



**NATIONAL OPEN UNIVERSITY OF NIGERIA**

**COURSE CODE :SMS210**

**COURSE TITLE:  
ENTREPRENEURIAL STUDIES**

**SMS210**

**ENTREPRENEURIAL STUDIES**

**COURSE GUIDE**

**NATIONAL OPEN UNIVERISTY OF NIGERIA**

**SMS210**

**ENTREPRENEURIAL STUDIES**

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## 1.0 Introduction

SMS210: Entrepreneurial Development and Small Business Management as a course consists of 15 units covering the entire facet of entrepreneurial development and small business management.

The course guide tells you what the course SMS210 is all about and the materials that you need to make the reading successful. Other information contained in this course guide includes information on the Tutor Marked assignment questions.

### 1. Course Contents.

The Course contents consist of entrepreneurial development and small business management. The Nature of entrepreneurial functions and small business, opportunities analysis, business planning, execution and control all feature in the course contents. So also is financial statements and record keeping for small business.

### 2. Course Aims:

The aims of this course are to expose you to the skills that will lead you to successful entrepreneurship in the emerging macro economic environment. The course is partly case oriented and students will be expected to engage in small group projects and also visit successful business organizations and understand the secret of their success.

### 3. Objectives

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

- 3 Understand what entrepreneurship means
- 4 Understand the development of entrepreneurial skills
- 5 Understand the nature of small business
- 6 Develop skills to manage small businesses

### 4. Course materials

- 7 Course guide
- 8 Study units
- 9 Text books
- 10 Assignment guide

### 5. Study Units

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

- Unit 1 - The nature of Entrepreneurship
- Unit 2 - Forms of Business Organization
- Unit 3 - The Nature of Small Business
- Unit 4 - Critical Success Factors in Entrepreneurship
- Unit 5 - Identifying business opportunities
- Unit 6 - Determining business location and layout
- Unit 7 - Business Layout
- Unit 8 - The Technical components of a business plan
- Unit 9 - The strategic and management components of a business plan.
- Unit 10 - The marketing components of a business plan.
- Unit 11 - The financial components of a business plan.
- Unit 12 - Managing manufacturing based operations
- Unit 13 - Managing service based operations.
- Unit 14 - Raising capital for small business
- Unit 15- Accounting records 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 business organizations and get first hand knowledge of certain aspects of business. You are also expected to read the recommended text books and the recommended references.

## **6. Assignments/Exercises.**

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

## **7. Assessments**

### **3.2 Tutor Marked Assignment**

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.

### **8.2 Final Written Examination**

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

This makes the final score to be 100%

### **9.0 Summary**

The course SMS210 – Entrepreneurial Development and small business management exposes you to basic entrepreneurial skills which will assist you to successfully start and manage small businesses.

## **SMS210 – Entrepreneurial Development and small business management**

### **UNIT 1: The Nature of Entrepreneurship**

#### **1.0 Introduction**

In this course, SMS210 – Entrepreneurial Development and small business management, we will focus our attention on the development of entrepreneurship and small business management. Entrepreneurship is a vast field in business education. And that is why we have had to restrict ourselves to the small business management section. Our primary focus in this unit is to make sure we understand the nature of entrepreneurship and its application to small business management.

#### **2.0 Objectives**

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

- Understand what entrepreneurship means
- Understand the entrepreneurial functions

#### **3.0 Main Content**

##### **3.1 The Nature of Entrepreneurship**

If we look at the Nigerian Economic landscape today, we will observe the existence of many companies whose origins date back to the colonial days of Nigeria's history. Companies like UAC Nigeria PLC fit such description. There are others like the Shell Petroleum Development Company of Nigeria Limited. These are large multinational corporations with huge assets at their disposal. Although we are aware of their existence and operations, we will not pay any attention to a study of their operations.

What is important to us in our own study is a study of how new businesses emerge and also how they are to be run or managed.

In a way, we can say that our interest in studying entrepreneurship is not to understand existing business organizations but rather to understand how to establish and manage new but small businesses.

We shall now proceed to define entrepreneurship.

##### **3.1.1 Definition of Entrepreneurship.**

In elementary economics, we were told that there are four factors of production. The four factors of production are land, labour, capital and the entrepreneur. The Entrepreneur according to economic theory is the person who coordinates the other three factors of production. Following this we shall define the entrepreneur as someone who starts a company / business, arranges business deals and takes the risks in order to make a profit.



The words underlined in our definition are very important. Firstly, the entrepreneur is the one who starts the company or business. Interestingly, one of the key objectives of this course is to equip students with the necessary skills to start their own business.

Secondly, the entrepreneur takes the necessary business risks. The information that we are given is that the entrepreneur takes the necessary business risks in the market place. If the entrepreneur is successful, she/ he makes a profit. However, if the entrepreneur is unsuccessful, the result will be a loss. From what we have discussed so far, it is very clear that entrepreneurship is all about starting businesses and running them.

Having understood the meaning of entrepreneurship, we shall now proceed to discuss the functions of the entrepreneur.

### **3.2 The Functions of the Entrepreneur**

In the literature, we have identified five basic functions of the entrepreneur. The functions are planning, organizing, staffing, leading and controlling. This holds for any business.

This is clearly shown in Figure 1.1

You are required to study Figure 1.1 carefully and make sure you understand the flow and the argument logically.

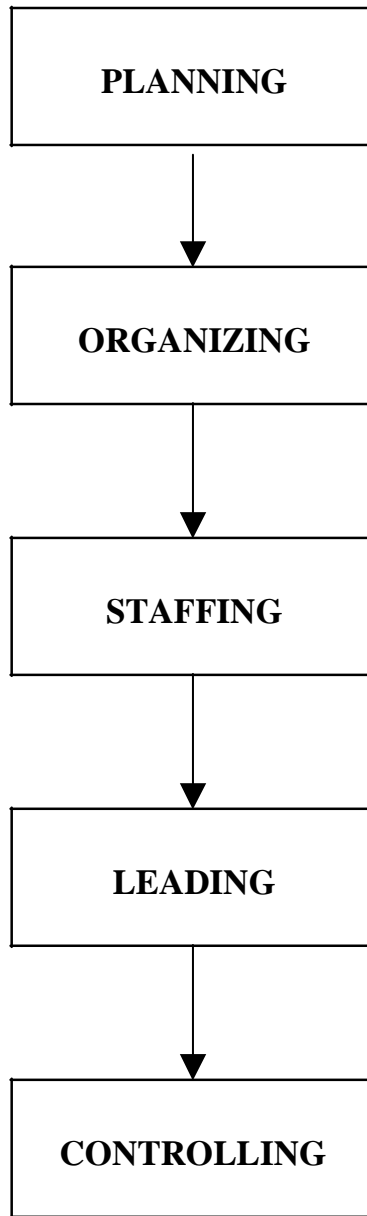


Figure 1.1. The Functions of the Entrepreneur.

### **3.2.1 The Planning Function.**

A business does not give birth to itself. It does not just emerge like that. A business must be started by someone. And that person is the entrepreneur as we have earlier discussed.

Every business organization must have objectives or a given set of objectives, which must be clearly spelt out at the onset. But there must be however ways of attaining the objectives. Having said that, we will go ahead to define planning function in enterprise development and management. Put simply, planning is essentially deciding in advance what is to be done, how it will be done, who will do it, what resources will be used and of course the implementation and control. The critical elements of planning are the objectives, strategies, resources and implementation. But it will be important for us to briefly discuss these critical elements which we have identified.

#### **Objectives of the business / organization.**

Ideally every organization should have a purpose or mission – that is what it seeks to achieve in any given environment. But most of the time, the mission statement of an organization turns out to be vague and intangible. Most often they cannot be measured. We must at this point stress that the aim of every business enterprise is to make profit. And so most of the objectives of business are defined in relation to the profit motive. Therefore the objectives of a business may be stated in terms of return on capital employed. Another entrepreneur may state his / her objectives in terms of naira profit e.g. N20 million per annum.

#### **Strategies of the business / organization**

A key element of planning function is the crafting of strategy by the entrepreneur. But we must clearly understand what we mean by strategy.

We shall define strategy as a general plan of action and implied deployment of resources to achieve set business objectives. For example, the key strategy of a business can be one of low pricing strategy to enable it gain market entry. Generally a business should have many strategies. There should be for example a production or manufacturing strategy. Also a business should have a marketing strategy. This explains how the business will face the market.

There is also the financial strategy of the business. This deals with issues of whether to use equity or debt in the capital structure. We shall discuss all these components at a later stage.

Apart from strategy, every good business should have operating policies.

Policies are statements which guide thinking and action in any organization. For example an organization may have a sales policy or an employment policy. Obviously we can say that policies sharpen the meaning of strategy.

Apart from policies, an enterprise should have operating procedures and rules. Rules are simple plans for example – Do or donot. For example an organization may have a No-smokingrule.

In conclusion, we say, rules and policies all help to sharpen an organization's operating strategies.

#### Resources.

A key aspect of planning is to budget for the resources necessary to execute a plan. The budgeting process recognizes the fact that resources are limited and therefore should be allocated optimally. When we are talking of resources, we are talking about human resources (people) and also financial resources.

#### Implementation of Plans

The entrepreneur in implementing plans must use subordinates who must be prepared to carryout the plans of the manager. Generally, it is believed that a team based approach to planning turns out to be more effective. It enables every member of the team to understand the plan and how it is to be executed.

### **3.2.2 Organizing**

We have seen that the first key function of the entrepreneur is planning. After planning, the next function of the entrepreneur is organizing. Every business enterprise should have an organizational structure.

A simply organizational structure is shown as in Figure 1.2.

You are requested to note that departmentation is very crucial for any organization to succeed. Departmentation divides an organization along functional lines. For example a marketing department will carry our marketing functions.

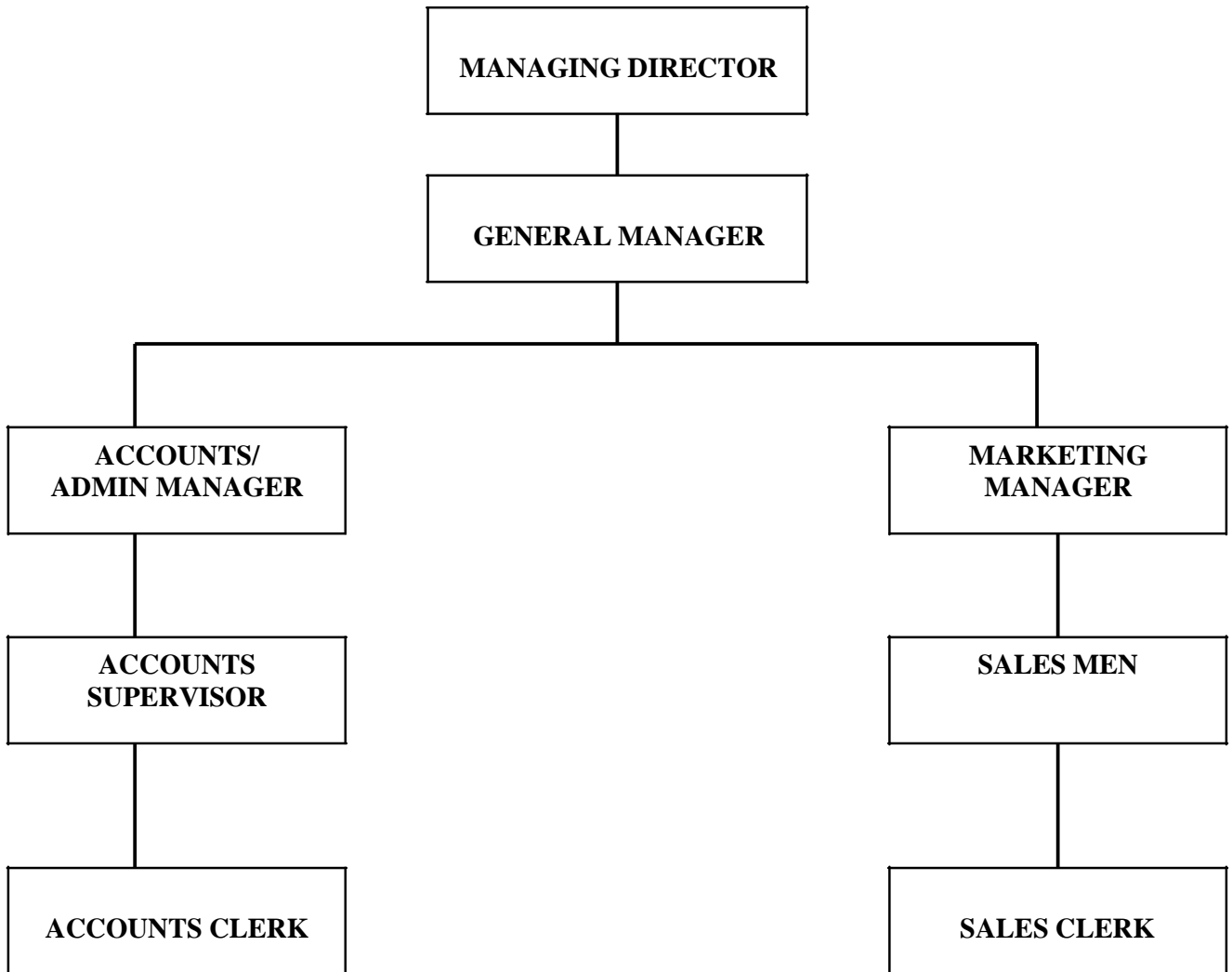


Figure 1. 2            A simple organization structure

## **A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION**

### **PRODUCTION OF VASELINE POMADE**

Vaseline as a body care product is used by all classes of people. Because of its tender action on the skin especially during the dry season, demand for it has become very high. Strong demand pressures are related to its growing demand from mothers for the care of babies.

#### **TECHNICAL CONSIDERATIONS**

The project is a small-scale business outfit dedicated to the production of Vaseline pomade for the Nigerian market and possibly for export to other West African nations. Working on a single shift of 8 hours the plant can achieve an output of 500kg of Vaseline pomade. On a day of 3 shifts of 8 hours each, a production output of 1.5 tons of Vaseline is assured. In real life, actual production capacity will be dictated by the market forces and trends.

However, the financials of this project assume a production run of 2 shifts per day and 300 working days in a year.

For the production of Vaseline, the following equipment are required: mixer (stainless steel), filter, heater: (with temperature control). The key raw materials are paraffin wax, petroleum jelly, vaxoli colour, zinc oxide and perfume.

<b><u>CHEMICAL FORMULATION</u></b>	
Paraffin wax	1kg
Petroleum jelly	5kg
Zinc oxide	500 grammes
Vaxoli colour	500 grammes
Perfume	as required.

#### **PRODUCTION PROCESS**

Paraffin wax and petroleum jelly are introduced into the mixer and mixed under controlled temperature. The mixture is stirred thoroughly to achieve a very fine and rich blend. Add vaxoli colour. The mixture is then filtered and then perfume is added. When the mixture cools sufficiently, it is packed in bottles ready for the market.

### 3.2.3 The Staffing Function

We have seen that one of the important functions of the entrepreneur is organizing. And we also discussed that organizing involves dividing the business along functional units. Having done that, the next important function of the entrepreneur is staffing the organization. The staffing function involves effective staff recruitment and selection, staff placement and later the appraisal and development of staff.

We must note at the onset that the performance of any organization depends on the quality of its staff. This is why staffing in any organization must be approached professionally and carefully too.

In the first place, all the jobs in the organization must be first identified. Secondly the level of skills required to perform the tasks must also be determined. And finally people who fit properly into the jobs will be recruited. In the literature, we say that “you should get the right man for the right job”.

After deploying staff to various jobs, the entrepreneur is expected to monitor the performance of all staff through an effective appraisal system.

Besides, development of staff should be a very important task so that the organization will be able to move along with the times.

### 3.2.4 The Leading Functions of the Entrepreneur.

After staffing, the next important function of the entrepreneur is leading. Leadership is at the core of the function of leading. But at this point, we need to define what leadership means. Leadership is the act or process of influencing or guiding people so that they will strive willingly towards the achievement of group or corporate objectives. The primary essence of leadership in entrepreneurship is followership.

A good leader will guide, motivate and conduct.

Leadership is the human factor that binds a group together. Because of the importance of leadership, we need to discuss the concept of leadership styles. In the literature, there are two types of leadership styles – job – centred leadership and employee – centred leadership.

#### Job – Centred Leadership

Here the leader simply structures the job of his subordinates and ensures that they perform the assigned tasks. In a way, this leadership style pays little or no attention to the fact that the workers are human beings and should be treated as such.

#### Employee – Centred Leadership

Here the entrepreneur pays more attention to the human aspects of managing employees thereby building high performance teams. In employee – centred leadership, the entrepreneur will strive to motivate the workforce.

Motivation has been defined as “all those inner – striving conditions described as wishes, desires and drives etc. It is an inner state that activates or moves”. From a management perception, a motivated person.

- Works hard
- Sustains the pace of hard work
- Has self – directed behaviour towards important set goals.

In motivating employees, the entrepreneur has to properly understand what actually motivates people. Motivators are simply defined as those things, which influence an individual to perform.

They will include the following:

- Good pay
- Good and prestigious job title
- Recognition by colleagues
- Job enrichment

It is therefore important that the entrepreneur recognizes the importance of motivators in designing personnel policies.

### **3.2.5 Controlling Functions of the Entrepreneur**

The control function of the entrepreneur basically involves the measurement and correction of the performance of the business activities to ensure that organization objectives are being met. However, we must note that for control to be effective, there are two pre-requisites:

- (1) There must be laid out plans against which performance will be measured.
- (2) There must be a clearly defined organization structure. This enables the entrepreneur determine where things go wrong in the organization and identify the officer responsible for every act.

TheControlProcess involves three critical stages.

- (1) The establishment of standards whether in quantitative or qualitative terms. These may be simply objectives or if in production may relate to the number ofrejects in a production line.
- (2) Measurement of performance against the set plans and set standards.
- (3) Correction of observed deviations.

### **EXERCISE 1.1**



In managing an enterprise, two leadership styles have been identified. List the two leadership styles.

#### **4.0 Conclusion**

This unit treats the Nature of Entrepreneurship. It discusses the functions of the entrepreneur, which we said includes planning, organizing, staffing, leading and control.

#### **5.0 Summary**

We have discussed the nature of Entrepreneurship, which provides a background for our study.

In the next unit, we shall discuss forms of business organization.

#### **6.0 Tutor Marked Assignment Question**

Discuss the key functions of the Entrepreneur in the Nigerian setting.

#### **7.0 References and further reading**

- 7.1 Leon Ikpe (1999). A guide to Small business investments. Impressed publishers, Lagos.
- 7.2 Leon Ikpe (1999): Project Analysis and evaluation. Impressed publishers, Lagos.

## **ANSWER TO THE EXERCISE**

### **1.1**

There are two leadership styles namely.

- (1) Job – centred leadership
- (2) Employee – centred leadership

## **UNIT 2: Forms of Business Organization**

### **1.0 Introduction**

In the last unit (Unit 1), we discussed the nature of Entrepreneurship. We discussed the definition of entrepreneurship. We also discussed the functions of the entrepreneur, which we said bothers on planning, organizing, staffing, leading and controlling.

In this unit, we will discuss the various forms of business organization.

### **2.0 Objectives**

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

Discuss the various forms of business organization  
Discuss their various advantages and disadvantages.

### **3.0 Main Content**

#### **3.1 Forms of Business Organization**

There are various forms of business organizations. The major ones are the proprietorship, the partnership, and the limited liability company. Each of them has its advantages and also disadvantages. We will start by discussing the proprietorship as a form of business organization.

##### **3.1.1 The Proprietorship**

A proprietorship is one of the simplest and most popular form of business organization. But we will first define a proprietorship to ensure that we know what we are talking about.

A proprietorship is a business that is owned and managed by only one person. If we look around us, we will realize that over 90% of the businesses in Nigeria are operated mainly as proprietorships.

There are advantages, which accrue to a proprietorship, and we shall go a step further and briefly discuss those advantages.

Low start-up capital seems to be one of the major advantages of a proprietorship. For example with a sum as little as N10, 000 (ten thousand naira only) a phone calling booth can be set up.

Lack of operational restrictions is another major advantage of a proprietorship. The proprietor has unlimited freedom to take any business decision. He / she does not need to report to any board of directors or any shareholder. The proprietor can close the business at will and does not need to consult anybody in doing so.

Secrecy is another major advantage of the proprietorship. In a proprietorship, most strategies are kept secret and only known to the proprietor and may be members of the immediate family. For example, a proprietor engaged in the

business of baking bread may keep secret the recipe so that competitors will not gain access to it.

We have briefly discussed the advantages of a proprietorship. But we also need to discuss the disadvantages.

A major disadvantage of the proprietorship is unlimited liability. The proprietor is here responsible for all debts incurred while doing the business. Creditors who have a claim to the debts can sue the proprietor and force him / her into liquidation. In some cases, the personal property of the proprietor may be seized and sold on the orders of the court of law. This unlimited liability is a major drawback for proprietorship.

Another major disadvantage of a proprietorship is lack of finance. Because of its ownership structure, the proprietorship is usually unable to attract bank financing to inject in the business. Lack of finance can also make the proprietorship shy away from otherwise profitable business opportunities. Lack of finance can be a major setback for any focused business.

Again a major disadvantage of a proprietorship is that of limited size. Because the business is owned by one person, there is a limit to the size to which the business can grow.

### **EXERCISE 2.1**

List six proprietorship businesses in your immediate environment.

### **3.1.2 The Partnership**

We have discussed the proprietorship, which is actually the commonest form of business organization. We will now discuss the partnership.

Partnership has been defined as the relation which subsists between persons carrying on a business in common with a view to profit. The important things to note are that there must be a business in common and also there must be the intention to make profit.

Every partnership should ideally state:

- How profits or losses will be shared
- How assets will be divided when the partnership is dissolved
- The duties of every partner

We shall go a step further to discuss the types of partners in a partnership. The first type of partner is the active partner.

Here the partners actively participate in the business of the partnership. If there are three partners, the three of them participate actively in running the partnership.

The second type of partner is the dormant partner. In this situation, the partner although his name does not feature in the actual business of the partnership, shares in the profits of the business. The third type of partner is the nominal partner. Here the person (partner) lends his / her name to a business without having any real interest in it.

### 3.1.3 Creation of Partnership

We have discussed the partnership at least in the context of its meaning. We shall now discuss the creation of partnership.

A partnership is usually created by a contract entered into by parties (e.g. Mr. Abu and Mr. Nwoke). The creation of partnership is governed by the ordinary laws of contract. Ordinarily no formalities are required to create a partnership since a partnership may be created orally.

However a standard partnership should be created by a written agreement or a deed which will contain the articles of partnership. It is also important to note that each partner must have the capacity to contract. A contract entered into by a minor cannot be enforced by a court of law. When a partnership has been created, any alteration that will be made to the Articles of partnership must have the consent of all the partners. Usually we expect that the articles of partnership will provide for the period of the duration of the partnership. Otherwise the partnership will be a continuous one. In the Nigerian context, the commonest partnerships are found in the professions such as law, medicine and accounting. Examples of partnership are

- Akintola Williams & Co – (Chartered accountants)
- Odu & Esha (Legal practitioners)
- Epega, Olu and Shittu (Estate Valuers)

### 3.1.4 The Business Name

In discussing partnerships, it will be very important for us to discuss the business name. A partnership business is called a firm. A firm has been defined as an unincorporated body of two or more people who have entered into partnership with a view to profit. In such a situation, the firm trades under the name of a firm. A proprietor of a business is entitled to trade in his/ her name.

Also the partners can trade in the name of the partners. In Nigeria, it is not compulsory to register individuals or firms. However, the Registration of Business Names Act makes registration compulsory for a firm or individual having a place of business in Nigeria and carrying on business under a business name which does not consist of the true surnames of all partners (or his true surname).

Examples of business names are:

- Leonard Okeke Trading as LeotracoNigeriaCompany.
- Obum Dauda Trading as Obumso Agencies.

### 3.1.5 The Advantages of the Partnership

We have discussed the meaning of a partnership. We shall now discuss the advantages of a partnership.

The first advantage of a partnership is that it makes room for increased capital. You will recall that a proprietor operates a business with his / her own funds, which may be of course limited. This obviously is a major disadvantage. But a partnership may be created by two or more persons who invariably pool their resources together. Obviously, a

partnership is expected to have more financial resources than a proprietorship because of the larger number of people involved.

The second advantage of a partnership is improved managerial decision making. When two or more people come together, they pool their managerial resources together in the partnership. As they say, two heads are better than one. For example a medical partnership consisting of a Surgeon and a Gynaecologist will obviously do much better than a medical practice owned by a single doctor. The key advantage of a partnership is the pooling of managerial resources.

Another advantage of a partnership is that there are chances of expansion of the business of the partnership. This is due to the availability of more resources and managerial skills in a partnership. Also the partners can also be able to attract bank financial assistance. All these can lead to increased expansion and growth of the partnership business.

### **3.1.6 The Disadvantages of the Partnership**

We have discussed the advantages of a partnership. We shall now look at the disadvantages of a partnership.

The first major disadvantages of a partnership is unlimited liability. The partners are liable for the obligations of the partnership. In most cases, the liability knows no bounds and is therefore unlimited. This is a major set back because at times, the partners have to lose their personal assets and property just to meet the obligations of the partnership.

The second disadvantage of a partnership is that of succession/ continuity. If one partner in a partnership dies or becomes insane (mad), the partnership is terminated. The remaining partners may not be able to buy out the dead or insane partner's shares.

The third disadvantage of a partnership is the size limitation imposed on it by its nature. We have seen that the partnership is larger than a proprietorship but it is still not the biggest form of business organization since it is smaller in size than a limited liability company. There is a limit to which a partnership can grow.

## **A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION**

### **COMMERCIAL PRODUCTION OF POPCORN**

Popcorn is a type of corn which when heated explodes into bigger fluffy masses. Although popcorn is not used as food, it has become very important for use as snacks especially by children in primary and secondary schools nationwide. Although firm market data for it is unavailable, what is seen in the various popcorn locations nationwide suggests that the demand is on the high side and stable too. To enjoy synergy, we suggest that popcorn project be combined with ice cream production. Ice cream production is treated elsewhere.

#### **TECHNICAL PRODUCTION**

The project under consideration is a small-scale plant dedicated to the commercial production of popcorn. Although there are various popping machines in the market: manually driven popping machine, semi auto popping machines and continuous popping machine.

The machine required (the pop corn machine) for the production of popcorn is a rugged continuous popper. The popper has a popping bowl, which is heated by electricity and connected to a relay switch. Working on a single shift of 8 hours, the machine can pop 1 ton of popcorn on a continuous basis. On three shifts of 8 hours each per day, a total output of 3 tons is assured but actual production in this write – up is based on a production of 1 ton per shift of 8 hours for 300 days in a year.

#### **PRODUCTION PROCESS**

Vegetable oil is sprinkled on the popcorn to be popped and the corn is fed via funnel into the popping bowl in the popping machine. Sugar or salt may be added depending on the type of popcorn that will be produced.

Heat is transferred to the popping bowl through a switch-regulated cylinder. The popping is continuous and stickiness is prevented by a rotary spindle that rotates within the popping bowl in a clockwise and anti clockwise direction. This is controlled by a switch. The popped corn is collected in the chamber from where it is packed and sealed ready for the market.

### **3.2. Incorporated Companies**

We have discussed the proprietorship as a form of business organization. We also discussed the partnership as another form of business organization. We shall now go ahead to discuss the next form of business organization, which is incorporated companies. Incorporated companies today constitute a large percentage of Nigeria business organization. The history of Company law in Nigeria dates back to 1912 when the first companies ordinance was introduced into Southern Nigeria. This was later amended in 1917 by the companies (Amendment and Extension) ordinance which extended its provision to the rest of Nigeria.

The companies ordinance of 1917 was replaced by a new companies ordinance of 1922 later known as the Companies Act, 1922. The Companies Act was replaced by the Companies decree 1968.

The companies decree of 1968 was replaced by the Companies and Allied Matters Decree 1990 (CAMD) which is the current source of Nigerian Company Law.

#### **3.2.1 Nature of an Incorporated Company**

In the literature, company is used to describe different types of associations entered into by persons for the purpose of carrying on business and to make profit.

However, the most important feature of an incorporated company is the principle of its corporate existence. An incorporated company is regarded as a separate legal entity, distinct from, though composed of the individuals who make up the corporate body.

The implication is that the incorporated company in law is a separate person. It can sue and be sued in its own name. It can own property and do business in its name.

Another major feature of many incorporated companies under the Companies and Allied Matters Decree 1990 (CAMD) is the principle of limited liability. It will be important for us to understand the principle of limited liability as used in company law. In a limited liability company, a shareholder say with 100,000 shares of N1 each cannot be called upon in the event of the company being wound up, to contribute to the assets of the company beyond the amount unpaid-up on his/her shares.

So from the onset, a shareholder contributing to the formation of a company knows exactly the highest amount of money he/she is willing to invest in a company. This principle of limited liability protects the personal assets of the shareholders in the event of company's failure.

#### **3.2.2 Constitution and Regulation of Companies.**

Technically, the memorandum of association and articles of association together form the constitution of a company. Ideally the memorandum of association of a company should contain the following information.



**The Nature of the Company.** The name of the company must be stated fully and must end with the word limited. The name of a company must not be similar to the name of another existing company.

**The Objects of the Company.** This is known as the objects clause. The objects clause defines the powers of the company i.e. what it can do. For example, a company's objects clause may state that it is engaged in the business of agriculture. The objects clause serves two purposes. Firstly, it informs a prospective shareholder of a company on the purposes of which their money will be put.

Secondly outside persons wishing to do business with the company are informed well in advance of the limits of the business – what it can do and what it cannot do.

**The Capital Clause.** Every company must disclose its capital. The amount of capital which the company is authorized to issue is called the Nominal or Authorized capital. For example 1,000,000 ordinary shares of N1 each may constitute the Nominal capital of a company. The capital clause will also show the various classes of shares e.g. ordinary shares, preference shares etc.

**Registered Office Clause.** Every company must have a registered office where it does business. Usually it is at this office that legal writs may be served upon the company.

We have just discussed the Memorandum of association briefly. Let us briefly discuss the Articles of Association. The Articles of Association contains the regulations governing the internal management of the company. Matters contained in the articles of association relate to the following:

- Transfer of shares
- Meetings and voting powers
- Directors duties etc.

Usually a company is registered at the Corporate Affairs Commission with headquarters at Abuja.

#### **4.0 Conclusion**

A prospective entrepreneur must have a form of business organization with which he/she will operate. This unit treats the various forms of proprietorship, the partnership and the incorporated company. The unit provides the entrepreneur with the various business operating options.

#### **5.0 Summary**

We have discussed the forms of business organization which will provide a good background for the would – be – entrepreneur. In the next unit, we shall discuss the Nature of Small business.

#### **6.0 Tutor Marked Assignment Question**

Discuss the advantages, which a business partnership has over a proprietorship

#### **7.0 References and further reading**

- 7.1 Leon Ikpe (1999) A guide to Small business investments. Impressed publishers, Lagos.

## **ANSWER TO THE EXERCISE**

### **2.1**

The six proprietorship businesses in my immediate environment are:

1. A hair dressing salon
2. A mechanic workshop
3. A retail shop
4. A barber shop
5. A pay-phone booth
6. A road side chemist shop

## **UNIT 3: The Nature of Small Business**

### **1.0 Introduction**

In the last unit (Unit 2) we discussed the forms of Business organizations. We discussed the proprietorship, partnership and incorporated companies.

In this unit, we shall discuss the nature of small business.

### **2.0 Objectives**

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

Explain the nature of small business

Define a small business

Explain the advantages and disadvantages of small business

### **3.0 Main Content**

#### **10.1 The Nature of Small Business**

If you look around you, you will note that a lot of micro businesses litter the Nigerian landscape. Here and there you will spot barber shops, meat shops, mechanic workshops and others owned and operated by what we had earlier described as proprietors. In terms of numbers, these small businesses are larger than the bigger and more established corporate bodies. These small businesses are largely important because they employ a lot of people and thereby contribute in no small measure to the economic development of Nigeria.

On a comparative basis, if we take a look at other nations of the world such as the United States of America (USA), you will discover that small businesses are also very important in the scheme of things.

##### **10.1.1 Definition of Small Business**

It is not easy to define small business. This is because the definition presents conceptual problems. The problems arise because different people see small business from different binoculars. The small urban hair dresser is a small business operator viewed from any viewpoint.

And so also is the urban chemist shop. In the Nigerian situation, the definition of small business varies between the various industries and also between different organizations. The Manufacturers Association of Nigeria may see small business from a perception that is different from a chamber of commerce.

The Central Bank of Nigeria may also define a small business from a different outlook altogether. Because of the problems of harmonizing all the definitions of small business, we shall present a simple and functional definition of small business.

We shall define a small business as one that is independently owned and operated and is not dominant in its field of operation.

It is important for us to reflect on this simple definition of small business. The underlined words are very important if we are to fully appreciate the intended meaning of the definition.

The definition seeks to focus on the ownership, operations and their scope of influence in the operating environment. Basically therefore, small businesses are not dominant in their field of operation.

### **10.1.2 Identifying a Small Business**

We have just defined a small business at least from a central point of view. We said that a small business is independently owned and operated and is not dominant in its field of operation. We shall now go a step further to provide a general framework that will enable us to identify any small business in our environment.

In identifying any small business, we need to have certain criteria which distinguishes the small business from the bigger businesses. Some of the criteria are as follows:

#### Initial Capital outlay (start-up capital)

Initial capital outlay or start-up capital ordinarily refers to the financial resources that are needed to start a business. If the initial capital outlay needed to start a business is small then that may lead us to conclude that the business is a small one.

For example with as low as N10,000 (ten thousand naira only) the following businesses can be setup:

- a newspaper vending business
- a pay phone centre
- a pure water distribution business
- a street hawking business

Generally all of the businesses qualify as small businesses. Although any business that requires a small initial layout to start can be called a small business, there is no specific amount of capital that acts as a dividingline between small and bigbusinesses.

Now let us take a look at the transportation business. A transporter who owns a luxury bus costing N25, 000,000 (twenty five million naira only) may not be said to be in big business because with one bus, he cannot be said to be dominant in an industry where such operators like Ekene Dili Chukwu Nig Ltd own fleets of luxury buses.

#### Number of employees

A second criteria that can be used to distinguished between a small business and a big one is the number of employees that the business has. For example a business that has 5 (five) employees is obviously a small one. But another business that has about 10,000 (ten thousand) employees cannot be said to be a small business. In the past the dividing line between a small business and a big business was 50 (fifty) employees. If a business had less than 50 employees, it was classified as a small business. But if a business had employees of 50 and above, it was then classified as a big business. That dividing line of 50 is no longer applicable or acceptable.

## Ownership Structure

Another criteria which can be used to distinguish between a small business and a big one is the ownership structure.

As we know in Unit 2 when we discussed forms of business organizations, there are many types of business organizations with different ownership structures. We have the proprietorship, the partnership and incorporated company. A business owned by an individual obviously is a small one. So also is a partnership operated by two lawyers. But if you look at the private limited liability company with many shareholders, you will quickly realize that it is likely to lead to a big business.

Therefore, ownership structure is very important in distinguishing between a small business from a big one.

## Types of Technology Employed.

Another visible criteria used to distinguish a small business from a big business is the type of technology employed. Because of the small size and relatively low capital base, the small business employs relatively simple technology in operations. This is because the small businesses due to their low capital base cannot afford to acquire complex technology that comes expensive.

Consider for example a small cottage palm oil mill located in a rural area in Nigeria. The oil mill will obviously consist of a small drum used as a boiler. It will also have a manually operated screw press that extracts the oil from the oil palm. With this type of mill, production will be slow and tedious.

However if you compare this rural mill with the palm oil mill of Ada Palm in Imo State, you can spot the differences. The Ada Palm oil mill is automated and employs modern technology in extracting palm oil.

## **A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION.**

### **COMMERCIAL PRODUCTION OF ICE CREAM**

If there is anything most loved by children, it is ice cream. Even at that a lot of adults like ladies also love to take ice cream. The Nigerian hot weather is another factor that favours the commercial demand of ice cream. Ice cream comes in various types: Mango ice cream, Vanilla Ice cream, Chocolate ice cream, Milk ice cream. However this write – up focuses attention on milk ice cream and vanilla ice cream which appear to be more popular among consumers.

### **TECHNICAL CONSIDERATIONS**

The project under consideration is a small ice cream production facility devoted mainly to ice cream manufacture. Working on a single shift of 8 hours, the facility can produce 1 ton of ice cream. On three shifts of 8 hours each per day, a production of 3 tons is possible. However this write-up is based on a production of 2 shifts per day and for 300 working days per year. It is important for the ice cream to be distributed through appointed sales distributors and also marketed by bicycle salesmen equipped with jingles and music that is enjoyed by children. The key equipment required in the manufacture of ice cream are the mixer (stainless steel), ice cream machine, rotary stirrer / blender, nylon sealing machine and dedicated freezers.

### **PRODUCTION PROCESS**

#### **FORMULA FOR MILK ICE CREAM**

Saccharin	150 grams
Sugar	2,000 grams
Milk	8,000 grams
Water	50 litres

#### **FORMULA FOR VANILLA ICE CREAM**

Vanilla flavour	10 grams
Ground sugar	1000 grams
Baking powder	10 grams
Milk powder	1000 grams

### **PROCESSING**

The production starts in the mixer with the mixture of sugar, khoya and milk in good concentration (to taste). Thereafter the mixture is pasteurized to kill any bacteria. After pasteurization, heat the mixture for about 15 to 30 minutes at a controlled temperature of about 60<sup>o</sup>c – 70<sup>o</sup>c. Add fruits where required and stir properly with the rotary blender to achieve good smoothness. After stirring, the mixture is cooled to about 12<sup>o</sup>c – 15<sup>o</sup>c. Add flavouring agent and transfer to freezing unit like dedicated freezers.

### 10.1.3 Types of Small Business

We have defined the small business and also discussed the criteria for distinguishing the small business from the big one. We will now go further to discuss the various types of small businesses so that we can identify them when we see them.

By business types we mean the various functional groupings in the economy. This grouping is based on the activities of the business concerned. The type of businesses are trading and commerce enterprises, service enterprises and small manufacturing enterprises. Let us now discuss each group.

#### Trading and Commerce enterprises

Obviously trading is one of the commonest business activities in Nigeria. A trader is one who buys goods from A and sells the same goods to B at a much higher price. The difference between the selling price and the purchase price is the profit of the trader.

Perhaps when you look around you, you will notice a lot of small businesses selling such items as:

- sachet water
- bread and biscuits
- recharge cards

These trading and commerce enterprises possibly constitute about over 80% of the total number of small business.

#### Service Enterprises

After the trading and commerce enterprises the next type of small businesses are the service enterprises. Service enterprises are not engaged in buying and selling. Rather, they are engaged in providing services to people and organizations.

Examples of service enterprises are:

- barber shop
- hair dressing salons
- shoe repair shops
- a dentist shop
- a dance theatre
- a photographer shop.

#### Small manufacturing enterprises

Small manufacturing enterprises are another and major group of businesses in the Nigerian economy. They engage in basic manufacturing activities that do not involve complex processes or technology. Also they may not involve huge capital outlays.

The examples include:

- soap making enterprises
- sachet water making enterprises
- exercise book making enterprises
- bread making enterprises



## **EXERCISE 3.2**

List the three main types of small businesses that you know.

### **10.2 Advantages and Disadvantages of small business.**

We have discussed the definition of small business. We also discussed the identification of small business and then went ahead to discuss the types of small business. We will now go further to discuss the advantages and disadvantages of small business.

#### **10.2.1 Advantages of small business**

Because of the way they are, small businesses obviously have some unique advantages and these are discussed here.

##### Low start up capital

A major advantage of a small business is that it requires low start-up capital. So with a small sum of money like N10,000 (ten thousand naira) a small business can be started. With N40,000 (forty thousand naira only) someone can buy a fairly used motorcycle and start a transportation business. Also with as little as N10,000 (ten thousand naira only) one can buy a mobile phone and start a phone call centre. Obviously if you look around you, you will see a lot of people hawking various goods. They are engaged in a small business.

##### Ease of Entry and Exit

Because of the low capital required to start a small business, it also has ease of entry. For example with a sum as low as N10,000 (ten thousand) one can set up a mobile phone call centre. However, this ease of entry also is responsible for ease of exit. This is in contrast to large corporations like Nigerian Breweries PLC which may not easily exit from the industry because of its huge investment.

##### Operational Flexibility

Because of their relatively small size, small businesses have the advantage of operational flexibility. Obviously in a small business, decision making is usually vested in the sole proprietor who usually acts quickly and without any form of bureaucracy.

The sole proprietor does not need to consult any board to take decisions. This type of operational flexibility may not be enjoyed by a large organization like United Bank for Africa PLC.

In a large organization decision making may be very clumsy. There may be various committees along the line. There may be meetings at the divisional and regional levels. This operational flexibility is obviously a big advantage to small business. It enables a small business to swiftly react in the environment to changes that require reaction.

### **10.2.2 Disadvantages of Small Business**

We have discussed the advantages of small business. We shall now discuss the disadvantages.

#### Lack of capital

A major disadvantage of small business is their apparent lack of capital. Lack of capital obviously hinders the expansion of most small businesses. Because of their size, small businesses are unable to attract bank financing.

### Lack of managerial skills.

Because of its inherent size, small business will obviously suffer from lack of managerial skills as it depends only on the managerial skills of the sole proprietor or the partners as the case may be.

In contrast, a big corporation like Nigerian Breweries PLC will have a rich pool of experienced managers on its pay roll because it can afford to hire and pay them.

But the small business because of its poor capital base will not be able to hire and retain experienced managers. Put together then you will now understand why lack of managerial skills will continue to be a major disadvantage of small business.

### Lack of adequate technology

If you look around you today, you will notice that science and technology dominate the economic landscape. New products with advanced scientific features are churned out daily. And because the world is a global village, no nation is shielded from the economic onslaught organized by the rich and economically advanced nations. In the face of these changes, small businesses find it difficult to cope with the rapid changes in science and technology. This is because they do not have the capital to embrace new technology. Obviously lack of adequate technology will continue to be a major set back or disadvantage inherent in small business.

#### **4.0 Conclusion**

This unit treats the Nature of Small business. The treatment is very important because the management of small business is the primary focus of this course.

#### **5.0 Summary**

In this unit, we discussed the Nature of small business. We discussed the definition of small business. We also discussed the identification of small businesses. We also went ahead to discuss the types of small business. And lastly we discussed the advantages and disadvantages of small business.

In the next unit, we shall discuss “Critical Success Factors in Entrepreneurship”.

#### **6.0 Tutor Marked Assignment Question**

- (a) What do you understand by the term “Small Business”?
- (b) What features distinguish them from big business?

#### **7.0 References and further reading**

- 7.1 Belbin, R M (1996) Management Teams: Why they succeed or fail, Oxford Butterworth – Heineman (New paperback edition).

## **ANSWER TO THE EXERCISE**

### **3.1**

The main types of small business are:

- (1) Trading and commerce enterprises
- (2) Service Enterprises
- (3) Small manufacturing enterprises.

## **UNIT 4: Critical Success Factors in Entrepreneurship**

### **1.0 Introduction**

In the last unit (Unit 3), we discussed the Nature of small business. We defined a small business. We also discussed how to identify a small business. We also discussed the types of small business. We then discussed the advantages and disadvantages of small business.

In this unit, we shall discuss Critical Success factors in Entrepreneurship.

### **2.0 Objectives**

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

- Understand the causes of business failure
- Identify critical success factors in business.

### **3.0 Main Content**

#### **10.3 Critical Success Factors in Entrepreneurship**

In economic theory, we were told that there are four factors of production like land, labour, capital and the entrepreneur. Although the entrepreneur is the fourth factor of production, it is the most important of all the factors. The entrepreneur brings the other factors of production together. Success or failure in a business depends on the entrepreneur. Our focus in this discussion is to understand those factors that are critical for success in entrepreneurship. But before we examine that, we shall first examine the causes of business failure. If we do this, the would – be entrepreneur will then be able to first understand the pitfalls that await him/her in the business world.

##### **10.3.1 The Causes of Business Failure**

As said earlier, we will discuss the causes of business failure so as to give the would – be entrepreneur adequate information on what could lead to failure in business. This is important because prevention is better than cure.

Let us now discuss the causes of business failure.

##### **Unbalanced experience in a line of business**

This is one of the major causes of business failure. Every line of business has its own unique features. And these need to be studied and understood. For example in the oil and gas industry in Nigeria, we have the upstream and downstream segments of the industry. Any prospective entrant into the upstream sector of the industry must be vast in oil exploration. But knowledge of oil exploration is very vast and complex. In oil exploration, there is the engineering aspect. There is the finance aspect and even the security aspects – dealing with the host communities.

### Poor managerial experience

The difference in performance between two organizations can be traced to their different management. Good and effective managers make a lot of difference in an organization. An organization with a good crop of managers will obviously show superior performance than one with poor managers. So it is very easy for us to say that poor managerial experience on the part of the entrepreneur can lead to business failure. In most cases the entrepreneur does not have the managerial skills to manage people in the enterprise. When people are poorly managed, they are poorly motivated and the result is usually poor and declining productivity. Declining productivity if not arrested will lead to business failure. We will come back to managerial experience later.

### Lack of information about the customer

All over the world today and in every situation, the business is woven around the customer. Successful businesses direct their energies towards satisfying their customer. And as is said, “the customer is king”. It therefore follows that any business that does not have sufficient information about the customer is likely to fail. This is because the customer is likely to switch alliance.

Consider what happened to the milk industry. Many years ago, Peak milk used to be the leading milk in Nigeria in terms of customer base and followership. But in the wake of the structural adjustment programme in Nigeria, the owners of Peak milk did not realize that purchasing power of the Nigerian population had declined. Cashing in on that knowledge of the customer, Cowbell milk entered the milk market with low priced sachet milk which attracted the customers of Peak milk. Today the rest is history. Knowledge of the customer is very important. A lot of business failures can be attributed to lack of knowledge of the customer. The business must know the customer. Why the customer buys is also very important.

All these point to one direction – market research. The small business must embark on market research to enable it understand its customers and the market in which it operates.

### Lack of product development

Customers are always asking for new products with new and better features. From the gramophone, they got the record changer. From the record changer they got the radio – cassette. Then they got the Compact Disc Player and the Video compact disc. These are all product development initiatives on the part of successful and enterprising firms. Besides, customers are asking for better service in the banking halls. They are asking for on – line – real – time banking services. They want ATM instead of the routine bank teller.

A successful entrepreneur is one that will continue to develop new products that will appeal to customers.

An entrepreneur without product development initiatives will obviously find out that he / she has gone out of business.

In summary, we can say that lack of product development is a major cause of business failure.

## **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 8hours per day, the plant can produce 1000 litres of distilled water. Working on 3 shifts of 8hours each per day, total output of 3,000 litres is assured.

However, actual production capacity is limited at a single shift of 8hours 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 moved. 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 there 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 there it is funneled into plastic bottles for sale.



## 10.4 Critical Success Factors in Entrepreneurship

We have spent quite some time discussing the causes of business failure. We did that so that the entrepreneur will be adequately informed of the various traps that await him or her and then know how to avoid them. Obviously not all businesses will turn out to be very successful. Some will turn out to be successful while others will fail. The key questions that we want to ask and also provide answers are:

- (1) Are there factors that lead to success in entrepreneurship
- (2) What are those factors?

If we take a look at many successful enterprises today, we can see that there must be some things, some inner driving forces that make success possible. Nearly all successful managers behave alike. They take calculated risks. They understand their strategic direction and at the same time they remain focused.

### 10.4.1 Existence of a good business opportunity

The entrepreneur does not operate in a vacuum. He operates in an environment made up of other business operators and of course the entire population that forms the base of customership.

Since we are discussing critical success factors in Entrepreneurship, it must also be important to stress that the objective of the entrepreneur is to make a profit.

Profits however cannot be made unless there exists a good business opportunity which the entrepreneur has seen and wants to exploit. Part of the skills of the good and successful entrepreneur is the ability to see a good business opportunity when others do not see it. For example, nobody felt that the manufacture of Sachet water would turn out to be a very huge business opportunity until somebody somewhere started the first Sachet water plant in Nigeria. The rest is history.

### 10.4.2 Technical Competence

We start our discussion by clearly identifying technical competence as one of the important characteristics for success in a small business.

Technical competence ordinarily refers to the ability of the entrepreneur to understand the business in question and also possess the relevant 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 film processing. These are the things that contribute to successful photography. Other examples are available.

- Medicine. A doctor engaged in medical practice should at least know how to treat malaria. If he fails repeatedly to do this, patients will desert his/her clinic.
- Hair dressing. A hairdresser must know the hairstyles in vogue and also how to make them. Lack of ability to do hairstyles will sooner or later lead to loss of valuable customers.
- Architecture. An architect must be able to know how to design good houses at least.
- Aviation. An airliner must have competent pilots in its employment. Otherwise frequent air mishaps and crashes will lead to passengers deserting the airline and going over to other well managed airlines.

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

At times too, the entrepreneur may want to take the business to the next level. The issue of competence will continue to be there. Even when we are discussing big organizations, the issue of core competence always comes to the forefront.

It will be important for us to understand what core competence is. Core competence is a bundle of skills which a business possesses and uses same to provide goods and services to its customers.

It is not easy to see core competence. But you can feel it when you are looking at a company and the products and services that it provides. We can illustrate Core competence by taking a look at the operations of some global business operators.

- Federal Express. The core competence of Federal Express is logistics management. With a deep understanding of logistics management, it provides excellent courier services to its customers.
- Sony Corporation. The core competence of Sony Corporation is miniaturization. It usually deploys this competence to build smaller and more solid electronics.
- Casio. The core competence of Casio is optical imaging. With this type of competence, Casio is able to manufacture digital wristwatches, calculators, cameras etc.

So every entrepreneur must have strong competences in the area of business that he or she wants to operate. If the competences do not exist, the entrepreneur should hire people who possess such skills.

### **10.4.3 High Mental Ability**

Another critical success factor is high mental ability. High mental ability is very important for an entrepreneur to be really successful. Mental ability refers to the capacity to understand. It enables the entrepreneur to think and develop strategies that will lead to success in a highly competitive environment. The ability to think enlarges the entrepreneur's vision and assists to generate ideas on how to see the competition from a larger view.

High mental ability enables the entrepreneur to anticipate the moves of competitors well in advance and then take necessary steps to protect his /her business from invasion by competitors.

### **3.2.4. Human Relation Skills**

Possession of good human relation skills is another critical success factor in Entrepreneurship. We have deliberately chosen human relation skills because it stands on its own as an aspect of management competence. We have chosen the human relation aspect of management because as we said, the entrepreneur is the factor that organizes the other factors of production. Land is a non-human factor of production. So also is capital. But labour is a human factor of production. And it is the ability to manage this human factor of production that leads to excellent business performance.

Possession of good human relations skills ensures that the entrepreneur gets along well with the following:

- Employees
- Business associates
- Customers
- Suppliers
- Government

For purposes of convenience and for understanding, we shall divide human relations skills into three namely:

- communication skills
- motivational skills
- leadership skills

Let us now discuss these three skills briefly.

Communication is the process of exchanging information between one person and another. Or it could be between one person and a group of persons. Communication could also be between an enterprise and third parties or customers. Inside the enterprise, there is the need to communicate with the workers so that management functions are accomplished. Communication provides a link between people in an organization. Here are some hints on good human relation skills.

- Address people by name
- Smile at people
- Be warm to people
- Show interest in people and their problems
- Listen to people
- Act like a member of a team
- Be humble

We have discussed communication skills briefly. Let us now discuss motivational skills.

Motivational Skills are very important for the entrepreneur to possess. The entrepreneur works with subordinates and therefore should know how to motivate them. But we will first make sure that we understand what motivation means.

Motivation is a process of inducing people to engage in an activity willingly. In the literature, people have isolated money as a key motivator, but there are other motivators such as:

- a good work environment
- full appreciation for work done
- Job security
- Promotion on the job

Finally leadership skills are another key skills that are critical for success. 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 and control
- emotional stability
- good moral standing
- confidence

#### **EXERCISE 4.1**

List four leadership traits that the entrepreneur should possess.

#### **10.4.4 Creativity**

Creativity is a very important success factor in entrepreneurship. We shall here define Creativity as the ability to process and arrange information that leads to newknowledge. This new knowledge will now be deployed to invent new products, modify existing products or provide better service to customers.

Creative people are innovative people

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

They generate new ideas in a short time

- They are motivated by challenges
- They convert problems to 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**

This unit treats Critical Success Factors in entrepreneurship. Success in entrepreneurship requires deep character and knowledge on the part of the entrepreneur. We saw technical competence, high mental ability and good human relation skills as important for the entrepreneur to be successful.

#### **5.0 Summary**

In this unit, we discussed Critical Success Factors in entrepreneurship. We started by discussing the causes of business failure. We then discussed the real success factors in entrepreneurship.

In the next unit, we shall discuss identifying business opportunities

#### **6.0 Tutor Marked Assignment Question**

Human relation skills are very important for the entrepreneur to possess. Discuss the three components of human relation skills.

#### **7.0 References and Further reading**

- 7.1 Wallac, T.F (1995), MRP – Making it happen: The Implementer's guide to success with manufacturing resources, planning Chichester, Wiley.

## **ANSWER TO THE EXERCISE**

### **4.1**

The four leadership traits that the entrepreneur should possess are:

1. Self assurance
2. Emotional stability
3. Good moral standing
4. Confidence.

## **UNIT 5: Identifying Business Opportunities**

### **1.0 Introduction**

In the last unit (Unit 4), we discussed Critical Success Factors in Entrepreneurship. We first discussed the causes of business failure. Then we went ahead to discuss the critical success factors in Entrepreneurship.

In this unit, we shall discuss Identifying business opportunities.

### **2.0 Objectives**

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

- Study a population data
- Identify business opportunities in the population

### **3.0 Main Content**

#### **3.1 Identifying Business Opportunities**

In a real life situation, the key problem faced by a would – be entrepreneur is how to identify business opportunities. Let us tell ourselves the truth. It is not an easy task to identify a business opportunity given the proliferation of business in Nigeria. Ordinarily, the large multi-national corporations like John Holt PLC, UAC PLC and others appear to have dominated Nigerian business. Given their sheer size and financial muscle, the thinking is that they should control the market and dictate operating standards. But that is far from the truth.

There is still a lot of room for new entrepreneurs only if they can be able to see clearly the opportunities that exist in the various sectors of the economy.

In this unit, we shall direct our attention towards the identification of business opportunities,

Let us start from a familiar ground and that familiar ground is the population data for Nigeria.

## NIGERIA POPULATION DATA.

<b>STATE</b>	<b>TOTAL</b>	<b>MALES</b>	<b>FEMALES</b>
Abia	2,833,999	1,434,193	1,399,806
Adamawa	3,168,101	1,608,123	1,561,978
A/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
C/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
FCT	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
<b>TOTAL</b>	<b>140,003,542</b>	<b>71,709,859</b>	<b>68,293,683</b>

TABLE 5.1

Nigerian population data based on Census 2006.



### 3.1.1 Studying the Nigerian Population Data

In business, we work with information. And it must be information that is verifiable and also scientific. And that is why our first port of call is to study the Nigerian population data. Study of a population data is very important. The population of a country determines the level of demand for goods and services.

Going by the population figures, the total population as per 2006 census amounted to a figure of 140,003,542 made up of 71,709,859 males and 68,293,683 females.

Knowledge of the total population of a country is very important but it is not all. Other information about the population is equally important. For example the number of males have been disclosed. So also the total number of females in the population.

### 3.1.2 Demographic trends

We have been presented with data on the Nigerian population. The information on the total population is not all that we require. We will also require information on demographic trends. Demography is the study of human populations and the ways in which they change. Let us now discuss the components of a demography.

The age distribution of the population breaks down the population into the various age groups for example as is shown below:

<u>AGE(YEARS)</u>	<u>POPULATION</u>
0 – 5	5,000,000
6 - 10	8,000,000
11 – 18	10,000,000
19 - 40	30,000,000
41 and above	20,000,000
Total	73,000,000

Figure 5.1: Age distribution of a population (imaginary data)

The importance of the age distribution of population is that it assists the entrepreneur to know in advance the total size of the market he or she wants to go into. For example, an entrepreneur wishing to go into the manufacture of baby napkins must first find out the number of children in the age bracket that usually uses napkins. When the number of children that are of napkin using age are known then it will be easier to evaluate the size of the baby napkin market.

The size of the working population

When you look at a population, major information that you must wish to extract is the size of the working population and the trend over time. Not all members of a population are economically active. Practically, working population can be found within the age bracket of between 18 to 60 years of age. In most cases, people below 18 years of age are dependants of their parents.

Also, people above 60 years of age may not be economically active. The importance of estimating the working population is that it enables the entrepreneur to measure the

purchasing power of a population. The total work force in Nigeria can be divided into two namely.

- public sector employees
- private sector employees

apart from knowing the size of the workforce, it will be very important to know the income levels of the entire components of the workforce.

#### The birth rate and the death rate

In studying the demographic trend, it is also important to look at the birth and death rates and track their movement over time. The birth rate and death rate both affect the size of the population. If the birth rate exceeds the death rate, then the population will increase. But if the birth rate is lower than the death rate, the population size will decrease. If that happens demand for goods and services will shrink.

#### The Sex distribution of a population

Of course you are aware that there are goods that are peculiar to the female folk. One of such goods is the sanitary towel. There are also goods that are peculiar to the male folk. One of such goods is the shaving cream.

Before embarking on a manufacturing mission, the entrepreneur must know in advance the number of his or her target market. For example a hair shampoo manufacturer targeting the University of Lagos community should first arm him or herself with information on the number of females in the University of Lagos. Without that type of information, disaster may await the entrepreneur.

#### Ethnic and religious structure of a population

When you look at a population data, you do not just measure the total size of the population. It is important that you understand both the ethnic and religious structure of the population. For example, in Nigeria today, it will be important for the entrepreneur to know the number of Hausa or Yorubas in a given population. The reason is for example the Hausa man or woman has a peculiar mode of dressing which is different from the Yoruba mode of dressing.

Apart from ethnic considerations, the religious structure of the population needs to be also estimated. For example only a foolish entrepreneur will try to sell pork to a largely muslim community. This is so because the Islamic religion does not welcome the eating of pork.

### **EXERCISE 5.1**

Fola is a three year old child.

Draw up a list of six goods that will regularly be used by Fola as a child.

## **A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION**

### **STILL WATER BOTTLING PLANT**

Water for uses other than drinking can easily be obtained in most parts of Nigeria. It is in the area of safe drinking water that problems of availability arise. Despite the fact that International Agencies like the World Bank, Federal, State and Local Governments have invested huge sums of money into provision of water supply, a lot of private sector initiatives are required to improve on water provision in Nigeria.

The major problems in the supply of water are high cost of equipment and water treatment materials. In the market place, demand for drinking water arises from various sources namely household use, hotels/ restaurants, airlines, and hospitals. Supply is dominated by seven key players like Ragolis, Swan natural water and five other producers. It is to be noted that despite the market entry of small time “pure water” manufacturers, research has revealed that “pure water” users belong to a separate market (lower market segment) quite distinct from still water/spring water market. Put together, the emphasis on hygiene amongst the populace will ensure that the market for still water will be ever growing and profitable. Research has revealed that demand for still water far outstrips supply giving rise to a supply/ demand gap which needs to be filled by investors. Identified strong users/ buyers include airlines, hospitals, clinics, restaurants, hotels and upper income executives in the nation. The plant highlighted in this write-up is an automatic bottling line for the production of still water. It has an installed capacity of producing 30,000,000 bottles of still water per annum working on 3 shifts of 8 hours each per day. However, the financials herein are based on a first year actual capacity of 12,000,000 units.

Subsequent increases are permissible as the years roll on.

The key equipment are the rinsing machine, filling machine, labeling machine, conveyor system and other equipment which can be easily sourced.

However, investors in sourcing equipment should go for rugged and tested machines.

#### **PROPOSED PRODUCTION PLAN (IN UNITS OF BOTTLES)**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Installed Capacity	30,000,000	30,000,000	30,000,000
Attainable Capacity	27,000,000	27,000,000	27,000,000
Actual Capacity	12,000,000	14,000,000	16,000,000
Capacity Utilization (%)	40	46	53

It is to be noted that a water treatment plant is a core component of this project.

### **3.2. Economic, political and regulatory trends.**

Apart from studying population data, the entrepreneur needs to understand some other trends in the economy. The trends are the economic, political and regulatory trends.

#### Economic trends

Economic trends will emerge from the interplay of fiscal and monetary policies. Very critical are the following:

- gross domestic product (GDP) growth rate
- the inflation rate and influence on prices
- movements in interest rate
- broad directions of monetary and fiscal policies

#### Political and regulatory trends

In the general literature, we are told that a stable political system is a pre-condition for economic growth and development. It means that any one wishing to study economic growth and development in any economy must also study political developments. This will enable the entrepreneur to predict the direction of Government political thought.

Apart from political trends, the entrepreneur must also understand regulation in the economy.

A lot of businesses in Nigeria are regulated as could be seen in:

- prudential regulation for banks
- NAFDAC regulations for manufactured goods
- Capital market regulations
- Foreign exchange regulations

### **10.5 Classification of goods and services**

We are making progress. We have seen that population data is very important for the entrepreneur and so also are the trends in the economy. We are not yet done. We shall go a step further to attempt a classification of goods and services. It will enable the entrepreneur tie the knots of information together and take a bold decision on where to invest. Let us classify goods and services into four categories namely: essential and non-essential goods, durable and non-durable goods.

#### **3.3.1 Essential goods and services**

In our model, we shall define essential goods, as those goods that are very essential and the consumption of which are considered very compulsory for virtually every member of society.

Example of an essential good is water.

Essential services are equally important and will include services like medical services.

### 3.3.2 Non-essential goods and services

Non essential goods and services are those that are non-essential and the purchase of which is optional. Examples of non-essential goods include items like ice cream and wine.

### 3.3.3 Durable goods.

We shall define durable goods as 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 about 20 years if properly maintained. Also a building can last for over 100 years if properly maintained.

### 3.3.4 Non-Durable goods

Non-durable goods are goods that are purchased frequently. For example, car spark plugs are non-durable and are changed frequently. Car fuel filters are non-durable and used to service cars.

<b>ESSENTIAL GOODS AND SERVICES</b>	<b>NON-ESSENTIAL GOODS AND SERVICES</b>
Water	Cheese
Petrol and Kerosene	Butter
Food items like garri etc	Whisky
Housing	Wine
Medical care	DVD player
Salt	High definition television
<b>DURABLE GOODS</b>	<b>NON – DURABLE GOODS</b>
Aeroplane	Car fuel filter
Ship Car	Car contact set
Building	Car spark plug
	Water candle

Table 5.2 Classification of goods and services  
This is based on the Rogets Consulting Group model

## 3.4 Identifying business opportunities

We have seen that in identifying business opportunities, we need to establish the following:

- Population figures
- Demographic data like Sex of the population etc.
- Trends in demography
- Political and regulatory trends
- Economic trends
- Classification of goods

Having done that, the entrepreneur will now draw up a list of his or her opportunitiespace.

Anopportunity space is a table which sets out a list of goods and services against their demand levels.

Finally, the entrepreneur matches his competence with the opportunity space paying attention to the following.

- The action of manufacturers and their strong operating niches.
- The action of suppliers and their uncovered areas
- Inter – firm rivalry
- Niches that are open and yet to be covered by an operator.

<b>PRODUCT</b>	<b>CONSUMING POPULATION</b>	<b>CONSUMPTION PER PERSON</b>	<b>Total Daily Consumption (Units)</b>
Sachet water	100,000,000	2 sachets	200,000,000
Salt	130,000,000	. 001kg	130,000 kg
Car plug	4,000,000	4 units	16,000,000 Units
Wine	2,000,000	1 bottle	2,000,000 bottles
Butter	5,000,000	. 001 kg	5,000 kg
Garri	90,000,000	2 cups	180,000,000 cups
Rice	120,000,000	1 cup	120,000,000 cups

Table 5.3 An opportunity space

In selecting the specific business opportunity to tap unto, the following guidelines are advocated.

Write out a list of goods and services usually demanded by a given segment of the population you are targeting.

Divide the goods and services into essential and non-essential goods and services.

Divide goods and services into durable and non-durable goods.

Based on your division, choose business in the essential goods and services segment. Also choose business in the area of non-durable goods and services since the goods are frequently demanded.

#### **4.0 Conclusion**

This unit treats identifying business opportunities. Identifying business opportunities is very crucial to the entrepreneur. It enables the entrepreneur to properly estimate the market value of the business he or she wants to go into. This will require proper information on population.

## **5.0 Summary**

In this unit, we discussed identifying business opportunities. We studied population data. We discussed trends in demography and economic cum political and regulatory trends. We also discussed the classification of goods and services.

In the next unit, we shall discuss determining business location

## **6.0 Tutor Marked Assignment Question**

In identifying business opportunities, a study of the population is very important.

What aspects of a population do you think are very important to the entrepreneur?

## **7.0 References and further reading**

- 7.1 Leon Ikpe (1999): A guide to small business investments. Impressed Publishers, Lagos.



## 5.1

The goods that will be used regularly by Fola are:

1. Drugs like anti-malarials.
2. Vaseline
3. Milk
4. Powder
5. Soap
6. Drinking water.

## **1.0 Introduction**

In the last unit (unit 5), we discussed Identifying business opportunities. We discussed Nigerian population data. We discussed demographic trends. We discussed economic, political and regulatory trends. We discussed classification of goods and services. And then we discussed Identifying business opportunities.

In this unit, we shall discuss Determining business location.

## **2.0 Objectives**

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

Identify the factors that determine the location of a business

Discuss the factors that determine the location of a business

## **3.0 Main Content**

### **3.1 Determining Business Location**

A major problem facing a start-up business is how to choose a good location. You will recall that we have the proprietor, the partnership and limited company. Also we have the retailer, the wholesaler and the manufacturer. All of these businesses face locational problems. The location of a business is largely influenced by a host of factors ranging from personal to economic factors. Another problem also is to adapt facilities to the specific needs of a business in terms of layout.

We shall now discuss general factors in selecting a location.

#### **3.1.1 Personal Factors**

One of the most important factors in choosing the location of a business is the personal values of the entrepreneur. The personal values of the entrepreneur may not have anything to do with economics or profitability. An entrepreneur may decide to locate a business in a rural area just for the joy of it. Again, an entrepreneur may decide to locate a business right in his or her village just to provide jobs for his or her immediate relations. These are the things which we may regard as personal to the entrepreneur.

#### **3.1.2 Economics And Competition**

Every area, district or location has its own economic base. And the economic base of an area depends on the total population, the workforce, total family income, deposits etc. All these determine the purchasing power. Obviously then, the entrepreneur in choosing where to locate will consider the economic base of the area. Areas with strong economic base will obviously have strong purchasing power which will in turn translate to sales for established business.

Again competition is a very important factor. The shape of competition is critical. When competition is healthy, it leads to increased sales for participants. For example retail shops located in a shopping plaza are likely to do better than a lonely shop located in an obscure part of the town. In business certain types of businesses seem to be located at

particular areas. In Onitsha for example, major electronics dealers are located on Iweka Road. Any electronics dealer who does not have a shop on Iweka Road is not likely to be successful. Even in far away Britain, good surgeons usually are found on Harley Street. Also good tailors in London are located on Saville Row.

An entrepreneur therefore wishing to locate his or her business will therefore consider such things as the economic base of an area and also the locational pattern of existing businesses. Even in Lagos, businesses have locational patterns. Oke-Arin market is popular for Cosmetics, wine and provisions. Balogun market is known for textiles and dresses.

What we have just done is to provide a general overview of factors that determine where the entrepreneur will locate his/her business. We will now go further to discuss specific factors in selecting a location.

### **3.2 Specific Factors in Selecting a Location.**

We just discussed general factors that determine where an entrepreneur will locate his or her business. We shall now go ahead to discuss more specific factors that guide the entrepreneur in selecting a location.

#### **10.5.1 Choosing Retail Locations**

Retail stores are unique in their own way. This is because the small retail store is run by a sole proprietor. Retail stores are supposed to be very friendly and provide more personal service unlike the large supermarket chains. In a rural setting, the simple retail store is usually located right in the middle of the community. For example in the village market square, provision stores, food stores and small restaurants can be found there. The reason is that the village market is a very important place that attracts both the old and young. And most importantly, decisions concerning the community are usually taken in the village market square. The rural retail store is usually important to a community because it brings goods to the population in the rural areas. It saves people the problem of traveling long distances to the city to buy goods.

Also retail stores in the rural areas will tend to locate near the local primary and secondary schools to cater for the needs of students who may need to buy biscuits, water, pencils, exercise books etc.

However in an urban setting, choosing a retail location will involve a lot of other considerations. Firstly, the retail store usually locates to where the population exists. The driving force is population density. In a crowded area, retail stores are likely to do well because they will receive patronage. Take Lagos as an example. Retail shops are located in Ajegunle, Oshodi, Lawanson, and Ojuelegba because of the high population densities.

Another consideration in determining a retail location in an urban setting is the stage of development of an area. Again let us look at the development in Lagos. Development of Lekki and Ajah present new business opportunities. As people move towards Lekki and Ajah, so also will the stores follow them. Apart from the small retail store, large shopping complexes are springing up in the two areas. It is therefore desirable for

entrepreneurs to consider locating in the shopping centres or complexes because most people now prefer convenient shopping centres where they will do their shopping.

Shopping centres attract a lot of traffic and the entrepreneur should be fully aware of that fact.

### **10.5.2 Choosing Wholesale Locations**

We have just discussed the retail store. We will now discuss how to choose wholesale locations. Most wholesalers are former retailers who having grown through their profitability now want to provide wholesale services to the retailers. The critical factors to be considered in locating a wholesale location are warehousing costs and rents. A warehouse must be spacious enough to accommodate sufficient goods for distribution to the retailers. There should be space enough to accommodate the various vehicles and delivery trucks that will both deliver goods to the warehouse and also collect goods from the warehouse. In most cases, retailers are fully aware of the location of the wholesaler and they go there to make their normal small purchases. In the wholesale distribution of beer for example, the wholesaler chooses his or her location not based on nearness to the drinkers of beer but based on the convenience of a location. A wholesale depot for beer should be spacious and the rent also attractive. In the sale and distribution of drugs, you will observe that most wholesalers locate where they choose and then use their distribution vans to supply the various pharmacy shops that patronize them.

### **10.5.3 Choosing Service Locations**

All along, we have been discussing physical goods which we can see with our two eyes. We shall now discuss the choosing of service locations. The most critical factor in location is the type of service a business offers. Take for example the business of banking.

Banks locate very close to where their customers are or better still where they think that they will get business. Today Victoria Island in Lagos is full of banks. This is because the rich and their business have moved over to Victoria Island. Also banks locate close to the markets. And that explains why in Onitsha most banks are located on the New Market Road. This is because they want to locate close to the Onitsha Main Market which is a very big source of deposits and business.

If a business requires that the clients must come to the location to receive service e.g. sale & purchase of shares, then the location should be accessible. Again it should be located in the financial district where banks, insurance companies etc are located.

A laundry and dry cleaning service business ideally should be located close to the customers who patronize it. However closeness to the customer is not the only guiding factor here. A dry cleaning service centre that has an excellent reputation for quality can locate any where since customers will come and look for it. A barber shop should locate near the people or near theatres and shopping complexes.

## **A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION**

### **INVESTMENT IN PURE WATER PLANT**

Investment in pure water is an interesting one because of the number of players (legal and illegal) that make up the supply side of the market. Drinking water is very important for the body generally and also very useful for the quenching of thirst especially during dry seasons. We have identified three distinct niches in the drinking water market. The top niche is dominated by Ragolis, Swan water, and Eva. The bottom niche is dominated by a product popularly known as 'ice water' – a cheap product packaged under unhygienic conditions and consumed by a large number of poor and uneducated people. Pure water occupies the middle niche of the market. Patronage comes from the segment of the population that cannot afford to buy Swan water or Ragolis water but also cannot condescend to drinking "ice water". That is the market. Market information reveals that a very big market exists for pure water and there is enough room for potential investors seeking to enter the business.

### **TECHNICAL INFORMATION**

The project highlighted in this write up is a small pure water plant dedicated solely to the production of pure water. On a single shift of 8 hours per day the plant is capable of producing 12,000 units of pure water. On 3 shifts, a total daily output of 36,000 units is possible. However, this write up assumes an initial production run based on one shift per day and 300 working days in a year.

### **Production Process**

Though relatively simple, the production process of pure water demands very strict hygiene to ensure that the resulting product is pure, odourless and free from harmful bacteria. Untreated water is introduced into the treatment bay where chemical filtrations take place. The treated and filtered water is collected at a discharge funnel and poured into standardized nylon bags. Sealing is done immediately to avoid contamination. After sealing the water is ready for the market. To enhance profitability, it is recommended that the investors integrate backwards by controlling to some extent the sourcing and production of pure water nylon. This is a critical investment decision that needs to be made. Investors must also get NAFDAC approval to produce pure water.

#### **10.5.4 Choosing Manufacturing Locations**

We have discussed choosing retail locations. We also discussed choosing wholesale locations and service locations. We shall now discuss choosing manufacturing locations. The major problem facing the entrepreneur is that once he or she has built a manufacturing plant at a particular location, the cost of dismantling and relocating it to another location can be expensive. In finance once a project has been undertaken, we say that a capital budgeting decision has been taken. In most cases, the action is usually irreversible. Because of the cost of setting up manufacturing factories, entrepreneurs must be very careful as they locate their plants.

We will now discuss some of the factors that influence the choice of manufacturing locations.

##### **Nearness to Markets**

Perhaps this is the most important factor that should influence the location of a manufacturing plant. As we are fully aware, the primary reasons for establishing a manufacturing plant is to produce goods and make profit from the business.

Apparently therefore nearness to the markets ensures that the manufacturer will sell his or her goods and make a profit from so doing.

##### **Nearness to sources of raw materials.**

Raw materials constitute a very large percentage of the cost of production of any product. Nearness to the sources of raw materials is therefore an important factor that determines the location of a manufacturing plant.

A garri processing factory obviously will try to locate where cassava is found in very large quantities. So also will be a cassava starch manufacturer.

In like manner, vegetable oil manufacturing firms will tend to locate in areas where there will be plenty supply of palm kernel oil which is the major raw material used in the manufacture of vegetable oil.

Also palm oil extraction plants will thrive well if they locate in areas with good supply of oil palm.

##### **Nearness To Source of Power Supply**

Most manufacturing plants require power to drive the various machinery and equipment. Since power supply is very costly and important, manufacturing plants see the need to locate close to the source of power supply. That explains why most manufacturing firms locate near urban areas where there is power supply.

##### **Availability of Good Transport Network**

### EXERCISE 6.1

List three general factors that influence the location of a business

	<b>Rating Site 1</b>	<b>Rating Site 2</b>	<b>Rating Site 3</b>
Labour supply			
Rental cost			
Land cost			
Income tax rate			
Excise duty rate			
Local govt. rates			
Nearness to the market			
Nearness to raw materials			
Parking space availability			
Transport network			
Water supply			
Traffic density			
Regulations			

Table 6.1: Site selection evaluation chart.

#### 4.0 Conclusion

This unit treats determining business location. Determining business location is obviously a very key problem facing the entrepreneur. Poor decision making in this area may turn out to be a very costly mistake because of the very high cost attached to relocating a business from its location.

## **5.0 Summary**

In this unit, we discussed determining business location. We discussed the factors that influence the location of business. We discussed factors that influence choosing retail locations, wholesale locations, service locations and manufacturing locations.

In the next unit, we shall discuss business layout.

## **6.0 Tutor Marked Assignment Question**

Identify and discuss the key factors that influence the location of a manufacturing plant by an entrepreneur.

## **7.0 References and further reading.**

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

## **ANSWER TO THE EXERCISE**

### **6.1**

The three general factors that influence the location of a business are:

1. The entrepreneur's personal factors
2. Economics



### 3. Competition

## **UNIT 7: Business Layout**

### **1.0 Introduction**

In the last unit (unit 6), we discussed determining business location. We discussed the factors that influence the location of business be it retail business, wholesale business or manufacturing business.

In this unit, we shall discuss business layout.

## **2.0 Objectives**

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

Identify and discuss factors that influence the layout of a business

## **3.0 Main Content**

### **3.1 Business Layout**

In the last unit, we discussed the factors that determine the location of a business. We shall now go ahead to discuss business layout generally. But we need to define what layout means in entrepreneurship.

The layout of a business is defined as the arrangement of the fixtures, equipment and machinery. It also incorporates the service design which shows the manner in which customers will receive service for example as in a bank.

Usually one expects that the layout should be planned in such a way that it will yield maximum efficiency to the benefit of customers that use a business facility.

In the design of a layout, certain important points need to be fully considered namely:

A planned arrangement of the equipment which takes into consideration the production flow.

A planned arrangement of the displayed goods and merchandise that recognizes the way customers buy.

A planned arrangement of equipment in such a way that it is easily available to the worker and the customer. For example in a bank, note counting machines are arranged in such a way that they are visible to both the bank teller and customer during a service session.

#### **3.1.1 Layout of a Retail Store**

We started by discussing the general concept of layout of a business. We shall now discuss the layout of a retail store which is obviously one of the commonest business in the Nigerian landscape.

In designing the layout of a retail store, the following should be in the minds of the entrepreneur.

Satisfaction of the customer by ensuring that a wide range of goods are available and at competitive prices.

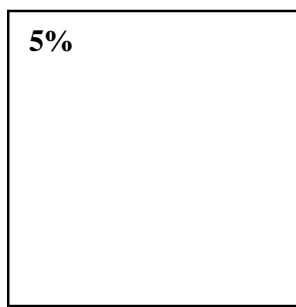
Provision of excellent services to the customers through prompt attention and courtesy.

Good display of merchandise in a way that maximizes the revenues of the retail outlet.

A basic rule governing the layout of a retail store is that the goods that generate the bigger sales should be displayed where they will be easily seen by the customers. Goods with lower sales usually will be displayed at the rear.

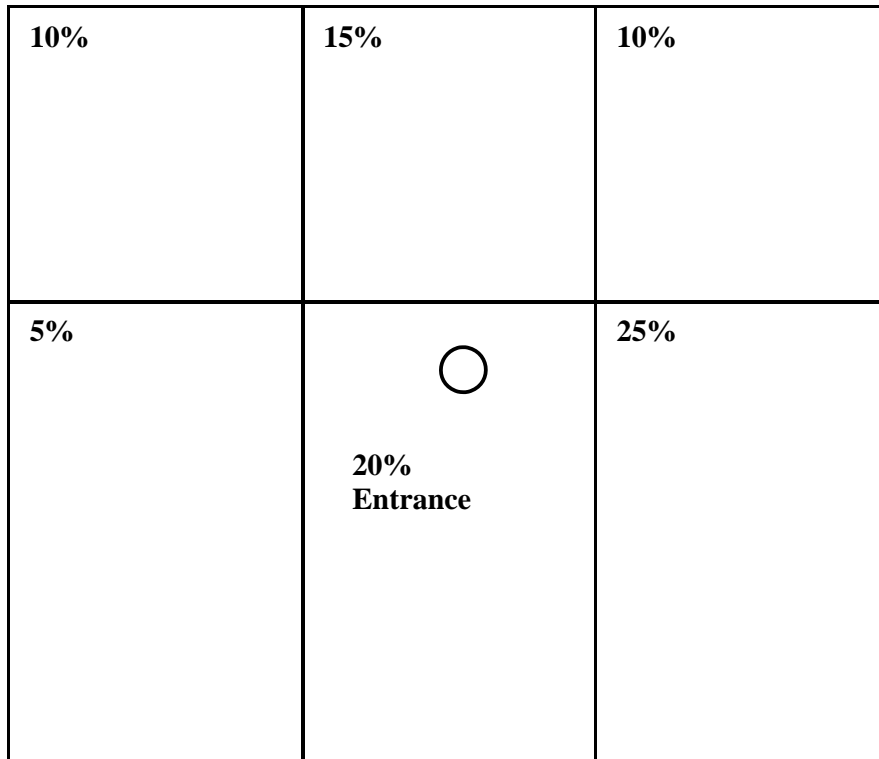
Again research has revealed that most customers when they enter the entrance of a super market will move more to the right rather than to the left side. And for this reason, it is advocated that goods with higher profit margins should be displayed at the right hand side of the retail store entrance. Another category of goods that we need to consider their location in a retail store are impulse goods. Impulse goods are those that people buy at the spur of the moment. They are such goods like chewing gum, sweets, razor blades, polish and sports digest. These goods should be displayed near the cash register where customers line up to pay for their purchased goods.

Finally, there is the need to have an arrangement pattern for the goods. Goods should be arranged in sections. For example in a large retail supermarket, suits should be arranged in a separate section but according to their various sizes. An example of a retail store layout is shown as figure 7.1.



5%

5%



Figures 7.1 A retail store layout with percentage of sales by area.

## **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 carbohydrate 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 plant 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 is grater, fermentation vats, hydraulic press and fryer (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 cassava 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 5HP Single Phase for graters

### **FINANCIAL HIGHLIGHT (₦)**

Pre- Investment outlays	30,000
Rent / Accommodation (2yrs)	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 Wholesale Operations Layout**

We have just discussed the layout of a retail store. We shall now discuss the layout of a wholesale operations facility. It is important for us to note that the layout for wholesale operations differ from the retail operations. In retail operations, the primary objective is to keep the customer satisfied. However, the job of the wholesaler is to fill orders

quickly. Because of this, fast moving goods should be located in one area while slow moving goods in another area farther away.

### 3.1.3. Layout of Service Facility

The layout of a service facility will be determined by the needs of the facility and the customers. Consider for example a bank. The primary objective of a bank layout is to arrange equipment and staff in such a manner that customers will receive services fast. Apart from that, the layout will recognize what is known as queue discipline.

Queue discipline refers to the manner in which customers will receive service as they arrive the bank. In most efficient banks, the queue discipline will be on first come first served basis. So the equipment will be arranged bearing queue discipline in mind. Again in a service facility, the services should be arranged in their various categories and departments. For example the corporate banking department of a bank should be quite distinct from the cash and teller department. The foreign exchange department should also be distinct so that as customers enter the bank, they can be directed to where the services they require are located.

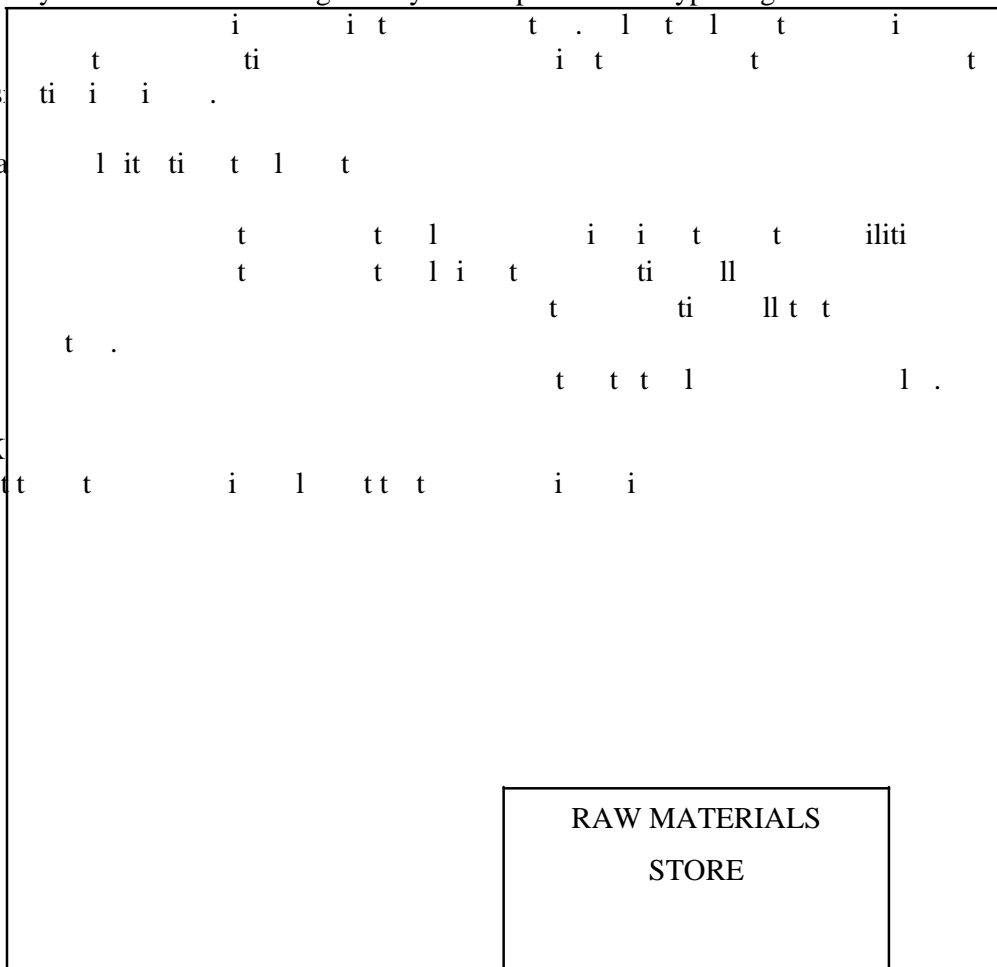
It is one thing to design a service layout. But it is important to ensure that customers receive prompt and efficient services in the service facility.

### 3.1.4 Layout of a Manufacturing Facility.

The layout of a manufacturing facility will depend on the type of goods manufactured and the cost of the goods.

In a manufacturing facility, the layout is designed to minimize the cost of the goods. The layout is designed to minimize the cost of the goods. The layout is designed to minimize the cost of the goods.

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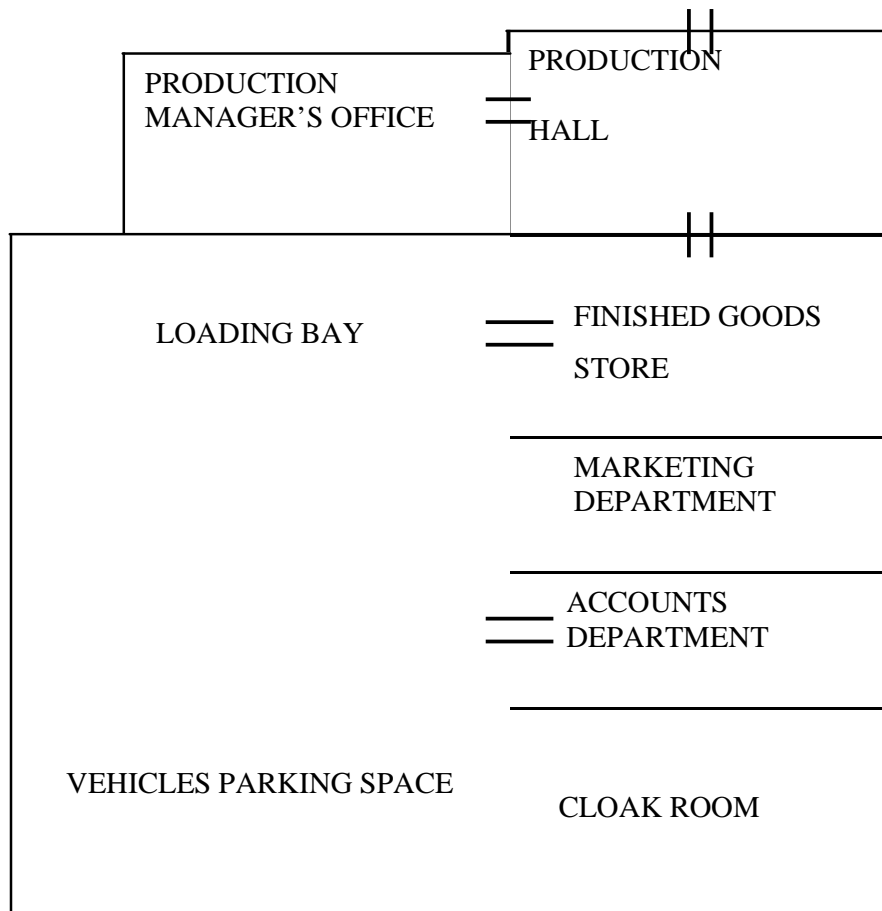


Figure 7.2. Layout of sachet water manufacturing plant.

#### 4.0 Conclusion

This unit treats business layout. It discusses the identification of critical factors that influence the layout of a business facility be it a retail store, a wholesale facility or at best a manufacturing facility. Understanding the principles of business layout, will enable an

entrepreneur to design a good business layout for superior performance and profit showing.

## **5.0 Summary**

In this unit, we have discussed the layout of a retail store. We also discussed wholesale operations layout. We discussed the layout of a service facility and also the manufacturing facility.

In the next unit, we shall discuss the technical components of a business plan.

## **6.0 Tutor Marked Assignment Question**

- (a) What do you understand by the term “Business Layout”?
- (b) What are the general considerations involved in the design of retail store layout?

## **7.0 References and Further Reading**

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

## **ANSWER TO THE EXERCISE**

### **7.1**

The types of business layout are:

1. Retail store layout



2. Service facility layout
3. Manufacturing facility layout.

## **UNIT 8: Technical Components of A Business Plan.**

### **1.0 Introduction**

In the last unit (unit 7) we discussed Business layout. We discussed the layout of a retail store. We discussed the layout of wholesale operations. The layout of a service facility and also a manufacturing facility were also discussed.

In this unit, we shall discuss Technical components of a business plan.

## 2.0 Objectives

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

- What a business plan is
- The technical components of a business plan

## 3.0 Main Content

### 3.1. Technical Components of a Business Plan

We have come to a very crucial aspect of our study and that is the businessplan segment. In unit 1, we saw that one of the key functions of the entrepreneur is planning. We defined the planning function as essentially defining in advance what is to be done, how it will be done, who will do it and the resources that will be used.

When the entrepreneur is starting a business especially from the scratch, he or she needs a formal business plan. But we need to make sure that we know what is meant by a business plan.

A business plan is a document which sets out what a business is all about, what the business is going to do and how it is going to do it.

To simplify our discussion, we shall divide the business plan into four core components namely:

- The technical component
- The strategic and management component
- The marketing component
- The financial component

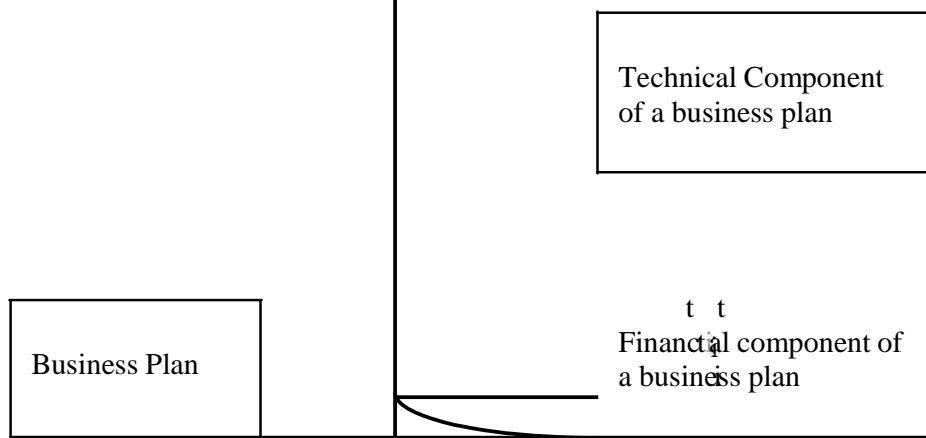


Figure 8.1 Structure of a business plan

But like we said earlier, the focus of this unit is the Technical Component of a business plan. The Technical Component of a business plan addresses the technical issues affecting a business. It will pay attention to all technical items that will be found in a business.

Let us however start the pure discussion from land and buildings.

### **3.1.1 Land and Buildings**

In our discussion of land and buildings, we will focus our attention on the place where the business is located or to be located. We will discuss the land and also discuss the buildings on the land. The buildings are factory, office space etc. The entrepreneur in considering land and building will address all the issues relating to land and buildings starting from the land acquisition stage to when construction has been completed.

Ideally when the entrepreneur has acquired a piece of land, he or she will get an architect to design the structures that will be on the land. Other important things will also receive attention. Things like structural design, electrical design etc. The various designs will depend on the nature of the entrepreneur's business. The design of a school will be different from that of a hospital.

If the entrepreneur is unable to buy land and erect own structures, then the option available is to rent or lease a space for the business.

It also happens that after renting a place, the entrepreneur may carry out modifications of the building to suit the demands of the business in question.

In Table 8.1, we have a sample checklist for land and buildings.

<b>ITEM</b>	<b>Has this been taken care of in the plan?</b>
Payment for rent	
Land acquisition	

Architectural design Structural design Mechanical design Electrical design Construction of offices Construction of factory buildings Drainage Conveniences Perimeter fence Security	
--	--

Table 8.1: Land and Buildings checklist.

**A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION**

**LAUNDRY STARCH PRODUCTION**

Starch ordinarily is derived from three main groups of plants. They are tubers, grains and roots. Starch has very wide applications. It is used for laundry as in the textiles sub sector. It is used as raw material in the production of adhesives. It is used in the pharmaceutical industry as well as in food and allied industries. This write up however focuses attention on the production of laundry starch using cassava as the main raw material. Laundry starch has wide markets evidenced by the growing number of Armed Forces personnel, policemen, customs officers, nurses, etc who apply starch on their uniforms to enhance the look. On the domestic level, the use of starch is gaining acceptance. Its use is mainly dominated by traders and yuppies. The limited brands of starch in the market suggest that investors are yet to fully understand the potentials of investing in starch production.

### **TECHNICAL CONSIDERATIONS**

The project under consideration is a small scale plant dedicated to the manufacture of laundry starch using cassava as basic input. Working on a single shift of 8 hours, the plant can produce 500kg of starch. On three shifts of 8 hours each per day, a total output of 1,500kg of starch is assured. Although the plant can attain a capacity of 95% in attainable terms, actual proposed capacity is limited to 1,000kg of starch per day and for 300 working days in the year. The key equipment is rotary graters, modular tank, screw or hydraulic press, dryer, milling machine, weighing scales.

The production process of starch involves washing and peeling of cassava, washing again, grating, slurry sedimentation, sieving, drying, further milling and finally bagging.

Cassava is washed and peeled. After peeling the cassava is washed again and fed into the rotary grater for pulping. The grated/pulped cassava is introduced into the modular tank where water is added to the cassava pulp. In the modular tank, screening and sieving takes place over a period of time. With the use of screw or hydraulic press, dewatering follows. After dewatering, cake breaking follows. After cake breaking, the starch is dried and then milled again to reduce it to finer granules. When finally dried, the starch is weighed and packed ready for the market.

### **3.1.2 Machinery And Equipment**

In an earlier section of this unit, we discussed land and buildings. We shall now discuss machinery and equipment. In a manufacturing facility, machinery and equipment are

very important since they are usually deployed towards the manufacture of goods. If an entrepreneur is going into manufacturing, he or she must have a knowledge of the machinery and equipment that will be required for the manufacturing project.

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

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

The machinery and equipment will not be treated alone. The raw materials for the manufacturing should be properly identified and their supply sources also identified and verified for quality.

ITEM	Has this been taken care of?
Identification of machinery and equipment. List of machinery/equipment. Sources of supply Raw material requirement Raw material sources Production process Maintenance arrangements	

Table 8.2 Machinery and equipment checklist

### 3.1.3. The Production Plan

We discussed land and buildings. Then we discussed machinery and equipment. Our next assignment will be to discuss the production plan. The production plan is an output

plan. Production is carried out daily. In the standard literature, a day of 24 hours has three production shifts and this has to be so recognized. Every plant or machinery has an output attached to it. We will go on to discuss the concept of capacity in relation to production.

There are three types of capacities in relation to production namely:

#### InstalledCapacity

This is a highest output of a machine if it works every second, minute, hour, day, week, and month. For example if a bakery can bake 1000 loaves of bread per hour, then daily installed capacity of the bakery is  $1000 \times 24 = 24,000$  loaves of bread per day.

#### AttainableCapacity

This is a more realistic capacity of a machine and it takes into consideration, plant breakdown, routine maintenance and public holidays. Take for example a Mercedes Benz car with an installed capacity (speedometer limit) of 200 kilometers per hour. However no sane man will want to drive a car at that speed. A sane man may prefer to drive the Mercedes Benz car at a controlled and safer speed of 120 km per hour. This controlled speed – 120 km per hour can be described as the attainable capacity of the car. At this speed the driver can control the car and not the other way round.

#### ActualCapacity

The actual capacity of a plant is dictated by market forces. At each point in time, the actual capacity of a plant is the actual production that is going on there. For example if a sachet water plant has production capacity of 2000 sachets per hour and is only running one shift, per day, then the actual capacity is  $2000 \text{ sachets} \times 8 \text{ hrs} = 16,000$  sachets per day.

You are to note that there are 3 shifts normally in a day.

### **3.1.4 Utilities**

In our discussion of Utilities, we will direct our attention towards those basic utilities that are involved in standard manufacturing or business set ups. The entrepreneur should address the issue of utilities knowing fully well that public supply of utilities is very unreliable. The key utility items are power supply and water supply. As a general guide, every entrepreneur should endeavour to have private power supply because the public power supply is unreliable. Same goes for water supply. Public taps hardly run.

### **EXERCISE 8.1**

List the four components of a business plan.

### **4.0 Conclusion**

The technical component of a business plan received our attention in this unit. And as we said, this technical component is just one aspect of the master business plan.



## **5.0 Summary**

In this unit, we discussed Technical Components of a business plan. We discussed land and buildings. We also discussed machinery and equipment. The production plan was also discussed. So also did we discuss utilities. Put together these make up the technical components of a business plan.

In the next unit, we shall discuss the Strategic and management components of a business plan.

## **6.0 Tutor Marked Assignment Question**

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

## **7.0 References and Further Reading**

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

## **ANSWER TO THE EXERCISE**

### **8.1**

The four components of a business plan are:

1. The technical component
2. The strategic and management component
3. The marketing component
4. The financial component

## **UNIT 9: The Strategic and Management Components of A Business Plan.**

### **1.0 Introduction**

In the last unit (unit 8), we discussed the Technical Components of a Business Plan. We discussed Land and Buildings. We discussed machinery and equipment. The production plan was also discussed. All these form the technical components of a business plan. In this unit, we shall discuss the Strategic and Management Components of a business plan.

## **2.0 Objectives**

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

- Understand the strategic and management components of a business plan
- Discuss the key items in the strategic and management components of a business plan.

## **3.0 Main Content**

### **3.1 The Strategic And Management Components of A Business Plan.**

This unit focuses attention on two key topics namely:

1. The strategy of the enterprise or business
2. The management of the enterprise or business.

Both of them are related in the true sense of it. An enterprise does not run itself. It is usually run by a person or group of persons we shall call management. But in the setting we are looking at, management is expected to be strategic in both approach and performance. The business or enterprise must have a strategy with which it wants to operate. It is the format of this strategy that we are going to discuss.

#### **3.1.1 The Strategy of The Enterprise**

You will recall that in unit 4, we discussed the critical success factors in entrepreneurship. We said firstly that there should be the existence of a good business opportunity. We also isolated technical competence as very crucial for success.

High mental ability was also isolated as a critical success factor. And then we said that the entrepreneur should possess good human relations skills. All these put together as we said would be necessary for success in a business endeavour.

The next important aspect of the entrepreneur's job is the crafting of the strategy of the enterprise. Perhaps this is the most important and difficult task for the entrepreneur. It is difficult in the sense that the concept of strategy covers a wide and confusing area of learning. Let us proceed to define strategy so that we will be sure of what we are discussing. Enterprise strategy deals with the basic ways a business seeks to take optimum advantage of its environment. Strategy is a planned commitment of resources and energiestowardsachievingorganizationalobjectives.

A good enterprise strategy should indicate.

What goods or services that the enterprise seeks to provide and to what group of customers.

Resources conversion technology to be employed

Kinds of synergy to be exploited

Timing and sequence of major steps. e.g. when to introduce a new product and why.

The targets that the enterprise seeks to meet.

We have now succeeded in defining strategy. But how does the entrepreneur craft strategy? To answer that question, we need to go back to the business environment. And also we need a framework for analysis.

The framework for analysis will involve three major planks namely:

1. The Business outlook for the industry
2. The Business outlook for the enterprise
3. Selection of Enterprise Strategy

Before we discuss the Selection of Strategy for the entrepreneur, we need to build a small check list to guide action in the choice of strategy.

	Have you taken care of this in your analysis?
The general outlook for the industry	
Usefulness of the product	
Desire for the product	
Usefulness of a service	
Desire for the service	
Stability of demand for the product	
Stability of demand for the service	
Availability of substitutes for the product	
Supply of products to the market	
Competition in the industry	
Government regulation & control	

Table 9:1. Checklist for business outlook for the industry.

	Have you taken care of this in your analysis?
Market position of the enterprise	

Standing of the enterprise products	
Standing of the enterprise services	
Cost position of the enterprise	
Comparative location	
Relative financial strength	
Ability of the enterprise management	

Table 9.2: Checklist for Business outlook for the enterprise.

THE VISION  
OF  
THE ENTERPRISE



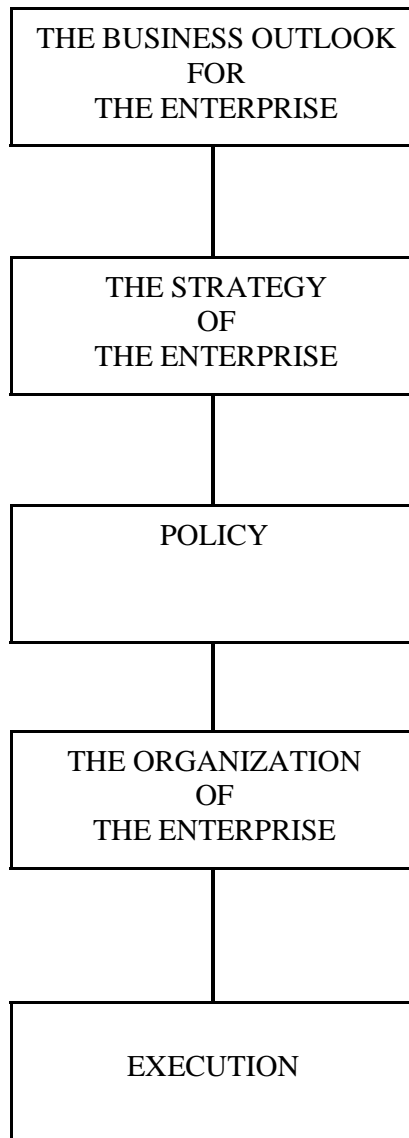


Figure 9.1: Linking the Enterprise to the Environment.

**A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION**

**PRODUCTION OF OFFICE GUM**

Office gum has a universal application. It is found in every office because of the various uses to which the product is put. If one imagines the number of offices in Nigeria, a fair picture of demand emerges and which can guide the investor.

### **TECHNICAL CONSIDERATIONS**

The product under consideration here is a very simple small scale business that focuses attention on the production of office gum using cassava starch as the basic raw material.

Working on a single shift of 8 hours, the envisaged plant can produce 1000 litres of office gum. On 3 shifts of 8 hours each per day, an output of 3,000 litres is assured. Although actual production output will be dictated by market forces, the financials generated in this write up are based on a production level applicable to 2 shifts per day and for 300 working days in a year. The basic equipment required are: Heater/boiler, mixer, collection tank and filling machine. The basic materials required are cassava starch, water and calcium chloride.

### **PRODUCTION PROCESS**

The production process starts with the quality examination of the basic raw material which is cassava starch. If the cassava starch is in granules, examine same for impurities. Thereafter ensure that starch is grounded properly to avoid lumping.

Dissolve the calcium chloride in the mixer and stir for a long time to achieve a homogenous solution. Transfer the solution (calcium chloride) to the heater/boiler and begin to add starch slowly. Apply mild heat while activating the stirrer which stirs the mixer and prevents lumping. Examine the mixture for good qualities. Stop heat application when satisfied and allow the product to cool. Transfer the gum to the collection tank and using the filling machine, transfer gum to plastic containers ready for market.

### **3.1.2 Selection of Enterprise Strategy**

We have seen that the entrepreneur in crafting strategy should evaluate the individual environment in which the enterprise operates. This will enable him or her to understand Industry Analysis and Competition.

Competition in industry is governed by 5 major factors namely:

1. Rivalry amongst sellers
2. Threat of entry
3. Competition from substitutes
4. Suppliers
5. Customers

In terms of general competitive strategy there are three general types of strategy from which the entrepreneur can select namely:

#### **Low cost leadership strategy**

Low cost leadership strategy is one of the strategies that the entrepreneur can select. It works very well in a price sensitive industry. A good example of where this strategy works well is in the exercise book making business where small low cost producers have taken over the market from big exercise book manufacturers like “Apex” and “Onward”. It has to be noted that because of economic difficulties, many people are price sensitive and would prefer to buy goods that are seen to be cheap.

#### **Differentiation Strategy**

In selecting a differentiation strategy, the basis for competitive advantage is the existence of a product or service whose attributes differ significantly from the product of rivals. For example in the Luxury passenger bus business, ABC Transport has carved out a name for itself because its services are purely differentiated from those of its competitors. Because of their strategic focus and management, they have been able to become a clear and focused leader in the luxury bus business.

#### **Niche Strategy**

Generally to Niche is to focus on a chosen market segment. A market niche is attractive when:

- (a) The segment is big enough to be profitable
- (b) Competitors don't see the niche. For example Peak Milk did not see the market for Sachet Milk until Cowbell saw it.

#### **EXERCISE 9.1**

Generally there are three types of strategy. List them.

### **3.1.3 Organization Structure and Management**



We have earlier discussed the various forms of business organization. This we did so that you would be able to distinguish each form of business organization from the other.

We have also discussed strategy which links the organization to the operating environment. Our discussion of organization structure here will help us to understand the general structure of the enterprise.

Ideally the enterprise should arrange the business in units, departments and then divisions. The organization structure will show the various units in an organization. It will also show the relationship between the units. Reporting lines (who reports to who) will also be captured in the organization structure.

An organization structure will be structured in such a way that it will reflect the business of the enterprise.

Generally a business can be divided into the key functional areas like:

1. Production
2. Marketing
3. Administration
4. Finance and Accounts.

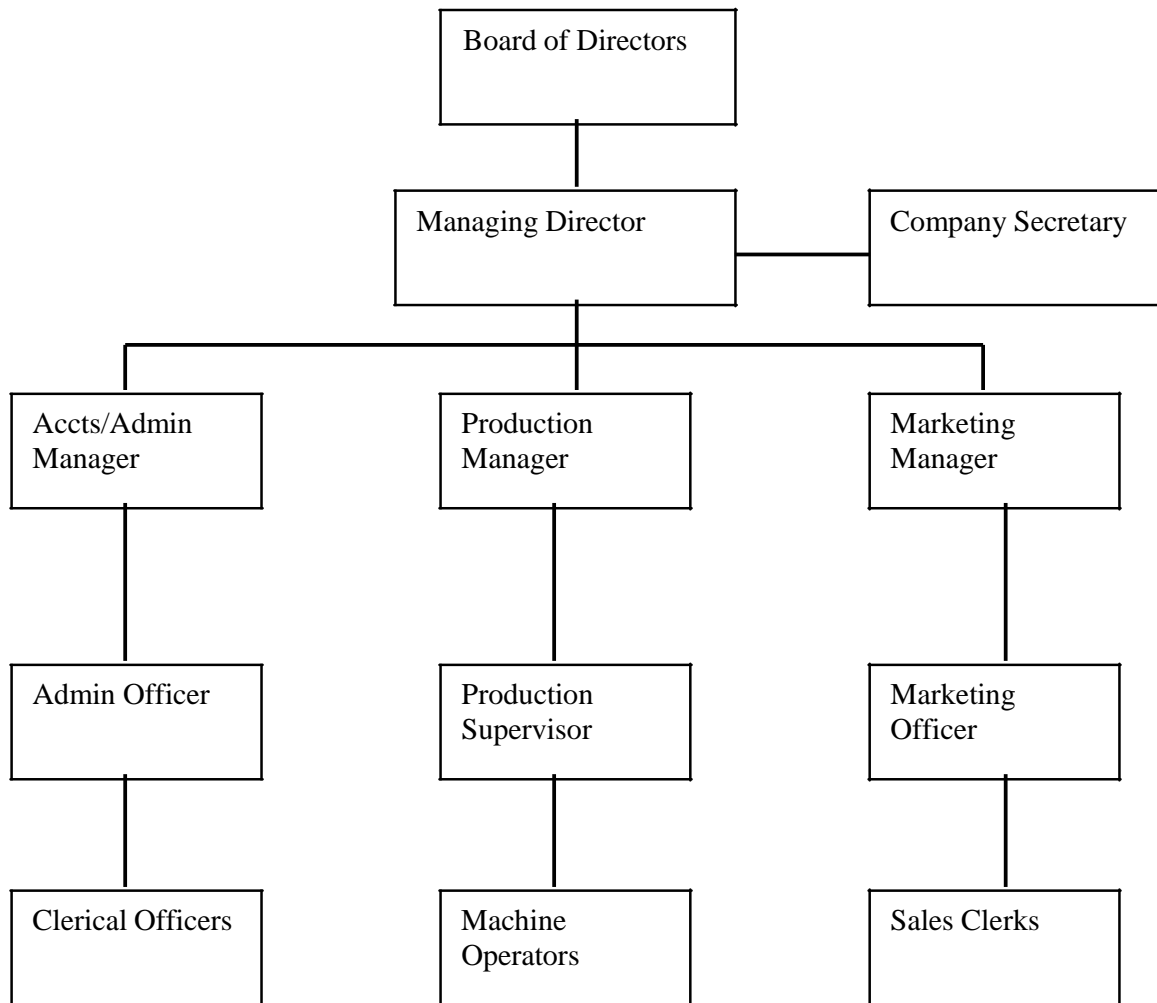


Figure 9: 2. Organization Structure in a small manufacturing enterprise.

	Has this been taken care of in the plan?
What are the units in the department?	

<p>What are the departments in the divisions?</p> <p>Who are the key managers?</p> <p>What are their qualifications?</p> <p>How many staff are needed?</p> <p>What skills must they have?</p> <p>What will be their salaries?</p> <p>What consultants do you need?</p> <p>What licenses do you need?</p> <p>What permits are needed?</p> <p>NAFDAC registration?</p> <p>Standards Organization of Nigeria?</p>	
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Table 9:3. Management plan checklist.

**4.0 Conclusion**

The strategic and management components of a business plan have been discussed in this unit. Understanding of strategy and management are very important since they will enable the entrepreneur take necessary success steps in business. Understanding of strategy helps to link the business to the operating environment.

## **5.0 Summary**

In this unit, we discussed the Strategic and management components of a business plan. We discussed the strategy of the enterprise. We also discussed the selection of enterprise strategy. Finally, we discussed organization structure and management.

In the next unit, we shall discuss the marketing components of a business plan.

## **6.0 Tutor Marked Assignment Questions**

- (a) What do you understand by the term “Strategy”?
- (b) What should a good strategy indicate?

## **7.0 References and Further Reading**

- 7.1** Crosby, P. B (1979): Quality is free: The Art of making quality certain, New York, Mc Graw-Hill.

## **9.1 ANSWER TO THE EXERCISE**

The three types of competitive strategy are:

1. Low cost leadership strategy
2. Differentiation strategy
3. Niche strategy

## **1.0 Introduction**

In the last unit (unit 9), we discussed the strategic and management components of a business plan. We discussed the strategy of the enterprise and the selection of enterprise strategy. Finally, we discussed organization structure and management.

In this unit, we shall discuss the marketing components of a business plan.

## **2.0 Objectives**

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

- Understand what a marketing plan is all about
- Discuss the marketing components of a business plan.

## **3.0 Main Content**

### **3.1 The Marketing Components of A Business Plan.**

You will recall that in unit 8, we defined a business plan. We defined a business plan as a document which sets out what a business is all about, what the business is going to do and how it is going to do it.

In a way, the business plan of an enterprise represents the roadmap to the future. A business plan though seen as a larger picture is made of smaller pictures called components. One of those components is called the marketing component.

The marketing components of a business plan are basically a marketing plan. But like we said, a marketing plan is a part of a business plan.

The marketing plan as a document addresses all issues concerning the marketing of the small business products or services. It focuses attention on such items as:

- Demands for products and services
- Supply of products and services
- Competition
- Pricing policies
- Distribution policies
- Advertisement etc
- Promotion of products and services

#### **3.1.1 Potential Customers**

Since our focus is marketing, it will be really important for us to start our discussion by trying to identify and discuss who potential customers of a business are. Or also who the potential customers of a business will be.

But we will first make sure that we perfectly understand what we mean by the word customer and also distinguish it from the word consumer. The distinction is very important at least because it enables the entrepreneur to understand the customer and also the consumer.

The term customer refers to a person or organization who buys a particular product or service. He may now eventually resell the product. But the term consumer refers to the person or organization who uses the product or service for personal satisfaction or benefit.

In a small domestic setting, parents may purchase bread for the house. They are the customers of the bakeries. The children in the house eat the bread. They are the consumers of the products (bread)

In an industrial setting, the firm is the purchaser of raw materials. Here it is seen as the consumer of raw materials for processing into products.

Apart from products, we have services too. An enterprise can also provide services to potential customers. A business should be able to clearly define the type of customers it wishes to serve. Nothing can be generalized. For example in the service industry like hotel and tourism, a hotel should be able to define its target customers. A hotel's target customers may be:

- Students (Low fee paying)
- Travellers (Average fee paying)
- High Networth Individuals (High fee paying)

We will now go ahead to provide a checklist that will enable the entrepreneur evaluate the potential customer.

	Have you taken care of this in the plan?
--	--

<p>What type of business are you planning?</p> <p>What are the products that you will offer to the market?</p> <p>What are the services that you will offer to the market?</p> <p>Who is your potential customer?</p> <p>How is the potential customer defined?</p> <p>What is the potential customer's income base?</p> <p>Who are the consumers of your product?</p> <p>Who are the consumers of your services?</p> <p>Are the consumers different from the customers?</p> <p>Where are they?</p>	
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Table 10.1 Potential Customers checklist.

**EXERCISE 10.1**

List five products that a small scale business can manufacture.

**A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION**



## INVESTING IN POLYTHENE SHOPPING BAG PLANT

Polythene shopping bags have vast domestic and commercial uses: they are used for shopping, wrapping of bread, popcorn, exercise books, food items, pure water and a multitude of other products. Because of their cheap nature, these bags are used frequently and discarded thereby giving them very high repurchase ratios. For example, once a shopping bag is used to carry meat or shrimps, it is discarded after use. Authoritative industry sources indicate that annual consumption of polythene bags in Nigeria is well over 300 million tons (domestic and commercial use only). Opportunities abound for small scale businessmen and women to choose profitable niches in the shopping bag market and play deep there-in. From the supply side of the market, it is important to note that there is no clear market leader because of entry requirements. Prospective investors should also explore the possibility of producing customized bags for big clients like supermarkets.

### TECHNICAL INFORMATION

The plant under consideration is a small scale plant capable of producing a very wide range of polythene bags. On a single shift of 8 hours per day, the plant is capable of producing 3,000 polythene bags daily. Working on three shifts of 8 hours each per day, the plant can produce 3,285,000 bags of different shapes, designs and sizes per annum. However, this write up assumes 2 shifts of 8 hours each per day and 300 working days in a year. The core equipment required includes the shopping bag making machine, moulds, hydraulic perforator. Basic raw materials for polythene are available locally and in very large quantities. The manufacturing process is based on thermal transfer using double ply polythene introduced from an adjustable roller into a thermal diagonal lane where cutting and sealing takes place. Sealing temperature can be controlled and varied by the use of temperature control.

#### Technical Data

Plant installed capacity:	3,285,000 polythene bags per annum
Attainable capacity:	2,956,500 polythene bags per annum
Proposed capacity:	1,800,000 polythene bags per annum
Power	NEPA or 2.2KVA generator
Machine feature:	Adjustable roller, Jaw Controlled Cutter and Sealing timer.

#### Financial Data

Pre-Investment outlays	30,000
Rent/Accommodation (2yrs)	60,000
Machine / Equipment	100,000
Utilities	50,000
Working Capital	100,000
Total project Cost	340,000
Projected year 1 Income	7,000,000
Projected year 1 Expenses	3,500,000
Projected year Profit	3,500,000

### 3.1.2 Estimating the Size of the Market

We have identified who the potential customer of a business is or should be. The task is not complete. We will go ahead then to evaluate the size of the market for goods or services that the enterprise seeks to offer the market. The evaluation of market size is important since it gives the entrepreneur an idea of market size in terms of naira and kobo.

A good marketing plan should start by defining the product in question and then going ahead to evaluate the size of the market for the goods and services in question.

In the literature, we can estimate the size of the market through qualitative and quantitative methods.

But then wait a minute. We shall be orderly in our approach. And so we shall follow the following steps to evaluate the size of the market.

- Define demand
- Examine factors that affect demand
- Examine demand for intermediate & capital goods
- Build market demand.

### **Defining Demand**

We will now define demand because the definition will help us to prepare a workable marketing plan.

In this our discussion, we shall define demand for a product or service as the total quantity of goods or services that customers within a defined area are willing to buy at set prices.

Therefore demand refers to a set of quantities and prices relating to a product or service. You will also recall that in the traditional economics setting that the demand curve is downward sloping (with a price and quantity axis).

Let        X                = total number of people in a given population that purchase a particular product.

              P                = the price at which they buy

Then       XP                =Total Market demand for the product.

Let us attempt to translate this information into naira and kobo.

Assume that 100,000,000 Nigerians drink a sachet of water costing ₦5 each daily. Then we can safely define Total market demand thus:

Total number of purchases of sachet water daily        = 100,000,000

Price per sachet of water                                        = ₦5

Total market demand (daily) = ₦ 500,000,000

### **Factors Affecting Demand**

It is not sufficient for the entrepreneur to define demand and measure total market demand. The entrepreneur should go a step further and examine the key factors affecting demand for the products or services that are to be put up on the shelf for customers. Understanding of factors affecting demand for the products or services that are to be put up on the shelf for customers, will enable the entrepreneur to prepare a good marketing plan.

Traditionally in economic theory, the price of a product or service is one of the most important factors affecting demand. So if we assume a well behaved demand curve, then the higher the price of a good, the smaller the quantity that will be demanded. Also, the lower the price, the greater or higher the quantity of the good that will be purchased.

Another important factor affecting demand for a product or service is the income of the population and also the income distribution of the population. Given that the income of a purchaser is limited, it is logical to believe that the higher the income received the more goods and services that will be purchased.

As an approximation, we can say that a population with a higher income is more likely to purchase more goods and services than a population that has a lower income.

### **3.1.3 Key Elements of the Marketing Plan**

We have tried to define demand. We then went ahead to define market demand and the factors affecting demand for a product or service. The next important thing that the entrepreneur should do is to isolate the key elements of the marketing plan. We shall isolate those elements here and then discuss them.

#### **Price**

Price is one of the key elements of a marketing plan. The entrepreneur in facing the market should be fully aware of existing market prices and then fix his or her own prices. As we said earlier, the entrepreneur can adopt a low price leadership strategy to enable his products gain market acceptance and market entry. So a standard marketing plan must have a pricing strategy that takes into consideration the fact that lower prices will lead to more market purchases.

#### **The Product Availability**

A good marketing plan should disclose the availability of a product or service. Availability in terms of where the product can be found. Usually the product should flow from the manufacturer to the wholesaler and then the final consumer. An ideal marketing plan should pay deep attention to how a product will be made available to the consumers. The plan should reveal the key wholesale channels and also the retail channels.

#### **Advertisement and Promotion**

When a product is manufactured or made available through purchase, there should be a way or medium through which the public should be made to be aware of the product. Essentially this is through advertisements and promotions. The purpose of advertisement is to draw customer's attention to the existence of a product and where it can be purchased. In many instances too, an advertisement will usually disclose the quality of a product or service. Enterprise adverts can be placed in:

- Radio
- Newspapers
- Television

#### **4.0 Conclusion**

The marketing components of a business plan are very important because they are part of a business plan. The marketing plan is a core component of a business plan. It enables the entrepreneur to relate the business to the market environment.

## **5.0 Summary**

In this unit, we discussed the Marketing Components of a business plan. We discussed potential customers and also the size of the market. We defined demand and also factors affecting demand. We then discussed the key elements of the marketing plan. In the next unit, we shall discuss the financial components of a Business plan.

## **6.0 Tutor Marked Assignment Question**

What are the key elements of a Marketing plan?

## **7.0 References and further reading**

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

**ANSWER TO THE EXERCISE**

## **10.1**

Five products that a small scale business can manufacture are:

1. Bread
2. Meat pie
3. Toilet roll
4. Garri
5. Biscuit.

## **1.0 Introduction**

In the last unit, (Unit 10) we discussed the Marketing Components of a Business plan. We discussed potential customers and also the size of the market. We defined demand and also factors affecting demand.

In this unit, we shall discuss the financial components of a business plan.

## **2.0 Objectives**

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

- Identify the financial components of a business plan
- Discuss the financial components of a business plan.

## **3.0 Main Content**

### **3.1 The Financial Components of A Business Plan**

We have already defined a business plan. We defined a business plan as a document that sets out what a business is all about. It documents what the business is going to do and how it is going to do it. If the entrepreneur has decided on what business to go into, the next crucial step is to properly analyse how much it will cost to set up the business and run it. The entrepreneur must also fashion out how to finance the business. All these information will be found in the financial components of a business plan.

Basically the financial components of a business plan will address all the issues relating to the financing of the small business. And truly, we must state that the financial component of a business plan constitutes the most important component of a business plan. All the critical costs of a business must be captured in the plan. All revenues and expenditures must also be captured.

We also need to stress that banks when called upon to finance a project will demand for the financials of the project. The banks will want to get the details of the project being submitted to them for appraisal and lending.

#### **EXERCISE 11:1**

List three parties that may be interested in studying the financial components of a business plan.

### **A PRACTICAL BUSINESS IDEA FOR CLASS DISCUSSION**

## **FRUIT JUICE PRODUCTION**

Fruits grow abundantly in Nigeria. These include mango, orange, pine-apple, guava, pawpaw, 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 pine-apple 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, proposed 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 scale 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 fruit juice extractor for the extraction of juice. The in-built screen in the extractor separates the juice from the mashed pulp and seed. The resulting fruit 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.

### **FINANCIAL HIGHLIGHTS**

	<b>N</b>
TOTAL PROJECT COST	2,000,000
PROJECTED YEAR 1 INCOME	11,000,000
PROJECTED YEAR 1 EXPENSES	8,000,000
PROJECTED YEAR 1 PROFIT	3,000,000

#### **3.1.1 Contents of the financial components of the business 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.

1. Estimates of Projected cost including land, buildings and things like steel structures.
2. Utilities – costs
3. Machinery and equipment costs
4. Pre-operational expenses
5. Working capital requirement
6. Financing plan
7. Projected income statement
8. Projected cash flow statement
9. 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 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.

8. Start up costs of the project
9. Revenues of the project
10. Expenditures of the project
11. 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 Angels, 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 – 200tons	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
<b>Sub Total</b>	<b>8,100,000</b>

**Utilities**

1 Unit 500 KVA Transformer	3,500,000
1 Unit 500 KVA generator	10,000,000
1 Unit water borehole	500,000

**Sub Total** 14,000,000

**PROPOSED FINANCING PLAN (₦)**

	<b>PROJECT SPONSOR</b>	<b>BANK</b>	<b>TOTAL</b>
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
<b>Total</b>	<b>75,867,994</b>	<b>99,040,000</b>	<b>174,907,994</b>

**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 house the vegetable oil plant	13,000,000
2.	Contribution towards purchase of the vegetable oil refining plant	77,940,000
3.	Construction / purchase of storage tanks	8,100,000
	<b>Total</b>	<b>99,040,000</b>

#### **PROJECTED LOAN DISBURSEMENT: 1/11/2006**

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

Projected 1 <sup>st</sup> 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 31<sup>st</sup> December 2005.
2. The audited financial statements for the six months ended 31<sup>st</sup> December 2005 and the projections for the year ended 31<sup>st</sup> 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 1<sup>st</sup> year of the consolidated project.
3. The vegetable oil plant will commence operations latest on 1<sup>st</sup> 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 plan 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.

12. There will be no drastic change in the political and economic climate of the country that will adversely affect the operations of the company.
13. 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 2007
Installation and test run of plant:	March 2007 (4 weeks)
Plant commences operation:	Latest 1 <sup>st</sup> 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 (₦)	TOTAL REVENUE (₦)
Refined Vegetable Oil	12,498	145,000	1,812,210,000
Palm Kernel Cake (PKC)	18,418	5,000	92,090,000
Palm Kernel Sludge (PKS)	1,315	4,000	5,260,000
Fatty acid	657.84	100,000	65,784,000
<b>Total</b>			<b>1,975,344,000</b>

- 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 year 3 & 4 due to increase in raw material input prices.

## **SUMMARY OF PROJECTED REVENUES**

	<b>REVENUE (N)</b>
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 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 oil will be in affordable units and prices to the market.

**PROJECTED TRADING, PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER**

	<b>2007</b>	<b>2008</b>
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

<b>DEDUCT</b>		
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)**

	<b>2007</b>	<b>2008</b>
<b>SOURCES OF CASH</b>		
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
<b>USES OF CASH</b>		
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)**

	<b>31/12/2007</b>	<b>31/12/2008</b>
<b>ASSETS EMPLOYED</b>		
Net Fixed Assets	198,538,111	179,689,096
<b>INTANGIBLE ASSETS</b>		
Preliminary expenses	55,000	55,000
<b>CURRENT ASSETS</b>		
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
<b>TOTAL</b>	<b>392,012,378</b>	<b>667,767,313</b>
<b>CURRENT LIABILITIES</b>		
Creditors and Accruals	53,000,000	70,000,000
Bank Overdrafts	15,000,000	14,000,000
Tax Provisions	117,278,281	114,618,944
<b>TOTAL</b>	<b>185,278,281</b>	<b>198,618,944</b>
Net Current Assets / (Liabilities )	206,734,097	469,148,369
<b>FINANCED BY</b>		
Share Capital	1,000,000	1,000,000
<b>RESERVES</b>		
Profit And Loss Account	341,031,222	584,596,479
Directors Current Account	63,295,986	63,295,986
<b>Shareholders Fund</b>	<b>405,327,208</b>	<b>648,892,465</b>

#### **4.0 Conclusion**

In this unit, we have discussed the financial components of a business 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 managing manufacturing based operations.

## **6.0 Tutor Marked Assignment Question**

Discuss the key users of the information in the financial components of a business plan and why they are interested in it.

## **7.0 References**

- 7.1 Leon Ikpe (1999):A Guide to Small Business Investment. Impressed Publishers, Lagos.
- 7.2 Leon Ikpe (1999): Project Analysis and Evaluation. Impressed publishers, Lagos.

**ANSWER TO THE EXERCISE**



## **11.1**

The three parties that may be interested in studying the 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.

## **1.0 Introduction**

In the last unit (unit 11), we discussed the Financial Components of a Business Plan. We discussed the contents of the financial segment of a business plan. We discussed the estimates of the project cost. We discussed the income statement and the cash flow statement.

In this unit, we shall discuss managing manufacturing based operations.

## **2.0 Objectives**

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

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

## **3.0 Main Content**

### **3.1 Managing Manufacturing Based Operations**

When we discussed the types of business organizations, we saw that manufacturing happens to be one of the types of business that people engage in. This is in addition to service based businesses and trading. Here our interest will be to discuss manufacturing based operations.

The management of manufacturing based operations is not an easy walk-over for the entrepreneur. And it can be very challenging especially where the entrepreneur has no formal training in manufacturing.

#### **3.1.1 The Nature of Manufacturing**

To start with, we must at the onset describe manufacturing as a conversion process. The process involves the conversion of raw materials either to intermediate goods or final consumer goods. In the conversion process machinery and equipment are used.

#### **3.1.2 Manufacturing Facilities**

From the onset, we should first understand that manufacturing activity does not take place in a vacuum. It takes place in a factory or plant. In setting up a manufacturing facility, the entrepreneur should be able to make a comprehensive list of all the things that are required to ensure that manufacturing takes place without hitches. We shall now discuss the things that are required.

##### **Land**

Our primary interest in land is that land houses the factory or plant. And so this is understandable. The land which the entrepreneur should rent or acquire for the manufacturing facility should be such that will take care of the following:

- Space to accommodate factory buildings.
- Space to accommodate machinery and equipment

- Space to accommodate office buildings
- Space for movement of vehicles in and out of the factory premises.
- Perimeter fence round the manufacturing facility.

### **Factory Layout**

A very important aspect of manufacturing operations that must be properly attended to is the factory layout. The factory layout generally pays attention to how the machinery and equipment will be arranged to ensure smooth manufacturing operations. The layout should take the production process into consideration as well as Government regulation. For example in sachet water production in Nigeria of today, NAFDAC regulations are that the sachet water 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.

Also, the layout should provide for:

- Easy movement of raw materials from suppliers into the factory facility
- Easy movement of raw materials into the production hall
- Easy movement of the finished goods from the production hall to the finished goods store.
- Easy flow of the goods from the finished goods store to the loading bay for sales.

### **Machinery and Equipment**

We have just discussed factory layout. The next thing that we will discuss is machinery and equipment in manufacturing operations. As the words suggest, machinery, equipment, tools etc are the necessary tools that are used in the manufacture of goods. They assist in the conversion of raw materials into finished goods or at least intermediate goods. For example, an entrepreneur wishing to set up a sachet water plant in Nigeria must have the following machinery and equipment.

- (a) A comprehensive water treatment plant consisting of sand filters, activated carbon filter, iron filter.
- (b) Ultra Violet (UV) sterilizer with lamp
- (c) Automatic sachet water packaging machine
- (d) Water bore-hole with fittings like tanks
- (e) Laboratory equipment, water test kits etc.

### **Utilities**

In planning for an efficient manufacturing facility, the entrepreneur must properly address issues concerning utilities. The first utility we will consider is power. Electricity is required to power the various machinery in a factory. In a general situation, power from the public supply is available. But it is very erratic. Because public power supply is erratic and very unreliable, there is the need for the entrepreneur to have an alternative means of power supply. Of course the generator comes in handy here. In the choice of generator, the entrepreneur should pay attention to the capacity of the generator. The generator should be able to carry the entire machines in the manufacturing facility under consideration. Of course we must add here that the quality of the generator should not be overlooked because poor quality generators breakdown easily and disrupt manufacturing operations.

Another important utility is water. A lot of manufacturing operations need water. For example a cassava processing facility will require a lot of water. Also a cosmetics manufacturing facility will require a lot of water. Basically, we suggest that a forward looking entrepreneur should think of sinking a bore-hole because water supply is either non-existent or grossly erratic in supply.

	Have you thought of this?
--	---------------------------

<p>What machinery / Equipment are needed?</p> <p>What are their specifications?</p> <p>What are the installed capacities?</p> <p>Design of the machinery</p> <p>Construction e.g. Body in carbon steel</p> <p>Installation materials</p> <p>Motor controls</p> <p>Raw materials consumption</p> <p>Clean water requirements</p> <p>Pressure requirements</p> <p>Fuel oil requirement</p> <p>Electrical conductors</p> <p>Weighing arrangements for oil</p> <p>Weighing arrangement for chemicals</p> <p>Fire fighting equipment</p>	
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Table 12.1: Equipment / Machinery and Utilities Checklist

**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 N1000 (averagely) to dry clean a suit along Awolowo Road, Ikoyi, Lagos. The better way of estimating dry cleaning service 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 to provide 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). 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

	<b>(N)</b>		<b>(N)</b>
Pre-investment outlays	N100,000	Projected Year 1 Income	6,000,000
Rent (2yrs)	400,000	Projected Year 1 Expenses	3,500,000
Machinery/Equipment	1,000,000	Projected Year 1 Profit	2,500,000
Utilities	1,000,000		
Working capital	400,000		
Total Project Cost	2,900,000		

#### 3.1.3 Raw Materials

We have discussed machinery/Equipment. The next feasible item on our list is raw materials. In a manufacturing facility, raw materials are the inputs that will lead to the production of the intermediate goods or the final goods. When considering the issue of raw materials, the entrepreneur needs to focus on the following:

- The type of raw materials required
- The quality of the raw materials required
- The sources of the raw materials
- The suppliers of good quality raw materials
- The location of the raw material suppliers.

We need to sound a note of warning here. And it is all about the quality of the raw materials to be used in manufacturing. The quality of the input (raw material) goes a very long way to determine the quality of the output (finished goods). Entrepreneurs that resort to the use of cheap and substandard raw materials will come out with poor and substandard goods.

### **3.1.4 Management Functions in Manufacturing**

We have come a long way now. We have discussed the nature of manufacturing. We also discussed manufacturing facilities. The next topic for discussion is the management functions in manufacturing. In managing manufacturing operations the entrepreneur has the following functions:

- Planning, covering objectives setting etc.
- Budget planning
- Planning for raw materials
- Input/output planning
- Organizing which involves setting up the structure in the manufacturing facility. e.g supervisor/factory worker arrangement
- Shift planning and arrangements.

#### **EXERCISE 12.1**

List four items you might find in a factory layout.

	Have you thought of this?
--	---------------------------

<p>What will be the location of the business?</p> <p>Has land been acquired?</p> <p>What is the land space?</p> <p>Will it accommodate the machines?</p> <p>Will it accommodate the offices?</p> <p>What of the factory layout?</p> <p>Does it meet regulation needs?</p> <p>Public electricity supply</p> <p>Private electricity supply</p> <p>Public water supply</p> <p>Products to be manufactured</p> <p>The production process</p> <p>The raw materials</p> <p>Raw material quality and sources</p> <p>Production shifts. (1,2 or 3)</p> <p>Production planning</p> <p>Adequate staffing</p>	

Table 12.2: Manufacturing management checklist

#### 4.0 Conclusion



In this unit, we discussed Managing Manufacturing based operations. We discussed the nature of Manufacturing. We also saw a checklist for manufacturing management.

## **5.0 Summary**

We have just discussed managing manufacturing based operations. We saw that operations design start from land acquisition to equipment sourcing and development. It covers raw materials sourcing, production process management and management control.

In the next unit, we shall discuss managing service based operations.

## **6.0 Tutor Marked Assignment**

What are the basic items that you expect to see in a small scale manufacturing facility located in your immediate environment?

## **7.0 References and further reading.**

- 7.1 Wallace, T.F (1995), MRP – making it happen: The Implementer's guide to success with manufacturing resources, planning. Chichester, Wiley.

**ANSWER TO THE EXERCISE**

### **12.1**

The four items to be found in a factory layout are:

1. Production hall
2. Machinery and Equipment
3. Weighing scale
4. Quality control desk

## **1.0 Introduction**

In the last unit, (unit 12), we discussed Managing Manufacturing Based Operations. We discussed the nature of manufacturing. We discussed manufacturing facilities and saw how attention needs to be focused on items like land, factory, machinery/equipment and utilities. We also discussed raw materials and management functions in manufacturing. In this unit, we shall discuss managing service based operations.

## **2.0 Objectives**

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

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

## **3.0 Main Content**

### **3.1. Managing Service Based Operations**

We have discussed manufacturing based operations. We will now discuss management of service based operations. It will be very important to recognise the fact that service organizations provide services for which they receive payments. Service organizations may not manufacture goods. They provide service. Their long term survival therefore depends on their ability to sustain service quality. The service demand will range from banking services, insurance, legal services to medical services. They will include hair dressing.

The customer of today is becoming much more demanding and also quality seeking. For example, customers are now using their discretion to select which bank do business with. Or which airline to use. Before choosing where to go, the customers will compare the quality of service of the various firms. It is therefore clear that the critical focus of managing service based operations is to deliver superior quality service to beat the competition.

Quality is at the root of competition in service based organizations. But to be able to manage service properly, the entrepreneur should first understand operations management systems. And that is what we will discuss next.

#### **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. Having said that, we shall define operations management system as the fusion of operations management concepts, procedures, technologies and people who coordinate the system.

Let us now take a critical look at the operations management system by looking at the separate units that make up the system.

The key units are:

### **Inputs**

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

### **The Conversion Process**

This is the system of facilities and procedures that are used in the production of finished goods and services.

### **Output**

Output of a system is a reference to the finished service.

### **Feedback**

Feedback essentially is a system through which suppliers, outputs and customers are monitored strategically for planning purposes. A feedback system reveals the level of customer satisfaction.

## **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 drugs Administration	Healthy individuals	Hospital Managers Matron	Patients response or complications
Bank	Customer. 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 managers	Time taken to get claims paid
Bank	Customers, bank staff, equipments	Processing loan applications	Loan approval	Credit managers	Time taken between receipt of application and loan approval or rejection

Table 13.1: Examples of Operations Management System

### 3.1.2 The Role of Operation Mangers

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 operations manager is to identify his/her responsibility in meeting his / her organizations goals, clarify these goals with his/her subordinates, 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:

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

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

<b>Planning And Decision-Making Area</b>	<b>Fundamental / Key Issues</b>
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 facility layout	What is the sequence for preparing a bank draft for a customer? What is the best way to serve 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?
Quality assurance	How long is the service queue?

Table 13:2 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 important to 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:

- (1) Improved work flow
- (2) Work control and quality measurement
- (3) Improved staff morale by providing a good working environment
- (4) 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 N100,000.00. 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
<ol style="list-style-type: none"> <li>1. Enters the bank</li> <li>2. Joins a fair long queue</li> <li>3. Drops cheque with cashier and collects Tally number</li> <li>4. Leaves cashier area and goes to wait in the banking hall.</li> <li>5. His/her tally number is called</li> <li>6. Goes back to cashier and collects money</li> <li>7. Leaves the bank.</li> </ol>	<ol style="list-style-type: none"> <li>1. Collect cheque from customer Inspects the cheque briefly.</li> <li>2. Issues customer with tally number</li> <li>3. Lodges cheque in the out-going tray behind him/her</li> <li>4. Blocking clerk collects the cheque and blocks same amount on the customer's account</li> <li>5. Clerk sends cheque to cash officer for signature</li> <li>6. Cash officer signs and refers cheque to the accountant whose limit is N50,000</li> <li>7. Accountant signs and refers cheque to Manager</li> <li>8. Manager signs and authorizes payment</li> <li>9. Accountant goes to vault to get N100,000</li> <li>10. Cash officer collects N100,000 and hands over to cashier</li> <li>11. Cashier pays customer</li> </ol>

Table 13.3 Cheque encashment process at Enjoyment Bank. (An old generation bank)

**EXERCISE 13.1**

List four institutions whose products are described as services.

**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 kernel per annum. However, to accommodate time lost to maintenance of equipment, equipment failures and break-down, 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 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 vibration 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.

#### **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 and managers 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 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, Japanese products are world class.

Deming in his teaching listed 14 points which can improve total quality. These are:

1. Management commitment to total quality management
2. Learn the philosophy-be customer driven
3. Understand the purpose of inspection-for improvement of process 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 management must be directed towards the maintenance and improvement of service quality. It is for this reason that we seek to examine the 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 you customer with N100, you debit him/her with N1000
- (b) A customer pays for a comprehensive car insurance policy. But you carelessly write third party policy for customer
- (6) Mistakes
  - (a) Your customer traveling 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 **hernia surgery**. The doctor now goes ahead to perform a **caesarian 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 system and also the role of operations managers. We also discussed managing service through Total Quality Management (TQM) which 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 the next unit, we shall discuss Raising capital for small business.

## **6.0 Tutor Marked Assignment**

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

## **7.0 References**

- 7.1** Leon Ikpe (1999) A Guide to Small Business Investments. Impressed Publishers, Lagos
- 7.2** Leon Ikpe (1999): Project Analysis and Evaluation. Impressed Publishers, Lagos.

**ANSWER TO THE EXERCISE**

### **13.1**

The four institutions whose products are described as services are:

- (1) Hospitals
- (2) Insurance companies
- (3) Banks
- (4) Universities

## **1.0 Introduction**

In the last unit (unit 13), we discussed managing service based operations. We discussed operations management systems which focused on how inputs pass through a conversion process to yield output of services. We also discussed total quality management (TQM).

In this unit, we shall discuss raising 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 Raising Capital For Small Business.**

So far, so good. We have discussed the nature of small business. But we did not discuss how to raise capital for the small business. And that is what we will discuss in this section.

In the literature, it has been advocated that one of the greatest problems facing the small scale business operator is lack of capital.

There are various sources of finance for the small business. But this to a large extent depends on the size of the business and also the legal form of the business. Let us now discuss the various sources of finance.

#### **3.1.1. Personal Savings**

Personal savings is one of the sources of finance for the small business. And to a very large extent, we may say with much certainty that it is one of the most assured sources of finance for the starter entrepreneur. Most business start-ups are usually planned and therefore we may safely assume that the prospective owner will provide the initial capital.

Practically, most people over years save money at least for the rainy day. The rainy day may emerge when someone suddenly becomes unemployed through a staff rationalization exercise. The rainy day savings are usually kept aside for various 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, many 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 mentioned borrowing from friends or relations as a source of finance for small business, a major problem associated with these sources is that it is not easy to borrow because friends and relations may doubt the sincerity of the borrower.

### **3.1.3 Borrowing From Banks**

A major function of a bank is to lend money to individuals and business organizations. In the Nigerian setting the banks are very liquid – a fall out of the banking consolidation. Let us now discuss the various types of finance that are available from the conventional banks.

#### **Bank Loans**

All the banks normally grant loans to eligible business organizations to enable them undertake capital investments in sectors like agriculture, mining, oil and gas, manufacturing and housing. Usually a loan when granted is for a specific purpose e.g. purchase of manufacturing equipment. Loans are also usually repayable over a fixed period of time as agreed between the bank and the customer.

Every loan also will have an interest rate attached to it e.g. 20% per annum. Besides most banks will ask for security/collateral when granting a loan.

When a business organization is seeking for a loan from a bank, the organization is expected to write a formal application for loan to the bank concerned. The application will normally state the following:

- The amount of loan that is required.
- The purpose of the loan
- The duration of the loan
- The installment repayment
- The security offered by the borrower.

In support of the application, the borrower is expected to furnish the bank with the following documents:

1. Past three years audited accounts
2. Business plan
3. Projected cash flow statement showing the projections for revenues and expenditures on cashbasis

With all these documents, the bank then appraises the lending proposal before it and decides whether or not to grant the loan to the business in question.

If the bank's response is positive, it will go ahead and make anoffer to the customer.

## Bank Overdraft

The bank overdraft is another form of bank financing usually offered by banks to business. Bank overdrafts mostly are given to businesses for working capital purposes. For example, a manufacturing organization that manufactures goods will need to purchase raw materials, pay salaries and wages etc. All these activities are usually undertaken before the manufactured goods are sold and cash received. So the overdraft when obtained from a bank usually will be deployed towards the acquisition of current assets.

Bank overdrafts usually are for periods that are fixed for example one year and also carry interest rates. In practice when a business organization is seeking for overdraft from a bank, it is expected to write a formal letter of application to the bank. The application will state the following:

- The amount of overdraft that is required
- The purpose of the overdraft
- The duration of the overdraft
- The security offered by the borrower.

Again in support of the application, the borrower is expected to furnish the bank with the following documents:

1. Past three years audited accounts
2. Business plan
3. Projected cash flow statement showing the projections for revenues and expenditures on cash basis.

With all these documents, the bank then appraises the lending proposal before it and decides whether or not to grant the overdraft to the business in question.

If the bank's response is positive, it will go ahead and make an offer to the customer.

## Lease Finance

Lease finance is another type of finance that is available to small and large business concerns. Basically 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. At the end of the lease period, the lessee may have the option to purchase the equipment in question. In a standard setting therefore, the bank is the lessor while the customer of the bank is the lessee.

Typical equipment that are financed through Lease finance are oil tankers, luxury buses etc. lease finance is fast becoming a popular type of finance for firms that do not want to purchase equipment due to cash flow constraints.

### **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 Limited (NIDB) which was 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 modernization of existing enterprises and rehabilitation of ailing ones". The Bank of Industry 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 records of unpaid loans to erstwhile Development Finance Institutions and other banks.

## **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 cakes 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-histamines 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/machinery required includes 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, 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 3,942 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 onto 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.

<b>FINANCIAL HIGHLIGHTS</b>	
	<b>₦</b>
Total Projected Cost	50,000,000
Projected Year 1 Income	200,000,000
Projected Year 1 Expenses	170,000,000
Projected Year 1 Profit	30,000,000

### **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 banks.

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 concern 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 is usually in the form of equity investment and loans.

All those engaged in the following activities are eligible to get funding under the scheme:

- Agro allied businesses
- Information technology and telecommunications
- Manufacturing
- Education establishments
- Services
- Tourism and Leisure
- Solid minerals
- Construction

The major 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:

- Cooperative societies
- Finance houses
- Mortgage banks
- Microfinance banks

### **EXERCISE 14. 1**

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, funds from friends or relations, funds from the banks and other financial institutions. All of them present viable sources of finance for small business.

## **5.0 Summary**

A key problem facing small business organizations is finance and how to source finance for small business is what we have discussed here in this unit. We also discussed the Bank of Industry Limited as a major source of finance for industry. In the next unit, we will discuss Accounting records for small business.

## **6.0 Tutor Marked Assignment Question**

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

## **7.0 References and Further Reading**

**7.1** Smith, N.J (1995): Project cost estimating, London, Thomas Telford.

**ANSWER TO THE EXERCISE**

## **14.1**

Four sources of finance for a small business owner-manager are:

1. From personal sources
2. From friends and relations
3. From banks
4. From finance houses.

## **1.0 Introduction**

In the last unit (unit 14), we discussed raising capital for small business. We saw that the sources of capital range from personal savings to bank funds. We also discussed the Bank of Industry Limited. In this unit, we will discuss Accounting records for small business.

## **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 business.

## **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 as well as the basic fundamentals of accounting record keeping. It has to be stated that the financial statements and the accounting records kept are interdependent because the financial statements are usually generated from the accounting records. We will now proceed by discussing financial statement as a reporting tool.

#### **3.1.1 Financial Statement as a Reporting Tool**

The reporting of activities of a business comes in the form of the financial statement. Ideally, every business should have an accounting system.

Accounting is the recording, interpreting, classifying, reporting and presenting of the activities of an organization or company for a particular period of time. The accounting process provides linkages to all departments and activities of a company and summarizes them accordingly in financial terms.

Without financial statements, it will be very difficult to appraise the activity of a company over a period of time. For example if the marketing manager of a company reports a turnover of N10 million for the month, he may not be able to disclose whether the company operated at a profit or at a loss.

We can therefore safely state that the financial statement is a standard and conventional tool of reporting the activities of a company / organization. For purposes of our discussion, we shall restrict ourselves to only three items namely:

- The Balance sheet
- The Income Statement
- The Cash flow statement.

#### **The Balance Sheet**

The balance sheet shows the financial position of a company at a particular date. This in effect means that you can show the financial position of a company as at the year end (i.e. financial year) or quarterly or at any date that one wishes. The balance sheet therefore will show a summary of the assets and liabilities together with the net effect, and overall size of the company. This is mainly divided into:

Assets	-	Fixed and current assets.
Liabilities	-	Long term and short term
Capital	-	Share Capital and retained earnings

The assets of the firm are the financial resources owned by the firm.  
Liabilities are claims which creditors have against the firm. They are the debts of the firm.

Figure 15.1 is the balance sheet of an imaginary company. You are requested to study it properly and to make sure you understand the contents.

## BALANCE SHEET AS AT 31<sup>ST</sup> DECEMBER, 2007

<u>ASSETSEMPLOYED</u>	2007
Fixed Assets	N : K
Investments	47,421,315.21
	<u>57,896,431.59</u>
	105,317,746.80
<u>CURRENTASSETS</u>	
Stock	303,301,005.79
Debtors & Other Accounts	270,101,009.04
Cash and Bank Balances	<u>79,420,056.55</u>
	652,822,071.38
<u>CURRENTLIABILITIES</u>	
Creditors and Accruals	98,004,508.33
Bank Overdraft	<u>97,448,705.02</u>
	<u>195,453,213.35</u>
Net Current Assets	<u>457,368,858.03</u>
Net assets	<u>562,686,604.83</u>
<u>FINANCEDBY</u>	
Share capital	100,000,000.00
Revaluation Reserve	23,742,131.34
Appropriation account	<u>438,944,473.49</u>
	<u>562,686,604.83</u>

Figure 15.1: The 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 one year. However, most income statements cover a one year period. The income statement reports the revenues i.e gross sales made by a business over a period. It also reports the expenses made by the business over a period.

The 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 a loss.

The format of the income statement will depend on the type of business that the business is engaged in. Basically, construction of the income statement may involve the following:

- Preparation of the manufacturing account
- Preparation of the trading, profit and loss account.

Figure 15.2 is the income statement of an imaginary firm called ABC Nigeria Limited. It consists of the trading, profit and loss account for the year ended 31<sup>st</sup> December 2007. You are requested to study the income statement and make sure that you understand same.

#### 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 the firm. The two key components of the cash flow are the inflows and outflows. The cash inflows basically denote the inflows of cash generated through operations. The outflows denote the outflows (outgoings) of cash from the firm.

**ABC NIGERIA LIMITED**

**TRADING, PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup>  
DECEMBER, 2007**

	<b>2007</b>
	<b>N : K</b>
Turnover	1,150,441,597.60
Opening stock	431,453,041.41
Purchases	605,507,998.80
Direct Expenses	<u>140,672,136.10</u>
	1,177,633,176.31
Less: Closing Stock	<u>303,301,005.79</u>
Cost of Goods Sold	874,332,170.52
Gross Profit	276,109,427.08
Interest on Investment	<u>1,868,343.06</u>
	277,977,770.14
<b>LESS: INDIRECT COSTS</b>	
Establishment	6,897,930.25
Administration	144,531,512.41
Finance and miscellaneous	<u>71,982,692.83</u>
	<u>223,412,135.49</u>
Net Profit/(loss) before	
Depreciation	54,565,634.65
DEDUCT: depreciation	(12,027,672.00)
Net Profit/ (Loss) before	
Taxation	<u>42,537,962.65</u>

Figure 15.2: The Income Statement

**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 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 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, caustic soda, liquid sodium silicate, dyes and perfumes (where required). The basic equipments 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 the 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 1300kg/m<sup>3</sup>.

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 20 minutes. Then sodium silicate, soda ash in solution and dye are added in measured quantities. Stirring continues for another 10 to 15 minutes with perfume added if desirable. The soap is poured into solidification boxes (moulds) which have nylon underlay. After about 12 hours, the soap becomes dry and ready for use.

### **3.1.2 Keeping the Books**

We have earlier discussed the financial statements as being very important to the business. But we did not discuss the way the items therein are sourced and generated. That falls into the realm of pure accounting. But we need to stress the type of books and records that the small business should keep.

#### 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 between goods that are sold for cash and those sold on credit. Usually the journal is divided into debit (DR) and credit (CR) columns. The two columns ideally should balance.

#### Cash Disbursement, Purchase 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
- Purchase made
- Other expenses.

#### **EXERCISE 15.1**

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

#### **3.1.3 Managing the Books**

For a small business there are 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 may come in may be once in a month to keep the records of the business straight.

Another viable 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 the keeping of books. We also looked at examples of a balance sheet and the income statement.

## **5.0 Summary**

The 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 communication 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 this unit.

## **6.0 Tutor Marked Assignment Question**

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

## **7.0 References and Further Reading**

**7.1** Smith, N.J (1995): Project cost estimating, London, Thomas Telford.

**ANSWER TO THE EXERCISE**

## 15.1

The four items that are assets in a balance sheet are:

1. Cash
2. Stock
3. Debtors
4. Pre-payments