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Introduction to Business Entrepreneurial Skills Development Training

A training manual for the small business trainer

by

Andrew Harris

and

Lidwina Aipinge and Cynthia Schimming

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Welcome

The terminology “handbook” makes one perceive that it is a kind of book which is not only handy (according to the Greeks: “enchiridio”, “that one can hold in the hands”) but elaborated as well because in it one must find the basic principles of the topics, which it determines to expound and teach, brought together.

An “handbook for Trainers”, in my opinion, must have something more, not only in the contents but also in the form, that is it must be devoid of embellishments and artifice characteristic of divulgation literature, at the same time be relevant and factual, must be profound and easy to understand, and finally it has to be a working tool.

And it is with this attitude that, with the assistance of the European Union, the present handbook “Introduction to Business – entrepreneurial skills development training” has been produced with the objective to assist the trainers of the owners of small enterprises.

The philosophy founding the present manual is the same bedrock philosophy of the founding of CISP’s activities, (“Comitato Internazionale per lo Sviluppo dei Popoli”, an Italian NGO present for nearly a decade in Namibia in the field of Training of Trainers and in other co-operation sectors) that would give a written framework to a social, cultural, financial and human medium that must nourish and motivate the small and micro enterprises in order to accomplish the final practical goal, which is their full economic sustainability.

I am therefore convinced that the recommendations and the technical and practical suggestions provided by this handbook will be of great assistance to the trainers involved in the process to empower promising small entrepreneurs to a better future through success in their businesses.

Windhoek January 2003

Massimo Baistrocchi

IAmbassador of the Republic of Italy

Windhoek, Namibia

Foreword

Globalisation has become a key word in our daily life: to think “big” seems to be the only way of survival in the future. It is correct to say that we have to think about international terms in a lot of sectors today and also in the future.

Nevertheless, a study of markets and occupations and jobs in all the countries around the world shows that it is very important that individuals are fully informed about appropriate tools in order to play a role in the national and international economy. With all debates on the globalisation, it is sometimes forgotten that the biggest share in national economies – in industrialised countries as well as in developing countries - is being contributed by small and medium scale entrepreneurs and industries.

Another key word in life today is informatics and developments in new technologies. Without any doubt achievements in the informatics sector have brought major changes in our style of work and in our way of life. Nevertheless, further developments in the It sector and efficient utilisation thereof will depend on understanding the processes on which modern technologies have been based. Modern technology however can never replace the need for learning and of individual knowledge.

The present “introduction to business” has to be considered as an ideal tool for different kinds of people interested in participating in and in understanding the development of the modern economy. It helps the reader understand the basics, which are necessary to enter and to survive in modern markets. It is fully in line with Namibian Government’s policy of improving educational tools, which aim at a higher level of knowledge and skills of the population.

The authors of this manual have combined some theory with practical applications. They succeed in explaining in an understandable way economic terms, which normally frighten a lot of people. Practical examples allow the reader not only to deepen his understanding but also to check his knowledge of different economic key words.

Once the reader has studied this manual, he should be in a position to establish and run his own small business, since the most important aspects are covered in this manual.

I am sure that this manual will enjoy great success among those who are interested in setting up their own small business and therefore aiming at a successful and independent occupation.

A Brueser

Ambassador

Delegation of the European Commission

Introduction

This manual has grown out of the continuing work of the Comitato Internazionale per lo Sviluppo dei Popoli (CISP) in supporting small business development in Namibia and in the Southern Africa Region.

CISP is a non-governmental and non-profit association officially recognised by the Italian Ministry of Foreign Affairs that carries out in strict collaboration with local partners, development, rehabilitation, humanitarian, information and research activities. It operates in more than 15 countries in Africa, Latin America, Asia and Eastern Europe. CISP implements also public campaigns and projects in support of vulnerable groups, as well as fight against racism and poverty alleviation programmes. It is also engaged in actions concerning the cultural policy and the promotion of the international solidarity.

In Namibia, CISP has taken a particular interest in the development of the small business sector since 1994. This has involved a number of collaborations, including the following:

The Adult Skills Development for Self-Employment has been a Ministry of Basic Education, Sport and Culture's very successful collaboration. It started in 1996, with the implementation of the pilot project. The ASDSE is a unique Government project, which is contributing to the alleviation of poverty in Namibia establishing a link between the education system, job-creation, training and micro-credit trough the National Literacy Programme.

Under the project **Training of Trainers and Capacity Building for Labour Creation in Namibia,** a collaboration has been established with the Community Skills Development Centre (COSDEC) programme. During 2001 and 2002, this collaboration included a series of entrepreneurial development courses directed towards developing the business skills of COSDEC trainers and trainees alongside their vocational skills.

The "Institutional Support Programme linked to the Ministry of Trade and Industry (MTI), Small Business Credit Guarantee Trust and the SME Sites & Premises Development Programme' is inter alia aimed at presenting business & entrepreneurial advisory courses to Namibian small and medium enterprises operating country wide. Business & entrepreneurial advice shall be provided in areas such as Costing and Pricing, Marketing as well as Record Keeping and Financial Instruments. At present this project is under implementation.

The training manual presented here arises from these field experiences sponsored by the European Union and the Italian Government.

The three people engaged in the development of the training manual combine practical business and teaching experience.

Andrew Harris has worked on a support basis with many small businesses in the UK before he came to Namibia. He took a particular interest in supporting small businesses that were failing, aiming to assist the businesses to identify and implement appropriate recovery plans. In 1998, he supplemented his practical experience of running and supporting small businesses with general business development course at the London Business School. In 1999, he started to work in

Namibia with small business, taking a particular interest in mentoring a number of businesses in Omaheke.

Cynthia Schimming is a fashion designer and dressmaker. She has won many design awards (including Laureate of Design 21 contest by UNESCO at Expo 98, Lisbon: Overall winner for Africa and 5th place in the world) but combines this with running a successful dressmaking business. She has also studied business and design activities across Southern Africa and represented Namibia at international business fairs. Her own experience of entering business immediately prior to Namibian Independence as a previously disadvantaged person has caused her to remain interested in new and emerging small businesses and she has tutored on many small business training courses as a way of expressing this interest. She has also been an assessor for the Ministry of Higher Education and the City and Guilds, London.

Lidwina Aipinge is a business consultant with CISP. She is a well-known adult educator, community worker, business trainer and trainer of trainers. She has also been involved in the successful implementation of various credit schemes for small businesses and of the Community Learning and Development Centres under the Ministry of Basic Education, Sport and Culture.

Lidwina has been a central force in the establishment of many training development units simultaneously providing training and developing training manuals to suit different target groups. She is one of the few qualified Master Trainer certified through World Education under the READ Project on developing curriculum and using participatory training methods. She studied business in Namibia and in South Africa.

Both Cynthia and Lidwina come from the previously disadvantaged community in Namibia and continue to support the growth and development of different training and development institutions that target their work to this community.

A last word of thanks and acknowledgement to Mr. Clinton Light former LAC Attorney, for the research on the legal environment of the SMME, which was specifically done for the ASDSE, and to Mrs. Christine Thompson, former Manager International Operations of the First National Bank in Namibia for the handout: “dealing with a bank”.

Claudio Tonin

CISP Regional Co-ordinator

Southern Africa

How to use this manual

This training manual is designed for those beginning their business life and those who are already running small businesses and wish to improve their business skills.

It is arranged into 4 individual training modules. Each of these is broken into separate learning units so that a trainer can adapt the material to the specific needs of trainees. In each module, the overall subject is introduced, learning objectives are stated, individual units are studied theoretically and through exercises and finally trainees' understanding is tested.

The trainer can adapt the length of individual study sessions according to circumstances, particularly the needs and abilities of the trainees. The trainer may use more than one training unit in any particular study session. The trainer can also choose to vary the order in which modules and training units are delivered according to the interest of trainees.

Each training unit is presented firstly by defining the unit learning objectives. The idea of the unit is then presented in a step-by-step way, with the trainer being encouraged to work by drawing out trainees' current experience. Where appropriate, worked examples are then offered before trainees are invited to demonstrate their understanding of the unit through an exercise. At this point, the trainer will need to judge how well trainees have understood the unit; if necessary, the trainer should ask the trainees to do similar exercises created by the trainer until satisfied that the trainees have understood the unit fully.

Finally, handouts are provided where they usefully add to a unit.

At the end of each module is a training unit to be used for review and testing of the overall module.

The overall loose-leaf design of the manual is designed to enable trainers to photocopy exercises, tests and handouts easily. Additionally, it allows trainers to add any material that they themselves develop as part of delivering the training.

A trainee who successfully covers the course should be able to write a good business plan. This theme of good business planning underlines the structure of the overall course and the trainer is encouraged to draw this out as the course progresses.

Once all the modules are covered, trainees should be able to:

- Assess and strengthen their entrepreneurial skills
- Determine how businesses work and know what factors contribute to creating a successful business
- Know how to cost, price, market and sell their products
- Keep good records and use them to manage their businesses
- Design, write and use a business plan
- Know something of the regulatory environment in which they work

Module 1 - The world of business

Learning objectives

By the end of this module trainees should be able to:

- Define what a business is
- Identify the types and sectors of business
- Know how a business may be owned
- Describe the qualities of an entrepreneur and judge these in relation to themselves
- Evaluate a chosen market
- Know how to sell within a chosen market

Definition of a business

Unit learning objectives: trainees are introduced to the components of a business. At the end they should be able to use their understanding of the various components to assist them in planning or running their own businesses.

All businesses make a product, which they sell to customers at a price to cover the cost of making the product, paying the people involved and making a profit with which to expand the business.

Trainees are asked to introduce themselves – what businesses they would like to run and whether they already have engaged in business activity. List the different types of businesses mentioned on a flip chart.

Trainees are asked to divide into groups and decide what they need to start or run a business. When they are ready, they present their ideas to the main group. In the main group discussion, divide the answers into

- Market e.g. orders, tenders, people of the locality
- Capital e.g. money, equipment, tools, buildings
- Materials e.g. cloth, meat, timber
- People/skills e.g. skills to make a product, business skills
- Product e.g. dresses, cars, braided hair

Trainees are asked to individually think about their business, or a business they would like to start, and list what they will need for that business, according to the five components:

- Market: what is the particular market – A street? A neighbourhood? A group of friends?
- Capital: what capital is needed? Is it possible to start without any capital? Remember, capital includes the cash to run the business.
- Materials: what materials are needed? Maybe customers can bring their own materials, if there is not enough capital available.
- People/skills: the skills will be vocational (how to make or do something) and organisational (how to run a business) – what skills do trainees already have and what do they need to develop?
- Product: a product is a good or a service. What is special about the product that makes people want to buy it?

Individual trainees are invited to present their lists to the main group, where they can be discussed.

Trainees keep their lists and use them to help in writing their business plan and learning from the course.

Types of business and their organisation

Unit learning objectives: trainees are introduced to the different types of business and see how they can use this to consider what businesses they might each develop

In pairs, trainees are asked to list up to 10 different types of businesses e.g. dressmaking, car repairs, building.

Pairs present the lists; categorise these into sectors – Primary: (e.g. agriculture, mining, fisheries); Secondary/manufacturing (e.g. clothing, car making) and Tertiary/services (e.g. car repairs, braiding, wholesale and retail).

Trainees are likely to list mostly service businesses, which are characterised by variety, high employment, and good added value.

Discuss varieties of businesses and how they can grow out of each other – cattle farming; milk production: butter and fat production; cheese, yoghurt and other processed milks; leather products; handicrafts; delivery of products to market; retailing.

Trainees are asked to go back to the business they selected in the previous learning unit. In that unit, they looked at a business mainly from their own view (market, capital, materials, people/skills and product). Now look at the business from the customer's view. Why should customers want to buy that particular product?

Trainees are asked now to list what is good about their product, why people will want to buy it and how profitable it might be. How might they make the product better or differently so that people will pay more for it? Trainees discuss their lists with the person next to them.

In the main group, take the most popular businesses identified and draw out why they are the most popular, again using the categories market, capital, materials, people/skills and product.

Owning a business

Unit learning objectives: trainees are introduced to the different ways in which a business may be owned. At the end they should be able to identify the ownership model most likely to be useful for them and choose which is best

Describe and discuss with the class the different ways of owning a business:

- Sole owner/trader – person owning his or her own business
- Partnership – 2 or more joint owners
- Co-operative – owned by all the members
- Close corporation – owned by the directors
- Company (with share capital) – owned by shareholders on a public or private basis
- Company (without share capital) – run by a board according to its memorandum of association (for example most NGOs are constituted on this basis)
- Parastatal – owned by government (sometimes in partnership with another business)
- Community project – owned collectively by a community group

Ask the trainees to discuss in groups the advantages (strengths) and disadvantages (weaknesses) of starting or running a business as a sole trader, partnership or community project. These are the types of business forms that the trainees will be likely to start a business with. Bring the answers together in the main group, and discuss ways in which the various disadvantages can be addressed.

No type of ownership is “correct”. When they do actually start running a business, trainees must examine the advantages and disadvantages and organise themselves to maximise the advantages and minimise the disadvantages.

The entrepreneur and his or her business

Unit learning objectives: Whether starting or already running a business, trainees will consider the range of characteristics of an entrepreneur and be able to realistically judge their own strengths and weaknesses

An entrepreneur is someone who starts or develops a business; in doing so, he or she will take risks.

Ask the trainees to brainstorm the characteristics of an entrepreneur, either in small groups or in the main group.

Compare the characteristics of an entrepreneur as described by the group with the list in the handout. [Retain the handout and distribute at the end of the session]

One way of remembering an entrepreneur's characteristics is that an entrepreneur has DREAMS – Drive, Risk taker, Energy, Ambition, Money, Success.

Ask the trainees to consider the risks of being an entrepreneur. Trainees discuss these risks in their small groups and offer suggestions to the main group. Use the components of a business (Market, Capital, Materials, People/skills, Product) to classify the suggestions. Focus on the personal risks – personal financial risk, career risk, family and social risk, psychological risk.

Ask the trainees to consider the rewards for an entrepreneur, again trainees discussing the question in groups and then offering proposals. The rewards will include financial reward, independence, a sense of achievement, freedom to be creative, and recognition.

Use the "Exercise: Review or plan your approach to a business". Ask trainees to individually prepare a list of personal strengths and weaknesses in relation to their actual or planned businesses; they should group the 2 lists according to the 5 components of a business.

> What market is the trainee planning to work in? Why does the trainee think he or she will be successful in that market?
>
> What capital does the trainee already have? Could it be started with no capital?
>
> What materials will be needed; how much money will they cost? Could they be obtained without cost?
>
> What skills do the trainee and possible business partners have? If there are gaps, could they find someone to join them in the business as a partner, or learn the skills themselves?
>
> What will be special about the product; will people buy it? Again, can the product be tested by starting small and building the business up step by step?

Trainees should then divide into pairs and discuss their partner's list. When this is completed, draw out typical strengths and weaknesses in the full group and discuss with the trainees what can be done to develop typical strengths and tackle typical weaknesses.

[Note that in the next unit trainees look at the other side of the picture – the market they face and its opportunities and threats.].

Handout: Entrepreneur and entrepreneurship

An entrepreneur is someone who sees a business opportunity and implements it. Typical characteristics of an entrepreneur are:

- Self-confident – is able to get on with things without needing to ask others what to do
- Driving – always asks the question "could I do more?"
- Energetic – always "on the go"
- Opportunity seeker – can see an idea for doing something which others do not
- Determined – will keep on working at a problem until it is solved
- Persistent – will not take no for an answer
- Will take the initiative – does not wait for someone to tell him or he what to do
- Ambitious – not content with today's success
- Not afraid of hard work – will do something even though it does not seem easy and will get on with something else as soon as the first thing is done
- Risk taker – will do things knowing that they will sometimes go wrong, however well planned
- Goal oriented – plans what to do with a clear outcome in mind

The successful entrepreneur will try to add to these characteristics other qualities and skills:

- Honesty and reliability – "If I say I will do it, I will do it"
- A focus on the customer – always wanting to make sure the customer is satisfied
- Good information gathering – checks to make sure that he or she has the right information
- Effective planning and monitoring – sets goals, plans how to achieve the goals, checks to see whether the plans have worked properly and sees how the whole process could have gone better

Some disadvantages that an entrepreneur can face are:

- Long working hours
- A lot of time away from family and friends
- A feeling of being isolated
- Health problems, particularly related to stress
- Financial loss when things go wrong

Exercise: Review or plan your approach to a business

Use this sheet to review or plan your approach to a business. First write down the name of your business and what it does. Then write in the second column the key features of the business as they relate to you - where it is, what sort of capital it needs, what sort of materials, people and skills it needs and what sort of product it is. Next, write down your own strengths and weaknesses are in each area. What will you do about the weaknesses? Finally, write down the opportunities and threats you face in each area. What will you do about the threats?

Reviewing or planning your approach to a business					
Name of business:			What the business does:		
	Describe myself in business according to…	What are my strengths?	What are my weaknesses?	What are the opportunities?	What are the threats?
Market					
Capital					
Materials					
People/skills					
Product					

Which business? Markets

Unit learning objectives: trainees will consider the nature of markets and at the end of the unit should be able to better assess the particular market in which they are working or plan to work.

Ask the trainees to work through the fifth and sixth columns of the “Exercise: Review or plan your approach to a business”, started in the last learning unit. These are the opportunities and threats that the individual students see in relation to their businesses. Once they have completed these columns, trainees should divide into pairs and discuss their partner’s list. When this is completed, draw out typical strengths and weaknesses in the full group and discuss with the trainees what can be done to develop typical opportunities and tackle typical threats.

Use the “Exercise: Market survey” as homework exercise as follows:

> Each trainee has to decide which product he or she wants to look at. It could be braiding, dresses, building or anything else.
>
> The trainee should then find 3 examples of where the product is sold. The trainee should go to each place and look at the product according to people, product, place, price, and promotion. Write down what each seller is doing under these 5 headings. Decide which of the sellers is best under each heading. If you were choosing to buy between the 3 sellers, which would you choose and why?

Introduce the Mr Boois case study. Ask the trainees to discuss the case study in groups and answer the questions. Use the groups’ answers to draw out the 5Ps of marketing – People (market), Product, Place, Price and Promotion.

In other words, marketing is about your plan to sell to the right people, the right product in the right place at the right price and at the right time.

- People – what are the characteristics of the people that trainees plan to sell to: income, age, gender, education, culture?
- Product – what makes this product different from similar products that are being sold?
- Place – some products will be sold in a particularly locality because that is where people go (for example, a market) while others can be sold almost anywhere, perhaps by visiting customers.
- Price – the lowest price is not always the right price; some customers will pay a higher price if they feel that they are getting better quality.
- Promotion is about the time, way and method a product is sold. Some shops stay open longer than others, for those customers who want to buy later. Special offers might attract customers to buy something they might not otherwise have bought. Quality of customer service can be as important as the product itself.

Complete the unit by giving the trainees the “Handout: Is there a market for your product?”.

Exercise: Market survey

Use this sheet to compare the same product as it is sold by 3 different places

Product:		**Trainee's name:**	
	Outlet 1:	Outlet 2:	Outlet 3:
People (Market)			
Which people?			
Local/regional			
Other			
Product			
Extra features			
Quality			
Brand name			
Packaging			
Warranty			
Other			
Price			
List price			
Discounts			
Credit terms			
Other			
Promotion			
Media advertising			
Personal selling			
Sales promotion			
In-store publicity			
Other			
Place			
Store location			
Delivery times			
Stock levels			
Other			

Exercise: Mr Boois case study

CASE STUDY - MR. BOOIS

Mr Boois has a small business in Gibeon that sells groceries, clothing and furniture. He always buys his stock from Windhoek. Whenever he is placing his orders he asks salesmen the latest products they have on market since he likes surprising his customer in Gibeon with the latest things on the market. When Mr Boois bring the things to Gibeon the customers are not always willing to buy because they do not know the products, the quality is too poor or too high and at times the sizes are too big or too small. Some customers see Mr Boois as an unreliable businessman because, whenever they place orders with him, he does not supply the goods as agreed; instead he puts the blame on the suppliers. Others see Mr Boois as a businessman who does not keep stock of the things they need and instead they go and buy them at other shops.

QUESTIONS:

Is it a good idea for Mr Boois to buy goods in the way that he does?

What should Mr Boois do to persuade customers to buy his goods?

What is going to happen to Mr. Boois' business if he continues to buy goods in the way that he does?

Discuss these questions in groups of 3 or 4 and prepare answers for the main group.

Handout: Is there a market for your product?

Follow these steps to check whether there is likely to be a market for your product.

Step 1 - Observe different activities available in the community

- Look out for places where people come together, e.g. hospitals, schools, public offices. Think about what people want there - e.g. if there are schools you may make school uniforms; in public offices, offer catering etc.

Step 2 – Find out the different needs of people in your community

- Look at the different groups of people in your community and get information from them on what products or services they are interested in.

Step 3 - Find out what is legal or illegal

- What is and is not allowed in the business?
- Where and where not to make business?

Step 4 - Find out information about similar businesses

- How many similar businesses do you have in your area?
- Where do they sell? (e.g. at home, open market, at the shop etc.)
- What are their prices?
- When do they sell? Are the items sold seasonally or all year round?
- What equipment do others use?
- How many businesses failed and why?

Step 5 - Find out about the people who will buy from you

- How many are they? Who are they?
- Why would they buy from you?
- Where do they usually buy?

Step 6 - Find out about people or shops you will buy from

- Where will you buy your stock?
- How many places are there?
- Where are they located and how will you transport the items?
- What are their prices and conditions of delivering?
- What other alternatives are there if existing suppliers are not good enough?

Step 7 - Find out about things that can harm your business

e.g. culture, competitors, suppliers, laws and regulations, climate, environment.

Step 8- Find out the skill needed to run this business

- Do you have knowledge of what you want to sell?
- Where will you sell? (e.g. at home, open market, at the shop etc.)

Selling and promotion

Unit learning objectives: trainees will consider various aspects of selling and promotion and will able to prepare simple advertising material

Trainees are asked to discuss in small groups to identify examples from their own experience where:

- They decided to buy something that was not the cheapest price
- They decided to buy something that they had not intended to buy
- They went to buy something but did not, in the end, buy it
- They went back to a particular place to buy something else because they had been treated well before

In each case, they should explain why they decided to do what they did.

Trainees record their answers in the main group.

Now ask the trainees to offer as many suggestions as they can about how they can promote a product; write them on a flip chart. If they are having difficulty in getting started, suggest some examples, such as business cards, special offers or special events. When they have finished their suggestions, give them the “Handout: promoting a business”.

Ask the trainees to design an advert for a business of their choice on flipchart paper. When the adverts are complete, place all the flipcharts on a wall. Then, using a marker pen, ask all trainees to give a vote to the top four adverts. Add all the votes together to decide which the most popular adverts are. In the group, consider why the most popular adverts received their scores.

When considering the adverts, check that each advert carries essential information:

- What is the business
- What are the products or services on sale
- Where is the business
- Why people should come to the business
- The prices – if they are special (cheap)
- How to contact the business by phone
- When the business is open

Handout: Promoting a business

Promotion is about

- Getting your business known in the market.
- Making people aware of your business
- Persuading people come to your business

The following are some ideas that might help to promote your business. However, when choosing ways of promoting your business, make sure that they reflect you want your business to be seen.

- Have some business **cards** made and hand them out to people
- Keep **a tin of sweets**, and hand it out to children of your customers. It will help to make you popular
- If you know a **well-known person**, ask him/her to come to your business on a certain day, then tell your customers about the visit.
- Try to get **free samples** from the manufacturer or a supplier of the goods that you sell
- **Display** your good properly and make your place atractive, well organised and clean
- Find out where **special events** are going to take place – you can be there and sell more
- Offer special **discounts** at certain times when sales are low
- You can hold special winter, automn, summer or spring **sales**
- Offer **free service**. If you service cars, you can offer a free engine steam clean or free car wash. If you do perms, offer a free cut.
- If you have **a telephone**, phone your customers after they had service from your business, or, if they bought something expensive, find out if they were satisfied with the work.
- Do special promotions for festivals like **Christmas**:
- **Make sure that every customer who leaves your business is happy.**

Handout: Advertising

The purpose of advertising is to sell more goods and, through this, to increase the profit.

The best type of advertisement is by word of mouth. People will tell their friends or families if they were satisfied with your product.

Remember people are much more likely to talk about things that have gone wrong, compared with things that have gone well. So always try to make sure that the customer is satisfied with your product.

In order to reach more people you need to advertise your business. Your aim is to tell people:

- How your product can satisfy their needs
- Where they can buy it
- What price they can be offered

Here are some simply ways how you can advertise your business:

- Have your business name printed on your car or combi
- Put your advertisement on a big board outside your business
- Develop a simply leaflet
- Ask your pastor or priest if you can leave some leaflets, or put up a poster, at the church
- Ask the pastor or priest to organise a trade show on the church ground for all business people in the church. Then give a percentage of sales made on the show to the church

Writing your own advertisement

The recipe for a good advertisement includes the following:

- Get the **A**TTENTION of the readers - say something striking in BIG letters, like " *FANTASTIC BARGAINS*"
- Get the **I**NTEREST of the readers – tell them how your product/service will satisfy their needs
- Get the **D**ESIRE of the readers - your advertisement must make them want to have what you are selling
- Get the readers to take **A**CTION - write in your advertisement that they can get a discount if they present (bring in) the advertisement to you, or offer a special price for pensioners and children, or offer a guarantee.

Remember: the **SHORTER** (*the fewer words*) an advertisement is, the **BETTER**, because it will be easier for people to read.

- Go to schools and ask if you can put your posters up on their notice boards

- You can also go to the hospitals, clinic or doctors' room in your area and ask if you may put up your poster there
- Ask shabeen owners permission to put your posters there
- Go to big sport events and distribute your posters and put your posters there
- Ask taxi owners to hand out some of your leaflet to your to their passengers. In return you can up a poster of the taxi owner in your business
- Buy a plain T-shirt and have your business name printed on it. Give some to members of your family to wear for people to see
- Go to a printing company and ask them to print some stick on labels with your business name on, which you can stick to your products
- Go to your local newspaper and ask them how it cost for a small advertisement in their newspaper

Review of module and testing trainees' understanding

Unit learning objectives: trainees are given the opportunity to review the overall module, clarify any points. In particular, the trainees are encouraged to review the module from the point of view: "Which is the best business and why?" The trainees then undertake a test to establish how much they recall of the module

Review the module:

- The five components of a business
- The different types of business that there are
- The ways in which a business may be owned
- The characteristics of an entrepreneur
- How to look at the strengths and weaknesses of a business
- How to look at the market for a business idea
- How to promote and sell a product or service

Ask the trainees to complete Test 1. There is no time limit set for the completion of the test; the purpose of the test is to establish how much the trainees have understood and what areas, if any, need to be reviewed.

In the test, the maximum marks to be awarded for each question are shown in brackets.

If the trainees have been asked to complete the "Exercise: Market survey" or "Exercise: Is there a market for your product?", this should be handed in with the Test, if not handed in before; while the trainer will not score the exercise, he or she should provide feedback to the trainees at an individual level.

The answers to the Test are on page 123.

Test 1

Write your name…………………………………………………………………………………

What are the five main elements that you usually need to start a business? (5)

1. ………………………………………………………..
2. ………………………………………………………..
3. ………………………………………………………..
4. ………………………………………………………..
5. ………………………………………………………..

What are the three best ways in which to own a business when you start? Choose from among Parastatal, Co-op, Sole Owner, Partnership, Close Corporation, Public Company, Community Project, NGO. (3)

1. ………………………………………………………..
2. ………………………………………………………..
3. ………………………………………………………..

List 4 characteristics of an entrepreneur. (4)

1. ………………………………………………………..
2. ………………………………………………………..
3. ………………………………………………………..
4. ………………………………………………………..

List 3 risks of being an entrepreneur. (3)

1. ………………………………………………………..
2. ………………………………………………………..
3. ………………………………………………………..

List the 5P's of a marketing plan and give an example for each P. (10)

P of marketing	Example

List 3 things that you have liked about this module

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

List any things that you have not liked about this module

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

Module 2 - Business skills – costing and pricing

Learning objectives

By the end of this module trainees should be able to:

- Distinguish between costing and pricing
- Distinguish between direct costs and indirect costs (including the cost of capital)
- Understand the importance of saving to replace capital
- Know how to price a product using costing techniques
- Know how to price a product by reviewing the market
- Show that they can cost and price through practising examples

Costing – direct costs

Unit learning objectives: trainees will consider the different costs that make up the production cost of a product. At the end of the unit trainees should be able to work out the direct costs of a product.

Start this module by describing the different elements that go to make up the price of a product:

Direct costs – the costs that go directly into producing a product

Indirect costs – costs that you have to pay no matter how much you produce

(Direct costs and indirect costs added together are the Production cost)

Profit – the amount you add to the Production cost so that it is worthwhile being in business

This unit deals with direct costs.

Direct costs are found by adding up the cost of everything that is used in making a product. An example for a loaf of bread is:

Ingredient	How much is used in one loaf	Working out the cost of what is used	Cost of what is used - N$
Flour	200gms	N$24 for 5kg bag ÷ 50(cost of 100gms) x 2(cost of 200gms)	0.96
Oil	20mls	N$4 for 1ltr ÷ 100 x 2 (cost of 20mls)	0.08
Sugar	40gms	N$4 per kilo ÷ 100 x 4 (cost of 40gms)	0.16
Salt, yeast etc	1 yeast sachet costs N$3.75 and makes 15 loaves	N$3.75 ÷ 15 (cost of yeast per loaf)	0.25
Labour	N$10 paid for each batch of 25 loaves made	N$10 ÷ 25 loaves	0.40
Total			1.85

In this example, the owner pays herself a salary (see indirect costs) as well as paying someone N$10 to help her each time she bakes 25 loaves. Work through this example with trainees.

Test how much the trainees understand with the exercises. Ask trainees to do each exercise on their own and then work through the exercise with the whole group. The answers for the exercises are on page 124 and 125.

If trainees appear to need practise in calculating direct costs, give them other exercises for different products. You will need to work out these exercises yourself.

Discuss in the main group, using the example and the exercises, how the direct costs for a product can be changed – by better measuring, reducing waste, buying in bulk, changing the mix of ingredients and so on.

Exercise: Mr Kamwi's table - direct costs

Work out the direct costs of making a table at Mr Kamwi's joinery, using the figures below. Lay out your calculation so that it is clear how you decided the direct costs.

Top wood takes 10 metres and 1 metre is N$2.00.

Frame wood takes 6 metres and 1 metre is N$2.00

Legs wood takes 3 metres and 1 metre is N$3.00

Varnish costs N$4.99 per litre and 1/2 litre is used

A box of 10 screws costs N$13.50 and 9 screws are used in this table

Glue costs N$19.00 per tube and 2/3 of the tube is used

Mr Kamwi employs someone to help him make the tables and pays him N$15 for each table that is made

Exercise: Anna's dress - direct costs

Work out the direct costs of making a dress in Anna's dressmaking business, using the figures below. Lay out your calculation so that it is clear how you decided the direct costs.

Dress material takes 10 metres and 1 metre is N$15.00.

Lining takes 10 metres and 1 metre is N$3.00

Lace takes 3 metres and 1 metre is N$10.00

A pack of 10 buttons cost N$5.00 and 15 buttons are used in this dress

A zip costs N$7.00 and two zips are used

Thread costs N$4 a reel and half a reel of thread is used

Anna employs someone to help her make the dress and pays her N$20 for each dress that is made

Costing – saving to pay for capital

Unit learning objectives: trainees will consider how to plan for the replacement of capital, as one of the costs that makes up the production cost of a product. At the end of the unit trainees should be able to work out how much to save each month so that they can replace their capital.

The capital that people use in their businesses may have been paid for in lots of different ways – from savings, a gift, an informal or a formal loan or the money may have been borrowed.

If the capital has been paid for by a loan, the amount to be repaid on the loan each month has to be included in the indirect costs of a product (see next unit). But often someone starts a business using capital obtained without a loan. In this case, it is important for an entrepreneur to save money each month towards replacing the capital when it needs replacing. This saving is called “depreciation” or “the cost of capital”.

The amount that someone needs to save will be different according to the different capital items and how much they are used. Trainees need to be able to work out the amount to be saved to replace each capital item.

This is done by finding out how much it will cost to replace the piece of capital and dividing this by how long the piece of capital will last. Using the bakery exercise:

	Cost of item N$	How many years each item will last	Cost for year N$	Cost for month N$
Cost of stove	3,600	3	1,200	100
Cost of furniture/equipment	1,800	5	360	30
Cost of pots	1,200	5	240	20
Cost of building	4,320	6	720	60
Total Cost of Capital			2,520	210

In this example, the cost of each item of capital is first divided by the number of years it is expected to last to find the amount that has to be saved each year. Then the yearly amount is divided by 12 to find out how much needs to be saved each month.

Work through a number of examples of items of capital with the trainees. Then test how much the trainees understand with the exercises. Ask the trainees to do each exercise on their own and then work through the exercise with the whole group. The answers for the exercises are on page 124 and 125.

If trainees appear to need practise in calculating how much to save to replace their capital, work out for the trainees some other exercises for different products.

Discuss in the main group how the amount that has to be saved each month can change according to how much capital is used, how much each piece of equipment costs and how long each piece is expected to last. An expensive piece of equipment that lasts a long time might work out cheaper than a cheaper piece of equipment that easily breaks! Try the exercises again in the main group with different assumptions to show how the amount to be saved can change.

Exercise: Mr Kamwi's table – saving to pay for capital

Work out how much Mr Kamwi has to set aside each month to replace his capital when he needs to, using the figures below. Lay out your calculation so that it is clear how you decided how much to save.

His toolbox and tools will cost N$1,800.00 to replace and he expects them to last 6 years.

His electric saw cost N$2,400.00 and he expects it to last for 5 years.

His electric drill cost N$900.00 and he expects it to last for 4 years.

He has a tape measure, clamp and other small tools that cost N$240. Unfortunately, he will have to replace them every 6 months because he keeps on losing them.

Exercise: Anna's dress – saving to pay for capital

Work out how much Anna has to save each month to be able to replace her capital, using the figures below. Lay out your calculation so that it is clear how you decided the indirect costs.

Her sewing machine will cost N$1,800.00 to replace and she expects it to last 3 years.

Her overlocker cost N$3,600.00 and she expects it to last for 5 years.

Her iron and board cost N$300.00 and she expects it to last for 4 years.

She has a tape measure, scissors and other small tools that cost N$90. Unfortunately, she will have to replace them every 6 months because people keep on taking them.

Costing - indirect costs

Unit learning objectives: trainees will consider the indirect costs of producing a product, including savings to replace capital. At the end of the unit, trainees should be able to work out the indirect costs of a product.

Some of the costs of producing a product or service cannot be directly allocated to each item. For example, the cost of renting a workshop will be the same whether a few or many items are produced. These are known as indirect costs.

But they still have to be paid and included in the cost of each unit produced.

Typical indirect costs are rent, telephone, transport, electricity, advertising and water. Also to be included is the amount to be saved towards replacing capital (or the costs of any loan). If someone pays him or herself (or any of his or her workers) a fixed amount each month, this will also be an indirect cost.

Work through the bakery example with the trainees in the main group:

Item	Monthly cost – N$	
Transport	40.00	
Electricity	60.00	
Rent	20.00	
Owner's salary	400.00	
Advertising	20.00	
Costs of capital	210.00	
Total monthly costs	750.00	
Number of loaves to be sold		500
Indirect cost per loaf	(N$750 ÷ 500)	N$1.50

Test how much the trainees understand with the exercises. Ask trainees to do each exercise on their own and then work through the exercise with the whole group. The answers for the exercises are on page 124 and 125.

If trainees appear to need practise in calculating how to calculate indirect costs, give them other exercises for different products. You will need to work out these exercises yourself.

Use the example and exercises to show how the indirect costs per unit can change according to the number of units that are produced each month. Show, for example, how the indirect cost for each loaf in the example above will change according to whether 400 or 600 loaves are produced. Ask the trainees to suggest other ways in which the indirect costs per unit can be reduced.

Trainees can now work out the "costs of production" of an item by adding the direct costs to the indirect costs.

Exercise: Mr Kamwi's table - indirect costs

Work out the indirect costs of making a table at Mr Kamwi's joinery, using the figures below. Lay out your calculation so that it is clear how you decided the indirect costs.

Mr Kamwi's bills each month are:

Electricity: N$150
Water: N$60
Rent: N$300
Telephone: N$120
Transport: N$40
Cost of capital: (as worked out in the last unit)
Owner's salary: N$600
Loan repayments: N$0

Mr Kamwi intends to make and sell 30 tables per month.

Exercise: Anna's dress - indirect costs

Work out the indirect costs of making a dress in Anna's dressmaking business, using the figures below. Lay out your calculation so that it is clear how you decided the indirect costs.

Anna's bills each month are:

Electricity: N$230
Water: N$35
Rent: N$200
Telephone: N$165
Transport: N$60
Cost of capital: (as worked out in the last unit)
Owner's salary: N$400
Loan repayments: N$0

Anna intends to make and sell 25 dresses per month.

Pricing

Unit learning objectives: trainees will consider how to price using production costs plus profit and using market pricing. They will also know how to price using a mark-up method. By the end of the unit they should be able to price a product using all methods and understand the difference.

Costing

Pricing should be done using both costing or mark-up and market pricing.

Using costing involves working out the direct and indirect costs, as described in the previous units and adding a profit margin.

Profit is the money you add to the cost of a product so that you have enough money to run your business and make it worthwhile. This addition is usually a percentage addition. Using the bread making as an example:

Item	Comments	N$
Direct costs of loaf	From unit dealing with direct costs	1.85
Indirect costs of loaf	From unit dealing with indirect costs	1.50
Production cost of loaf	Add direct and indirect cost together (the production cost)	3.35
Profit margin	Owner decides on a 16.25% profit margin	0.65
Total cost (selling price)	Add production cost and profit margin	4.00

The profit margin has to cover a number of different costs. These will include the risk that some of the bread may not be sold, or may become damaged; the fact that the owner needs to buy the ingredients before she makes and sells the bread; the possibility that ingredients may be damaged before they are cooked, and the possibility that some customers may not pay her what they owe, if she gives credit, or may pay her a long time afterwards. Ask the trainees in the main group to suggest other things that they need money for in a business.

Finally, the profit margin makes running the business worthwhile.

Test how much the trainees understand with the exercises. Ask trainees to do each exercise on their own and then work through the exercise with the whole group. Possible answers for the exercises are on page 124 and 125.

If trainees appear to need practise in calculating how much to save to replace their capital, give them other exercises for different products. You will need to work out these exercises yourself.

Mark-up

In some businesses it is difficult to cost products by calculating the direct costs. Examples of such businesses are retail shops. Ask the students to suggest other businesses where it is not possible to cost by calculating the direct costs.

In these situations, a business prices by using a mark-up. To work out the mark-up using a costing approach, a business owner has to first of all to decide the total cost of the goods he or she expects to sell each month. Then the owner has to work out the business' indirect costs (including the amount to be saved to replace capital); the calculation must include the salary for the owner and an estimate of any other payments to workers for the month), as shown in a previous unit. The owner then adds on how much profit he or she wants each month.

How to work out the average mark-up	Example
Estimate the total cost of products to be sold each month	3,000
Work out the business' indirect costs each month	1,600
Add how much profit is wanted each month	500
Add the indirect costs and monthly profit	2,100
Divide the indirect costs and profit by the total value of sales.	2,100 ÷ 3,000
Mark-up for each item sold	70%

Market pricing

In the bakery example, the owner decided on a selling price for each loaf of N$4.00 on the basis of her costs.

However, she has also to check the prices that other people are selling bread for. If her bread is too expensive, then she will not sell any. Or she may sell her bread too cheaply.

In the retail shop example above, the owner has worked out how much on average to add to the cost of the items to be sold. However, the owner must look at the prices of the goods as they are sold in other shops. Sometimes the mark-up can be higher; sometimes it will have to be lower.

Consider other factors that affect pricing – market, competition, quality, credit. To be successful, you do not always have to have the lowest price.

Consider the difference between costing and pricing. Use the worked exercises to show how no price is "right". Discuss how costs can be varied so that the costs of making a product are less than the price. Discuss the implications of selling at a price below the direct cost, or below the production cost.

Exercise: Mr Kamwi's table - fixing the price

Fix the price of the table at Mr Kamwi's joinery, according to the figures already worked out. They are given below, to make it easier. Lay out your calculation so that it is clear how you decided the price.

From the previous units, Mr Kamwi's direct costs per table were N$83.19 and his indirect costs were N$46.46. From this, calculate the production cost of the table.

Mr Kamwi decides he wants a profit margin of 30%. Work out the price for which he will sell the table.

Mr Kamwi finds that his tables do not sell very well. He looks around for similar tables made by other people and finds that they are selling them for around N$150. He decides to change the price of his table. Decide what he might sell the table for and what profit margin he will now charge.

Exercise: Anna's dress - fixing the price

Fix the price of Anna's dress, according to the figures already worked out. They are given below, to make it easier. Lay out your calculation so that it is clear how you decided the price.

From the previous units, Anna's direct costs per dress were N$253.50 and her indirect costs were N$48.85. From this, calculate the production cost of each dress.

Anna decides she wants a profit margin of 25%. Work out the price for which she will sell a dress with this profit margin.

Before she finally fixes her price, Anna checks the prices of similar dresses in the market. She finds that others are selling similar dresses for around N$400. Decide what she might sell the dress for and what her new profit margin is.

Review of module and testing trainees' understanding

Unit learning objectives: trainees are given the opportunity to review the overall module and clarify any points. The trainees then undertake a test to establish how much they recall of what they have learnt to date.

Review the units of this module – direct costs, indirect costs (including the cost of capital), profit and the differences between cost pricing, mark-up pricing and market pricing. If necessary, go through worked examples.

Trainees should show how much they have understood by completing the test. Some of the questions in the test relate to material from Module 1.

In the test, the maximum marks to be awarded for each question are shown in brackets.

The answers for the test are on page 126.

Test 2

Write your name…………………………………………………………………………………

What are the five main elements that you usually need to start a business? (5)

1. ………………………………………………………..
2. ………………………………………………………..
3. ………………………………………………………..
4. ………………………………………………………..
5. ………………………………………………………..

What is a direct cost? (2)

………………………………………………………………………………………………

Give three examples of a direct cost in a baking business (3)

……………………………………………………………………….

………………………………………………………………………

……………………………………………………………………….

What is an indirect cost? (2)

………………………………………………………………………………………………..

Give three examples of an indirect cost in a baking business (3)

……………………………………………………………………….

………………………………………………………………………

……………………………………………………………………….

Give two other names for cost of capital (2)

……………………………………………………………………….

………………………………………………………………………

What is the production cost of a product? (2)

………………………………………………………………………………………………

What is profit? (1)

………………………………………………………………………………………………..

Why do you need to make a profit? (2)

………………………………………………………………………………………………..

If I make a cake for N$10 and my direct costs for the cake are N$4, my indirect costs are N$2 and my depreciation is N$1, what is my profit? (1)

N$………….

How do I decide the price of a product that I want to sell? (6)

……………………………………………………………………………………………..

……………………………………………………………………………………………..

I plan to make and sell a dress. I will use 4 ms of material at N$20 per metre, 2 ms of lining at N$10 per metre, 1.5 reels of thread at N$4 per reel and 15 buttons at N$12 for a card of 10. I will ask someone to sew it for me and will pay her for 6 hours work at N$5 per hour. What are the direct costs of producing the dress? (6)

The equipment I have to make the dress is a sewing machine that cost N$1500 – I want it to last 5 years, an iron and board that cost N$240 – I want it to last 2 years, an overlocker that cost N$3000 – I want it to last 5 years and scissors, tape and other small things that cost N$150 – they will only last 6 months. Calculate how much I must save if I am to have the money to replace the capital. (4)

In my dressmaking business, my indirect costs for the month are electricity N$120, telephone N$140, transport N$110 and rent N$80. I plan to make and sell 40 dresses in the month. What are my indirect costs for each dress? (6)

What are my costs of producing the dress? (3)

How much will I charge for the dress? (1)

N$………………………………..

How much profit will I have? (1)

N$…………………………………

List 3 things that you have liked about this module

…………………………………………………………………………………………………
……………………………………

…………………………………………………………………………………………………
……………………………………

…………………………………………………………………………………………………
…………………………………..

List any things that you have not liked about this module

…………………………………………………………………………………………………
……………………………………..

…………………………………………………………………………………………………
……………………………………..

Module 3 - Business skills – record keeping

Learning objectives

By the end of this module trainees should be able to:

- Identify the different records that a business might keep and be able to use those records in a business
- Prepare daily and monthly financial records
- Translate monthly financial records into monthly and annual accounts
- Prepare and use other non-financial records
- Describe the importance of keeping these various records

Record keeping – what records

Unit learning objectives: trainees will consider the principal types of records that they may need to keep in a business and will be able to say which records they should keep for their business or planned business.

Keeping and using records in a business is essential if a business is to survive or grow. However, the records that a business keeps will vary according to the needs and size of the business.

Essential records will be:

- Daily cash records
- Monthly income and expenditure records

Other records will be essential if:

- A business employs staff - the staff payments record
- A business lets customers pay later – debtors records
- A business holds significant stocks – stock records

A useful record (essential if the business wishes to borrow money) is the annual account.

A business will also have other records if it has a bank account or it can buy materials and pay for them later.

The different records are dealt with in the following units. Examples of headings for the various records are shown in each unit. Demonstrate them to the trainees during each unit but emphasise that they can vary from business to business according to the nature and scale of the business.

Above all, the records should meet the needs of the business owner. Ask the trainees to list the different uses to which records can be put. These will include:

- Keeping track of how the business is going (e.g. monthly accounts)
- Being able to show other people the up to date position or what has happened (e.g. debtors records)
- Being able to check whether aspects of the business are in order (e.g. stock records)

Record keeping – daily and monthly cash records

Unit learning objectives: trainees will consider the importance of keeping daily and monthly cash records and will be able to use a form of simple double entry record keeping

Daily records are needed so that a business owner can know what income he or she has received and what expenditure he or she has incurred. The business owner needs to decide the degree of detail according to what monthly accounts will be kept.

The simplest level will be a record of income (sales) and expenditure:

Date	Income (sales)	Expenditure

However, since it is important for a business owner to distinguish between direct costs and indirect costs, expenditure might be split between direct costs (materials) and indirect costs:

Date	Income (sales)	Direct costs (materials)	Indirect costs

A step further is to keep a separate record of labour costs:

Date	Income (sales)	Direct costs (materials)	Labour	Indirect costs

As a business grows, it may wish to keep a separate record of different sources of income, or distinguish different sorts of direct (material) costs.

These daily records can form the basis of a useful monthly income and expenditure account, by entering the daily income and expenditure on a monthly sheet.

If trainees are able to manage the mathematics, the monthly sheet can be used to keep a record of income and expenditure, show cash balances and prepare a monthly account:

Date	Cash in	Cash out	Balance	Bank in	Bank out	Balance		Sales	Direct costs	Labour	Indirect costs

The table is a very simple form of double entry bookkeeping. This means that every transaction is recorded twice. By using 2 entries, a business owner can keep a constant check that his or her accounts are in order.

Give the trainees a copy of the “Handout: Daily record sheet”. Take the trainees through various examples of entries as shown in the table below. The transaction on each line is described:

- The business starts the month with N$450 cash and N$1,050 in the bank.
- On day 1, the business sells N$150 of goods. This is shown in the cash in column (the balance of cash is now N$600) and the sales column
- On day 1, the business also pays N$100 for water. This is shown in the cash in column (the balance of cash is now N$500) and in the indirect costs column
- On day 2, the business sells N$250 goods. This is shown in the cash in column (the balance of cash is now N$750) and the sales column
- On day 2, the business also decides to pay N$300 out of cash into the bank. The cash balance goes down to N$450 and the bank balance goes up to N$1,350
- On day 4, the business sells N$100 goods. This is shown in the cash in column (the balance of cash is now N$550) and the sales column
- On day 5, the business buys N$300 materials. This is shown in the cash in column (the balance of cash is now N$250) and the direct costs column

Date	Details	Cash in	Cash out	Balance	Bank in	Bank out	Balance	Sales	Direct costs	Labour	Indirect costs
1	Brought forward			450			1,050				
1	Sales	150		600			1,050	150			
1	Water		100	500			1,050				100
2	Sales	250		750			1,050	250			
2	To bank		300	450	300		1,350				
4	Sales	100		550			1,350	100			
5	Material		300	250			1,350		300		
Total								500	300		100

Test the trainees understanding of the process by giving them the "Exercise – daily record keeping: Kapana" and asking them to put the entries onto another copy of the daily record sheet. The answer to the exercise is on page 129.

The trainees may need practice; if they do, give them further practice exercises of your own making.

Handout: Daily record sheet

Month: Year: Business name:

DATE	DETAILS	CASH						BANK						SALES		MATERIALS COSTS		LABOUR COSTS		INDIRECT COSTS	
		IN		OUT		BALANCE		IN		OUT		BALANCE									
	Brought forward																				
	Totals																				

Exercise: Daily record keeping - an Kapana

A Kapana run by 3 women keeps daily records of its business. The transactions for March are set out below. Put the records in the monthly record sheet.

March	Cash in hand at beginning of month	1200
	Amount in bank at beginning of	540
2	Meat bought by the women	250
2	Other supplies bought by the women	500
2	Delivery paid	60
2	Sales	120
3	Sales	135
5	Sales	105
6	Meat bought	235
6	Worker paid	45
8	Sales	135
9	Sales	155
10	Sales	160
10	Wood bought	40
12	Sales	124
12	Supplies bought	650
13	Sales	157
14	Sales	122
17	Sales	165
19	Sales	124
19	Meat bought	265
19	Worker paid	45
20	Sales	187
21	Sales	192
22	Sales	134
23	Sales	125
24	Sales	156
24	Wood bought	40
26	Sales	112
27	Sales	156
27	Meat bought	230
27	Worker paid	45
29	Sales	158
31	Paid to members	600
31	Transferred to bank	500

Record keeping – monthly and annual accounts

Unit learning objectives: trainees learn how to take their monthly records and translate them into monthly and annual accounts

The value of daily records is greatest when they are kept over a number of months or years. The business owner can see how his or her business has changed and can judge what has been successful in improving the business. To make the daily records useful, they must be turned into monthly and annual accounts.

In the previous unit, Record keeping – daily and monthly cash records, the trainees learned how to add the daily sales, direct costs, labour costs and indirect costs to give monthly totals. These can be transferred to an annual record sheet, which gives a clearer picture of how income and expenditure changes over the months.

Give the trainees the handout of an annual record sheet and take them through it. Remind the trainees of the individual headings for Income and Expenditure.

Explain to the trainees that Gross Profit is the total income less the direct and indirect costs. Money paid to the owner(s), Capital expenditure, Loan repayments and Savings are not included in gross profit, because these are not treated as part of the normal monthly outgoings.

Cumulative savings are the total savings of the business. Calculate them by adding this month’s savings to the previous month’s cumulative savings. The total should equal what the business owner has in the bank and in cash.

Show the trainees how the annual record sheet is used by getting them to enter the March Kapana totals on the annual record sheet. To remind you, the Sales were N$2,856, Direct Costs were N$2,130, Labour Costs were N$735 and Indirect Costs were N$140. However, N$600 of the Labour Costs were payments to members and so only N$135 is entered in the Labour line of Expenditure; N$600 is entered below the Gross Profit line in the row “Paid to Owner(s)”. This is shown overleaf.

Notice how, in this month, total income was not enough to make all the payments and so on this occasion N$149 would have had to be taken from savings to make all the payments (including the payment to the owner(s)).

Take the trainees through the following figures for April and May:

April: Sales were N$3,520, Direct Costs were N$2,450, Labour Costs were N$820 and Indirect Costs were N$155. However, as for March, N$600 of the Labour Costs were payments to members.

May: Sales were N$3,300, Direct Costs were N$2,200, Labour Costs were N$820 and Indirect Costs were N$160. However, as for March, N$600 of the Labour Costs were payments to members. The figures for April and May have also been entered in the table overleaf.

If necessary, to be sure that trainees understand the use of the annual record sheet, give them figures of your own making for additional months.

	March	**April**	**May**
Income			
Sales	2,856	3,520	3,300
Other			
Total	2,856	3,520	3,300
Expenditure			
Direct Costs	2,130	2,450	2,200
Labour	135	230	220
Indirect Costs	140	155	160
Other			
Total Expenditure	2,405	2,835	2,580
Gross Profit	451	685	720
Paid to owner(s)	600	600	600
Capital expenditure			
Loan repayments			
Savings	0	85	120
Cumulative savings	-149	-64	56

When trainees are clear on how to use the annual sheet, ask them to complete the "Exercise – monthly and annual records: Doreen's sewing". The answer sheet for this is on Page 130.

When the trainees have finished the exercise, explain to them that the annual totals are a simple form of account for the year.

Handout: Annual record sheet

Year: Business Name:

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Income													
Sales													
Other													
Total income													
Expenditure													
Direct Costs													
Labour													
Indirect Costs													
Other													
Total Expenditure													
Gross Profit													
Paid to owner(s)													
Capital expenditure													
Loan repayments													
Savings													
Cumulative savings													

Exercise: Monthly and annual records - Doreen's sewing

Put the following entries for Doreen's sewing onto an annual record sheet and calculate the totals for the year:

	Sales	Direct Costs	Labour	Indirect Costs	Paid to Owner(s)	Capital expenditure	Loan repayments
January	2,500	700	-	500	300	-	-
February	2,660	1,260	-	500	400	-	-
March	2,000	1,500	-	500	-	-	-
April	2,520	320	-	545	440	745	-
May	2,680	700	-	400	600	-	600
June	2,500	380	300	500	500	-	700
July	2,660	400	-	520	600	-	650
August	2,500	380	250	480	600	-	700
September	2,660	1,200	350	480	600	350	600
October	2,000	300	250	470	600	-	650
November	2,520	1,500	350	500	400	-	600
December	2,680	400	400	490	600	-	600

Record keeping – non-cash records

Unit learning objectives: trainees will consider the principal types of non-financial records that they may need to keep, concentrating on stock, debtors and staff records. They will know how to set up and keep simple records for each type and know when they should keep those records.

The other records that a business will keep will depend on the nature and size of the business. They will include for:

- A business that employs staff - the staff payments record
- A business that lets customers pay later – debtors record
- A business that holds significant stock – stock records

Staff payments record

A business will need to keep records of payments to its staff. Where a staff member is paid over N$300 per month, this record will need to include payments to the Social Security Commission (at the rate of 0.09% of the monthly payment up to a maximum of N$27, from each of the employer and the staff member). Where the annual payment is in excess of N$20,000, the record will also need to show how much tax has been deducted from the monthly payment and paid to the Government.

A simple way of keeping a staff payments record is to make a separate sheet for each staff member:

Name of staff member				
Month	Total pay	Social Security payment deducted	Tax payment deducted	Paid to staff member

Debtors record

Where a business allows customers to pay for the goods in instalments, it is important to keep a record of what the customer owes. It is useful to make a separate sheet for each customer:

Name of customer:		Maximum the customer can borrow:			
Date	Description	Owed (N$)	Paid (N$)	Total amount owed	Signature of customer
26 March	5kgs Flour bought	12.00		12.00	
31 March	Payment		10.00	2.00	

Discuss with the trainees when they might allow customers to pay later and when they would not. What other ways might the business owner help customers to pay for goods (e.g. lay-bys)?

Stock records

Where a business holds a lot of stock, it is useful to keep a record of the stock, with a separate sheet for each item of stock:

<table>
<tr><td colspan="2">Stock description: 5kgs bags of Flour</td><td colspan="3">Stock reorder level:</td></tr>
<tr><td colspan="2">Cost of each unit:</td><td colspan="3">Selling price of each unit:</td></tr>
<tr><td rowspan="2">Date</td><td rowspan="2">Details</td><td colspan="3">Stock</td></tr>
<tr><td>In</td><td>Out</td><td>Balance</td></tr>
<tr><td>26 March</td><td>20 bags bought</td><td>20</td><td></td><td>20</td></tr>
<tr><td>31 March</td><td>Sales</td><td></td><td>4</td><td>16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Ask the trainees to say why stock records should be kept. The reasons will include:

- It allows the owner to calculate how much stock he or she has; if the amount of each stock item is calculated according to the cost of buying it, the owner can monitor how much is the value of stock held at any time
- The owner can keep a check on how much is left of each stock item. It reminds the owner to buy more stock before the shelf is empty
- The owner can check the stock record with what is on the shelf at any time. If the record is different from what is actually on the shelf, it may mean that stock has been lost or stolen
- By looking at the speed at which stock is sold, the owner can decide how much replacement stock needs to be bought at any one time.

Review of module and testing trainees' understanding

Unit learning objectives: trainees are given the opportunity to review the overall module, clarify any points. The trainees then undertake a test to establish how much they recall of what they have learnt to date

Review the units of this module – daily, monthly and annual cash records and other types of records that a business might keep. If necessary, go through worked examples.

Trainees should show how much they have understood by completing the test. Some of the questions in the test relate to material from Modules 1 and 2.

In the test, the maximum marks to be awarded for each question are shown in brackets. Answers to the Test are on page 131.

Test 3

Write your name………………………………………………………………………………

What is a direct cost? (1)

……………………………………………………………………………………………

Give examples of a direct cost in a joinery business (3)

……………………………………………………………………….

………………………………………………………………………

……………………………………………………………………….

What is an indirect cost? (1)

……………………………………………………………………………………………..

Give examples of an indirect cost in a joinery business (3)

……………………………………………………………………….

………………………………………………………………………

……………………………………………………………………….

List the three elements that go to make the selling price of a product (3)

……………………………………………………………………….

………………………………………………………………………

……………………………………………………………………….

If a box of 20 buttons costs N$10, how much would 3 buttons cost? (1)

……………………………………………………………………………………………

If 3 litres of oil cost $9, how much does 2 litres cost? (1)

……………………………………………………………………………………………..

I make a chair for N$80 and want to make 25% profit. What should be my selling price? (1) ………………………………………………………………………………

List the different record books that you might keep? (5)

……………………………………………………………………………………………..

……………………………………………………………………………………………..

……………………………………………………………………………………………..

……………………………………………………………………………………………..

……………………………………………………………………………………………..

I plan to make and sell a cupboard. I will use 4 ms of wood at N$20 per metre, 2 ms of panelling at N$10 per metre, 15 nails from a box of 50 nails that cost N$25 and half a tube of glue that cost N$12 a tube. It will take me 4 hours to make the cupboard and I work 8 hours per day. I want to be paid N$50 per day. What are the direct costs of producing the cupboard? (5)

The equipment I have is a clamp that cost N$600 – I want it to last 5 years, a plane that cost N$240 – I want it to last 2 years, a tool box that cost N$3000 – I want it to last 5 years and pencils, tapes and other small things that cost N$150 – they will only last 6 months. Calculate how much I must save if I am to have the money to replace the capital. (4)

My indirect costs for the month are electricity N$115, telephone N$140, transport N$110 and rent N$100. I plan to work 20 days in the month. What are my indirect costs for each cupboard? (3)

What are my costs of producing the cupboard described in the previous questions? (3)

For how much will I sell the cupboard if the markup percentage is 20%? (1)

N$………………………………..

How much profit will I have? (1)

N$…………………………………

I run a Kapana. Here are my transactions for the first week of March. Put them onto the daily record sheet. Complete the totals as if it is the end of the month (5)

March	Cash at beginning of month	1200
	In bank at beginning of month	800
2	Food supplies bought	250
2	Oil bought	40
2	Plates sold	120
2	Telephone bill paid by cheque	180
3	Plates sold	90
4	Transferred to bank	450
5	Plates sold	105
6	Goat bought	340
6	Pay man to kill goat	25
8	Plates sold	105
9	Plates sold	125
10	Plates sold	95
11	Plates sold	150
13	Transferred to bank	500
13	Plates sold	100
14	Goat bought	350
014	Pay man to kill goat	25
14	Plates sold	130
15	Buy supplies by cheque	550
16	Plates sold	85
17	Plates sold	110
18	Transfer from bank	600
18	Plates sold	110
24	Members Paid	600

I run a sewing project. Here are our transactions for 6 months. Put them onto the annual record sheet. (5)

March	Cash at beginning of month	365
	In bank at beginning of month	2000
	Sales	1410
	Transport	60
	Materials	500
	Paid to members	1000
April	Sales	1520
	Transport	60
	Materials	500
	Paid to members	1000
May	Sales	910
	Transport	60
	Materials	300
	Machine servicing	150
	Paid to members	600
June	Sales	925
	Transport	60
	Materials	300
	Paid to members	1000
July	Sales	950
	Transport	60
	Materials	300
	Paid to members	1000
August	Sales	1200
	Transport	60
	Materials	400
	Paid to members	1000

What advice would you give me? (4)

…………………………………………………………..

…………………………………………………………..

…………………………………………………………..

…………………………………………………………..

…………………………………………………………..

Module 4 - Business plans

Learning objectives

By the end of this module trainees should be able to:

- Know the components of a business plan and be able to incorporate the different learning units of this overall course into a business plan
- Define SMART goals for a business
- Prepare a budget and cash flow
- Describe the importance of cash management and the difference between cash and profit
- Prepare a simple cash flow projection
- Describe the elements of good staff management, should they employ staff
- Describe the risks of a particular business and the relevance of this to good business planning
- Know where they can go for further assistance in the running of a business

Components of a business plan

Unit learning objectives: trainees will consider the components of a business plan and know how they can bring the various learning units together into a business plan. They will also consider where they can go for assistance with running their business.

There are two handouts for this unit and the trainer can decide which one to use, or whether to use both. The first handout, "An example of a business plan template" is a series of heading, with explanatory paragraphs, to guide trainees in the preparation of a business plan. The second is "A detailed questionnaire providing the details of a business plan". As the title indicates, it is a checklist that trainees can work through. If they are able to answer the questions that affect their business satisfactorily, they can use the completed checklist when approaching a lender for a loan.

The decision will be made according to the trainer's judgement of the aptitude of the trainees, with the more competent trainees using the business plan template.

Handout – A business plan template

If the "Handout – A business plan template" is used, take the trainees through the handout section by section, ensuring that the trainees understand each section. The trainer can do this by using an example business on a flip chart. Many of the sections have already been tackled in other parts of the training programme; review of these sections should, therefore, be revision.

If the trainees are already active in running small businesses, it would be a practical exercise for the trainees to write their own business plan section by section after the trainer has taken the trainees through an example. The greater the practice the trainees can have in writing their own business plans, the greater their chances of gaining external support later on.

Handout – A detailed questionnaire providing the details of a business plan

If the trainees use the detailed questionnaire providing the details of a business plan, the trainer will ask the trainees to tackle the sections on an individual basis and will review these individually with trainees, as their work proceeds.

Where trainees are not already running a business, they may be invited to approach a small business that they know and try to find the answers to the questionnaire for that business.

Whichever handout is used, ask the trainees to list the reasons why they will prepare a business plan. These will include: because they wish to get a loan or a grant for their business; they want to involve their staff better in the running of the business; and because they want to plan their business better.

People who can help them in writing their business plans will include their staff (if they have any), friends, relatives, NGOs and consultants who offer their services in writing a business plan. However, it is always important that it is the business owner who finally writes the plan, because then the business owner really understands and is committed to the plan.

Note that the rest of this module develops different aspects of a business plan.

Handout: A business plan template

A business plan is a tool for the business (its owners, managers and workers) and for people interested in the business, who might assist it (particular people that might lend or give money to the business). It is a story that should be clear to all involved as to what is happening now, what is planned and how everybody fits in. Following these headings can do this:

Background

Introduction

This section should introduce the Business Plan and set the overall picture. It will also give the key information about the business (name, address, telephone, location, etc), if this is not given elsewhere.

Mission Statement

This section should set out the mission statement of the organisation. A mission statement says briefly and clearly what the organisation's purposes are. It is used for staff, for customers and for the general public and is the uniting force of the organisation "why we are here". It is different from the key goals, which are what the organisation plans to achieve in the planning period.

Key goals

This section would set out the key goals that the organisation is aiming to achieve in the planning period. These will be taken from the main section of the plan (see below).

Legal framework

This section should describe the legal framework of the organisation.

Other partners

This section should describe any other organisations that are directly involved in or impact on the work of the organisation. These could include principle suppliers, funders or organisational partners.

Environment and the Organisation

Description of the environment (market) in which the organisation works

In the next 4 sections you should describe the key features of the environment (market) in which the organisation is working and how the organisation is equipped to deal with this. One way of arriving at this is to do a SWOT analysis, which describes the organisation's **S**trengths and **W**eaknesses (the internal environment), and **O**pportunities and **T**hreats (external environment). This can give a clear picture of how the organisation sees itself and its environment and what it will do to deal with weaknesses and tackle threats.

Demand

This section should describe in more detail the nature of the demand for the work of the organisation. It should set out the **O**pportunities that are open to the organisation. When writing this section, remember that someone who might read the plan may not know a lot about the particular local area. So describe it as if the market you are working in as if to a stranger.

Supply

This section should describe in more detail the supply questions that are relevant to the business plan. These can be described as some of the **T**hreats facing the business.

The organisation's strengths

When someone finishes reading this section, the reader should have a good idea of what the organisation is good at and why.

The organisation's weaknesses

When someone finishes reading this section, the reader should have a good idea of what the organisation needs to become better at and how it plans to do this.

Key Goals and detailed work plan for the planning period

These sections will describe what the organisation intends to do and how, broken down into three of four key goals. State the goals as the section headings and describe in a few paragraphs for each goal how the organisation will achieve the goal.

The key goals should be directly related to the planning period. They should be **S**pecific, **M**easurable, **A**chievable, **R**ealistic and **T**ime bounded - SMART.

Goal 1

Goal 2

Goal 3

Goal 4

Organisation and business framework

These sections deal with the detailed statement of how the plan will be achieved.

Overall organisation

This section would describe any general points about the organisation and how it is (or will be) able to develop the plan. If it has not been already written elsewhere in the plan, the section should include a picture of what the organisation has already achieved.

Staffing

This section would describe current staffing arrangements and any changes that will arise during the implementation of the plan.

Revenue budgets and cash flows

This section will show the revenue budgets for the planning period, broken down by each year of the plan. This is probably the most important part of the business plan.

The budget shows what the organisation plans to receive and spend each year during the planning period. It is important that figures from the last year are included; without this information it is almost impossible to judge whether the budget for the next year is realistic.

Unless the organisation is very small, it is also be necessary to show when income and expenditure will take place on a monthly basis – a cash flow projection – as this is also an important part of a successful business.

Equipment and capital requirements

Many business plans are written to justify a loan (or even grant) for equipment and working capital. As well as describing what equipment is required, it is also useful to describe what equipment the organisation already has.

Sources of finance

Finance can come from savings, gifts, loans and the income generated by the business. A business that shows how the owners themselves are contributing financially to the business is more likely to gain external support than one that cannot.

Risks analysis

This section should list the key risks that affect the plan, along with an explanation of how the organisation intends to deal with these risks. Deal with each risk as a separate section heading. In relation to financial risks, show how the financial projections will be affected according to the different risks that are described.

Appendices

An appendix is something that is added to a main report that is helpful but not so important as to be included in the main report. Here it will be valuable if you include any major pieces of research, CVs of the owners, job descriptions of staff, or cash flow statements as appendices.

Handout: A detailed questionnaire providing the details of a business plan

GUIDELINE FOR BUSINESS PRESENTATION AND ASSESSMENT

A. Personal Particulars

1. Name

(Name of the person who is responsible for the business)

2. Gender

(Male or Female)

3. Age

(Specify the age of the entrepreneur)

4. Marital Status

(Whether the entrepreneur is married or single)

5. Identification Number

(Specify the identification number of the entrepreneur)

6. Are you Head of Household?

(Whether the entrepreneur is the one who is responsible for the well being of the family)

7. Level of Education

(Indicate whether the entrepreneur is illiterate (not educated), has primary school qualification, secondary school qualification or post secondary school. Indicate any technical (vocational) training or practical experience that the entrepreneur has)

8. Present Occupation

(Indicate whether the entrepreneur is either employed permanently or temporarily, or has any other business or activity at that particular moment)

9. Past Work Experience

(Indicate whether the entrepreneur has ever worked before either by being employed or in an informal business)

10. Personal Assets

(If it is difficult to estimate the monetary value just indicate the number of the following items, if the entrepreneur has any - house, cattle, land, cars, and any other tangible assets/properties)

B. Business Particulars

1. Name of the Business

(Give the name in which the business is/will be known (e.g. WEMBLEY TAKE AWAY))

2. Sector

(Manufacturing such as brick making, carpentry, shoe making, etc. Crafts such as sewing. Service such as restaurant, garage, hair salon, etc. Retail such as a shop. Others such as vegetable garden etc)

3. Type of Business

(Indicate whether it is dressmaking, hair salon, shop etc)

4. Location of the Business

(Indicate place where the business is/will be located)

5. Postal Address

(Indicate if the entrepreneur has one or is using a friend's, neighbour or any other)

6. Telephone Number

(Indicate if the entrepreneur has a telephone number or whether a message can be passed through a friend)

C. Bank Particulars

1. Do you have a bank/post office account?

(The answer is either Yes or No)

2. Name of the bank/post office where the account is held

(Indicate the name of the Bank such as First National Bank, Standard Bank, Bank Windhoek or Oshakati Post Saving Bank, Mariental Post Office Saving Bank, etc)

3. Name of the Branch

(For example, First National Bank Oshakati Branch or Standard Bank, Mariental Branch, etc)

4. Place where it is located

(For example Oshakati, Mariental, etc)

5. Account number

(Give the number of the account)

6. Amount of savings available

(Indicate the amount available)

D. Business Description

1. Is the business new or on going?

(If it is an on-going venture specify:

1.1 When was the business started? Give either the specific date or year when the business was started. Or indicate if the business is new.

1.2 What the present capital value of the business is.

Capital value means the amount that the business is worth by calculating the equipment/machines/raw material that already exists in the business.)

2. What experience do you have in this type of business?

(The entrepreneur should indicate if he or she has any experience in the business. Otherwise indicate if there is somebody with the necessary required skills that will be employed by the business.)

3. Give a brief description of the business or business idea

(The business idea should come from the entrepreneur. Describe the principal characteristics of the business currently operating or for the business idea if it is a new venture. Basically give information on the product or service to be produced and the production process involved. The business should in most cases rely on locally available raw materials and on an accessible market.)

4. What motivated your business idea?

(i) Demand from the community

(Indicate if there was a demand for that particular product/service in the community.)

(ii) Copied from a friend

(The business idea came about as a result of another business owned by somebody else (e.g. a friend). To avoid (stiff) competition the business copied from should not be in the same area unless proved otherwise that introduction of an extra business will not pose a problem to both businesses.)

(iii) Need for self-employment

(The entrepreneur should indicate whether he or she is starting the business for the purpose of becoming self-employed.)

(iv) To earn more money

(The entrepreneur might indicate that the business was/is started to earn some extra income.)

(v) Only skill known

(The entrepreneur might indicate that he or she started the business since it is the only skill he or she has.)

5. Ownership of business

(Own: the entrepreneur owns the business and can either be registered or not registered.)

(Co-operative/group project: the business can either be a co-operative or a group project.)

5a) If co-operative/group project indicate the number of active members.

E. Market.

1. Who are your customers?

(The entrepreneur must define specifically who the potential customers are/will be.)

2. How many are they?

(If there are few customers, the number should be named, but if there will be large numbers then a close estimate should be given: for example four hundred (400) school children indicating say 250 skirts, 250 blouses, 150 shorts, 150 shirts per year etc. He should indicate how the customer pattern will change in time: for example positively - more schools will be built, or negatively - new business like his will be introduced. What are the needs of the different categories of different consumers/customers and how do similar enterprises already in the market operate. The market should not be too overcrowded; however it should be remembered that the lack of competitors might be lack of market for that particular product/service.)

3. Where are they located?

(The entrepreneur should indicate exactly where the customers are. If the products will be exported, indicate exactly to which countries.)

4. Why are/will they buy your products service?

(The entrepreneur should be able to describe the Unique Selling Points (USP) of the proposed business, such as its quality, the applicant's contacts, the price or the location. However it is important to note that low prices alone are not sufficient to guarantee success and often cause failure.)

5. What is their monthly expected purchasing capacity?

(The entrepreneur should give, as far as possible, the exact amount of how much the customer will buy. Otherwise, give a very close estimate.)

F. Competitors

1. Who are your competitors?

(The entrepreneur should list all the businesses in the area that are producing the same products/services that he or she is producing/going to produce. This point should be clearly described in order to evaluate the entrepreneur's share in the market. It should be noted that in some cases even if there are already large numbers of suppliers of the same product or service, there may be room for at least one more.)

2. What is it that you will do better than them?

(i) Variety of services products

(The entrepreneur can indicate that production of more than one product could be an added advantage; for example production of leather bags, shoes and belts.)

(ii) Quality

(The entrepreneur can indicate that he or she will produce products of good quality due to improvement in the production through good machines.)

(iii) Defined market/customers

(The entrepreneur might have secured a market for his or her products/services. However the market should not be a temporary one or short lived.)

(iv) Marketing strategies e.g. through

Prices

Promotion

Others, for example, Selling on Credit.

3. What kind of machines / equipment / materials do they use?

(The entrepreneur should be able to conduct a survey beforehand on what kind of machines/equipment and even raw materials competitors are using.)

4. What do you intend to do in order to challenge your competitors?

(The entrepreneur should be able to describe the Unique Selling Point (USP) such as quality, variety of products/services, etc, which will attract more customers.)

G. Marketing strategies

1. How are you going to attract customers?

(The entrepreneur should be able to mention the following factors namely, promotion, quality, production, price, credit sales, etc. The analysis of when, where and how much customers are able to purchase monthly should be described properly.)

2. Where are you selling?

Home

Shop

Market

Street

Others

(The entrepreneur should indicate whether the production location will be different from the selling point. The selling point should indicate some advantages such as big number of customers, etc. If rent is to be paid for using the selling point, then the amount should be indicated.)

3. Who are you selling to?

Men

Women

Both men and women

H. Resources

1. How many people are employed/will be employed in the business?

(The entrepreneur should give the number of people who are/will be working with the project. Include the entrepreneur as well if he or she is working and paid by the business.)

1.1 How much are the monthly salaries?

(A monthly salary of each employee and the entrepreneur should be given. If it is a new business an estimated salary for each worker should be indicated.)

2. What machinery or equipment do you use for your business?

(The entrepreneur should explain the kind of machinery/equipment being used if the business is operating. If it is a new venture then explain what machinery/equipment will be used for the business.)

2.1 What machines/equipment do you need to buy?

(In order to demonstrate that he or she is well versed with the production process the entrepreneur should list all the (additional) required machinery/equipment.)

2.2 How much will it cost?

(The entrepreneur should give the price for each machinery/equipment to be purchased.)

3. What raw materials are needed for your production/service?

(The entrepreneur should explain all the raw materials required in the business.)

3.1 Have you identified any suppliers?

(Describe the suppliers of machinery/equipment and raw material and where they are located.)

3.2 How are you going to transport the raw materials?

(Transportation of machinery/equipment is not much of a problem since it is a one-time exercise. However transportation of raw materials should be clear beforehand since it is a more than one time exercise. If transportation costs will be too high for the business, alternatives such as using public transport or joint transportation whereby several entrepreneurs hire same means of transport should be looked into. Buying raw materials in bulk can also be another alternative whereby the entrepreneur will not only save on transport costs but also gain discounts by buying in bulk.)

4. How much capital was invested to start the business and what did you buy?

(If it is an ongoing venture, the value of the existing capital should be indicated. If it is a new business, the amount already spent by the entrepreneur in the preparation for starting up this business should be indicated. Any expenses such travelling costs looking for quotations/pro-forma should be considered as initial capital invested by the entrepreneur.)

4.1 Where did the capital come from?

Own

Moneylenders

Bank loan

Donors

Family

Others

(The source from where the capital invested came should be indicated. If the funds were obtained through own savings then it is not much of a problem. If the capital funds were borrowed then this has to be taken into consideration since will affect the cash flow of the business.)

4.2 How much of your personal funds do you intend to invest in the future in your business?

(The entrepreneur will be required to contribute towards the business in any form if the business is new. However if the business is an ongoing venture, the existing investment can be considered as the entrepreneur's contribution.)

5. Do you have the following facilities in your working environment?

Electricity

Water

Roads

Others

(The entrepreneur should check beforehand that the machine/equipment purchased is not electricity operated if the business site does not have electricity. Check also the cost of electricity per month.

The entrepreneur needs to check the availability of other utilities such as water and accessibility (through roads) to the business site.)

I. Loan requirement

1. Amount of loan required (N$)

(It is important that the loan applied for is enough to cover financing of equipment/machinery, supplies and working capital. In general the loan should enable the business to be operational.)

2. The loan will be used to finance the following items

Whether raw material and/or equipment, the cost of each should be given.

Example:

a) 1 Singer sewing machine	N$ 990.00
b) 2 Scissors @ N$ 45.00	N$ 90.00
c) 10 Cotton thread @ N$ 9.90	N$ 99.00
Total Loan Requested	N$ 1179.00

3. How long will it take you to repay the loan?

(The entrepreneur should show how long he or she thinks it will take to repay the loan. It is important to bear in mind that any maximum repayment period a lender may set.)

4. How will the business improve by receiving the loan?

(Explain in detail how the business performance will improve by receiving a loan. For example, the entrepreneur can describe the increase on production or even diversification of production. The improvements in the business should increase the entrepreneur’s sales and therefore income on a monthly basis.)

J. Financial Plan

a) What is your daily production?

(Describe the number of items produced in one day or if it is a retailer sold, or if it is a service, the number of services rendered in one day (ex: Garage - How many cars have been repaired in one day).)

b) How much will you charge for one unit of produced items or services?

(Make a detailed list of the products/services or items that the business sells and the price of each.)

c) How many days will you work in one week?

(Specify the number of days that the entrepreneur works for the business in one week.)

1. Draw an estimated profit and loss statement of the business?

a) **Income**

Sales per month

(This is an estimate of sale that will be made in a month. This can be obtained by multiplying total items to be produced in the month by the price of each item.)

Any other income

(These can be payments made in the current month from the previous month's sales.)

b) **Expenses**

Direct material costs

(The total cost of raw material to produce the items, to be incurred in that month.)

Direct Labour costs

(The total cost of the labour involved in the production only, to be incurred in that month.)

Indirect labour cost

(Salaries of the people that are not involved in the production process, for example the manager himself.)

Rent per month

(Rent if the entrepreneur is renting the business premises.)

Electricity per month

(Electricity costs in that month.)

Transport per month

(Transportation costs incurred.)

Loan instalment and interest per month

(The loan instalment plus the interest for that month.)

Maintenance costs

(Servicing of the machines involved in the production process or other equipment utilised in the business, to be incurred in that month.)

Any other costs related to the project

c) **Gross Profit/Loss (a-b)**

(If income is greater than expenses the business will realise a profit. But if expenses are greater than income, the business will realise (make) a loss.)

K. Conclusion

1. What are the risks and problems that you anticipate in the business?

(The entrepreneur should be able to indicate that running a business is not simple and one will always encounter problems. If he or she does not see any risks then he or she is over-confident and will fail.)

2. How are you going to overcome them?

(The entrepreneur should be able to point to business experience, the location, the resources or some other factors that can be utilised to overcome some of the risks and problems mentioned above.)

3. Do you think the business will succeed and why?

(The entrepreneur should again be able to point some "Unique Selling Point" (USP) in term of price, location, quality, etc, that will enable him or her to run the business effectively.)

Goal setting

Unit learning objectives: trainees will consider the components of a SMART goal and will be able to use this in preparing a realistic business plan

Discuss the elements of realistic goal setting. A SMART goal is

Specific – "I will increase my gross profit…

Measurable – "…from 35% to 40%..."

Achievable

Realistic

Time-bounded – "…within the next 6 months"

In the example "I will increase my gross profit from 35% to 40% within the next 6 months", the goal is specific, measurable and time-bounded. It is also probably realistic and achievable if the business owner is planning to make changes in the way he or she operates the business.

In small groups trainees should prepare a SMART goal for a business of their choice.

Each group then presents their SMART goal to the main group and the main group is asked to comment on the goal. Trainees should be particularly encouraged to comment on whether they believe the suggest goals are SMART.

Alternatively, if trainees are already running a business, ask the trainees to prepare two or three SMART goals for their own businesses. Then ask individual trainees to explain their SMART goals to the others and invite comments.

Writing a budget

Unit learning objectives: trainees learn how to construct a budget using both costing methods and building up a budget from previous period accounts

A budget is a plan written in figures. For example, a business plan will explain how the business owner aims to operate during the coming year. He or she should be able to show how this will work out in figures. It is an important component of a business plan.

There are two ways of preparing a budget. In practice, a business will use a mixture of the two ways when arriving at the budget.

The first way builds upon the pricing and costing methods covered in Module 3. Using the bread exercise, the costs of each loaf were as in the table below. On this basis, it is possible to add an additional column that shows how much it would cost to make 500 loaves during one month:

Ingredient	How much used	Working out the cost of what is used	Cost of what is used - N$	Cost 500 loaves per month- N$
Flour	200gms	N$24 for 5kg bag ÷ 50(cost of 100gms) x 2(cost of 200gms)	0.96	480
Oil	20mls	N$4 for 1ltr ÷ 100 x 2 (cost of 20mls)	0.08	40
Sugar	40gms	N$4 per kilo ÷ 100 x 4 (cost of 40gms)	0.16	80
Salt, yeast etc	1 yeast sachet costs N$3.75 and makes 15 loaves	N$3.75 ÷ 15 (cost of yeast per loaf)	0.25	125
Labour	N$10 paid for each batch of 25 loaves made	N$10 ÷ 25 loaves	0.40	200
Total			1.85	925

The monthly indirect costs have been already calculated:

Item	Monthly cost – N$
Transport	40
Electricity	60
Rent	20
Owner's salary	400
Advertising	20
Costs of capital	210

The baker has decided to sell the loaves at N$4 each and so a budget can be written for the coming year:

Income	Month	Year
Sales	N$	N$
500 loaves at N$4	2,000	24,000
Other income		
Total income	2,000	24,000
Expenditure		
Direct costs		
Flour	480	5,760
Oil	40	480
Sugar	80	960
Salt, yeast etc	125	1,500
Labour	200	2,400
Indirect costs		
Transport	40	480
Electricity	60	720
Rent	20	240
Owner's salary	400	4,800
Advertising	20	240
Costs of capital	210	2,520
Total costs	1,675	20,100
Gross profit	325	3,900

In this example, the owner is working directly in the business and is drawing a monthly salary. The owner will decide how to use the gross profit according to how he or she wants the business to progress.

Another approach is to look back at a business over, say, the last 6 months and project a budget for the next 12 months. The example overleaf is taken from 6 month's of Doreen's sewing business:

	For last 6 months N$	For 12 months, based on last 6 months N$	Change assumptions	Budget for 12 months N$
Income				
Sales	15,020	30,400	5% growth	31,542
Other	0	0		
Total income	15,020	30,400		31,542
Expenditure				
Direct costs	4,180	8,360	10% increase	9,196
Labour costs	1,600	3,200	No change	3,200
Indirect costs	2,940	5,880	10% increase	6,468
Other costs	0	0		0
Total costs	8,720	17,440		18,864
Gross profit	6,300	12,600		12,678

Work through these examples with the trainees and test their understanding with the exercises drawn from Mr Kamwi's carpentry business.

The answers to the exercises are on page 135 and 136.

If trainees need more practice with writing a budget, then ask them to do a second set of exercise using figures from the Anna's dress exercises.

Exercise: A budget for Mr Kamwi, using the costing approach

Mr Kamwi plans to make 30 tables each month for the next year.

The direct costs of making each table are:

Item	Amount	Measure	Unit cost N$	Cost N$
Top wood	10.00	metres	2.00	20.00
Frame wood	6.00	metres	2.00	12.00
Legs wood	3.00	metres	3.00	9.00
Varnish	4.99	litre	0.50	2.50
Screws	9.00	each	1.35	12.15
Glue	0.66	tube	19.00	12.54
Labour	1.00	table made	15.00	15.00
Total				83.19

The monthly (indirect) costs are:

Indirect costs	Cost per month
Electricity	150.00
Water	60.00
Rent	300.00
Telephone	120.00
Transport	40.00
Cost of capital	123.75
Owner's salary	600.00
Loan repayments	0.00
Total	1,393.75

Mr Kamwi plans to sell each table for N$145.

Prepare a budget for the next 12 months using these figures. Lay the budget out so that it is clear how you have prepared the budget.

Exercise: A budget for Mr Kamwi, using trading records

The table shows the trading over the last 6 months:

	January	February	March	April	May	June
Income						
Sales	4,640	3,480	5,075	4,060	4,640	4,350
Other						
Total income	4,640	3,480	5,075	4,060	4,640	4,350
Expenditure						
Direct costs	2,046	2,046	2,386	1,909	1,909	2,182
Labour	450	450	525	420	420	480
Indirect costs	833	770	873	857	754	849
Other						
Total expenses	3,329	3,265	3,785	3,186	3,083	3,511
Gross Profit	1,311	215	1,290	874	1,557	839
Paid to owner(s)	630	582	660	648	570	642
Capital expenditure				745		
Loan repayments					400	400
Savings	681	-367	630	-519	587	-203
Cumulative savings	681	314	944	424	1,011	808

Find the totals for the last 6 months. Mr Kamwi decides that the following changes will happen for the next 12 months:

- He will increase the price of his tables by 8%, starting immediately
- His direct costs are likely to increase by 10% over the next 12 months
- His labour costs will rise by 15% over the next 12 months
- His indirect costs will increase by 6% over the next 12 months
- He will pay himself the same level of income over the next 12 months
- He will not buy any more equipment next year
- He will have to repay his loan each month for the whole of the next 12 months

Write a budget for Mr Kamwi for the next 12 months. Lay out the budget so that it is clear how you have arrived at the figures.

Preparing a cash flow projection; managing cash

Unit learning objectives: trainees undertake an exercise that brings together costing, pricing, budgeting and accounting. An important part of the exercise is to understand how the cash in a business is not the same as or equal to the profit of a business.

This unit brings together elements of several of the other units in this manual. It is a case study that shows trainees how the various components of the financial aspects of running a business come together. It is broken into 4 parts to allow trainees to review and understand each part before moving onto the next parts.

It is based on the Bakery example that has been used in the learning units. These are repeated, with the trainees this time undertaking the individual steps for themselves.

The exercise should be undertaken step by step, using the handouts as each step. Make sure that trainees have completed and understood each handout before moving onto the next handout. The answers to the exercises are on page 137 to 139.

Ask trainees to complete handout “Exercise – Bakery exercise Part 1; Cost of making the bread”. Trainees should by now be able to handle this first exercise quite easily. If they cannot, it may be worth looking again at the relevant learning units in Module 2.

Proceed to “Exercise – Bakery exercise Part 2; Cost of capital and budget for 6 months”. If trainees show good understanding when they complete this exercise and there is time, ask the trainees to work out a budget for 400 loaves and for 600 loaves. Ask trainees to explain why the net profit changes disproportionately according to whether 400, 500 or 600 loaves are produced.

Ask trainees to complete “Exercise - Bakery exercise Part 3; Cash flow statement”. Ask them to complete the budget cash flow statement first and make sure that they have understood it well before proceeding to the second part of the exercise, which deals with the actual cash flow.

When the trainees have completed the budget cash flow, compare the Net Profit that the baker has at the end of six months with the cash balance that she has at the end of six months. See if the trainees can explain why the two figures are different?

The Baker now has a simple business budget and is ready to start making and selling loaves. She must keep regular records of income and expenditure and at the end of each month fill in and compare the cash flow statement with actual income and expenditure. Ask the trainees to complete the actual cash flow statement in the second half of the exercise.

Move on to the “Exercise - Bakery exercise Part 4; 6 month account”. Ask trainees to complete the actual accounts, using the data provided in the actual cash flow figures in the third exercise. Discuss the various questions listed at the bottom of the exercise when the exercise has been completed.

Exercise: Bakery exercise Part 1 - Cost of making the bread

The Baking Business

Cost of making the bread
It is important for the business to know how much each loaf costs to make. This helps the business to decide how much to charge for the loaves and to prepare a budget for the whole business. The baker decides this by first of all working out the cost of m

Direct Costs

The first step is to work out the cost of the ingedients in the loaves. In each loaf the baker uses 40gms of sugar @ N$4 per kilo; 20mls of oil @ N$4 per litre; 200gms of flour @ N$24 for 5 kilos and salt and yeast that costs N$3.75 for 15 loaves. The bak

Direct Costs	Cost for 1 loaf N$	Cost for 100 loaves N$	Cost for 500 loaves N$
Sugar			
Oil			
Flour			
Salt and Yeast			
Labour			
Total Direct Cost			

Indirect Costs
The business also has to pay other bills. These are bills that the business has to pay whether it makes a few loaves or many loaves. These monthly costs are set out below and include the N$400 the owner decides to pay herself each month. Work out these co

Indirect Costs	for month N$	for 6 months N$
Transport	40.00	
Electricity	60.00	
Rent	20.00	
Owner's salary	400.00	
Advertising	20.00	
Total Indirect Cost		

Exercise: Bakery exercise Part 2 - Cost of capital and budget for 6 months

Cost of Capital and budget

The business owner has used her savings to buy a stove, pots and other equipment and build a small bakery attached to her house. However, she needs to save money so that she can pay for new pots, stoves and equipment when the equipment grows old or the business expands. She does this by including the cost of capital in the calculations that help her to decide how much each loaf costs to produce. This is also called "depreciation", or "cost of capital". The first step is to decide how much "depreciation" should be charged each year. The exercise below tells her how much the stove, kitchen, pots and equipment cost. It also tells her how many years she thinks each item will last. Work out how much the capital will cost for each year, each month and over 6 months by filling in the boxes below. Do this by dividing the cost of each capital item by the number of years it will last. Then divide this figure by 12 to find out how much the cost is each month. Multiply this second figure by 6 to find out how much the cost is for 6 months.

	N$	How many years each item will last	Cost for year N$	Cost for month N$	Cost for 6 months N$
Cost of stove	3600	3			
Cost of furniture/equipment	1800	5			
Cost of pots	1200	5			
Cost of building	4320	6			
Total Cost of Capital					

Writing a budget

The baker decides that she will make and sell 500 loaves each month.
She also decides that she will sell each loaf for N$4.00.
Together with the information that she already has, she now has enough information to work out a budget for the first 6 months of the business.
Write the budget by filling in the boxes. You have already worked out most of the information.

Budget for the first 6 months			
Income	N$	N$	N$
Sales			
Expenditure			
Direct Costs			
Sugar			
Oil			
Flour			
Salt and Yeast			
Labour			
Total direct costs			
Indirect costs			
Transport			
Electricity			
Rent			
Owner's salary			
Advertising			
Cost of capital			
Total indirect costs			
Total costs			
Net profit			

Exercise: Bakery exercise Part 3 - Cash flow statement

Cash Flow Statement

The Baker will need to be sure that she will have enough money to pay her bills each month. She does this by writing down the income she will get from selling the loaves and the bills she will pay each month. This is called a cash flow statement. Fill in the boxes below to write the cash flow statement. Remember, the Baker is planning to sell 500 loaves per month.

							Totals
Loaves to be sold per month - budget	500	500	500	500	500	500	
Cash Flow - Budget	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	
	N$	N$	N$	N$	N$	N$	N$
Opening balance	0						
Income from sales							
Other income (if any)							
Total cash in							
Direct costs							
Indirect costs							
Depreciation							
Total cash out							
Balance carried forward							

Although a row is provided for depreciation, no figure is placed in this row, because the money is kept in the business, to pay for replacement of the capital when needed

Compare the "Net Profit" at the end of six months with the cash balance that the Baker has at the end of six months. Why are the two figures different?

The Baker now has a simple business budget and is ready to start making and selling loaves. She must keep regular records of income and expenditure and at the end of each month fill in and compare the cash flow statement with actual income and expenditure.

Actual Cash Flow Statement

Write the actual cash flow statement now. In fact the Baker's sales have gone up and down during the six months. The actual number of loaves that the Baker has sold are shown.

							Totals
Loaves to be sold per month - actual	500	300	150	250	550	450	
Cash Flow - Actual	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	
	N$	N$	N$	N$	N$	N$	N$
Opening balance	0						
Income from sales							
Other income (if any)							
Total cash in							
Direct costs							
Indirect costs							
Depreciation							
Total cash out							
Balance carried forward							

Exercise: Bakery exercise Part 4 - 6 month account

Six Month Account

At the end of six months the Baker can also prepare accounts for the six months. She has all the information she needs to do this. Fill in the boxes below.
She can also compare it with the budget to see how well she has done against the plan. The budget figures are already written in.

Account for the first 6 months				**Budget**		
Income	N$	N$	N$	N$	N$	N$
Sales						12000
Expenditure						
Direct Costs						
Sugar				480		
Oil				240		
Flour				2880		
Salt and Yeast				750		
Labour				1200		
Total direct costs					5550	
Indirect costs						
Transport				240		
Electricity				360		
Rent				120		
Owner's salary				2400		
Advertising						
Cost of capital				120		
Total indirect costs					3240	
Total costs						10050
Net profit						1950

Review
Here are some questions to answer

Compare the actual account with the budget. Which costs are the same and which are different. Why?

What are the different ways in which the Baker could have increased profit in the six months?

Work out the profit per loaf for the budget and the actual. Why are the figures different?

What should the Baker do with the money in the accounts for the cost of capital (depreciation)?

Financing the business

Unit learning objectives: trainees will consider the sources of finance for a business (internally generated finance, savings, loans, grants) and will be able to judge the most realistic approach for their own businesses

Ask trainees to list the sources of finance for businesses. Use a flipchart to write them down. The list will include the business itself, banks, local loans schemes, Adult literacy loan scheme, friends and relatives and some NGOs.

Discuss with trainees the difference between a grant and a loan. Check each of the sources of finance listed according to whether they need to be repaid or not. If they have to be repaid, also check if interest has to be paid.

Make sure that the business itself as a source of money for the business is listed. This is a very important way in which a business can build itself up.

In reality, most businesses cannot get grants. Capital must come from the business owner's own sources, including friends and relatives. Money from outside usually comes as a loan.

Using a flipchart, ask the trainees to list the questions that they should answer before seeking a loan. When this is completed, give the trainees the "Handout – Some things to think about before taking a loan". If they answer these questions well, they will be taking good steps towards making a successful application for a loan.

While some sources of loans remain in business for a long time (e.g. the banks) other sources come and go. Another unit in this module (Knowing where to find assistance in running a business on page 115) deals with sources of further assistance.

One of the sources listed by trainees may be one of the high street easy loan agencies. If this is listed, ask the trainees to say how much the loan agency will lend and how much they ask in repayment. Work out with them the rate of interest being charged per month or per annum.

In reality, the main source of lending is the banks. Work through the "Handout – Dealing with a bank" according to the level of experience of the trainees in relation to the banks. In particular, consider with trainees how to build up a good working relationship with a bank and how to approach a bank when support is required. List the suggestions on a flip chart.

For many loans, collateral or a guarantee will be required. Collateral is property or assets that the lender can take and sell if the loan is not repaid. A guarantee is a promise by somebody or some agency to pay the loan if the borrower does not pay. Discuss with trainees what they can offer as collateral or where they might go for a guarantee. The most active source of guarantees at present is the Small Business Credit Guarantee Trust, although the banks will not wish to deal with a guarantee for a loan of less than N$15,000.

Finally, work through the second part of the "Handout – Some things to think about before taking a loan", which deals with answers to why the banks often refuse loans.

Handout: Some things to think about before taking a loan

Questions to answer before deciding to apply for a loan

What is the loan for? A business loan should lead to more income coming to the business.

How much do I actually need to borrow? Calculate the amount carefully; borrowing too much will cause higher repayment costs

Will I have to contribute something towards the loan? Lenders will often ask for at least 10% contribution from the borrower.

What will be the interest rate that I will have to pay? Lenders make different rules for repaying interest, so it is not just what the rate of interest is but also whether it is calculated against what is owed at any particular time or against what was originally borrowed.

How long will I have to repay the loan?

Are there any other costs connected with the loan? Some lenders ask for money towards the application or for something else. Make sure that you know how much you will have to pay and that you can afford this.

Will I have to give some collateral? A lender may ask for someone to guarantee your loan or for you to let the lender sell something of yours if you do not repay the loan.

How much will I need to pay each month? A lender should be able to tell you clearly how much you will have to repay each month.

Will I have to start repaying the loan straight away? Some lenders will give a few months before you have to start repaying the loan.

Do I have a good business plan to back up my loan application? Most lenders will require a business plan before agreeing to lend money.

Will I earn enough money to pay the loan back? You must be sure that you will be able to earn the extra money that you will now have to pay towards repaying the loan.

Which is the best place to borrow the money? Lenders have different rules, interest rates and lending policies. Some will only lend amounts above a particular level or will not lend for particular things (like money for cattle or shabeens).

Will I be expected to do anything else other than repaying the loan? Some lenders will ask you to be part of a savings or loans group; or they might ask you to give regular reports on your business.

What will happen if I do not repay the loan? The lender will want the loan to be repaid. Remember, if you fail to repay a loan, you may become listed as a bad payer among lenders and not be able to borrow money again.

Who can help me to answer all these questions? It can be helpful if you can find a friend or someone who has experience of borrowing money to help you think about a loan before you borrow.

Common reasons why banks do not give loans

Many people become very frustrated because they want a loan but cannot get one. There are some common reasons why banks do not give loans and these are listed below. A good way of avoiding being disappointed is to go through the questions on the first side of this sheet and make sure that you have answered them well before applying for a loan.

- Applying to the wrong place. Lenders have rules about when they will and will not give loans. These rules can usually be obtained by asking the particular lender.
- Applying for the wrong amount. Lenders usually have rules about how much they will lend – for example, they may set minimum or maximum amounts. Applying outside these limits will lead to rejection of the application.
- Not answering all the questions asked. Ignoring, or giving a poor answer to a question asked by the lender will lead to rejection of the application.
- Poor business plans. Most lenders will ask for a business plan with a loan application. Many people ask other people to write their business plans for them. However, they do not check that the business plan properly describes their business and a lender can tell if a business plan is written by someone who does not understand the business for which the loan is being applied for.
- Lack of information of actual business trading. Many business plans do not include information about what the business has already achieved. In particular, a business plan must show trading figures for the last few months, so that a lender can judge whether the business is likely to be successful or not.
- Wrong sort of business. Lenders have clear rules about the businesses that they will and will not lend to. There is no point in approaching a lender for money to buy cattle, for example, if the lender does not lend money to buy cattle.
- Insufficient collateral or guarantees. Many lenders will want a guarantee or collateral. This may be a relative who is prepared to sign that they will repay the loan, if the business does not repay or it may be property owned by the business that the bank could sell if the loan is not repaid. The Small Business Credit Guarantee Trust may be able to guarantee the loan, if the business owner cannot.
- Insufficient contribution from business owner. A lender may have rules about a contribution towards the loan asked for from the business. If the business owner cannot contribute this, the application will fail. If the business owner can contribute more, then the application is more likely to be successful.

Remember – a lender may be more prepared to give a loan if it knows the business. So it is worth having a bank account for the business and going to that bank first for the loan.

Handout: Dealing with a bank

IMPORTANCE OF BANKING

Using a bank for your financial business is important for several reasons:

- Your money is safe in the bank and usually earns some interest if in a savings account or on fixed deposit
- If you have had an account with the bank for 2 or 3 years it is easier to borrow money from the bank as they can see what type of account you conducted, how you handled the account and they know who you are
- It is cheaper and safer to borrow money from a bank than to go to a private loan company
- You build a credit record with the bank that makes it easier for you to get a loan or buy things on credit from other places, as the credit bureau is able to check on whether you have a good or bad credit record.

Commercial Banks in Namibia are the following banks: Bank Windhoek, Commercial Bank, First National Bank of Namibia and Standard Bank Namibia and City Savings.

Each bank is different and each bank has their own forms and rules when opening accounts and when borrowing money so it is important that you check with each bank what is needed for each type of account. If you already have an account with a bank then it is best that you go to that bank for a loan or another type of account. Most banks will open a savings account for you.

OPENING AN ACCOUNT

When opening an account, you will need:

- A copy of your identity document
- A copy of your salary slip (if working)

If the account is going to be opened in the name of your business, then they need the registration forms for the business.

Each bank has its own account opening forms that need to be completed; they will be completed for you in the bank by a bank official.

The banks will usually open a savings account to start with and if the business is doing well and they can see that it is viable and the client is a good client they will consider changing it to a cheque account after the first year.

There are a number of different types of account. The main ones are described below.

Cheque (current account)

A cheque account is one where a customer can deposit his/her salary, or other income and withdraw these funds by completing a cheque and handing it to the person to whom he/she owes money, or by cashing a cheque at a teller at the account holding branch.

Funds can only be withdrawn if there is enough money in the account to cover the amount of the cheque.

Payments can be made by cheque, stop order and debit order; electronic instructions and withdrawals can be made by cheque or ATM.

Service fees are charged for all withdrawals from a cheque account.

Savings account

A savings account is one where a customer can deposit his or her salary, or other income, and withdraw these funds by use of the ATM as well as branches and agencies.

Interest is calculated daily and capitalised monthly.

BOB 2000 Account

A Bob 2000 account is available from First National Bank and is a card based transmission account. This account allows for debit order and stop order payments as well as BOB account payments. It is similar to a savings account with a few more features. The account also earns interest but there are service fees charged for all withdrawals from this account.

BORROWING MONEY FROM THE BANK FOR YOUR BUSINESS

When you want to borrow money from a bank for your business, you will need:

- A copy of your business plan
- A copy of your cash flow forecasts for one year

Banks will only lend money to people if they know they will get it paid back. If the business is a new one then it is difficult for the bank to know how the business will do as it does not have a track record, so the banks protect themselves by asking for security.

Most banks accept the following as security:

1) An insurance policy that is old enough to have a surrender value that can be pledged to the bank
2) A fixed deposit in your name that can be pledged to the bank

If you do not have any of these of these documents but have a family member or friend that has one and they want to help you in your business then they can take it to the bank and sign a guarantee on your name.

In other words they sign a form with the bank that says if you do not pay the money that you owe to the bank then they will pay it. The bank will always ask the person signing the guarantee for you to pledge either the insurance policy or the fixed deposit to the bank for this guarantee.

If you do not pay the loan back then the bank takes the money from the insurance policy or the fixed deposit and uses that money to repay the loan. If the money is not enough to repay the loan with the bank then you as the client are still liable for the balance.

Some of the banks do have their own loan schemes specifically for a small business and will need specific forms completed before they will lend you any money. You must ask the bank you want to use as your banker for details.

LOANS

A bank can offer a number of different ways of lending money

Personal Loans

A personal loan is when a fixed sum of money is required usually to finance those expenses that the average person cannot afford to pay from in cash. Interest is usually charged monthly to the account, although some banks do charge interest for the full period of the loan in advance.

The maximum term of such a loan is usually 60 months and the maximum and minimum amounts are calculated taking into account the client's income, credit worthiness, cash flow and the purpose for which you wish to use the loan. At some banks the maximum is N$10,000, at others it is N$20,000.

The loan is repayable in equal monthly instalments over the fixed repayment term granted and agreed by the bank.

The client is required to sign a loan agreement with the bank.

Commercial loans

Such loans can be granted for various purposes including the purchase of livestock or the purchase of a business. Interest is usually charged monthly to the account, although some banks charge interest for the full period of the loan in advance.

The maximum term of such a loan is usually 15 years and the maximum and minimum amounts are calculated taking into account the client's income, credit worthiness, cash flow and the purpose for which the loan is required.

The loan is repayable in equal monthly instalments over the fixed repayment period granted by the bank.

The client is required to sign a loan agreement with the bank

Micro loans

The client must have an account with the specific bank to which they are applying for a micro loan.

The usual requirements at First National Bank are that the client must:

a) Have been employed by the present employer for at least 3 years
b) Can borrow up to a maximum of twice their gross monthly salary
c) Must not be insolvent or have a garnishee order on their salary

d) May not be older than 55 years of age

At Bank Windhoek the client must:

a) Be an existing client of Bank Windhoek
b) Have a fixed deposit that can serve as collateral (security) for the loan
c) The amount of the loan may not exceed the amount of the fixed deposit at maturity.

Overdrafts

An overdraft is an amount agreed by the bank by which your cheque (current) account may overdraw at any time. This is usually a short-term facility and is not used to finance long-term liabilities. Your account can operate in credit or within the limit of the overdraft facility agreed upon. Interest on the overdraft is charged monthly and is based on the actual amount the account was overdrawn and not on the maximum overdraft facility amount.

The banks usually want some sort of security/collateral for this amount and would take a cession of any of the following:

a) A fixed deposit
b) A life insurance policy
c) A savings account
d) Shares listed on the Stock exchange
e) A mortgage bond over existing property free of other bonds

Mortgage

A mortgage is when a bond is taken over your property, either when purchasing a home under the home loan scheme or when requiring overdraft facilities or a loan and is taken as a form of security by the bank.

A bond is registered by the bank and the property cannot be sold or bonded to anyone else without the bank being repaid or agreeing to a second bond.

If the client has bonded the property as security for a loan or overdraft and does not repay it, the bank can after certain steps have been taken arrange for the property to be sold to recover the client's debt with the bank.

HIRE PURCHASE FINANCE

Hire purchase is usually used to finance the purchase of a motor vehicle through special divisions of the commercial banks like Wesbank.

Hire purchase can also finance the purchase of other moveable assets like heavy vehicles, computers and heavy equipment used in the printing, earthmoving and engineering industries.

NORMAL REQUIREMENTS FOR LOANS FROM BANKS

The banks will usually require the following documentation:

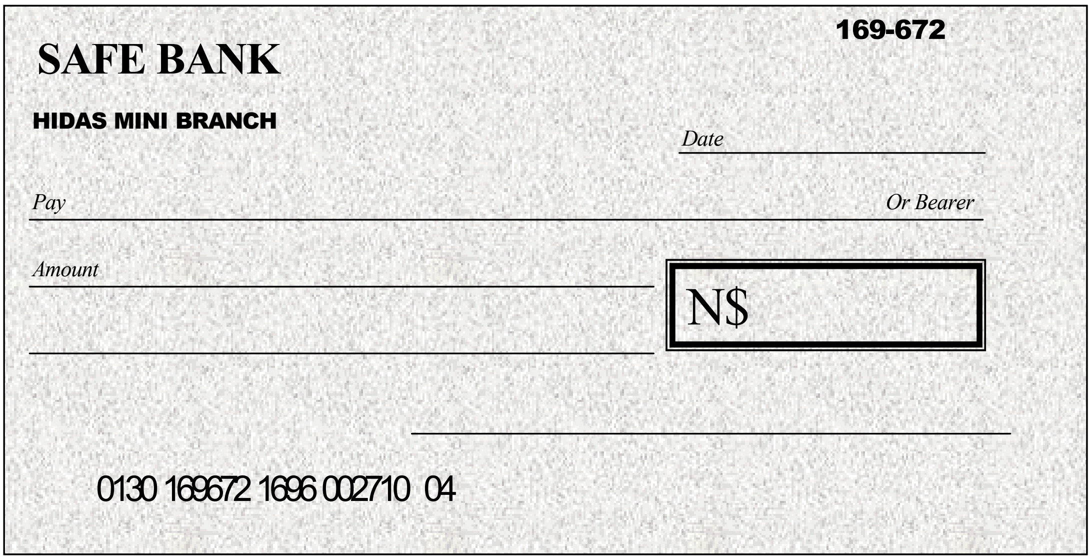
a) Original Identity document
b) Latest pay slip
c) Latest bank statement – if existing account held at bank
d) Letter from employer stating date of employment
e) If married – marriage certificate
f) If divorced – divorce letter
g) If Widow/er – death certificate of deceased spouse

When security/collateral is requested:

a) The original fixed deposit receipt OR
b) The original insurance policy OR
c) The title deeds to the specific property the client wishes to mortgage.

EXAMPLES OF FORMS USED BY THE BANKS

A sample cheque


169-672
SAFE BANK
HIDAS MINI BRANCH
Date
Pay
Or Bearer
Amount
N$
0130 169672 1696 002710 04

Deposit slip

SAFE BANK

DEPOSIT SLIP

Date : ……………………

Credit :…………………………………………

Address : ………………………………………..

	N$	C
Notes		
Nickel		
Bronze		
MO&PO		
Sub Total		

BANK STAMP

Drawer's Name	Bank	Branch	N$	C
		TOTAL N$		

Acc. No. | | | | | | | | |

Deposited by

Cash withdrawal slip

SAFE BANK

CASH WITHDRAWAL SLIP from Savings account

BANK STAMP

Date : ……………………

Name : ……………………………………………..

Address :………………………………………………

Received from SAFE BANK the sum of :

…………………………………………………………

N$ | | |

Account No. | | | | | | | | | | |

ID No.

Signature:

Your savings book must accompany this form

Managing people

Unit learning objectives: trainees will have considered what the good characteristics of an employer are, should they employ staff.

Discuss what information should be contained in the business plan, if the business employs or is to employ staff. The list should include the numbers of staff, their skills and experience and any training plans that there are. If there are many staff in the business, it is useful to have an organisational chart.

It can be useful to include the CVs of senior staff members (including the business owner) in the Appendix.

What makes a good manager? Get the trainees to work in groups to describe the characteristics of a good manager. These will include:

> Open leadership, good communication, feedback about work done, managing discipline fairly, training and training programmes, involvement of staff in the organisation of the job and management of the business, encouraging staff to take the initiative, personal interest.

The list will also include good pay, paid on time and good working conditions but staff want much more from a job than just being paid well.

Once the groups have finished, bring the lists together to make a comprehensive list in the main group.

Recruitment of staff

Unit learning objectives: trainees will have considered how they might most effectively recruit staff, should they decide to employ staff.

Check which trainees (if any) already have staff in their businesses. Ask them how they recruited their staff.

Include all the trainees in the question "how would they recruit staff?" Answers will include asking friends and relatives, word of mouth and formal advertising in the newspapers and on radio.

Using a flipchart, ask the trainees to list the advantages and disadvantages of each recruitment method. These should include issues to do with asking staff to leave, should they not be suitable for the post(s) in question. It is particularly useful if trainees are able to describe experiences they may have had, or heard about, in connection with the different methods of recruiting.

In practice, however trainees plan to recruit a staff member, it is important that they prepare properly. Failure to do so can cause many problems later on. Use the "Handout – some guidelines for effective recruitment and induction of staff" to encourage trainees to plan carefully when employing other people.

Handout: Some guidelines for effective recruitment and induction of staff

Part of ensuring that a team has the right skills is to ensure that any recruitment to an organisation is as carefully carried forward as possible. A suggested procedure is set out for this:

1. Define the job carefully in a job description.
2. Using the job description, define the job skills and person qualities that are needed if someone is to be able to carry out the job successfully. This is called the Person Specification
3. Advertise the post, using advertising that is appropriate to the organisation, so that as many people as possible know that the job is available. Make it clear when applications should be received and where they should be delivered and what information the applications should contain. Make sure that the applications give all the information that the job specification requires.

While it is possible that someone already known to the organisation (for example, a staff member or a volunteer) may be a strong candidate for a post, it is still important to advertise the post, so that the strong candidate can be tested alongside other applicants

4. At the closing date for applications, prepare a shortlist, using the criteria listed in the person specification. It is useful if two or three people are involved in the short-listing
5. Prepare for the selection process. This selection process should cover all aspects of the person specification. Some aspects are best dealt with in an interview but other aspects will need to be tested in some other way during the selection process (e.g. an exercise involving a computer if computing skills are important) or through the candidates furnishing certified copies of certificates if another organisation has tested the skill (e.g. driving licence).
6. Agree the selection panel, checking that the right people will be involved and that the selection panel has an appropriate range of skills. Before the first candidate meets the selection panel ensure that the panel has understood the job description and job specification and has agreed how members of the panel will work together (including agreeing any scoring systems for candidates)
7. Invite the short-listed candidates to the selection day. Ensure that they are given any background information in advance (e.g. job description, person specification, organisation's annual report). Also inform them what expenses, if any, they may expect to receive for attending the interview
8. Ensure that all resources are available for the selection day. Make sure that there is someone available for the candidates who can explain the selection process to the candidates and who can answer, informally, any questions a candidate may have about the job or the organisation.
9. During the selection day, make sure that all candidates know what is happening, have a proper opportunity to ask questions they will have about

the job and the organisation and know when they will be told about the outcome of the interview. Ensure that all candidates have given the names of referees and all receipts necessary to claim any expenses that are to be paid

10. After the interviews are completed, the selection panel should make its selection using all the selection material. References should be obtained for the winning candidate and, if these are satisfactory, a job offer should be made; this should include giving the candidate a draft job contract and agreeing a date on which the new employee will start. Unsuccessful interviewees should be informed
11. On the day the new employee joins the organisation, two copies of the job contract should be signed and an induction programme agreed. The job contract should include a section dealing with any probationary period and what an employee must do to satisfactorily complete the probationary period. The job contract will have a copy of the job description attached to the contract, if the job description is not a part of the job contract. Any essential policies (e.g. personnel policies) should be handed to the new employee at the same time
12. During the probationary period, ensure that adequate time is given to the new employee so that the induction programme may be properly completed. It is useful if the induction programme can include a section at the end of each part, when the person offering the relevant induction and the new employee can both sign to say that the induction has been given, together with any comments
13. At the end of the probationary period, review the new employee's progress:

    If progress has been satisfactory, then the new employee should be confirmed in post, in writing.

    If progress is unsatisfactory but could be satisfactory, the probationary period should be extended (in writing) with clear standards set as to how the new employee can complete the probationary period satisfactorily.

    If the new employee has not proved satisfactory, the employment should be terminated.

Agree with the staff member the tasks to be covered during the next weeks or months and write these down.

Legal obligations of running a business

Unit learning objectives: trainees are introduced to the different legal requirements they will face in running a business – registration, awareness of different legislative requirements, including employment and taxation requirements

This is an opportunity to review the legal regulations with regard to running a business in Namibia.

The “Handout - Legal regulation of small businesses in Namibia” deals with various registration issues. Work through it, according to the particular interests of trainees and give a copy of the handout to each trainee.

Two items that are very important for all small businesses that are sometimes overlooked are Social Security and Tax.

Social Security

An employee for Social Security purposes is defined as someone who is employed for 2 or more days in a week. It includes “volunteers”. Monthly social security payments are 0.9% from each of the employee and the employer up to a maximum of N$27. So, if someone earns less than N$300, the employee pays the minimum amount of N$2.70 and the employer pays N$2.70. Someone earning over N$3,000 per month will pay the maximum of N$27.

Paying the right amount for an employee is important, because the employee can receive sickness pay, maternity pay and death benefit (or retirement benefit or disability benefit).

A trainee should even consider paying the social security payments if he or she is the only person in the business. This can be done by paying the employee and employer contribution.

Employees Compensation Fund

This fund is run by the Social Security Commission, but is a separate fund from the Social Security Fund. It covers the costs of accidents while people are at work and the costs of industrial diseases. Each employer with staff should register with the Employees Compensation Fund and submit the annual return. The fund calculates how much an employer should pay the fund on the basis of the annual return.

Income Tax

A sole business owner whose business earns more than N$20,000 per year must register with the Ministry of Finance and send in an annual tax return. In this return the business owner will enter the income of the business and all the expenses; the Ministry of Finance will then work out how much tax, if any, should be paid.

If a business registers as a close corporation with the Ministry of Trade and Industry, then the Ministry of Trade and Industry will automatically inform the Ministry of Finance of the existence of the company and the company will need to make a tax return.

Employers Tax

All people who earn more than N$20,000 per year should pay income tax. It is the responsibility of an employer to deduct the tax and pay it to the Ministry of Finance. So, as soon as a business employs people and pays any of them more than N$20,000 per year should register with the Ministry and deduct the tax that the person should pay to the Ministry of Finance. This is called “Pay as you earn”. It is the responsibility of the business to pay the tax deducted to Ministry of Finance within the month following the deduction. Fines are charged if the tax is not deducted or is not paid promptly to Ministry of Finance.

VAT

VAT (Value added tax) is tax added to the sales of a company. A company that has annual sales above N$200,000 must register for VAT and follow the rules for VAT.

A company that needs to register should contact the Ministry of Finance.

Handout: Legal regulation of small businesses in Namibia

Some legal issues relating to business ownership

Sole traders or proprietors

It is possible for any person to engage in business activities for his/her own gain without having to specifically register for that purpose. It will of course be necessary to register with the Commissioner of Inland Revenue, obtain any necessary trade licence etc., but these requirements apply to all business organisations.

A minor point is that all "traders" are required in terms of section 134(1) of the Insolvency Act, Act No. 24 of 1936, to keep proper records of their transactions and to preserve these records for three years. Failure to do so is an offence if a person is sequestrated (i.e. becomes insolvent). Given the costs of sequestration, it is very unlikely that informal traders will ever be sequestrated.

Partnerships

A partnership can consist of two to twenty persons. There are no specific formalities, but it would be advisable for a partnership agreement to be in writing.

Corporate bodies

The first two forms of business organisation should be distinguished from the following forms on the basis of corporate or juristic (legal) personality. Co-operatives, close corporations and companies all have a personality separate from their members. This has the important consequence that a member of a co-operative, for example, is not liable for the debts of the co-operative. A close corporation, for example, unlike a partnership, would also not "terminate" on the death of one of the members i.e. it has perpetual succession.

Co-operatives

A co-operative is formed under the Co-operatives Act and is formed by at least seven persons. It is considerably more complex to form a co-operative than for a sole trader to establish a business, but the requirements are clearly set out in the Act.

A co-operative has to comply with a number of requirements in order to be registered, but also to continue functioning as a co-operative. One of these requirements is that proper books of account be kept and that these be audited annually.

Close corporations

A close corporation is formed under the Close Corporations Act, Act No. 26 of 1988. This Act only came into operation on 1 March 1994.

This Act provides a relatively simple mechanism for forming an entity that is a separate corporate body. The registration process is quite inexpensive and straightforward. A close corporation could be registered without the assistance of a legal practitioner. Close corporations have been tremendously popular in South

Africa, with over 300,000 close corporations now registered, as opposed to approximately 60,000 companies (1994/1995). The Namibian Act is virtually identical to the South African Act.

A close corporation is ideal for one or more entrepreneurs who are likely to be engaged in the formal sector, even if the size of their business is small.

Companies

A company is formed and registered under the Companies Act, Act No. 61 of 1973.

The formal requirements required for registration and subsequent administration make this business form inappropriate for small businesses.

General regulatory requirements applicable to all businesses

Trades and Occupational Licences Repeal Act, Act No. 10 of 1995

The Trades and Occupational Licences Repeal Act, Act No. 10 of 1995, repeals the Licences Consolidation Ordinance, Ordinance No. 13 of 1935 and its numerous amendments. The Act also removes the discriminatory nature of the previous laws by repealing the enactments that only applied to the Owambo, Kavango and Eastern Caprivi areas.

It appears that with the disappearance of a general licensing requirement, in most areas the only regulation is on the grounds of health. The local authority now issues trade licences.

Regulation of specific forms of business activities

Hotels and tourism

Accommodation Establishments and Tourism Ordinance, Ordinance No. 20 of 1973

The Accommodation Establishments and Tourism Ordinance, Ordinance No. 20 of 1973, applies to any form of accommodation establishment, including rest camps, guest farms, pensions, bed and breakfasts etc.

All accommodation establishments are required to be registered under the Ordinance (section 47). It is a criminal offence not to register under the Ordinance (section 47(2)).

The Ordinance sets up an elaborate regulatory structure, including:

(a) The registration and grading of accommodation establishments (sections 16 to 28);
(b) The inspection of accommodation establishments (sections 13 - 14);
(c) The registration of managers of accommodation establishments (sections 29).

The initial regulations promulgated under section 56 of the Ordinance are contained in GN No. 75 (Official Gazette No. 3391) of 18 April 1974. The regulations are an awe-inspiring compendium of requirements with which the various grades of accommodation establishments have to comply.

This area is completely over-regulated at present. The law is difficult to find, being contained in ordinances and regulations that have been amended substantially over the past 20 years.

The complexity of the regulatory framework is a significant barrier to small business or community entry to the market. For example, an accommodation establishment must have at least ten rooms if situated within a municipal area and five rooms if situated outside a municipal area. A further consideration is that the trend is towards less regulation and allowing market forces to determine prices and levels of service.

Nature Conservation Ordinance, Ordinance No. 4 of 1975

The Nature Conservation Ordinance, Ordinance No. 4 of 1975, regulates nature conservation and the establishment of game parks and nature reserves.

Section 28 makes it a criminal offence to hunt game without a permit on state land. Besides the fact that a community cannot own state land, the section effectively prevents the exploitation of wildlife resources by a community. It is therefore not possible for a community to establish a game reserve or hunting lodge on state land.

The Nature Conservation Amendment Bill addresses this problem by allowing the establishment of conservancies on communal land. The Bill should be passed by Parliament during 1996.

A conservancy is an area in which a community is permitted to utilise individual game by hunting or selling the game, as a sustainable resource. Game may also be used for recreational, educational, research, cultural or aesthetic purposes.

The income derived from a conservancy is managed by a committee, which must distribute the proceeds equitably among members of the community.

A conservancy will have all the powers and duties under the Ordinance that was formerly only applicable to owners or lessees of land. This in effect means that a committee can establish a “private” game reserve, despite the fact that the land is owned by the state.

A wildlife council has similar rights and duties to a conservancy. A wildlife council is however initiated by the Minister of Environment and Tourism in consultation with the community in areas where conservancies do not exist. A conservancy committee is initiated by the community and is approved by the Minister.

The amended Nature Conservation Ordinance, combined with a less regulated tourist accommodation act, could if properly utilised and developed, constitute a significant business opportunity for remote rural communities.

The sale of liquor

Liquor Ordinance, Ordinance No. 2 of 1969

The Liquor Ordinance, Ordinance No. 2 of 1969, regulates the supply and sale of intoxicating liquor. The regulations under the Ordinance are contained in GN No. 49 of 1 April 1969 (Official Gazette No. 2984). Both the Ordinance and the regulations have been substantially amended.

The Ordinance establishes an extremely complicated regulatory structure for the issuing of licences. The purpose of the complicated regulatory structure is probably to control the number of licences issued so as to reduce the number of liquor outlets and thereby the quantity of liquor sold. This results in a liquor licence itself becoming a valuable commercial commodity, assuring the holder of the licence of handsome profits. The Ministry of Trade and Industry has drafted a new liquor bill, but at the time of writing this bill had not been tabled in the National Assembly.

Transportation

National Transport Corporation Act, Act No. 21 of 1987

The National Transport Corporation Act, Act No. 21 of 1987, establishes Transnamib Limited. This Act empowers Transnamib Ltd to carry on any business activity in all branches of transport services.

This Act does not confer a monopoly on Transnamib Ltd. An unfair advantage is however created in the area of road transportation by the Road Transportation Act, Act No. 74 of 1977.

Road Transportation Act, Act No. 74 of 1977

The Road Transportation Act, Act No. 74 of 1977 regulates the transportation of goods and passengers by road. Any person who wishes to engage in this business must obtain a permit to do so.

The Road Transportation Board for Namibia considers applications for permits. The applicant must prove that existing transportation facilities are not satisfactory and that the present tariff is unreasonable. Railway tariffs are deemed to be reasonable (section 15). This makes it extremely difficult for applicants to obtain permits where there is an existing railway service, unless the applicant can prove that the service is unsatisfactory.

There can certainly be no justification for Transnamib's unfair advantage over other competitors. Substantial deregulation of the long-distance transportation industry should result in lower costs, employment creation and opportunities for new entrepreneurs.

Hawkers and informal traders

Local Authorities Act, Act No. 23 of 1992

The Local Authorities Act, Act No. 23 of 1992, defines the powers of various forms of local authorities administering municipalities, towns and villages.

Section 51(1) makes it an offence for any person to erect any movable (or immovable) structure that encroaches upon any street without prior permission in writing from the local authority council. "Street" is defined in the Act as including any "pavement, sidewalk, lane or other right of way."

This provision, which is punishable by a fine of N$2,000 or six months' imprisonment or both, would apply to the activities of hawkers who "erect any structure". A blanket on the ground would not be a structure, but a barrow or table would probably be a structure. A local authority can however make regulations under section 94(1)(d)(iii) and (xi) of the Act concerning the "maintenance of order in streets and public places" and "the obstruction of streets and public places." Regulation 3(d) of the Street and Traffic Regulations for Windhoek (General Notice No. 27 of 1994, Government

Gazette No. 797 of 15 December 1994) prohibits the causing of an obstruction to a pedestrian or to traffic in a street or public place. Informal trading would definitely be covered by the regulation unless a permit has been granted.

Each local authority is required to make different regulations in respect of hawkers and informal traders in its area. This makes it very difficult to analyse the situation nationally. Only the position in Windhoek will be examined. The hawker and peddler regulations for Windhoek are contained in Government Notice No. 210 of 1994 (Government Gazette No. 941).

The regulations prohibit hawkers from trading closer than five metres from the entrance of any business enterprise situated in a building, unless the owner of the business enterprise consents in writing. Hawkers may in any event only carry on their business in an approved area.

Land tenure - Rural Land

The law relating to urban land is easily ascertainable whereas the law relating to land tenure on communal land is complex and not easy to ascertain. Much of the law relating to communal land is derived from antiquated South African statutes from the apartheid era and totally inappropriate to a post-independence Namibia based on a democratic constitutional order.

Ownership of Communal Land

The legislation relating to ownership of communal land prior to independence is confusing and has given rise to various interpretations. It is now clear that the Constitution of Namibia has transferred ownership of all communal land to the Government of Namibia.

Permission to Occupy

The Permission to Occupy (PTO) is a type of licence granted by government in terms of regulations published under the Bantu Administration Act, 1927 read with the Bantu Trust and Land Act, 1936. The PTO comes in two forms - an urban variety issued by the Ministry of Regional, Local Government and Housing and a rural version issued by the Ministry of Lands, Resettlement and Rehabilitation - the latter form being of most relevance to poverty alleviation.

PTOs may be granted in respect of residential, church, school or trading allotments. They constitute the only form of title to communal land other than allotments according to customary law. Given the measure of tenure security that they offer, trading PTOs have become a mechanism for entrepreneurs to gain formal rights of access to plots situated in scenic parts of the country to build tourism establishments, such as lodges and campsites. More recently, various communities have successfully applied for PTOs and embarked on tourism activities themselves or as partners in joint ventures with outside operators.

The PTO system has many deficiencies, the most significant of which is the inadequate tenure security it offers. Normally the allotment is made for an indefinite period but there are various grounds on which it may be cancelled, including where the land is required for official use. The indefinite period of the allotment is controversial from the side of the community who may have difficulty ousting an unpopular holder of the PTO for a very lengthy period of time.

Land tenure - Urban Land

The Local Authorities Act, Act No. 23 of 1992, deals with matters relating to local government in Namibia. The powers, functions and duties of local authorities are limited to areas declared as municipalities, towns or villages.

Presently freehold titles in urban areas are the only forms of secure, registrable title available to urban dwellers. It provides the titleholder with ownership that is transferable, inheritable and provides for collateral against a loan. Unfortunately most Namibians cannot afford a freehold title.

The proposed national land policy will try to introduce new and different forms of secure title to ensure that more urban dwellers and especially the lower income groups are able to afford and occupy land in urban centres.

Registration of land rights in urban areas is also a very expensive process and only two registries for land rights presently exist in Namibia (one in Rehoboth and one in Windhoek). The land policy will also address this problem by reducing costs and establishing more registries.

Business risks

Unit learning objectives: trainees will consider typical risks in running a business and will be able to have planned for these in their business plan

Get the trainees to work in groups to discuss the typical risks in running a business. These will include:

- Business risks: bad debts, competitors,
- Environmental risks: theft, fire, drought, HIV/AIDS,
- Management risks: fraud, confusing family and business finances

Once the groups have finished, bring the lists together to make a comprehensive list in the main group.

Trainees then select for themselves what they think are the three biggest risks and individually prepare a response to how they will manage these.

In the main class, decide with the class what the bigger risks are and invite trainees to share their individual responses to those bigger risks.

The important thing is that trainees can not only identify the risks but also say how they would plan to avoid the risks. Trainees should be able to say in their business plans what the most important risks are and how they will plan to avoid them.

Knowing where to find assistance in running a business

Unit learning objectives: trainees know where to find assistance

While this course covers the basics of running a business, trainees should always be aware of where they can go for assistance in relation to their business ventures.

Start by asking trainees where they already know where they can find further advice and record this on a flipchart. The list should include:

- National agencies
    - Government Ministries
    - National co-ordinating bodies
    - National NGOs
- Local agencies
    - Regional offices of Government Ministries
    - Regional government offices
    - Regionally based co-ordinating bodies
    - Local NGOs
    - Local CBOs

Three agencies in particular may be specifically mentioned, because of their formal, national remit:

- The Ministry of Trade and Industry – which has the main government remit to promote and assist small businesses
- The National Chamber of Commerce and Industry – which acts as an umbrella agency for larger small businesses and for medium sized businesses
- The Joint Consultative Committee – which acts as an umbrella body for agencies that support small businesses

Names and addresses are not included here because these often change and some agencies only operate in some areas. The type of service that is offered also can change. Rather the trainer should ask trainees to identify 3 different sort of agencies in relation to their locality and ask them to find the currently correct name, address and contact number.

Discuss with the trainees what information they might take with them when seeking assistance. For example, any records that the business owner is keeping can help a support agency to better understand just how big or small a business is and what are its current successes.

Review of module and testing trainees' understanding

Unit learning objectives: trainees are given the opportunity to review the overall module, clarify any points. The trainees then undertake a test to establish how much they recall of what they have learnt to date

Review the units of this module – business plans, goal setting, writing a budget, preparing a cash flow, financing a business, recruiting and managing people, legal requirements for small businesses and business risks. If necessary, go through worked examples.

Trainees should show how much they have understood by completing the test. Some of the questions in the test relate to material from Modules 1, 2 and 3.

In the test, the maximum marks to be awarded for each question are shown in brackets.

The answers to the test are on page 140.

Depending on the nature and duration of the training course, trainees could also be asked to write a business plan for themselves. Evidence drawn from among small businesses is that this is one of the most difficult tasks that face a small business. However, a good business plan cannot only assist the business itself, but it may be the key to a business finding the cash to start or grow. Practice in this area would be well worthwhile.

Final test

Write your name…………………………………………………………………………………

What are the five main elements that you usually need to start a business? (5)

……………………………………………………………..

……………………………………………………………..

……………………………………………………………..

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What are the three best ways in which to own a business when you start? Choose from among Parastatal, Co-op, Sole Owner, Partnership, Close Corporation, Public Company, Community Project, NGO (3)

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List 3 characteristics of an entrepreneur (3)

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List the 5P's of a marketing plan and give an example for each P. (5)

P of marketing	Example

At the market I buy the following things:

> 3 oranges costing N$1 each; 8 bananas costing 75cts each; 1 kilo of tomatoes costing N$7 a kilo, 1.5 kilos meat at N$14 a kilo. What does it all cost? (1)

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I go to Spa with N$50. I buy cleaning cloths for N$6.50, soap for N$3.25 and chocolate for N$5.40. How much change will I be given? (1)

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I agree to buy some clothes from a friend for N$78. She agrees that I can pay her for the clothes over the next 3 weeks. How much a week do I have to pay her? (1)

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What is a direct cost? (1)

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Give 2 examples of a direct cost in a hair dressing business (2)

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What is an indirect cost? (1)

……………………………………………………………..

Give 2 examples of an indirect cost in a hair dressing business (2)

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What are the 2 things that make the production cost of a product? (2)

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What is profit? (1)

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…………………………………………………………………………………………………

If I make a cake for N$10 and my direct costs for the cake are N$4, my indirect costs are N$2 and my depreciation is N$1, what is my profit? (1)

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What do I add together to decide the price of a product that I want to sell? (3)

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If I run a business like a shop, where it is difficult to cost individual products, how do I calculate the price of the goods I sell? (1)

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How do I work out the typical mark-up I should apply in my business? (3)

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List the different record books that a business might keep (5)

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List 3 reasons why you might write a business plan (3)

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If the key goals in your plan are SMART, what are they? (5)

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Give an example of a SMART goal for a small business (3)

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List 3 characteristics of a good employer (3)

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Give 3 reasons why it is a good idea to advertise a job (3)

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What is the lowest monthly amount paid to a worker after which you have to pay Social Security contributions? (1)

…………………………………………………………..

Give 2 examples of risk that could face a small business (2)

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Why is it important to list the risks of a business in a business plan? (2)

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Give 3 places where a business could get a loan (3)

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List 3 things you will think about before you take a loan (3)

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Give 3 reasons why savings are important for a business (3)

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In my phone-shop I have 5 phones that cost N$900 each – I want them to last 5 years, a computer that cost N$8,100 – I expect it to last 3 years, tables and chairs that cost N$4,200 – I want them to last 7 years and a cash register that cost N$1,200 – I want it to last 5 years. How much must I save each month for me to have the money to replace the capital? (5)

If I sell 3,700 minutes worth of calls each month, how much should I add to the cost of each call to make sure that I save enough each month for the capital in the question above? (1)

……………………………………………………..

The next questions are all about my business of making duvet sets.

Each duvet set needs 6 ms of material at N$20 per metre, 10 ms of lace at N$5 per metre, 0.5 reels of thread at N$4 per reel and 1 zip at N$24 for a pack of 3. I pay someone to help me sew the sets. Each set takes her 6 hours work at N$5 per hour. What are the direct costs of producing the duvet set? (5)

My indirect costs for the month are electricity N$120, telephone N$170, transport N$110, cost of capital N$120, rent N$80 and my salary of N$1200. I plan to make and sell 20 duvet sets in the month. What are my indirect costs for each duvet set? (5)

What are my costs of producing each duvet set? (3)

How much will I charge for each duvet set? (1)

………………………………………………………..

How much profit will I have for each duvet set? (1)

………………………………………………………..

On the basis of my making 20 duvet sets each month, write a budget for six months. (7)

Income		
Sales		
Other income		
Total Income		
Expenditure		
Material		
Lace		
Thread		
Zips		
Worker		
Total direct costs		
Electricity		
Telephone		
Transport		
Cost of capital		
Rent		
Salary		
Total indirect costs		
Total Expenditure		
Profit		

List 3 things that you have liked about the course

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……………………………………………………………………………………………………
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List any things that you have not liked about the course

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Answers - Test 1

What are the five main elements that you usually need to start a business? (5)

1. Markets
2. Capital
3. Materials
4. People/skills
5. Product

What are the three best ways in which to own a business when you start? Choose from among Parastatal, Co-op, Sole Owner, Partnership, Close Corporation, Public Company, Community Project, NGO. (3)

1. Sole owner
2. Partnership
3. Community Project

List 4 characteristics of an entrepreneur. (4)

1. Choose among risk taker, self-confident, drive and energy, honesty and reliability, opportunity seeking, determination and persistence, independent, takes initiative, committed, ambitious, efficient and quality seeking, goal oriented, planner and monitor.

List 3 risks of being an entrepreneur. (3)

1. Choose among loneliness, business failure, family conflicts, overwork, crisis of confidence

List the 5P's of a marketing plan and give an example for each P. (10)

P of marketing	Example
People (market)	Young people
Product	Soft drinks
Price	N$4
Place	Roadside
Promotion	5 for the price of 4

The total marks add up to 25. If you wish to, you may multiply the marks given by 4 to make the total into a %.

Answers – Mr Kamwi's table; module 2

Mr Kamwi's table				
Direct Costs				
Item	Amount	Measure	Unit cost N$	Cost N$
Top wood	10.00	metres	2.00	20.00
Frame wood	6.00	metres	2.00	12.00
Legs wood	3.00	metres	3.00	9.00
Varnish	4.99	litre	0.50	2.50
Screws	9.00	each	1.35	12.15
Glue	0.66	tube	19.00	12.54
Labour	1.00	table made	15.00	15.00
Total				83.19
Cost of capital (or how much to save each month to replace the capital)				
Item	Cost	No. of years it will last	Amount to save each year	Amount to save each month
Tool box and tools	1,800.00	6.00	300.00	25.00
Electric saw	2,400.00	5.00	480.00	40.00
Electric drill	900.00	4.00	225.00	18.75
Tape measure, clamp, etc	240.00	0.50	480.00	40.00
Total				123.75
Indirect costs			Cost per month	
Electricity			150.00	
Water			60.00	
Rent			300.00	
Telephone			120.00	
Transport			40.00	
Cost of capital			123.75	
Owner's salary			600.00	
Loan repayments			0.00	
Total			1,393.75	
No. of tables to be made each month			30.00	
Indirect cost per table				46.46
Cost pricing				
Direct Costs				83.19
Indirect costs				46.46
Production cost				129.64
Profit margin @			30%	38.89
Cost selling price				168.54
Market pricing				
Price of similar tables				150.00
Mr Kamwi sells at (say)				145.00
and reduces his profit margin to			11.8%	15.36

Answers – Anna's dress; module 2

Anna's dress				
Direct Costs				
Item	Amount	Measure	Unit cost N$	Cost N$
Dress material	10.00	metres	15.00	150.00
Lining	10.00	metres	3.00	30.00
Lace	3.00	metres	10.00	30.00
Buttons	15.00	each	0.50	7.50
Zip	2.00	each	7.00	14.00
Thread	0.50	reel	4.00	2.00
Labour	1.00	dress made	20.00	20.00
Total				253.50
Cost of capital (or how much to save each month to replace the capital)				
Item	Cost	No. of years it will last	Amount to save each year	Amount to save each month
Sewing machine	1,800.00	3.00	600.00	50.00
Overlocker	3,600.00	5.00	720.00	60.00
Iron and board	300.00	4.00	75.00	6.25
Tape measure, scissors, etc	90.00	0.50	180.00	15.00
Total				131.25
Indirect costs			Cost per month	
Electricity			230.00	
Water			35.00	
Rent			200.00	
Telephone			165.00	
Transport			60.00	
Cost of capital			131.25	
Owner's salary			400.00	
Loan repayments			0.00	
Total			1,221.25	
No. of dresses to be made each month			25.00	
Indirect cost per dress				48.85
Cost pricing				
Direct Costs				253.50
Indirect costs				48.85
Production cost				302.35
Profit margin @			25%	75.59
Cost selling price				377.94
Market pricing				
Price of similar dresses				400.00
Anna sells her dress at (say)				390.00
and increases her profit margin to			29.0%	87.65

Answers - Test 2

What are the five main elements that you usually need to start a business? (5)

1. Market
2. Capital
3. Materials
4. People/skills
5. Product

What is a direct cost? (2)

The cost of material that is used directly in the making of a product.

Give examples of a direct cost in a baking business (3)

e.g. Flour, sugar, yeast, salt, oil

What is an indirect cost? (2)

The cost of something that you use while running a business that does not go directly into a product.

Give examples of an indirect cost in a baking business (3)

e.g. rent, telephone, transport, electricity, advertising, water

Give two other names for cost of capital (2)

Depreciation, savings

What is the production cost of a product? (2)

Direct costs plus indirect costs

What is profit? (1)

The amount I add to the cost of the product to make the business worthwhile.

Why do you need to make a profit? (2)

To make the business worthwhile and to meet unexpected costs.

If I make a cake for N$10 and my direct costs for the cake are N$4, my indirect costs are N$2 and my depreciation is N$1, what is my profit? (1)

N$3

How do I decide the price of a product that I want to sell? (6)

Direct cost + indirect cost + profit; mark-up on the cost of goods if costing not possible; look at the price of other business' goods

I plan to make and sell a dress. I will use 4 ms of material at N$20 per metre, 2 ms of lining at N$10 per metre, 1.5 reels of thread at N$4 per reel and 15 buttons at N$12 for a card of 10. I will ask someone to sew it for me and will pay her for 6 hours work at N$5 per hour. What are the direct costs of producing the dress? (6)

Direct costs		N$
Material	4 x 20	80.00
Lining	2 x 10	20.00
Thread	1.5 x 4	6.00
Buttons	12 x 1.5	18.00
Labour	6 x 5	30.00
Total		154.00

The equipment I have to make the dress is a sewing machine that cost N$1500 – I want it to last 5 years, an iron and board that cost N$240 – I want it to last 2 years, an overlocker that cost N$3000 – I want it to last 5 years and scissors, tape and other small things that cost N$150 – they will only last 6 months. Calculate how much I must save if I am to have the money to replace the capital. (4)

Item	Cost of capital (N$)	Life of capital (years)	Cost of capital per year (N$)	Cost of capital per month (N$)
Sewing machine	1,500	5	300	25.00
Iron & Board	240	2	120	10.00
Overlocker	3,000	5	600	50.00
Scissors, etc	150	0.5	300	25.00
Total				110.00

In my dressmaking business, my indirect costs for the month are electricity N$120, telephone N$140, transport N$110 and rent N$80. I plan to make and sell 40 dresses in the month. What are my indirect costs for each dress? (6)

Indirect costs	N$	N$
Electricity	120	
Telephone	140	
Transport	110	
Rent	80	
Cost of capital	110	
Total	560	
Per dress	÷ 40	14.00

What are my costs of producing the dress? (3)

Direct costs	110.00
Indirect cost	14.00
Production cost	124.00

How much will I charge for the dress? (1)

(say) N$150

How much profit will I have? (1)

N$26 (the correct figure will vary according to the sale price that the trainee chooses)

You may turn the trainee's marks into a percentage by multiplying the mark by 2.

Answers – Kapana daily records

Date	Details		Cash			Bank		Sales	Direct mats cost	Direct labour	Indirect cost
		In	Out	Balance	In	Out	Balance				
	Balance brougth forward	1200		1200	540		540				
2	Meat bought		250	950			540		250		
2	Other supplies bought		500	450			540		500		
2	Delivery		60	390			540				60
2	Sales	120		510			540	120			
3	Sales	135		645			540	135			
5	Sales	105		750			540	105			
6	Meat bought		235	515			540		235		
6	Worker paid		45	470			540			45	
8	Sales	135		605			540	135			
9	Sales	155		760			540	155			
10	Sales	160		920			540	160			
10	Wood bought		40	880			540				40
12	Sales	124		1004			540	124			
12	Other supplies bought		650	354			540		650		
13	Sales	157		511			540	157			
14	Sales	122		633			540	122			
17	Sales	165		798			540	165			
19	Sales	124		922			540	124			
19	Meat bought		265	657			540		265		
19	Worker paid		45	612			540			45	
20	Sales	187		799			540	187			
21	Sales	192		991			540	192			
22	Sales	134		1125			540	134			
23	Sales	125		1250			540	125			
24	Sales	156		1406			540	156			
24	Wood bought		40	1366			540				40
26	Sales	112		1478			540	112			
27	Sales	156		1634			540	156			
27	Meat bought		230	1404			540		230		
27	Worker paid		45	1359			540			45	
28	Sales	134		1493			540	134			
29	Sales	158		1651			540	158			
31	Paid to members		600	1051			540			600	
31	Transferred to the bank		500	551	500		1040				
	Totals							2856	2130	735	140

Answers – Doreen’s sewing

	January	February	March	April	May	June	July	August	September	October	November	December	Totals
Income													
Sales	2,500	2,660	2,000	2,520	2,680	2,500	2,660	2,500	2,660	2,000	2,520	2,680	29,880
Other													0
Total income	2,500	2,660	2,000	2,520	2,680	2,500	2,660	2,500	2,660	2,000	2,520	2,680	29,880
Expenditure													
Direct costs	700	1,260	1,500	320	700	380	400	380	1,200	300	1,500	400	9,040
Labour						300		250	350	250	350	400	1,900
Indirect costs	500	500	500	545	400	500	520	480	480	470	500	490	5,885
Other													0
Total expenses	1,200	1,760	2,000	865	1,100	1,180	920	1,110	2,030	1,020	2,350	1,290	16,825
Gross Profit	1,300	900	0	1,655	1,580	1,320	1,740	1,390	630	980	170	1,390	13,055
Paid to owner(s)	300	400		440	600	500	600	600	600	600	400	600	5,640
Capital expenditure				745					350				1,095
Loan repayments					600	700	650	700	600	650	600	600	5,100
Savings	1,000	500	0	470	380	120	490	90	-920	-270	-830	190	1,220
Cumulative savings	1,000	1,500	1,500	1,970	2,350	2,470	2,960	3,050	2,130	1,860	1,030	1,220	

Answers - Test 3

What is a direct cost? (1)

The cost of material that is used directly in the making of a product.

Give examples of a direct cost in a joinery business (3)

e.g. wood, screws, glue, varnish

What is an indirect cost? (1)

The cost of something that you use while running a business that does not go directly into a product

Give examples of an indirect cost in a joinery business (3)

e.g. water, electricity, rent, owner's salary, savings for capital replacement

List the three elements that go to make the selling price of a product (3)

Direct costs, indirect costs, profit

If a box of 20 buttons costs N$10, how much would 3 buttons cost? (1)

N$1.50

If 3 litres of oil cost $9, how much does 2 litres cost? (1)

N$6

I make a chair for N$80 and want to make 25% profit. What should be my selling price? (1)

N$100

List the different record books that you might keep? (5)

Daily cash records, monthly income and expenditure records, staff payments records, debtors record, stock records

I plan to make and sell a cupboard. I will use 4 ms of wood at N$20 per metre, 2 ms of panelling at N$10 per metre, 15 nails from a box of 50 nails that cost N$25 and half a tube of glue that cost N$12 a tube. It will take me 4 hours to make the cupboard and I work 8 hours per day. I want to be paid N$50 per day. What are the direct costs of producing the cupboard? (5)

Item	Amount	Unit cost (N$)	Cost (N$)
Wood	4 ms	20.00	80.00
Panelling	2 ms	10.00	20.00
Nails	15 nails	0.50	7.50
Glue	0.5 tube	12.00	6.00
Labour	0.5 day	50.00	25.00
Total			**138.50**

The equipment I have is a clamp that cost N$600 – I want it to last 5 years, a plane that cost N$240 – I want it to last 2 years, a tool box that cost N$3000 – I want it to last 5 years and pencils, tapes and other small things that cost N$150 – they will only last 6 months. Calculate how much I must save if I am to have the money to replace the capital. (4)

Item	Cost	No. of years	Amount each year (N$)	Amount each month (N$)
Clamp	600	5	120	10
Plane	240	2	120	10
Tool box	3,000	5	600	50
Small things	150	0.5	300	25
				95

My indirect costs for the month are electricity N$115, telephone N$140, transport N$110 and rent N$100. I plan to work 20 days in the month. What are my indirect costs for each cupboard? (3)

Item	Cost
Electricity	N$115
Telephone	N$140
Transport	N$110
Rent	N$100
Savings for capital replacement	N$95
Total	N$560
No. of cupboards made each month	40
Indirect cost per cupboard	**N$14**

What are my costs of producing the cupboard described in the previous questions? (3)

Direct costs	**N$138.5**
Indirect costs	**N$14**
Production cost	**N$152.5**

For how much will I sell the cupboard if the markup percentage is 20%? (1)

N$183

How much profit will I have? (1)

N$30.5

I run a Kapana. Here are my transactions for the first week of March. Put them onto the daily record sheet. Complete the totals as if it is the end of the month (5)

		Cash		Balance	Bank		Balance	Sales	Direct costs	Labour costs	Indirect costs
Date		In	Out		In	Out					
BF		1200		1200	800		800				
2	Supplies		250	950			800		250		
	Oil		40	910			800		40		
	Sales	120		1030			800	120			
	Telephone			1030		180	620				180
3	Sales	90		1120			620	90			
4	Transfer to bank		450	670	450		1070				
5	Sales	105		775			1070	105			
6	Goat bought		340	435			1070		340		
	Goat killed		25	410			1070			25	
8	Sales	105		515			1070	105			
9	Sales	125		640			1070	125			
10	Sales	95		735			1070	95			
11	Sales	150		885			1070	150			
13	Transfer to bank		500	385	500		1570				
	Sales	100		485			1570	100			
14	Goat bought		350	135			1570		350		
	Goat killed		25	110			1570			25	
	Sales	130		240			1570	130			
15	Supplies			240		550	1020		550		
16	Sales	85		325			1020	85			
17	Sales	110		435			1020	110			
18	Transfer from bank	600		1035		600	420				
	Sales	110		1145			420	110			
24	Members paid		600	545			420			600	
Totals		1925	2580		950	1330		1325	1530	650	180

I run a sewing project. Here are our transactions for 6 months. Put them onto the annual record sheet. (5)

		March	April	May	June	July	August
Income							
Sales		1410	1520	910	925	950	1200
Other							
Total income		1410	1520	910	925	950	1200
Expenditure							
Direct costs		500	500	300	300	300	400
Labour							
Indirect costs		60	60	210	60	60	60
Other							
Total expenditure		560	560	510	360	360	460
Gross profit		850	960	400	565	590	740
Paid to owners		1000	1000	600	1000	1000	1000
Capital expenditure							
Loan repayments							
Savings		-150	-40	-200	-435	-410	-260
Cumulative savings	2365	2215	2175	1975	1540	1130	870

What advice would you give me? (4)

Work out why the sales were higher in March and April and try to return to those levels; look at why the indirect costs were very high in May; reduce the amount paid to owners each month to a level that can be afforded by the business; make sure that there are regular savings each month to ensure that the business can replace its capital and meet any business problems that emerge.

You can multiply trainees' scores by 2 to give a %.

Answers – Mr Kamwi's budget; module 4 – costing basis

12 month budget based on the costing approach

Number of tables Mr Kamwi plans to make each month	30.00
Selling price Mr Kamwi plans for each table	145.00

Budget for 12 months

	Per month		Per year
Income	N$	N$	N$
Sales		4,350.00	52,200.00
Expenditure			
Direct Costs			
Top wood	600.00		
Frame wood	360.00		
Legs wood	270.00		
Varnish	74.85		
Screws	364.50		
Glue	376.20		
Labour	450.00		
Total direct costs		2,495.55	29,946.60
Indirect costs			
Electricity	150.00		
Water	60.00		
Rent	300.00		
Telephone	120.00		
Transport	40.00		
Cost of capital	123.75		
Owner's salary	600.00		
Loan repayments	0.00		
Total indirect costs		1,393.75	16,725.00
Total costs		3,889.30	46,671.60
Net profit		460.70	5,528.40

Answers – Mr Kamwi's budget; module 4 – using trading records

12 months budget				
	Last 6 months	12 months, based on last 6 months	Changes	Budget
Income				
Sales	26,245	52,490	8% increase	56,689
Other				
Total income	26,245	52,490		56,689
Expenditure				
Direct costs	12,478	24,956	10% increase	27,451
Labour	2,745	5,490	15% increase	6,314
Indirect costs	4,937	9,874	6% increase	10,467
Other				
Total expenses	20,160	40,320		44,231
Gross Profit	6,085	12,170		12,458
Paid to owner(s)	3,732	7,464		7,464
Capital expenditure	745	1,490	No capital expenditure	
Loan repayments	800	1,600	N$400 per month	4,800
Savings	808	1616		194

Answers – The Bakery exercises 1 and 2

Direct Costs	Cost for 1 loaf	Cost for 100 loaves	Cost for 500 loaves
	N$	N$	N$
Sugar	0.16	16.00	80.00
Oil	0.08	8.00	40.00
Flour	0.96	96.00	480.00
Salt and Yeast	0.25	25.00	125.00
Labour	0.40	40.00	200.00
Total Direct Cost	1.85	185.00	925.00

Indirect Costs	for month	for 6 months
	N$	N$
Transport	40.00	240.00
Electricity	60.00	360.00
Rent	20.00	120.00
Owner's salary	400.00	2,400.00
Advertising	20.00	120.00
Cost of capital	210.00	1,260.00
Total Indirect Cost	750.00	4,500.00

Cost of capital		How many years each item will last	Cost for year	Cost for month	Cost for 6 months
	N$		N$	N$	N$
Cost of stove	3,600	3	1,200	100	600
Cost of furniture/equipment	1,800	5	360	30	180
Cost of pots	1,200	5	240	20	120
Cost of building	4,320	6	720	60	360
Total Cost of Capital	10,920		2,520	210	1,260

Budget for the first 6 months			
Income	N$	N$	N$
Sales			12,000
Expenditure			
Direct Costs			
Sugar	480		
Oil	240		
Flour	2,880		
Salt and Yeast	750		
Labour	1,200		
Total direct costs		5,550	
Indirect costs			
Transport	240		
Electricity	360		
Rent	120		
Owner's salary	2,400		
Advertising	120		
Cost of capital	1,260		
Total indirect costs		4,500	
Total costs			10,050
Net profit			1,950

Answers – The Bakery exercise 3

Cash Flow Statement

							Totals
Loaves to be sold per month - budget	500	500	500	500	500	500	3,000
Cash Flow - Budget	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	
	N$	N$	N$	N$	N$	N$	N$
Opening balance	0	325	650	975	1,300	1,625	
Income from sales	2,000	2,000	2,000	2,000	2,000	2,000	12,000
Other income (if any)	0	0	0	0	0	0	0
Total cash in	2,000	2,000	2,000	2,000	2,000	2,000	12,000
Direct costs	925	925	925	925	925	925	5,550
Indirect costs	750	750	750	750	750	750	4,500
Depreciation	0	0	0	0	0	0	0
Total cash out	1,675	1,675	1,675	1,675	1,675	1,675	10,050
Balance carried forward	325	650	975	1,300	1,625	1,950	

Actual Cash Flow Statement

							Totals
Loaves to be sold per month - actual	500	300	150	250	550	450	2,200
Cash Flow - Actual	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	
	N$	N$	N$	N$	N$	N$	N$
Opening balance	0	535	640	423	420	1,063	
Income from sales	2,000.0	1,200.0	600.0	1,000.0	2,200.0	1,800.0	8,800.0
Other income (if any)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total cash in	2,000.0	1,200.0	600.0	1,000.0	2,200.0	1,800.0	8,800.0
Direct costs	925.0	555.0	277.5	462.5	1,017.5	832.5	4,070.0
Indirect costs	540.0	540.0	540.0	540.0	540.0	540.0	3,240.0
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total cash out	1,465.0	1,095.0	817.5	1,002.5	1,557.5	1,372.5	7,310.0
Balance carried forward	535.0	640.0	422.5	420.0	1,062.5	1,490.0	

Answers – The Bakery exercise 4

Six Month Account

				Budget		
Income	N$	N$	N$	N$	N$	N$
Sales			8,800			12,000
Expenditure						
Direct Costs						
Sugar	352			480		
Oil	176			240		
Flour	2,112			2,880		
Salt and Yeast	550			750		
Labour	880			1,200		
Total direct costs		4,070			5,550	
Indirect costs						
Transport	240			240		
Electricity	360			360		
Rent	120			120		
Owner's salary	2,400			2,400		
Advertising	120			120		
Cost of capital	1,260			1,260		
Total indirect costs		4,500			4,500	
Total costs			8,570			10,050
Net profit			230			1,950

Answers – The Final test

What are the five main elements that you usually need to start a business? (5)

Capital

Market

Product

People/skills

Materials

What are the three best ways in which to own a business when you start? Choose from among Parastatal, Co-op, Sole Owner, Partnership, Close Corporation, Public Company, Community Project, NGO. (3)

Sole owner

Partnership

Community Project

List 3 characteristics of an entrepreneur (3)

e.g. risk taker, hardworking, sees business opportunities, determined

List the 5P's of a marketing plan and give an example for each P. (5)

P of marketing	Example
People (market)	Young people
Product	Soft drinks
Price	N$4
Place	Roadside
Promotion	5 for the price of 4

At the market I buy the following things:

> 3 oranges costing N$1 each; 8 bananas costing 75cts each; 1 kilo of tomatoes costing N$7 a kilo, 1.5 kilos meat at N$14 a kilo. What does it all cost? (1)

N$37

I go to Spa with N$50. I buy cleaning cloths for N$6.50, soap for N$3.25 and chocolate for N$5.40. How much change will I be given? (1)

N$34.85

I agree to buy some clothes from a friend for N$78. She agrees that I can pay her for the clothes over the next 3 weeks. How much a week do I have to pay her? (1)

N$26

What is a direct cost? (1)

The cost of a material directly used in producing a product

Give 2 examples of a direct cost in a hair dressing business (2)

e.g. shampoo, braids, beads

What is an indirect cost? (1)

The cost of materials indirectly used to produce a product

Give 2 examples of an indirect cost in a hair dressing business (2)

e.g. water, rent, electricity, cost of capital

What are the 2 things that make the production cost of a product? (2)

Direct and indirect costs

What is profit? (1)

Selling price minus production cost

If I make a cake for N$10 and my direct costs for the cake are N$4, my indirect costs are N$2 and my depreciation is N$1, what is my profit? (1)

N$3

What do I add together to decide the price of a product that I want to sell? (3)

Production cost + profit (or direct cost, indirect cost + profit)

List the different record books that you might keep (5)

Daily and monthly cash records, Monthly accounts, Stock records, Staff records, Debt records, Bank records

List 3 reasons why you might write a business plan (3)

e.g. to raise finance, to plan your business, to get ideas for running your business, to make other people interested in your business

If the key goals in your plan are SMART, what are they? (5)

Specific, measurable, achievable, realistic, time-bounded

Give an example of a SMART goal for a small business (3)

e.g. “to increase monthly sales from N$3,000 to N$3,500 in the next 3 months”.

List 3 characteristics of a good employer

e.g. fair, open to suggestions, informative, consistent, listener, always meets his or obligations to staff

Give 3 reasons why it is a good idea to advertise a job (3)

e.g. getting a good range of people to choose from, making sure that you select the right skills for the job, avoid being pressured into employing an unsuitable person

What is the lowest monthly amount paid to a worker after which you have to pay Social Security contributions? (1)

N$299

Give 2 examples of risk that could face a small business (2)

e.g. fire, theft, ill health of staff.

Why is it important to list the risks of a business in a business plan? (2)

e.g. to plan to avoid or minimise the risk, to show a lender that you have thought about a business

Give 3 places where you might get a loan (3)

e.g. bank, friend or relative, local NGO that gives loans.

List 3 things you will think about before you take a loan (3)

e.g. cost of monthly repayments, rate of interest, how much is really needed, can the business afford to pay the monthly repayments?

Give 3 reasons why savings are important for a small business (3)

e.g. to pay to replace capital, to increase stock levels, to manage when income does not come into the business quickly enough, to be able to continue when things go wrong

In my phone-shop I have 5 phones that cost N$900 each – I want them to last 5 years, a computer that cost N$8,100 – I expect it to last 3 years, tables and chairs that cost N$4,200 – I want them to last 7 years and a cash register that cost N$1,200 – I want it to last 5 years. How much must I save each month for me to have the money to replace the capital? (5)

Item	Cost	Number of years	Amount per year	Amount per month
Phones	4,500	5	900	75
Computer	8,100	3	2,700	225
Tables and chairs	4,200	7	600	50
Cash register	1,200	5	240	20
				370

If I sell 3,700 minutes worth of calls each month, how much should I add to the cost of each call to make sure that I save enough each month for the capital in the question above? (1)

N$0.10 (10 cts)

The next questions are all about my business of making duvet sets.

Each duvet set needs 6 ms of material at N$20 per metre, 10 ms of lace at N$5 per metre, 0.5 reels of thread at N$4 per reel and 1 zip at N$24 for a pack of 3. I pay someone to help me sew the sets. Each set takes her 6 hours work at N$5 per hour. What are the direct costs of producing the duvet set? (5)

Direct Cost	Amount	Cost (N$)
Material	6ms x N$20	120.00
Lace	10 ms x N$5	50.00
Thread	0.5 reels x N$4	2.00
Zip	1 from pack of 3 xN$24	8.00
Labour	6 hours x N$5	30.00
	Total	210.00

My indirect costs for the month are electricity N$120, telephone N$170, transport N$110, cost of capital N$120, rent N$80 and my salary of N$1200. I plan to make and sell 20 duvet sets in the month. What are my indirect costs for each duvet set? (5)

Indirect Costs	N$
Electricity	120.00
Telephone	170.00
Transport	110.00
Cost of capital	120.00
Rent	80.00
Salary	1200.00
Total	1800.00
Per duvet set	90.00

What are my costs of producing each duvet set? (3)

Direct cost	210.00
Indirect cost	90.00
Production cost	300.00

How much will I charge for each duvet set? (1)

N$400 (say)

How much profit will I have for each duvet set? (1)

N$100

On the basis of my making 20 duvet sets each month, write a budget for six months. (7)

Income	N$	N$
Sales	20x400x6	48,000
Other income		0
Total Income		48,000
Expenditure		
Material	120x20x6	14,400
Lace	50x20x6	6,000
Thread	2x20x6	240
Zips	8x20x6	960
Worker	30x20x6	3,600
Total direct costs		25,200
Electricity	120X6	720
Telephone	170X6	1,020
Transport	110X6	660
Cost of capital	120X6	720
Rent	80X6	480
Salary	1,200X6	7,200
Total indirect costs		10,800
Total Expenditure		36,000
Profit		12,000

The total marks for this test are 100 and so the score of each trainee can be written as a %.