# ENT 883 SMALL BUSINESS MANAGEMENT

# MBA 889 SMALL BUSINESS MANAGEMENT

Course Guide

**COURSE GUIDE**

# ENT 883
# SMALL BUSINESS MANAGEMENT

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## Introduction

MBA 883: Small Business Management is a semester course work of two credit hours. It will be available to all students taking the M.B.A programme in the school of Business and Human resources management.

The course consists of 15 Units involving the entire facet of small business management and small business planning.

The course guide tells you what the course ENT 883 is all about and the materials that you require to make the reading successful.

Other information contained in this course guide includes Tutor marked assignment questions.

## Course Contents

The course contents consist of the Nature of Small business, opportunities analysis, the development of business plans and management of small business.

## Course Aims

The Aims of this course are to expose you to the knowledge of how to establish, organize and operate a small business enterprise. It aims to sharpen your skills in such areas as defining business goals, assessing market potentials, raising capital and managing business operations.

## Course Objectives

By the end of the course you should be able to:

- Understand the nature of small business
- Evaluate business opportunities in your environment.
- Describe business plans
- Explain the key points involved in small business operations management.

## Course Materials

Major components of the course are:

1. Course guide
2. Study units

3. Text books
4. Assignment guide

## Study Units

There are 15 Units of this course which should be carefully studied:

Unit 1 - The Nature of Small business
Unit 2 - Advantages and disadvantages of small business
Unit 3 - Introduction to Opportunities analysis
Unit 4 - Advanced Opportunities analysis
Unit 5 - Characteristics for success in small business.
Unit 6 - The technical plan
Unit 7 - The management plan
Unit 8 - The Marketing plan
Unit 9 - The Financial plan
Unit 10 - The Economic plan
Unit 11 - Managing manufacturing operations
Unit 12 - Managing service based operations
Unit 13 - Monitoring performance
Unit 14 - Accounting records for small business
Unit 15 - Sourcing capital for small business

The first five units are designed to give you the necessary background knowledge required of a would-be-entrepreneur or small business manager. Units 6 to 10 concentrate on the development of a business plan from technical analysis to economic analysis.

Units 11 to 14 focus attention on managing operations and monitoring performance.

The last unit, 15 addresses the issue of how to source capital for small business.

Each study unit will take at least two hours and it includes the introductions, objectives, main content, exercises, conclusion, summary and references. Others are the Tutor marked Assignments (TMA).

You are required to study the materials, reflect and do the exercises. Some of the exercises will require that you visit some small business organizations to see things for yourself. You are strongly advised to pay such visits. You should also read the text books and other recommended references.

## Assignments/ Exercises

In each unit, you will find exercises which you are required to do. The exercises will enable you to understand better what you have learned.

## Course Assessment

### 1. Tutor Marked Assignment (TMA)

In doing the Tutor marked assignments, you are expected to apply what you have learnt in the contents of the study unit. The assignments are expected to be turned in to your tutor for grading. They constitute 40% of the total score.

### 2. Final Written Examination

At the end of the course, you will write the final examination. It will attract the remaining 60%.

This makes the final score to be 100%.

## Summary

The course ENT 883 (small business management) exposes you to the knowledge of how to establish, organize and operate a small business. When you complete the course, you would have been armed with the necessary skills to manage small businesses.

Course Code ENT 883

Course Title Small Business Management

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# MODULE 1

Unit 1 The Nature of Small Business
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Unit 3 Introduction to Opportunities Analysis
Unit 4 Advanced Opportunities Analysis

# UNIT 1 THE NATURE OF SMALL BUSINESS

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7.0 References/Further Readings

## 1.0 INTRODUCTION

In this course (ENT 883), we will focus our attention on the process of establishing, organizing and running a small business. But to enable us proceed and properly guide our thoughts, there is the urgent need for us to understand what we mean by a small business. We can do this by identifying the characteristics a business must posses to qualify as a small business.

## 2.0 OBJECTIVES

By the end of this unit, you should be able to:

- Explain the Nature of small business
- Define a small business
- Identify a small business in your environment.

# 3.0 MAIN CONTENT

## 3.1 The Nature of Small Business

In the Nigerian economy and in all other economies, small businesses litter the economic landscape, provide employment opportunities for people and contribute significantly to economic development. In terms of quantity, they are larger than big businesses.

Everywhere we go in our environment we see them. They are in distributive trade, services and small scale manufacturing. No matter Government can ignore their importance because of their nature and their importance in development planning and management.

### 3.1.1 Definition of Small Business

Small business is not easy to define because the definition raises conceptual problems. The problems arise mainly because of the perceptions of those defining small business. You may use your own qualitative judgement in an attempt to define a small business. The small urban based beer distributor who sells beer in the evenings is obviously a small business operator. The small hair dressing salon located in urban Lagos is also a small business concern.

A small business in America is not exactly the same as a small business in Nigeria because the two nations are not at the same stages of growth.

Even within Nigeria, the definition of small business varies between the different industries. Members of different associations of small business also see small business from various angles which suit their purposes.

Because of the need to present an acceptable broad definition of small business, we shall define small business as one that is independently owned and operated and is not dominant in its field of operation.

You will quickly realize that the underlined words are very important whenever we are defining small business.

They focus on the ownership, operations and their scope of influence in the environment. In other words, small businesses do not dominate their various industries.

### 3.1.2 Identifying A Small Business

Although we have succeeded in defining a small business, we need to go a step further to provide a framework that will enable us identify small

businesses in our environment. We need to establish the criteria that distinguish a small business from a big business.
Some of the criteria are:

**Initial Capital Outlay**

Initial capital outlay refers to the financial resources that are required to start up a business. If the initial capital outlay required to start a business is small then that fact alone may lead us to conclude that a small business requires a small amount of money to start. For example, with at low as N3,000 (three thousand naira only), a newspaper vending business can be started. Also, a road side kiosk may require a total initial financial outlay of about N7000 (seven thousand naira only) to start. However, on the other hand, if a large sum of money sNa5y0,000,000 (Fifty million naira only) is required to start a particular business, then that business is not a small business. Rather it is a big business.

A very important point you need to know in using initial capital outlay criteria to distinguish a small business is that there is no specific amount that constitutes the dividing line between a small business and a big one.

For example if a trader purchases a luxury bus for use in transportation for the sum of N20, 000,000 (twenty million naira only), one may be tempted to think of the trader's business as a big business. But in the real sense, a transporter who has only one bus in operation cannot be said to be in big business.

On our part, we need to use our own judgement to fix an amount which divides a small business from a big one.

**Number of Employees.**

Another criterion that you can use in distinguishing between a small business and a big business is the number of employees that the business has. A business that has four (4) employees obviously is a small one. Another business that has 3,000 employees obviously cannot be described as a small one. Again we run into problem of what number of employees makes a business a small one. There is no exact number and this gives room for qualitative judgement. In the past, early writers on this topic saw a small business as one whose total staff strength does not exceed 50. Today, that number is no longer acceptable as the discussions on small business continues to change.

**Ownership Structure**

Ownership structure is another criterion that can be used to distinguish between a small business and a big one.
You know that ownership structure of business can vary widely. A business can be owned by an individual and run on a sole proprietorship basis.

Again, a business could be run as a partnership (two or more people combine to form a partnership). At a much higher level, a business could be run as a private limited liability concern with shareholders as foundation owners.

And at a much higher level, a private limited liability company can convert into a public limited liability company.

You will be able to see from our discussion so far that in our context, it does appear that small businesses will be owned largely by individuals or a group of individuals. For example, a small restaurant can be owned by a man, his wife and children. That type of ownership structure makes it a small business.

Also two or three lawyers can team up to start a law practice. Again the ownership structure makes it a small business.

**Type of Technology Employed**

Because of their size, small businesses employ relatively simple technology that is easy to acquire. This is so because of the huge capital outlays involved in the acquisition of modern technology. Small businesses cannot afford to employ complex and costly technology due to this capital constraint that we have already mentioned.

Consider for example a small cottage palm oil mill located in a rural area in Nigeria. The oil mill will consist of a small drum used as boiler and a manually operated screw press that extracts the oil from the oil palm. Production will be slow and difficult for the rural workers in the mill.

But if you compare the small rural based palm oil mill with a modern palm oil mill like Ada Palm oil mill at Ohaji in Imo State, you will realize a lot of differences. The Ada Palm oil mill is automated and employs modern technology in extracting palm oil.

## A Practical Business Idea for Class Discussion

## Investing In an Exercise Book Making Plant

Exercise books are found in all homes and also in many offices in Nigeria. Students in Nursery, Primary, Secondary Schools, Polytechnics and Universities all use exercise books. Available data suggests that there are about 23 million students in the Nigerian educational system in 1998 and this is expected to grow with time. If we add demand for exercise books coming from organizations and public institutions, it is estimated that annual exercise book demand in Nigeria lies in the region of about 1.5 billion pieces. Supply of exercise books used to be dominated by "Apex" and "Onward" but entry into this business by local investors has broken the monopoly of "Apex" and "Onward".

## Technical Information

The plant highlighted in this write up is a small scale exercise book plant that can be located anywhere in Nigeria and for which minimal space is required. Working on a single shift of 8 hours per day, an output of 4,000 exercise books is assured. Working on 3 shifts per day, total daily output is 12,000 pieces of various sizes, 2A, 40 leaves, 60 leaves, 80 leaves, Higher education etc. However, this write up assumes 2 shifts of 8 hours each daily and 300 working days per annum, Core equipment required include High speed electric motor driven ruling machines, guillotine, Long arm staplers, jogging trays etc. All equipments are available locally (local and imported models). The key raw materials – bond paper (17 x 27) is available locally and in abundant quantities.

The production process is relatively simple. The back cover of the exercise book is made using plates. The inside of the exercise book is bond paper which is ruled according to the exercise book to be made. After ruling, the papers are counted, folded and stitched.

Trimming is done by the guillotine after which packaging for the market is arranged.

## SELF ASSESSMENT EXERCISE 1

Using your immediate environment as a guide, list five small businesses that can be started with a capital of N20, 000, 00 (Twenty thousand naira only).

### 3.1.3 Types of Small Business

So far we have succeeded in defining small business and also looked at the criteria that distinguish them from big business. We will go further to examine the types of small business.

By business types in this context, we mean their various groupings in the economy. This grouping is based on their activities.

**Trading and Commerce Enterprises**

Trading is one of the commonest business activities in Nigeria today. A trader buys goods from A and sells the same goods to B at a much higher price. The difference between the purchase price and the selling price constitutes the profit of the trader. If you look around your environment you will see small businesses selling items like:

- bread
- recharge cards
- soft drinks
- sachet water

The trading and commerce group of small business possibly constitute over 80% of the total number of small business.

**Service enterprises**

Service enterprises constitute another group of small business operators. Service enterprises do not necessarily sell goods to people or organizations. Rather they provide services. They provide the services that are needed by members of the larger community.

Examples of service enterprises include:

- barber shops
- shoe shiners
- shoe repair shops
- hair dressing salons
- dentist shops
- a dancing theatre
- a nursery and primary school
- a HIV counseling centre
- an automobile car service workshop
- a photographer shop.

A major reason why there are many service based enterprises in Nigeria is the nature of services that they provide. For example a hair dresser may not be able to dress more than 12 hairs a day. In the circumstances when there are more than 12 hairs to dress, a new hair dresser may open shop in the same environment to take advantage of growing demand. Also a medical clinic may have the highest number of patients it can handle in a day. If the number of patients requiring medical attention increases, it is an indication that a new medical clinic should open in the same area.

**Small Manufacturing Enterprises**

Small manufacturing enterprises are another major and important group in the Nigerian economic landscape. They engage in basic manufacturing activities that do not involve complex technologies or huge capital outlays.

Examples of small manufacturing enterprises include:

- sachet water manufacturing enterprises
- bread baking enterprises
- laundry soap making enterprises
- nylon blowing enterprises
- exercise book making enterprises

**SELF ASSESSMENT EXERCISE 2**

In discussing the types of small business, we identified three main types of small business enterprises. List the three types of small business.

## 4.0 CONCLUSION

This unit treats the nature of small business.

It examines the working definition of small business. It also discusses the criteria of distinguishing small businesses from big ones. This includes capital outlay, number of employees, ownership structure and types of technologies employed.

## 5.0 SUMMARY

We have gone through the nature of small business and this has enabled us understand them. Also we are now able to identify them in our various environments. In our next unit, we shall be discussing the advantages and disadvantages of small business.

## 6.0 TUTOR MARKED ASSIGNMENTS

In identifying a small business, we discussed four criteria to distinguish a small business from a big business.

List the four criteria.

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999): A guide to Small Business Investments. Impressed Publishers, Lagos.

### ANSWERS TO SELF ASSESSMENT EXERCISES

Using the immediate environment as a guide, the five businesses that can be started with a capital of N20,000 are:

- A newspaper vending business
- A bread distribution business
- A recharge card selling point
- A yam selling shop
- A pure water distribution business

The three types of small business are:

- Trading and Commerce enterprises
- Service enterprises e.g. barber shop
- Small manufacturing enterprises e.g. bread baking enterprises.

# UNIT 2 ADVANTAGES AND DISADVANTAGES OF SMALL BUSINESS

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## 1.0 INTRODUCTION

In the last unit (Unit 1), we discussed the nature of small business. That helped us to be able to identify a small business in our environment. In this unit, we will go further to look at the advantages and disadvantages of small business. Small businesses operate in the same markets with larger businesses but they have their ownunique features and characteristics. They may have operating advantages that are not available to other bigger firms. Likewise, they may have disadvantages that militate against them in the macro environment. These advantages and disadvantages are the focus of this unit.

## 2.0 OBJECTIVES

By the end of this Unit, you should be able to:

• Explain the advantages and disadvantages of small business

## 3.0 MAIN CONTENT

### 3.1 Advantages and disadvantages of small business

Because of their unique features, small businesses have some advantages in the macro environment in which they operate. We are now going to list and discuss some of these advantages.

### 3.1.1 Low Start-up Capital

One major advantage which a small business has is that it requires low start up capital. With a very small sum of money, a small business can be established. For example, with a fairly used motorcycle costing N30,000 (thirty thousand naira only) an entrepreneur can go into transport business and if properly managed this can grow into a fairly big business.

Also with capital as low as N2,000 (two thousand naira only) a housewife can purchase 50 bags of sachet water and start a sachet water distribution business.

If you take a good look around you, you will discover that there are many hawkers along the streets hawking various types of goods.

Some of the goods hawked include the following:

- gala
- soft drinks – coca cola, sprite etc.
- bread
- recharge cards – mtn, celtel etc.
- Sachet and bottle water.

If you compute the total capital of the various hawkers, you will quickly realize that it is on the very low side.

### 3.1.2 Ease of Entry and Exit

Because of the low-start up capital involved, it is very easy to establish a small business. This feature makes it very attractive for even senior secondary school leavers to start their own businesses. For example, to start a telephone business call centre, all that is required are:

- 1 mobile phone
- 1 umbrella
- 1 plastic table
- 1 plastic chair

Closely related to this ease of entry advantage is the ease of exit advantage. Because of the low capital involved, owners of small businesses find it very easy to exit from an industry to which they belong.

You must have realized that this ease of entry and exit advantages available to small business is mainly because of their low start-up costs. Large corporations like Nigerian Breweries PLC cannot afford to easily exit from the brewing business because of their heavy initial investment.

### 3.1.3 Operational Flexibility

Because of their small nature, small businesses enjoy the advantage of operational flexibility. In a small business, decision-making may be vested in the sole proprietor who acts quickly and without any form of bureaucracy. The sole proprietor does not need to consult any superior officer before taking a decision. This type of operational flexibility may not be enjoyed by a large corporate body like First Bank of Nigeria PLC.

In a big corporate organization like First Bank of Nigeria PLC, decision making is likely to be clumsy because of the complex, organ gram of the bank. You are aware that in a big business organization, before a core decision is taken, there may be series of meetings at both divisional and regional levels. At times, decisions may need to get the Board of Directors approval before they are taken.

To drive home our point of operational flexibility, let us consider a bank customer who applies for a bank loan of N10,000,000 (ten million naira only) from his local bank at Aba. The average decision to lend or not to lend to the customer will be taken after the following groups have taken a decision.

1. Branch Analyst
2. Branch Manager
3. Head office credit unit
4. Management credit committee
5. Board credit committee.

## 3.2 Disadvantages Of Small Business

We have seen that as a result of their size and nature small businesses have some advantages over large businesses. They are easy to establish especially as they require very low capital. When they encounter difficulties in their operating environment, they easily exit the industry leaving the large businesses to suffer. However, we should recognize

that they also have some inherent disadvantages. We shall now discuss some of these disadvantages.

### 3.2.1 Lack of Capital

From what we see in the macro environment, a lot of small businesses continue to remain small even where opportunities for expansion exist. When asked why they are unable to expand and grow, a lot of entrepreneurs point to lack of capital as their major problem. And of course you know that this is true. Most modern large businesses require huge investments in capital equipments, technology and working capital which many small businesses cannot afford.

### 3.2.2 Lack of Adequate Technology

The world has become a small global village with cross border flow of information and technology between nations. Each day advances in science and technology flood the market place making existing products and processes to become obsolete. This situation of constant change in science and technology affects both small and big businesses alike. But you will easily picture that small business enterprises are more exposed to vulnerability due to changes in technology. Because of their sheer small size and lack of adequate capital, small business cannot afford to embrace new technology. This lack of adequate technology is a major set back or disadvantage inherent in small business.

### 3.2.3 Lack of Managerial Skills

A big corporation like a multinational may have a large structure with continental divisions, regional units and national operating units all managed by experienced managers with strong business school exposures. A large corporation like Nigerian Breweries PLC will have a large pool of highly experienced managers – Engineers, technologists, chemical engineers, microbiologists, food scientists, accountants etc. But you know that this may not be the case with a small business which may not have any experienced manager in the management team. A small business may have no graduate in its management team.

The size of most small businesses and lack of capital may explain their inability to hire and retain experienced managers. This may translate to lack of managerial skills in most small business set ups. Obviously, you can easily see for yourself that lack of managerial skills constitutes a source of major disadvantage to small businesses.

**A Practical Business Idea for Class Discussion**

**Investing In an Envelope Making Plant**

Envelopes need no introduction. Every day, across the Nation, envelopes are used to dispatch both local and international mails. The use of envelopes cuts across all segments of the society. Think of the volumes used daily by banks, insurance companies, manufacturing concerns, the Army, Police, Navy, public and private schools, courier companies etc. The list is endless. It is estimated that current annual demand for envelopes in Nigeria is in excess of 5 billion units in various sizes, shapes and qualities. It is noted that there are different qualities of envelopes in the market and these are targeted at different user segments.

**Technical Information**

The plant highlighted in this write up is a small scale plant that can easily be located anywhere in Nigeria since it does not require any electricity.

Working on a single shift of 8 hours per day and using a staff strength of 5, the plant can produce 5,000 pieces of various types of envelopes. Working on 3 shifts of 8 hours each per day, total annual production is estimated at 5,475,000 pieces of envelopes. However, this write up assumes 2 shifts of 8 hours each per day and 300 working days per year. The core equipment required for the project are envelope making machine, specification moulds, catch trays and stand-by Maxwells repair guillotine (manual). The production process is relatively simple. Paper of required grammage is loaded unto the machine. The specification mould is then clamped onto the machine. Manual or hydraulic action on the machine ejects the envelopes unto the catch trays. Gums (specific) are now used to complete the process and the envelopes acquire their finished shapes.

All the equipment and raw materials for envelopes manufacture are available locally. To drive down operating costs, it is advisable for the project promoter to integrate backwards into manufacture of gum and office glue.

## 3.2.4 Vulnerability to Economic Changes

In business, change is inevitable and occurs very frequently. Bird flu disease affected the poultry Industry in Nigeria adversely in the year 2006 and wiped out a very large number of birds in most poultry farms. Big farms were able to manage the crisis while the small farms that had

no access to medical technology ended up losing all their birds to Bird flu disease. In such cases, you will realize easily that a small business is more vulnerable to economic changes than big businesses. When there are down turns in the economy, the first and major casualties are the small businesses. They are the first to begin to experience financial difficulties and their low capital base obviously cannot absorb large operating losses arising from adverse economic changes. On the other hand, big corporations have the capacity to absorb economic shocks due to their strong capital base. They also have experienced managers who are able to manage change.

**SELF ASSESSMENT EXERCISE**

List three advantages that small business organizations have over big businesses.

## 3.3 Why People Engage In Small Business

We have discussed small business. We looked at the advantages and also the disadvantages. We will now look at the reasons for small business. In other words, we want to know why people actually go into small business.

### 3.3.1 The Need for Independence

A major reason why people want to go into small business is that they want to be independent. They want to be in charge of affairs. They want to be the boss. They want to take business risks and also be responsible for them. You are aware that in the civil service, there are lots of rules and regulations government imposes on all employees in addition to the bureaucracy that tends to deny employees the power to take initiatives. Given this type of scenario, a lot of people may opt to leave the service and establish their own business.

### 3.3.2 Job Security

In the private and public sectors of the economy, we hear such words as right-sizing, down-sizing, retrenchment, re-organisation. No matter how the words are used, they all point in the same direction – staff strength reduction. Because of the way and manner most down-sizings are carried out, it has generated fears in the minds of many employees in both the private and public sectors of the economy. The feeling of job insecurity has led a lot of employees into thinking of setting up their own businesses so as to gain job security. You will recall that some organsations / sectors that have been subjected to job losses are:

- Nigerian Railway Corporation
- Nitel
- The Maritime Industry
- The Banking Industry

### 3.3.3 Family Employment and Community Service

There exist a lot of reasons why people set up small businesses. One of the such reasons is the need to create employment for members of one's family and also to employ other members of the community.

This aspect is called the community service aspect of small business.

In choosing the business to establish, the would-be-entrepreneur might prefer businesses that are more labour intensive rather than capital intensive. The main reason behind this is to employ more people.

### 3.3.4 Challenge

When you look around you in your immediate environment, you can easily distinguish three types of people namely:

- Those that see challenges
- Those that hate challenges
- Those that take up challenges

In most situations, it is those that take up challenges that usually have the keen desire to set up business. A major reason why many people go to business school today is that they want to acquire the tools to be able to take up business challenges in their environment. It is important for you to recognize that business requires a lot of courage and challenges.

So some people start their own business just to demonstrate that they are able to face challenges.

## 4.0 CONCLUSION

This unit treats the advantages and disadvantages of small business. It also looks at the reasons why people go into small business.

## 5.0 SUMMARY

In this unit, we have discussed the advantages of small business. We also discussed the disadvantages. Then we discussed the key reasons why people set up small business. In our next unit, we shall discuss Introduction to Opportunities Analysis.

## 6.0 TUTOR MARKED ASSIGNMENTS

1. List the advantages of Small businesses.
2. List also the disadvantages of Small businesses.

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999): A guide to Small Business Investments. Impressed Publishers Lagos.

**ANSWERS T O SE LF ASSESSMENT EXERCISES**

The three advantages that small business organizations have over big businesses are:

- They require low start-up capital
- They have ease of entry and exit
- They enjoy operational flexibility.

# UNIT 3 INTRODUCTION TO OPPORTUNITIES ANALYSIS

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## 1.0 INTRODUCTION

In the last unit (Unit 2), we discussed the advantages and disadvantages of small business. We also looked at why people set up small businesses. In this unit, we will discuss opportunities analysis which is a vital aspect of our study.

Opportunities analysis provides us with a general framework for identification and analysis of small business opportunities.

## 2.0 OBJECTIVES

By the end of this unit, you should be able to:

• Discuss the concept of opportunities analysis.

## 3.0 MAIN CONTENT

### 3.1 Introduction to Opportunities Analysis

The most important task facing the small scale business entrepreneur is that of identifying business opportunities in the larger macroeconomic environment. You will realize that the economic landscape is dominated by such large multinationals like John Holt Plc, Nigerian Breweries Plc etc. Given their sheer size and presence, the

multinationals control the market and dictate the operating standards. Given this scenario, how should the small business entrepreneur analyse the opportunities available?.

Opportunities analysis comes in very handy here. Opportunities analysis is the binocular through which the total business environment is viewed. It reveals the structure of industry (including competition and dynamics), isolates the key players. Opportunities analysis is the intellectual tool with which the entrepreneur looks at the environment with a view to identifying business opportunities.

Ordinarily in the economic landscape, understanding competition involves looking at the following:

- the action of manufacturers.
- the action of suppliers
- the action of employees
- Inter-firm rivalry.

Given the nature and structure of competition in the economy, the key questions to be asked by would-be entrepreneurs are:

1. Given the competition, what are the products and services that I could select to provide and why?
2. What is the current level of demand for the chosen produc or service?
3. What is the supply situation for the product or service?
4. Are there barriers to entry?
5. What is the industry likely to look like in the next 2 or 3 years?

Let us now discuss some basic trends that will assist us in conducting opportunities analysis.

### 3.1.1 Demographic Trends

In conducting opportunities analysis, the first important starting point is to consider the entire population. Understanding the total size of the population is crucial. Also various components of a population needs to be critically examined when attempting to conduct opportunities analysis.

But apart from the total size of the population, the demographic trends need to be examined. When studying a population, the following needs to be properly studied and analysed:

**Age Distribution of the Population**

The age distribution of a population is very crucial because it breaks down the population into the various age groups like;

| AGE | POPULATION |
|---|---|
| 0 - 5 years | 3,000,000 |
| 6 - 10 " | 1,500,000 |
| 11 - 16 " | 2,000,000 |
| 17 - 25 " | 1,200,000 |
| 26 - 40 " | 3,000,000 |
| 41 and above | 4,000,000 |
| **Total** | **14,700,000** |

Figure 3.1 Age distribution of a state population in Nigeria – (imaginary figures).

The importance of age distribution of a population is that it gives us an insight into what is likely to be the demand for various goods or services that an age group needs.

For example, an entrepreneur intending to go into the manufacture of baby napkins needs to know in advance the size of his market. He or she needs to know that the number of people between the ages of 0 to 5 years is 3,000,000.

**The Size of the Working Population**

Of course, we know that not all members of a population are gainfully employed. For example, people in the age bracket 0 – 5 are not usually employed but rather they depend on the working population. In real life, the working population is found in the 17 and above bracket. The importance of estimating the size of the working population is that it enables us to measure purchasing power of a population. In our situation – Nigeria, the work force is divided into two namely:

- Public sector employees
- Private sector employees.

The total of these two groups constitutes the total workforce. The size of the workforce and their income gives us the purchasing power of the workforce.

**The Birth Rate and the Death Rate**

The birth rate affects the total size of the population. The death rate also affects the total population size. However, if the birth rate of a population exceeds the death rate, then the population will increase. But if the death rate exceeds the birth rate, then the population is likely to decrease. The would-be entrepreneur needs to know the trend of the birth and death rate of the population he or she is interested in.

**The Sex Distribution of a Population**

The total size of a population is not all. The sex distribution of the population is also important. The would – be entrepreneur needs to know the number of males and females in a given population. For example an entrepreneur going into the manufacture of hair relaxer needs to first know the number of females in a population under study.

Like wise, a would-be manufacturer of after shave needs to know the number of males in a population under study.

**Mobility Trends**

It is also very important for would be entrepreneurs to understand the mobility trends of a population. You are aware that currently there is the problem of rural – urban drift.

A lot of people in the rural areas usually drift into the urban areas in search of employment and other facilities not available in the rural areas.

**Ethnic and Religious Structure of A Population**

The ethnic and religious structure of a population is very important. For example in the Nigerian setting, a would-be entrepreneur needs to critically study the ethnic structure to know for example the number of Yorubas or Hausas. Each ethnic group has its unique features and also the type of goods that the ethnic group purchases. The dressing of a Yoruba lady differs significantly from that of a Hausa Lady.

Entrepreneurs should understand these critical aspects as they devise their plans on what to produce.

We will also note that apart from ethnicity, religion is also a very important factor when studying opportunities in an environment.

Christians have their way of life and this differs from the ways of life of Muslims. Christians even have the type of goods they purchase or will not purchase. The same goes for Muslims.

### 3.1.2 Economic Trends

When trying to search for opportunities in the macro environment, the would-be entrepreneur needs to understand economic trends in the economy. Economic trends will be seen from the interplay of fiscal and monetary policies. Very critical to our analysis are the following:

- Gross domestic product (GDP) growth rate
- The rate of inflation and its effect on prices.
- Movements of interest rate and its impact on the level of investment
- Broad directions of fiscal and monetary policies

### 3.1.3 Political And Regulatory Trends

It is very important for us to understand that a stable political system is a pre-condition for economic growth and development. It means that would-be entrepreneurs need to properly study the political environment and predict to a large extent the direction of Government political thought. Apart from politics, entrepreneurs need to understand regulation.

Most businesses in Nigeria are highly regulated as could be seen in:

- Business permits
- Prudential regulation
- National agency for food and drug administration and control (NAFDAC)
- Capital market regulations
- Foreign exchange regulations.

### 3.1.4 Socio – Cultural Trends

In the identification and analysis of business opportunities, it is also important to understand socio cultural trends in a population. Culture basically is a way of life of a people.

The people in any given population have their values and beliefs and it affects the type of goods and services that they will purchase. Other things to consider are:

- Conservative life styles.
- Fashion. Are skirts high or low?
- Living pattern for married couples.
- Educational level of the population

**A Practical Business Idea for Class Discussion**

**Handkerchief Manufacturing**

Handkerchiefs are used by a wide segment of society-men, women, ladies, children and what have you. On one hand, it is very much a necessity especially for the upper and middle class in society. However, the most important factor influencing use of handkerchiefs in Nigeria is the very high temperatures especially in most parts of the country. Because it is usually easy to misplace, the demand for handkerchief is stable and assured in a market like Nigeria. The key success factor is quality and good distribution network.

**Technical Considerations**

The project under discussion is a small but dedicated plant for the manufacture of handkerchiefs only using locally sourced textile materials (cotton). On a single shift of 8 hours and using a labour force of 6, the plant can produce 4,000 pieces of handkerchiefs. On a day of 3 shifts of 8 hours each, a production of 12,000 pieces of handkerchiefs can be produced. However, this write up assumes 2 shifts per day for 300 working days in a year. The key machines required are hinged cutting machine, whipping machine, trimming machine and loose items like scissors. Technical care is essential in the production process of handkerchiefs.

Handkerchief grade textile in rolled bales are fed into a pre-set cutting and trimming machine depending on the size of the handkerchief of be produced. With the aid of a geared electric motor and angled scissors, cutting and trimming takes places as the bales cross the knipp. Whipping concludes the production and the handkerchiefs arecounted and packed in lots ready for the market.

## 3.1.5 Classification Of Goods And Services

In trying to focus on the goods or services that the would be entrepreneur is likely to offer to the public, there is the need to classify goods and services into four main groups namely:

**Essential Goods**

Essential goods and services are those goods and services that are very essential and the consumption of which are considered very compulsory for virtually all members of society. A major characteristic of essential goods is that the demand is very stable. Essential goods will include things like water, housing, medical care etc.

**Non – Essential Goods and Services**

Non-essential goods and services are those that are not essential and the purchase of which is optional. They will include such things like ice cream, choice wine etc.

**Durable Goods**

Durable goods are those goods that are used for very long periods and the purchase of which are made infrequently. For example a motor car will have a life span of over 20 years if properly maintained. Also a building can last for over 100 years with proper maintenance.

**Non-Durable Goods**

Non-durable goods are those goods that are purchased frequently and used to provide some form of further service. For example, spark plugs though non-durable are used to service cars which are durable goods. Also car fuel filters which are non-durable goods are used to service cars which are durable goods.

| ESSENTIAL GOODS | NON-ESSENTIAL GOODS |
|---|---|
| Water | Cheese |
| Fuel (petrol and kerosene) | Butter |
| Food items | Whisky |
| Housing | Wine |
| Medical care | DVD player |
| Salt | High definition television |
| **DURABLE GOODS** | **NON-DURABLE GOODS** |
| Motor cycle | Car spark plug |
| Aeroplane | Car contact set |

| | |
|---|---|
| Ship<br>Refridgerator<br>Air conditioner<br>Deep freezer<br>Building | Car fuel filter<br>Water candle filter |

Figure 3.2 Classification of goods and services.
This is based on the Rogets consulting group model.

**SELF ASSESSMENT EXERCISE**

Haliru is a four year old child.
Draw up a list of ten goods that are regularly used by Haliru as a child.

### 3.1.6 Steps Involved In Conducting Opportunities Analysis

We have come a very long way. We have discussed opportunities and the trends that need to be evaluated while conducting opportunities analysis. We will now list the vital steps involved in conducting opportunities analysis.

1. Write out a list of goods and services which you think that a given population requires or demands.
2. Divide the goods and services into essential and non-essential goods and services.
3. Divide the goods and services into durable and non-durable goods.

Based on your division, choose businesses in the area of essential goods and services. Also choose businesses in the area of non-durable goods.

## 4.0 CONCLUSION

This unit treats opportunities analysis which is a very crucial aspect of small business management education. In the Unit, we discussed the various trends that need to be examined while conducting opportunities.

## 5.0 SUMMARY

We have gone through opportunities analysis which is a stepping stone for the would-be entrepreneur searching for the type of business to go into. In the next unit, we will discuss the characteristics for success in small business.

## 6.0 TUTOR MARKED ASSIGNMENTS

In conducting opportunities analysis, we need to understand some trends. Discuss those trends that are important when conducting opportunities analysis.

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe: Project Analysis and Evaluation (1999):
Impressed Publishers, Lagos

**ANSWERS TO SELF ASSESSME NT EXERCISES**

The list of ten goods regularly used by Haliru is:
• Water
• Drugs
• Soap
• Pomade
• Rice
• Milk
• Beans
• Clothes
• Powder
• Shoes

# UNIT 4 ADVANCED OPPORTUNITIES ANALYSIS

## CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
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3.1.1 Data for Advanced Opportunities Analysis
3.1.2 Use of Data for Advanced Opportunities Analysis
3.1.3 Forecasting Future Demand
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit (Unit 3) we discussed the Introduction to Opportunities Analysis. In discussing the topic, we looked at opportunities analysis as the binocular through which the total business environment is viewed.

We also discussed trends that assist in the conduct of opportunities analysis. Some of the trends we discussed include economic trends, political and regulatory trends, socio-cultural trends; we also classified goods and services into various categories – essential and non-essential goods, durable and non-durable goods.

We also discussed briefly the steps involved in conducting opportunities analysis.

In this unit, we shall discuss Advanced Opportunities Analysis which builds on the knowledge we have acquired in Unit 3.

## 2.0 OBJECTIVES

By the end of this unit, you should be able to:

• Understand Advanced Opportunities Analysis
• Discuss ways of Conducting Advanced Opportunities Analysis

# 3.0 MAIN CONTENT

## 3.1 Advanced Opportunities Analysis

In the last unit (Unit 3), we discussed an introduction to opportunities analysis which basically provides us with a general background to the understanding of advanced opportunities analysis.

Advanced Opportunities Analysis provides us with the general frame work and tools with which to probe the business environment, forecast the direction of business and properly position a small business in the environment. Advanced opportunities analysis is the use of statistical data to generate accurate forecasts of emerging opportunities in the environment. It also uses past data and statistical methods to generate future forecasts of demand for goods and services in the economy.

Advanced Opportunities Analysis makes use of sectoral analysis, qualitative judgements and data all combined to build an informed opinion of what future demand should be for various sectors of the economy.

### 3.1.1 Data For Advanced Opportunities Analysis

Generally in conducting Advanced Opportunities Analysis, heavy reliance must be placed on data. As we said earlier, advanced opportunities analysis makes use of data to generate accurate forecasts of emerging opportunity in the economy. Let us see the type of data required for Advanced Opportunities Analysis.

| DATA TYPE | INFORMATION CONTAINED THEREIN |
|---|---|
| TOTAL POPULATION DATA | Shows the total population of Nigeria arranged state by state. Gives a picture of people in every state of Nigeria |
| SEX DISTRIBUTION OF POPULATION | Shows the total population broken down into males and females. It gives investors the opportunity of knowing the quantity of males and females. Those investing in female products know their markets in advance. |
| TRANSPORTATION BASIC DATA | Provides basic data on the transport sector. Gives Investors opportunities to examine the |

| | |
|---|---|
| | sector critically for investment opportunities. |
| COMMUNICATION SECTOR DATA | Provides data on the Nigerian Communication Sector. |
| EDUCATION BASIC DATA | Provides basic data on the education sector. Investors can use the data to project for demand for exercise books etc. |

**Table 4.1: Types of Data for Advanced Opportunities Analysis.**

| STATE | TOTAL |
|---|---|
| Abia | 2,833,999 |
| Adamawa | 3,168,101 |
| Akwa Ibom | 3,920,208 |
| Anambra | 4,182,032 |
| Bauchi | 4,676,465 |
| Bayelsa | 1,703,358 |
| Benue | 4,219,244 |
| Borno | 4,151,193 |
| Cross River | 2,888,966 |
| Delta | 4,098,391 |
| Ebonyi | 2,173,501 |
| Edo | 3,218,332 |
| Ekiti | 2,384,212 |
| Enugu | 3,257,298 |
| F C T | 1,405,201 |
| Gombe | 2,353,879 |
| Imo | 3,934,899 |
| Jigawa | 4,348,649 |
| Kaduna | 6,066,562 |
| Kano | 9,383,682 |
| Katsina | 5,792,578 |
| Kebbi | 3,238,628 |
| Kogi | 3,278,487 |
| Kwara | 2,371,089 |
| Lagos | 9,013,534 |
| Nasarawa | 1,863,275 |
| Niger | 3,950,249 |
| Ogun | 3,728,098 |
| Ondo | 3,441,024 |
| Osun | 3,423,535 |
| Oyo | 5,591,589 |
| Plateau | 3,178,712 |

| | |
|---|---|
| Rivers | 5,185,400 |
| Sokoto | 3,696,999 |
| Taraba | 2,300,736 |
| Yobe | 2,321,591 |
| Zamfara | 3,259,846 |
| **TOTAL** | **140,003,542** |

**Table 4.2 Nigeria population data (Census 2006).**

| STATE | TOTAL | MALES | FEMALES | |
|---|---|---|---|---|
| Abia | 2,833,999 | 1,434,193 | 1,399,806 | |
| Adamawa | 3,168,101 | 1,608,123 | 1,561,978 | |
| Akwa Ibom | 3,920,208 | 2,044,510 | 1,875,698 | |
| Anambra | 4,182,032 | 2,174,641 | 2,007,391 | |
| Bauchi | 4,676,465 | 2,426,215 | 2,250,250 | |
| Bayelsa | 1,703,358 | 902,648 | 800,710 | |
| Benue | 4,219,244 | 2,164,058 | 2,055,186 | |
| Borno | 4,151,193 | 2,161,157 | 1,990,036 | |
| Cross River | 2,888,966 | 1,492,465 | 1,396,501 | |
| Delta | 4,098,391 | 2,074,306 | 2,024,085 | |
| Ebonyi | 2,173,501 | 1,040,984 | 1,132,517 | |
| Edo | 3,218,332 | 1,640,461 | 1,577,871 | |
| Ekiti | 2,384,212 | 1,212,609 | 1,171,603 | |
| Enugu | 3,257,298 | 1,624,202 | 1,633,096 | |
| F C T | 1,405,201 | 740,489 | 664,712 | |
| Gombe | 2,353,879 | 1,230,722 | 1,123,157 | |
| Imo | 3,934,899 | 2,032,286 | 1,902,613 | |
| Jigawa | 4,348,649 | 2,215,907 | 2,132,742 | |
| Kaduna | 6,066,562 | 3,112,028 | 2,954,534 | |
| Kano | 9,383,682 | 4,844,128 | 4,539.554 | |
| Katsina | 5,792,578 | 2,978,682 | 2,813,896 | |
| Kebbi | 3,238,628 | 1,617,498 | 1,621,130 | |
| Kogi | 3,278,487 | 1,691,737 | 1,586,750 | |
| Kwara | 2,371,089 | 1,220,581 | 1,150,508 | |
| Lagos | 9,013,534 | 4,678,020 | 4,335,514 | |
| Nasarawa | 1,863,275 | 945,566 | 917,719 | |
| Niger | 3,950,249 | 2,032,725 | 1,917,524 | |
| Ogun | 3,728,098 | 1,847,243 | 1,880,855 | |
| Ondo | 3,441,024 | 1,761,263 | 1,679,761 | |
| Osun | 3,423,535 | 1,740,619 | 1,682,916 | |
| Oyo | 5,591,589 | 2,809,840 | 2,781,749 | |
| Plateau | 3,178,712 | 1,593,033 | 1,585,679 | |
| Rivers | 5,185,400 | 2,710,665 | 2,474,735 | |
| Sokoto | 3,696,999 | 1,872,069 | 1,824,930 | |
| Taraba | 2,300,736 | 1,199,849 | 1,824,930 | |

| | | | |
|---|---|---|---|
| Yobe 2,321,591 | 1,206,003 | 1,115,588 | |
| Zamfara 3,259,846 | 1,630,344 | 1,629,502 | |
| **TOTAL 140,003,542** | **71,709,859** | **68,293,683** | |

**Table 4.3: Sex distribution of Nigerian Population (Census 2006)**
**TRANSPORTATION BASIC DATA, 2004**

| **Road Transport** | **2004** |
|---|---|
| Length of roads (in kilometer) | 34,403 |
| Principal roads | 15,688 |
| Paved Roads | 27,957 |
| of which bad portion 6,466 | |
| Motor Vehicle population (000) | 2,176 |
| of which newly registered (000) | 402 |
| Number of road accidents 14,279 | |
| of which; persons involved 22,248 | |
| of which persons killed 5,351 | |
| Air Transport | |
| Loaded freight (000tonnes) 22,518 | |
| Unloaded freight (000tonnes) | 63,158 |
| Passengers departing (Number) | 733,445 |
| Transiting Passengers (Number) | 37,857 |
| Arriving passengers (Number) 711,781 | |
| Aircraft arriving (Number) 9,097 | |
| Maritime Transport | |
| Loaded good (000tonnes) 10,634 | |
| Unloaded goods (000tonnes) 27,569 | |
| Arriving ships (Number) 6,278 | |
| of which Tankers (Number) | 998 |
| Passengers arriving by sea (N0.) | 506 |
| Passenger departing by sea (N0.) | 329 |
| Railway Transport | |
| Length of railway lines (km) | 3,505 |
| Number of Loco motions (N0.) | 46 |
| Number of Carriages (N0.) | 251 |
| N0 of Wagons (N0.) 1,410 | |
| Passenger Traffic (000Passengers – km) | 1,157,042 |
| Goods traffic (000tonnes-km) 1398 | 71 |

Sources: Federal Ministry of Work, Federal Ministry of Aviation, Nigeria Port Authority, Nigeria Railway Corporation.

**Table 4.4 Transportation basic data Communication Sector 2004**

| DESCRIPTION | 2004 |
|---|---|
| Telephone lines in use (fixed) (000) | 1030 |
| Telephone lines Cell phone (mobile) (000) | 8.300 |
| Tele density | 7.77 |
| Outgoing Direct traffic (million) 65.3 | |
| Incoming Direct traffic (million) 42 | .6 |
| Telephone exchange (Number) 312 | |
| Telephone booths (Number) 4153 | |
| Telephone Transit Centres 53 | |
| Internal Mail | 41.4 |
| Total Mail sent abroad (000) 4.6 | |
| of which by air (000) 4.4 | |
| Mail received from abroad (000) 13.0 | |
| of which by air (000) 12.5 | |

Source: National Communication Commission (NCC) Nigeria Postal Services.

Note: 1 in paid minutes

**Table 4.5: Communication Sector Data**

**EDUCATION BASIC DATA, 2004**

| DESCRIPTION | 2004 |
|---|---|
| **STUDENTS:** | |
| Student in Primary School (000) | 2546 4 |
| Students in Secondary School (000) | 6343 |
| Students in University equivalent (000) | 267. 5 |
| Students in University (000) | 621. 4 |
| **TEACHERS:** | |
| Teachers in Primary School (000) | 627 |
| Teachers in Secondary School (000) | 209 |
| Teachers in University equivalent (000) | NA |
| Teachers in University (000) | 23.8 |
| **INSTITUTIONS:** | |
| Number of Primary Schools | 57,582 |
| Number of Secondary School | 11590 |
| Number of University equivalent | 76 |
| Number of University | 52 |

Source: Fed. Min. Education, National University Commission, National Board for Technical Education
N.A = Not Available
University equivalent includes institutions like the polytechnics, specialized tertiary,

**Table 4.6: Education basic data.**

## 3.1.2 Use of Data for Advanced Opportunities Analysis

Table 4.2 shows the total population of Nigeria broken down into various states. Table 4.3 displays the sex distribution of population. It breaks down the population of the various states into males and females. Break down of a population into males and females have important data implications for a would-be-investor.

In the first place, the total population of every state is displayed and also the break down into males and females. Break down of a population into males and females makes the job of an investor easier. For example an investor in female hair shampoo should first know the number of females in his target market e.g. Anambra State.

Also an investor in sale of men's shirts should have an idea of the number of males in his/her chosen target market.

Now take a closer look at Table 4.4.

Table 4.4 displays Transportation basic data in Nigeria. The data displayed includes length of roads in Nigeria, the motor vehicle population in Nigeria and information on maritime transport.

For example, a manufacturer of car tyres should find the information on the number of vehicles very useful in designing production plans.

Again table 4.6 displays data on the educational sector. The data displayed shows the number of students in primary, secondary and university equivalent.

For an exercise book manufacturer it provides a background to understanding the market potentials of exercise book making business.

In summary, the data available to the would be investor should be properly studied and forecasts made for the future.

**SELF ASSESSMENT EXERCISE**

List three types of data that may be useful in Advanced Opportunities Analysis.

**A Practical Business Idea for Class Discussion**

**Production of Distilled Water**

Distilled water is a very interesting product. It is interesting in the sense that its simple production process has not been given adequate investor attention. Distilled water is used by the battery chargers, clinics, hospitals and pharmacies for the mixing of drugs like penicillin powder. Generally distilled water is used in any situation where the use of ordinary water is contraindicated. As an investor, one has to choose between producing distilled water for use by battery chargers or distilled water for use by hospitals and clinics. Producing for hospitals imposes extra burden on the investor because of the added requirement that the water produced must be pyrogen free. This write-up however focuses attention on producing distilled water for use by battery chargers. Market demand appears assured when one considers the number of vehicles on the Nigerian roads all of which have batteries that use distilled water.

**Technical Considerations**

The project under consideration is a plant dedicated to the production of distilled water for use by battery chargers. Working on a single shift of 8 hours per day, the plant can produce 1000 litres of distilled water. Working on 3 shifts of 8 hours each per day, total output of 3,000 litres is assured.

However, actual production capacity is limited to a single shift of 8 hours each per day and for 300 working days in a year. The key equipment required for the project are the following: Water filtration unit, preparation tank, water distillation unit with condenser, funneled filling unit, weighing scales and loose items. The raw material is water.

**Production Process**

Water is passed through the filtration unit for impurities to be removed. The filtered water is then treated with sodium carbonate to remove hardness. This treatment to remove hardness is carried out in the preparation tank. From here the water is let into the distillation unit for heating. The vapour arising from the heated water is cooled by the water circling the condenser and is collected as distilled water in the funneling tank. From here it is funneled into plastic bottles for sale.

| FINANCIALHIGHLIGHTS | | | |
|---|---|---|---|
| Pre-Investment Outlays | | | |
| Accommodation | | (2 years) | |
| Machinery /Equipment | | | |
| Working Capital | | | |
| Total Cost | | Project | |
| Projected Income | Year | | 1 |
| Projected Expenses | Year | | 1 |
| Projected Profit | Year | | 1 |

3,000,000

## 3.1.2 Forecasting Future Demand

Given past and current data on the demand for various goods and services, the key problem is how to forecast future demand. The future is always surrounded with uncertainty. In the literature, there are so many forecasting methods. Some are quantitative and others qualitative. We shall discuss a quantitative method used in forecasting. This method is called the growth factor technique.

The growth factor technique is mostly used when the demand for a good or service has a fairly stable base and also grows with time.

In using the growth factor technique, the assumption usually made is that the factors affecting demand will not change. All that is needed is to use a growth rate and make projections.

**EXAMPLE**

The demand for passenger cars in Nigeria in year 2007 is 500,000 cars. It is envisaged that income and other factors affecting demand for cars will not change in the near future. Population is growing at 3% per annum. How many cars will be demanded in year 2008?

**SOLUTION**

In year 2007, cars demanded amount to 500,000 cars. In year 2008, cars demanded = 500,000 (1.03) = 515,000

Cars demanded in year 2008 = 515,000 cars.

Note: The population growth rate = 3% per annum. In the absence of any other factor, the demand for cars will be proportional to the population growth rate of 3% per annum.

## 4.0 CONCLUSION

In this unit, we discussed Advanced Opportunities Analysis. We discussed data for advanced opportunities analysis and the types of information they contain. We saw data on population, sex distribution of population and communication sector. We also discussed the use of data for advanced opportunities analysis. We also discussed forecasting of demand using the growth factor technique. All these gave us better insights into opportunities analysis.

## 5.0 SUMMARY

This unit treats Advanced opportunities Analysis. Advanced opportunities analysis builds on the knowledge obtained in our discussion of introduction to opportunities analysis. It is a more advanced treatment that uses data and forecasting to predict opportunities and demand in the market place.

In the next unit, we shall treat Characteristics for success in small business.

## 6.0 TUTOR MARKED ASSIGNMENTS

What types of data are required for Advanced Opportunities Analysis?

## 7.0 REFERENCES /FURTHER READINGS

Leon Ikpe (1999): Project Analysis and Evaluation. Impressed Publishers, Lagos

Leon Ikpe (1999: A guide to Small Business Investments, Impressed Publishers, Lagos.

**ANSWERS TO SELF ASSESSMENT EXERCISES**

The three types of data useful for Advanced Opportunities Analysis are:

1. Total Population data.
2. Sex distribution of population data
3. Education basic data.

# MODULE 2

Unit 1 Characteristics for Success in Small Business
Unit 2 The Technical Plan
Unit 3 The Management Plan
Unit 4 The Marketing Plan

# UNIT 1 CHARACTERISTICS FOR SUCCESS IN SMALL BUSINESS

**CONTENTS**

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Characteristics for Success in Small Business
3.1.1 Technical Competence
3.1.2 Mental Ability
3.1.3 Human Relation Skills
3.1.4 High Achievement Drive
3.1.5 Creativity
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit, we discussed advanced opportunities analysis, which provided us with a background for looking at business opportunities. In this unit, we shall discuss the characteristics for success in small business. In treating the characteristics for success in small business, we shall be looking at characteristics for success in a small business.

## 2.0 OBJECTIVES

By the end of this unit, you will be able to:

- Identify those characteristics that are essential for success in small business.
- Discuss the characteristics in detail.

## 3.0 MAIN CONTENT

## 3.1 Characteristics for Success in Small Business

In practical terms, it is easy to know that not all business turn out to be successful. Some are successful while some are not.

Apparently, there must be reasons that stand to explain the reasons behind every business that turns out to be successful. There must be those characteristics that are essential for success. These are called the characteristics for success in small business. It is those characteristics that we now want to discuss.

### 3.1.1 Technical Competence

One of the most important characteristics for success in a small business is technical competence. Technical competence refers to the ability of the entrepreneur to understand the business in question and also possess the requisite knowledge and skills to engage in the business. For example, a person engaged in the business of photography must understand the handling of cameras, films and to some extent print processing. These are the things that contribute to successful photography. An architect engaged in architectural practice must be able to design good houses.

A motor mechanic who does not understand how to tune a car will end up losing all of his customers.

A medical doctor engaged in medical practice should be able to handle simple ailments like malaria. If that is not the case with him, he will soon find that clients will not make repeat calls to the clinic.

So the first thing that the entrepreneur needs is to know how-to-do-it side of a business. That is what we call technical competence.

Even where the entrepreneur takes the business to the next level, the issue of competence continues to be very relevant. In the enlarged business organization, core competence which is a bundle of skills that an organization possesses is very important. Core competence as a bundle of skills enables a business provide goods and or services to its customers. The core competence of Federal express (Fedex) is logistics management. It is the understanding of logistics management that enables Fedex provide courier services to its clients nationwide. Sony's core competence is miniaturization. This core competence enables it to build strong and compact electronic goods that are world class. So we need to repeat the fact that every successful entrepreneur needs to have good technical knowledge of the business he/she is going into or thinks of going into.

### 3.1.2 Mental Ability

Another important characteristic for success in small business is mental ability. For an entrepreneur to be successful, he / she must have good mental ability. When we talk of mental ability, we are talking about the capacity to understand. Mental ability enables the entrepreneur think and develop competitive strategies. The ability to think enlarges the entrepreneur's vision and generates ideas on how to see competition not in small terms but from a wider perspective.

In business, apart from knowledge, there is the very crucial need for the entrepreneur to possess general knowledge. The possession of general knowledge enables the entrepreneur to have a wider view of the various components of a business and also picture how they join together.

Mental ability enables a good entrepreneur to anticipate the moves of competitors well in advance and take necessary strategic steps to ensure business survival.

### 3.1.3 Human Relation Skills

Possession of good human relation skills is another characteristic for success in entrepreneurship. In general terms, it is very easy to see that most successful entrepreneurs have good human relations skills. Possession of good human relations skills ensures that the entrepreneur gets along well with the following:

- their employees
- business associates
- customers
- suppliers
- government

Generally when we are discussing human relations skills we are thinking of three basic skills namely:

- Communication skills
- Motivational skills
- Leadership skills

Let us discuss these three skills briefly. Communication basically is the process of exchanging information between one person and another. Or it could be between one person and a group of persons. Communication also could be between an enterprise and third parties or customers. Inside the enterprise or organization, the entrepreneur needs to exchange

information at various levels. There is need to communicate with the workers so that management functions are accomplished.

Communication provides a link between people in an organization Generally, the principles of communication indicate that effective human relations skills involve the following:

- Addressing people by name
- Smiling at people
- Speaking to people (audibly)
- Being warm to people
- Being friendly
- Showing Interest in people
- Being a great listener
- Looking for opportunities to praise people
- Acting like a member of a team
- Being humble

Motivational skills is another key characteristic for success in business. An entrepreneur invariably works with people some of who turn out to be subordinates. Managers should understand how to motivate people. Ordinarily, motivation is a process of inducing people to engage in an activity willingly. Although in the literature, money has been identified as a key motivator, there are other motivators such as:

- Good work environment
- Full appreciation for work done
- Job security
- Promotion on the Job.

Leadership skills is another important human relation skills. A good leader attracts good followership. A good leader shows how to do it. Some good leadership traits include the following.

- ability to socialize well with people
- self assurance
- self control
- emotional stability and ability to withstand pressures.
- good moral standing
- confidence

**SELF ASSESSMENT EXERCISE**

List four leadership traits that you are aware of

## A Practical Business Idea for Class Discussion

## Commercial Grinding Mill Project

A lot of the food and drink input of Nigerians is produced from assorted grains like millet, corn, soya beans;. These grains are converted to such items like soya beans and milk, ogi, corn flour, corn vita, bourn vita and the rest. On a more relevant scale, the conversion of cassava to garri, fufu or starch involves the process of grating. Based on these types of market information, it is easy to see why a well designed commercial grinding mill located in high density areas and close to markets can be relied upon to generate significant cash flows to an investor.

## Technical Information

The project highlighted in this write-up is a grinding mill shop designed to provide dry and wet milling services to the public. The shops will have a uniform design and replicated in all the locations where the investor is operating.

Each milling location (shop) will have five (5) mills running on wet and dry basis and two cassava graters. To accommodate the inconsistencies of NEPA, each shop will have a stand by generator and a deep bore hole since this project consumes a lot of water. Service will be on first come first served basis. For a start, the investor should take-off with four (4) shops carefully targeted at high density locations.

## Technical Data

MILL FEATURES: Hopper inlet systems. Low noise with cone receivers.

POWER DRIVES: Electric motors. Single phase 2 hp – 5hp

POWER: Power Holding Company or 10 KVA generator

ACCESSORIES: Power drive belts, spare pulleys, bolts and nuts,
Grinding discs and electric motors, water pumps.

| FINANCIAL HIGHLIGHTS | — N |
|---|---|
| Pre-Investment outlays | 20,000 |
| Rent / accommodation (2 yrs) for 4 locations | 96,000 |
| Machinery / Equipment | 100,000 |
| Utilities | 400,000 |
| Working Capital | 20,000 |
| Total Project Cost | 636,000 |
| Projected Year 1 Income | 1,200,000 |
| Projected Year 1 Expenses | 400,000 |
| Projected Year 1 Profit | 800,000 |

### 3.1.4 High Achievement Drive

Generally, most successful entrepreneurs are very high achievers. But success does not come easy. You must work for it. High achievers are always driven by the passion to achieve and succeed in whatever they are engaged in. But how do you identify a high achiever?

In small business management literature, high achievers have three important characteristics namely:

- Taking responsibility for all their actions especially in finding solutions to problems.
- Taking of calculated risks
- Ensuring feedback in their operations.

Lazy people unlike high achievers hate work and do not have objectives to be met. They have small plans. High achievers are usually driven by a passion to succeed and they do have big plans. Big plans attract energy.

### 3.1.5 Creativity

Creativity happens to be another important characteristic for success in entrepreneurship. Ordinarily, creativity is the ability to process and arrange information in ways that lead to new knowledge.

Creative people end up with Innovations and also innovative ways of doing things. They create new processes and designs.

For example, Edwin Land developed the Polaroid Camera which was an enhanced camera with the ability to produce pictures instantly. This move by Edwin Land gave Polaroid a head-start over its closest rival, Kodak.

Creative people have a lot of characteristics some of which include the following:

- They generate many new ideas in a short time
- They are motivated by challenges
- They convert problems into opportunities
- They believe in themselves
- They value their mental independence
- They are very flexible in their thinking
- They enjoy experimenting with new ideas

## 4.0 CONCLUSION

In this Unit, we discussed the characteristics for success in small business. Some of the characteristics discussed are Technical competence, mental ability, Human relation skills and Creativity.

## 5.0 SUMMARY

Success in entrepreneurship requires deep characteristics for success. The characteristics should be present in the entrepreneur or learnt through formal or informal education. If the characteristics for success are embedded in an entrepreneur, it means that success will come easy. Technical competence, mental ability, human relation skills and creativity have been discussed as key characteristics for success in entrepreneurship.

In our next unit, we shall discuss the Technical plan.

## 6.0 TUTOR MARKED ASSIGNMENTS

Human relation skill is very important in an entrepreneur. Discuss the three components of human relation skills

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation. Impressed Publishers, Lagos.

**ANSWERS TO SELF ASSESSMENT EXERCISES**

The four leadership traits are:

- Good moral standing
- Self assurance
- Self control
- Confidence.

# UNIT 2 THE TECHNICAL PLAN

## CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 The Technical Plan
        3.1.1 Factors affecting Location of a business
        3.1.2 The Components of a Technical Plan
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignment
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last Unit (Unit 5), we discussed characteristics for success in small business. In this Unit, we shall discuss the Technical plan. In discussing the Technical plan, we shall examine the various components of the technical plan.

## 2.0 OBJECTIVES

By the end of this Unit, you will be able to understand:

- what a business plan is
- what a technical plan is
- how it is related to a business plan

## 3.0 MAIN CONTENT

### 3.1 The Technical Plan

A key function of management of any business is planning especially when a business is to be started from the scratch. When a business is to be started especially from the scratch, the entrepreneur needs a formal business plan. The business plan is a document which sets out what a business is going to do and how it is going to do it.

To ease our discussion we shall divide the business plan into five segments namely:

- the technical plan
- the management plan
- the marketing plan

• the financial plan
• the economic plan

Following our arrangement, we shall discuss the technical plan is this unit.

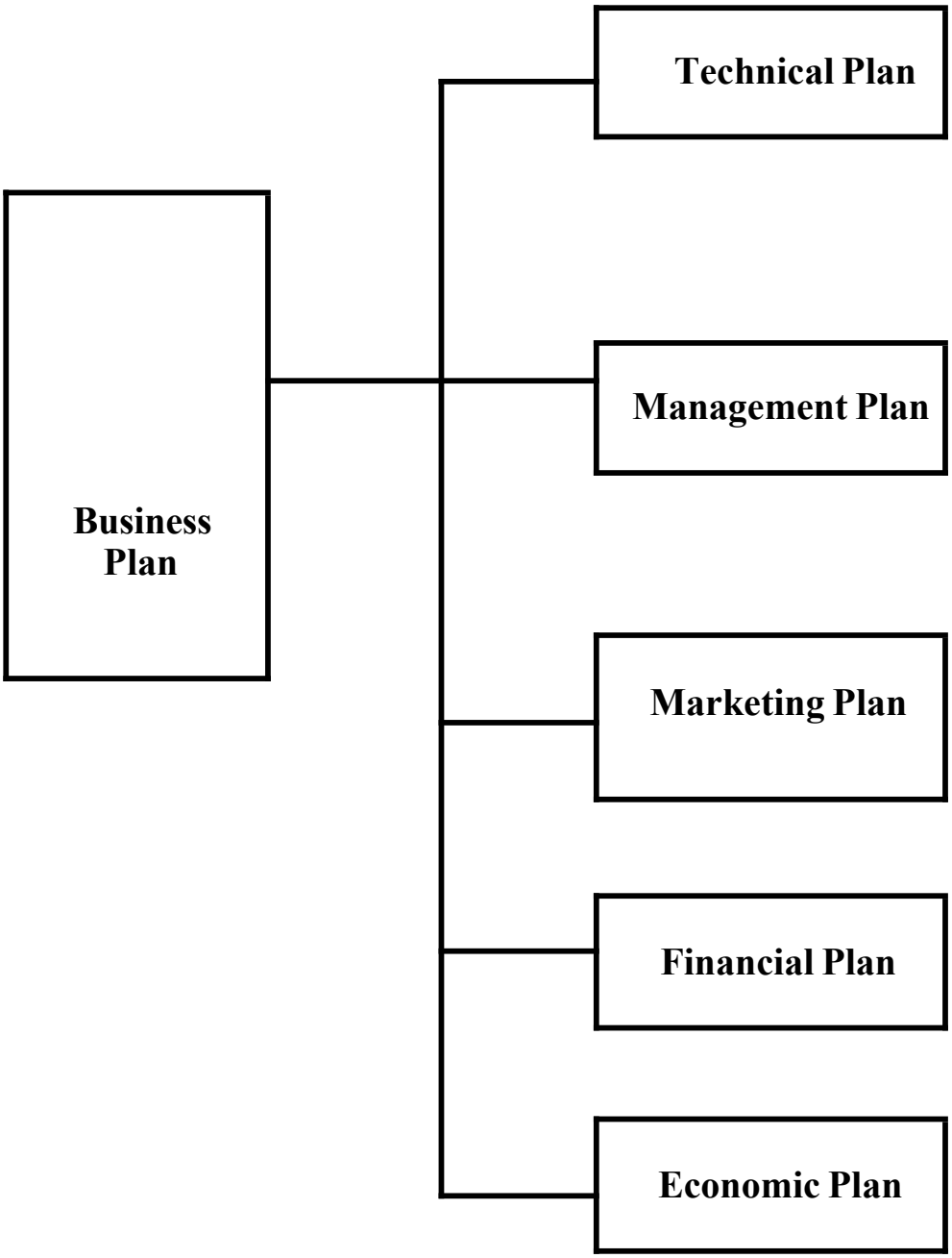


**Figure 6.1: Structure of a small business plan**

From what we have seen so far, a technical plan is a component of what is known as a business plan. The technical plan addresses the technical issues affecting a business. But before we delve into Technical plans proper, we would do ourselves some good if we first discussed factors affecting location of a business.

### 3.1.1 Factors Affecting Location of a Business

A very important aspect of business planning is the ability to site a business where it should be and also maximize returns to the owners. Choosing a location for a business is not an easy task. However, irrespective of the type of business that is to be started, certain key factors stand out as influencing the location of business. Some of the factors are described below.

**Personal Factors**

At times, personal factors alone determine where a business will be located. For example an entrepreneur might decide to locate a business in his home town just to generate employment for the local folks. Also another entrepreneur might choose a location simply because of the climate.

**Nearness to critical markets**

A majority of businesses are set up mainly for profit motives. A few are non-profit making. And so if a business is to receive patronage, it has to have customers. Therefore, businesses tend to locate close to where their markets are. From our own understanding markets tend to be concentrated in large cities like Ibadan, Lagos, Onitsha, Kano and Aba.

The large cities have critical markets based on their population and the accompanying purchasing power. A city that has a large work force invariably will have high purchasing power needed to translate needs into effective demand.

**Nature of the business concerned**

Apart from nearness to critical markets, the nature of the business goes a long way to determine where it will be located. For example, a convenience goods store should be located where customers have quick and easy access to, wholesalers locate according to different criteria. They may not locate at critical mass areas.

Rather they locate where the rent is fair and the roads available too.

Barber shops, restaurants and tobacco shops tend to locate close to each other.

**Nearness to Suppliers**

For manufacturing businesses one of the major factors affecting location is nearness to suppliers especially of critical raw materials. Raw

materials costs are critical costs in a manufacturing set up and in many cases raw materials form about 70% of the total costs of a product.

**Nearness to Power Supply**

Another major factor affecting location of businesses is nearness to Power Supply. Power is very important for every business but more important especially in a manufacturing concern. Power is required to power the various machinery and equipment. Power is also needed for offices. Even where power is available, erratic power supplies disrupt production plans and invariably lead to manufacturers not meeting market demand.

**Transportation**

Every business needs transportation services. Customers coming to every business location make use of roads where they exist. If roads do not lead to a business location, it becomes very difficult to move raw materials into a factory and also finished goods from the factory to the consumers of the goods.

**A Practical Business Idea for Class Discussion**

**Palm Oil Production Plant**

Palm oil is an important food item in the Nigerian diet. It is primarily used in cooking and is rich in Vitamin A. It is used as industrial raw material by soap and vegetable oil industries hence its industrial importance. Put together therefore, we have a product that has a wide market and presents good investment opportunities for a small scale investor.

**Technical Considerations**

The project considered in this write-up is a medium sized palm oil plant. Since the basic raw material for the project is fresh fruit bunches (FFB) from the oil palm tree, the problem of raw material sourcing is not likely to arise. The basic and necessary machinery for the project are the boiler / sterilizer, rotary stripper; digester and clarifier.

**Production Process of Palm Oil**

Quartered fruit bunches are introduced into the boiler / sterilizer and left for about 30 minutes under hot steam for boiling and sterilization to take place. The quartered bunches are then fed into the rotary stripper which strips the fruits from the quartered bunches which are still at a very high temperature of about 110oc. The loose fruits from the rotary stripper are

then fed into the horizontal digester for maceration. In the digester, the palm fruits are beaten in to a paste. Hot water which is introduced into the digester forces the thick paste and water into the oil clarifier unit. In the clarifier, the oil is separated from the water and palm oil is collected from a tap. Investors are advised to use the tenera oil palm fruit because of its high oil yielding abilities.

**Technical Data**

MACHINERY: Digester with capacity of digesting 480kg of loose fruit per hour.
CLARIFIER: Volume – 1000 litres per operation
POWER: Power Holding Company + Electric motor 20 Hp.

Plant Installed Capacity: 2700 tons of FFB handling capacity per annum.

| **FINANCIAL HIGHLIGHTS** | **N** |
|---|---|
| Pre-Investment Outlays | 100,000 |
| Rent/Accommodation | 250,000 |
| Machinery/Equipment | 800,000 |
| Utilities | 400,000 |
| Working Capital | 200,000 |
| Total Project Cost | 1,750,000 |
| Projected Year 1 Income | 5,000,000 |
| Projected Year 1 Expenses | 3,700,000 |
| Projected Year 1 Profit | 1,300,000 |

## 3.1.2 The Components of a Technical Plan

By components of a Technical plan, we mean those things that ought to be considered as parts of the technical plan. Our plan in this discussion is to itemize the various items and draw up a check list later. Let us now look at the various items starting from land and buildings.

**Land and Buildings**

In the consideration of land and buildings, we should focus our attention on the place where the business is located or to be located. Also apart from the land, we shall focus attention on the buildings to be erected on the land, we should look at their adequacy or otherwise.

All things relating to land and buildings will come under land and buildings in the Technical plan.

| | Has this been taken care of in the plan? |
|---|---|
| Rent payment | |
| Land acquisition | |
| Construction of offices | |
| Construction of factory buildings | |
| Drainage | |
| Perimeter fence | |
| Security | |

**Table 6:1 land and buildings checklist**

**Machinery and equipment**

The first component of a technical plan we identified was land and buildings. After the land and buildings, the next item to be considered is machinery and equipment. In a manufacturing set up, machinery and equipment are very critical. In this segment, it is necessary to identify the machinery and equipment that will be required for a proposed venture.

For example a sachet water manufacturing plant will have the following machinery and equipment.

- Borehole with fittings
- Water treatment plant
- U. V purifiers
- Sachet water filling machine

After the identification of the machinery and equipment, there will be the need to identify the raw materials to be used and their sources.

Following the identification of the raw materials, there is the need to describe the production process of the product in question. For example in laundry soap manufacture, caustic soda is reacted with palm kernel oil to yield soap.

| | Has this been taken care of in the |
|---|---|

| | plan? |
|---|---|
| Identification of machinery / equipment<br>List of machinery / Equipment required for the manufacturing<br>Raw material requirement<br>Raw material sources<br>Production process<br>Maintenance arrangements | |

**Table 6.2: Machinery / equipment checklist**

**The Production Plan**

We have just discussed machinery and equipment in a technical plan. Let us go a step further to discuss the production plan. In discussing production plans, we shall define capacity in relation to production. In the literature, there are three types of capacity namely:

- Installed capacity.
  This is the highest output of a machine if it works every second, minute, hour, day and month.

- Attainable capacity
  This is a realistic capacity of a machine and it takes icnotnosideration, plant break down, repairs, public holidays etc.

- Actual capacity
  There are 3 shifts of 8 hours each per day. Actual capacity depends on the market, availability of rawmaterials and other inputs.

**Utilities**

Under utilities, our intention is to discuss the availability of basic utilities that are involved in standard manufacturing or business set ups.
The key utilities involved are:

- Power
  This refers to both public and private sources of power and their reliability.

- Water supply

This refers to both public and private sources of water supply and their reliability.

**SELF ASSESSMENT EXERCISE**

In a manufacturing set up, the Plant has three capacities
List the three capacities

| | Has this been taken care of in the plan? |
|---|---|
| Public power supply | |
| Private power supply | |
| Total power requirements of the machinery / equipment | |
| Public water supply | |
| Private water supply | |
| Total water requirements of the business | |

**Table 6. 3 Utilities check list**

**Technical Support and Maintenance**

Businesses that are technical in nature require that machinery and equipment should operate at maximum efficiency. Operating at maximum efficiency means that the relevant machinery and equipment should be routinely serviced. There is also the requirement that repairs be carried out on equipment if breakdown occurs.

In most practical cases, technical support can be arranged for a small business. Technical support can be provided by an Engineering firm which can carry out repairs on machinery, generators etc.

## 4.0 CONCLUSION

The technical plan was treated in this unit. Under the technical plan we discussed matters relating to the technical aspects of a business plan. In doing this, we also developed a check list for the components of the technical plan.

## 5.0 SUMMARY

We have said that business plans are documents that set out what a business seeks to achieve.We also saw that a technical plan is a major component of a business plan. Under the technical plan, we discussed such things as land and building, machinery and equipment etc.

In the next unit, we shall discuss the management plan.

## 6.0 TUTOR MARKED ASSIGNMENTS

What aspects of a business plan does a technical plan cover?

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments.
Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation.
Impressed Publishers, Lagos.

**ANSWERS TO SELF ASSESSMENT EXERCISES**

The Three capacities of a plant are

1. Installed capacity
2. Attainable capacity
3. Actual capacity

# UNIT 3 THE MANAGEMENT PLANS

## CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 The Management Plan
3.1.1 The legal form of a business
3.1.2 The Organization Structure
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit, (Unit 6), we discussed the Technical plan. In this unit, we shall go ahead and discuss the Management plan. In doing so, we shall discuss the various components of the management plan.

## 2.0 OBJECTIVES

By the end of this unit, you will be able to:

• Understand what a management plan is
• Discuss the components of a management plan

## 3.0 MAIN CONTENT

### 3.1 The Management Plan

We have earlier said that a business plan is a document which sets out what a business is going to do and how it is going to do it.

The way a business plan is arranged is in components. In unit 6, we discussed the first component of a business plan which we called the Technical plan component. The next component which we shall discuss is the management plan.

The management plan addresses the issues concerning how a business will be run. It will address issues concerning the legal form of the business, the organization structure of the business, the management team and the staffing of the business.

Also issues regarding to regulation and business permits are usually contained in the management plan segment of a business plan.

The management plan is very important because in every business, success or failure depends on the management.

### 3.1.1 The Legal Form of a Business

There are various forms in which a business can be operated. Understanding the legal form of the business is important as it enables us to understand what a business can do legally and what it cannot do. Let us now discuss the various forms in which a business can be operated.

**The Sole Proprietorship**

In the Nigerian setting, the simplest form of business organization is the sole proprietorship. Under the sole proprietorship, a man or woman undertakes to establish a business and run the business as the sole proprietor. The sole proprietor is responsible for the strategic direction of the business. He reaps all the profits and also bears all the losses if the company fails to make a profit.

**Registered Business Names**

A lot of men and women go about their businesses in their own personal names. In their shops or business locations, they may not have sign boards indicating where they are. But the proper thing to do while engaged in small business is to register the name of the business. In line with the Registration of Business names Act of 1963, any person wishing to do business in any name other than the person's name is required to register the name as a business name. Examples of business name are:

- Leo Okoro trading as Leotraco Industries
- Peter Umoh trading as Umoh agencies.

Usually when a business is registered as a business name, a certificate of registration is issued by the registrar of business names. The certificate of registration is different from the certificate of incorporation which we shall discuss at a later stage in this unit.

**Partnerships**

Another form of small business organization is the partnership. Partnership is defined as the relation which subsists between persons

carrying on a business in common with a view of profit. Apparently two or more persons can combine to form a partnership. A partner has unlimited liability for what is done on behalf of the firm by his other partners unless the articles of partnership otherwise provide.

Another important thing to note is that no formality is required to bring a partnership into existence. Thus creation of partnership can be either orally, by conduct or in writing.

**Incorporated Companies**

In Nigeria today, many businesses are run as incorporated companies. The most important feature of an incorporated company is the principle of its corporate existence. Following this principle, an incorporated company is regarded as a separate legal entity, distinct from, though composed of, the individuals who make up the corporate body. The rule about the concept of legal entity of an incorporated company was laid down in Salomon Vs Salomon which stated that "the company is at law a different person from the subscribers.

So that although the company has no physical existence nevertheless, it is regarded in law as a separate person like any natural person. Thus a company can sue or be sued in its own name.

Let us go ahead and discuss other key features of a company.

**The Memorandum of Association**

The memorandum of Association is the company's charter and it defines the limits to the company's powers. The memorandum of Association must contain the following information.

a. The name of the company
b. The objects clause – defining the powers of the company.
c. The limited liability clause
d. Capital clause – the amount of its Authorized capital.
e. Registered office

**The Articles of Association**

The Articles of Association are the regulations governing the internal management of a company. Usually the articles of association are subordinate to and controlled by the memorandum of association. Items to be found in the articles of association are such matters as transfer of shares, meetings, voting rights etc.

In the Incorporation of a company, all the necessary documents including list of directors are lodged with the Corporate Affairs Commission. If the application is successful then a Certificate of Incorporation is issued.

At this point in time, we must point out that in the Nigerian context, there are two main types of companies – private and public companies.

**SELF ASSESSMENT EXERCISE**

List four information that you can find in a memorandum and articles of association of a company.

## 3.1.2 The Organization Structure

We have discussed the various forms of business organization. We did this so that you would be able to distinguish each form of business organization from the other. Having done that, our next task is to discuss the organization structure.

In many standard businesses, work is arranged in units, sections, departments and divisions. The organization structure shows the various units in an organization and the relationships between the units. Reporting lines in the organization are also captured in the organization structure.

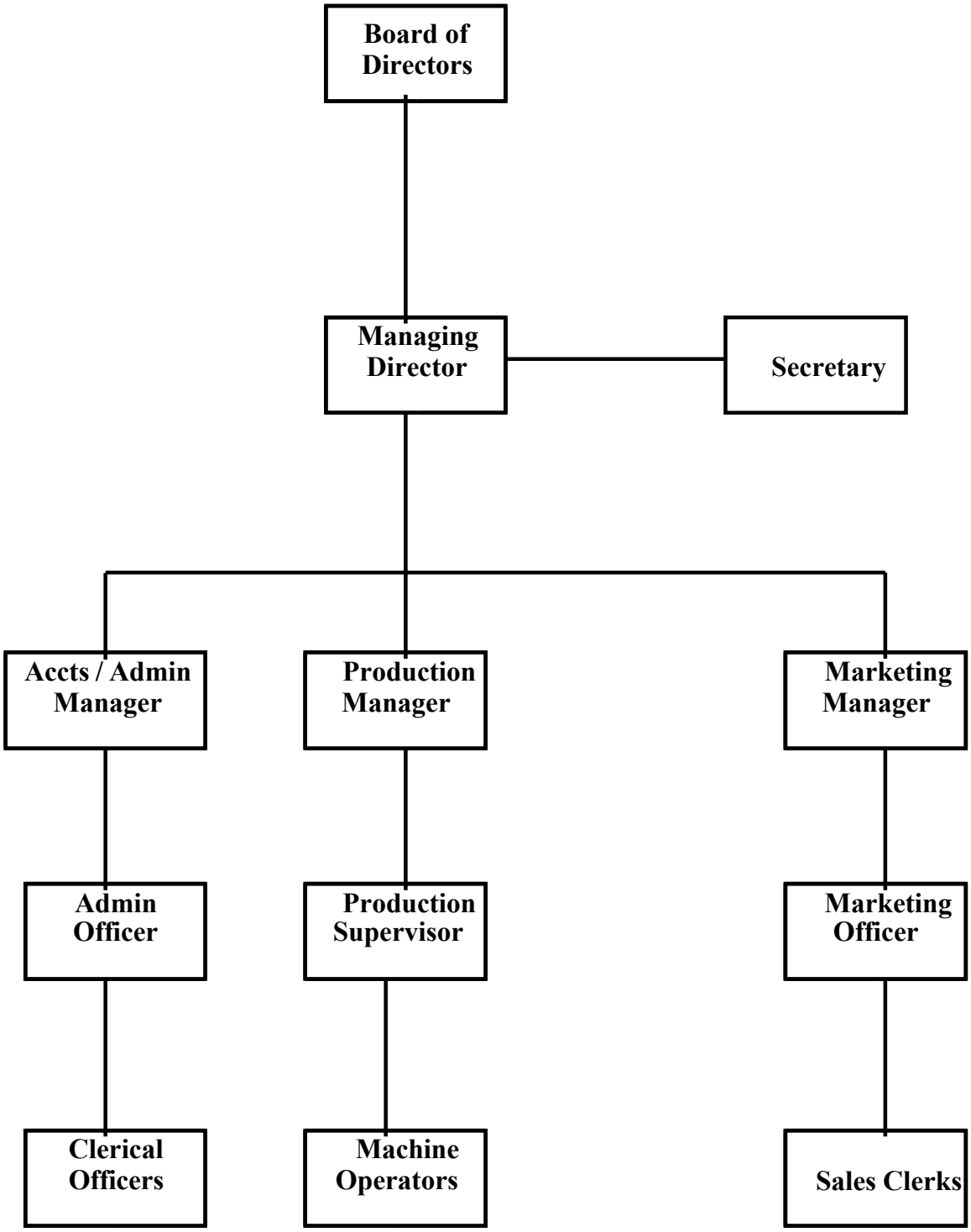


**Figure 7.1: Organisation Structure in a Manufacturing Firm**

**A Practical Business Idea for Class Discussion**

**Palm Kernel Cracking Plant**

After the manufacture of palm oil, the palm kernel is left as residue. In a lot of areas, most of these palm kernels are just abandoned and left to

waste possibly because the primary investor has collected his primary interest – the palm oil and has nothing more to do with the kernel. At the other end of the Investment vehicle, there exist organizations/people seeking to use the palm kernel for other activities. Before the palm kernel can be reached, the outer shell has to be removed through cracking. So we now identify an investment opportunity where the investor positions to crack palm kernels only and sell the kernels to other users like the palm kernel oil producers.

**Technical Considerations**

The project under consideration is a palm kernel cracking plant to be devoted solely to the cracking of palm kernels. Working on a single shift of 8 hours, the plant can crack 5 tons of palm kernels. If the plant is run on 3 shifts per day, the plant is capable of cracking 5,475 tons of palm kernels per annum. However, to accommodate time lost to maintenance of equipment, equipment failures and breakdown, we indicate that the plant can run for 300 days in a year. Actual running capacity will be based on the investor's market opportunities and demand. Although it is noted that the key equipment for this project is the cracking machine, investors should be aware that the cracker/separator is a more technically superior machine to the simple cracker which only cracks but cannot separate the kernel from the outer shell. Investors should therefore insist on the cracker / separator equipment to make production work easier and cost efficient.

**Palm Kernel Cracking Process**

The palm kernel cracker / separating machine is usually mounted on a rigid platform reinforced with metal and cement blocks because of the vibrations from the machine. The cracking process is relatively simple. Palm kernels are fed into the hopper and the power switched on. The cracked palm kernels are then discharged into the palm kernel separating chamber for separation of the kernel from the shell. The kernels are then bagged ready for the market.

| TECHNICAL DATA | |
|---|---|
| CRACKING MACHINE DETAILS | Capacity: 15 tons per day<br>Specifications:<br>Cage rotor of about 350 mm diameter and 4<br>Cracking openings, cast cracking pads and<br>Adjustable basement. |
| POWER | Power Holding Company |
| POWER DRIVES | 20 Hp electric motors with geared options |

| | Has this been taken care of in the plan? |
|---|---|
| What are the divisions in the business? | |
| What are the departments in the division? | |
| What are the units in the department? | |
| Who are the key managers? | |
| What are their qualifications? | |
| How many staff do you need? | |
| What skills do you want in them? | |
| What are the salaries that will be paid to the staff? | |

**Table 7.1: Management plan checklist**

| | Has this been taken care of in the plan? |
|---|---|
| What consultants do you need? | |
| Why are they needed? | |
| What form of legal ownership will be used? | |
| What licenses do you need? | |
| What permits do you need? | |
| Has the business registered with NAFDAC? | |
| Who is the Chief Executive of the business? | |
| What special qualifications or experiences are needed for the Chief executive post? | |

**Table 7.2: Management plan checklist (continued)**

## 4.0 CONCLUSION

The management plan was treated in this unit. Here, we discussed the forms of business organization that you are likely to encounter. We also developed a check list for the components of the management plan.

## 5.0 SUMMARY

We have said that a business plan is a document that sets out what a business seeks to achieve and how it wants to do it. The management plan is a key aspect of a business and examines the management aspects of the business. It focuses attention on the staffing of an organization to enable it meet organization needs.

In the next unit, we shall discuss the marketing plan.

## 6.0 TUTOR MARKED ASSIGNMENTS

The management of any business is very crucial if it has to succeed. When preparing a management plan for a start-up project what do you consider as the most important things that must be in the management plan?

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments.
Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation.
Impressed Publishers, Lagos.

**ANSWERS TO SELF ASSESSME NT EXERCISES**

The four information to be found in a memorandum and articles of association are:

1. The name of the company
2. The objects clause
3. The amount of the share capital
4. The registered office of the company

# UNIT 4 THE MARKETING PLAN

**CONTENTS**

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 The Marketing Plan
3.1.1 Potential Customers
3.1.2 Evaluating the size of the Market
3.1.3 Forecasting future demand
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit (unit 7) we discussed the management plan which addressed key issues concerning how the small business will be managed. In this unit, we shall discuss the marketing plan which is a crucial component of the business plan.

## 2.0 OBJECTIVES

By the end of this unit, you will be able to:

- Understand the marketing plan.
- Discuss the contents of a marketing plan.

## 3.0 MAIN CONTENT

### 3.1 The Marketing Plan

We have seen that a business plan is a key document that sets out what a business are going to do and how it is going to do it. A business plan though seen as a large picture is made up of some smaller plans or pictures. The marketing plan is one of such plans or pictures.

The marketing plan addresses all issues concerning the marketing of the small business products or services. The marketing plan addresses issues relating to the market, competition, pricing, product distribution policies, advertisement and other issues.

### 3.1.1 Potential Customers

A starting point for our discussion is to properly define who the potential customers of the business are or will be. Customer definition is not an easy task as we shall soon see.

Sometimes confusion arises as to what is a customer because people also fail to distinguish customers from consumers.

The term consumer refers to the person or one who uses a product (or service) for his personal satisfaction or benefit. In the industrial sector, the consumer is the one who changes the form of a product to alter its identity. For example a soap manufacturer will buy caustic soda and use it to manufacture soap. He is the consumer of the raw material. On the other hand, a customer may be a consumer or a dealer who buys a product and eventually resells the product.

Also even for a service, the business should clearly identify the types of consumers that they wish to serve.

For example there may be many types of hotels because of the types of customers that need to be served namely:

- hotel for students
- hotel for travellers
- hotel for high class individuals.

| | Has this been taken care of in the plan? |
|---|---|
| What type of business are you planning? | |
| What products or services will you offer to the market? | |
| Who is your potential customer? | |
| How do you define your potential customer? | |
| What are your customer characteristics? | |
| What are their income levels? | |
| Who are the consumers of your | |

| | |
|---|---|
| product or service?<br>Are the consumers different from the customers?<br>Where are your customers located? | |

**Table 8.1: Potential Customers Checklist.**

**A Practical Business Idea for Class Discussion**

**Palm Kernel Oil Extraction Plant**

Palm kernel oil (PKO) is derived from the pressing of the palm kernel with palm kernel cake as residue. Market demand for palm kernel oil is very high because of the various uses to which it is put. PKO is used to produce bar soaps, liquid detergent, edible vegetable oil, body cream and pomade. In the medical area, it is used as an anti-convulsant in domestic households, used in the manufacture of anti-hista-mines and other pharmaceutical preparations. The major clients of the prospective investor in this project will be major soap producers (Lever brothers, PZ etc), refiners of vegetable oils, pharmaceutical companies and also the feed millers who will use the palm kernel cake as additive to livestock feeds.

**Technical Consideration**

The project under consideration is a plant dedicated to the manufacture of palm kernel oil and palm kernel cake. The core equipment required include oil expeller, toaster, receiving tank and storage tank. Because the oil will be consumed by human beings, it is safer to use stainless steel for both the receiving tank and the storage tank. Working on a single shift of 8 hours per day, a total output of 3 tons of PKO and 3.6 tons of Palm kernel cake is achievable. On 3 shifts per day and for 1 year, installed capacity of the plant is 3,285 tons of palm kernel oil and 3942 tons of palm kernel cake. Attainable capacity is projected at 90% of the plant installed capacity.

**Production Process of Pko**

Clean, sorted palm kernel fruits are loaded unto the toaster for controlled heating. The heating increases the rate of oil extraction. The heated palm kernels are now fed into the oil expeller through the inlet cone. A collecting funnel drives the kernels into the crushing/extracting chamber where the kernels are pressed by a motorized screw press. Palm kernel oil is collected through a funnel into the receiving tank while the palm

kernel cake is discharged through the terminal funnel and collected as a residue.

| TECHINCAL DATA | |
|---|---|
| **OIL EXPELLER SPECIFICATIONS :** | Cage Stator with sieve filtration.<br>Gear motorized Screw pressing system<br>Cake adjuster unit oil tap and central flow.<br>Hanging hopper inlet cone. |

| FINANCIAL HIGHLIGHTS | N |
|---|---|
| Pre-Investment Outlays | 100,000 |
| Rent/Accommodation | 400,000 |
| Machinery/Equipment | 700,000 |
| Utilities | 350,000 |
| Working Capital | 300,000 |
| Total Project Cost | 1,850,000 |
| Projected Year 1 Income | 20,000,000 |
| Projected Year 1 Expenses | 17,000,000 |
| Projected Year 1 Profit | 3,000,000 |

## 3.1.2 Evaluating The Size Of The Market

Apart from identifying who the potential customer of the small business is, there is the need for us to go ahead and evaluate the size of the market for our products or services. The evaluation of the size of the market is very important because it gives us a picture of the total market size in terms of naira and kobo.

A standard marketing plan should state the market size of the product or service in question. The size of the market is usually estimated by using both qualitative and quantitative methods. To enable us approach our studies carefully, let us follow the following steps in our effort to evaluate market size:

- Define demand
- Examine factors affecting demand
- Examine demand for Intermediate and capital goods
- Build market demand

**Defining Demand**

For us to be able to properly prepare a marketing plan, we need to define and understand what we mean by demand. It will help us to prepare a good marketing plan.

For purposes of our study, we shall define demand for a product or service as the total quantity of goods or services that able customers in a defined area are willing to buy at set prices. In effect therefore, demand refers to a set of quantities that customers are willing to buy at different prices. In the traditional economics setting, the demand curve is downward sloping (with a price and quantity axis).

It will also be very important for us at this particular time to define and distinguish between two types of demand – Total market demand and Project demand Total market demand refers to the total demand within a set Geographical area like Nigeria. For example we can make satatement that the total demand for beer in Nigeria is 10 million bottles per annum. The meaning of the statement is that in Nigeria, the total quantity of beer demanded is 10 million bottles at the current ruling pries. But we also need to define another type of demand which we shall call Project demand.

Project demand is not the same thing as total market demand. It is a sub set of the total market demand. If a market for a product or service already exists, project demand is the projects share of total demand. If a market is saturated with goods, new projects may face the difficulty of selling their products or services.

By and large, it is important to focus attention on a project demand. Mistakes which tend to be fatal occur when analysts confuse market and project demand

**Factors Affecting Demand**

We have just defined demand which is very important in our study. But we need to go a step further to examine the factors affecting demand in the market place. It is going to help us build a good demand schedule and also a better marketing plan.
In the traditional economics platform, one of the most important factors affecting demand is price. If we assume a well behaved demand curve, then the higher the price of a good, the smaller the quantity that will be bought. Also the lower the price, the greater the quantity that will be purchased. This appears to be a rational behaviour especially where human beings are involved.

Another important factor affecting demand for a product or service is the income of the population. Given a basket of income available to purchasers, it is logical to believe that the higher incomes people receive, the more goods and services they are likely to purchase. So we can say with a measure of confidence that a population with a higher

income is more likely to purchase more goods and services than a population with a lower income.

Apart from income, population is another major factor affecting demand in any given setting. It is certain that a large population certainly demands more goods and services than a smaller population. A major aspect of any population which we should not forget is the ethnic and religious structure of the population.

The ethnic structure of a population affects the type of goods and services that will be demanded. For example in the Nigerian setting, palm oil tends to sell much more in the southern states than in the North because most southerners tend to use palm oil in cooking. But in the Northern States, ground nut oil seems to be more available and by implication the people use more of it for their cooking.

Also, religion is another aspect of any population that needs to be looked at while drawing up any demand schedule. Again in the Nigerian setting, Pork is not an acceptable diet for Muslims but most Christians eat pork. These are the type of critical inputs you need when you are trying to build a demand schedule which of course is a critical input in building of a marketing plan.

Prices of other goods also tend to affect demand. For example tea and sugar are said to be complementary goods since they go hand in hand.It is therefore logical to say that the price of tea at any given time will affect the demand for sugar. In the same fashion, bread and butter also appear to be complementary goods.

**Demand for Intermediate and Capital Goods**

When we largely discussed demand, our general thinking appeared to be that the goods discussed ought to be consumer goods. But that is not always true. There are some goods which are generally known as Intermediate and also capital goods. It is important that we understand these two types of goods.

We shall go ahead to discuss intermediate goods as goods which are not purchased for immediate consumption but rather are used in the production of consumer goods. For example flour is an intermediate good mostly used in the manufacture of bread. Tyres also appear to be intermediate goods if purchased by a car manufacturer. But tyre is also a consumer good if purchased by Mr. Solomon for use in his car.

On the other hand, capital goods are those goods that are used for the manufacture of both intermediate and consumer goods. A

manufacturing plant is a capital good. One thing we need to know about capital goods is that they last for very long periods because of their nature.

**Building Market Demand**

We have defined what demand for a product or service is generally. Also we understand what a population is.

Let X = no of persons in a population

Y = average number of a given product consumed by each person in that Population per annum

Then XY = Total market demand per annum for the product in question

**SELF-ASSESSMENT EXERCISE 1**

There are 400,000 persons in a city called Madas. Each person in the city drinks a bottle of water daily. What is the annual demand for water in Madas?

## 3.1.3 Forecasting Future Demand

As at the time of preparation of a business plan, some of us will assume that building the demand schedule for a product is all that is required. But that is not true because the analyst should be able to forecast future demand for the product in question or the service. Forecasting future demand appears to be a very difficult task because there is a lot of uncertainty attached to forecasting of a future event. Ordinarily, demand for many goods may be either stable, erratic or ought to be predictable. Social change, structural adjustments, change of taste and technology all add up to make forecasting a difficult task especially of demand.

Usually, there are two basic approaches that are available when we are trying to forecast demand namely:

- Qualitative techniques
- Quantitative techniques

**Qualitative Techniques**

Qualitative techniques are mainly desk methods which are based on reports obtained from various sources. One of the sources could be

expert opinion obtained from a pool of experts in an industry. The experts usually are seen to be knowledgeable about a product or industry and therefore are in a position to forecast what the future demand for a product is likely to be.

Another way of obtaining information for use in forecasting demand is known as the Sales Force Composite method.
Under this method, salesmen in a particular industry can provide expert data on demand. But in most cases; the data and the forecasts that they provide differs significantly from that provided by a panel of experts. The general belief is that since salesmen operate at the grass root level, they are more knowledgeable about the demand for products and the accompanying forecasts.

**Quantitative techniques**

Majority of the data generated by the qualitative techniques are often unreliable, biased and plagued by subjective state of mind of the people making the forecasts. As so, we think they are clumsy data in the hands of the entrepreneur.

Quantitative techniques in forecasting however are less subjective and are more or less based on past data.

In the main they are mathematical in nature and tend to be more accurate. One of the quantitative techniques used is the Time series approach. The time series approach generally has become very popular with analysts who are trying to forecast the demand of a good or service. The general feeling is that time is a crucial explanatory variable that explains the future.

According to this thinking, past data can explain relationships between the demand of a commodity and time. For example, we can display the relationship between demand and time in a graphical way.

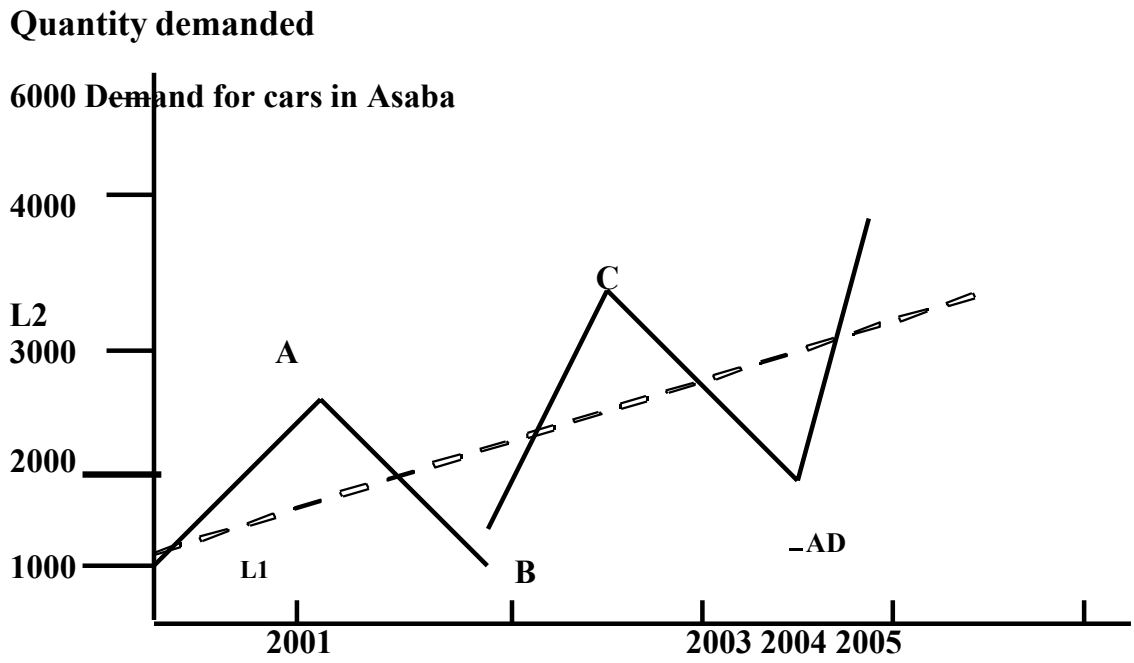


**Figure 8.1: Demand for cars in Asaba**

| | Have you covered this in the plan? |
|---|---|
| How big is the market?<br>Who are your competitors?<br>How are they faring?<br>What is the structure of the competition?<br>What are your competitors prices?<br>What are your prices?<br>What are the trends in the market?<br>What market share are you thinking of.? | |

**Table 8.2: Marketing plan check list.**

| | Have you covered this in the plan? |
|---|---|

| | |
|---|---|
| What are your competitors strengths? | |
| What are your competitors weaknesses? | |
| What is your strength? | |
| What is your weakness? | |
| What is your competitive advantage? | |
| How will you distribute your goods? | |
| How will you promote your goods? | |
| What is your customer service policy? | |

**Table 8.3: Marketing plan checklist.**

## 4.0 CONCLUSION

In this unit, we discussed the marketing plan which in itself we saw was a component of a master plan which we called a business plan. We also developed a check list for the marketing plan.

## 5.0 SUMMARY

All along, we have highlighted the fact that a business plan is a critical document that sets out what a business seeks to achieve and how it wants to do it.

The marketing plan that we have just discussed is a key component of the master business plan. It examines the marketing aspects of a plan. Just like we did, we discussed market demand, factors affecting demand etc. The marketing plan checklist was also drawn up. In the next unit, we shall discuss the financial plan.

## 6.0 TUTOR MARKED ASSIGNMENTS

Your are preparing a marketing plan for a new instant Noodle. What are the key information that must be contained in the marketing plan that you are preparing?

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation. Impressed Publishers, Lagos.

## ANSWERS TO SELF ASSESSMENT EXERCISES

One person drinks 365 bottles of water per year. 400,000 persons will drink 400,000 x 365 bottles

= 146,000,000

The annual demand for water in Madas is 146,000,000 bottles of water per annum.

# MODULE 3

Unit 1 The Financial Plan
Unit 2 The Economic Plan
Unit 3 Managing Manufacturing Operations
Unit 4 Managing Service Based Operations

# UNIT 1 THE FINANCIAL PLAN

**CONTENTS**

1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 The Financial Plan
        3.1.1 Contents of a Financial Plan
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit (Unit 8) we discussed the marketing plan which addresses key issues concerning the marketing plans of a small business and how the plan should be structured. In this unit, we shall discuss the financial plan which is a very crucial component of a business plan.

### 2.0 OBJECTIVES

By the end of this unit, you will be able to:

- Understand clearly the meaning of a financial plan.
- Discuss the key components of a financial plan.

## 3.0 MAIN CONTENT

### 3.1. The Financial Plan

As we have discussed in our earlier units, a business plan is a document that sets out what a business is going to do and how it is going to do it. As we have continued to say, the business plan is a large picture made up of smaller plans or pictures. One of those plans or pictures is called the financial plan.

The financial plan addresses all the key issues relating to the financing of the small business. In practical terms, it does appear that the financial plan is the most important of all the plans because in the first place, it clearly shows the would-be-entrepreneur the total financial picture of a project in terms of total project cost, financial inflows and outflows.

Again as you are aware, banks when called up to finance a project are usually interested in the financials of the project. The banks want to know every detail of the financial implications of the projec being submitted to them for appraisal and lending of funds. Banks want to know what the profitability of a project will be and besides, the cash flows.

The financial plan is expected to capture all this information and provide them in a manner that the other third parties can read them. By the third parties, we mean either the banks or the would-be-investors.

**SELF-ASSESSMENT EXERCISE**

Name three parties that you think make use of a financial plan fdoercision making.

## 3.1.1 Contents Of A Financial Plan

To explain the standard acceptable contents of a financial plan, we shall list out the contents and then go ahead to present a practical example of a plan. The following are contents of a financial plan.

- Estimates of Project cost including Land, Buildings and things like steel structures
- Utilities - costs
- Machinery and equipment costs
- Pre-operational expenses
- Working capital requirement
- Financing plan
- Projected income statement
- Projected cash flow statement
- Projected balance sheet

**Practical Example of a Financial Plan**

A company is engaged in the extraction of palm kernel oil (PKO) from palm kernels. The company now plans to add a vegetable oil refining plant to its operations so that it can convert the palm kernel oil (PKO) to vegetable oil through refining.

The company has approached a bank to help it finance the acquisition of the vegetable oil refining plant. Below is the financial plan of the proposed plant.

You are please requested to study the plan carefully and ensure that you understand it very well.

**Financial Plan**

The objective of the financial plan is to determine the financial outlays and inflows of the project with a view to establishing the commercial viability of the proposed venture. To be able to do this, the following should be established:

- Start up costs for the project
- Revenues of the project
- Expenditures of the project
- Profit and loss profile of the project

| **Estimates of Project Cost** | **N** |
|---|---|
| LAND FOR THE PROJECT | 4,000,000 |
| Civil works and foundations | 5,000,000 |
| **Steel Structures** | |
| Includes H Beams, U Channels, Angles, checker plates, Railing pipes, Roofing materials | 13,000,000 |
| **Total Land, Building and Steel Structures** | **22,000,000** |

**Storage Tanks**

| | |
|---|---|
| 2 Units crude oil tank - 200 tons - | 3,000,000 |
| 1 Unit refined oil tank – 300 tons - | 2,000,000 |
| 1 Unit fatty acid tank – 50 tons - | 850,000 |
| 1 Unit water storage tank - 20 tons - | 750,000 |
| 1 Unit Furnace oil tank – 20 tons - | 750,000 |
| 1 Unit diesel storage tank - 20 tons - | 750,000 |
| **Sub Total** = | **8,100,000** |

**Utilities**

1 Unit 500 KVA Transformer - 3,500,000
1 Unit 500 KVA generator - 10,000,000
1 Unit water bore hole - 500,000

**Sub Total = 14,000,000**

**Proposed Financing Plan (=N=)**

| | PROJECT SPONSOR | BANK | TOTAL |
|---|---|---|---|
| Land, building and steel structures | 9,000,000 | 13,000,000 | 22,000,000 |
| Machinery and Equipment | 20,800,000 | 77,940,000 | 98,740,000 |
| Storage tanks | - | 8,100,000 | 8,100,000 |
| Utilities | 14,000,000 | - 14,000,000 | |
| Pre-operational expenses | 1,450,000 - | 1,450,000 | |
| Sub – Total | 45,250,000 | 99,040,000 | 144,290,000 |
| Working Capital | 30,617,994 - | 30,617,994 | |
| **Total** | **75,867,994** | **99,040,000** | **174,907,994** |

**Contribution Ratio**

Project = 43.3%
Bank = 56.7%
Total = 100%

**Schedule of Financial Assistance Required**

Financial assistance is required from the bank to be applied as follows:

| | N |
|---|---|
| 1. Construction of steel structures to ho=use the vegetable oil plant | 13,000.000 |
| 2. Contribution towards purchase of the= vegetable oil refining plant | 77,940,000 |
| 3. Contribution/purchase of storage tanks = | 8,100,000 |
| **Total =** | **99,040,000** |

**Projected Loan Disbursement: 1/11/2006**

**MORATORIUM: 6 Months from disbursement to enable plant to be** delivered on site plus commissioning.

Projected 1st Repayment due date: 30/4/2007

Quarterly Loan Repayment: N8,674,693
Interest rate: 10% per annum with quarterly rest.
Expected date of last installment: 31/12/2009

**Financial Projections**

The financial forecasts and projections have been arrived at on the following bases and assumptions:

**Bases**

1. The forecast includes results as shown by the financial statements for the year ended 31st December 2005.
2. The audited financial statements for the six months ended 31st December 2005 and the projections for the year ended 31st December 2007 have been prepared on a basis consistent with the accounting policies normally adopted by the company.

**Assumptions**

1. PROJECT YEAR: Year 1 of the project is the year 2007
2. The loan of N99, 040,000 will be disbursed at about the first week of November 2006. The impact of the Loan therefore on revenues will begin to show in year 2007, which is regarded as the 1st year of the consolidated project.
3. The vegetable oil plant will commence operations latest on 1st April 2007 and working on 2 shifts /day. If the production plan for the year 2007 appears threatened, the plant will operate at full capacity to cover anticipated production gaps in year 2007. From year 2008 and beyond, the plant will run according to the production plan.
4. There will be no significant changes in Government regulations that will affect labour costs and other operating expenses besides the ones in force in year 2006.
5. There will be no drastic change in the political and economic climate of the country that will adversely affect the operations of the company.
6. Government will continue to see the need to protect local manufacturers from foreign invasions.

**Depreciation**

Depreciation of depreciable fixed assets is calculated to write off the book value on the straight line method at the following rates:

| ITEM | % |
|---|---|
| Land and Building | 2.5 |
| Motor vehicle | 15 |
| Furniture and Equipment 10 | |
| Plant and Machinery | 10 |

**Project Implementation Schedule**

Loan Application and approval: 14 weeks from June 2006
Loan approval and disbursement: Latest date 1/11/2006
Plant and Machinery arrive Nigeria: Latest End of February 2006
Installation and test run of plant: March 2007 (4 weeks)
Plant commences operation: Latest 1st April, 2007

**Revenue Projections**

From the proposed production plan, the following is the revenue profile for the project in year 1 (Year 2007)

**PROJECTED YEAR 1 REVENUES**

| PRODUCT QUANTITY SOLD (TONS) | PRICE PER TON N | TOTAL REVENUE N |
|---|---|---|
| Refined Vegetable Oil 12,498 145,000 | 1,812,210,000 | |
| Palm Kernel Cake (PKC) 8,418 5,000 | 92,090,000 | |
| Palm Kernel Sludge (PKS) 1,31 | 4,000 | 5,260,000 |
| Fatty acid 657.84 | 100,000 | 65,784,000 |
| **Total** | | **1,975,344,000** |

Year 2 Revenues are same as year 1 Revenues,
Year 3 Revenues are projected to increase by 5% over year 2 revenue due to increase in selling prices occasioned by increase in raw material inputs prices.
Year 4 Revenues are same as year 3 revenues
Year 5 Revenues are projected to increase by 5% over years 3 & 4 due to increase in raw material input prices.

**Summary of Projected Revenues**

| | Revenue (N) |
|---|---|
| Year 1 - (2007) | 1,975,344,000 |
| Year 2 - (2008) | 1,975,344,000 |
| Year 3 - (2009) | 2,074,111,200 |
| Year 4 - (2010) | 2,074,111,200 |
| Year 5 - (2011) | 2,177,816,760 |

**Production Materials and Their Costs**

| | |
|---|---|
| Cracked palm Kernel | N45, 000 per ton |
| Bleaching earth | N88, 000 per ton |
| Citric acid | N200, per kg |
| Phosphoric acid | N300 per kg |

**Vegetable Oil Packaging Costs**

The refined vegetable oil will be sold in two ways:

1. Direct to vegetable oil distributors who will purchase the vegetable oil in tanker loads. In this case, the vegetable oil tankers will come and load vegetable oil at the factory.
2. The refined vegetable oil will be filled into plastic jerry cans of 9 litres and 18 litres capacity and also sold to the market. The purpose of this is to ensure that the brand of vegetable will be in affordable units and prices to the market.

**PROJECTED TRADING, PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER**

| | 2007 | 2008 |
|---|---|---|
| Sales | 1,975,344,000 | 1,975,344,000 |
| Opening Stock | 30,000,000 | 40,000,000 |
| + Cost of Manufactured goods | 1,576,320,178 | 1,588,266,114 |
| Less Stock at Close | 40,000,000 | 50,000,000 |
| = Cost of Sales | 1,566,320,178 | 1,578,266,114 |
| Gross Profit | 409,023,822 | 397,077,886 |
| **DEDUCT** | | |
| Selling and distribution expenses | 10,265,716 | 10,336,014 |
| Administrative expenses | 32,263,476 | 28,557,671 |
| Total Expenses | 42,529,192 | 38,893,685 |
| Profit before tax | 366,494,630 | 358,184,201 |
| Tax provision | 117,278,281 | 114,618,944 |
| Profit after tax | 249,216,349 | 243,565,257 |

**PROJECTED CASH FLOW STATEMENT (N)**

| | 2007 | 2008 |
|---|---|---|
| **SOURCES OF CASH** | | |
| Earnings before interest & taxes | 382,494,630 | 370,184,201 |
| Depreciation | 19,137,615 | 19,137,615 |
| Total sources of cash | 401,632,245 | 389,321,816 |

| | | |
|---|---|---|
| **USES OF CASH** | | |
| Loan Repayments | 26,024,079 | 34,698,772 |
| Interest and Bank Charges | 16,000,000 | 12,000,000 |
| Taxation | 117,278,281 | 114,618,944 |
| Total uses of cash | 159,302,360 | 161,317,716 |
| Cash Surplus / (Deficit) | 242,329,885 | 228,004,100 |
| Opening Cash Balance | 10,000,000 | 252,329,885 |
| Closing Cash Balance | 252,329,885 | 480,333,985 |

**PROJECTED BALANCE SHEET (N)**

| | **31/12/2007** | **31/12/2008** |
|---|---|---|
| **ASSETS EMPLOYED** | | |
| Net Fixed Assets | 198,538,111 | 179,689,096 |
| **INTANGIBLE ASSETS** | | |
| Preliminary expenses | 55,000 | 55,000 |
| | | |
| **CURRENT ASSETS** | | |
| Stock-in-trade | 180,000,000 | 290,000,000 |
| Raw Materials | 140,000,000 | 300,000,000 |
| Debtors & Prepayments | 60,012,378 | 70,000,000 |
| Cash and Bank Balances | 12,000,000 | 7,767,313 |
| **TOTAL** | **392,012,378** | **667,767,313** |
| **CURRENT LIABILITIES** | | |
| Creditors and Accruals | 53,000,000 | 70,000,000 |
| Bank Overdraft | 15,000,000 | 14,000,000 |
| Tax Provisions | 117,278,281 | 114,618,944 |
| **TOTAL** | **185,278,281** | **198,618,944** |
| Net Current Assets / (Liabilities) | 206,734,097 | 469,148,369 |
| **FINANCED BY** | | |
| Share Capital | 1,000,000 | 1,000,000 |
| **RESERVES** | | |
| Profit and Loss Account | 341,031,222 | 584,596,479 |
| Directors Current Account | 63,295,986 | 63,295,986 |
| | | |
| **Shareholders Fund** | **405,327,208** | **648,892,465** |

## 4.0 CONCLUSION

In this unit, we have discussed the financial plan and we went ahead to use a practical example to demonstrate what the financial plan should look like in real life. For our real life example, we used a vegetable oil refining plant. We did also advise that you study the worked example carefully so that you can understand a financial plan properly.

## 5.0 SUMMARY

We have fully seen that the financial plan is a very important document both for the entrepreneur and the bank that is expected to finance a would-be-project. It brings out all the fine details of a project as far as finance is concerned.

In the next unit, we shall discuss the economic plan.

## 6.0 TUTOR MARKED ASSIGNMENTS

Discuss the key users of a financial plan and why they are interested in the financial plan.

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation. Impressed Publishers, Lagos.

### ANSWERS TO SELF ASSESSMENT EXERCISES

The three parties that make use of a financial plan are:

1. The would-be-entrepreneur
2. The financier e.g. a bank
3. An investor who is being asked to invest in the project.

# UNIT 2 THE ECONOMIC PLAN

## CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 The Economic Plan
3.1.1 Economic and Financial Analysis (a Comparison)
3.1.2 Contents of an Economic Plan
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit (Unit 9), we discussed the financial plan which we say addresses key issues concerning the finance of a would-be-business. We even used an example of a vegetable oil mill to demonstrate a practical example of a financial plan. In this unit, we shall discuss the Economic plan which is again a very crucial component of the business plan.

## 2.0 OBJECTIVES

By the end of this unit, you will be able to:

- Understand the meaning of the economic plan.
- Discuss the key components of the economic plan.

## 3.0 MAIN CONTENT

### 3.1 The Economic Plan

All along we have tried to dissect a business plan and by so doing, we broke the business plan into a number of smaller plans like the marketing plan, the financial plan etc.

When we discussed the financial plan, we set out to examine and evaluate certain things like cash in flows and outflows. At the end of the day, the financial plan discloses whether a would be small business will be profitable or not.

However, when we are discussing revenues and costs in naira terms, we are simply considering the thinking of an investor or bank. Most of the

items in the financial plan are micro elements as far as an economy is concerned. What we are saying is that the financial plan is a micro view of a project from an investors narrow view point.

The Economic plan unlike the financial plan considers projects from a macro economic view point as opposed to a micro view point. The economic plan looks at the business from the total view in terms of planned impact on the macroeconomic environment.

### 3.1.1 Economic and Financial Analysis (A Comparison)

The financial plan tries to see a would-be-project from an investor's view point. That is essentially a micro view. In the alternative, the economic plan tries to see a would-be-project from a national view point or best still, a macro economic view point.

Both financial and economic plans are talking of resources and how the resources will be allocated. Both of them seem to be concerned with resource allocation problems. In the end both the financial plan and the economic plan seek to provide answers as to whether an investment project will be undertaken or not. However, there are differences between the financial and Economic plan.

We will stress from the onset the fact that they differ in their underlying objectives. The financial plan arranges resources without any consideration of the society in which the would-be-business will be located.

On the other hand, the Economic plan tries to arrange or display resources with full consideration of the impact of a project on the entire society.

Another important point to note is that both the Economic plan and the financial plan try to evaluate a project in terms of benefits and costs. But the definition of costs and benefits differ between the financial and economic plan.

In the financial plan, costs and benefits are usually reduced to Naira and Kobo terms. But in the economic plan, costs and benefits go beyond naira and kobo terms. For example in the economic plan, costs are usually expressed in terms of opportunity costs or foregone costs to the society as a whole.

## A Practical Business Idea for Class Discussion

## Commercial Production of Laundry bar Soap

Laundry soap is used mainly for washing. It is found in every home, office and factory because of its importance. Although powdered soap and liquid soap are soaps found on the market shelf, laundry soap is preferred because it is not hard on textiles.

In the Nigerian market, manufacture of laundry bar soap used to be dominated by such big names as Lever brothers, PZ etc. However, in the wake of the structural adjustment programmes, a lot of small scale entrepreneurs have sprung up and are currently giving the big names a big fight. The advantage of the small scale producer is in the area of overheads and operational flexibility. The key to success in the soap business is quality and lower prices.

## Technical Information

The production of soap is a simple chemical reaction referred to as Saponification.

The simplest way to explain Saponification is to write the Chemical equation: oil (fatty acid) + caustic soda = soap + glycerol. Incidentally this equation is learnt at secondary school level chemistry and does not need extra clarification. The basic materials required for production of soap are palm kernel oil or palm oil, caustic soda, liquid sodium silicate, dyes and perfumes (where required). The basic equipment are the preparation tank, mixing tank, solidification boxes, soap slicer and soap stamper.

## Production Process

There are three different methods employed in the production of laundry bar soap namely: the full boiled process, the semi-boiled process and the cold process. The cold process is the one discussed in this write-up. Caustic soda is dissolved in water in the preparation tank and left overnight. It is important that it stays for at least 24 hours to enable the chemical reaction to be completed. The specific gravity should come up to 13000 kg/m3.

A measured quantity of palm kernel oil is put into the mixing tank. A measured quantity of caustic soda solution is added into the mixing tank and stirred properly for at least 10 minutes.

Then sodium silicate, soda ash in solution, dye are added in measured quantities. Stirring continues for another 10 to 15 minutes with perfume

added if desirable. Pour the soap into the solidification boxes which have nylon underlay. Leave the soap to harden. After about 15 hours, you have a hard soap. With the use of the slicing machine the soap is cut into shapes while the soap stamper affixes the name of the soap on it. The bar soap is packaged and ready for the market.

| **FINANCIAL HIGHLIGHTS** | **N** |
|---|---|
| Pre-Investment Outlays | 30,000 |
| Rent / Accommodation | 100,000 |
| Machinery / Equipment | 100,000 |
| Utilities | 30,000 |
| Working Capital | 100,000 |
| Total Project Cost | 360,000 |
| Projected Year 1 Income | 2,800,000 |
| Projected Year 1 Expenses | 1,400,000 |
| Projected Year 1 Profit | 1,400,000 |

| | **Have you covered this in the plan?** |
|---|---|
| Will the project generate employment in the economy? If yes to what extent? No of skilled hands that will be employed | |
| Will the project lead to economic growth? | |
| Will the nation save foreign exchange if the project is undertaken? If yes what amount of foreign exchange? | |
| What are the forward and backward linkage effects of the project? | |
| Will the project lead to technological education? | |
| What are the social costs of the project to the economy? | |

**Table 10.1: Economic plan checklist.**

## 3.1.2 Contents of an Economic Plan

So far, we have tried to understand what an economic plan is and how to distinguish it from the financial plan. We will now go ahead and discuss

some of the key contents of an economic plan. By contents, we mean those items we hope to see inside the economic plan.

**Transfer Payments**

Generally transfer payments represent the transfer of resources from one section of society to another. Remember that economic plans take two views of a society into consideration.

An important transfer payment is interest. Basically interest is a reward for capital. For example, if a project is funded through bank borrowing, the estimates of interest charges are usually included in the financial plan. And so if you look properly you will see interest charges in the projected income statement. What resources (interest) that the project has paid has been collected by another member of society (the bank). In this case, there is really no net increase of resources to the society as a whole. The interest is only a transfer of resources from a borrower to a lender.

So as the logic goes, in the economic plan, interest charges are excluded since they only represent transfer payments.

**Taxes**

Taxes are another set of transfer payments which we are going to look at. Taxes are paid out of profits and if a project is profitable, it will pay tax to the central authorities. That explains why in the computing of the net income of a project, taxation is usually deducted.

Taxes are therefore deductions before arriving at net profits of a business. However, in the economic plan, taxes represent transfer payments from a business to the Central Government. And so again as the logic goes, in the economic plan, taxes are excluded because they are only transfer of resources from one section of the society to another.

**Subsidies**

In evaluating a private sector undertaking, it will be difficult to hear of the word subsidies. This is because the private sector is largely profit driven. So in the financial plan of a private sector project, it will be unheard of to see the item called subsidies.

But this will be a different story if we are building the economic plan of a project. Most public sector projects are heavily subsidized to enable the poor gain access to certain goods and services which ordinarily they cannot gain access to.

Logically subsidies represent opportunity costs to the society as a whole. So in the economic plan, any subsidy so enjoyed should be added as part of the costs of a project.

**Linkage Effects of a Project**

Generally, linkage effects are those effects that arise from a projects initiation. For example when a polytechnic is located within a new environment, many things follow immediately.

New constructions start immediately. New shops spring up. Bookshops begins to spring up. Some industries begin to start-up in the environment to produce water, soap and other products which the students of the polytechnic will need.

Generally, there are two types of linkage effects broadly defined as forward and backward linkage effects.

Forward linkage is the stimulus given to manufacturing industries that use the products of a project. For example if a flour manufacturing plant is located in a town, it will lead to the establishment of bakeries that will use the flour. This is a forward linkage effect.

Similarly, flour manufacturing requires wheat as a raw material input. We can see that the establishment of a wheat flour manufacturing plant will invariably lead to increased cultivation of wheat. This is the backward linkage effect.

**SELF ASSESSMENT EXERCISE**

Name two transfer payments

**A Global Example of Economic Analysis**

In 1986, the World Bank was considering the desirability or otherwise of assisting Nigeria set up a rice farm covering thousands of hectares in a rice producing area of Nigeria. Under the scheme, farmers will be allocated large hectares of land for cultivation of rice subsidized to encourage the farmers. Such things like fertilizers will be heavily subsidized while technical advice will be provided by World Bank experts and Nigerian agricultural experts. The forecast life span of the project is five years after which it is expected that diminishing returns will set in.

A financial analyst forecasts that the following is the incremental cash balances that will accrue to the farmers.

| Year | Amount |
|---|---|
| 1 | - N300, 000 |
| 2 | + N600, 000 |
| 3 | . + N700, 000 |
| 4 | + N800, 000 |
| 5 | + N900, 000 |

The subsidies to the farmers in the 5 years is expected to be as follows:

| Year | Amount |
|---|---|
| 1 | N50,000 |
| 2 | 50,000 |
| 3 | 30,000 |
| 4 | 50,000 |
| 5 | 60,000 |

Also although technical advice is to be provided by World Bank experts and their Nigerian counterparts, below is the value of the technical when reduced to monetary naira values.

| Year | Amount |
|---|---|
| 1 | N40,000 |
| 2 | 40,000 |
| 3 | 60,000 |
| 4 | 30,000 |
| 5 | 20,000 |

Because the farmers are expected to pay tax as other citizens do, the financial analyst in arriving at the incremental cash balances due to the farmers already had deducted the tax due from them. The estimates of taxation are reproduced below.

| Year | Amount |
|---|---|
| 1 | - N10,000 |
| 2 | N60,000 |
| 3 | N70,000 |
| 4 | N80,000 |
| 5 | N90,000 |

The cost of the rice project initially is N1, 000,000 to enable the project take off. Although the lending rate for agriculture projects is 9%, it is considered that the real opportunity cost of capital is 13%. Should the project be acceptable?

**SOLUTION**

Although a variety of methods exist to appraise the project, the most favoured method is the net present worth method. As earlier explained.

NET PRESENT WORTH = Present Worth of Benefits **Less** Present Worth of Costs

a. Subsidies represent outflows of cash to the economy as a whole and so constitute costs of the project. They now appear as negative entries to denote cash outflow.

b. Taxation is added back because it represents a transfer payment from the farmers to the government. It is to be recognized that the taxes arise because of the rice project. The negative tax entry in year one is the tax foregone as a result of the rice project.

c. Technical advice also constitutes a use of resources and has to be clearly recognised as an outflow of resources.

## 4.0 CONCLUSION

In this unit, we have discussed the Economic plan. We also discussed the differences between the financial plan and the economic plan. So that while the financial plan focuses attention on purely private sector initiatives like profits etc, the economic plan focuses attention on how projects affect the macro environment. We also discussed transfer payments. All these helped us to understand the economic plan.

## 5.0 SUMMARY

We have just discussed the economic plan and seen how important it is in understanding the general business plan. Economic plans try to adjust financial plans which are mainly private sector plans. Economic plans reflect a macro approach to planning.

In the next unit, we shall discuss managing manufacturing operations.

## 6.0 TUTOR MARKED ASSIGNMENTS

The financial plan differs significantly from the Economic plan. What are the differences between them?

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation. Impressed Publishers, Lagos.

**ANSWERS TO SELF ASSESSMENT EXERCISES**

Two transfer payments are:

1. Interest charges
2. Taxes.

# UNIT 3 MANAGING MANUFACTURING OPERATIONS

**CONTENTS**

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Managing manufacturing Operations
3.1.1 The Nature of Manufacturing
3.1.2 Manufacturing Facilities
3.1.3 Raw Materials Considerations
3.1.4 Production Processes
3.1.5 Management Functions in Manufacturing
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit (Unit 10) we discussed the Economic plan which we said is a part of the total document called the business plan. In this unit, we shall discuss managing manufacturing operations. Small businesses come in various sizes and forms. Some are service organizations. But a lot of them are small manufacturing businesses producing such items like sachet water, bread, soap, detergents, cosmetics etc.

We shall now focus attention on how the manufacturing operations should be managed.

## 2.0 OBJECTIVES

By the end of this unit, you should be able to:

- Understand the nature of manufacturing
- Discuss management of manufacturing operations.

## 3.0 MAIN CONTENT

### 3.1 Managing Manufacturing Operations

As we have said, there are various forms of small business organizations in the economy. Some are service organizations while some are trading organizations. However a good number of them are manufacturing organizations that manufacture a wide range of goods in the economy.

Managing manufacturing operations presents us with a basic framework that should be of use to the small business initiator in managing manufacturing operations is a very challenging task especially where the entrepreneur has had no formal training in manufacturing.

In a lot of companies, a greater number of the labour force and assets of the company are tied to the manufacturing function.

### 3.1.1 The Nature of Manufacturing

Manufacturing is basically a conversion process. It involves converting raw materials into products which either serve as intermediate goods or they become consumer goods. In converting the raw materials into goods, plant and machinery are used. We will now critically follow some basic steps which will take us through the nature of manufacturing and the basic important things.

### 3.1.2 Manufacturing Facilities

We should understand that manufacturing does not take place in a vaccum. It takes place in a setting called a factory or a plant. In setting up a manufacturing facility, the entrepreneur should be able to understand the standard requirements for efficient manufacturing operations. It is those things that we now want to look at.

**Land**

Our interest in land is because it is land that houses any factory or plant. The first thing about land is that the entrepreneur must ensure that the land acquired for the envisaged project will provide sufficient space to accommodate machinery and equipment, space for movement of vehicles in and out of the facility. Space should be provided for the buildings that will house the offices. In finer detail, we should make allowance for parking space within the manufacturing facility for loading and off loading of goods and materials.

Better still, the entrepreneur should also make allowance for a security post that will restrict and control access to the manufacturing facility. It will not also be out of place to recommend that the manufacturing facility should have a perimeter fence.

**Factory layout**

Another important aspect of manufacturing which should be properly addressed is the factory layout. The factory layout pays attention to how the machinery and equipment will be arranged to ensure smooth

manufacturing operations. The factory layout should also take into consideration the production processes and also Government regulation.
For example in sachet water and bottled water production, NAFDAC regulations are that the factory shall consist of the following which must be clearly demarcated.

a. Administrative office
b. Cloak room
c. Packaging materials Store
d. Production hall
e. Finished goods store
f. Production manager's office
g. Water treatment room

**Machinery and Equipment**

We have just discussed factory layout. We shall now discuss machinery and equipment in manufacturing operations. Machinery and equipment as the name suggests are the necessary machines, equipment, tools etc that are used to manufacture goods. For example a sachet water manufacturing facility will require the following machinery and equipment.

- A comprehensive water treatment plant consisting of sand filters, activated carbon filter, iron filter, UV sterilizers with lamp.
- Automatic sachet water packaging machine.
- Nylon extruder for extrusion of nylon
- Water bore-hole with fittings like tanks
- Laboratory equipment, water test kits etc.

Apart from arranging the machinery / equipment, the entrepreneur should ensure that the correct equipment are sourced and installed to ensure smooth manufacturing operations.

**Utilities**

In planning an efficient manufacturing facility, the entrepreneur must properly address issues concerning utilities. The first utility we will consider is power. We require electricity to power the various machinery in a factory. In most cases, power from the public supply will be available but the supply will be erratic. Because power supply from the public source is usually erratic and unreliable, there is need for every manufacturing facility to have a stand-by generator which will be used when the public power source fails. In the choice of generators, it is important to go for a generator capable of carrying the entire machines in the manufacturing facility.

Another important utility is water. Experience has shown that most manufacturing operations require water as inputs. A Cassava processing facility will need a lot of water so also will a cosmetics manufacturing facility. So depending on the goods to be manufactured, there is the need to sink a bore-hole in the manufacturing facility.

| | Have you thought of this? |
|---|---|
| What machinery / equipment are needed? | |
| What are their specifications? | |
| Design of the machinery | |
| Construction e.g. body in carbon steel | |
| Installation materials – cables etc. | |
| Motor control centre | |
| Raw materials consumption | |
| Clean water requirements | |
| Pressure requirements | |
| Fuel oil requirements | |
| Compressed air requirement | |
| Installed power | |
| Electrical conductors | |
| Weighing arrangement for oil and chemicals | |
| Fire fighting equipment | |

**Table 11.1: Equipment / machinery and utilities check list**

**A Practical Business Idea for Class Discussion**

**Commercial Production of Liquid Soap**

Liquid soap is used for laundry and cleaning purposes. In the home, it is used in cleaning tiles, floors, walls, utensils, and toilets. In the hospitals it is used for general cleaning and sanitation purposes. In industry, like beer manufacturing, it is employed in the lubrication of industrial machines. Put together therefore, it is clear that a very big market exists for this commodity. The main clients will includes house wives,

restaurants, pepper soup houses, hotels, hospitals, corporate bodies just to mention a few.

**Technical Considerations**

The project under consideration is a liquid soap manufacturing plant that can be located anywhere in Nigeria. Working on a single shift of 8 hours per day, the plant can produce 400 litres of liquid soap. On three shifts of 8 hours each per day, a daily output of 1200 litres of liquid soap in achievable thus giving annual installed capacity as 438,000 litres of liquid soap. Attainable capacity is 90% of installed capacity i.e. 394,200 litres. However this write-up is based on 666 litres of liquid soap per day and for 300 working days in a year. The required raw materials are palm kernel oil (PKO), caustic soda, ethanol and urea, soda ash, builders and perfume. The key machinery / equipment required are the preparation tank (preferably made of stainless steel), boiler with stirrer, filling pipe, weighing scale.

**PROPOSED FORMULA**

| | |
|---|---|
| Caustic soda | 35% |
| Urea | 4% |
| Ethanol | 2% |
| TSPP or STPP | 1% |
| Soda ash | 2% |
| Perfume | as required |
| Water | to 100% |

**Production Process**

Caustic soda is dissolved in water in the preparation tank and left overnight. It is essential that it is left for at least 24 hours to enable all chemical reactions to be completed. A specific gravity of 1200kg/m3 with water is considered adequate. Put the palm kernel oil in the boiler and heat gently for some time. Then add the caustic soda solution into the boiler while stirring. Continue to boil for some minutes. When the volume in the boiler rises, it signifies the end of the reaction. To this mixture add dissolved additives – urea, STPP or TSPP and turn off the heat. The soap in now ready for bottling and sale in the market in one (1) litre bottles.

## 3.1.3 Raw Materials Considerations

The next thing we shall discuss in managing manufacturing operations is the question of manufacturing raw materials. Raw materials are the key materials that will be converted to finished goods in the manufacturing

facility. In the consideration of raw materials, we need to identify the following:

- The type of raw materials required
- The quality of the raw materials required
- The suppliers of the raw materials
- The location of the suppliers of raw materials
- Relationship between the entrepreneur and the raw material suppliers.

There is theneed to sound a noteof caution here especially about raw materials. Entrepreneurs should realize that the quality of their products depends on the quality of the raw materials used. What this implies is that manufacturers must choose raw material suppliers carefully to ensure consistency in quality of output.

### 3.1.4 Production Processes

In managing manufacturing operations, the production processes must be clearly defined and managed. The production process describes the various stages and steps that raw materials pass through before they come out as final products. We shall now use sachet water production to explain a standard manufacturing process.

**Example of a Production Process**

**Manufacture of Sachet Water**

From the incoming bore hole water supply, water is pumped into a raw water treatment tank. With the aid of a filtration pump, the water is now pumped into the treatment plant which is a composite installation of industrial sand filter and carbon filter. The resulting water is collected in the treated water tank. From the treated water tank, the water is passed onto the production room through a route consisting of filters and ultraviolet water sterilizers. The water is passed into the automatic water filling machine. The water filling machine packs and seals the water in 60 CL sachets.

**SELF ASSESSMENT EXERCISE**

List four items you might find in a factory layout.

### 3.1.5 Management Functions in Manufacturing

In our discussion of managing manufacturing operations, we talked of things. We discussed manufacturing facilities like land, factory layout and machinery. We also talked of raw materials and production processes. We will now discuss how all these will be managed in a manufacturing set up. In managing manufacturing operations, the functions of the manager are:

- Planning which consists of objectives setting, formulation of policies and budgets. Planning also covers raw materials planning and output plans.
- Organizing which involves setting up an appropriate organization structure, job definitions, departmentalization.
- Staffing which involves recruiting and deploying staff to operations and placing superiors over subordinates to ensure a command structure

Now working through the various heads of the operating units, the entrepreneur is able to manage the manufacturing operations of his business.

| | Have you thought of this? |
|---|---|
| What will be the location of the business? | |
| What influenced your choice of location? | |
| Have you acquired land? | |
| What is the land space? | |
| Will it accommodate office and the machinery / equipment? | |
| What is your factory layout? | |
| Does it meet regulation needs? | |
| Utilities – electricity, water etc | |
| Machinery and equipment | |
| Product / products to be manufactured | |
| The production mix | |
| Raw materials | |
| Raw materials quality and sources | |
| Production process | |
| Planning and organizing | |
| Staff and management | |

**Table 11.2 Manufacturing management check list**

## 4.0 CONCLUSION

In this unit, we discussed managing manufacturing operations. We discussed the nature of manufacturing and also took a look at manufacturing facilities like land, utilities and factory layout. We also saw a checklist for manufacturing segment. All these helped us to understand the management of manufacturing operations.

## 5.0 SUMMARY

We have just discussed managing manufacturing operations. We saw that manufacturing operations design start from the land acquisition to equipment sourcing and deployment. It covers raw material sourcing, production process management and management control. In the next unit, we shall discuss managing service based operations.

## 6.0 TUTOR MARKED ASSIGNMENTS

What are the basic items you expect to see in a small scale bread manufacturing facility located in your immediate location.

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation. Impressed Publishers, Lagos.

### ANSWERS TO SELF ASSESSMENT EXERCISES

The four items to be found in a factory layout are:
- Production hall
- Machinery and equipment
- Weighing scale
- Finished goods store.

# UNIT 4 MANAGING SERVICE BASED OPERATIONS

## CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Managing Service Based Operations
3.1.1 Operations Management Systems
3.1.2 The role of Operation Managers
3.1.3 Process design and facility Layout
3.1.4 Managing Service through total Management (TQM).
3.1.5 Dimensions of Service Quality
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit (Unit 11), we discussed managing manufacturing based operations. In this unit, we shall discuss managing service based operations. As we shall see shortly, service based operations differ significantly from manufacturing based operations and so we expect their management to be different.

## 2.0 OBJECTIVES

By the end of this unit, you should be able to:

- Understand service based operations
- Discuss management of service based operations

## 3.0 MAIN CONTENT

### 3.1 Managing Service Based Operations

Service organizations provide various services for people. They may not really manufacture any good but they make services available. Examples of services are banking, Insurance, hair dressing, medical services, legal services etc.

Today's customers are becoming more sophisticated and more demanding. They are beginning to use their discretion and power to choose which bank to go to, or which insurance company to use. At the

back of their mind, they compare the quality of services they receive and this influences their purchasing habits.

In managing service based organizations, entrepreneurs are increasingly aware of the demand for quality service by customers and of course they must structure their operations in a way that they will be able to offer excellent services to customers. But before we proceed, let us briefly discuss operations management. It will help us design better operations management systems.

### 3.1.1 Operations Management Systems

Operations management generally is the study of concepts, procedures and technologies used by administrators, managers and employees in the operation of all organizations. The operations management system is therefore a fusion of operations management concepts, procedures, technologies and people who coordinate the system. Let us examine the operations management system by taking a look at the separate units that make up the system. The key units are Inputs, the conversion process, output and feedback.

Inputs to a production system basically consist of the resources that are used to produce the desired output. They will include such things as materials, capital equipment, labour and information.

The conversion process or creation process is the system of facilities and procedures that are used in the production of finished goods and services.

Output of a system is a reference to finished goods or services. After an output, we have what is known as feedback.

Feedback essentially is a system through which suppliers, outputs and customers are monitored for strategic planning purposes. Feedback will normally reveal the level of customer satisfaction. Feedback enables an organization take corrective action and remain in business.

**Examples of Operations Management Systems**

| SYSTEM | INPUTS | CONVERSION PROCESS | OUTPUT | MANAGERS | FEEDBACK |
|---|---|---|---|---|---|
| Oil-refinery | Crude oil, energy equipment and labour | Chemical reaction | Petrol, kerosene and other products | Refinery manager | Chemical composition |
| Hospital | Patients, Doctors Nurses, drugs and equipment. | Surgery and drug administration | Healthy individuals | Hospital Managers Matron | Patients response or complications |
| Bank | Customers staff, equipment | Processing of bank draft | Bank drafts | Branch Accountants, Operating Managers | Length of bank queues |
| Insurance company | Customers insurance company staff | Processing of claims. | Claims payment | Claims manager | Time taken to get claims paid |
| Bank | Customers bank staff equipment | Processing of loan applications | Loan approval | Credit managers | Time taken between receipt of application and loan approval or rejection |

**Table 12.1: Examples of operations management systems**

## 3.1.2 The Role of Operation Managers

Having briefly examined a model production / service system, we direct our attention to what the role of an operations manager should be in an organization. Put simply, the role of an operation manager is to identify his/her responsibility in meeting his / her organization's goals, clarify/amplify these goals with his/her surbordinates, allocate work tasks to various staff, motivate the staff and monitor their performance. **Planning, organizing, directing and control are the key words. A** good operations manager will ensure that;

- Services are produced in a manner that satisfies customers
- Staff are adequately motivated and developed
- His/her organization can adapt to changes in the operating environment.

Now let us examine some planning/decision making areas tha are crucial in service delivery.

| PLANNING AND DECISION-MAKING AREA | FUNDAMENTAL / KEY ISSUES |
|---|---|
| Product design and development | What type of product do we offer the customer, for example; Fixed deposit plus free Insurance |
| Facility Location and distribution | Where shall we locate our branches and why? |
| Process technology and automation | Will our postings be manual or computerized? |
| Process design and facilsiteyrve layout | What is the sequence for preparing a bank draft for a customer? What is the best way to customer (FIFO or LIFO). |
| Job design and human resources | How will staff interface with technology? |
| Materials requirement planning | What material do we need and what level should we have at all times? What is our cheque book re-order level? |
| Quality assurance | How long is the service queue |

**Table 12.2: Decision making areas in service delivery**

### 3.1.3 Process Design and Facility Layout

We now proceed to examine a very important aspect in the operations management system. This is process design and facility layout. It is very importantto note that the physical design of a facility affects to a great extent the productivity of the facility. The basic objectives of process design and facility layout studies are to ensure the following;

- Improved work flow
- Work control and quality measurement
- Improved staff morale by providing a good working environment
- Customer satisfaction.

The central objective of process design in operations management is to determine how the resources of an organization should be arranged and organized for optimal benefits.

Optimal benefits may mean different things to different organizations. To a bank for example, optimality could be a reference to the time a customer spends in the banking hall to get service. To be able to do a process design, we shall do a step-by-step analysis of the processes involved in delivery of a particular service. Consider for example a situation in a bank where a customer calls and requests to cash a cheque of N 100, 000, 00. We list below the processes involved from the customers' angle and from the bank angle. To aid our discussion, let us refer to the bank as "Enjoyment bank". In our example, the customer goes through six processes in the bank before leaving. In the bank also, the cheque of N100, 000.00 passes through ten stages before the customer is paid. These are the type of issues operations managers will be addressing.

Assumption; Only 1 paying cashier is available

| CUSTOMER PROCESS | BANK CASHIER PROCESS |
|---|---|
| 1. Enters the bank | 1. Collects cheque from customer. Inspects the cheque briefly. |
| 2. Joins a fairly long queue | 2. Issues customer with tally number and |
| 3. Drops cheque with cashier collects Tally number | 3. Lodges cheque in the out-going tray Behind him/her |
| 4. Leaves cashier area and goes to wait in the banking hall. | 4. Blocking clerk collects the cheque and blocks same amount on the customer's account. |
| 5. His/her tally number is called | 5. Clerk sends cheque to cash officer for signature |
| 6. Goes back to cashier and collects money | 6. Cash officer signs and refers cheque to the the accountant whose limit is N50,000,00 |
| 7. Leaves the bank | 7. Accountant signs and refers cheque to Manager |
| | 8. Manager signs and authorizes payment. |
| | 9. Accountant goes to vault to get N100,000.00 |
| | 10. Cash officer collects N100,000,00 |

| | |
|---|---|
| | and hands over to cashier<br>11. Cashier pays customer |

**Table: 12.3 Cheque encashment process at Enjoyment bank(an old generation bank)**

**SELF ASSESSMENT EXERCISE**

List four institutions whose products are described as services

**A Practical Business Idea for Class Discussion**

**Laundry and Dry Cleaning Outfit**

The advancement of the Nigerian society generally has had a great impact on the life styles of the population. Today in the home, both parents (man and wife) find themselves working for a living. As a result of this, little or no time can be squeezed out to do laundry work. With the explosion in the number of bank workers, oil companies employees, insurance workers, soldiers and a whole lot of others in the economy, demand for both laundry and dry cleaning services has become rather very encouraging for the articulate investor. It is on record that most suits worn by corporate men and women are usually dry cleaned and at higher cost to the users of dry cleaning services. On the average, it costs about N500 (averagely) to dry clean a suit along Awolowo Road, Ikoyi, Lagos. The better way of estimating dry cleaning services in Nigeria is to imagine the huge workforce in corporate Nigeria and their various laundry and dry cleaning requirements.

**Technical Considerations**

The project under consideration here is a modern compact customer driven laundry and dry cleaning outfit that seeks toprovide service to the middle segment of the market. Working on a single shift of 8 hours, the outfit can process, 1,000 pieces of laundry items and 100 units of dry cleaning items. On a day of 3 shifts of 8 hours each, a capacity of handling 3,000 pieces of laundry items and 300 units of dry cleaning items is assured.

Although the real life performance of this project will be dictated by market forces, the financials of this project write up are based on a working output of 2 shifts per day and 300 working days in a year.

The key equipment required for the project include the following: Complete set of dry cleaning equipment, high speed and rugged washing machines (industrial models) dryers, laundry vats and racks. A dedicated water bore hole and stand-by power generating plant is a must

if the project is to remain focused, dedicated and competitive in its market niche. The strategy of the business will be built around "quality" and low cost production competencies. To reach a wider segment of the target market, it is recommended that collection centres be established through reputable supermarket chains in the catchment market.

The collection centres will be paid commissions based on their daily collections.

**FINANCIAL HIGHLIGHTS (= N =)**

| | |
|---|---|
| Pre-Investment outlays | 100,000 |
| Rent /Accommodation (2 yrs) | 200,000 |
| Machinery / Equipment | 2,000,000 |
| Utilities | 500,000 |
| Working Capital | 200,000 |
| Total Project Cost | 3,000,000 |
| Projected Year 1 Income | 30,000,000 |
| Projected Year 1 Expenses | 26,000,000 |
| Projected Year 1 Profit | 4,000,000 |

### 3.1.4 Managing Service through Total Quality Management (TQM).

Whatever the nature of the service under consideration, let us restate and remind ourselves that the major objective of most organizations is to remain profitable and survive.

In the face of competition, only those organizations that retain their customers will stay afloat. Retention of customers again will assume that customers are satisfied. What is implied is that customer satisfaction is a central must for all organizations whether they are profit oriented or not. Total Quality Management (TQM) is a management concept that directs the efforts of all employees andmanagers of an organization towards customer satisfaction by continuous improvement of operations management processes. Total implies that everyone in the organization (driver, cook, clerk, supervisor, manager, director, managing director) must be involved in producing the final product or service for the customer. Quality means that the product or service to be delivered must meet the minimum acceptable standards (or exceed it through operations management) Management suggests that TQM will not evolve by accident. TQM is a carefully planned and managed **process that involves the entire staff of an organization and its system.**

In today's modern business environment, quality teaching can be traced to W. Edward Deming. In the 1940's, Deming was preaching quality to

American firms but nobody seemed to listen to him. At the end of the Second World War, he was invited to Japan to help them improve quality. Today, the Japanese products are world class.

Deming in his teachings listed 14 points which can improve total quality. These are;

1. Management commitment to total quality management
2. Learn the new philosophy – be customer driven
3. Understand the purpose of inspection – for improvement of processes and cost reduction.
4. End price tag decision – don't buy inferior products and also use few suppliers.
5. Improve constantly
6. Institute training – proper tools and knowledge.
7. Institute leadership
8. Drive out fear – punishment.
9. Optimize team efforts
10. Eliminate exhortations – motivate staff
11. Eliminate quotas and MBO (management by objective)
12. Remove barriers to pride in workmanship.
13. Institute education – self development
14. Take action

### 3.1.5 Dimensions of Service Quality

For most of the time, the attention of operations managers must be directed towards the maintenance and improvement of service quality. It is for this reason that we seek to examine the various dimensions of service quality.

**(1) Time**

How long does it take the customer to cash a cheque in the bank or buy an insurance policy.

**(2) Completeness**

You sell a bank draft to a customer but forget to write the amount of the draft in figures. This leads to the draft being dishonoured at the paying branch.

**(3) Courtesy**

Are your staff rude to customers?

**(4) Consistency**

Is your quality consistent? Or do you serve well today and badly the next day?

**(5) Accuracy**

(a) Instead of debiting your customer with N100, you debit him/her with N1000

(b) A customer pays for a comprehensive car insurance policy. But you carelessly write a third party policy for the customer.

**(6) Mistakes**

(a) Your customer travelling to London requests for a telegraphic transfer to enable her spend her holidays. She leaves the bank and travels to London. You prepare a mail transfer which will take 2 weeks for the money to get to her in London.

(b) A seven months pregnant woman is booked for hiernia surgery. The doctor now goes ahead to perform a caeserian section thinking it to be a case of foetal distress.

## 4.0 CONCLUSION

In this unit, we discussed managing service based operations. We discussed operations management systems and also the role of operations managers. We also discussed managing service through Total Quality Management (TQM) which we said is a carefully planned and managed process.

## 5.0 SUMMARY

We have just discussed managing service based operations which we said tends to focus attention on the way service based organizations should be managed. We highlighted the fact that service based organizations should imbibe quality as a way of life. Delivery of service to customers should be quality based.

In our next unit, we shall discuss monitoring performance.

## 6.0 TUTOR MARKED ASSIGNMENTS

In service delivery, what do you understand by Total Quality Management (TQM)

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation. Impressed Publishers, Lagos.

### ANSWERS TO SELF ASSESSMENT EXERCISES

The four institutions whose products are described as services are:

1. Hospitals
2. Insurance companies
3. Banks
4. Universities

# MODULE 4

Unit 1 Monitoring Performance
Unit 2 Accounting records for Small Business
Unit 3 Sourcing Capital for Small Business

# UNIT 1 MONITORING PERFORMANCE

## CONTENTS

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    3.1 Monitoring Performance
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        3.1.5 Budgetary Control Measures
4.0 Conclusion
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6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit (Unit 4 of Module 3), we discussed managing service based operations. In discussing the topic, we looked at operations management systems. We also discussed the role of operations managers in organizations as they are responsible for service delivery in most enterprises. We also discussed the concept of total quality management (TQM) which as we said remains an approach to quality service delivery.

In this unit, we shall discuss monitoring performance.

## 2.0 OBJECTIVES

By the end of this unit, you will be able to:

- Describe the monitoring process in small business
- State some of the principles of controlling for small businesses.

## 3.0 MAIN CONTENT

## 3.1 Monitoring Performance

In the previous units of our study, we discussed various aspects of small business management starting from opportunities analysis to the management of service based operations. Small business owners are engaged in planning, organizing, staffing and directing the operations of their various businesses. The function we are now discussing is how the entrepreneurs can monitor and control operations.

Obviously before the entrepreneur commences operations, standards are usually set for various units, products or even staff. So whether the entrepreneur is monitoring the sales of a product or even reviewing the performance of staff in his organization, the approach is similar essentially

And so like we said earlier, the standards must have been set well in advance. We can see this setting of standards as setting of objectives. As the business is operating, a critical aspect of the owner-manager's job is to measure actual performance and compare the performance with earlier established standards and see if there are deviations. If there are deviations, the corrections can be made.

An important aspect of the monitoring process involves trying to determine the causes of deviations from set standards. Standards could be set for sales volumes or even for expenditures. So for example, if actual sales fall below expected sales volume, then the entrepreneur should investigate why this has happened and immediately initiate corrective action aimed at bring sales to the desired level.

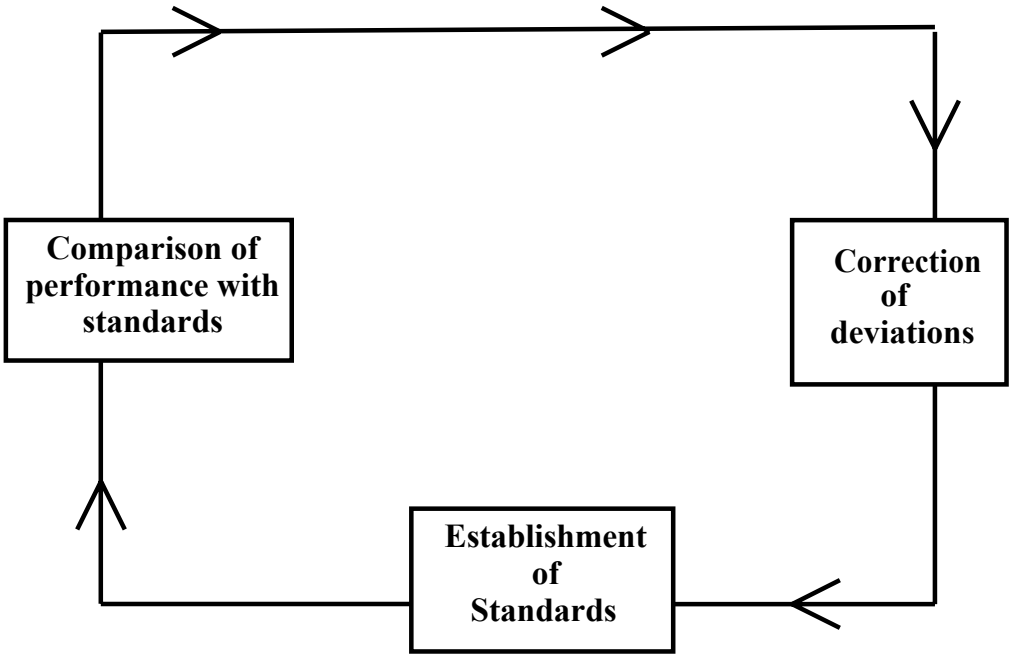


Figure 13.1 The Control Process

### 3.1.1 Controlling

We have discussed the fact that a business owner sets his / her objectives against which actual performance is measured. We shall now discuss the issue of control in small business management. A good management control system should be one that provides timely feedback. The system should be able to provide information that assists the entrepreneurs in timely decision making. For example, if accounts receivable are not turning into cash, the system should trigger an early warning sign that will prompt the decision maker to get the signal and initiate timely action.

Again the type of information that the control system makes available to the small business manager should be easily understood. It should not be information that cannot be easily decoded and understood.

Finally, when something goes wrong in the business, the control system should help the owner manager identify the source of the problem and assist him devise ways of solving the problem in the business. One of the common control techniques used is budgeting and the topic is what we shall discuss next.

**A Practical Business Idea for Class Discussion**

**Hair Shampoo Production**

Among the various hair care products in use today, hair shampoo stands out as the dominant one. Hair shampoo provides the basic starting point for hair care and treatment. The use of hair shampoo has no gender restriction as it is used by males and females. Age restriction appears non-existent as it is used by children, teenagers, adults and aged people. A visit to hair dressing salons scattered all over Nigeria will confirm the level of demand for hair shampoo especially by the female population.

**Technical Considerations**

The project under consideration here is a small scale business outfit dedicated to the production of hair shampoo for the Nigerian market and if possible for export to the ECOWAS market.

Working on a single shift of 8 hours the plant can produce 1000 litres of hair shampoo. On 3 shifts of 8 hours each per day, an output of 3,000 litres per day is possible. In a real life situation, actual production will be based on the level of demand and the financials for this project are based on a production level of 2 shifts per day and 300 working days in a year. For the production of hair shampoo, the following equipment are

required: Rotary boiler/mixer (stainless steel), preservation tank, filling machine, weighing scales etc. The key raw materials are: Coconut oil, caustic potash, industrial spirit.

**Production Process**

Like in the production of soap, there are two basic production processes: the cold & hot process, this write-up is based on the hot process of manufacture.

**Chemical Formulation**

| | |
|---|---|
| Industrial spirit | 3 litres |
| Caustic potash | 10kg |
| Coconut oil | 50kg (weight) |
| Water (distilled) 100 litres | |
| Potassium carbonate 500 grammes. | |

**Production Process**

Coconut oil which has been melted and heated to about 1000F is introduced into the rotary boiler/mixer. To this add liquid caustic potash and stir slowly. Add the industrial spirit, continue to stir slowly and increase the temperature to about 170of. This temperature is maintained until saponification takes place. The soap is left to cool overnight. On the next day, add potassium carbonate while stirring to obtain a perfect shampoo which will be filled in containers ready for the market.

## 3.1.2 Budgeting

In a small business setting as well as a large business, the most popularly used control technique is the budget.

A budget is simply a plan put in place by a company or organization, to achieve a certain level of income and expenditure profile for a given period, usually a year. While discussing budgets, words like estimate, forecast, projection and target are often used. All of these are related and when they are combined, we will have a final document which documents a company's plans reduced to a proforma financial statement.

The budget as a plan specifies the anticipated results in naira terms and serves mainly as a control device for feedback, evaluation and eventually corrective action.

In practical terms budgets are prepared from knowledge of past experiences of a business. But if the business is a start-up, tqhueanlitative and quantitative techniques are put together to yield best estimates. In most cases, professional opinions are deemed to be important when constructing budgets.

In a small business setting, it is important that the entrepreneur prepares a very comprehensive budget which covers all aspects of the business operations but paying particular attention to the following:

- Sales budgets
- Cash flow budgets
- Expenditure budgets properly broken down into the various sub-headings.
- The projected profit and loss budget which captures all P & L account items including taxation.
- Projected balance sheets

**SELF ASSESSMENT EXERCISE**

Name two key items in a budget that need monitoring.

**Projected Profit And Loss Statement – Normal Estimates (N)**

| | **Year 1** N | **Year 2** N |
|---|---|---|
| **REVENUE** | | |
| Sachet water revenue | 38.400,000 | 57,600,000 |
| Bottled water revenue | 151.200,000 | 302,400,000 |
| Contract blowing (plastic bottles) | 4,800,000 | 4,800,000 |
| Contract blowing (nylon & printing) | 13,600,000 | 20,400,000 |
| TOTAL REVENUE | 208,000,000 | 385,200,000 |
| | | |
| **DIRECT COSTS OF PRODUCTION** | | |
| Production raw materials | 114,624,000 | 214,096,000 |
| Direct labour | 2,844,000 | 2,986,200 |
| Repairs/maintenance machinery | 600,000 | 630,000 |
| Maintenance – factory premises | 240,000 | 252,000 |
| Electricity and gas expenses | 6,780,000 | 7,119,000 |
| Depreciation | 10,133,440 | 10,133,440 |
| External Quality C ontrol expenses | 480,000 | 480,000 |
| TOTAL DIRECT COSTS | 135,701,440 | 235,696,640 |
| | | |
| **INDIRECT COSTS OF PRODUCTION** | | |
| Management and labour | 2,818,800 | 2,959,740 |
| Administration expenses | 750,000 | 787,500 |
| Bank Charges / Commission | 325,000 | 700,000 |
| Selling and distribution expenses | 6,000,000 | 6,300,000 |

| | | |
|---|---|---|
| TOTAL INDIRECT COSTS | 9,893,800 | 10,747,240 |
| TOTAL DIRECT + INDIRECT COSTS | 145,595,240 | 246,443,880 |
| Profit (Loss) before taxation | 62,404,760 | 138,756,120 |
| Estimated taxation | 18,721,428 | 41,626,836 |
| Profit after tax | 43,683,332 | 97,129,284 |
| Projected dividends | 20,000,000 | 40,000,000 |

**Table 13.1: Projected Profit and Loss Statement**

Although most budgets are prepared for a one year period, some forward looking entrepreneurs prepare monthly budgets which make monitoring easier.

In a small business setting, the budgeting process includes the following:

- Analysis of past performance in such areas as sales, expenditures, profits and balance sheet items.
- Forecast of the general operating macro-environment to predict the direction of macro economic variables and expected level of economic activity.
- Forecast of the small business operation's market share now reduced to sales.
- Estimate of the expenses that are required to achieve the expected sales.
- Setting of targets for the units or departments in the small business to enable the budget to be achieved.
- Setting targets for staff especially those that are involved in marketing.

### 3.1.3 Benefits of Budgeting

Without doubt, there are various benefits of budgeting and some of them are highlighted here:

- It helps to keep the small business manager focused
- It presents a challenge to the entrepreneur
- It helps the small business manager achieve the set goals of the business
- It motivates staff to work towards achieving set corporate objectives.
- It provides a spring board for the development of competitive strategies.

The benefits of budgeting cannot be overlooked by the owner-manager of a business because as earlier highlighted, budget stands purely as a target which has to be met. And as we said earlier, most of the targets

are reduced to naira and kobo terms. There may be targets set for things like sales, expenses and profits. When these targets are set, management then works towards the achievement of the targets. Budgets are like solid hands that guide the entrepreneur towards a type of promised land.

### 3.1.4 Budgetary Control

We have discussed the budget. We shall now discuss budgetary control.

Budgetary controls are just measures put in place to ensure compliance to earlier budgeted estimates for both revenue and expenditure items.

Budgets will serve no useful purpose if they are not monitored to ensure proper compliance. In an ideal situation, every unit or department has its own specific budget items which when added up come up to the total budget for the organization. Budgetary control means adherence to a budget. In an ideal situation, it does not amount to any offence if the projections for revenue are surpassed during operations. This is seen as a positive development.

But when we are looking at expenses, it is desirable that the actual expenses should not reach the budgeted levels.

So that the efforts of all staff in the organization will be to monitor revenues so that they reach the budgeted levels and even surpass them. It will also be the effort of staff to control expenses so that they will not exceed the budgeted level.

We have just discussed what budgetary control means but we need to stress that budgetary control implies that certain people must be involved in the control process. Budgets do not monitor and control themselves. They are monitored and controlled in the organization by people.

If the small business manager sets up the organization structure properly, then it will be the function of the unit or departmental managers and the accountant to monitor and control the budget. If the small business manager is unable to afford hiring an accountant, then the duty falls on the small business manager.

Also in some small business organizations, a budget control officer is appointed and it is the duty of the budget control officer to monitor the budget and report periodically to the management.

### 3.1.5 Budgetary Control Measures

Budgetary control measures are those things that are put in place in an organization that are used to control the budget. They may even refer to certain actions that should be carried out so that budgets can be controlled.

The first measure that needs to be put in place is that of cost consciousness. All the staff in the organization especially the unit or departmental heads should be cost conscious and so should not approving expenses without detailed investigation. Before an officer approves an expense, he/she must ensure that the expense head in the first place is in the budget. If the expense head is in the budget, the next thing to consider is the reasonableness of the expense. If the expense appears reasonable, the officer can now go ahead and approve same.

Again in approving an expense, the approving officer must ensure that he/she does not overshoot the budgeted level for that expense.

All managers in the organization must ensure that they monitor their subordinates and thereby ensure strict compliance to budgets. The budget figures should be broken down into quarters, months and weeks. This enables the managers to issue weekly, monthly and quarterly targets to their respective staff.

It is important that weekly or monthly appraisals be conducted by departmental heads in a bid to monitor performance.

Any variation detected that is adverse should be promptly investigated. For example, the fuel expenses of an organization doubles while there is no increase in the use of vehicles, such a situation calls for probe or investigation.

Along the line, if a budget is observed as unworkable and unrealistic, then the budget should be amended.

## 4.0 CONCLUSION

In this unit, the primary focus of our discussion was monitoring performance. In discussing monitoring performance, we discussed the issue of control. We went further to discuss budgeting and budgetary control. Also we saw the benefits of budgeting. Finally we discussed budgetary control measures.

## 5.0 SUMMARY

In any business small or big, the need to monitor performance exists. Monitoring performance enables an organization to control its operations. In this unit, we discussed the monitoring of performance in a small business setting. We discussed budgets and budgetary control as tools of monitoring performance. In the next unit, we shall discuss "Accounting records for small business".

## 6.0 TUTOR MARKED ASSIGNMENTS

What do you understand by the term "Budgetary Control"?

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation. Impressed Publishers, Lagos.

### ANSWERS TO SELF ASSESSMENT EXERCISES

The two items in a budget that need monitoring are:

1. Revenues
2. Expenses

# UNIT 2 ACCOUNTING RECORDS FOR SMALL BUSINESS

**CONTENTS**

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Accounting records for Small Business
3.1.1 Financial Statements
3.1.2 Keeping the books
3.1.3 Managing the books
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 References/Further Readings

## 1.0 INTRODUCTION

In the last unit (Unit 13), we discussed monitoring performance. There we discussed key principles in monitoring of performance. We discussed budgets and budgetary control. By the end of that unit, we had fully understood what monitoring performance means.

In this unit, we shall discuss "Accounting records for small business" which is a very vital topic.

## 2.0 OBJECTIVES

By the end of this unit, you should be able to

- Understand financial statements
- Discuss the types of records kept by small businesses.

## 3.0 MAIN CONTENT

### 3.1 Accounting Records for Small Business

In order to control his or her operations the small business owner needs to have a good understanding of financial statements and the basic fundamentals of accounting record keeping. The financial statement and the accounting records kept are interdependent because the financial statement is usually generated from accounting records.

So if we are to understand these two areas – financial statements and accounting records, it is better we started by discussing financial statements.

### 3.1.1 Financial Statements

We can define a financial statement as the summary of a business enterprise's transactions for a particular period of time. For our discussion here, we shall restrict ourselves to only three items namely:

- The Balance Sheet
- The income statement (Profit and loss account)
- The cash flow statement.
- Let us examine each of the items separately.

**The Balance Sheet**

A balance sheet is a financial statement that reports a business's financial position as at a specific date. Many accountants tend to see the balance sheet as a picture taken at the close of business of a particular day. What this means is that you can show the financial position of a company as at the end of a month, quarter or at the end of a financial year.

Basically, the balance sheet is divided into two parts namely: assets and liabilities.

Assets are the financial resources owned by the firm. We shall list them later.

Liabilities are claims which creditors have against the firm. They are the debts of the firm or business. Generally liabilities can be divided into two categories:

- Short term and long term.
- Short term liabilities are those that should be paid off within 12 months
- While long term liabilities are those that are not due within 12 months.
- To aid our discussion, we have drawn up an imaginary balance sheet for a company called Sans Limited.

You are requested to study the balance sheet and make sure you understand it.

**SANS LIMITED**
**BALANCE SHEET AS AT 31/12/2006**

| **ASSETS EMPLOYED** | |
|---|---|
| | N |
| Net Fixed Assets (Machinery / equipment) | 88,054,760 |
| Land and buildings | |
| **CURRENT ASSETS** | |
| Stock-In-trade | 20,000,000 |
| Raw Materials | 30,000.00 |
| Debtors and prepayments | 3,000,000 |
| Cash and bank balances | 15,549,000 |
| Total Current Assets | 68,549,000 |
| **CURRENT LIABILITIES** | |
| Creditors | 2,000,000 |
| Tax provisions | 18,721,428 |
| Total current liabilities | 20,721,428 |
| Net Current Assets | 47,827,572 |
| Total Assets | 135,882,332 |
| **FINANCED BY** | |
| Share Capital | 1,000,000 |
| Deposit for shares | 30,000,000 |
| Directors loan account | 81,199,000 |
| Profit and loss Account | 23,683,332 |
| **TOTAL** | **135,882,332** |

**Table 14.1 Balance Sheet.**

**The Income Statement**

The Income statement is a financial statement that reports the success (profit) or failure (Loss) of a business during a period. The period could be one month, a quarter or a year. But most income statements cover one year.

The Income statements report the revenues, i.e. gross sales made by the business over a period. The Income statement also reports expenses made by the business over a period.

Net income is the excess of revenue over expenses over a period. If revenues exceed expenses, the result is a profit. But if expenses exceed revenues, the result is known as a loss.

To aid our discussion, we have drawn up an income statement for an imaginary company called London limited.

You are requested to study the income statement and ensure that you understand same.

**London Limited**

**INCOME STATEMENT FOR THE YEAR ENDED 31/12/2006**

| | N |
|---|---|
| **REVENUES** | |
| Income from book sales | 792,000,000 |
| Income from magazine sales | 47,280,000 |
| TOTAL REVENUE | 839,280,000 |
| | |
| **DIRECT COSTS OF PRODUCTION** | |
| Production materials | 567,927,360 |
| Electricity and gas | 6,880,000 |
| Repairs and maintenance | 500,000 |
| Depreciation | 3,346,000 |
| TOTAL DIRECT COSTS | 578,653,360 |
| | |
| **INDIRECT COSTS** | |
| Management and Labour | 2,508,000 |
| Interest and bank charges | 3,000,000 |
| Selling expenses | 7,250,000 |
| Insurance of assets | 50,000 |
| TOTAL INDIRECT COSTS | 12,808,000 |
| TOTAL DIRECT + INDIRECT COSTS | 591,461,360 |
| PROFIT BEFORE TAX | 247,818,640 |

**Table 14.2 Income Statement**

**The Cash Flow Statement**

The cash flow statement shows the inflows and outflows of cash for a period. The cash flow statement provides an insight into how the cash generated by a business were spent and the level of the liquidity of a firm.

| **INFLOWS** | N |
|---|---|
| Profit before taxation | 247,818,640 |
| Add back depreciation | 3,346,000 |
| Total Inflows | 251,164,640 |
| **OUTFLOWS** | |
| Loan repayment | 10,600,000 |
| TOTAL OUTFLOWS | 10,600,000 |
| Inflows less outflows | 240,564,640 |
| Opening cash balance | - |
| Closing cash balance | 240,564,640 |

**Table 14.3 Cash Flow Statement.**

## A Practical Business Idea for Class Discussion

### Commercial Production of Garri

Garri is produced from cassava which is widely grown in most Southern parts of Nigeria. Garri – a food rich in carbonhydrate is an important food item in most Nigerian homes. Garri can be taken ordinarily by soaking in water especially during hot periods. The relative cheapness of garri when compared to pounded yam, semovita, etc makes it a favourable commodity on the Nigerian food table.

### Technical Considerations

The project under discussion is a small scale garri production using cassava as raw material. Working on a single shift of 8 hours, a production of 1 ton of garri is possible. On three shifts of 8 hours each per day, total output of 3 tons of garri is possible. However actual production in this write up is based on 2 shifts per day and 300 working days per year. The key equipment required in the production of garri are grater, fermentation vats, hydraulic press and frier (wood or gas fired).

### Production Process

Cassava tubers are peeled and washed after which they are grated by the grater. The resulting pulp is kept in the fermentation vat for four days to ferment after which the cassava mash is pressed by the hydraulic press to remove water. After removing the water contents, the resulting cake is sieved and fried. After frying, the garri is packaged in bags ready for the market.

**TECHNICAL DATA**

| | |
|---|---|
| Plant installed capacity : | 1095 tons of garri Per annum |
| Plant attainable capacity: | 986 tons of garri Per annum |
| Actual Proposed capacity: | 600 tons of garri Per annum |
| Power drives: | Electric motors 5 HP single phase For graters |

**FINANCIAL HIGHLIGHTS (=N=)**

| | |
|---|---|
| Pre-Investment outlays | 30,000 |
| Rent/Accommodation (2 yrs) | 100,000 |
| Machinery/Equipment | 470,000 |
| Utilities | 100,000 |
| Working Capital | 100,000 |
| Total Project Cost | 800,000 |
| Projected Year 1 Income | 12,000,000 |
| Projected Year 1 Expenses | 10,000,000 |
| Projected Year 1 Profit | 2,000,000 |

## 3.1.2 Keeping the Books

We have earlier discussed the financial statements as very important to any business. But we did not discuss the way the items there are sourced.

The items are a financial statement is generated from the accounting books and record of the firm. We shall now discuss those books and records.

**Sales and Cash receipt journal**

The sales and cash receipt journal usually records daily sales income of a business. In a standard sales and cash receipt journal, the journal is divided into various columns showing the following:

- Total sales
- Credit sales
- Cash sales
- Bank cash column

A good sales and cash receipt journal should be able to distinguish the goods that are sold for cash and those that are sold on credit. As the journal is divided into debits (DR) and CR (Credit) columns, it is important that the debits and credits should balance.

**Cash disbursement, purchases and expense journal**

This journal records expenditure of funds by the business. The journal basically can be divided into various columns showing the following information:

- payee of an amount of money
- amount paid
- purchases
- other expenditures

**SELF ASSESSMENT EXERCISE**

List four items which you think are assets in a balance sheet.

## 3.1.3 Managing the Books

For a small business, there are many options available to the entrepreneur in managing the books or records. The first option is to engage an accountant as an employee of the business. The accountant

by training can manage the books. Alternatively, an accountant can be hired on a contract basis. The accountant comes in may be once in a month and handles all the records.

Another option is to hire a bookkeeper either as a staff of the firm or as a contract book keeper.

## 4.0 CONCLUSION

In this unit, we have discussed Accounting records for small business. In discussing accounting records we discussed financial statements and also keeping of books. We also looked at examples of a balance sheet, income statement and the cash flow statement.

## 5.0 SUMMARY

The general motive behind every organization is often complex but the profit motive is one of the most important. In profit making organizations, accounting is a facilitating and communicating device. Accounting records enable the small business prepare the financial statements which are very important in measuring performance. Accounting records for small business was what we discussed in Unit 14.

In the next unit, we shall discuss" sourcing capital for small business"

## 6.0 TUTOR MARKED ASSIGNMENTS

What are the financial statements that are important for small business management? Discuss the financial statements.

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation. Impressed Publishers, Lagos.

### ANSWERS TO SELF ASSESSMENT EXERCISES

The four items that are assets in a balance sheet are

- Cash
- Stock
- Debtors
- Prepayments

# UNIT 3 SOURCING CAPITAL FOR SMALL BUSINESS

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## 1.0 INTRODUCTION

In the last Unit (unit 14) we discussed "Accounting records for small business". There we discussed financial statements which are important for small business. We also discussed keeping of books by small business.

In this Unit, we shall discuss "sourcing capital for small business".

## 2.0 OBJECTIVES

By the end of this unit, you should be able to:

- Identify the various sources of capital for small business
- Discuss the sources of funds for the small business

## 3.0 MAIN CONTENT

### 3.1 Sourcing Capital for Small business

All along in our discussions, we had assumed that the small business always had sufficient funds to initiate start-up. We also assumed that the would-be-entrepreneur always will have sufficient working capital to carry on his/her business operations. But that is not always true. Lack of capital has been identified as a major problem facing small businesses in Nigeria.

So in this unit, we are going to focus all our attention towards tshoeurces of finance for small business.

There are various sources of finance that are available for small businesses but that to a large extent depends on the nature of business, the size of the business and its legal form. Let us now discuss the various sources of finance.

### 3.1.1 Personal Savings

Perhaps one of the most assured sources of finance for a would-be-entrepreneur is the personal savings of the entrepreneur. In most cases even before a business is put on the drawing board, the owner or the prospective owner is expected to provide the initial capital.

Practically, most people over years do save money for the rainy day. This rainy day savings are usually kept aside for eventualities and unforeseen mishaps that require money.

So, when people begin to think of starting a business, the first money that is invested in the business is the personal savings of the would-be-entrepreneur.

### 3.1.2 Borrowing from Friends or Relations

Apart from sourcing money from personal sources, some businesses are set up or financed by money borrowed from friends or relations. For example, a fresh MBA graduate may approach his or her family, friends or relations for finance to start a small business. In some cases, the finance is provided either as a gift or as a soft loan to be repaid at mutually agreed terms. Although we have identified these mentioned sources of funds, a major problem associated with the sources of funds is that it is not easy to come by since repayment by the borrower is usually doubted by friends.

### 3.1.3 Borrowing from Banks

A key function of a bank is to lend money to individuals and organizations. Small businesses may be owned by individuals or by organizations and they too are entitled to approach banks for the various loan facilities. Let us now discuss the various types of finance that are available from the banks.

**Bank loans**

Banks normally grant loans to eligible business organizations to enable them undertake capital investments in sectors like agriculture, industry and commerce. Loans when granted are for specific reasons like purchase of manufacturing equipment etc. loans are usually repayable over a fixed period of time and at agreed interest rates. Usually as expected, most banks will insist that the borrowers provide security when borrowing from the bank.

**Bank overdraft**

Bank overdrafts are advanced in most cases to organizations for enhancement of working capital. Most organizations when they obtain bank overdrafts deploy them towards purchase of raw materials for manufacture of goods or to procure finished goods for resale. Usually bank overdrafts are for short periods of time like for one year. In practice, overdrafts are renewable.

**Lease Finance**

A lease is a contract whereby one party (the lessee) hires equipment from another party (the lessor) in a way that the lessee uses the equipment without purchasing it. In return, the lessee pays lease rentals and at the end of the lease period may have the option to purchase the equipment.

Lease finance is becoming a more popular type of finance for firms that do not want to purchase equipment.

## 3.1.4 Borrowing from the Bank of Industry Limited

The Bank of Industry Limited is Nigeria's oldest and largest industrial financing institution. It was reconstructed in year 2001 out of the Nigerian Industrial Development bank (NIDB) limited, whichwas incorporated in 1964.

The bank's authorized share capital is set at $400 million. The mandate given to the Bank of Industry Ltd (BOI) is "providing financial assistance for the establishment of large, medium and small projects as well as expansion, diversification and moderisation of existing enterprises and rehabilitation of ailing ones".

The bank of industry limited can assist the following:

- Small, medium and large enterprises excluding cottage industries.
- New or existing companies seeking expansion modernization or diversification.
- Credit worthy promoters who will be required to prove their commitment to the project by contributing at least 25% of the project cost excluding land.
- Borrowers whose management capability, financial situation (including availability of collateral and guarantee) character and reputation are incontrovertible.
- Clients with demonstrable ability to meet loan repayments.
- Borrowers with no record of unpaid loans to erstwhile Development Finance Institutions and other banks.

**A Practical Business Idea for Class Discussion**

**Fruit Juice Production**

Fruits grow abundantly in Nigeria. These include mango, orange, pine-apple, guava, paw paw, cashew and citrus. Fruits are obviously very rich sources of essential minerals and much needed vitamins essential for body growth and nutrition. Besides it has been observed that fruits are also taken as refreshments by both young and old with the demand higher during periods of hot weather. The very deep market for this product makes it a good investment for a prospective investor.

**Technical Considerations**

The project under consideration is a plant dedicated to the production of fruit juice of many types. However, this write-up is focused on producing orange and pineapple fruit juice. Working on a single shift of 8 hours, the plant is capable of producing 2,000 litres of fruit juice. On three shifts of 8 hours each per day, an output of 6,000 litres is possible.

Although attainable capacity is 90% of installed capacity capacity is 2000 litres per day and for 300 working days in a year.

The key equipment required in the production of fruit juice are fruit washer, boiler extractor, filling line, sealing machines, weighing scales and laboratory equipment.

**Production Process**

In the sorting bay, the fruits are sorted into the following categories; ripe, unripe and rotten. The rotten ones are discarded while the unripe

ones are left to ripen. The ripe fruits are washed in chlorinated water in the fruit washer, peeled and rewashed. The clean and washed fruits are fed into the fruit juice extractor for the extraction of the juice. The in-built screen in the extractor separates the fruit juice from the mashed pulp and seed. The resulting fruit juice is pumped into the boiler for boiling at a controlled temperature of about 85oc for about 45 seconds from the boiler. The juice is funneled into the filing machine from where it is pumped into sterilized bottles or nylon as the case may be. If the fruit juice is packaged in nylon, sealing is achieved via use of a dedicated nylon sealing machine. The packaging for the market concludes the production process.

**Technical Data**

| | |
|---|---|
| Plant Installed Capacity: | 2,190,000 litres per annum |
| Attainable Capacity: | 1,971,000 litres per annum |
| Proposed Capacity: | 600,000 litres per annum |
| N0. of Staff: | 12 |

### 3.1.5 The Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

Another good source of finance for the small business is the "small and medium enterprises equity investment scheme (SMEEIS). It is a scheme under which small and medium enterprises receive special funding by way of equity investment by the banks. The investment by the bank enables them to grow and expand their business.

The small and medium enterprises equity investment scheme is a voluntary initiative of the bankers committee approved in 1999. The initiative was in response to the Federal Government's concerns and policy measures for the promotion of small and medium enterprises as vehicles for rapid economic development, poverty alleviation and employment generation. Under the scheme, 10% of the profit before tax (Pbt) of all banks is set aside annually to be invested as equity investment in small and medium enterprises. The funding to be provided under the scheme shall be in the form of equity investment and or loans.

The following are eligible to get funding under the scheme.

All those engaged in the following activities:

- Agro allied businesses
- Information technology and telecommunications
- Manufacturing

- Education establishments
- Services
- Tourism and leisure
- Solid minerals
- Construction

The limitation under the scheme is that the investing bank must not take more than 40% equity investment in a small and medium business.

### 3.1.6 Other Sources of Finance

Other sources of finance for the small business are:

- Finance houses
- Mortgage banks
- Microfinance banks

**SELF ASSESSMENT EXERCISE**

List four sources of finance for a small business owner-manager

## 4.0 CONCLUSION

In this unit, we have discussed sourcing capital for small business. We highlighted such sources as personal funds, from friends and relations, banks and other financial institutions. All of them presen s viable of finance for small business.

## 5.0 SUMMARY

A major problem facing many small organizations is finance and how to source finance for small business is what we have discussed here. We discussed the Bank of Industry Ltd as a source of funds for small business and also the small and medium enterprises equity investment scheme.

## 6.0 TUTOR MARKED ASSIGNMENTS

You intend to approach a bank for a loan. What information do you think the bank requires you to provide in your application?

## 7.0 REFERENCES/FURTHER READINGS

Leon Ikpe (1999) A guide to Small Business Investments. Impressed Publishers, Lagos.

Leon Ikpe (1999): Project analysis and evaluation.
Impressed Publishers, Lagos.

## ANSWERS TO SELF ASSESSMENT EXERCISES

Four sources of finance for a small business owner-manager are:
- From personal sources
- From friends and relations
- From finance houses
- From banks.