs can use to motivate their employees

i) training
ii) development
iii) promotion

iv) attractive rewards
v) allowances
vi) bonuses
vii) certification
viii) any relevant point (10 marks)

b) Explain how an entrepreneur can evaluate and develop his/her employees

i) employees appraisals
ii) organizing in-house workshops
iii) attending seminars
iv) formal trainings

5a) Describe any FIVE government regulations that may affect the operation of a start-up business.

i) licenses
ii) permits
iii) compliances
iv) approvals
v) taxes
vi) VAT
vii) Business registration
viii) Any relevant point (10 marks)

b) Explain any FIVE external factors that affect the production/operation of a business

i) Power black-outs
ii) water shortage
iii) employees colluding with customers to steal from the business
iv) natural calamities
v) inadequate supplies
vi) poaching of employees
vii) change government policies
viii) any relevant point (10 marks)

END OF SEMESTER EXAM

BUSINESS PLAN

INSTRUCTIONS: Answer questions ONE and any other TWO questions

1 (a) Explain benefits that entrepreneurs enjoy from preparing a business plan (10 marks)

b) Explain the contents of an executive summary (10 mark)

c) State any **FIVE** critical risks that entrepreneurs face in the operation of an

enterprise. (5 marks d) State **FIVE** sources of business finance (5 mrks)

2a) Explain the components of the marketing plan (10 mrks)

b) Explain any **FIVE** methods entrepreneurs may use to promote their products (10 mrks)

3 (a) Describe the factors that influence customers to purchase a product/service (10 mrks)

b) Explain any FIVE factors entrepreneurs consider in the analysis of their competitors (10 mrks)

4a) Describe the components of the production strategy of a businesses plan (10 mrks)

b) Explain any FIVE external factors that affect the production/operation of a business (10 mrks)

5) (a) Briefly explain the following terms as used in a business plan:

i) pre-operational costs
ii) working capital
iii) profit and loss account (income statement)
iv) balance sheet
v) cashflow statement (10 mrks)

b) Maua made the following transactions in his business. (10 mrks)

Opening stock	Kshs. 240,000/=
Closing stock	Kshs. 300,000/=
Purchases	Kshs. 1,860,000/=
Sales	Kshs. 2,250,000/=

Calculate the following from the above transactions: (10 marks)

MARKING SCHEME

1a) Explain benefits that entrepreneurs enjoy from preparing a business plan

(10 marks)

i) encourages entrepreneurs to establish written goals and objectives
ii) enables potential entrepreneurs to assess the viability of their business opportunities on paper
iii) assists in identifying the potential customers, marketing opportunities, pricing strategy, promotional activities, distribution strategy and the competitive conditions needed for business success
iv) enables identification of the number of employees needed, the skills they should possess, the tasks they will perform and the methods of remunerations to be adopted
v) assists entrepreneurs to establish the financial needs of a business
vi) suggests possible sources of finance
vii) helps to identify critical factors for the successful entry of a business in a given market
viii) helps to identify the successful growth of a business in a given market
ix) exposes entrepreneurs to the whole planning ,process.
x) Exposes entrepreneurs to budgeting, forecasting and reporting necessary for starting or expanding a business

b) Explain the contents of an executive summary

I) business description

III) the organizational
plan IV) operational plan
V) financial plan (10 marks)

c) Explain any FIVE critical risks that entrepreneurs face in the operation of
enterprise. -theft
-power black-outs
- water shortage
-inadequate supplies
- change in government policies
- natural calamities
- any relevant point (5 marks)

d) Explain the sources of business
finance owners equity
bank loans

donation from family and
friends trade credit
co-operative
societies inheritance
any relevant point

(5 marks)

2a) Explain the components of the marketing plan
a) the potential customers
b) the competition
c) the pricing strategy
d) the sales tactics
e) advertising and promotion
f) distribution
g) any relevant point (10 marks)

b) Explain any **FIVE** methods entrepreneurs may use to promote their products (a) introductory services/products
b) discounts
c) use of fliers, pamphlets
d) affordable prices
e) competitions/contests
f) free samples
g) gifts
h) personal selling (10 marks)

3. Describe the factors that influence customers to purchase a product/service. a) price
b) quality
c) appearance (color, texture, shape, material,
e.t.c) d) packaging
e) size (weight and volume)
f) fragility, ease of handling, transportability
g) servicing, warranties, durability
h) operating characteristics (efficiency, adaptability, etc (10 marks)

b) Explain any FIVE factors entrepreneurs consider in the analysis of their competitors -location
-price
-quality of product/services
-appearance (color, texture, shape,
materials) -packaging
-size of product (weight and volume)
-fragility (ease of handling and transportability

-servicing, warranties and durability
-operating characteristics (efficiency, adaptability) (10 marks)

4a) Describe the components of the production strategy of a businesses plan
-The monthly (raw) materials required
-the cost of (raw) materials needed
-The source and frequency of the (raw) materials needed
-The availability of (raw) materials need
-the monthly labor requirements
-the direct and indirect employees required
-the level of skills required of the employees
-the monthly production expenses
-the volume of production per month
-the total cost of production per month

b) Explain any FIVE external factors that affect the production/operation of a business
i) power black-outs
ii)water shortage
iii) employees colluding with customers to steal from the business iv)natural calamities
v) inadequate supplies
vi) poaching of employees
vii)change government policies
viii) any relevant point (10 marks)

5 (a) Briefly explain the following terms as used in a business plan:
i) pre-operational costs
-these are the costs incurred by the entrepreneur before the start of a business. e.g licenses, permits etc
ii) working capital
- it is the excess of current assets over current liabilities
iii) profit and loss account (income statement)
-statement used to determine the profit and loss incurred by a business.
vi) balance sheet
-statement used to determine the financial position of a business
v) cash flow statement
statement used to determine the inflow and outflow of cash in a business.

b) Maua made the following transactions in his business. (10 marks)

Opening stock	Kshs. 240,000/=
Closing stock	Kshs. 300,000/=
Purchases	Kshs. 1,860,000/=
Sales	Kshs. 2,250,000/=

Calculate the following from the above transactions: (10 marks)

a) Gross profit - Sales – cost of sales

= 2,250,000 – 1,800,000/=

= 450,000/=

b) Cost of sales - Opening stock + purchase – closing tock

= 240,000 + 1,860,000 – 300,000/=

= 1,800,000/=

c) Net profit = Gross profit – Expenses

= 450,000/= - 200,000/=

= 250,000/=

d)Gross profit margin percentage – Gross profits x 100% Sales

$$= \frac{450,000}{2,250,000} \times 100\%$$

= 20%

e) Mark up percentage

$$= \frac{\text{Gross profit}}{\text{Cost of sales}} \times 100\%$$

$$= \frac{450,000}{1,800,000} \times 100\%$$

= 25%