Entrepreneurship Training for Small Enterprises

Training Module

Small Enterprises Training Workbook

Issue 1.0

TPSF refers to Tanzania Private Sector Foundation.

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Introduction

This manual has been developed for small enterprises in Tanzania. It will serve for both owners and operators who are managing small enterprises and facilitators who are experienced in conducting trainings for MSMEs. The training material laid herein can be taught by trained Business Development Services providers who have rich experience in business development and are currently practicing entrepreneurs.

This manual has been prepared by TPSF and is intended to be used for the purpose of training small enterprises in Tanzania. The purpose of this manual is to be a reference and facilitating manual providing detailed information to support the MSME Information Systems training module.

IML and individual consultants have contributed to the content, and supported the publication of this manual.

This manual supplements training e-learning modules and is to be used as an aid in complementing each other.

It is intended that the manual be used as a detailed reference to support the introductory concepts within the MSMEs training modules and has been constructed to be easy to use for entrepreneurs.

Aim of the Workbook

The course is structured so that the facilitator presents functionality using slides. Where relevant and possible, the participants will then have the opportunity to complete exercises to consolidate their learning. A training environment has been set up with training data provided, allowing participants to practice in a safe environment.

The aim of the workbook is to be a working document, reinforcing the information presented by the facilitator. Each participant will have a copy of this workbook for further reference.

Course Objectives

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

1. Discuss and understand activities involved in different types of business categories, legal structures and business licensing.
2. Demonstrate basics for starting and managing business and how to engage in the right business.
3. Understand how to finance a business and which financial sources to used
4. Demonstrate the ability to do financial planning and management to ensure business growth.
5. Demonstrate ability to prepare and make use of a business plan when starting or expanding a new business and use it as a management tool.
6. Demonstrate clearly an understanding of the entire marketing process while at the same time identifying the basic elements of a marketing strategy.
7. Use business management terms and concepts when communicating, while at the same time selecting appropriate resources that will be used to collect business data and how to use data or information for decision-making.

Course Outline and Outcomes

Outline

- Starting a business
- Types of Businesses
- Taxation and Licensing
- Business Financing and Financial Management
- Business Planning and Management
- Marketing and Customer Care
- Human Resources Management

Outcomes

- Understand steps in starting a business
- Identify types of businesses that an entrepreneur can get involve in
- How to register with Tanzania Revenue Authority and obtaining business licences
- Improved knowledge on sources of finance and basics of financial management
- Understand how to market a small business and offering goods customer service
- Skills in managing employees

Unit 1 - Starting a Business: Basics

1.1 Introduction

Any business starts out as an idea, but it should be transformed into action. That is where many individuals can start to feel overwhelmed. It's understandable to freeze up at the flow of things that are required to get a business started, but getting going is actually easier than you might think. Like any big goal, if you start by breaking it down into smaller tasks, you'll be able to tackle enough of the actions necessary to get started.

1.2 How to Start a Small Business

Starting and managing a business requires motivation, desire and talent. It also takes research and planning. Like a "Draft Board game", success in small business starts with decisive and correct opening moves. And, although initial mistakes will not destroy your business, it takes skill, discipline and hard work to fix them.

To increase your chance for success, take time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and well thought business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you try to raise money for your business. It should also provide milestones to keep track of your success

1.3 Get Started

There are four factors that are required in any given business activity. Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

- You want to be your own boss.
- You want financial independence.
- You want creative freedom.
- You want to fully use your skills and knowledge

1.4 What Type Business is right for you?

To determine what business is "right for you." Ask yourself these questions:

- What do I like to do with my time?
- What technical skills have I learned or developed?
- What do others say I am good at?
- How much time do I have to run a successful business?
- Do I have any hobbies or interests that are marketable?
- What Niche Will Your Business Fill?
- Is my idea practical and will it fill a need?
- What is my competition? What is my competitiveness?
- What is my business advantage over existing firms?
- Can I deliver a better quality service?
- Can I create a demand for your business?

1.5 Pre-Business Checklist

- What business am I interested in starting?
- What services or products will I sell? Where will I be located?
- What skills and experience do I bring to the business?
- What will be my legal structure?
- What will I name my business?
- What equipment or supplies will I need?
- What insurance coverage will be needed?
- What financing will I need?
- What are my resources and how will I compensate myself?

Your answers will help you create focused, well researched business plan that should serve as a blueprint and provide details on how the business will be operated, managed and capitalized.

1.6 What is the structure of businesses do I want?

When organizing a new business, one of the most important decisions to be made is choosing the structure of a business. Factors influencing your decision about your business organization include:

- Legal restrictions requirements

- Liabilities assumed
- Type of business operation
- Earnings distribution
- Capital needs
- Number of employees and management
- Accounting/Tax advantages or disadvantages
- Length of business operation (business cycle)

Unit 2 - Types of Businesses

2.1 Introduction

One of the first decisions you will need to make for your new business is choosing the type of legal organization that is best for you. The choice you make is important because it will determine what your business can and cannot do, what will happen if someone sues you, and how both you and your business are taxed. There are basically three ways to organize a business.

- Sole Proprietorship
- Partnership
- Limited Liability Company

2.2 Sole Proprietorship

A sole proprietorship, also known as the sole trader or simply a proprietorship, is a type of business entity that is owned and run by one natural person and in which there is no legal distinction between the owner and the business.

A sole proprietorship can operate under the name of its owner or it can do business under a fictitious name, such as Juma's Salon. The fictitious name is simply a trade name--it does not create a legal entity separate from the sole proprietor owner.

The sole proprietorship is a popular business form due to its simplicity, ease of setup, and nominal cost. A sole proprietor need only register his or her name and secure local licenses, and the sole proprietor is ready for business. A distinct disadvantage, however, is that the owner of a sole proprietorship remains personally liable for all the business's debts. So, if a sole proprietor business runs into financial trouble, creditors can bring lawsuits against the business owner. If such suits are successful, the owner will have to pay the business debts with his or her own money.

2.3 Partnership

A legal form of business operation between two or more individuals who share management and profits. The two most common are general and limited partnerships.

In a ***general partnership***, the partners manage the company and assume responsibility for the partnership's debts and other obligations. A ***limited partnership*** has both general and limited partners. The general partners own and operate the business and assume liability for the partnership, while the limited partners serve as investors only; they have no control over the company and are not subject to the same liabilities as the general partners.

Personal liability is a major concern if you use a general partnership to structure your business. Like sole proprietors, general partners are personally liable for the partnership's obligations and debts. Each general partner can act on behalf of the partnership, take out loans and make decisions that will affect and be binding on all the partners (if the partnership agreement permits). Keep in mind that partnerships are also more expensive to establish than sole proprietorships because they require more legal and accounting services.

If you decide to organize your business as a partnership, be sure you draft a partnership agreement that details how business decisions are made, how disputes are resolved and how to handle a buyout. You'll be glad you have this agreement if for some reason you run into difficulties with one of the partners or if someone wants out of the arrangement.

The agreement should address the purpose of the business and the authority and responsibility of each partner. It's a good idea to consult an attorney experienced with small businesses experience for help in drafting the agreement. The following are some other issues you'll want the agreement to address:

- How will the ownership interest be shared? It's not necessary, for example, for two owners to equally share ownership and authority. However, if you decide to do it, make sure the proportion is stated clearly in the agreement.
- How will decisions be made? It's a good idea to establish voting rights in case a major disagreement arises. When just two partners own the business 50-50, there's the possibility of a deadlock. To avoid this, some businesses provide in advance for a third partner, a trusted associate who may own only 1 % of the business but whose vote can break a tie.
- When one partner withdraws, how will the purchase price be determined? One possibility is to agree on a neutral third party, such as your banker or accountant, to find an appraiser to determine the price of the partnership interest.
- If a partner withdraws from the partnership, when will the money be paid? Depending on the partnership agreement, you can agree that the money be paid over three, five or 10 years, with interest. You don't want to be hit with a cash-flow crisis if the entire price has to be paid on the spot on one lump sum.

A business entity in a form of sole proprietorship or partnership must be registered under the Business Names Registration Act

2.4 Limited Liability Company

A limited liability company (LLC) is a corporate structure whereby, the liability of members or subscribers of the company is limited to what they have invested or guaranteed to the company. Limited companies may be limited by shares or by guarantee. Who may become a member of a private limited company is restricted by law and by the company's rules.

Like other businesses operating in Tanzania, a Limited Liability Company must register with the Business Registration and Licensing Agency (BRELA), which is under the Ministry of Industries and Trade. The first step is to obtain name clearance from BRELA. Generally, the following documents are required in the process of forming a company:

- Name of the company (which must be cleared by the Registrar of Companies).
- The address of the registered office in Tanzania;
- Names, residential addresses and nationalities of the first subscribers and directors (at least two).
- Memorandum of Association (stating in details the objects of the company) and Articles of Association (stating in detail the management structure and processes). At least two copies of each document must be filed;
- Filing a prescribed form to make a declaration that a company has complied with the requirements of the Tanzanian company law; and
- Payment of the filing fee, registration fee and the stamp duty.

Unit 3 –Licensing and Taxation

3.1 Introduction

Being the owner of a small business you need to make sure you comply with all legal, taxation and business requirements. To legally operate a business you need to register your business to the Tanzania Revenue Authority and obtain a business license from relevant mandated institutions.

3.2 Registering with Tax Authorities

Once a business has been registered or company has been incorporated by the Registrar of Companies, it is required to register with the nearest Tanzania Revenue Authority (TRA) office. The first document that must be issued by TRA is Tax Identification Number (TIN). Normally, Tax Identification Number is issued within three days.

Once the Tax Identification Number has been issued, the tax file will be opened. Once a file number has been issued, the company is expected to complete provisional tax return forms.

These have to be submitted within three months of the initial accounting date. The company must estimate its profits for the first year and make quarterly provisional tax payments. Once a file number is issued, TRA will issue an Income Tax Clearance Certificate, which can be used to obtain the general business license.

If the turnover of the business is Tanzanian Shillings Forty Million, the business must register for Value Added Tax. VAT is charged at 20%. In order to be registered for VAT, the following applicant must fill the application form obtained from Tanzania Revenue Authority (Value Added Tax Department). The filled form must be returned with the copies of the following documents:

- Certificate of incorporation or certificate of compliance (in case of a company) or certificate of registration or extract (in case of partnership or sole traders);
- Memorandum and Articles of Association showing among other things that the objectives of the company allow it to do the business which the license is being applied for;
- Proof of Tanzania citizenship e.g. photocopy of passport, birth certificate, or in case of a non-citizen, resident permit Class A

(showing the holder to be the investor in that company/business);

- In case the shareholders of the company are non-residents and don't have a resident permit, a Powers of Attorney to a citizen/resident must be submitted;
- Proof by the applicant having a suitable business premises for the business applied. Proof that can be submitted includes title deed, tenancy agreements, receipt of rent or property tax payment);
- Tax identification number (TIN) issued by TRA free of charge;
- Income Tax Clearance Certificate issued Tanzania Revenue Authority (Income Tax Department);
- Business license issued by the Ministry of Industries or local authority under the Business Licensing Act; and
- Three photos of the applicant or one of the resident directors of the company or local representative

3.2.1 The Individual Presumptive Tax Assessment

Annual Turnover	Not Complied	Complied
Where turnover does not exceed Tshs 4,000,000/=	NIL	NIL
Where turnover is between Tshs. 4,000,000/= and Tshs 7,500,000/=	Tshs 150,000	3% of the turnover in excess of Tshs 4,000,000/=
Where turnover is between Tshs 7,500,000/= and Tshs 11,500,0000/=	Tshs 318,000	Tshs 135,000/= plus 3.8% of the turnover in excess of Tshs 7,500,000/=
Where turnover is between Tshs 11,500,000/= and Tshs 16,000,000/=	Tshs 546,000	Tshs 285,000/= plus 4.5% of the turnover in excess of Tshs 11,500,000/=
Where turnover is between Tshs 16,000,000/= and Tshs 20,000,000/=	Tshs 862,000	Tshs 487,000/= plus 5.3 % of the turnover in excess of Tshs 16,000,000/=
Note: 1. Where turnover exceeds Tshs 20,000,000/= p.ayou will be obliged to prepare audited financial statements in respect the business. 2. If your turnover exceed Tshs 14,000,000 p.a is obliged to acquire and use the Electronic Fiscal Device (EFD).		

Source: TRA, Taxes and Duties at Glance 2015/2016

3.3 Business Licensing

The type and number of required licenses differs from one sector to another depending on the degree of regulation in the sector involved. It is generally advisable to take legal advice on the required licenses in a particular sector. Apart from fulfilling the sector specific requirements, all businesses must obtain a 'general business license' issued under the Business Licensing Act, 1972. To obtain a general business license, the Applicant must submit the following documents:

- Photocopy of the certificate of incorporation or certificate of compliance (in case of a company) or certificate of registration or extract (in case of partnership or sole traders);
- Memorandum and Articles of Association showing among other things that the objectives of the company allow it to do the business which the license is being applied for;
- Proof of Tanzania citizenship e.g. photocopy of passport, birth certificate, or in case of a non-citizen, resident permit Class A (showing the holder to be the investor in that company/business);
- In case the shareholders of the company are non-residents, a Powers of Attorney to a citizen/resident must be submitted;
- Proof by the applicant having a suitable business premises for the business applied. Proof that can be submitted includes title deed, tenancy agreements, receipt of rent or property tax payment); and
- Tax identification number (TIN) issued by Tanzania Revenue Authority.

As pointed above, there are additional authorizations that must be given by sector specific regulators. When you inform us the nature of your business, we will advise you the sector specific requirements that apply to your line of business. The following are examples of sector specific requirements:

- Customs agency license (issued by Tanzania Revenue Authority) for those applying for a license to carry out the business of clearing and forwarding.
- Tourist agency license (issued by the Ministry of Natural Resources and Tourism) for those applying for a license to carry out tourism promotion business such as tourist hotels, travel agents, tour operators, hunting, etc.
- Mining tenement (issued by the Ministry of Energy and Minerals) for those applying for a license to carry out mining business.
- Telecommunications/postal/broadcasting license (issued by Tanzania

Communications Regulatory Authority) for those applying for a license to carry out telecommunications/postal/broadcasting business.

- Insurance license (issued by Insurance Supervisory Department) for those applying for a license to carry out insurance business.
- Special license/permit (issued by Tanzania Food and Drugs Authority) for those applying for a license to carry out business relating to food, drugs and cosmetics.
- Fishing license (issued by the Ministry of Natural Resources and Tourism) for those applying for a license to carry out fishing business.
- Professional certificates/authorization for all professional businesses e.g. doctors, lawyers, pilots, accountants, ship captains, etc (issued by the respective professional organization).
- Industrial license (issued by the Ministry of Industries and Trade) for those applying for a license to establish industries and factories.
- The Chief of Police, Ministry of Home Affairs, must authorize a business that will involve providing security services.

Unit 4 - Financing your business

4.1 Introduction

One reason for the failure of many small businesses is that they underestimate their financial business needs. Therefore, it is important that entrepreneurs know how much money they will actually need to start and to run their business until they reach their break-even point—the point when your sales revenue equals your total expenses

4.2 Financing your Business

Raising capital is the most basic of all business activities but may not be easy; in fact, it can be a complex and frustrating process. However, if you are informed and have planned effectively, raising money for your business will not be a painful experience.

The following items are core elements in business financing:

- **Equity financing:** Invested funds that stay in the business, often permanently. For most small businesses, equity comes from the owner or from family savings and is frequently the only source of funds for start–up small businesses. For large, fast-growing quality companies, venture capital can sometimes be accessed for equity.
- **Debt financing:** Borrowed funds that are paid back. The cost of debt financing is interest paid to the lender.
- **Working capital:** The money that is used to pay for the daily operations of the business incurred in the short-term, such as inventory and overhead expenses.
- **Fixed asset financing:** Used for purchasing equipment, vehicles and real estate.

4.5 Before Financing, you must ask yourself the following questions:

- Do you need more capital or can you manage existing cash flow more effectively?
- How do you define your need? Do you need money to expand or as a cushion against risk?

- How urgent is your need? You can obtain the best terms when you anticipate your needs rather than looking for money under pressure. ?
- How great are your risks? All businesses carry risks, and the degree of risk will affect cost and available financing alternatives?
- In what state of development is the business? Needs are most critical during transitional stages?.
- For what purposes will the capital be used? Any lender will require that capital be requested for very specific needs.
- What is the state of your industry? Depressed, stable, or growth conditions require different approaches to money needs and sources. Businesses that prosper while others are in decline will often receive better funding terms.
- Is your business seasonal or cyclical? Seasonal needs for financing generally are short term.
- Loans advanced for cyclical industries such as construction are designed to support a business through depressed periods.
- How strong is your management team? Management is the most important element assessed by money sources.
- Perhaps most importantly, how does your need for financing match with your business plan? If you don't have a business plan, make writing one your first priority. All capital sources will want to see your plan for the start-up and growth of your business.

4.6 Debt Financing

It is often said that small business people have difficult time when borrowing money. This is not necessarily true .Banks make money by lending money. However, the inexperience of many small business owners in financial matters often prompts banks to deny loan requests. Requesting a loan when you are not properly prepared sends a signal to your lender. That message is: High Risk! To be successful in getting a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

4.6 Types of Business Loans Available to Small Businesses

There are two basic types of loans: short-term and long-term loans. Generally, a ***short-term loan*** has a maturity of up to one year. These include working capital loans, accounts receivable loans and lines of credit. ***Long-term loans*** have maturities greater than one year but usually less than seven years. Real estate and equipment loans may have maturities of up to 25 years. Long-term loans are used for major business expenses such as purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

4.7 How to Write a Loan Proposal

Approval of your loan request depends on how well you present yourself, your business plan, and your financial needs to a lender. Remember, lenders want to offer loans, but they will offer must make loans if they know it will be repaid. The best way to improve your chances of obtaining a loan is to prepare a written proposal that will be realistic and convince the lender to lend money to you.

Component of a Loan Proposal

A well written loan proposal contains the following:

- General Information
- Business Description
- Management Profile
- Market Information
- Financial Information

In general, a Loan Proposal should have the following Information

- Business name, names of principals, Social Security number for each principal, and the business address.
- Purpose of the loan (exactly what the loan will be used for and why it is needed)
- Amount required (the exact amount that you need to achieve your purpose)

1. **Business Description**
   - History and nature of the business (details of what kind of business it is, its age, number of employees, and current business assets)
   - Ownership structure (details on your company's legal structure)
2. **Management Profile**

   Develop a short statement on each principal in your business providing:

- Background
- Education
- Experience
- Skills
- Accomplishments

3. **Market Information**
   - Clearly define your company's products as well as your markets.
   - Identify your competition and explain how your business competes in the marketplace.
   - Profile your customers and explain how your business can satisfy their needs.
4. **Financial Information**
   - Financial statements, balance sheets, and income statements for the past three years. If you are starting out, provide a projected balance sheet and income statement.
   - Personal financial statements on yourself and other principal owners of the business.
   - Collateral that you would be willing to pledge as security for the loan

4.8 How your loan request will be reviewed

When reviewing a loan request, the lender is primarily concerned about repayment. To help determine this ability, many loan officers will order a copy of your business credit report from a credit reporting agency Credit reference bureau. Therefore, you should work with these agencies to help them present an accurate picture of your business.

What the lending officer looks for:

Using the credit report and the information you have provided, the lending officer will consider the following issues:

- Have you invested savings or personal equity in your business totalling at least 25% to 50% of the loan you are requesting? (Remember: a lender or investor will not finance 100% of your business.)
- Do you have a sound record of creditworthiness as indicated by your borrowing records, work history, and letters of recommendation? This is very, very important.

- Do you have significant experience and training to operate a successful business?
- Have you prepared a loan proposal and business plan that demonstrates your understanding of and commitment to the success of the business?
- Does the business have sufficient cash flow to make the monthly payments?

Loan Officers also evaluate you on the following:

- **CHARACTER:** The degree to which a borrower feels a moral obligation to pay his/her debts, measured by the credit and payment history.
- **CAPACITY TO PAY:** A subjective determination made by a lender based upon an analysis of the borrower's financial statements and other information.
- **CAPITAL:** The amount of capital in a business is equal to the total of capital from debt and equity. Lenders prefer low debt-to-asset and debt-to-worth rations and high current ratios. These indicate financial stability.
- **COLLATERAL:** An asset owned by the borrower, but promised to a lender against non-payment of the loan. The amount of collateral varies from lender to lender. The closer the collateral value is to the loan amount, the more comfortable the lender will be that the loan will be repaid.
- **CONDITIONS:** General economic, geographic, and industry
- **CONFIDENCE:** A successful borrower instils confidence in the lender by addressing all the lender's concerns on the other Financial C's. Their loan application sends the message that the company is professional, with an honest reputation, a good credit history, reasonable financial statements, good capitalization, and adequate collateral be divided into verbal and non-verbal communication. Verbal communication is communication using speech that is understood by all parties to the communication. In other word written communication falls under its own category.

4.9 Equity Financing

Equity is cash paid into the business—either the owner's own cash or cash contributed by one or more investors. Equity investments are certified by issuing shares in the company. Shares are issued in direct proportional to the amount of the investment so that the person who has invested the majority of the money in effect controls the company. Investors put cash into a company in the hope of sharing in its profits and in the hope that the value of the stock will grow (appreciate). They can earn dividends of course (the share of the profit) but they can realize the value of the stock again only by selling it.

4.9.1 Sources of Equity Financing

Equity financing for small businesses is available from a wide variety of sources. Some possible sources of equity financing include the entrepreneur's friends and family, private investors (from the family members to groups of local business owners to wealthy entrepreneurs known as "angels"), employees, customers and suppliers, friends, venture capital firms, investment firms, etc.). Start-up operations, seeking so-called "first tier" financing, must almost always rely on friends and "angels," private persons, in other words, unless the business idea has real explosive, current, fad-appeal.

4.10 Advantages and Disadvantages of Equity Financing

For the small business the chief advantage of equity is that it need not be paid back. In contrast, bank loans or other forms of debt financing have an immediate impact on cash flow and carry severe penalties unless payments terms are met.

Equity financing is also more likely to be available for start-ups with good ideas and sound plans. Equity investors primarily seek opportunities for growth; they are more willing to take a chance on a good idea. They may also be a source of good advice and contacts.

Debt financiers seek security; they usually require some kind of track record before they will make a loan. Very often equity financing is the only source of financing.

The main disadvantage of equity financing is the above-mentioned issue of control. If investors have different ideas about the business or company's strategic direction or day-to-day operations, they can pose problems for the entrepreneur. These differences may not be obvious at first—but may emerge as the problem as you operate the business.

Unit 5 - Financial Management

5.1 Introduction

Financial management includes bookkeeping, projections, financial statements, and financing, which forms the foundation for reaching your goals through sound business decisions. Managing the finances of your small business can be a challenge. To survive and thrive, you must earn profit consistently, generate cash flow from profit, and control your financial condition. You need a separate financial statement to highlight each aspect:

To effectively manage your financial affairs, you need to understand money management even if you elect to hire an accountant or bookkeeper to manage the books. You will still need to familiarize yourself with basic bookkeeping and money management principles and activities such as understanding credit, reading bank statements and tax forms, and making sense of accounts receivable and payable. You also have to give careful consideration to the purchase payment options you offer customers, including cash, checks, debit cards, credit cards and mobile phone and online payment options, as well as establishing payment terms and debt collection in the event of non-payment.

There is no model finance system which suits all organizations. But there are some basic components which must be in place to achieve good practice in financial management.

Planning and Budgeting - Linked to the business's strategic and operational plans, the budget is the cornerstone of any financial management system and plays an important role in monitoring the use of funds. It is essential for any business firm to plan and budget.

Accounting Records - Every firm must keep an accurate record of financial transactions that take place to show how funds have been used. Accounting records also provide valuable information about how the organization is being managed and whether it is achieving its objectives.

Financial Reporting - Provided the business has set a budget and has kept and reconciled its accounting records in a clear and timely manner, it is then a very simple matter to produce financial reports which allow the managers to assess the progress of the organization.

Internal Controls - A system of controls, checks and balances – collectively referred to as internal controls – are put in place to safeguard business assets and manage internal risk. Their purpose is to deter opportunistic theft or fraud and to detect errors and omissions in the accounting records. An effective internal control system also protects staff involved in financial tasks.

5.2 Components of Financial Management System

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5.3 Planning and Budgeting

Time is a measure in which events can be ordered from the past through the present into the future, and also the measure of durations of events and the intervals between them.

Creating a budget is the first place to start with your financial management practice. A budget is a list of all your (monthly or yearly) expenses, organized by categories. A budget is a tool that helps you:

- Track all your business expenses
- Plan for the future
- Economize when you need to
- Plan for expansion
- Make a profit

Once you create a budget, use it to compare what you've budgeted with your actual expenditures.

The following a sample of Budget template:

Category	Monthly Budget	Actual Monthly Expenditure
Rent		
Utilities		
Telephone and Internet		
Insurance		
Employees or Contractors		
Office Supplies		
Inventory Purchases		
Permits and Licenses		
Dues, memberships, subscriptions		
Income Taxes		
Owner's Draw		
Travel		
Interest		
Bank Service Charges		
Postage		
Legal and Accounting		

Other		
Total		

5.4 Cash Flow Statement

Cash flow can be defined two ways:

- Balance of cash received less the amount of cash paid out over a period of time
- Moving cash in or out of a business

5.5 Cash Flow Projection

A cash flow projection is a financial statement that tries to show how cash is expected to flow in and out of a business over a future period of time. A cash flow projection is used to see if projected cash receipts (in flows) will be sufficient to cover projected cash disbursements (out flows). A business can be profitable and still run out of cash. Cash flow projections provide the visibility needed to avoid liquidity problems. In other words, a cash flow projection is a tool to help you manage your cash so you can pay your bills on a timely basis and keep the doors of your business open.

A cash flow projection is a great tool for setting sales goals and for planning for expenses to support those sales. A related use for a projection is to determine your breakeven point during a start-up or expansion phase. If you need to plan for a large expenditure, such as an equipment purchase or move to a new location, a cash flow projection is the perfect tool. Similarly, if you have a seasonal business with large inventory purchases, a projection can help you have the cash on hand to make a large inventory investment when you need it.

A cash flow projection helps you see the cash status of your business now and plan into the future. A cash flow projection is a good way to prepare and plan for your financing needs and is often a required part of a business loan application.

An Example of Cash Flow Projection

Small Business Cash Flow Projection
Juma Enterprises

Starting date	
Cash balance alert minimum	

	Beginning	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00	Dec-00	Total
Cash on hand (beginning of month)		0	0	0	0	0	0	0	
CASH RECEIPTS									
Cash sales									0
Returns and allowances									0
Collections on accounts receivable									0
Interest, other income									0
Loan proceeds									0
Owner contributions									0
TOTAL CASH RECEIPTS		0	0	0	0	0	0	0	0
Total cash available	0	0	0	0	0	0	0	0	
CASH PAID OUT									
Advertising									0
Commissions and fees									0
Contract labor									0
Employee benefit programs									0
Insurance (other than health)									0
Interest expense									0
Materials and supplies (in COGS)									0
Meals and entertainment									0
Loan Instalment									0
Office expense									0
Purchases for resale									0
Rent or lease									0
Repairs and maintenance									0
Supplies (not in COGS)									0
Taxes and licenses									0
Travel									0
Utilities									0
Wages (less emp. credits)									0
Other expenses									0
SUBTOTAL		0	0	0	0	0	0	0	0
Loan principal payment									0
Capital purchases									0
Other start-up costs									0
To reserve and/or escrow									0
Owners' withdrawal									0
TOTAL CASH PAID OUT		0	0	0	0	0	0	0	0
Cash on hand (end of month)	0	0	0	0	0	0	0	0	

5.6 Accounting Records (Bookkeeping)

Bookkeeping is the organized process of tracking all income and expense transactions. Bookkeeping is a critical component of financial management, which leads to better business decisions regarding financing, taxes, owner’s draw, and retirement

Good financial records are the basis for sound financial management of any business.

i) Importance of Records

Information All businesses need to keep records of their financial transactions so that they can access information about their financial position, including:

- A summary of income and expenses and how they are allocated under various categories.
- The outcome of all operations – surplus or deficit, net income or net expenditure.
- Assets and Liabilities – or what the business owns and owes to others.

ii) Credibility: keeping accurate financial records promote integrity, accountability and transparency and avoid suspicion of dishonesty.

iii) Legal Requirement: There is often a statutory obligation to keep and publish accounts.

iv) Future Planning: Although financial accounting information is historical (i.e. happened in the past), it will help managers to plan for the future and understand more about the operations of the business. With information spanning two or three years, it is possible to detect trends.

5.7 Accounting Methods

Keeping accounts simply means devising appropriate methods for storing financial information so that the organization can show how it has spent its money and where the funds came from. Accounting records can be kept in a manual format – i.e. hardback books of account – or in a computerized format in one of many accounts packages available.

There are two main methods for keeping accounts:

- Cash accounting
- Accruals accounting

The two methods differ in a number of ways but the crucial difference is in how they deal with the timing of the two types of financial transaction:

- Cash transactions which have no time delay since the trading and exchange of monies takes place simultaneously.
- Credit transactions which involve a time lag between the contract and payment of money for the goods or services.

Significantly, this produces different financial information so we need to know the basis of accounting to better understand of financial reports.

Cash Accounting

This is the simplest way to keep accounting records and does not require advanced book keeping skills to maintain. The main features are:

i) Payment transactions are recorded in a Bank (or Cash) Book as and when they are made and incoming transactions as and when received.

ii) The system takes no account of time lags and any bills which might be outstanding.

iii) The system does not automatically maintain a record of any money owed (liabilities) or to (assets) of the organization

iv) The system cannot record non¬-cash transactions such as depreciation.
.

Accruals Accounting

This involves ‘double entry’ bookkeeping which refers to the dual aspects of recording financial transactions to recognize that there are always two parties involved: the giver and the receiver.

The dual aspects are referred to as debits and credits. This system is more advanced and requires accountancy skills to maintain.

- Expenses are recorded in a ‘General Ledger’ as they are incurred, rather than when the bill is actually paid; and when income is earned rather than when received.
- By recognizing financial obligations when they occur, not when they are paid or received, this overcomes the problem of time lags, giving a truer picture of the financial position.
- The system can deal with all types of transactions and adjustments.

- The system automatically builds in up-to-date information on assets and liabilities.

These records provide an Income and Expenditure Account summarizing all income and expenditure committed during a given period; and a Balance Sheet which demonstrates, amongst other things, money owed to and by the business on the last day of the period.

Key Records Examples of key records include the following

- Cash/Bank book
- Vouchers (Receipts, Payments and Journal)
- Imprest (petty cash system) / Advances Register
- Bank Statement/Bank Reconciliation

The Cash Book

This is the analysis book used to keep track of the monetary transactions, which take place in a business. In this book the business's inflows (or deposits) and cash outflows (or withdrawals) are recorded.

A cashbook is used for recording, classifying and summarizing cash transactions in such a manner that would enable anyone interested in the information contained therein to make an informed decision. When the cashbook is well kept, then as one looks at it one should be able to tell the amount of money an organization had (if any) at the beginning of a given period, how much money has come in (deposits) or how much has been paid out (or withdrawn) and the remaining or available balance as at a given period of time.

Figure: Example of a page from a cashbook

Cash income					**Cash expenditure**			
Date	Amount receive	Customer	Products sold		Date	Amount spent	Seller	Materials bought
2.6.05	24.50	JC Stores	Pineappl e juice					
					3.6.03	2.56	Mohammed stationery	Paper
6.6.05	12.00	Star shop	Tomato sauce		6.6.03	10.45	Market	Plastic bags

Vouchers

A voucher is a documentary evidence to support transactions. There are three types of vouchers.

- Payment Voucher – used to record payments/expenses
- Receipt Voucher – used for recording receipts whether by cash or cheque
- Journal Voucher – used to record transactions other than those involving cash.
-

Imprest (petty cash system) /Advances Register

This is a record that shows sum advanced, repaid, accounted for or still outstanding. Office imprest is a fixed amount of cash available in an office designated to be used for incidental and miscellaneous expenses, such as office milk, coffee, tea, nuts, bolts, plugs, casual labor wages, some stationery and the like.

Cash is advanced from the office imprest by first using an approved requisition form. The various expenses incurred by using office imprest are entered and coded on a “petty cash expenses voucher”. These expenses get to be entered in the cash book when replenishing the office imprest.

Travel imprest or advance is an amount requested by and availed to an individual to be used for an authorized and scheduled field trip. The cash for the scheduled trip is availed using a “Travel imprest or advance request form”. This is a onetime imprest or advance and must be requested for every time a field trip is scheduled. The imprest or advance must be accounted, using a “Travel expenses voucher” which should be filled, signed, submitted and approved as soon as the individual returns from the field trip and must also surrender the cash balance if any.

Bank Statement

A bank statement is a detailed record of one’s financial transactions maintained by the bank, available to the customer on request. Besides the customer’s deposits and withdrawals, the bank statement contains a record of such items as:

- Charges made by the bank for keeping the account

- Interest on loans and overdrafts
- Standing order payments made by the bank on the customer's behalf, as per the customer's written instructions
- Direct collections made by the bank on behalf of the customer
- Unpaid cheque for whatever reason.

Bank Reconciliation Statement

The bank reconciliation is a record agreeing differences between the bank statement and the cash book. It serves the following purpose;

- To check the accuracy of the cashbook and the bank statement before preparation of financial statements and reports.
- It is a tool of internal control for bank transactions, which allows the account holder to investigate and settle any differences arising between the account holder's cashbook and the bank statement.
- Ensures that undue delays are not occurring between cheque disbursements, deposits and their clearance by the bank.
- To ascertain the correct balance of cash to be reported in the financial report.
- To check for any errors committed in the recording of banking transactions, either by the account holder or the bank.
- To update the account holder's cash records as regards payments made and items received by the bank, which appear only in the bank statement but not in the account holder's records.

EXAMPLE

The Cash Book On 1 January 2010, Nyumbani Ltd had Tsh 200,000 cash in hand and Tshs 2,000,000 in the bank. During the month the following transaction took place.

5.8 Financial Reporting (Financial Statements)

There are three basic financial statements that are important for your small business:

Balance sheet. This statement provides an overall financial snapshot of your small business. As an equation, it looks like:-

Liabilities + Owner’s equity = Assets.

The two sides of the equation must balance out.

Assets
There are two types of assets: ***current and fixed***. Current assets include cash or other holdings that can quickly be converted to cash within a year. These may include inventory, prepaid expenses and accounts receivable. Fixed assets represent the use of cash to purchase physical assets whose life exceeds one year such as machinery, equipment, land, buildings, furniture and other essentials.

Cash
Cash is the way to go. Cash pays bills and obligations. Inventory, receivables, land, building, machinery and equipment do not pay obligations even though they can be sold for cash and then used to pay bills.

If cash is inadequate or improperly managed the company may become insolvent and be forced into bankruptcy. Include all cheque, and short-term savings accounts under Cash.

Accounts Receivable (A/R)
Accounts receivable are monies due from customers. They arise as a result of the process of selling inventory or services on terms that allow delivery prior to the collection of cash. Inventory is sold and shipped, an invoice is sent to the customer, and later cash is collected. The receivable exists for the time period between the selling of the inventory and the receipt of cash. Receivables are proportional to sales. As sales rise, the investment you must make in receivables also rises.

Inventory
Inventory consists of the goods and materials a company purchases to re-sell at a profit. In the process, sales and receivables are generated. The business purchases raw material inventory that is processed (a.k.a. work-in-process inventory) to be sold as finished goods inventory.

For a company that sells a product, inventory is often the first use of cash. Purchasing inventory to be sold at a profit is the first step in the profit making cycle (operating cycle) as illustrated previously. Selling inventory does not bring cash back into the company -- it creates a receivable. Only after a time lag equal to the receivable's collection period will cash return to the company.

Thus, it is very important that the level of inventory be well managed so that the business does not keep too much cash tied up in inventory, as this will reduce profits. At the same time, a company must keep sufficient inventory on hand to prevent stock outs (having nothing to sell) because this too will erode profits and may result in the loss of customers.

Other Current Assets

Other Current: Assets consist of prepaid expenses and other miscellaneous and current assets.

Fixed Assets

Fixed assets represent the use of cash to purchase physical assets whose life exceeds one year. They include assets such as:

- Land
- Building
- Machinery and Equipment
- Furniture and Fixtures

Intangibles

Intangibles represent the use of cash to purchase assets with an undetermined life and they may never mature into cash. For most analysis purposes, intangibles are ignored as assets and are deducted from net worth because their value is difficult to determine. Intangibles consist of assets such as:

- Research and Development
- Market Research
- Goodwill
- Organizational Expense

Other Assets

Other assets consist of miscellaneous accounts such as deposits and long-term notes receivable from third parties. They are turned into cash when the asset is sold or when the note is repaid. Total Assets represent the sum of all the assets owned by or due to the business.

Liabilities

Liabilities can be broken down into ***current or short-term liabilities***, such as accounts payable and taxes, and long-term debt such as bank loans or notes payable to stockholders.

Current Liabilities

Current liabilities are those obligations that will mature and must be paid within 12 months. These are liabilities that can create a business or company's insolvency if cash is inadequate. A happy and satisfied set of current creditors is a healthy and important source of credit for short term uses of cash(inventory and receivables). An unhappy and dissatisfied set of current creditors can threaten the survival of the company. The best way to keep these creditors happy is to keep their obligations current.

Current liabilities consist of the following obligation accounts:

- Accounts Payable--Trade(A/P)
- Accrued Expenses
- Notes Payable--Bank(N/P Bank)
- Notes Payable--Other(N/P Other)
- Current Portion of Long term Debt
- Proper matching of sources and uses of funds requires that short-term (current) liabilities must be used. Only to purchase short term assets(inventory and receivables)

Accounts Payable

Accounts Payable are obligations due to trade suppliers who have provided inventory or goods and services used in operating the business. Suppliers generally offer terms (just like you do for your customers), since the supplier's competition offers payment term. Whenever possible you should take advantage of payment terms as this will help keep your costs down. If the company is paying its suppliers in a timely fashion, days payable will not exceed the terms of payment.

Accrued Expenses are obligations owed but not billed such as wages and payroll taxes, or obligations accruing, but not yet due, such as interest on a loan. Accruals consist chiefly of wages, payroll taxes, interest payable and employee benefits accruals such as pension funds. As a labour related category, it should vary in accordance with payroll policy(i.e., if wages are paid weekly, the accrual category should seldom exceed one week's payroll and payroll taxes).

Non-current Liabilities

Non-current liabilities are those obligations that will not become due and payable in the coming year. There are three types of non-current liabilities, only two of which are listed on the balance sheet:

- Non-current Portion of Long Term Debt(LTD)
- Subordinated Officer Loans(Sub-Off)
- Contingent Liabilities

Non-current portion of long-term debt is the principal portion of a term loan not payable in the coming year. Subordinated officer loans are treated as an item that lies between debt and equity. Contingent liabilities listed in the footnotes are potential liabilities, which hopefully never become due. Non-Current

Portion of Long Term Debt(LTD) is the portion of a term loan that is not due within the next 12months. It is listed below the current liability section to demonstrate that the loan does not have to be fully liquidated in the coming year. Long-term debt(LTD) provides cash to be used for a long-term asset purchase, either permanent working capital or fixed assets.

Contingent Liabilities

Contingent Liabilities are potential liabilities that are not listed on the balance sheet. They are listed in the footnotes because they may never become due and payable. Contingent liabilities include:

- Lawsuits
- Warranties
- Cross Guarantees

If the company has been sued, but the litigation has not been initiated, there is no way of knowing whether or not the suit will result in a liability to the company. It will be listed in the footnotes because while not a reliability, it does represent a potential liability, which may hurt the ability of the company to meet future obligations.

Owner’s equity includes any invested capital or retained earnings. If you captured all of your accounting information correctly, both sides of the balance sheet equation should be equal.

The following is a sample of a Balance Sheet

Juma Enterprises	**(Amount in Tzs)**		
Balance Sheet			
As at end of Year One			
Current Assets			
Cash	5,100		
Debtors	18,000		
Stock	3,120		
Total Current Assets		**26,220**	
Non-current Assets			
Computer	5,500		
Store Fit Out	8,100		
Office Equipment	15,000		
Total Non-current Assets		28,600	
Total Assets		**54,820**	
Current Liabilities			
Overdraft	5,500		
Creditors	4,120		
Total Current Liabilities		9,620	
Non-current Liabilities			
Total Non-current Liabilities			
Total Liabilities		**9,620**	
Net Assets			**45,200**
Shareholders' Equity			
Owners' Funds		40,000	
Current Year Profit		5,200	
Total Shareholders' Equity			**45,200**

Profit and Loss (P&L) Statement

The P&L statement is the best tool for knowing if your business is profitable. A P&L statement measures revenue (also called sales or income) and expenses over a month, quarter or year. With it you know if you have made a profit (and how much) or if you have incurred a loss.

The most important financial management report is the P&L statement. A P&L statement will reflect your business decisions on the basic buying and selling process. A P&L will tell you how well you are managing your business and provide information on how to grow your business.

Basic Formula for P&L Statement

+ Sales
– Cost of Goods Sold
= Gross Profit
– Overhead
= Net Profit

- **Sales** (also called Income or Revenue): Total amount from selling your product or service during a certain time period.
- **Cost of Goods Sold**: Total expenditure for inventory items which customers buy. Cost of Goods Sold consists of the cost of purchasing the items, freight, manufacturing costs, modification costs, and packaging. For services, this is the cost of providing the services, including labor, material used, and transportation.
- **Gross Profit:** Sales less Cost of Goods Sold.
- **Overhead:** Expenses associated with your on-going business operation, such as rent or utilities.
- **Net Profit:** Gross Profit less Overhead. Net Profit is what remains to pay for expansion, equipment, loan repayment, income taxes and owner's draw.

Example (Sample Profit & Loss Statement)

Juma's Enterprises			
Profit and Loss Statement			
For the Period ended Year One			
Income			
	Sales	52,000,000	(1000kg @ Tzs 520)
	Total Sales	52,000,000	
Cost of Goods Sold			
	Opening Stock		
	Stock Purchases	34,320,000	
	Less Closing Stock	3,120,000	
Total Cost of Goods Sold(COGS)		**31,200,000**	(See note below)
Gross Profit		20,800,000	
Expenses			
	Advertising	500,000	
	Bank Service Charges	120,000	
	Insurance	500,000	
	Payroll	13,000,000	
	Professional Fees (Legal, Accounting)	200,000	
	Utilities & Telephone	800,000	
	Other: Computer Software	480,000	
	Expenses total	15,600,000	
Net Profit before Tax		**5,200,000**	

Note; Cost of Goods Sold calculation:

Towards the end of the year, Joe manages to purchase 100 more tyres on credit from his supplier for an order in the new year. This leaves him with Tzs 3,120,000 of stock on hand at the end of the year.

Joe's Cost of Goods Calculation			
Opening Stock	Nil		
Add Stock Purchased during the year		34,320,000	(1100 kg @ 3,120 each)
Equals Stock available to sell		34,320,000	
Less Stock on hand at end of year		3,120,000	(100 tyres @ 3,120 each)
Cost of Goods Sold		**31,200,000**	

Where a business is a service business, that is, you are selling services not goods or products, then the profit and loss statement will generally not have a cost of goods sold calculation. In some instances, where labour costs can be directly attributed to sales, then you may consider including these costs as a cost of goods (services) sold.

Pricing and Costing

There are no firm rules; no ideal method for setting a price, but there are many indicators that can help you. It is a matter of discovering a reasonable price by careful consideration.

Pricing is a critical marketing decision. The price you set for your goods and services is a key determinant in the final profit (or loss) that your business will make.

Even though it is so obviously vital, there is evidence to suggest that the attention paid to pricing among some small businesses is scant. Problems that develop of because of inattention to pricing, range from poor margins on products sold, through to losses on specific products/services due to cost inflation and failure to re-price. At worst it could mean the difference between making a profit or a loss.

The factors that affect your prices can be grouped under four headings:

- Your costs
- Your marketing strategy
- Controlled prices
- Market conditions

Obviously the price you set must cover all the costs of running your business.

Determining Your Costs

The costs of running your business will greatly affect the prices you must charge. If you determine the all-inclusive cost of an article or service you will be in a much better position to determine if your price is realistic. Yet determining the exact cost of an item is never easy. You may determine fairly easily how much the materials cost you or how much you bought the item for. But what about all your other costs? What about your labour and all you other expenses? How much of that do you add to you price?

Take a close look at the extent and range of costs facing your business and ensure that you apply all of these costs to specific products and services to ensure that they are recovered in the price charged.

The Nature of Costs

To be able to project costs at various levels of production we need to understand how each cost will behave in relation to business activity – will it increase, decrease or remain static? The nature of costs can be divided into three categories: fixed, variable and semi-variable.

Fixed Costs are those costs that do not vary with the level of business activity. These are costs that you must pay irrespective of whether you make or sell one unit or 1,000 units.

Examples include rent, depreciation, lease costs, loan repayments and insurance.

Variable Costs vary directly with the level of business activity or sales. Your variable costs are therefore much higher if you sell or make 1,000 extra units.

Examples include the purchase of stock, raw material, and manufacturing labour.

Identifying Costs

The first step in costing is to identify the type of costs that have gone into the article manufactured, the stock item sold or the service provided. To do this costs are classified into **direct costs** and **indirect costs**

Direct costs are costs which are directly traceable to a specific job or sale. ***Examples*** include costs of stock, labour or raw materials, Direct costs are usually variable because they vary directly in relation to the number of articles produced, goods sold or services provided. Direct costs are usually divided into ***direct materials*** and ***direct labour***.

Indirect costs are costs which cannot be directly traced to the specific job or sale.

Examples include financial expenses, advertising or administration costs.

Indirect costs are those costs which cannot be directly identified with the product behind made, the service being performed or the article being sold. They are often ***fixed*** in nature as they do not fluctuate in direct proportion to the number of articles being produced or sold. Instead indirect costs tend to remain constant over a given period of time. These costs are generally called overhead expenses and are often classified as selling, financial or administration expenses. Some more examples of Indirect Costs found in many small businesses include:

Example: Calculating costs

A small grain processing unit has four workers and one supervisor. The working week is 48 hours and processing takes place for 45 weeks per year. 30 kg of maize flour is produced in an average 8- hour day.				
Direct costs	**Ite**	**Frequen**	**Amount**	**Tshs**
Salaries for 4 workers (@ Tshs 50,000 per month each)	4	12	50,000	2,400,000.00
Salary for one supervisor (@ Tshs 240,000 per month)	1	12	240,000	2,880,000.00
Total salary cost				5,280,000.00
Number of hours worked per year	5	45	48	10,800.00
Labour cost per hour		Salary Cost/# hours worked		488.89
Direct labour cost per kg			= (8 x	130.36
Direct material costs (maize, packaging = Tshs. 192,000 per day). Therefore direct material costs per kg			= 192,000/30	6,400.00
Direct fuel and power costs are Tshs 12,600 per day. Therefore direct fuel/power costs per			= 12,600/30	420.00
Total direct costs per kg				**7,439.25**
Indirect costs				
These are as follows: Rent = Tshs. 1,500,000 per year, telephone = Tshs.80,000 per month, utilities = Tshs 48,000 per month, delivery vehicle = Tshs. 190,000 per month, maintenance and depreciation = Tshs. 58,000 per month, interest on loan = Tshs. 28,000per month and taxes Tshs. 1,440,000 per year.				
Total indirect costs per day Tshs			= (1,500,000/(45 x 6)) + (80,000/24) + (48,000/24) + (190,000/24) + (58,000/24) + (28,000/24) + ((1,440,000/(45	27,722.19
Total indirect costs per kg cheese			= 27,722.19/30	**924.07**
Total fixed costs per kg cheese (Labour and indirect costs)			1054.43	1,054.43
Total variable costs per kg cheese(Materials, fuel and power costs)			= 6,400 + 420	6,820.00
Total cost of producing (Tshs/kg)				**7,744.07**

Determining your Price

The price charged for a product should ensure that the income meets all of the costs and generates sufficient profit. The simplest method to determine the correct price for a product is to add up all the costs of production and

Example: Calculating the price of a product

Total production costs per kg Flour= Tshs 7,744.07

Add 23% profit margin = Tshs1,781.13

Selling price (Tshs/kg) = Tshs 9,525.20

then add on a percentage profit (mark- up pricing). Many processors use a profit margin of 20–30 percent, although lower margins are possible if the efficiency and productivity of the business are high. Conversely, if a product has little competition and/or a high demand, a higher profit margin may be possible.

5.9 Payroll Management

As an employer, regardless of the number of workers you employ, must maintain all records pertaining to payroll taxes (PAYE, Social Security, other statutory deductions ext). Employment records must be kept just to satisfy Legal and regulatory requirements.

Individual Income Tax Rates – for Tanzania Mainland:

Income Range (monthly)
Tax rate (PAYE) Tshs %
0 – 170,000=00 NIL
150,000=00 – 360,000=00 13% of the amount in excess of Tshs. 150,000=00
360,000=00 – 540,000=00 Tshs. 27,300=00 plus 20% of the amount in excess of Tshs. 360,000=00
540,000=00 – 720,000=00 Tshs. 63,300=00 plus 25% of the amount in excess of Tshs. 540,000=00
720,000=00 and above Tshs. 108,300=00 plus 30% of the amount in excess of Tshs. 720,000=00

Employment Taxes (Taxes to be paid by employer)

- Social Security (NSSF, PPF) 20 %
  (up to half (10%) can be deducted from employee)

- Skills and Development Levy (employer) 5%
  This tax is payable where total number of employees exceed 4 (four) in any one organization.

5% is to be applied on monthly gross emoluments. Gross emoluments include: wages, salary, leave pay, sick pay, payment in lieu of leave, fees, commissions, gratuity, bonuses, subsistence allowances, travelling allowances and entertainment allowances, and other taxable benefits.

Unit 6 - Business Planning and Management

6.1 Introduction

Business planning is essential for the success of any business. A business plan provides direction, keeps you on track and is usually a requirement when you want start a business, expand or grow existing business or purchase a new business.

6.2 Definition of Business Plan

- A Business Plan is a document which spells out the goals and objectives of a business and clearly outlines how and when they will be achieved.
- A structured guideline to achieve a business goal.
- A road map to owning and operating a business.
- A proposal that describes a business opportunity for financing agencies or investors.
- A detailed action program outlining every conceivable aspect of the proposed business venture.

6.3 Importance of a Business Plan

- A business plan could be developed to assist the:
- Keeping of focuses and attentions on your goals and strategies
- Sourcing of finance from outside sources (i.e. banks)
- Guiding of opening a business
- Guiding of managing a business
- Communication with interested parties

6.4 Basic Components of a Business Plan

Basic components of a Business Plan is as follows:-

1. **Executive Summary**
    - Write this section last. Include everything that you would cover in a five-minute interview. Make it enthusiastic, professional, complete, and concise.

- Explain the basics of your business: What will your product be? Who will your customers be? Who are the owners? What do you think the future holds for your business and your industry?
- If applying for a loan, state how much you want, precisely how you are going to use it, and how the money will make your business more profitable.

2. **Business Description**
   - What business will you be in? What will you do? Briefly, who are your target customers? State your business hours and location.
   - What is the legal form of ownership: Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form?
   - Who are the major owners of the firm? Briefly summarize their qualifications.
   - Company Goals: Where do you see your business in the first year, in 3-5 years?
   - Business Philosophy: What is important to you in business? What factors will make the company succeed?
   - What do you think are your major competitive strengths? What "niche" are you taking that will help you to establish a place in the market?

3. **Management and Operations** ***(1-2 pages)***
   - State your business's name, legal form and ownership: "ABC Enterprise will be a sole proprietorship owned solely by Jane Success."
   - Provide a brief overview of the owner(s) qualifications for this business. Attach a resume for each owner to the Appendix.
   - Who will do what functions? If it's just you, state that you will perform all needed functions: buying, marketing, bookkeeping, customers, inventory, maintenance, etc.
   - Will you have employees? What will their role be? What qualifications do they need? What will you pay them? Training requirements?
   - Will you use outside professionals or family members to help? Indicate any Accountants, bookkeepers, attorneys, etc. State family member's role in your business.
   - Does your business require any special licensing, bonding or

regulations? Is your retail or production location zoned properly? What insurance do you have?
- Identify any key suppliers. Do you have back-up suppliers?
- Will you sell on credit? What will your policies and terms be? How will you determine creditworthiness for new clients?

4. Marketing

a. Industry Overview
- What do you know about the industry you're in? Is it growing? How is it changing? What is the industry/market like where you plan to operate your business?

b. Target Market
- Describe the "primary target market" for your business. This is your most important type of customer. What are their characteristics (age, gender, income, etc), where are they located? What other "secondary market groups" will you target?

c. Competition
- List three major direct competitors (those that do exactly what you do).
- Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?
- What are their advantages over you? How will you deal with these?
- What are their weaknesses? How will you take advantage of these?
- What niche are you filling the market? (Don't try to be all things to all customers!)

d. Product/Service
- Describe your major services and/or products. Do you need to categorize your products? The work you do may involve a wide variation of price and time

e. Promotion/Advertising
- How will you get the word out to customers? (Include any print advertising: trade shows, a website, brochures, business cards, direct mail, other media, etc.) Itemize all

costs and include relevant dates, ad sizes, etc

f. Pricing
   - How did you decide on your prices? Does your pricing fit your market? How do your prices compare to your competitors?

g. Placement
   - Where are you running your business? From home? An office or store? If you do not have a location picked out yet, describe what you are looking for.

5. Financials

a. Your Personal Financial Picture
b. Financial Assumptions
c. Start-Up Expenses and Sources of Capital
d. Use of Funds and Collateral
e. Cash Flow, Income Statement and Balance Sheets

6.5Purchasing an existing Business

Buying an existing business represents less of a risk than starting a new business from scratch. While the opportunity may be less risky in some aspects, you must perform due diligence to ensure that you are fully aware of the terms of the purchase.

If you have decided to buy an existing business, you will want to be sure you are making the right choice in your new venture. Only you can determine the right business for your needs; however, the following topics can help guide you make the best decision.

The Steps to Starting a business

There are many different types of businesses to buy. Take these steps to narrow down the list of potential businesses you may want to purchase.

1. Identify Your Interests If you have absolutely no idea what business you want to invest in, first eliminate businesses that are of no interest to you.

2. Consider Your Talents Being honest about your skills and experience can help you eliminate unrealistic business ventures.

3. List Conditions for Your Business Consider if a business has a condition that is unfavourable to you, such as location and time commitment.

4. Quantify Your Investment Finding profitable businesses for sale at reasonable prices can be difficult. Ask yourself why this business is for sale in the first place.

6.5.1 Advantages to Choosing an Existing Business

There are many favourable aspects to buying an existing business such as drastic reduction in start-up costs. You may be able to jump start your cash flow immediately because of existing inventory and receivables.

6.5.2 Disadvantages to Choosing an Existing Business

There are also some downsides to buying an existing business. Purchasing cost may be much higher than the cost of starting a new business because of the initial business concept, customer base, brand and other fundamental work that has already been done. Also, be aware of hidden problems associated with the business like debts the business is owed that you may not be able to collect.

6.5.3 Doing Due Diligence

As you become a business owner, there are items that need to be addressed before entering into any business agreements or transactions.

- **Obtain all Licenses and Permits** Most businesses need licenses and permits to operate. The type of license or permit you need depends on your industry and the region in which the business is located.
- **Zoning Requirements:** Zoning requirements may affect the type of business that you are intending to operate in a particular area. Visit the Basic Zoning Laws for more information about zoning and to ensure your business is abiding by all laws in your area.
- **Environmental Concerns:** If you are acquiring real property along with the business, it is important to check the environmental

regulations in the area.

6.5.4 Determining the Value of a Business

There are a number of different methods to determine a fair and equitable price for the sale of the business. Here are a few:

- **Capitalized Earning Approach**: This method refers to the return on the investment that is expected by an investor.
- **Excess Earning Method**: Similar to the capitalized earning method, except that it separates return on assets from other earnings.
- **Cash Flow Method**: This method is typically used when attempting to determine how much of a loan the cash flow of the business will support. The adjusted cash flow is used as a benchmark to measure the firm's ability to service debt.
- **Tangible Assets (Balance Sheet) Method**: This method values the business by the tangible assets.
- **Value of Specific Intangible Assets Method**: This method compares buying a wanted intangible asset versus creating it.

6.5.5 Doing Research for Purchasing a Business

Once you have found a business that you would like to buy, it is important to conduct a thorough, objective investigation. The following list includes important information you want to include when researching the business you want to buy.

Letter of Intent: The letter of intent should spell out the proposed price, the terms of the purchase and the conditions for the sale of the business.

Confidentiality Agreement: A confidentiality agreement indicates that you will not use the information about the seller's business for any purpose other than making the decision to buy it.

Contracts and Leases: If the business has a current lease for the location, be aware that you may have to work with the landlord to assume any existing lease on the business premises or negotiate a new lease.

Financial Statements: Examine the financial statements from the business for at least the past three to five years. Also make sure that an audit letter accompanies the statements from a reputable CPA firm. You should not accept a simple financial review by the business itself.

Tax Returns: Review the business's tax returns from the past three to five years. This will help you determine the profitability of the business as well as any outstanding tax liability.

Important Documents: Numerous documents should be checked during your investigation. Examples include property documents, customer lists, sales records, advertising materials, employee and manager information and contracts.

Professional Help: A qualified attorney should be enlisted to help review the legal and organizational documents of the business you are planning to purchase. Also, an accountant can help with a thorough evaluation of the financial condition of the business.

6.5.6 Sales Agreement for Buying a Business

The sales agreement is a key document to finalize the purchase of the business. This agreement defines everything that you intend to purchase including business assets, customer lists, intellectual property and goodwill. If you do not have a lawyer to help you draft the terms of the sale, you should at least have one review the agreement before you sign it.

6.6 Managing a Family Business

One of the major challenges of managing family business is conflicts. Unfortunately, conflicts are part of a normal experience for many family-owned businesses. Conflicts' become more difficult to resolve when the businesses don't follow a formal management structure that encompasses standard policies and practices.

There are three levels of interests at play in a family business; family issues, business issues, and ownership issues. Once you are involved in a family business where every day seems like a battlefield, you should consider outside mediator or counsellor.

These professionals will help you to deal with family feuds, clashes about business strategy, and decisions about succession. By understanding the family dynamics, the mediator can act as a negotiator and devise productive resolutions.

As much as every family business is unique and complex in its own way, it is important to develop common rules of engagement for handling employees who are related by blood or marriage. Here are seven rules to follow to help you manage family conflicts.

Rule No. 1 – Don not put family members on the payroll if they are not working in the company or can't make a real contribution to the business. In a start-up or family business, everybody does everything. Make sure that everyone has a role and responsibilities that are spelled out and are very clear. Establish each person's title, job function, and compensation. Make sure that you have performance reviews for family and non-family employees alike. Award contracts based on merit.

Rule No. 2– Don not create two classes of employees—family vs. non-family. Be careful not to show family members special treatment. Be aware that, in a small or family-owned business, special favours given to family members and friends de-motivate employees and set a bad example.

Rule No. 3 - Be careful not to abuse family relationships. Meaning, do not either reward or punish someone because they are a relative with whom you have personal history.

Rule No. 4 - Communicate honestly and openly with employees. Donot keep it a secret or hide the fact that you have relatives or friends working for you. The ability to have an effective communication with all members of the organization is critical as it fosters a better climate among employees and improves continuous two-way communications.

Rule No. 5 – Do not confuse family decisions and business decisions. Avoid letting family members borrow company vehicles or allowing them to ask the company's IT person to set up their home offices. It's also a bad idea to pass off personal expenses, such as family vacations, as business expenditures.

Rule No. 6 - Establish healthy boundaries between family and business. This especially applies to co-preneuers (husband-and-wife teams). Running a business together with your spouse is a balancing act. Agree and adhere to some kind of system. Entrepreneurial couples share business responsibilities that demand greater communication and coordination than for couples who work separately

Rule No. 7 - Use family councils to address family matters. Some family members will share the same values but not the same vision. One sibling may want to grow the business and keep it privately owned while another sibling may want to sell it or take it public.

A family council comprises members who may be owners but not company employees. They meet monthly, quarterly and/or annually for the strategic planning of the business over the next year to next 10 years. The council does not micro manage the business but addresses family issues or concerns relative to the business.

6.7 Succession Plan Management

Owner and senior management succession is probably the most important issue that confronts companies, including family businesses. This is because the owner and or top managers are usually the drivers of its performance, growth, and survival. Unfortunately, many family businesses put off the succession planning of their senior managers until the last minute, which leads to crises. Poor succession planning is one of the reasons most family businesses disappear before they reach their third generation.

6.7.1 Importance of a Formal Senior Management Succession Plan

Owners and Senior management succession is a process that follows several steps in order to ensure proper succession to key management positions. A formal succession plan ensures business continuity and thus increases the chances of survival of a family business as it is handed over from one generation to the next.

The purpose of this plan is to ensure the skills and leadership necessary to replace any outgoing senior manager are available when needed. An effective succession plan should allow for the selection of the most competent person (whether it is a family member or not) as the next leader.

In addition, it is crucial to involve all family members, the board, key senior managers, and other important external stakeholders in the selection process and make sure they agree on the next leader choice.

6.7.2 Steps of a Formal Succession Plan

The succession planning process usually differs from one family business to another depending on the complexity of the business, the degree of involvement of the family in it, and the availability of competent Senior Management candidates from within the family. The following is a step-by step process that can help your family businesses get better prepared for succession:

1. ***Starting Early:*** Many family business advisors recommend starting the selection process of the next leader as early as when the current Leader is appointed. This will ensure the continuity of the business and provide the company with a new leadership that was carefully chosen and well-prepared to succeed to the current one.
2. ***Creating Career Development Systems:*** A successful succession plan is one that selects the best possible candidate for the job, regardless of whether this candidate is related to the family or not. If the next manager will be chosen from the family or its current employees, a rigorous career development system should be developed.
3. ***Seeking Advice:*** Particularly while narrowing the list of potential successors, you should get advice from the external independent directors of the board. If these do not exist, trusted senior non-family managers should be consulted.
4. ***Building Consensus:*** The success of the future manager is largely dependent on his/her acceptance by the key stakeholders involved in the company. It becomes then mandatory to involve all key stakeholders in the selection process including the board of directors, senior non-family managers, and family members.
5. ***Clarifying the Transition Process:*** Once an adequate succeeding Manager has been selected, a clear transition process for both the current manager and the successor should be developed. This transition process would specify the transition date and also define the levels of involvement of the current manager after retirement (advice to the successor, board membership, additional activities, etc.)

Unit 7 - Marketing your Business

7.1 Introduction

Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.

Marketing is the process focus on satisfying organization's stakeholders and creating value for these stake-holders. Marketing management is the management of this process. Stakeholders are persons or organizations that have a relationship with the organization. Every business has a different set of stakeholders, although many have the same type. Stakeholders are affected by the actions of the organization and many of these stakeholders are the focus of marketing efforts. Typical stakeholders include customers, employees, distributors, suppliers, owners, and the community.

7.2 Marketing Plan

Your marketing plan is an essential part of your overall business plan. Bankers and lenders will want to see how you plan on making money. When you start a business or decide to introduce new products or concepts, your marketing plan will help you:

- Assess customer needs and develop a suitable product or service
- Convey product or service features to your target audience (potential customers)
- Establish distribution channels
- Determine the most effective ways to promote yourself
- Pinpoint the best advertising venues

Before you develop your marketing plan, you must first research the potential market for your product or service. Use the market research findings to back up statements in your marketing plan.

7.3 Marketing Research

Market research is the process of gathering information which will make you more aware of how the people you hope to sell to will react to your current or potential products or services.

Market research is the process of gathering information which will make you more aware of how the people you hope to sell to will react to your current or potential products or services.

Whether you are aware of it or not, as a business owner you conduct market research all the time. When you talk to customers about your business or check out the prices of your competitors you are conducting market research. Formalizing the process can produce a wealth of information about your products and services, your customers and the marketplace you operate in.

7.4 How to conduct market research

First, it is important to establish clear goals for the market research activity you will undertake. You need to make sure you have defined what you need to know and why.

Once you have established your goals, it is important develop a strategy and select techniques you will use to gather data. The two broad types of research you can use are ***primary*** and ***secondary*** research.

Primary research

Primary research is original information gathered through your own efforts (or on your behalf by a hired research firm) to respond to a specific question or set of questions. This information is normally gathered through surveys, observation, or experimentation.

The following are examples of questions that can be addressed through primary research:

- Who are my customers and how can I reach them? ◦ Customer profiles
- Prospective business locations
- Marketing strategies
- Which products and services do buyers need or want?
- What factors influence the buying decisions of my customers? ◦ Price, service, convenience, branding, etc.
- What prices should I set for my products and services? ◦ Customer expectations
- Who are my competitors, how do they operate and what are their strengths and weaknesses?

Some drawbacks of primary research are that it can be time consuming and expensive if not performed yourself, and the results are not available immediately.

The benefits of this type of research are that you can specifically target desired groups (such as your customers or the geographic market for your business) and can tailor your research instrument to answer specific questions. In addition to keeping the costs down, an added benefit of doing the research on your own is that you will get to know the market for your business better.

Surveys are the most common way to gather primary research. Surveys can be conducted:

- Through direct mail ◦ Hand out at the place of business or mail out with survey returned in person or via mail
- Questionable effectiveness; follow-up reminders necessary
- Over the telephone ◦ Cost-effective
- Can be difficult to reach participants
- Little appetite in the public for telephone interruptions
- On the web or via email ◦ Allows participants to complete the survey on their own time with little effort
- Cost-effective
- In person ◦ Personal interviews or focus groups
- Can introduce follow-up questions or change the focus of the survey on the spot

When designing your own research questionnaire, be sure to:

- Keep it as short and simple as possible
- Make sure it is visually appealing and easy to read
- Move from general questions to more specific questions
- Make sure questions are brief and easily understood
- Avoid leading questions, questions with ambiguous words, questions that are too difficult to answer (due to recall problems, etc.)
- Make sure any response scales used are logical with categories that are mutually exclusive
- Always pre-test your questionnaire to identify potential problems

The web is a good resource for sample questionnaire questions that can be adapted to answer your suit your particular research needs. There are also a number of companies that allow you to create and conduct surveys online.

Good information on your customers can often be obtained without engaging them directly. Interviewing your employees can provide excellent insight, as they are in constant contact with your customers and can provide information on:

- Customer profiles
- Goods and services that customers demand
- Satisfaction with price levels and quality of service
- Experiences with your competitors

Secondary research

Secondary research exploits existing resources like company records, surveys, research studies and books and applies the information to answer the question at hand. It is normally less time consuming than primary research, and can be less expensive as well.

While secondary research is less targeted than primary research, it can yield valuable information and answer some questions that are not practical to address through primary research (such as assessing macro-economic conditions) or questions that may make customers uncomfortable if asked directly (such as questions on age and income levels).

The following are examples of questions that can be addressed through secondary research:

- What are the current economic conditions that my business is operating in? Are these conditions changing? ◦ International, national, provincial and local economic conditions
- What trends are influencing the industry my business operates in? ◦ Consumer preferences
- Technological shifts
- Prices for goods and services
- Are there international markets for my products or services that could help me to grow my business?

- What are the demographic characteristics of my customers or where do they live? ◦ Populations, age groups, income levels, etc.
- What is the state of the labour market?
- How many people have the skills I require?
- How much should I expect to pay my employees?

Existing company records such sales invoices, receipts and formal complaints are important secondary resources that businesses can utilize. Often times these records shed light on the same issues businesses seek to address through primary research, and therefore an examination of company records should be done before considering a customer survey or other form of primary research. Some specific examples of using existing company data in market research include:

- Examining sales receipts to find trends in the demand for particular goods and services
- Cross referencing sales receipts with customer addresses or products and services to determine the effectiveness of advertising
- Compiling complaints to determine areas for improvement in customer service, prices or products and services offered

Another key secondary resource is statistical data from official statistics providers and other organizations. These statistics in turn can feed into analytical papers and market profiles that can help to put the numbers in context.

Identifying statistics and analysis that can help you with your business decisions can be difficult, and some datasets are expensive to purchase. There are, however, a number of quality statistics and analytical resources available to you, as well as guidance to help you make sense of all the materials available.

- Demographics
- Get data that sheds light on population characteristics such as location, age, income, education level, and more.
- Labour and employment data
- Find statistics and analysis related to the labour force, employment and income from official Canadian and international sources.
- Canadian economy

- Get the latest official economic indicators, which shed light on the performance of several segments of the Canadian economy.
- Industry sector data
- Find statistics that can help you better understand your industry, and study the latest trends that could impact your business.

7.5 Sections of Marketing Plan

Executive summary — "What is my overall plan?"

Your executive summary should contain the key points of your marketing plan and, although it is written last, should be positioned at the front of the plan. This summary is usually the first section a potential investor or lender will read. Polish it to perfection. The executive summary should:

- Include highlights from each section
- Be interesting enough to motivate the reader
- Be concise

Identify yourself — "Who am I and what are my values?"

Describe who you are, what your business is about. Share your goals, and what inspired you to start your business or make changes. For example:

- Company name, address, phone number, and names of owners or partners
- Business vision, mission statement and beliefs (in line with your target market)
- Core values and goals of the business and its owner(s)

Describe the product or service — "What need do I meet?"

Detail how your product or service is unique, and superior to the competition. Be prepared to back up your statements.

Identify your target market — "Who are my customers?"

Through research, identify the age group, gender, lifestyle and other demographic characteristics of the people who have shown interest in your product or service. Avoid trying to sell to everyone. Provide statistics and analysis that show the reader there is a demand for your product or service.

You can define customers by demographic characteristics, such as:

- Age, usually in ranges
- Gender
- Marital status
- Location of household
- Family size and description
- Income
- Education level, usually to last level completed
- Occupation
- Interests, purchasing profile
- Cultural or ethnic background

Once you have defined your target customers, you must learn about their needs and preferences.

- Which of their challenges can you solve?
- What are their needs and expectations regarding this product or service?
- What types of things do they desire?
- What do they spend their money on?
- Where do they shop?
- How do they make spending decisions?

To develop a profile of your customers and to understand their needs, you will have to do some market research.

Conducting market research

Learn more about market research, how it can improve your business decisions, and how to conduct a market research campaign.

Know your competitor — "Who else can win my customers?"

Most businesses face competition at every stage of their life cycle.

Competition can be good; the trick is to know with whom you are competing, and what it is that you do better. You can compare your own strengths, weaknesses, opportunities and threats (sometimes called a “SWOT analysis”) to those of your competitors, and make sure your customers know why you should be their preferred choice.

Define your distribution and delivery channels — "How will I deliver my product to my customers?"

Traditionally, customers shop at stores to find the products they want, or visit one specific location for services such as a massage or a haircut. More and more, people are shopping online. Where will customers find your products? Define your delivery channels, including who the middle players are, and how much that process will cost. For example, you could decide to:

- Sell through a retailer, wholesaler, or professional sales agent
- Sell through kiosks in schools, offices, public places, or at events
- Go to the customer's home or place of business
- Take orders from a catalogue or through the Web
- Sell solely online

Group your activities — "How will I reach my customers?

Map out your budget for each medium you want to use, and detail how much time you plan to spend on each. A few suggestions:

- Advertising (online ads, TV, radio, print publications, online publications, websites, billboards, business cards)
- Publicity (signs, stationery, branding, testimonials, referrals)
- Listings (business directories, telephone directories, online listings, association listings)
- Sponsoring (research, community events, local charities, sports)
- Networking (get feedback from existing and potential customers and other industry players; reach out to the public through online social networks; provide advice on blogs and by speaking at public events; meet industry players at business events)
- Promotions (mail outs, samples, freebies, discount coupons, sales, displays)

- Internal marketing (employee rebates, sales incentives, referral incentives)

Public relations and media relations

Learn how to spread the word about your business.

Outline a plan to deal with challenges — "How will I handle the unexpected?"

Like any aspect of running a business, preparation helps you face challenges and sometimes prevent them. Think about potential challenges, and write down what you could do to prevent them or deal with them when they happen.

The following are some marketing challenges for which you could plan:

- New regulations for packaging/labelling/claims
- Shift in trends and buyer preferences
- Environmental issues related to your business
- Negative business image or perceptions
- Changes in the economy
- New competition

Marketing, advertising and sales regulations

Attracting new customers to your business is essential, but you need to follow a few rules.

Indicate your pricing strategy — "How much should I charge?"

Pricing is another aspect of marketing that requires careful attention. If your price is too high, you may distance or isolate customers; if it's too low, you may give the impression that your product or service is cheap and below standard. Some businesses purposely charge a very high price so that their customers feel that they are getting a better product or service. Some sell at a slightly higher than average price in order to be able to offer exceptional customer service.

Project where you will be in five years — "What are my long-term goals?"

If you start out small and want to remain small, be clear about this in your plan. If your long term goal is to expand over the years, to gain an international market, or to sell franchising rights, be clear about this as well. Define the steps you plan to take in order to grow your business and how you will adjust your marketing activities to reach these goals.

Planning for business growth

You've decided it's time to expand, but there's plenty to consider before you begin.

Provide a review date — "When will I revisit my plan?"

Decide how often you want to review your marketing plan. You will likely want to update it at least once a year, or more often as needed.

Unit 8 - Customer Care

8.1 Introduction

Customer Care also referred to as Customer Relationship Management is a skill for understanding your customers and their needs in order to optimize your interactions with them. This philosophy may leverage technology to create stronger relationships with former, current and prospective customers while maximizing your marketing and customer service capabilities.

In practice, Customer Care means developing your methodologies, internal operations, software and Internet capabilities to be able to better address your customers' needs and, as a result, make your relationships with your customers more profitable.

8.2 Tips for Improving Customer Care

1. **Engage with your customers at every opportunity.**

Communication is vital because your customers want to feel valued and respected. They are also looking for peace of mind that they can trust you will deliver what you promise.

Tracking the market and anticipating your customers' changing needs will enable you to think innovatively and stay ahead of the competition. This can be done by:

- Communicating regularly with your customers to understand their changing needs.
- Conducting regular customer feedback surveys so you get an honest assessment of your business from the people that matter.
- Monitoring the wider economy and analysing how changes will impact your customers.
- Tracking your competitors so you understand where you are in the market and how you can differentiate.

2. **Offer clients flexibility, so they get exactly what they want**

There's no point listening to customers if you don't then give them what they want. One size does not fit all, particularly in a tough economy, and you have to be able to cater for most budgets. Put systems in place that enables your staff to work within a framework.

3. **Employ the right people**

You are only as good as your weakest member of staff, so you need to hire carefully. It doesn't matter what the management team promise, you will only deliver when the people at the sharp end are doing their jobs well. Do not only focus on a candidate's qualifications or skills but also develop a comprehensive training programme. Hire people for their attitude, which is far harder to teach. Those with the right attitude are also often the most willing to learn.

4. **Develop your staff**

Even if employees join with the right attitude, they may soon become disillusioned if you don't involve them in your decisions and give them the opportunity to develop.

Unit 9 - Human Resources Management

9.1 Introduction

Human Resources: is a resource that resides in the knowledge, skills, and motivation of people. Human resource is the least mobile of the four factors and under right conditions; it improves with age and experience which no other resource can do. It is therefore regarded as the scarcest and most crucial productive resource that creates the largest and longest lasting advantage for an organization.

The concept of Human Resource Management (HRM) practice to MSMEs is still new in Tanzania. Not all formal registered businesses have functional systems of human resource management. With time they will have to adapt such systems to improve on their tools and systems of managing a business.

9.2 Definition of Human Resource

Human Resource is the function that covers management of people/employees who work with business enterprise; it deals with issues related to people such as recruitment, performance management, organization development, safety, benefits, motivations, communication, administration, training and staff reduction.

9.3 Hiring people to work with me

The entrepreneur may launch the business by him/herself, and consider obtaining assistance as it expands and the workload increases. She/he may also launch the business as a sub-contractor for another business, and consider getting help when circumstances of the business permit.

Mobilizing people to help with the business will involve compensating those people with a fair wage that corresponds to their suitability (qualifications) for the job and the number of hours, days, weeks or months they will work.

Before hiring workers, the business needs to identify clearly the nature of the work that is to be done and the professional qualifications and skills of the person who should be hired to do this work. Staff may need to receive training when they start work and then again periodically during their working life with the business. A relevant training may contribute to motivating staff and making them more productive.

The entrepreneur should keep in mind that the wage is not the only cost associated with hiring people to help with the business. There may be dues to be paid to the national government and/or the local authority in the form of social security, health benefit payments and training.

Workers may be hired to carry out the following functions in the business:

- Production
- Quality control
- Administration
- Transport
- Customer relation etc.

9.4 Outsourcing

A business may choose not to hire an employee to do some of its work. It may instead assign the work to a person or agency outside the business for payment for that assignment only. For example, many businesses do not have permanent cleaning staff. Instead, they hire other businesses to provide cleaning services.

An advantage of outsourcing is that the business can choose to terminate the services of the contracted person or agency if their performance is not satisfactory or their charges are excessive. The business may then hire another person or agency better suited to its needs. A disadvantage of outsourcing is that the contracted person or agency would feel no significant loyalty or commitment to the business, and would not be a part of the working of the business as a whole.

9.5 Training and Development

Well-trained employees are essential to the success of your business. Over time, a lack of training may reduce motivation levels and business inefficiencies and, most detrimentally, result in staff turnover – which in itself can be costly. Your committed to the training and development of your employees is a critical factor in attracting and keeping high-performing employees. The following are tip for how you can train and develop your employees..

- **Join Associations or Trade Groups**
  Many industry associations offer training programs for members at annual events, online, and at seminars. Check out your trade association website or newsletter, newspapers for training opportunities that may be included in your membership.

- **Find Trainers Within Your Organization**
  If you have someone in your organization that has strong communication and interaction skills and the patience to help others

learn, consider appointing them as a trainer. Have them attend classes and come back prepared to share what they've learned. You can also buy training materials and use them to equip your trainer.

- **Use Online Training Courses**
  Online courses are a great way for employees to learn at their own pace and select from a wide variety of courses, some of them free or at low-cost.

- **Cross-Train Employees in the Workplace**
  This is common practice in businesses that need an agile workforce ready and equipped to take on other roles should business requirements change. You can do this by looking at different jobs in your organization as hands-on training opportunities for others.

  Give employees new roles or responsibilities. Have them shadow someone who is already doing these tasks for a few days, until they are ready to try the new role on their own. Rotate roles frequently so your employees are continuously learning and challenged to achieve new things.

- **Start a Mentorship Program**
  Consider partnering new or less experienced employees with mentors. For example, an up-and-coming sales rep might benefit from sitting in on sales planning sessions or attending important off-site customer meetings with a more senior employee.

- **Use Professional Trainers**
  These options can all be fulfilled at a low cost, but what if you need to solve very specific problems? You may need to invest in an off-site training program where employees benefit from fewer distractions and an interactive class room environment. If you are training multiple people, a more cost-effective and time-saving option might be to bring a trainer on-site.
- **Set Goals and Measure Success**
  Lastly, before you embark on any training or mentoring program, be specific about what you and your employees want to achieve. Use annual performance reviews to gauge competency gaps as well as your employee's desired areas of improvement.

  Then put specific training goals in place for each employee. Let your employees know that you will assess the impact the training has had on their overall job skills and performance on set time.

Unit 10 - Insurance

10.1 Introduction

Is an arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium

An entity which provides insurance is known as an insurer, insurance company, or insurance carrier. A person or entity who buys insurance is known as an insured or policyholder

In this session you will discover the many types of insurance coverage available for small business, and which types will fulfil the requirements for your business in your location.

Insurance is not only going to be important to you but it will be important to your other business relationships. For example, if you choose to rent office space, it is important that you buy insurance or be listed as an additional insured on your policy as assurance that your business will not disappear overnight in the event a loss occurs. Here are some of the risks that should be protected by insurance:

10.1.1 Property insurance

Property insurance should include a broad form of coverage to protect you from a wide variety of losses. Your insurance should include: Buildings. Coverage would be required here if you own the building your business occupies.

In the event you rent a premise, your landlord should provide this coverage. Business personal property includes your tables, desks, chairs and equipment. Also, you will want to include the tenant's improvements you might make to leased premises.

An example would be a room divider you add, or a display case, or a custom built counter that forms part of reception area for your clients. Loss of Income due to Earthquake Flood (which may or may not be available) Keep in mind that an all-risk policy can be structured to cover all of your equipment, including computer hardware and software, plus your valuable records.

A properly written policy will include loss of income that might result from breakdowns, as well as loss of income from other hazards that would temporarily close down your business.

10.1.2 Liability Insurance

A Comprehensive General Liability (CGL) policy is designed to provide coverage to third parties for the following:

- Personal and Advertising Injury
- Fire Legal Liability, which is often mandatory if you lease your premises. This protects you in the event your negligence results in damage or loss to your landlord's property. For example: you mistakenly leave a small electric space heater running and go home for the evening. During the night, the heater shorts and starts a fire, resulting in fire and smoke damage to your landlord's building. In this case, the negligent act of leaving the space heater on caused the loss. This is where Fire Legal Liability protects your investment.
- Products and Completed Operations
- Medical Expense or medical payments General Liability for your premises.

10.1.3 Worker's Compensation Insurance

Workers' Compensation is a form of insurance providing wage replacement and medical benefits to employees injured in the course of employment in exchange for mandatory relinquishment of the employee's right to sue his or her employer for the tort of negligence. The trade-offs' between assured, limited coverage and lack of recourse outside the worker compensation system is known as "the compensation bargain"

10.1.4 Other Insurances

- Auto coverage for company vehicles. (Liability, Comprehensive, Collision and Uninsured/Underinsured Motorists.)
- Health insurance plans tailored to fit the size of your business (benefit: this coverage helps give you an edge when recruiting good employees).
    - Life insurance or life assurance, is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment.