CHALIMBANA UNIVERSITY

Integrity. Service. Excellence.

SCHOOL OF EDUCATION

DEPARTMENT OF EDUCATION

COURSE CODE: 3100

COURSE NAME: ENTREPRENEURSHIP STUDIES

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RATIONALE

This course serves to provide students with appropriate entrepreneurial knowledge and skills which are important elements in building a global competitive advantage of the nation. The course evolves beyond the original goal of venture creation to emphasize the development of entrepreneurial behaviours and skills. Attention has also been directed towards building both business skills and theoretical/strategic planning skills which are essential to an entrepreneur. It is hoped also that through their creativity, the trainee teachers would begin to initiate development of entrepreneurial attitudes and skills in their learners.

COURSE AIM

The aim of this Course is to introduce university students to some key concepts in Entrepreneurship, Innovation and Small Business Management, as a means of stimulating them (students) to consider Self-Employment and Entrepreneurship as a career option to formal employment as well as inculcating entrepreneurial knowledge and skills in the learners.

COURSE OBJECTIVES

- Analyse theories of entrepreneurship
- Examine the key determinants of entrepreneurial success
- Identify and maximize business opportunities that are available.
- Explore the Marketing Strategies that may be employed by small businesses.
- Establish the importance of entrepreneurship in education.
- Examine fundraising ventures available for schools.
- Describe and prepare a Business Plan (Business Project).

LEARNING OUT COMES

At the end of the course, students should be able to: -

- Understand what it takes to start and manage an enterprise.
- Identify, evaluate and plan for business opportunities
- Demonstrate the ability to inculcate basic entrepreneurship skills in young children.
- Have hands-on experience in drafting a Business Plan
- Apply entrepreneurial concepts and practices in running a business

ASSESSMENT

1. CONTINUOUS ASSESSMENT	
a. 1 assignment	10%
b. Business Project	20%
c. Test	20%
2. FINAL EXAM	50%
TOTAL	**100%**

TABLE OF CONTENT

UNIT 1

1.0 INTRODUCTION TO ENTREPRENEURSHIP

SPECIFIC LEARNING OUTCOMES

As you learn and go through this unit, you are expected to:

- ❖ Explain the concept of entrepreneurship and an entrepreneur,
- ❖ Discuss the characteristics of an entrepreneur.
- ❖ Describe entrepreneurial skills.

1.1 Entrepreneurship in History

Every roadmap, every plan, every idea has the beginning. Therefore, every success and every failure whether in business, education or work has a history.

Entrepreneurship (en-trah-prih-NER-ship), the process of being an entrepreneur, is more than just learning how to run a business. It can affect the economy, your community, and ultimately the world in which we live. Here is a brief list of examples of entrepreneurs who have changed the world in one way or another.

The 1800s

• At 12, Thomas Edison already showed signs of being an entrepreneur. He was selling newspapers, candy, and snacks at the local railroad station. By 14 he had his own newspaper business. Gathering the daily news releases that were teletype into the station, he pulled out the "scoops "And convinced over 300 Commuters to subscribe to his paper, which he called the Weekly Herald. One of the most prolific inventors in history and holding over 1000 patents, Edison is credited with numerous inventions that contributed to mass communication. One of his inventions was the phonograph. Edison's greatest achievement, however, was creating a practical and economical system to generate and distribute electric light, heat, and power. That, and the light bulb, changed the world forever.

• P.T. Barnum was 60 years old when his circus staged its first show. The circus generated $400,000 in sales in the first year. Later, it became known as the "Greatest Show on Earth" and still tours all over the United States.

The 1900s

• In 1903, two friends—William Harley and Arthur Davidson—wanted to improve on the two-wheeled bicycle, and the motor-cycle was born. Harley-Davidson was one of only two manufacturers to stay af loat during the Depression of the 1930s. Now it has out ridden its competition to become the world's largest manufacturer of motorcycles, with revenues of over $41 Million annually.

• Maggie Lena Walker was a staunch advocate of human rights, humanitarian causes, self-sufficiency, and race relations. With the philosophy of turning "nickels into dollars," she became the first woman to charter a bank in the United States. Her bank, the St. Luke Penny Savings Bank, opened in 1903 with receipts totalling $9,430.44. Today it has assets of over $116 million. Now known as the Consolidated Bank and Trust Company, Walker's bank is the oldest continuously operating minority-owned bank in the United States. Actively committed to its philosophy, Walker remained its chairperson until her death. Among her many honours, she was inducted into the U.S. Business Hall of Fame, a school was built in her honour, and her home is designated as a historic site.

Present

• In Sweden, Ingvar Kamprad learned at an early age how to make money from available resources. By buying matches in bulk at a low price, he could sell them in smaller quantities at a higher price. He invested the money he made in this and other small business ventures. When Kamprad was 17, he founded IKEA, a furniture business. Today, IKEA has expanded to 300 stores in over 35 countries—and Ingvar Kamprad has become one of the ten wealthiest people in the world.

• Who can imagine a world without computers? In 1976, Stephen Wozniak and Steve Jobs started a company with the goal of bringing personal computers to everyone. To help pay for their venture, they sold some of their personal possessions for a total of $1,300. Weeks later, the first Apple computers were sold. In 1980, Apple went public and made Wozniak and Jobs multimillionaires. Today, Apple Sells such popular devices as the iPod and the iPhone

1.2 What Is Entrepreneurship?

One of the most essential ingredients in economy development of a country is entrepreneurship. Entrepreneurship is the process of recognizing a business idea or opportunity and formulating or developing the opportunity into a business. It encourages to visualize, create a business plan and acquire necessary skills that initiate the process of operating a successful actual business venture.

"An economic term describing the process of bearing the risk of buying at certain prices and selling at uncertain prices." (18th century definition)

"The concept of bringing together the factors of production." (19^{th}century definition)

"A process involving innovation: bringing market innovation, product innovation, factor innovation,and even organizational innovation to the world of business."

"The action of organizing a business venture and assuming the risk for it."

"The assumption of risk and responsibility in designing and implementing a *business strategy* or starting a business." (20^{th} Century)

The goals in entrepreneurship is to present the skills and concepts needed to succeed in business, introduce the major business models and develop a basic understanding of business terminology in terms of developing a business plan as well as appreciate the element of risk in business venture.

1.3 The concept of Entrepreneurship

In every human being is a vision. It is a quality that defines everyone's life, as each one responds to what they see, hear, feel and experience. The vision is supposed to be developed, nurtured and given space to flourish. If squelched, thwarted, without air or stimulation the vision dies. The term "entrepreneur" has been in existence since the 17^{th} century. It originated from France, where the phrase 'entreprendre' was first used by a Frenchman who took charge of the royal contracts. The French used this term to widely describe a person who led a project which would deliver valuable benefits to completion, a person who can manage uncertainty and bring success in the face of challenges that would destroy a less well managed venture. In the 19^{th} century, the French economist, J.B.Say focused on the business process rather than the practitioner. He described an entrepreneur as someone who shifts economic resources out of an area of lower productivity and into one of higher productivity and greater yield. Entrepreneur and Entrepreneurship have since remained with no single definition existing.

In' Advanced Entrepreneurship' **Rwigemaand R. Venter** argues that "….It is a process of conceptualizing, organizing, launching and nurturing a business opportunity into a potentially high growth venture in a complex within an unstable environment through innovation. Meanwhile, Scott Shane in 'General Theory of Entrepreneurship 'believes that Entrepreneurship is an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organising, markets, processes and raw materials through organised efforts that previously existed"(Shane, S. 2003).
"Entrepreneurship is the act of forming a new organisation of value" (Bateman & Snell 1996), ''……the creation of new enterprise" (Bartol & Martin 1998) or ….. "process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial and receiving the resulting rewards of monetary and personal satisfaction and independence (Hisrich & Peters 1998).

1.4 Who Is Entrepreneur?

Entrepreneurs are high-energy creative people, who are self-confident, have high levels of self-esteem and are futuristic in their outlook as they seek to incessantly solve problems, take risks, and learn from theirs and others' failures. They thrive on change and have a natural predisposition to show initiative and willingly accept personal responsibility for projects. They harness all available resources within their scope in order to achieve success on their own terms. Successful entrepreneurs learn to control and discipline their gift by combining this with a business education (both formal and from the "*school of hard knocks"*) together with a perseverance and an enjoyment of hard work. Driven by a righteous passion, they eventually craft their success in spite of the many preceding disappointments and setbacks.
According to the Webster's dictionary, an entrepreneur is "one who organizes, manages, and assumes the risks of a business or enterprise." This is a typical researcher's description, written without the privileged insight into the mind and spirit of what makes an entrepreneur tick.
The entrepreneurial skill-set would afford success in many fields of human endeavour; however, the entrepreneur is drawn to the world of business and commerce. This is because their great desire for independence, their love of a competitive environment, the business world's reward for objectivity over subjectivity, and the fact that excelling at this core societal realm makes the greatest use of their talent.

1.5 Characteristics of an entrepreneur

- Have **passion and Motivation –**Passion is all about getting that one thing that you can work on over and over again without getting bored. If you are passionate about something, no matter the challenges that you face, you can sail through it because you believe in what you do. Entrepreneurship usually comes with all sorts of challenges and one can withstand these challenges by looking for that one thing he/she is passionate about. Your demonstration of passion and motivation will determine your success in any entrepreneurial venture.
- Entrepreneurs are **Risk takers –**Entrepreneurship is all about taking a dive deep into a future of uncertainty. Successful entrepreneurs are willing to risk their time and money on unknown ventures, but they also keep resources, plans and bandwidth for dealing with, "unknowns" in reserve. They evaluate the risk and determine if it is worth the cost of their career, time and money.
- They have **Self-belief, Hard work and** disciplined **action –**They believe in themselves, and enjoy what they do. They are confident and demonstrate discipline & dedication to what they do.
- Successful entrepreneurs show **Adaptability and Flexibility –** Market needs are usually dynamic i.e. changes are a recurring phenomenon. Successful entrepreneurs will always welcome all the suggestions for optimization or customization that enhances their offering and satisfies their clients and market needs. Note that being inflexible about client or market needs will lead to failure. Entrepreneurship is not simply about doing what you believe is good but also making a successful business out of it.
- Self-Confident: -Most entrepreneurs are so self-confident that it can come off as cocky or arrogant. But this is because they have to be. In order to take the calculated risks that they take, the entrepreneur must be so confident that failure is not a noticeable option until it becomes a reality.
- Conscientious

  Entrepreneurs always make sure that what they do, is done well and thoroughly.

They cannot afford to be second best at what they do or do a less than an excellent job.

- Disagreeable

  Entrepreneurs are generally very opinionated. This opinionated nature allows them to easily let their voice be heard when they do not think something should be done a certain way. They believe that their way is best (Suzan Gordon, 2008).

- They simply do what needs to be done to reach their goals. They relentlessly seek and test opportunities, and work to make those that have value a success. Behind every successful entrepreneur is a series of failures and bad decisions that did not stop them from trying again. Being able to handle failure and continue regardless. Ability to listen. Remarkable decision making abilities. (Especially under tough circumstances)
- Creativity and problem solving skills
- Ability to learn new skills quickly
- Willingness to take on many roles in the beginning (having to do everything.)
- Determination to Succeed: - Be able to successfully grow the venture, by setting clear targets and staying focused, irrespective of the hurdles which may come in the way to success is must for the entrepreneur. They look at the bigger picture about outcomes Independence. They like to make decisions and take command rather than being commanded, prefer to give directions rather than being directed and are good with the outcomes of their actions whether its profitable or not. They like to take initiatives.
- Risk Taking: - The loci of control is within- i.e. they are the masters of their own fate and do not shy away from taking risks. They make all efforts to be profitable without leaving things on luck or fate.
- Ability to control: - They put greater control on socio-economic behaviour of their enterprise. They change actions as and when needed by the enterprise.
- Perseverance: - It means commitment and putting in untiring relentless efforts in achieving the goals of enterprise.
- Flexibility: - They are flexible in decision making and changing the course of action, adjusting themselves to the change and keep their options open. Usually their decisions are constantly being evaluated and required changes are implemented according to conditions.

- Analytical ability of mind: - No prejudice or bias is entertained. No emotional approach is considered for business decision making and rational decision making is encouraged.
- Confronting uncertainty: - They have optimistic approach to deal with uncertainties, and every uncertain condition may be an opportunity for them. Even under unfavourable conditions the results must be achieved which requires unusual insight and talent.
- Stress Takers: They have ability to work in tough situations. They have to work for extended hours and may have to accomplish tasks within short notice without compromising on the quality. They have ability to deal with physical and psychological pressure.
- Innovative and creative: - They have unique and out-of the box thinking ability which help them stand out from the crowd. They propound new thoughts and ideas to develop new products and services or new suppliers in order to establish a new market and redesign the organization.
- Ability to mobilize resources: - They have ability to fully make use of all resources available to them. Generally, the 6M approach- Man, machinery, material, money, market and method to convert a raw input to final product.
- Leadership: - Achieve a common goal by organizing and aligning a group of people through proper communication is called leadership which includes team work, accurate guidance and responsibility towards co-workers. Leadership includes good communication skills.

1.6 Factors in entrepreneurship

Environment Factors Influencing Entrepreneurship

Entrepreneurial Environment: – Is the sum total of external factors within which an enterprise operates. Entrepreneurs do not emerge at their own. Characteristics of Environment such as: **1.** Dynamic **2.** Uncontrollable and **3**. External effects on the business in varying degrees pose threats and offer opportunities

- Economic factors affecting
- Social factors

- Psychological factors
- Facilitating factors
- Competitive factors

Economic Factors: Economic factors include; financial assistance from institutional sources, accommodation in industries, attitude of the government towards upcoming entrepreneurs, encouragement from large businesses, machinery on hire-purchase, labour conditions, raw materials size and composition of the market.

Social Factors: social factors include family background, social status, religion, social mobility and social marginality.

Psychological Factors: include; need for achievement, withdrawal of status, and respect.

Competitive Factors: Competitive factors include; Porter's 5 Forces Model, Potential Entrants into the market, Rivalry am

ong existing firms, Substitutes, Suppliers, and buyers' behaviour.

Facilitating Factors: include; experience and training, financial management, occupational and geographical mobility. Key factors influencing include; 1. Resources, 2. Experience,

3. Education, 4. Language, 5. Culture, and 6. Nature of Enterprise

UNIT 2

2.0 THEORIES OF ENTREPRENEURSHIP

OBJECTIVE

- **Discuss at least two psychological and two economic theories of entrepreneurship.**

A theory may be defined as *a collection of properly argued ideas about a particular phenomenon*.

A theoretical framework could be described as the logical structure within which the thinking about a particular phenomenon can be placed and in which the relationships between the constituent elements (or concepts) can be understood.

2.1 Why is a theoretical framework important to any field of study?

A theoretical framework can assist us in being able to explain a phenomenon (i.e understand it) and to therefore predict and possibly influence its occurrence. Such a framework is particularly critical to a field that is yet to be fully understood because it provides for a basis upon which further study can take place. Questions such as "what causes the other and how?" can then be considered within this framework. Outcome of such study may be useful to different actors in society, including researchers, training providers, development practitioners, policy makers and private sector players.

Entrepreneurship as a phenomenon has had many ideas that have been advanced in attempts to explain it as a whole or its various aspects. These ideas are argued from different perspectives which have been informed by various factors (history, underlying scientific discipline, philosophy, etc).

Cai et al (2011) provide a synthesis of the various specific theories that were used in articles published in six leading entrepreneurship Journals over the period 1998 to 2010. These are captured in the table below:

Table x: List of related theories applied in entrepreneurial literature

Economics (7)	Management (12)	Sociology (5)	Psychology (3)
Agency theory	Behavior decision Theory	Structure theory	Social cognitive theory
Transaction cost theory	Contingency theory	Social network	Experiential learning theory
Industry organization theory	Dynamic capabilities theory	Social capital	Social learning theory
New growth theory	Human resource theory	Social exchange theory	
Human capital theory	Organization behavior	Institutional theory	
Evolutionary economics theory	Organization learning theory		
Behavior economics	Real option		
	Resource based view		
	Resource dependent theory		
	Strategy alliance		
	Strategy management theory		
	Upper echelon perspective		

This chapter does not attempt to go into any detail of each of the listed specific theories, but instead selects only a few of the broader and more encompassing theoretic frameworks employed by available literature (in which some of the specific theories in the above table are captured) and uses them to present entrepreneurship from different perspectives. The discussion starts with the economic perspective which, with due respect, has had the most significant influence on entrepreneurship development. We then move to consider the psychological perspectives which have been gaining momentum especially over the recent past. These latter perspectives are particularly relevant to our consideration of entrepreneurship in a developing country context. There may in fact be growing views that the theories of entrepreneurship should particularly be grounded in psychology and sociology, if they are going to have any theoretical validity and developmental relevance.

2.2 Economic Theories of Entrepreneurship

It is important to recognise that the thinking in the field of entrepreneurship has been strongly influenced by economic theory.

Economics is a very ancient discipline that involves *the study of how society produces and distributes goods and services*.

Various interrelated theories have been advanced from different economic perspectives. We will focus on two main categories that capture most of the prominent theories, and use these to show how economic thinking has evolved with regard to entrepreneurship.

Classical Economic Theory

Economic theory is concerned with two major questions about society:

1. First question is: "How does a society *create* wealth?"

   Without new wealth, as population increases, per capita wealth will decline. Thus, any society that wants to improve its standard of living (thus getting and staying out of a state of poverty) must find ways to continuously increase overall wealth.

2. The second question is: "How does a society *distribute* wealth among its members?"

   Unless there is some form of equitable distribution, less fortunate members of society (who may remain in poverty or slip into it) will be dissatisfied and this might result in instability.

Entrepreneurship can actually be identified within the concept of capitalism as propounded by "the father of modern economic theory", Adam Smith in his 1776 book *The Wealth of Nations*. Smith perceived the capitalist as an owner-manager who combined basic resources- land, labour and capital – into a successful industrial enterprise.

Smith described how the capitalist was essential in *wealth creation* and *wealth distribution* in society. Over time, the French word "entrepreneur" (meaning "to undertake") begun to be used to identify this owner-manager of a new industrial enterprise.

Jean-Baptiste Say is another classical theorist that helped extends Cantillon's thoughts by identifying additional roles of the entrepreneur as being a leader who brings human capital together in order to build a single productive organism. Say asserts that for this to happen, the entrepreneur *"requires a combination of moral qualities that are not often found together; Judgment, perseverance, and knowledge of the world as well as of business"* (Say, 1803 (1971), p. 330–331). He also acknowledges the existence of factors outside the control of the entrepreneur, and that these factors could result in business failure irrespective of the entrepreneur's abilities.

Classical capitalism as an economic theory was criticized for lacking a rigorous logical framework and foundation for mathematical description that would provide a predictive characteristic to the model.

Neo-classical Economic Theory

In the late 19th Century Leon Walras (1874) and Alfred Marshall (1890), separately, developed similar models of capitalist economics that sought to address the above-mentioned weakness in the classical economic model.

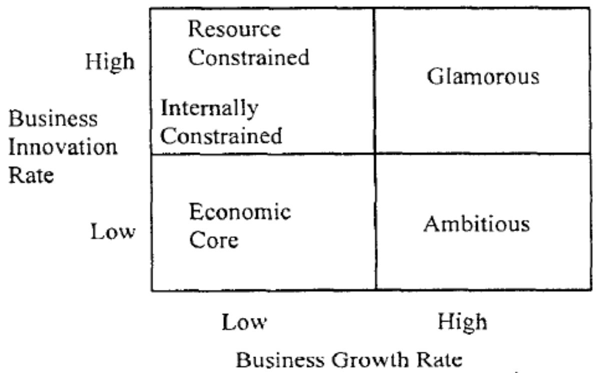
The key concept of these alternative models where that markets consist of many buyers and many sellers who interact so as to insure that supply equals demand – a state of perfect market equilibrium that distributes wealth among buyers and sellers and creates wealth in the process. Neo-classical economics assumed that as the size of the firm increased, the cost of production per unit decreased. Thus, the theory suggests that, compared to small firms, large firms are more profitable (and so do a better job at wealth creation).

Because of its logical framework and predictive power, neoclassical economics had for a good part of the 20th century been the mainstream economic theory in the United States. But critics of this theory (e.g. Veblen, 1890) felt strongly that neo-classical theory only achieved its predictive capability by eliminating the *unpredictable* behaviour of the entrepreneur who assumed the risks of an *uncertain* reality and thrived on exploiting a market that was really *never* in a state of perfect equilibrium.

Joseph Schumpeter (1934), another of these critics of neoclassical economics argued that entrepreneurship was an important part of capitalism because innovation (which is the hallmark of entrepreneurship) was the key driver to *wealth creation*and that it had an important effect on *wealth distribution*. By being able to significantly alter market structures via the creation of new demand arising from the introduction of new products entrepreneurs, in Schumpeter's view, had a "creative destruction" that caused established firms with older products or services to decline. This line of thinking marked the emergence of what is now known as entrepreneurship economics or the economics of entrepreneurship

Ongoing research effort has sought to better understand entrepreneurship in the economic context and so provide a theory with predictive capability just like the now largely discarded neoclassical theory. Kirchhoff (1994) seems to have taken a step in this direction by developing a "dynamic capitalism typology" that shows the complex relationship between the rate of innovation and the rate of firm growth. Typologies assist in organizing existing knowledge into categories that help explain relationships and guide the development of theoretical models.

Dynamic Capitalism Typology



Source: Kirchhoff, 1994

Whilst even Kirchhoff admits that the typology is a rather oversimplification of more complex realities, it nonetheless greatly helps in understanding the different entrepreneurial manifestations being witnessed in different parts of the world. It is possible to relate this typology to entrepreneurship in a developing country context and so better understand the specific issues that may exist.

Below is a brief discussion based on the above matrix by Kirchhoff.

Economic Core Firms

These are said to be the most common form of entrepreneurship in the developed world.

Economic core firms are low-innovation and low-growth firms that primarily seek to satisfy the owner-manager's desires or needs while also fulfilling a specific need in a small market, and without aspiring for significant growth. They are probably likely to become even more prominent especially in Northern Europe where societies continue to shift into a post-materialistic phase characterized by a lack of desire to pursue significant wealth. The developing world has its own opposite scenario (pre-materialistic) in which sociological aspects of life (e.g the spirit of Ubuntu in sub-saharan Africa) are valued more than economic ones. Enterprise owners may be willing to forgo income in exchange good relationships.

Constrained Growth Firms

These firms, which are likely to be prevalent in emerging economies, have high rates of innovation but growth is constrained by the lack of resources. The source of constraint may be internal or external, though one could argue that even internal constraints (e.g. relevant skill, finance, technology, etc) may be largely due to external circumstances (e.g low levels of skill, financial inclusion and technological knowhow).

Constrained growth firms tend to make easy prey to better-resourced competitors, especially those from more developed countries. They tend to find their products copied and markets devoured by their competitors. Or they may simply be “swallowed” (bought out) by the competitors.

Ambitious Firms

Some firms can achieve high growth with only a limited number of innovations. A single successful product or service can sustain high growth for many years in a large market like the United States, China or South East Asia. However, since markets do not remain stable, an ambitious firm’s growth rate will eventually decline if new products or services are not introduced.

Glamorous Firms

Ultimately, high growth rates can only be sustained over time with high rates of innovation.

In recent times, most firms in this category have tended to be technology-based firms producing products that allow constant development. Kirchhoff calls these firms "glamorous firms' because they often attract high media attention and receive local and national awards for their successes (Short & Dunn, 2002).

2.3 Psychological Theory of Entrepreneurship

The Traits Theory of Entrepreneurship

We will start with looking at the traits, and within these, two relevant theories may be identified: (1) the traits theory and (2) the psychodynamic theory. Because the psychodynamic theory has not gained much traction over time, we will opt to restrict ourselves to the traits theory.

The two basic assumptions underpinning the traits theory, as applied to entrepreneurship, are that:

(1) The person who *decides* to create a new enterprise (hence the entrepreneur) has a different psychological profile from persons that do not make this decision.

(2) The person who is more successful in entrepreneurial endeavours has a different psychological profile from those that are less successful. (Veciana, 2007)

Based on the above assumptions, it then becomes important to identify what attributes aid the entrepreneurial decision process and the extent of entrepreneurial success.

You may have noticed that these two assumptions directly relate to entrepreneurship as defined by Bygrave (1994) when he refers to (1) *opportunity identification* and (2) *opportunity exploitation*. What we are therefore now really seeking to understand (through the use of the traits theory of psychology) is what personal attributes assist in identifying good entrepreneurial opportunities and also assist in successfully exploiting these opportunities.

Theoretically, this should then assist in distinguishing entrepreneurs from those that are not, and, even further, also help in identifying different levels of entrepreneurship amongst those that are. This has value to individuals, entire communities, countries and even the world at large. If entrepreneurship is indeed good for individuals and society, then those that may not be as entrepreneurial should be assisted to see where they are so they could seek to develop themselves. Part of doing this may be to identify and learn from entrepreneurs.

Society as a whole should ideally be interested in identifying and supporting those that are found to be entrepreneurial. Most cultures in developing countries are closely knit and so could be fertile ground for the spread of entrepreneurship. But this can only happen if such societies understand entrepreneurship, appreciate its value to them, and therefore support it.

Traits Associated with Entrepreneurs

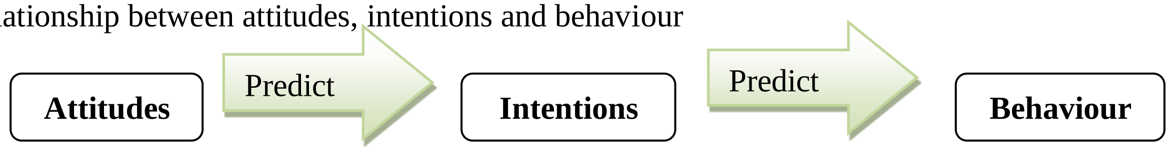
A significant amount of empirical investigations has shown that the main psychological traits and inner motivations of the entrepreneur include the following (Veciana, 1989):

- Need of independence
- Need for achievement
- Internal locus of control
- Risk-taking propensity
- Unsatisfied or "marginated" person
- Intuition
- Tolerance of ambiguity

The Theory/Concept of Entrepreneurial Self-efficacy (ESE)

This is a concept from social learning theory that is employed in arguing that opportunities are psychologically constructed and not just stumbled upon. Self-efficacy stems from the work of Bandura (1997) and refers to a mental disposition (or attitude) of viewing situations as controllable and positive. Put differently, it refers to an individual's belief in their personal capability to accomplish a job or a specific set of task. Krueger (2000) advanced the view that the perception of opportunities depends on an individual's self-efficacy

This view is drawn from social psychology where Kim & Hunter (1993) show the following relationship between attitudes, intentions and behaviour



Krueger (1999) had pulled this relationship into entrepreneurship and asserted that entrepreneurial behaviour is informed by entrepreneurial intent which, in turn, is backed by entrepreneurial self-efficacy (ESE) as the underlying attitude.

Lindsay et.al (2010) therefore define ESE as *the belief in one's ability to successfully engage in entrepreneurial behaviour*. This belief is rational and linked to experience and not merely perceived self-confidence (Taylor 1991). Based on past relevant successes (or even failures!), the entrepreneur will be in a better position to predict outcome of personal effort.

Based on the above, it can therefore be said that if one sees themselves as capable and competent, they are more likely to see a course of action as feasible, and hence more likely to see an opportunity.

Proponents of this view criticise theories that focus on static personality traits or predispositions of individuals, arguing that these have been found to be ineffective at predicting entrepreneurial activity (e.g. Sandberg and Hofer, 1987).

ESE being a cognitive construct that links more closely to behaviour, has instead been felt by some (e.g Bandura, 1995) as being more reliable. In fact, Chen et al (1998) pioneered research work that seemed to confirm this view.

It is further believed that individuals can develop self-efficacy through prior cognitive, social and physical experiences (Bandura 1986, Gist, 1987). From this view, formal education therefore becomes one means through which ESE can be developed (Izquierdo & Buelens, 2008).

High levels of self-efficacy have an important role in helping individuals sustain effort until goals are reached.

For the entrepreneur such an attitude can facilitate transition from the nascent stage and through the start-up phase when ambiguities pertaining to the venture are often high (De Noble et al, 1999). This role extends to entrepreneurial performance during the phases when the venture is more established (innovativeness and risk-taking remain key to continued (Stajkovic and Luthans 1998; Randhawa 2004).

Chen et. al (1998) go on to identify five factors that they believe constitute ESE: marketing, innovation, management, risk-taking, and financial control.

Using these factors, they were able to provide research evidence that ESE is one of the strongest distinguisher of entrepreneurs from managers. It is clear from their work that ESE is one concept in the psychology of entrepreneurship that has probably not been utilised enough, especially in a developing country context and particularly in entrepreneurial assessment, education, counselling, and community intervention.

REVISION QUESTION

Briefly, discuss two psychological and two economic theories of entrepreneurship with relevant examples.

UNIT 3

3.0 THE ENTREPRENEURIAL PROCESS

OBJECTIVE:

- **Discuss the entrepreneurial process with relevant examples.**

The entrepreneurial process is a methodical way of starting a new venture which involves four steps. The entrepreneur realizes, evaluates, and develops an opportunity by defeating forces of resistance (Dhenak, 2010). The four phases include identifying and evaluating an opportunity, developing a business plan, ascertaining resource needs, and managing the resulting enterprise (Barringer & Ireland, 2010). Each of these steps is in an order one to four in ranking as to the importance of each method. The elements in the steps in this discussion will be from an individual entrepreneurial and corporate entrepreneurial perspective.

3.1 The Four Steps in the Entrepreneurial Process

1. ***Opportunity Identification.***

Stage one of the entrepreneurial process deals with opportunity identification. An opportunity by definition is a favorable set of circumstances which creates a need for a new product, business, or service (Barringer & Ireland, 2010). Opportunity identification is the process by which the entrepreneur comes up with a prospective idea for a new venture. Identifying the opportunity is not simple. Identification takes research, exploration, and evaluation of current needs, demands, and trends from consumers and others (Dhenak, 2010). With researching and surveying, the product or service can develop. The organization or individual can now innovate what is lacking as long as the market exists for the opportunity to present itself. If the market is mature the window of opportunity is closed (Barringer & Ireland, 2010). Qualities through innovation add value to a product, service, or business. The qualities are attractiveness, durability, timeliness, and fixation to the product. These four conditions are what the consumer and end user want. Evaluating the opportunity through observing environmental forces, social forces, technology advances, and political or regulatory changes are attributes to thriving in any industry (Dhenak, 2010). From an individual perspective, opportunity identification and evaluation is the most important element because it identifies general trends, needs, and risks that involve the original idea which the entrepreneurial process can improve.

2. ***Developing a Business Plan***

The second stage is developing a business plan. Business plan development is an integral piece for submitting a proposal for an entrepreneurial or intrapreneurial business (Harjai, 2012). The organization or entrepreneur develops a description of the future direction of the business. A good business plan must be in place that displays a distinct opportunity (Harjai, 2012). The process in business plan formulation can be the most time-consuming stage for the individual entrepreneur or organization (Harjai, 2012). An example of this is researching and doing a feasibility analysis for business plan formulation (Barringer & Ireland, 2010). Testing the viability of the idea gives the ability to change the thought process from idea to a business plan. Business plan development is part of strategic thinking and planning and works well with organizational activities. On an individual basis, the sole entrepreneur must rely on brainstorming in smaller focus groups. From a corporate perspective, business planning is the essential element to the entrepreneurial process.

3. *Determining and Allocating Resources*

The third stage is determining and allocating resources. Ascertaining resource needs is a requirement to opportunity and business plan implementation (Dhenak, 2010). Assessing the risks in association with insufficient or inappropriate resources must be set apart from useful ones (Harjai, 2012). The question that needs an answer here is: Can the organization or individual propositioning the venture be capable of obtaining sufficient resources to move forward? The entrepreneurial process calls for securing financial and non-financial resources as well as intellectual proprietary protection where it applies. Financial resources include start-up costs, the financial performance of like business, and economic attractiveness (Barringer & Ireland, 2010). Non-financial resources include skill sets and labor pools for potential employees (Barringer & Ireland, 2010). Resource allocation and availability are important to corporations because sustainability and profit depend on proper planning and understanding the physical internal and external environments. For the individual gaining funding from investors and loans and knowing where to cut cost in execution and implementation is the most important issue with resource determination and allocation. An example from an individual perspective is making a product via a manufacturer that already exists as opposed to manufacturing the product themselves.

4. *Managing the Enterprise*

The fourth stage is managing the enterprise. Once resources are secure with the entrepreneurial process, the business plan implementation can take place. Managing the company means examining operational issues that will occur when implementation begins and throughout the entire business plan cycle (Barringer & Ireland, 2010). The management process involves implementing structure and business style while determining variables for success (Harjai, 2012). Establishing a control system to identify and resolve any problem areas will help the management process. Lack of experience can give the individual entrepreneur issues with business growth and administration. Individuals fare better in the entrepreneurial process improving on existing ideas that have a strong consumer focus and demand.

3.2 Conclusion

A wide range of factors influences people and organization in the entrepreneurial process. These factors include environmental, social, personal, and economic influences. There are four steps or stages in the entrepreneurial process:

1. Spot and assess the opportunity
2. Draw up a business plan
3. Establish resources
4. Run the company (Dhenak, 2010).

Each step ranks in importance; the first is the most important followed by the second, third, and fourth. All stages are a part of the entrepreneurial process.

REVISION QUESTION

1. **Discuss the four steps in entrepreneurial process with practical examples. (20 marks)**
2. **Defend clearly why each step is relevant/necessary. (10 marks)**

UNIT 4

4.0 FORMS OF LEGAL BUSINESS OWNERSHIP

OBJECTIVES:

- **State forms of legal business ownership.**
- **Discuss the forms of legal business ownership with examples.**

There are different forms of business ownership from which an entrepreneur can choose from. These are; Sole proprietorship, Partnership, Cooperative and Corporation/Company.

1. **Sole Proprietorship**

A sole proprietorship, also known as a sole trader or simply a proprietorship, is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business. The owner receives all profits (subject to taxation) and has unlimited responsibility for all losses and debts. Every asset of the business is owned by the proprietor and all debts of the business are the proprietor's. This means that the owner has no less liability than if they were acting as an individual instead of as a business. It is a "sole" proprietorship in contrast with partnerships.

2. **Partnerships**

A partnership is an arrangement where entities and/or individuals agree to cooperate to advance their interests. In the most frequent instance, a partnership is formed between one or more businesses in which partners (owners) co-labour to achieve and share profits or losses… Partnerships have widely varying results and can present partners with special challenges. Levels of give-and-take, areas of responsibility, lines of authority, and overarching goals of the partnership must all be negotiated. While partnerships stand to amplify mutual interests and success, some are considered ethically problematic, or at least debatable.

3. **Cooperative Society**

A co-operative society is a voluntary association started with the aim of service of its members. It is a form of business where individuals belonging to the same class join their hands for the promotion of their common goals. These are generally formed by the poor people or weaker section people in the society. It reflects the desire of the poor people to stand on their own legs or own merit. The philosophy of the formation of co-operative society is "all for each and each for all".

A co-operative denotes a form of organization wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of economic interests of themselves.

A cooperative (also co-operative; often referred to as a co-op) also refers to business organization owned and operated by a group of individuals for their mutual benefit. Cooperatives are defined by the International Cooperative Alliance's Statement on the Cooperative Identity as autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly owned and democratically controlled enterprises. A cooperative may also be defined as a business owned and controlled equally by the people who use its services or by the people who work there. Cooperative enterprises are the focus of study in the field of cooperative economics.

A co-operative society has been formed behind the following broad objectives.

- To render service to its members instead of making profits.
- It encourages a state mutual help in the place of competition.
- It assures a state of self-help in the place of dependence.
- It develops a state of moral solidarity in the place of unfair business activities.

4. **Company/Corporation**

A company is a form of business organization. It is a collection of individuals and physical assets with a common focus and an aim of gaining profits. This collection exists in Law and therefore a company is considered a "Legal Person"… In English law, and therefore in the Commonwealth realms, a company is a form of body corporate or corporation, generally registered under the Companies Acts or similar legislation. It does not include a partnership or any other unincorporated group of persons.

REVISION QUESTIONS

1. **Discuss the forms of businesses available that an entrepreneur can choose from. Clearly show with examples the advantages and disadvantages of each. (20 marks)**
2. **From the forms of businesses discussed in question one, which one is suitable for a starter up entrepreneur. Defend your answer. (10 marks)**

UNIT 5

5.0 SOURCES OF FINANCES

OBJECTIVE:

- **Discuss the various sources of finance for business.**

The sources of finances for purposes of investing or recapitalizing a business enterprise are diverse. The most common sources however, include;

- short, medium and long-term loans from banks (debt)
- issuing shares
- family donations
- donations from friends
- inheritance from relatives
- grants from the government/NGOs
- salary
- selling of an asset
- savings

UNIT 6
6.0 SWOT ANALYSIS

OBJECTIVE

- **Use SWOT analysis to analyse a business ideas.**

6.1 S.W.O.T

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates.

In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization.

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below-

1. **Strengths -** Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained.

   Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency.

   Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

2. **Weaknesses -** Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the

organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.

Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

3. **Opportunities -** Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

   Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

4. **Threats -** Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

6.2 Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription.

Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in the following manner-

a. It is a source of information for strategic planning.
b. Builds organization’s strengths.
c. Reverse its weaknesses.
d. Maximize its response to opportunities.
e. Overcome organization’s threats.
f. It helps in identifying core competencies of the firm.
g. It helps in setting of objectives for strategic planning.
h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm’s resources and capabilities with the competitive environment in which the firm operates.

6.3 Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

There are certain limitations of SWOT Analysis which are not in control of management. These include-

a. Price increase;
b. Inputs/raw materials;
c. Government legislation;

d. Economic environment;
e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

a. Insufficient research and development facilities;
b. Faulty products due to poor quality control;
c. Poor industrial relations;
d. Lack of skilled and efficient labour; etc

TASK

Identify one business idea/activity and use SWOT to analysis the relevance of the idea/activity.

UNIT 7

RISK MANAGEMENT

OBJECTIVE:

- **Define risk and briefly discuss the sources of risks and uncertainties.**
- **Demonstrate knowledge on risk management.**

To farmers, changes in weather, prices and other factors between the time the decision is made to cultivate and the final outcome is known can make good decision to turn very bad. Because of time lag in agricultural production and our inability to predict the future accurately, there are varying amounts of risk and uncertainty in all farm Management decisions. If everything was known with certainty, decision would be relatively easy. However, in the real world more successful managers are the ones with the ability to make the best possible decisions, and courage to make them when surrounded by risk and uncertainty.

7.1 Definition of risk and uncertainty

In life, it is difficulty to attain asituation where all possible outcomes are known for a given management decision and the probability associated with each possible outcome is also known. **Risk**refers to variability of outcomes which are measurable in an empirical or quantitative manner. Risk is insurable.

Uncertainty refers to future events where the parameters of probability distribution (mean yield or price, the variance, range or dispersion and the skew and kurtosis) cannot be determined empirically. Uncertainty is not insurable. It is when one orall possible outcomes are unknown, the probability of the outcomes is unknown or neither the outcomes nor the probabilities are known.

7.2 Sources of risk and uncertainty

The most common sources of risk are.

1.Production risk: Crop and livestock yields are not with certainty before harvest or finals. Weather, diseases, insects, weeds are examples of factors which cannot be accurately predicted and cause yield variability.

Even if the same quantity and quality of inputs are used every year, these and other factors will cause yield variations which cannot be predicted at the time most input decision must be made. The yield variations are examples of production risk. Input prices have tended to be less variable than output prices but still represent another source of production risk. The cost of production per unit of output depends on both costs and yield. Therefore, cost of production is highly variable as both input prices and yield vary.

2. Technological risk: Another source of production risk is new technology. Will thenew technology perform as expected? Will it actually reduce costs and increase profits? These questions must be answered before adopting the new technology.

3.Price or marketing risk: Variability of output prices is another source of risk. Commodity prices vary from year to year and may have substantial seasonal variation within a year. Commodity prices change for number of reasons which are beyond the control of individual entrepreneurs.

4. Financial risk: Financial risk is incurred when money is borrowed to finance the operation of the business. There is some chance that future income will not be sufficient to repay the debt. Changes may take place in the interest rates, scale of finance, and ability of the business to generate income.

7.3 Methods of reducing risk and uncertainty

The various methods which can be used to reduce risk are discussed hereunder.

1. Diversification: Production of two or more commodities on the farm/business may reduce income variability if all prices and yields are not low or high at the same time.

2. Stable enterprises: Production risk can be reduced by careful selection of the enterprises with low yield variability. For example, irrigation will provide more stable crop yields than dry land-farming. This is particularly important in areas of low rainfall and unstable climate.

3. Insurance: For phenomena, which can be insured, possible magnitude of loss is lessened through converting the chance of large loss into certain cost.

4. Flexibility: Diversification is mainly a method of preventing large losses. Flexibility is a method of preventing the sacrifice of large gains. Flexibility allows for changing plans as time passes, additional information is obtained and ability to predict the future improves.

5. Spreading sales: Instead of selling the entire commodityoutput at one time, entrepreneurs, e.g farmers prefer to sell part of the output at several times during the year. Spreading sales avoids selling all the crop output at the lowest price of the year but also prevents selling at the highest price.

6. Hedging: It is a technical procedure that involves trading in commodity through a commodity broker.

7. Contract sales: Producers of some special type of crops like grocery, vegetables etc. often sign a contract with a buyer or processor before producing. A contract of this type removes the price risk at planting time.

8. Minimum support price: The government purchases the commodity from the manufacturers/farmers if the market price falls below the support price.

9. Networth: It is the net worth of the business that provides the solvency, liquidity and much of the available credit.

REVISION QUESTIONS

1. **Define risk and briefly discuss the sources of risks and uncertainties. (15 marks)**
2. **Identify one business venture and clearly state the risk in that business. Discuss ways of preventing the stated risk in that business. (20 marks)**

UNIT 8

1.0 MARKETING

OBJECTIVES

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

- Define marketing
- Discuss the marketing philosophy and marketing approaches.
- Discuss the marketing mix.
- Describe branding

- Demonstrate marketing research
- Explain the selling process

8.1 What is marketing?

Marketing is a “social process involving the activities necessary to enable individuals and organizations to obtain what they need and want through exchanges with others and to develop ongoing exchange relationships” (Mullins and Walker, 2014 : P.5).

Kotler (2005), defines marketing as the “social process by which individuals and groups obtain what they need and want through creating, offering and exchanging products and services that have value with others.”

8.2 What is a market?

A market consists of individuals and organizations who are interested and willing to buy a particular product to obtain benefits that will satisfy a specific need or want, and who have the resources to engage in such a transaction.

8.3 The marketing philosophy

Profitable business generally follows a plan for success called the marketing concept. The marketing concept recognizes two main objectives for business. These are to satisfy customers’ needs and wants, and to make a profit. To achieve these two goals, businesses spend money on research to learn what consumers need and want. Businesses also choose short and long term objectives that will guide them as they seek success in both consumer satisfaction and in increasing profits.

In tracing the development of the marketing concept, it is customary to chart three successive stages in the evolution of modern business practice. These stages are as follows:

i) The production orientation.
ii) The sales concept orientation.
iii) Marketing Orientation.

i). <u>Production Orientation</u>

The production orientation to marketing focuses on producing goods and services. High production efficiency, often through large scale production of standardized items, is the central focus. It is believed that customers would purchase the products as long as they are of reasonable quality.

ii). Sales Orientation

At one time most companies were sales oriented. That is, their goods and services were produced and sold without regard for consumer preferences. Little attempt was made to research consumers' needs or desires. Goals were limited to short term profits. The main aim was to sell what the firm makes, rather than to make what the customer want.

iii). Marketing Orientation

The marketing concept or orientation holds that the key to successful and profitable business rests with identifying the needs and wants of consumers and providing products and services to satisfy them. It is the work of the producer to identify the needs and wants and preferences of the consumer and then satisfy them better than the competitors would.

Every marketing oriented firm focuses on consumer satisfaction and directs its resources to produce the goods and services that customers want. A successful marketing oriented firm sets long-range goals that are achieved by responding to changing and emerging consumer preferences.

8.4 Marketing Approaches

There are two approaches that a firm can use to sell their products in the marketplace. These are mass marketing and market segmentation.

a) **Mass marketing:** Mass marketing is using a single marketing plan for one product to reach all consumers, usually a large group. Products that are mass marketed generally have a universal appeal and few basic feature to differentiate them from competitors.

   To mass market a product, businesses select a single general advertising theme that appeals to most people who use the product. The theme is designed to keep the name of the product before the general public. The most important thing, for a product to be mass marketed is that it must have a universal appeal, e.g. products like household cleaners.

b) **Market segmentation:** Market segmentation is the process by which the market is divided into distinct subsets with similar needs that lead them to respond similarly to particular product offerings and marketing programs. In other words, market segmentation is dividing up a market into several smaller groups with similar needs.

Market segmentation may also be defined as the process of identifying the clusters or segments of customers in a market which share similar needs and wants and will respond in a unique way to a given marketing effort.

How do we segment?

Segmentation decisions are best made in one of the three ways. These ways are also known as descriptors or criteria. The three are framed in a question form. The questions are, "who are our customers? Where are our customer? and how do our customers behave?"

To answer these questions, the following descriptors are used.

i) Demographic Descriptors

The term demographic refer to statistics about personal characteristics of a population. Demographic factors are commonly used by all types of businesses to segment markets.

Thus, using demographics the **consumer** market may be divided or segmented in any of the following ways:

- Age
- Sex
- Income
- Occupation
- Education
- Race and ethnic origin
- Marital status

For **industrial markets**, the most common demographic factors for dividing or segmenting the market are through:

- Age
- Sex
- Position
- Size of industry

- Industry affiliation

For i**nternational markets,** the most common demographic factors through which a market may be segmented are by:

- Countries
- Buying organizations.

ii) Geographic Descriptors

A firm may use geographic factors to segment the market. Here a firm segments the market according to where the customers are located or live.

One important geographic characteristic is population density. Some retail stores, for example, will locate only in areas that have a certain minimum number of people per square kilometer.

Climate is another important geographic characteristic. For example, certain types of seed crops will only suit a certain climate but not the other. In such a situation, seed companies will therefore, only market certain seeds that are suitable to a given climate and region. In general, it is also important to note that different areas vary in their sales potential, growth rates, cultures, climates, purchase rate, etc. They also differ in terms of trade areas, distance to the location, etc. All these factors affect how the market will be segmented geographically.

A firm may also opt to use Geo-demographics segmentation. Under this type of segmentation, a firm may use both geographic and demographic descriptors to determine a suitable segment.

iii) Behavioural Descriptors

The market may be segmented through its behavioural aspects. This is based on what the potential customers do. The patterns of behavior that people follow in their daily lives, including how they spend their time and money. Segmenting the market using the behavioural descriptor may be done by focusing on the following:

Consumer needs.

- Benefits sought from a particular product or service.

- The importance attached to a product.
- Pre-defined specific features such as superior performance, delivery time, good service, etc.

Product usage and purchase influence

- Rate and the way the product is used.
- Purchase influence. Who makes the purchase decision?
- Loyalty. As reflected by the number of successive purchases made over time.

Life Style

This is when a market is segmented on the basis of the consumers' activities, interests and opinions. This may include using segmentation services that focuses on the following aspects:

- Principled-oriented consumers who are motivated by abstract and idealized criteria.
- Status oriented consumers who buy products that demonstrate personal success.
- Action oriented consumers who are guided by their need for social and physical activity, variety and risk taking.

Resources

- Psychological, physical, demographic, education, money, past experience, health, confidence, etc. All those factors that consumers draws on to make purchase decisions.
- Social class similarity in income, education and occupation.

8.6 TARGETING

Targeting is the act of choosing or selecting the market segment that a firm should enter and start doing business. A firm will only choose those segments that it believes are right for its business. Furthermore, target segments should be selected on the firm's ability to match or exceed competing offers, as well as the economic attractiveness of the segment.

Different Targeting Strategies

There are three common strategies that are used in market targeting. These are outlined below:

a) Niche Market Strategy

Niche marketing is a strategy that involves targeting one or a few segments that consists of a number of customers who seek specialized benefits from a product. In other words, it is a market coverage strategy in which a firm goes after a large share of one or a few segments. The niche approach is especially appealing when the company's resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few segments or niches.

Through niche-market strategy, the firm achieves a strong market position because of its greater knowledge of consumer needs in the niche it serves and the special reputation it acquires. It can market more effectively by fine-tuning its products, prices, and programs to the needs of carefully defined segments. It can market more efficiently, targeting its products, channels, and communications programs toward only consumers that it can serve best and most profitably.

Niching also offers smaller firms an opportunity to focus their limited resources on serving niches that may be overlooked by larger competitors.

Most firms begin with niche strategy to get a foothold against larger, more resourceful competitors, then grow into broader competitors. One of the major reasons behind the niche-market strategy, is to help a firm to avoid direct competition with large firms. This is so because niches most often attract only one or just a few competitors.

The major drawback of the niche strategy, however, is that the business of a firm that rely on such a strategy can suffer greatly should larger competitors decide to enter the same segment with greater resources.

b) Mass-market Strategy

A business can pursue a mass-market strategy in two ways. First it can **ignore** any segment differences and design a single product and marketing program that will appeal to the entire market or to the largest number of consumers. The primary object of this strategy is to capture sufficient volume in order to enable the firm gain economies of scale and a cost advantage. Consequently, it is favoured by larger companies or larger business units.

This strategy requires:

- substantial resources, as well as production capacity and good mass-marketing capabilities.
- sustainable investment.

The second approach to the mass-market is known as the **differentiated Market approach**. It is a market coverage strategy in which a firm decides to target several market segments and designs separate offers for each. Thus, under this approach, a firm must design separate products and marketing strategies for the different segments of a market. The main advantage of this approach is that it can help generate more sales.

The major drawback of mass-market strategy, however, is that it is costly. There are, for instance, costs for designing different products, manufacturing, inventory, marketing, etc.

c) Growth-market Strategy

Businesses that pursues a growth market strategy often target one or more fast growth segments, even though these segments may not be very large. It is a strategy often favoured by small firms to avoid direct confrontation with larger firms while building volume and market share.

Growth market strategy usually require strong research and marketing capabilities. One problem however, is that sustained fast growth often attracts large competitors.

8.6 POSITIONING

The final act in the target marketing process of segmentation is positioning. According to Lovelock (2004): "Positioning is the process of establishing and maintaining a distinctive place in the market for an organization and/ or its individual product offerings."

Positioning may also be defined as "the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customers; minds" (Kotler, 1997).

This is an important aspect of the positioning concept. Positioning is about what the buyer thinks about the product or organization. What matters is how the product is perceived.

Understanding the concept of product positioning is key to developing an effective competitive posture.

The following four principles can provide guidance to an enterprise that may want to position itself in the market segment:

1. An enterprise must establish a position in the minds of its targeted customers.
2. The position should be singular, providing one simple and consistent message.
3. The position must set a company apart from its competitors.
4. An enterprise cannot be all things to all people - it must focus its efforts.

The positioning Process

Positioning a new brand in customers' minds involves a series of steps, as outlined below:

Step 1: Identify a relative Set of Competitive Brands Serving the Target Market

The focus of the analysis should b e on examining:

a) customers' perceptions about the types of products they might consider as substitutes to satisfy the same basic need.
b) how various brands or products appeal to customers.
c) how an enterprise or a business unit is positioned relative to its competitors.

Step 2 : Identify Determinant Attributes

Positioning whether for goods or services, can be based on a variety of attributes. Some common bases are the following

a) **Features** are used in physical product positioning. An example of emphasizing features with consumer goods is the claim by Zambian company known as Gracebridge, that: 'This is the most beautiful front cover book design ever made in Zambia.'
b) **Benefits,** for instance one company's emphasis on safety, another company's emphasis on reliability, etc.
c) **Parentage** includes who makes it. For instance, a phrase like this: 'At Chongwe College of Education, you are not just getting a Diploma but a University of Zambia Diploma.'
d) **Manufacturing** process is often a firm's positioning effort. An example is Gracebridge's statement about its watches - 'we know it is perfect, but we take another 1000 hours just to be sure.'
e) **Ingredients,** what is it made of.
f) **Endorsements** by experts such as doctors and other professionals. ('Discover why Zambian Medical Doctors prescribe our wheelchairs.')

g) **Comparison** with competitor's products is common (Gracebridge's candles lasts much longer than those from other candle manufacturers.')

h) **Pro-environment** positioning seeks to portray an enterprise as a good citizen. ('while government leaders are debating climate, we are actually doing something about it' – Timberland).

i) **Price/quality** can also be used by enterprises to position themselves as lowest price sellers of some specific products.

Step 3 : Collect Data about Customers' Perceptions of Brands in the Competitive Set.

Having identified a set of competing brands, the marketer needs to know what attributes are determinant for the target market and the product category under consideration. He needs to know how different brands in the competitive set are viewed on these attributes. Typically, this market knowledge is developed by conducting a research. A survey pf consumers about their perception is required.

Step 4 : Analyze the current position of the competitive Set

Positioning may be directed at a new brand not yet introduced or at repositioning one that already exists. Whatever the case, it is important to develop a clear understanding of the positioning of existing brands in the competitive set. There are two useful tools for doing so. One is the Positioning Grid, also called perceptual map. The other is the value curve.

The positioning grid provides a visual representation of the positions of various products or brands in the competitive set.

A value curve, on the other hand, indicates how products within a category compare in terms of the level – high or low.

Step 5 : Determine Customers' Most preferred combination of attributes

There are several ways analysts can measure customer preferences and include them in a positioning analysis. For instance, survey respondents can be asked to think of the ideal brand within a category – a hypothetical brand possessing the perfect combination of attributes (from the customer's view point). An alternative approach is to ask respondents to indicate their degree of preference for each existing brand.

Another method of assessing customers' preferences and trade-offs among them is conjoint analysis. Customers are surveyed and asked their preferences among various real or hypothetical product configurations, each with attributes that are systematically varied. By analyzing the resulting data, the marketer can learn which of the several attributes are more important than the others. These results can then be used in positioning analysis such as those described here.

Step 6: Consider Fit of Possible Positions with Customer Needs and Segment Attractiveness

An important criterion for defining segments is the difference in the benefits sought by different customers. Because differences between customers' ideal points reflect variations in benefits they seek, a market positioning analysis can simultaneously identify distinct market segments as well as the perceived positions of different brands.

Step 6 can also help uncover locations where additional new brands could be positioned to serve customer needs not well served by current competitors. Thus a side benefit of the positioning process is recognition of underserved positions where additional products might be placed.

Step 7: write positioning statement or value proportion to guide development and implementation of marketing strategy.

The final decision on both the market targeting analysis discussed earlier and the results of a brand positioning analysis. The position chosen should match the preferences of a particular market segment and should take into account the current positions of competing brands.

It should also reflect the current and future attractiveness of the target market (its size, expected growth, and environmental constraints) and the relative strength and weaknesses pf competitors. Such information, together with an analysis of costs required to maintain the position allows an assessment of the economic implications of different market positioning strategies.

Most successful products are positioned based on one or, at most, two determinant attributes, whether physical or perceptual. Using more attributes simply confuses customers.

Writing a Positioning Statement or a Value Proposition

A **positioning statement** is a succinct statement that identifies the target market for which the product is intended and the product category in which it competes and states the unique benefit the product offers. Given below is an example of a positioning Statement that reflects Volvo's marketing strategy in the USA:

Volvo's Position statement

For upscale American families, Volvo is the automobile that offers the utmost in safety.

Value Proposition

A value proposition is similarly explicit about what the product does for the customer (and sometimes, what it does not do) and typically also includes information about pricing relative to competitors.

Both positioning statements and value propositions should generally reflect a unique selling proposition that the product embodies. In this sense, they reflect the basis on which the marketer intends to win competitive advantage by differentiating the product from others.

A **Value proposition** typically looks like this:

- Target market.
- Benefits offered (and not offered).
- Price range (relative to competitors).

It is important that the positioning statement or value proposition states the benefits that the user of the product will obtain, rather than features or attributes of the product itself or vague or ambiguous platitudes about high quality or excellent service. By benefits, we mean the resulting end-use measurable consequences that the user will experience through the use of the product, in comparison to others.

The marketer generally writes positioning statement for use internally and by others such as advertising agencies, engaged to develop the marketing strategy. They are short and succinct, and are not written in catchy consumer language.

Thus, in a very real sense, the positioning statement or value proposition constitutes the foundation upon which the marketing strategy is built.

Physical positioning

One way to assess the current position of a brand relative to its competitors is on the basis of how various brands compare on some set of physical characteristics.

Physical positioning is the kind positioning that focuses on establishing and maintaining a distinctive place in the market by providing products that have unique physical characteristics that can have a positive and lasting impact on the customer.

Physical product positioning analysis can provide useful information to a marketing manager. It can thus, provide the basis for coming up with new product lines, and for identifying and designing new products.

- Physical positioning is important because it can:

- Be an essential step in understanding a position analysis, which sets the foundation for brand positioning decisions.
- Help define the structure of competition by revealing the degree to which various brands compete.
- Reveal opportunities for new product entries.
- Contributes to better marketing and research and development interface by determining the key physical product characteristics.
- Indicate the presence of meaningful product gaps.

The major drawback of physical positioning, however, is that a simple comparison of only the physical dimensions of a product does not provide a complete picture of relative positions because, positioning ultimately occurs in the customers' minds.

Even though a brand's physical characteristics, package, brand name, price, and auxiliary services can be designed to achieve a particular position in the market, customers may attach less importance to some of these characteristics, or perceive them differently from what the firm expects.

Also, the customers' attitudes towards a brand are often based on social, or psychological attributes not amenable to objective comparison, such as perceptions of the brand's aesthetic appeal, sportiness, or status image.

Perceptual Positioning

As opposed to physical positioning, which focuses on physical characteristics, perceptual positioning on the other hand focuses on capturing the customer's perceptions regarding the non-physical attributes of the product. Perceptual positioning is very important.

Many customers do not want to be bothered about a product's physical characteristics because they are not buying these physical properties but rather the benefits they provide. A consumer can evaluate a product better on the basis of what it does than what it is.

The evaluation of many goods and services is subjective because it is influenced by factors other than physical properties, including the way products are presented, our past experiences with them, and opinions of others.

8.7 THE MARKETING MIX

Once a company has identified a target market and learned about its characteristics, the next step is to develop a marketing plan. This includes decisions regarding the marketing mix. The marketing mix is a combination of decisions about **product, place, price, and promotion** - the ***four Ps of marketing*** used to reach a target market and make a profit. The most important aspect of marketing mix is a company's ability to direct all four Ps of marketing to one select target market.

Product

The Product element focuses on product planning which involves finding out which goods and services consumers need and want. The products are then selected and designed, or the services chosen, that will meet the needs and wants. In other words, it involves identifying what products to make, when to make it, its level of quality, how many to produce and sell, its packaging, brand name, and warranties or guarantees.

Place

The Place element is concerned with getting the right goods and services in the right place for the right customers so that they can buy. It focuses on how the products are to be distributed.

Price

The Price element is concerned with setting prices accurately. It is a very important element in the marketing mix in the sense that if prices are too high, customers won't buy. And if the prices are too low the firm's possibility of making profit will decrease. Therefore, producers must know what price people in their target market are able and willing to pay. Other factors that affect price decisions are the quality of the items, the pricing strategy of competitors, and the billing methods and terms of payments appropriate for the target market. Different pricing strategies are used, depending on the target market and the competition.

Promotion

The Promotion element in the marketing mix focuses on advertising, promotion, personal selling, and public relations. Decisions includes all decisions on educating potential customers about the product and how to develop a good public image with promotional activities. Which media, newspaper, radio, television or magazine, for example, are best for reaching a target market.

8.7.1 PLACE

Marketers need to ask themselves, ‘How and where will my target market buy my products?’ This is the Place decision (one of the four Ps mentioned above). To make a Place Decision, marketers must decide on their channel of distribution. Distribution is the key link between a business and its customers.

A). Channels of distribution

A channel of distribution is the path a product takes from the producer or manufacturer to the final user.

A channel of distribution always begins with the producer or manufacturer and ends with the final user of that product.

B). Consumer channels

There are mainly four major alternative consumer channels. Each one is described briefly below:

a) Producer direct to consumer

This involves direct selling of products by the producer to the consumer. This eliminates a layer of intermediaries from a distribution channel. This elimination of intermediaries is known as dis intermediation.

Why a firm may want to use direct distribution

Many firms prefer to distribute direct to the final customer or consumer for the following reasons: One reason is that they want **complete control** over the marketing job. They may think that they can serve target customers at a lower cost or do the work more effectively than middle men. Further, working with independent middlemen with different objectives can be troublesome.

Direct Contact with customers: if a firm is in direct contact with its customers, it is more aware of changes in customer attitudes. It is in a better position to adjust its marketing mix quickly. If a product needs aggressive selling effort or special technical service, the marketing manager can ensure that the salesforce receives the necessary training and motivation. In contrast, middlemen often carry products of several competing producers. So they may not be willing to give any one item special emphasis its producer wants.

No suitable middlemen. A firm may have to go direct if suitable middlemen are not available.

Proximity: If the services are produced in the presence of customers, there may be little need for middlemen.

b) ***Producer to retailer to consumer***

This is a situation where the producer distributes or sales to the retailer only. The growth in the retailer size has meant that it becomes economic for producers to supply retailers direct rather than through wholesalers. Consumers have a convenience of viewing and testing the product at a retail outlet.

c) ***Producer to wholesaler to retailer to consumer***

This channel means that the producer has to distribute his goods to the wholesaler, who in turn sales to the retailer. The retailer finally avails the goods to the consumers. Longer channels like this tend to occur where retail oligopoly do not dominate the distribution system.

d) ***Producer to agent to wholesaler to retailer to consumer***

This long channel is sometimes used by companies entering the foreign markets. They may delegate the task of selling the product to an agent. Then the agent contact wholesalers or retailers and receives commission on sales.

C). Business to business channels

Outlined below are the common business-to-business channels.

i. **Producer to Business customer**

Supplying business customers direct is common for expensive industrial products. There needs to be close liaison between supply and customer to solve technical problems, and the size of the order makes direct selling and distribution economic.

ii. **Producer to agent to business customer**

A producer may choose to employ the services of an agent who may sell a range of goods from several suppliers. This spreads selling costs and may be attractive to companies without the reserves to set up their own sales operations. The disadvantage is that there is little control over the agent who is unlikely to devote the same amount of time selling the products compared with the dedicated sales team.

iii. Producer to distributer to business customer

For less expensive, more frequently bought business-to-business products, distributers are used. These may have both internal and field force staff. Internal staff deal with customer-generated enquiries and order placing, order follow-up, and checking inventory levels. Field staff are responsible for finding new customers, gather market information, distribute catalogues, etc. The advantage to customers of using distributers is that they can buy small quantities locally.

iv. Producer to agent to distributor to business customer

Where business customers prefer to call upon distributors, the agent's job will require selling into these intermediaries. The reason why a producer may employ an agent is to reduce costs.

D). Physical distribution

Physical distribution is the link between a business and its customers because it delivers the right product at the right time to the right place.

Physical distribution is the process of transporting, storing and handling goods on the way from seller to customer.

In our discussion of the physical distribution, our focus will be on the transportation function.

Goods are moved by five major transportation forms. These are motor carriers, railroads, waterways, pipelines, and air carriers.

a) Motor Carriers

Motor carriers are primarily used for light-weight goods over moderate distances. They handle nearly 80 per cent of the lightweight goods.

b) Railroads

Railroads are one of the major types of transportation. Trains are important for moving heavy and bulky freight, such as coal, steel, copper cathodes, grain, farm equipment, etc., over long distances. In some countries, trains also transport automobiles.

c) **Waterways**

Shipment by waterway is one of the oldest methods of moving merchandise. In some countries, transportation by water is particularly important for international product shipments, especially oil, ore, and grain. One major advantage of waterway transportation is low cost. Ships and barges are the cheapest form of freight transportation.

d) **Pipe-lines**

Pipelines are most frequently used to transport oil and natural gas. For example, they move crude oil from oilfields to the refinery where it is processed. The refined products, such as gasoline, are then moved by motor carrier to retail outlets.

e) **Air carriers**

Shipment by air carrier is the most expensive form of distribution. High-value, low-weight items, such as electronics and computer equipment, are often shipped by air. Certain perishable products, such as fresh cut flowers, and medicines are also often shipped by air.

8.7.2 PRICING

Price is the value of money (or its equivalent) placed on a good or service. It is usually expressed in monetary terms. It may also be expressed in non-monetary terms, such as free goods or services in exchange for the purchase of an item.

The seller's objective is to set a price high enough for the firm to make a profit, and yet not so high that it exceeds the value potential customer place on the product.

Basic Pricing Strategies

A major factor in determining the profitability of any product is price. You need to find the right price for your target market. Only then will you have a chance of being successful.

There are several basic strategies that you may want to consider in determining the price for your products. These are discussed below.

a) **Cost-oriented pricing**

In cost oriented pricing, marketers first calculate the costs of acquiring, or making a product and other expenses of doing business. Then they add their projected profit margin to these figures to arrive at a price. Markup Pricing and cost-Plus Pricing are two of the most common methods of cost oriented pricing.

Markup-Pricing : markup-Pricing is used primarily by wholesalers and retailers who are involved in acquiring goods for resale. A markup is the difference between the price of an item and its cost. It is generally expressed as a percentage. If a business is to be successful, the markup on its products must be high enough to cover the expenses of running the business and must include the intended profit.

Cost-Plus Pricing : In cost plus pricing, all costs and expenses are calculated and then the desired profit is added to arrive at a price. Cost plus-pricing is used primarily by manufacturers and service companies.

b) **Demand-oriented pricing**

Marketers who use demand-oriented pricing attempt to determine what present consumers are willing to pay for given goods and services. The key to using this method of pricing is the consumer's perceived value of the item. The price set must be in line with this perception. If it is not, or if the perceived value itself is misread, the item will be priced too high or too low for the target market, either of which could cause the product to fail.

c) **Competition-oriented pricing**

Marketers who study their competitors to determine the prices of their products are using competition-oriented pricing. These marketers may elect to take one of the three actions after learning their competitors' prices. Thus they may opt to price their products as follows: a) price above the competition, b) price below the competition, or c) price in line with the competition.

What is different about this method of pricing is that there is no relationship between cost and price or between demand and price. Marketers simply set prices on the basis of what their competitors charge.

Two basic types of competitor-oriented pricing strategies are competitive-bid pricing and going-rate pricing.

Competitive Bid Pricing : Determining the price for a product on the basis of bids submitted by competitors to a company or government agency is called competitive bid pricing. Most government agencies are required by law to request bids on certain specifications so they can select the company that offers the lowest price on the desired product.

Going-Rate Pricing : Almost all firms engage in this type of pricing. It involves studying the competitors' prices to make sure that one's own prices are in line. Going rate pricing is especially important in businesses where the competing products are similar. The firm with the leading market share may be the leader in setting prices. Other companies may chose to price their products above that of the market leader, below or in line with the market leader.

D). Pricing strategies for new product

One of the two pricing methods discussed below may be used when a new product is introduced.

i. **Skimming Pricing**

   This is a pricing policy that sets a very high price for a new product to capitalize on the high demand for it during its introductory period. At this time, the high price is geared toward trendsetters, who are generally willing to pay higher prices in order to be the first to own or avail themselves of a new product.

ii. **Penetration Pricing**

   This is the kind of pricingin which the initial price of a new product is set very low. The purpose of penetration pricing is to encourage as many people as possible to buy the product and thus penetrate the market.

E). Psychological pricing strategies

Psychological Pricing refers to techniques that create an illusion for customers or that make shopping easier for them. In either case, psychological pricing techniques appeal to particular market segments because of their shared perceptions and buying habits. The following are the common psychological pricing techniques:

i. **Odd-even pricing**

This is a technique that involves setting prices that all end in either odd or even numbers. The psychological principle is that odd numbers such K79, K7: 95, K59: 99, etc., present a bargain image. Even numbers such as K10, K20, K100, present a quality image. You will find that many marketers follow the odd-even technique in an effort to project a certain image.

ii. **Prestige pricing**

Under this technique, the practice is to set higher-than-average prices. The reason behind this kind of pricing practice is to show status and prestige to the consumer. Also many customers tend to think that higher prices mean higher quality. Thus they are willing to pay more for certain goods and services.

However, it is important to note that even customers who are known to prefer higher priced products have limits on what they will spend for prestige goods and services. To avoid exceeding these limits, marketers must set ceiling prices very carefully.

iii. **Promotional pricing**

The psychological technique of promotional pricing is generally used in conjunction with sales promotion when prices are lower than average. Two basic types of promotional pricing is loss leader pricing, and special event pricing. Loss leader pricing is used to attract customers by offering, very popular items of merchandise, for sale at cost price or slightly above the cost price. Customers who are familiar with the prices of these items will be attracted by the bargain and will come to the store to shop. Marketers hope that while customers are in the store they will also buy other items at the customary markup and will return on subsequent occasions.

In special-event pricing, items are reduced in price for a short period of time. At the end of a season, businesses also run clearance sales to get rid of old merchandise in order to make room for the new.

iv. **Price lining**

This is a special pricing technique that requires a store to offer all merchandise in a given category at certain prices. For example, a store might price all of its blouses at K25, K35, and K50.

When deciding on price lines, a marketer must be careful to make the price differences great enough to represent low, middle, and high prices for the category.

An advantage of price lining is that the target market is fully aware of the price range of products in a given store, and this helps the store maintain its image. It also helps customers compare items, both within a single line and between the various lines.

F). Discount pricing

Discount pricing involves the seller's offering reductions from the usual price. These discounts include cash, quantity, promotional discounts, etc.

i. **Cash Discounts**

Cash discounts are offered to buyers to encourage them to pay their bills. For example 2 per cent discount is granted if the bill is paid in 10 days. If the buyer does not take advantage of the discount, the full amount must be paid within 30 days for instance.

ii. **Quantity Discounts**

Quantity discounts are offered to buyers for placing large orders. Quantity discounts encourage buyers to buy to purchase more than they originally intended.

iii. **Promotional Discounts**

Promotional discounts are offered to wholesalers and retailers who are willing to advertise or promote a manufacturer's products. The discount may take the form of a percentage reduction in price or free merchandise.

8.7.3 PROMOTION

The role of promotion

Promotion is any form of communication a business or organization uses to inform, persuade, or remind people about its products and improve its public image. Typically, a business uses promotion to convince potential customers to buy from it instead of from a competitor.

Types of promotion

There are four basic types of promotion as indicated below:

a) Advertising

Advertising is a non-personal presentation and promotion of ideas, goods, and services by an identified sponsor. Advertising is distinguished from other forms of promotion by three features. The following are the three features:

1. The time or space devoted to it is paid for
2. It uses the set format to carry the message rather than personal one-on-one selling.
3. It identifies the sponsor of the message.

Businesses spend so much on advertising because it offers the following **six advantages**:

1. A large number of people usually see the advert's message.
2. Advertising costs per potential customer are usually low.
3. Businesses can choose the most appropriate media to reach their target market.
4. A business can control the content of an advertisement and adapt it to the medium and method of presentation.
5. Advertisements integrated into television shows, magazines, or newspapers are subject to repeat viewing. This fixes the advertiser's message in people's minds.
6. Advertisements can presell products. In other words, they can influence people to make up their minds about a purchase before they shop.

Disadvantages of Advertising

1. Advertising cannot focus on individual needs because the message is the same for all.
2. Some forms of advertising such as television can be expensive for many businesses.
3. Advertising may be wasteful and inefficient in certain instances, For instance a newspaper advert may be seen by only a few people who read newspapers, television adverts by only a few viewers of specific shows.
4. Because of the cost and the need to attract and hold the attention of potential customers, advertisements must be brief. Other a result most adverts are too brief to inform in depth. Thus in comparison, the other forms of promotion, especially personal sales presentation are far more complete.

b) Publicity and public Relations

Publicity involves creating demand for a business or product by placing news about it in publications, radio, television, or stage. A business can use publicity to promote particular products.

The principal function of publicity however is building an image. Image is the way a business organization is defined in people's minds. It is an impression based on a combination of factors including physical surroundings, personal experiences, and things written or said in the media.

The right kind of publicity can create a positive image for a company and maintain or improve that image within the community.

The basic difference between advertising and publicity is that publicity is not paid for by the business. It is free. For this reason, publicity is an excellent way to spread information about a company and its products.

The **disadvantage** of publicity is that not all publicity is positive for a business. This is because bad stories are likely to get publicized too. Negative stories can hurt the company's image.

Public Relations : To avoid such problems or to repair the damage when it occurs, larger companies have put in place public relations departments. People in these departments write news releases and plan events designed to present a favourable image of the company.

Not only large companies but also well-run businesses do not leave things to chance. They work hard to create a favourable image. They engage in public relations.

Public relations refer to any activity designed to create goodwill toward a business.

The types of activities that qualify as public relations and the audiences to which they are targeted are many and varied. Businesses are concerned with their employees, customers and the general public.

Employees: To customers, employees are the company. Successful businesses have loyal and well-motivated employees. The public relations staff work with management to design programs that foster such attitudes. These programs include:

i). job training.
ii). Newsletters for and about the company and its employees.
iii). Open communication between management and employees.
iv). Promote from within.
v). Awards for employees for improvement in performance and efficiency.

Customer Relations: Good communication between employees and customers is vital in promoting a favourable business image. Many retail firms also offer special services and amenities in order to maintain good customer relations.

Other public relations efforts include customer advisory boards. These are panels of consumers who make suggestions on new products and services. Customer advisory boards are used by manufacturers and retailers alike to test new products or services.

Other firms employee consumer affairs specialsts to handle consumer complaints and to serve as consumer advocates within the firm. Many businesses also sponsor special events to foster positive customer relations.

Community Relations

Community relations refers to the activities that a business uses to acquire or maintain the respect of the community. Business fosters good community relations by participating in and sponsoring activities that benefit the civic, cultural and social life of a community. Businesses need to be active members of their communities. This helps to create a goodwill for their business participants.

c).Sales promotion

This is the use of marketing devices such as displays, premiums, and contests, to stimulate purchases. It includes such special events as fashion shows and vendor demonstrations. It does not include personal or face-to-face selling, advertising, or publicity. The objectives of sales promotion is to increase customer traffic (and thus sales), to inform customers about new products and policies, and to create a positive store image.

Displays: window, floor, and counter displays are all forms of visual merchandising. By exposing potential customers firsthand to a company's products, displays stimulate sales and serve as in-store advertisements.

Product samples: one form of sales promotion is the product sample. A product sample is a free trial size of a product that is sent through the mail, distributed door-to-door, or through retail stores and trade shows. Detergents, toothpastes, shampoos, etc., are frequently promoted this way.

Samples are especially important in promoting new products. Drug manufacturers frequently give samples to doctors to try with their patients. Teachers sometimes receive sample textbooks to encourage them to buy classroom set.

Contests and Rebates: Many products are promoted through contests and rebates. These are used by businesses to create excitement and interest and thereby generate sales.

Contests are games and activities that require the participant to demonstrate a skill. This can include writing a short story or an essay about a product, naming a product, or creating a new advertising slogan. Contest winners are awarded such prizes as all-expense paid trips and money. Contests helps promote store traffic and maintain product loyalty. As a result, buying often increases.

Rebates are discounts offered by manufacturers for purchasing an item during a given time period. Firms may use rebates to encourage customers to buy their products.

Premiums: The most popular and frequently used sales promotion devices at consumer level are premiums. Premiums are prizes or rewards offered to a customer as an added inducement to make a purchase. They are designed to increases sales by building product loyalty, attracting new customers, and increasing store traffic.

d).Personal selling

Advertising, publicity, and sales promotion are forms of non-personal selling. Non personal selling involves communicating with customers in ways other than through direct contact. The remaining way for a business to communicate with its customers is through personal selling.

Personal selling involves making an oral sales presentation to one or more potential buyers. It is the principal responsibility of sales personnel.

There are two types of sales personnel. These are order-taking personnel, and order-getting personnel.

Order-taking personnel, such as cashiers, counter clerks, and sales associates, perform routine tasks. At the retail level, they set up displays, stock shelves, answer customer inquiries, and operate cash registers.

Order-getting personnel, such as professional sales people, are more involved in informing customers and helping them to buy. Generally, order-getting sales personnel sell items. They usually receive more intensive training than their order-taking counterparts.

Personal selling is designed to complete a sale once a customer is attracted to a business by advertising, publicity, or sales promotion.

If the sales presentation is done well, personal selling improves customer satisfaction. This is because the salesperson can use information gained from the personal contact to address the customer's unique concerns and problems.

The **advantage** of personal selling is that it is the most flexible and individualized of the promotion devices available to business.

The **disadvantages** of personal selling are as follows **:**

1. A salesperson can help only one person at a time. This means that to reach many customers, a larger sales staff is needed. This will mean more expenses to meet the requirements of a larger staff.

2. A business that relies on personal selling must make sure that their employees completely understand the selling process to ensure continued

sales and goodwill. This may mean additional training. As a result, the cost of personal selling is likely to be higher.

The Concept of Promotional Mix

After a business establishes a promotional budget, it must determine its promotional mix. Promotional mix is the combination of different types of promotion a business uses to persuade customers to buy its products.

Many businesses use more than one type of promotion. Each of the promotion is designed to complement the other. All types of promotion must be coordinated.

8.7.4 PRODUCT

Your decisions about your product are extremely important to your marketing. This is so because they will help you to achieve two things :

- Satisfy the requirements of your target market.
- Meet your enterprise's business objectives.

THE PRODUCT CONCEPT

A product is any item or service that satisfies the need of a consumer. A product can be a physical product such as leather belts. It can be a service such as a hair cutting salon. It can also be a mix of physical goods and services, such as a hardware store and free advice on building.

TYPES OF PRODUCTS

An enterprise needs to decide what type of product it is offering to the target market.

There are three major types of products :

A). CONSUMER PRODUCTS

Consumer products are products bought by an individual person for his or her own use. There are three major types of consumer products , namely convenience, shopping, and specialty products.

- **Convenience products**

Convenience products are products that are purchased frequently. The customers do not take long to think about buying convenience products. Examples are soap, tooth paste, coffee, sweets, magazines, etc. the important aspect of these consumer products is that the product must be in stock and easily available to customers.

- **Shopping products**

  Shopping products are products for which customers actually shop around before buying. They compare all the alternatives in terms of price, quality, design, etc. Examples of shopping products are clothing, furniture, and household items such as vacuum cleaners, kettles, toasters, etc. An important aspect of this type of consumer product is that the customers need to know what makes your product different from that of the competitor.

- **Specialty products**

  Specialty products that the customer makes a special effort to obtain. Examples of specialty products are exclusive designer clothing, photographic equipment, innovative hi-fi equipment, etc. These products are usually only available at selected outlets. An important aspect of this type of consumer product is that it requires that the customer know what makes the product or the place selling the product or the place selling the product so special.

B). INDUSTRIAL OR BUSINESS PRODUCTS

Industrial or business products are bought by a business for use in making other products or providing other services. There are several types of industrial products as indicated below:

- **Capital Equipment**

  Capital equipment is essentially equipment and machinery used for, or helping to produce, other products or services. Examples are office equipment, sewing machines, and agricultural machines. These products tend to be fairly expensive and last a long time. The usually require fairly high levels of technical knowledge and service maintenance that extends past the time of purchase of the product.

- **Materials and Components**

  Materials and components are products actually used in, or used up in, the making or delivery of the final product. This might be raw materials e.g. potatoes in a fast food outlet serving chips) or processed materials (e.g. chemicals used to make paint. Materials whether raw or processed usually become part of the product. In other words, they change their form. Components also become part of the product but they don't change their form. Examples of components are spark plugs, buttons, nuts and bolts, etc.

- **Operating Supplies**

  Operating supplies are products which are used by a business, but not in the manufacturing of products themselves. Examples are oil, cleaning materials, paperclips and note pads. They are relatively inexpensive and have a fairly short life span. The important aspects of this type of product are that it must be available to those who want it and it must be comparatively priced.

- **Industrial Services**

  Industrial services are those used by a business to support the production process. Examples are office cleaning, catering, waste removal, market research and auditing services. The important aspect of this type of product or service is that the customers need to be made aware of how the service you offer can help them to perform their tasks better and reach their objectives.

8.8 BRANDING

A firm should also focus on developing the required branding for its products. A brand is a name, design, or symbol that identifies the products of a company. Branding identifies and helps to differentiate the goods or services of one seller from those of another. It consists of a name, sign, symbol, or some combination thereof.

Brands consist of two types of attributes. These are:

a) **Intrinsic attributes:** These are the functional characteristics of a product. If a firm decides to alter the intrinsic attributes the effect will be that the product itself will be altered too.

b) **Extrinsic attributes:** These are attributes such as the brand name, marketing communication strategy used, etc. Altering these will not alter the product.

Benefits of Branding

Brands develop personalities and encapsulates the core values of a product.

For the **customer**, branding is important because:

a) It makes it easier for the customer to identify the products.
b) It provides continuity and consistency.
c) It reduces risk.
d) It helps gauge product quality.
e) It provides psychological rewards (e.g. it satisfies certain status needs).
f) It provides cues about the nature of source of the product and its vales.

For the **manufacturer**, branding:

a) Helps to differentiate the product.
b) Make purchase decision easier.
c) Enables premium pricing.
d) Promotes loyalty. Some customers will always be loyal to the product and buy it all the time.
e) Enables integrated marketing communications.
f) Helps corporate identity,
g) Provides legal protection for the product

The Strategic role of branding

Branding is strategically important because it can be used to:

a) Defend the market share.

b) Group brands.
c) Protect established positions.
d) Attack competing brands.
e) Deter market entry by other brands.
f) Help a firm to achieve customer retention.

Branding Strategies

There are several branding strategies that a firm may choose from. The following are the strategies:

a) Individual Brands: In this type of branding the firm provides a brand name for each product. Thus, the product is known by its name instead of the name of the company making the product.

The advantage of individual branding is that it reduces the risk should one product fail. This is so because the risk of one product failing will not affect the other products. Thus, such a risk will be confined only to that one product. The other advantage is that it promotes competition in multiple entries within the same product class.

b) Family Brands: in this type of branding, a firm uses one brand name to cover a group of its products. The advantages of this kind of branding are:

i). It facilitates the promotion of product line items.
ii). It is less costly compared to individual branding.

However, its main disadvantage is that it may prove ineffective if it covers both high quality products and low quality products. The inclusion of low quality products may destroy the family brand.

c) Co-Branding: this strategy involves putting two brands together to form a new brand.

d) Global Brands: these are brands that have a wider scale of coverage. Taking on many countries. Thus the brand of the manufacturer is sold globally in many different countries and continents world-wide.

The advantage of this kind of branding is that it dramatically improves sales and profit. However its main drawbacks are:

i). it requires heavy investment.

Ii). It may attract negative association of the name in some countries.

e) **National Brands:** These are brands of the manufacturer that are sold nationally. Like global brands, the advantages of these brands are that they are likely to increase sales and generate profits. However, they also need heavy investment.

National brands (also called manufacturer brands) are nationally recognized. Some national brands are so popular that they help attract customers to a business. National brands generate the majority of sales for most product categories.

National brands not only identify a product but also indicate a standard quality and price. They appeal to customers who want consistent quality, dependable product performance, status, and who will not take risks with unknown goods and services

f) **Store Brands (Private Brands):** In case of private brands or store brands, products are sold under a brand name created by the retailer. In recent years, high quality store brands have gained considerable ground versus national brands. The main advantage of this type of a brand from the customer's side is that its products are relatively cheaper compared to other brands.

Private brands appeal to customers who want quality and good performance but at a lower price. Many large stores and retail chains have private brands.

Private brands are popular because they are more profitable. They are better controlled by retailers because they cannot be sold by competitors and thus can lead to retailer (rather than to manufacturer) loyalty.

Unbranded Merchandise

Some customers are unwilling to pay the higher prices of branded products. These customers often purchase generic products (products that carry no brand name). They are often sold in supermarkets and discount stores. Such products are often priced lower than branded goods. They cost less because they are not heavily advertised.

Product planners must know their markets and customers well. By understanding buyer preferences for certain products, a business can provide a proper balance of products for its target market.

8.9 NEW PRODUCT DEVELOPMENT

New product development is one of the key methods that a business can use to try to ensure that it has a future. There are basically three types of new products. These are as follows:

a) **Major innovations:** Major innovations are totally new products involving new combinations of technology, new formulations or new user benefits. This type of totally new product is fairly rare and involves quite a large element of risk for a business.

b) **Product improvements:** Product improvements involve improving the existing product either slightly or substantially. This could take the form of product redesign, formula or ingredient changes.

c) **Product additions:** Product additions are simply products that are imitations of existing products, or line extensions of products that a business person is are ready marketing successfully.

New Product Development Process

The way to develop a new product will vary from business to business, but in general there are several steps that should be followed. These are as follows:

a) **Idea Generation**

The first step is to generate ideas for possible new products. Obtaining ideas for new products must be an ongoing activity for all businesses. Product ideas can come from sources inside the company and outside the company.

The following **internal sources** can be useful in this aspect: your own research, your own manufacturing process, market research, salespeople, customer service activities, managers in business, employee suggestions, etc.

On the other hand, the following **external sources** can also prove to be useful sources of generating ideas: Competitors' products, Customer feedback, Customer complaints, Customer suggestions, Outside specialists, Suppliers' suggestions, etc.

b) Screening

Once you have generated ideas, screen or filter the ideas to see which ones are really offering business prospects for you. You will need to rate and rank the ideas to determine the attractiveness of the market for the proposed product, the fit between product and company objectives, and the capability of the company to produce and market the product. Opportunities with better growth potential are likely to be more attractive.

c) Business Analysis

At this stage, you will need to do some research as to what the product should look like, how customers will use the product, and what it will do for the customers. You will also need to determine how big the market for the product is, who the customers will be, what possible prices and profit margins are, and who the competitors will be. You will also need to do some financial planning in terms of cash flows, costs and profit projections.

d) Product Development

At this stage, the new product concept is developed into a physical product. You do this by developing a sample product (actual model). The important task here is to ensure that the sample product is developed according to customer needs. To achieve this, there will be need to both carry out some research as well as to bring the customers on board.

You bring customers on board by conducting a product testing. Product testing focuses on the functional aspects of the product and on consumer acceptance. Functional tests are carried out to check on such aspects as safety, performance and shelf life. Thus, consumers may identify problems and suggest improvements.

Experts can also be used in product development. Thus expert opinion can evaluated to see if it ca be of help.

The more input that potential customers have into the development of the product, the greater the likelihood of a successful outcome.

e) Market Testing

Once the product is developed, you may want to check everything by testing the product under market conditions before launching it onto the market. You may choose a small area to use as a test-market area, offer the product to customers, and implement the marketing mix you intend to follow. You will then evaluate and fine tune the marketing mix and see how the customers react to the product and the marketing mix.

f) Launching the New Product (commercialization)

At this stage you launch the product fully on to the market in the hope of winning competitive advantage. You may want to introduce the product onto separate areas of the market so as to be able to handle the product introduction and marketing, and the orders and demand for the product. You will also have to ensure that you monitor customers' reactions to the new product so as to make sure everything goes smoothly.

UNIT 9

9.0 MARKETING RESEARCH AND SALESMANSHIP

OBJECTIVES

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

- Define marketing research.
- Conduct a simple marketing research.
- Explain the selling process.

9.1 What is marketing Research?

Marketing research is the process of getting the marketing information needed to make sound business decisions. It involves the systematic gathering, recording, and analyzing of data about problems related to the marketing of goods and services.

The primary emphasis of most marketing research, is to obtain information about the preferences, opinions, habits, trends, and plans of potential customers.

9.2 Conducting Marketing Research Process

Five major steps are involved in the marketing research process. Each step must be performed sequentially and systematically to arrive at a solution to a problem. The following are the steps in the marketing research process:

Step 1: Problem Definition

Defining the problem is one of the most important steps in marketing research. Problem definition occurs when you have identified the problem that your proposed program of research intends to address. A marketing researcher should clearly state the problem.

Step 2: Design the Research

i). State whether you will follow a **qualitative** or **quantitative** research methodology.

ii). Determine the data collection Method: This may be either through any of the following methods:

- Observation method.
- Survey method.
- Experimental method.

iii).Determine the contact methods: This may be done through any of the following or a combination of them:

- Face to face contact or interviews.

- Telephone.
- Mail, or email.

iv).Design the sampling plan

- From which population will the sample of respondents be drawn from?
- What will be the sample size?
- What will be the method of sampling?

Step 3: Obtaining Data

During the second step in the marketing research process, data are obtained and examined about the problem and problems being studied. The word data means facts.

There are two types of data used in marketing research. These are primary data and secondary data.

Primary data are raw facts and figures obtained for the first time and used specifically for the particular problem under study.

Secondary data are facts that have already been collected, and are used for some other purpose than the current study.

Primary data are obtained using the following methods:

i).The survey method : This is a research technique in which information is gathered from people directly through the use of questionnaires. This is a written list of questions pertinent to the identified problem.

The survey method is the most frequently used method for collecting primary data.

ii).The Observation Method

The observation method is a research technique in which the actions of people are observedand recorded. This method is frequently used to get information about employee performance or customer behavior.

The observation technique may either use natural or contrived observations.

With natural observation, customers or employee are observed by the researcher as they would naturally act in a given situation. For example, the researcher may personally observe the customers as they shop, enter or leave a store. Sometimes, the researcher may choose to use hidden cameras to observe the customers or people under study.

Some observations are contrived (devised). For example, observers pose as customers to measure the effectiveness of the selling techniques used by sales people. The salespeople are observed with respect to approach, sales presentation, product knowledge, and suggestion selling.
For the observation technique to be successful, data from the observation must be recorded, actions must be identified and behaviours noted.

iii). Experimental Methods: this is a research technique in which one or more marketing variables are observed under controlled conditions.

For example, a business may want to compare the effectiveness of two different advertisements. To do so, the researcher will select two similar groups of consumers. One group is shown one advertisement, and another group is shown the other.

The adverts are the variables, while the two groups are the controlled condition.

If one advert gets a better response, the business may choose it for its advertising campaign.

The experimental method of marketing research is least used often. This is because of high costs of setting up the research situation.

Step 4: Data Analysis

The third step in the marketing research process is data analysis. Data analysis is the compiling, analyzing and interpreting the results of primary and secondary data collection.

The accurate compiling of data allows marketing researchers to carefully analyze and interpret data in order to make recommendations to management regarding the problem being studied.

Step 5: Recommending solutions to the Problem

Successful research usually results in the development of several alternatives or recommendations for solving a problem. Recommendations must be well written and well organized so that the appropriate business managers will understand them. This means the recommendations must be clear and well supported by the research data.

A typical research report outline includes:

- Title page.
- Acknowledgements to people who assisted in the research effort.
- Table of contents.
- Lists of tables, figures, charts, and graphs.
- Introduction (includes the problem under study, its importance, definitions, limitations of the study, and basic assumptions).
- Literature review (including the results of any secondary data reviewed for purposes of the research effort).
- Procedures used (research techniques used to obtain primary data).
- Findings
- Recommendations.
- Summary and conclusions.
- Appendices.
- Bibliography.

Step 6 : Report the Results the Decision Maker

Report your findings in line with the objectives of your research. This is especially easier if at the beginning your marketing research started with clearly defined objectives.

Step 7 : Implementing the Findings

After a research effort has been completed, the findings of the marketing research should be implemented.

Once the recommendations have been implemented, a business should carefully monitor the results. A Business needs to know whether the specific actions taken are successful and to what extent are they successful.

9.3 SELLING

Selling involves providing customers with the goods and services that they wish to buy.

THE SALES PROCESS: Salespeople go through the following eight steps in helping a customer make a purchase.

Step 1: Prospecting: A prospect (also called a lead) is a potential customer. Prospecting is looking for customers. Successful industrial salespeople are always prospecting using a variety of methods and sources to suit the products they sell.

Sources and methods of prospecting

a). **Employer leads:** Employers get leads from their involvement in trade shows and from advertising in trade journals and consumer magazines.

b).Telephone Directories: Telephone directories provide names, addresses, and telephone numbers of potential customers in given geographic areas. They also list businesses that may be potential customers for certain industrial goods and services.

c). Trade and professional directories: Industrial sales representatives can use trade and professional directories to locate potential customers by type of business.

d). Newspapers: Newspapers provide good leads for some salespeople.

f). Customer referrals: Satisfied customers often give salespeople referrals or names of other people who may buy the product. This is known as the endless chain method.

g). Cold canvassing: In cold canvassing a salesperson tries to locate potential customers with a little or no direct help other than that, perhaps, from a telephone directory. This is sometimes called blind prospecting.

Step 2: Approaching the customer: This step is in two parts known as the pre-approach and the initial approach.

In **the pre-approach**, the salesperson is getting ready to sale. He or she should prepare for the sale by studying his or her products and keeping abreast of industry trends. They should also pay attention to their personal appearance.

They should prepare the merchandise and the work area. This involves stock-keeping and housekeeping activities such as arranging displays, taking inventory, replenishing the stock, adjusting price lists, analyzing past sales records, etc.

The initial approach, on the other hand, is the first face-to face contact with the customer.

To begin conversation, you need to know what interests the customer. You will also need to establish rapport. To establish rapport, and to create a positive atmosphere for the sale, you will need to do the following:

i). Be courteous and respectful.

ii). Establish good eye-contact.

iii). Be enthusiastic.

iv). Show a sincere interest in the customer.

V). Be friendly and genuine.

Vi). Use the customer's name if known.

Vii). Time the approach appropriately.

There are **three methods** you can use in the initial approach as outlined below:

a) **The service approach method:** In this method, the salesperson asks the customer if he or she needs assistance. This method is acceptable when the customer is in a hurry (approach such a customer quickly).

b) **The greeting approach method:** In this approach, the salesperson simply welcomes the customer to the store. The greeting can be formal or informal. If you know the customer's name greet them by their name. Using the customer's name makes the customer feel important. This method helps to begin a conversation and also helps to establish a positive rapport. But it does not focus on the merchandise.

c) **The merchandise approach method:** In this approach the salesperson makes a comment or asks questions about a product that the customer is looking at. The only time you can use this method is when the customer stops to look at a specific item. Then you can open with a statement about the product's features and benefits. This method is the most effective initial approach because it immediately focuses attention on the merchandise.

Step 3: Determining Needs: The following techniques can help a salesperson determine the needs of the customer:

a). Observing: Observe the customer.

b). Listening: Listening helps you pick up clues to the customer's needs for use in the product presentation. Therefore, listen attentively. Maintain good eye contact. Give feedback. Give your undivided attention. Listen with empathy and open mind. Never interrupt.

c). Questioning: This is an important skill that can help determine the customer's needs. In any case remember these simple rules: Do not ask too many questions in a row. Do not ask questions that may put a customer on the defensive or make the person feel embarrassed.

Step 4: Presenting the product

Show the product and talk about it. The goal of the product presentation is to match the customer's needs with appropriate product features and benefits.

Product presentation usually takes the following steps:

a) **Selecting products :** Select a few items that match the needs of the customer.

b) **Number of product :** To avoid overwhelming your customer, show no more than three products at a time.

c) **What to say during the presentation:** In this part of the sales process, you talk about the product's features and benefits. Use layman's terms.

d) **What to do during the presentation:** Display and handle the merchandise effectively. Demonstrate the product in use, and use dramatic actions and sales aids to point out special features. Also involve the customer in your presentation.

Displaying and handling the Product: Creatively displaying the product is the first step in an eye-catching presentation.

The way you handle a product presents an image of its quality. Handle it with respect, and use hand gestures to show the significance of certain features. Expensive items should be carefully held.

Demonstrating: To prove selling points or claims made by the manufacturer, you may need to demonstrate the product.

Sales aids: when it is impractical to demonstrate the actual product, or when you want to emphasize certain selling points further, you can use sales aids in your sales presentations. Sales aids include samples, reprints of magazines and newspaper articles, audio-visual aids, models, photographs, drawings, graphs, charts, customer testimonials, and warranty information.

Involve the customer: when you involve a customer in the sale, you are helping the person make intelligent buying decisions. For example, you may ask the customer to taste and smell food products, type on a computer key board, test drive an automobile, etc.

Step 5: Handling questions and objections

Objections are concerns, hesitations, doubts, or other honest reasons a customer has for not making a purchase. Objections should be viewed as positive because they give you an opportunity to present more information to the customer.

Excuses are insincere reasons for not buying or for not seeing the salesperson. When you are faced with excuses, be polite and courteous. Encourage the customer to look around and ask you any questions he or she may have.

a). Welcome Objections: You should welcome objections. They can guide you in the sales process by helping you redefine the customer's needs and determine when the customer needs more information. Customers' questions that are connected to the objections should be answered promptly.

b). Plan Ahead for Objections: You can be prepared for most objections that may occur in sales situation by preparing an objection analysis sheet. An objection analysis sheet is a list that enumerates common objections and possible responses to those objections.

c). Four-step process for handling Objections

i)Listen carefully: To demonstrate sincere concern for your customer's objections ensure that you listen carefully. Be attentive, let the customer talk, and you should also maintain an eye contact.

ii).Acknowledge the customer's objections: Acknowledging the objections demonstrates that you understand and care about the customer's concerns. In acknowledging a customer's concern, you may use a simple statement like, "I can see your point."

iii).Restate the Objections: To be sure that you understood the customer, you can restate his or her objections. Do not repeat the customer's concern word for word. Instead you should paraphrase the objections.

iv).Answer the objections: Try to find appoint of agreement with the customer before answering each objection. Then answer each objection tactfully, keeping in mind the customer's feelings. Never answer with an air of superiority or with indifference to the person's concern

d). Specialized methods of handling questions: There are seven specialized methods of handling questions. These are as follows:

i).Yes, but: The yes, but method first acknowledges the customer's objections and then reveals another point of view. Here the idea is not to make the customer feel as if you are accusing him or her of being wrong.

ii). **Question method:** The customer is questioned in an effort to learn more about the objections raised. This may help you learn more about the customer's needs. **iii). Superior Point:** This method permits the salesperson to acknowledge objections as being valid and to offset those objections with other features and benefits of the product.

iv). **Direct Denial:** This method provides proof and accurate information in answer to objections.

v).Demonstration: This method requires the salesperson to illustrate one or more features of a product or a service. I exemplify the adage, "seeing is believing." The demonstration method can be quite convincing and should be used when appropriate.

vi). Third Party: The third party method involves using a previous customer who can give a testimonial about the product.

vii). Boomerang: With the Boomerang method, the objection comes back to the customer as a selling point. The salesperson can return the objection to the customer using the Boomerang. For example, a customer may object by saying, "this jacket is too light. It can't possibly keep me warm." The salesperson may answer by saying, "actually, the lightness of this jacket is due to a new insulation called thinsulate, which is warm." Thinsulate will keep you warm without the jacket being bulk.

Step 6: Closing the sale

At a certain point in the sales process, your customer will be ready to make a purchase. When this becomes apparent, it is up to you to close the sale. Closing the sale is obtaining positive agreement from the customer to buy. You close a sale when your customer is ready to buy.

a).Buying Signals: To detect any opportunity to close the sale, look for buying signals. Buying signals are things a customer does or says to indicate a readiness to buy. These buying signals include facial expressions, actions, and comments. For instance, comments like, "This is exactly what I was looking for."

b). Specialized methods for closing the sale: This approach demands that, once you have recognized a buying signal, you should attempt to close the sale. There are altogether five methods that one can choose from.

i). Which Close: Under this method, the customer is encouraged to make a decision between two items. The salesperson should review the benefits of each item and then ask the customer which one of the two he or she prefers. **ii).Standing room only close:** This is used when a product is in short supply or when the price will go up in the near future. For example, the salesperson may say that, "This is the last pair of shoes I have in your size."

iii).Assumption Close: In the assumption close, you assume the close when you think the customer is ready to buy. But if you discover that the customer is not ready, simply continue with the sales presentation. **iv).Direct close:** The direct close is a method in which you as a salesperson ask for the sale. **v).Service Close:** Sometimes you run into obstacles or instances that require special services in order to close the sale.

Step 7 : Suggestion Selling

Suggestion selling is selling additional goods or services to the customer.

Rules for suggestion selling: There are five rules for suggestion selling as given below:

Rule 1: Do the suggestion selling after the customer has made a commitment to buy and before payment is made or the order written. **Rule ii:** Make your recommendations from the customer's point of view and give at least one reason for your suggestion. **Rule iii:** Make the suggestion definite. For example, say that, "This oil is recommended by the manufacturer for the engine." **Rule iv:** Show the item you are suggesting. **Rule v:** Make the suggestion positive. For example, you could say "This scarf will match the colour of your shirt."

Step 8: Reassuring and following up

Before you leave your client or before the customer departs, **reassure** the person of the wise buying choices which have been made. If an item needs special care or specific instructions, take the time to educate your customer about it. Always thank your customers.

Follow up: The follow-up includes making arrangements to follow through on all promises made during the sales process and checking on customer satisfaction with the purchase.

UNIT 10

10.0 THE BUSINESS PLAN

LEARNING OBJECTIVES

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

- Define a business plan.
- Discuss the features of the business plan.
- Construct a simple business plan for an enterprise.

10.1 WHAT IS A BUSINESS PLAN?

A business plan is a proposal that describes every part of your new business to potential investors and financing agencies. It maps out the course of your business.

A business plan is for the owners of the enterprise. Thus, the owner may need to develop a business plan because it will help him or her to think carefully about what the business is going to do, and what resources will be needed. This will help him calculate how much start-up capital is needed. It is important that the entrepreneur has a clear idea of what the business is going to do.

A business plan is also meant for the financial backers. It is meant to help the owner source for funds. Financial backers will need to be convinced that the new business is a sound investment.

10.2 OUTLINE OF THE BUSINESS PLAN

Given below is an outline of a business plan:

1. **EXECUTIVE SUMMARY**
    - Description of the business concept and the business.
    - The opportunity and strategy.
    - The target market and projections.
    - The competitive advantages.
    - The economics, profitability, and harvest potential.
    - The team (summarize the relevant knowledge, experience, and skills of your team members).
    - The offering (how much of the enterprise are you prepared to offer to equity and debt financing).

2. **THE INDUSTRY AND THE ORGANIZATION AND ITS PRODUCTS OR SERVICES**
    - The industry
    - The organization (company) and the concept.
    - The products or services.
    - Entry and growth strategy.

3. **MARKET RESEARCH ANALYSIS**
    - Customers.
    - Market size and trends.
    - Competition and competitive edges.
    - Estimated market share and sales.
    - Ongoing market evaluation

4. THE ECONOMICS OF THE BUSINESS

- Gross and operating margins (selling price less variable costs).
- Profit potential and durability.
- Fixed, variable, and semi-variable costs.
- Months to breakeven.
- Months to reach positive cash flow.

5. MARKETING PLAN

- Overall marketing strategy.
- Pricing.
- Sales tactics.
- Service and warranty policies.
- Advertising and promotion.

6. DESIGN AND DEVELOPMENT PLANS

- Developing status and tasks.
- Difficulties and risks.
- Product improvement and new products.
- Costs.
- Proprietary issues

7. MANUFACTURING AND OPERATIONS PLAN

- Operating cycle (how will seasonal production loads be handled?)
- Geographical location.
- Facilities and improvement.
- Strategy and plans.
- Regulatory and legal issues.

8. MANAGEMENT TEAM

- Organization.
- Key management personnel.

- Management compensation and ownership.
- Other investors.
- Employment and other agreements and stock option and bonus plans.
- Board of Directors.
- Other shareholders, rights, and restrictions.
- Supporting professional advisors and services.

9. OVERALL SCHEDULE

- A schedule that shows the timing and interrelationship of the major events necessary to launch your business and realize its objectives is an essential part of a business plan. You may include the following:

  a) Lay out (use a bar chart) the cash conversion cycle in the business to capture for each product or service expected the lead and elapsed times from an order to the purchase of raw materials or inventory to transportation and collection.

  b) Prepare a monthly schedule that shows the timing of such activities as product development, market planning, sales programs, production, and operations, and that show the timing of the primary tasks required to accomplish an activity.

  c) Show on the schedule the deadlines or mile stones critical to the business's success, such as : completion of design and development, obtaining of sales representatives, starting of production or operations, delivery of first sales, etc.

10. CRITICAL RISKS, PROBLEMS, AND ASSUMPTIONS

- Description of the risks and the consequences of adverse outcomes relating to your industry, your organization and its personnel, your product's market appeal, and the timing and financing of your startup business. Be sure to include assumptions concerning sales projections, customer orders, and so forth.

11. THE FINANCIAL PLAN

- Actual income statements and balance sheets.
- Pro forma income statements (the plan for profit).
- Pro Forma balance sheets.
- Pro forma cash flow analysis (cash flow projection).
- Breakeven chart and calculation.
- Cost control.
- Highlights (highlight important conclusions).

12. PROPOSED ORGANIZATIONAL OFFERING

- Desired financing (how much money is required to carry out your business).
- Offering (stock, securities to be sold).
- Capitalization (number of outstanding shares after offerings).
- Use of funds.
- Investor’s return.

13. APPENDIX

- Include pertinent information here that is too extensive for the body of the business plan but which is necessary e.g. reports, list of suppliers, special location factors, facilities, technical analysis, copies of regulatory approval etc.

UNIT 11

BUSINESS TRANSACTIONS

OBJECTIVES:

- Define business transactions.
- State three types of business transactions.
- Discuss the three types of business transactions.

INTRODUCTION

Business transaction refers to the legal process of exchanging goods with goods and services. It is the process of buying and selling goods and services. For transaction to take place, there must be a seller who has goods or services and then a buyer who wants the goods or services. The two must agree to make the contract binding.

11.1 TYPES OF BUSINESS TRANSACTIONS

A. Barter Transaction

This is the exchange of goods with goods or services. It is the oldest type of business transaction in the world. In this type of transaction, people are able to exchange goats with pigs, beans with clothes, chickens with a service of cultivating a piece of land etc.

B. Credit Transaction

This is the type of transaction where the services/goods are collected and payment is made later. In this type of transaction, an invoice is used to prove that a debt is there.

C. Cash Transaction

This is the type of transaction where services/goods are collected and payment is made immediately. With the coming of technology, there are many ways of participating in cash transactions. These include;

- Payment by hard cash.
- Payment by cheque
- Payment by the debit card/Visa card.
- Internet/mobile banking.

REVISION QUESTION

State and discuss the types of business transactions available. Clearly state the advantages and disadvantages of each. (20 marks)

UNIT 12

12.0 BUSINESS DOCUMENTS

OBJECTIVES

- Define business documents.
- State the significance of business documents.
- Explain the main features of the business documents.
- List and describe at least 15 business documents.

INTRODUCTION

Business documents are documents that are used in business transactions. Business documents make the business transaction legal and binding. In the exchange of goods and services, there are many documents that are used for the smooth running of the business. Documents are written records of transactions which take place between different persons or parties.

12.1 SIGNIFICANCE OF BUSINESS DOCUMENTS

I. To prove that a business activity has taken place.

II. To provide future reference in case it becomes necessary.

III. To provide information that is useful for various purposes such as making business decisions and payment.

IV. To work as a source form which other business records can be made such as book keeping records.

V. To provide back ground information about the business.

VI. To provide detailed information about the goods and services available for sale e.g. catalogue, quotation, price list and many more others.

VII. To acknowledge receipt or payment of money e.g. cash sale slip and receipt.

VIII. To know the customers who have taken goods on credit (debtors), e.g. invoice.

IX. To help in proper assessment of taxes such as VAT basing on the volume of sales, purchases and many more.

Various transactions use different documents depending on the type of transaction and the terms of payment agreed upon between the buyer and the seller.

12.2 CONTENT/FEATURES OF BUSINESS DOCUMENTS

a. Name and address of the business originating the document (seller/buyer).
b. Name and address of the business receiving the document (seller/buyer).
c. Name of the document e.g. quotation, receipt etc.
d. Document number (serial number)
e. Date when the document is written.
f. Types/description of goods/services in question; e.g. dozens, boxes, colour, size etc.
g. Quantity of goods
h. Unit price and total amount.
i. Terms and conditions of the transaction.
j. Name/signature of the person who prepared/received.

12.3 TYPES OF BUSINESS DOCUMENTS

1. CATALOGUE

It is a business document which is more like a pamphlet or booklet that displays pictures and prices of the goods on sale. It may also be used for advertising.

2. PRICE LIST

It is a list of items sold by the person to whom an Inquiry is sent, together with the price at which each item is sold. It can serve the purpose of the catalogue.

3. INQUIRY NOTE

This is a letter sent by a potential buyer to the supplier/seller seeking information about the goods or services offered for sale, the prices pertaining them and the terms of sale and delivery of goods.

4. INVITATION TO TENDER

This is a document that is similar to an inquiry note but it is addressed to more than one seller or buyer of good or services requiring them to state the conditions under which they are willing to sell or buy the goods. Invitation to tender are usually advertised in newspapers, radios and televisions.

5. QUOTATION

This is a business document prepared in response to an Inquiry by the potential seller to the possible buyer containing terms and conditions under which goods can be sold. It describes the goods/services, unit price and total, and the terms and conditions for the transactions.

6. ORDER FORM

It is a business document which is sent by a prospective buyer to the seller requesting him to supply the specified goods. It is also termed as **Local Purchase Order (L.P.O).** It authorizes the seller to supply the goods/services requested.

7. PROFORMA INVOICE

It is a business document sent by the seller to the buyer showing the quantity sent and the prospective prices. It shows the terms and conditions under which the goods have been supplied. It is similar to an invoice but it does not guarantee credit. It may be sent together with the goods.

8. INVOICE

It is a summary of the details concerning goods supplied on credit. It is usually written in duplicate where by the seller retains a copy and the original is sent to the buyer. It acts as notification of the amount owed by the buyer for the goods and services bought and evidence of the debt to the seller.

9. ADVICE/DISPATCH NOTE

It is a document sent by the supplier/seller to the buyer informing him/her that the goods ordered are on the way. It shows the exact time the goods should be expected. This gives the buyer ample time to prepare transport and storage for the goods.

10. DELIVERY NOTE/CONSIGNMENT NOTE

It is a document sent by the seller to the buyer along with the goods being delivered. Its purpose is to serve as evidence of physical transfer of the goods from the seller to the buyer. The buyer signs on it confirming that the goods ordered have been received in good condition and as ordered. If there is any error noticed, the buyer has to notify the supplier as soon as possible for correction to be made. In a consignment, the supplier/sender is called a consigner and the receiver/buyer is termed as the consignee.

11. CREDIT NOTE

It is a business document sent by the seller to the buyer to adjust an overcharge or if part of the goods supplied are returned to the supplier. A credit note can be sent if wrong description or quantities or qualities of goods are sent, if the goods are damaged or expired e.t.c.

12. DEBIT NOTE

It is a business document prepared by the seller to the buyer adjusting the undercharge in the invoice which could be wrong price in the quotation, errors in calculating, omissions etc. it means that the buyer has to pay more than the initial amount.

13. CASH SALE SLIP

It is a business document prepared by the seller to the buyer who pays cash at the time of purchasing the goods. It serves as evidence of receipt of money in cash and is only issued for cash transactions.

14. RECEIPT

It is a business document prepared by the seller to the buyer acknowledging payment of debt by the buyer and concludes a credit transaction.

15. CHEQUE

It is a business document or an order from an account holder to his/her bank, requesting the bank to pay the stated amount of money to the named person or bearer. The cheque book must officially be issued by the bank, should have a cheque number, account number from which the money should be withdrawn, the bank name where the account is operated and space where the payee is named, amount stated and for the signature. Moreever, it has the counterfoil which remains in the cheque book, showing the details of the cheque being given out.

16. STATEMENT OF ACCOUNT

It is a document issued by the seller to the buyer indicating a summary of transactions between the seller and buyer for a particular period of time. It is issued periodically, usually monthly, quarterly or semi-annually. It usually starts with the balance brought forward followed by entries relating to transactions and ends with a closing balance which the supplier expects to be paid.

REVISION QUESTIONS

1. Define business documents.
2. Outline the significance of business documents (at least 10).
3. Explain the main features of the business document.
4. List and describe at least 15 business documents.

UNIT 13

13.0 BASICS OF ACCOUNTING

Objectives;

- Define Accounting.

- Explain the accounting Terms
- Prepare the trial balance.
- Prepare the Balance Sheet.
- Prepare the Income and Expenditure Account.
- Prepare the Cash flow statements.

13.1 INTRODUCTION TO ACCOUNTING

Accounting is the process of gathering, analyzing, recording, summarizing and reporting the economic value of the business to the stakeholders. An accountant (or bookkeeper) collects documentation, analyses and records this information, categorizes it (i.e. organizes the different bits of information under certain categories), and presents it in specific formats. Accounting information is finally presented in the form of financial statements which are the key reports of a business.

Bookkeepers are usually involved more in *data collection and entry*. **Accountants** can fulfill this role too, but more often these days are involved in *preparing and presenting financial statements*, and fulfilling an *advisory or consulting role*. Accountants have even become business strategists, intimately involved in guiding the operations of a business. Accounting in general deals with identifying business activities, like sales to customers, recording these activities, like journalizing, and communicating these activities with people outside the organization with financial statements.

Financial accounting, however, is a subsection of the general field of accounting that focuses on gathering and compiling data in order to present it to external users in a usable form. So what does that mean? Basically, financial accounting's main purpose is to provide useful, financial information to people or groups outside of companies often called external users. *Financial accounting is the periodic reporting of a company's financial position and the results of operations to external parties through financial statements*, which ordinarily include;

a. the balance sheet (statement of financial condition),
b. income statement (the profit and loss statement, or P & L),

c. statement of cash flows and
d. the statement of changes in owners' equity.

Financial statements are relied upon by suppliers of capital - e.g., shareholders, bondholders and banks - as well as customers, suppliers, government agencies (e.g. Z.R.A for tax) and policymakers. The key concept here is that external users must be able to understand and use this financial information when they are making decisions about the company. If the information cannot be used, it is worthless. There are many different types of external users who want or need financial information for different purposes. All of these external users have something in common. They are interested in doing business with a company but only have limited access to the company's financial information. Financial accounting aims as providing financial information that is reliable, relevant, and comparable to these external users.

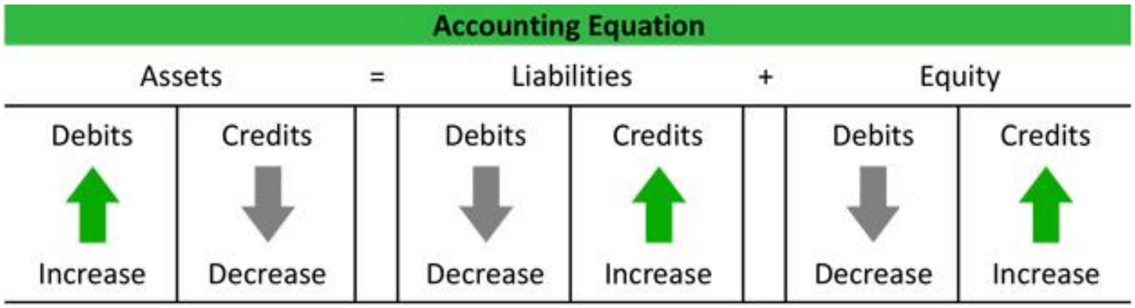
DOUBLE ENTRY ACCOUNTING

Double entry literally means *two entries* being made in one transaction and we literally make *two* entries; a **debit entry** and a **credit** entry.

Double entry accounting, also called double entry bookkeeping, is the accounting system that requires every business transaction or event to be recorded in at least two accounts. This is the same concept behind the accounting equation. Every debit that is recorded must be matched with a credit entry. In other words, debits and credits must always be equal in every accounting transaction and in their total. Every modern accounting system is built on the double entry bookkeeping concept because every business transaction affects at least two different accounts. For example, when a company takes out a loan from a bank, it receives cash from the loan and also creates a liability that it must repay in the future. This single transaction affects both the asset accounts and the liabilities accounts.

Example

Let's take a look at the accounting equation to illustrate the double entry system. Here is the equation with examples of how debits and credit affect all of the accounts.



As you can see from the equation, assets always have to equal liabilities plus equity (capital). In other words, overall debits must always equal overall credits. For example, if an asset account is increased (debited), either a liability or equity account must be increased (credited) for the same amount.

This is always the case except for when a business transaction only affects one side of the accounting equation. For example, if a restaurant purchases a new delivery vehicle for cash, the cash account is decreased by the cash disbursement and increased by the receipt of the new vehicle. This transaction does not affect the liability or equity accounts, but it does affect two different assets accounts. Thus, assets are decreased and immediately increased resulting in a net effect of zero. The concept of double entry accounting is the basis for recording business transaction and journal entries.

Now that we have talked about the double entry bookkeeping system, let's move on to recording journal entries.

13.3 BOOKS OF ORIGINAL ENTRY (THE ACCOUNTING JOURNALS)

Books of original (first) entry also called **Accounting Journals** are books where transactions are first entered before transferring the entries to other books of accounts (the Ledger). An accounting journal is a record of business transactions and events for a specific account. In other words, a journal chronologically stores all the journal entries for a specific account or group of account in one place, so that management and bookkeepers can analyze the data. Accounting journals are often called the book of first entry because this is where journal entries are made. Once a business transaction is made, the bookkeeper records that event in the form of a journal entry in one of the accounting journals. Then, at the end of a period, the journals are posted to accounting ledgers for reporting purposes. Companies use many different journals depending on their accounting system and industry, but all companies use the general journal.

There are basically seven books of original entry (Journals). These are;

i. The Purchases Day Book; where all the purchases bought for sale are recorded.
ii. The Sales Day Book; where all the goods sold to customers are recorded.
iii. The Purchases Returns Day Book; where the returned purchases to suppliers are entered.
iv. The Sales Returns Day Book; where the sales returned by the customers are entered.
v. The Cash Book; where cash transactions (receipts and payments) are entered.
vi. General Journal; where purchases of fixed assets, expenses etc. are recorded.
vii. The Petty Cash Book; where cash payment for petty (small) daily expenses like fuel, transport, cleaning materials, postage, communication etc. are recorded under the imprest system.

The format for the Sales Journal, Purchases Journal, Sales Returns and Purchases Returns Day Books (Journals).

Name of the Business:

Name of the book:

Period of preparing:

DATE	DESCRIPTION/DETAILS	FOLIO	INVOICE no.	AMOUNT

DATE: when the transaction took place.

DESCRIPTION: Details of the transaction/ account/name involved in the transaction.

FOLIO: The reference for the corresponding entry where the transaction will be posted e.g. Ledger page number.

INVOICE: the number on the business document (Invoice) which was issued or received.

AMOUNT: The total amount indicated on the business document.

TASK:

Prepare the necessary Books of Original entry for the following transactions.

June 1: bought goods on credit from B. Banda at K 4000.00, invoice no. 10201.

June 2: sold goods on credit to J. Mary for K 5000.00, invoice no. 20012.

June 4: returned goods to B. Banda for K1000.00, Debit Note no. 202.

June 5: J. Mary returned goods for K 2000.00, credit note no. 4002

13.4 THE CASH BOOK

It is a book where receipts and payments of cash and cheque are recorded. There are three types of cash books. These are;

- **i.** Single column cash book: it records receipts and payments of cash or bank only.
- **ii.** Two (Double) column cash book: records receipts and payment of both cash and bank (cheque). It has the column for cash and another for bank.
- **iii.** Three Column Cash Book: records receipts and payments of cash, bank, and discounts received and allowed.

RULES WHEN ENTERING IN THE CASH BOOK

i. all receipts of cash are debited.

ii. All payments of cash are credited.

iii. Debit every increase in assets and receivables, and credit every decrease in assets.

iv. Credit all increase in capital and liabilities (loans and notes payables) and debit any decrease.

v. Debit any expense incurred.

vi. Debit any losses made.

vii. Credit any revenue, sales and profits made.

viii. Debit all the discounts allowed and debit all the discounts received.

13.5 TRIAL BALANCE (TB)

A trial balance is a report that lists the ending balances of each account in the chart of accounts. Bookkeepers and accountants use this report to consolidate all of the T-accounts into one document and double check that all transactions were recorded in proper journal entry format. Bookkeepers typically scan the year-end trial balance for posting errors to ensure that the proper accounts were debited and credited while posting journal entries. Internal accountants, on the other hand, tend to look at global trends of each account. For instance, they might notice that accounts receivable increased drastically over the year and look into the details to see why. Tax accountants and auditors also use this report to prepare tax returns and begin the audit process.

Format

The trial balance format is easy to read because of its clean layout. It typically has four columns with the following descriptions: account number, name, debit balance, and credit balance. It's always sorted by account number, so anyone can easily scan down the report to find an account balance. This order also tends to be in balance sheet order since the average chart of accounts follows the accounting equation starting with the assets.

Not all accounts in the chart of accounts are included on the TB, however. Usually only active accounts with year-end balance are included in the TB because accounts with zero balances don't make it on the financial statements. For example, if a company had a vehicle at the beginning of the year and sold it before year-end, the vehicle account would not show up on the year-end report because it's not an active account. The report also totals the debit and credit columns at the bottom. As with all financial accounting, the debits must equal the credits. If it's out of balance, something is wrong and the bookkeeper must go through each account to see what got posted or recorded incorrectly. This step saves a lot time for accountants during the financial statement preparation process because they don't have to worry about the *balance sheet and income statement* being off due to an out-of-balance error. Since most companies have computerized accounting systems, they rarely manually create a TB or have to check for out-of-balance errors. They computer system does that automatically.

Process

When the accounting system creates the initial report, it is considered an unadjusted trial balance because no adjustments have been made to the chart of accounts. This is simply a list of all the account balances straight out of the accounting system.

As the bookkeepers and accountants examine the report and find errors in the accounts, they record adjusting journal entries to correct them. After these errors are corrected, the TB is considered an adjusted trial balance.

We still aren't done with this report yet though. The errors have been identified and corrected, but the closing entries still need to be made before this TB can be used to create the financial statements. After the closing entries have been made to close the temporary accounts, the report is called the post-closing trial balance.

Let's take a look at an example.

Example

From the following list of balances extracted from the ledger,

prepare the trial balance.

Cash	$ 32,800
Accounts receivable	300
Inventory	39,800
Leasehold Improvement	100,000
Accounts Payable	49,000
Long-term liabilities	99,500
Common Stock	10,000
Dividends	1,000
Revenues	27,800
Cost of goods sold	10,200
Rent Expenses	500
Supplies Expenses	500
Utilities Expenses	200
Wages Expenses	500
Interest Expenses	500

SOLUTION

Here's an example of a trial balance. As you can see, the report has a heading that identifies the company, report name, and date that it was created. The accounts (details/description) are listed on the left with the balances under the debit and credit columns.

Paul's Guitar Shop, Inc. Unadjusted Trial Balance December 31, 2015		
Account	**Debit**	**Credit**
Cash	$ 32,800	
Accounts Receivable	300	
Inventory	39,800	
Leasehold Improvements	100,000	
Accounts Payable		$ 49,000
Long-term Liabilities		99,500
Common Stock		10,000
Dividends	1,000	
Revenues		27,800
Cost of Goods Sold	10,200	
Rent Expense	500	
Supplies Expense	500	
Utilities Expense	200	
Wages Expense	500	
Interest Expense	500	
Totals	**$ 186,300**	**$ (186,300)**

The debit and credit columns must equal each other totaling a zero balance.

13.6 THE ACCOUNTING EQUATION AND THE FINANCIAL POSITION

These three elements, *assets, owners' equity (Capital) and liabilities*, when compared to one another, show what we call the **financial position** of the business.

Let's have an example...

Would you invest in the following business?

$100,000		$10,000		$90,000
ASSETS	=	EQUITY	+	LIABILITIES

Probably not 90% of the assets of this business will be used to pay debts in future. The *equity*, which reflects the *net worth* of the business (the real worth to the owner or owners) is only $10,000. The *financial position* of this business is thus poor.

What about this business – would you invest in it?

\$100,000		-\$20,000		\$120,000
ASSETS	=	EQUITY	+	LIABILITIES

Well, in this case you certainly would be quite apprehensive about investing. The total debts of the business are greater than the assets it has to pay off these debts. As a result, the owner or owners are making a *loss*. The owner or owners may have to fork out \$20,000 out of their own pockets to pay the liabilities. Where the total debts of the business are greater than its assets, we say that the business is *insolvent*. This means that it cannot pay all its debts. Obviously the *financial position* of this business is terrible.

Now how about this business?

\$100,000		\$60,000		\$40,000
ASSETS	=	EQUITY	+	LIABILITIES

This business looks a bit healthier. The business can comfortably pay all of its debts. In fact, only 40% of the assets will be used up to pay the debts. 60% of the assets are really owned by the owner. The *net worth* of the business is \$60,000. The *financial position* of this business is quite good.

Bear in mind that it is not always a bad thing to have debts, where you have a project that will bring you \$40,000, but you need to invest \$5,000 to start with (and you don't have the money yourself), it would be a wise move to borrow the \$5,000 (thereby creating a liability of \$5,000 towards the bank).

Accounting Equation

The accounting equation, also called the basic accounting equation, forms the foundation for all accounting systems. In fact, the entire double entry accounting concept is based on the basic accounting equation. This simple equation illustrates two facts about a company: what it owns and what it owes.The accounting equation equates a company's assets to its liabilities and equity.

This shows all company assets are acquired by either debt or equity financing. For example, when a company is started, its assets are first purchased with either cash the company received from loans or cash the company received from investors. Thus, all of the company's assets stem from either creditors or investors i.e. liabilities and equity. Here is the basic accounting equation.

Accounting Equation				
Assets	=	Liabilities	+	Equity

As you can see, assets equal the sum of liabilities and owner's equity. This makes sense when you think about it because liabilities and equity are essentially just sources of funding for companies to purchase assets. Assets will always equal liabilities and owner's equity. If assets increase, either liabilities or owner's equity must increase to balance out the equation. The opposite is true if liabilities or equity increase.

Now that we have a basic understanding of the equation, let's take a look at each accounting equation component starting with the assets.

Assets

An asset is a resource that is owned or controlled by the company to be used for future benefits. Some assets are tangible like cash while others are theoretical or intangible like goodwill or copyrights.Another common asset is a receivable. This is a promise to be paid from another party. Receivables arise when a company provides a service or sells a product to someone on credit.All of these assets are resources that a company can use for future benefits. Here are some common examples of assets:

- Cash
- Accounts Receivable
- Prepaid Expenses
- Vehicles
- Buildings
- Goodwill
- Copyrights

- Patents

Liabilities

A liability, in its simplest terms, is an amount of money owed to another person or organization. Said a different way, liabilities are creditors' claims on company assets because this is the amount of assets creditors would own if the company liquidated. A common form of liability is a payable. Payables are the opposite of receivables. When a company purchases goods or services from other companies on credit, a payable is recorded to show that the company promises to pay the other companies for their assets.Here are some examples of some of the most common liabilities:

- Accounts payable
- Bank loans
- Lines of Credit
- Personal Loans
- Officer Loans
- Unearned income

Equity – also knowns as Capital

Equity represents the portion of company assets that shareholders or partners own. In other words, the shareholders or partners own the remainder of assets once all of the liabilities are paid off. Owners can increase their ownership share by contributing money to the company or decrease equity by withdrawing company funds. Likewise, revenues increase equity while expenses decrease equity.Here are some common equity accounts:

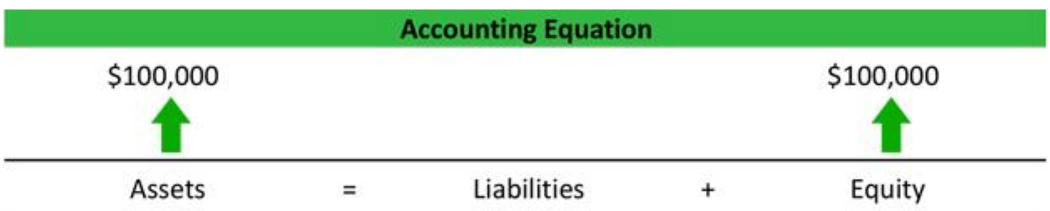
- Owner's Capital
- Owner's Withdrawals
- Revenues
- Expenses

- Common stock
- Paid-In Capital

Example

Let's take a look at the formation of a company to illustrate how the accounting equation works in a business situation.

Betty is an entrepreneur who wants to start a company selling speakers for car stereo systems. After saving up money for a year, Betty decides it is time to officially start his business. She forms Speakers, Inc. and contributes $100,000 to the company. This business transaction increases company cash and increases equity by the same amount.



13.7 FINANCIAL STATEMENTS

Financial statements present the results of operations and the financial position of the company. Four statements are commonly prepared by publicly-traded companies: balance sheet, income statement, cash flow statement and statement of changes in Owners' Equity.

13.7.1 THE BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

The balance sheet tells you whether the company can pay its bills on time, its financial flexibility to acquire capital and its ability to distribute cash in the form of dividends to the company's owners.

Layout of the Balance Sheet

The top of the balance sheet has three items:

a. the legal name of the entity;

b. the title (i.e., balance sheet or statement of financial position); and

c. the date of the statement. Importantly, the financial position presented is always for the entity itself, not its owners.

The balance sheet is always for a specific point in time: instead of just a date of, say, December 31, 20XX. The balance sheet itself presents the company's assets, liabilities and shareholders' equity.

- Assets are items that provide probable future economic benefits
- Liabilities are obligations of the firm that will be settled by using assets
- Equity (variously called stockholders equity, shareowners equity or owners' equity) is the residual interest that remains after you subtract liabilities from assets

Hence the key accounting equation:

Assets = Liabilities + Owners Equity, or A=L+OE

ASSETS

Assets are broken down into current and noncurrent (or long-term). Assets are listed from top to bottom in order of decreasing liquidity, i.e., how fast they can be converted to cash.

a. Current assets

Current assets are cash and other assets that are expected to be used during the normal operating cycle of the business, usually one year. They typically include ***cash and cash equivalents, short-term investments, accounts receivables, inventory and prepaid expense***.

b. Non-Current assets

Noncurrent assets will not be realized in full within one year. They typically include ***long-term investments: property, plant and equipment; intangible assets and other assets.***

LIABILITIES

Liabilities are listed in order of expected payment. Obligations expected to be satisfied within one year are current liabilities. They include ***accounts payable*, trade notes payable, advances and deposits, current portion of long-term debt and** *accrued expenses*. Noncurrent liabilities include ***bonds payable and other forms of long-term capital.***

CAPITAL OR OWNERS' EQUITY

The structure of the owners' equity section depends on whether the entity is an individual, a partnership or a corporation. Assuming it's a corporation, the section will include ***capital stock, additional paid-in capital, retained earnings, accumulated other comprehensive income and treasury stock.***

Balance sheet data can be used to compute key indicators that reveal the company's financial structure and its ability to meet its obligations. These include working capital, current ratio, quick ratio, debt-equity ratio and debt-to-capital ratio.

13.7.2 THE INCOME STATEMENT

The Income Statement (also known as the Trading Profit and Loss Account or T.P&L) tells you both the earnings and profitability of a business. The T.P&L is always for a specific period of time, such as a month, a quarter or a year. Periodic income statements are essential, because they allow users to compare results for the company over time and to the results of other firms for the same period. Depending on the industry, year over year comparisons that eliminate seasonal variables may be especially useful. This section of the income statement is used to compute the key profitability ratios of gross margin, operating margin, and pretax margin that help readers assess the ability of the company to generate income from its activities.

The TP&L presents the **Gross Profit** (Net Sales – Cost of goods sold) then the **Net Profit/Loss** (Gross profit - Expenses). The Income Statement is all about the total income incurred in a given period minus all the expenses for the period.

TASK

ARONZO ENTERPRISES traded from July, 2016 to June, 2017 and below is the list of the balances. K

Capital at start 1 July 2016	121,900
Trade payables	19,000
Sales	280,000
Returns outwards	13,000
Discounts allowed	2,000
Discounts received	1,500
Fixtures and fittings @ cost	120,000
Depreciation fixtures & fittings	12,000
Trade receivables	24,000
Inventory 1 July 2016	50,000
Purchases	135,000
Returns inwards	5,000
Carriage outwards	4,000
Drawings	18,000
Carriage inwards	11,000
Rent	7,000
Rates	8,000
Insurance	10,000
Heating & lighting	12,000
Postage	500
Stationery	700
Telephone	400
Advertising	5,000
Salaries & wages	35,000
Bad debts	1,500
Cash in bank	6,000
Cash in hand	300
5 year loan from Banda	20,000
Inventory at 30 June 2017	17,000

Required:

a. Prepare the Trial Balance as at 30th June, 2017.

b. Prepare income statement for the year end 30 June 2017.

c. Prepare the Balance Sheet as at that date.

UNIT 14

14.0 BUDGETING

14.1 What is a Budget?

There are numerous definitions of the term 'budget' but it is most simply defined as: "a plan expressed in financial terms".An alternative definition was suggested by Henley et al in 1992, and is still valid today.Budgeting is a ‘process of measuring and converting plans for the use of real (i.e. physical resources) into financial values.’ It is the classic problem of how to add together quantities of apples and oranges into a meaningful economic measurement, the only practical way for everyday use is to express their economic values in terms of monetary costs and revenues. Through the process of budgeting the finance function provides the essential link between management planning and management control.

It is clear from these definitions that budgeting and planning are closely interlinked. Budgets represent the expression in financial terms of an organisation's policies and constitute a statement of intent against which any achievements or for that matter failings can be compared. Historically Budgeting has been synonymous with financial planning and authorisation for the next fiscal year. However more recently budgeting has always been seen as a tool in the implementation of strategic plans.

Anthony (2007) categorises organisational controls at three levels: strategic, management and operational. Strategic planning involves the use of information on the environment and information on internal service capabilities to determine the future strategy of the organisation. Management control systems entail the implementation of strategy and the effective use of resources. In most organisations budgetary control is one on the most important forms of management control.

14.2 Objectives of Budgeting

The objectives of budgeting depend on two key factors:

- the type of budget being produced;
- the organisation for which the budget is being produced.

Budgets serve a number of useful purposes which are key to an organisation's success. These include;

Planning

Managers are required to produce detailed plans to enable the implementation of the long term or strategic plan. The annual budgeting process encourages managers to plan for future operations, refine existing strategic plans and consider how they can respond to changing circumstances. This encourages managers to anticipate problems before they arise and ensures reasoned decision making. Without this incentive the pressures of day to day operations may tempt managers not to plan for future operations and hasty decisions based on expediency rather than reasoned judgement will be minimised.

Co-ordination

Budgeting facilitates consolidation and co-ordination and allows the actions of the different parts of the organisation to be brought into a common plan. It also compels managers to examine the relationship between the different parts of an organisation when making decisions and in assists in identifying and resolving conflicts. An example of the type of conflict which could arise in a local authority setting would be between a purchasing manager who wants to buy road salt in bulk to obtain large discounts, a stores manager who wishes to avoid large stock levels of salt an accountant who is concerned about a possible overspend on the Highways budget and the Highways manager who wants to avoid running out of salt in bad weather and therefore carry high levels of stock. Budgeting aims to reconcile these differences.

Communication

Senior management can use budgets to communicate corporate objectives downwards and ensure that other employees understand them and co-ordinate their activities to attain them. The act of preparation as well as the budget itself will also improve communication. All managers within the organisation must have a clear understanding of the role which they are required to play in ensuring budgetary compliance. This ensures that the most appropriate individuals are made accountable for budget implementation.Participation in budget setting relates to the extent that subordinates are able to influence the figures incorporated in their targets. Participation is often referred to as bottom-up budget setting whereas a non-participatory approach whereby subordinates have little influence on the target setting process is sometimes called top-down budget setting.

Motivation

Budgets motivate managers to perform in line with organisational objectives. It therefore, sets a standard which under certain circumstances managers may be motivated to achieve. It is important, however, that managers are involved in the budget setting process and that budgets are used as a tool to assist them in managing their departments. With 'top-down' approaches there is a risk that dysfunctional motivational will occur.

Control

Managers can also use budgets to control the activities for which they are responsible. Analyses of variances allow managers to identify those costs which do not conform to the long term plan and therefore may require alteration. By investigating the reasons for budget deviations managers may also be able to identify inefficiencies. The budget forms the basis of a controlling mechanism for the various resources of an organisation which is achieved by comparing the resource measured to the end of a given period with that which was expected. This approach can be used for all measurable resources and activities within the organisation – not just those which are directly financial.

Evaluation

Budgeting can also be used as an effective management tool. It provides an important mechanism for informing managers as to how well they are performing in meeting targets they have previously helped to set and an employee's ability to meet agreed targets is used is many organisations to determine promotions and bonuses. In this circumstance budgets will therefore influence human behaviour.

Authorisation

A budget is normally prepared by the management of a body, but is normally approved by a legislative body or director representing the interests of everyone. Thus the objective of the budget in an enterprise is to achieve authorisation to execute the plan.

UNIT 15

15.0 MANAGING AN ENTERPRISE

OBJECTIVES

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

- Define the term ‘management.’
- Engage in simple planning and decision making for an enterprise.
- Organize an enterprise’s activities and resources.
- Control the enterprise’s activities as it works towards its goals.

15.1 WHAT IS MANAGEMENT?

Management is a set of activities (including planning and decision making, organizing, leading, and controlling) directed at an organization's resources (human, financial, physical, and information) with the aim of achieving organizational goals in an efficient and effective manner.

In this unit we are going to look at management and how it can be applied to an enterprise. We will start by looking at planning, and then the rest of the other required management processes.

15.2 PLANNING AND DECISION MAKING

To run an enterprise successfully, a manager has to plan and has to also make decisions.

What is planning?

Planning is ascertaining where an organization is at the present time and deciding where it should be in the future. To be more precise, planning is a process that a planner uses to identify and select appropriate goals and courses of action for an organization.

In its simplest form planning is all about setting an organization's goals and deciding how best to achieve them. It is one for the four principal functions of management.

a). The Importance of Planning

Planning will help an enterprise and its managers to (a) offset uncertainty, (b) facilitate control, (c) gain economical operation by minimizing costs, and (d) focus attention on achieving objectives.

15.3 STRATEGIC PLANNING

A strategic plan is a general plan outlining decisions of resource allocation, priorities and action steps necessary to reach strategic goals. These plans are set by the top level managers. In other words, the purpose of strategic planning is to (1) determine the major objectives of an organization, (2) adopt courses of action to achieve these objectives, and (3) ensure there are adequate resources available to achieve them.

In general, strategic planning deals with the general direction the organization is taking.

15.4 TACTICAL PLANNING

Tactical planning is the kind of planning that centers on the key targets which have been set by strategic planners. Tactical plans are developed to implement specific parts of a strategic plan.

Tactical plans are typically set by middle management. Compared with strategic plans, tactical plans have a more specific and concrete focus. Thus tactical plans are concerned more with actually getting things done than deciding what to do.

15.5 OPERATIONAL PLANNING

Operational planning focuses on the smooth running of the enterprise's day –to-day activities. Operational planning is the most detailed level of planning

Operational plan are derived from tactical plans and are aimed at achieving operational goals. Operational plans tend to be narrowly focused, have relatively short time horizons, and involve lower level managers.

15.6 THE PLANNING PROCESS

1. **Establishment of objectives**
    a. Planning requires a systematic approach. It starts with the setting of goals and objectives to be achieved.
    b. Objectives provide a rationale for undertaking various activities. They indicate direction of efforts. They focus a manager's attention on the end results to be achieved.
    c. Objectives should be stated in a clear, precise and unambiguous language.
    d. As far as possible, objectives should be stated in quantitative terms. For example, the number of men working, wages given, units produced, etc. Some goals should be specified in qualitative terms if they cannot be quantified.
    e. Objectives should be practical, acceptable, workable and achievable.
2. **Establishment of Planning Premises**
    a. Planning premises are the assumptions about the lively shape of events in future. It is the assumptions about the environment in which the organizational plans are to be implemented
    b. They serve as a basis for planning.

c. It is concerned with determining where one tends to deviate from the actual plans and causes of such deviations.
d. It is about finding out what obstacles are there. It is also concerned with taking steps that avoids these obstacles to a great extent.
e. Planning premises may be internal or external. Internal includes capital investment policy, management, labour relations, philosophy of management, etc. Whereas external includes socio- economic, political and economic changes.

3. **Choosing an alternative course of action**
   a. A number of alternative course of actions have to be considered.
   b. For this purpose, each and every alternative will be evaluated by weighing its pros and cons in the light of resources available and requirements of the organisation.
   c. The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made.
   d. After objective and scientific evaluation, the best alternative is chosen.
4. **Formulation of derivative plans**
   a. Derivative plans are the sub plans or secondary plans which help in the achievement of main plan.
   b. Secondary plans will flow from the basic plan. These are meant to support and expedite the achievement of basic plans.
   c. These detail plans include policies, procedures, rules, programs, budgets, schedules, etc. For example, if profit maximization is the main aim of the enterprise, derivative plans will include sales maximization, production maximization, and cost minimization.
   d. Derivative plans indicate time schedule and sequence of accomplishing various tasks.
5. **Numbering Plans by Budgeting:** The next step is to convert the plan into budgets. Each plan can have its own budget. Budgeting is important standard against which planning can be measured.
6. **Securing Co-operation**
   a. After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence.

b. The purposes behind taking them into confidence are:-
    i. Subordinates may feel motivated since they are involved in decision making process and will be interested in the execution of the plan.
    ii. The organization may be able to get valuable suggestions and improvement in formulation as well as implementation of plans.

7. **Follow up/Appraisal of plans**
    a. After choosing a particular course of action, it is put into action.
    b. After the selected plan is implemented, it is important to appraise its effectiveness.
    c. This is done on the basis of feedback or information received from departments or persons concerned.
    d. This enables the management to correct deviations or modify the plan.
    e. The follow up must go side by side the implementation of plans so that in the light of observations made, future plans can be made more realistic.

15.7 DECISION MAKING

In this section we introduce you to decision making. You will discover that decision making is at the core of managing an enterprise. As a manager for an enterprise, decision making is very much part of your day-to-ay activity.

WHAT IS DECISION MAKING?

Decision making is part of planning. It is the act of choosing one alternative from among a set of alternatives. The decision making process includes recognizing and defining the nature of a decision situation, identifying alternatives, choosing the best alternative, and putting it into practice. Thus, the person making the decision must both recognize that a decision is necessary and must identify a set of feasible alternatives before selecting one.

Decision making may also be defined as a process by which managers respond to opportunities and threats that confront them by analyzing the options and make determinations about specific organizational goals and courses of action.

A good decision results in the selection of appropriate goals and courses of action that increases an enterprise's performance.

15.8 STEPS IN DECISION MAKING

Any manager who may wish to approach a decision rationally and logically, should try to follow the steps given below. These steps can help to keep the decision maker focused on facts and logic. They are altogether six steps that managers should follow to make a good decision.

Step 1. Recognize the need for a decision– the first step is to recognize the need for a decision. Decision making begins with defining a problem or a situation that will require a decision to be made. The situation may be positive or negative. Managers must respond in a timely and appropriate manner.

Step 2. Identify alternatives– the manager must generate alternatives a set of feasible alternative courses of action to take. In general, the more important a decision, the more alternatives should be generated.

Step 3. Assess alternatives – Each alternative is evaluated to determine its feasibility, its satisfactoriness, and its consequences.

Step 4. Select the Best alternative - consider all situational factors and choose the alternative that best fits the manager's situation.

Step 5. Implement the chosen alternative – the chosen alternative is implemented into the organizational system.

Step 6. Follow up and evaluate the results – At some time in future, the manager should ascertain the extent to which the chosen alternative has worked. He or she should learn from the feedback and develop guidelines that will help in future decision making.

15.9 ORGANIZING

Organizing is one of the principal management functions. Thus, to manage an enterprise, a manager will be required to organize people and other resources necessary to carry out the plans and goals of the enterprise. He or she will have to determine how resources and activities are to be grouped.

Organizing is simply the process by which managers establish or decide how best to group organizational activities and resources.

BASIC ELEMENTS OF ORGANIZING

Discussed below are the basic elements of organizing.

ORGANIZING BY DEPARTMENT (GROUPING JOBS)

One way of organizing is by grouping of jobs according to some logical arrangement. This process of grouping jobs is known as departmentalization.

a). Functional Departmentalization - the most common base for departmentalization is by function. Functional departmentalization groups together those jobs involving the same or similar activities. This will, for instance, result into several functional departments such as Finance, Marketing, Human Resources, Operations, etc. Functional departmentalization is common, especially, among smaller organizations.

There are three major advantages of this approach. First, each department can be staffed by experts in that functional area. Thus for instance, Finance experts can be employed to run the Finance department. Second, supervision is facilitated because an individual manager needs to be familiar with only a relatively narrow set of skills. And, third, coordinating activities inside each department is easier.

The major disadvantages of this approach are: (a) decision making tends to become slower and more bureaucratic as the organization begins to grow in size, (b) Employees may also begin to concentrate too narrowly on their own unit and lose sight of the total organizational system, and (c) accountability and performance become increasingly difficult to monitor.

b). Product departmentalization – a second common approach involves grouping and arranging activities around products or product groups. Most larger organizations adopt this form of departmentalization for grouping activities.

Product departmentalization has three major advantages. First, all activities associated with one product or product group can be easily integrated and coordinated. Second, the speed and effectiveness of decision making are enhanced. Third, the performance of individual products or product groups can be assessed more easily and objectively, thereby improving the accountability of departments for the results of their activities.

Product departmentalization has two major disadvantages. The first one is that, managers in each department may focus on their own products to the exclusion of the rest of the organization. The second disadvantage is that; administrative costs will rise because each department must have its own specialists.

c). Customer Departmentalization– Under this approach, the organization structures its activities to respond to and interact with specific customers or customer groups.

The basic advantage of this approach is that the organization is able to use skilled specialists to deal with unique customers or customer groups
d).GeographicLocation Departmentalization – This approach groups jobs on the basis of defined geographical sites or areas. The defined sites or areas may range in size from a hemisphere to a city, town or a small locality. The primary advantage of location departmentalization is that it enables the organization to respond easily to unique customer and environmental characteristics in various regions. On the negative side, a large administrative staff may be required.

ORGANIZING BY RESPONSIBILITY (ESTABLISHING REPORTING RELATIONSHIPS)

The second basic element of organizing is the establishment of reporting relationships among positions. The purpose of this activity is to clarify the chain of command and the span of management.

a). **Chain of Command –** This means a clear and distinct line of authority among the positions in an organization. The chain of command actually, has two components. The first, called **unity of command,** suggests that each person within an organization must have a clear reporting relationship to one and only one boss. The second, called the **scalar principle**, suggests that there must be a clear and unbroken line of authority that extends from lowest to the highest position in the organization. Thus someone in the organization must ultimately be responsible for every decision.

b). Span of management – another part of establishing reporting relationships is determining how many people will report to each manager. This defines the span of management (sometimes called the **span of control**). There is no universally accepted number of how many people should report to a manager.

c). Tall versus flat organizations – managers are now focusing their attention on the optimal number of layers in their organizational hierarchy. Having more layers results in a taller organization, whereas having fewer layers leads to a flatter organization.

The advantages of a flat structure are that it can lead to a higher levels of morale and productivity among employees. Its disadvantages are that a wide span of management in flat organizations may result in a manager having more administrative responsibility because there are fewer managers, and more supervisory responsibility because there are more subordinates reporting to each manager.

On its part, a tall structure's advantage is that the small span of management at each level allows a manager to exercise greater direct control. However, one of Its major disadvantages is that it is more expensive because of a large number of managers involved. Another disadvantage is that it fosters more communication problems because of the increased number of people through whom information must pass.

DISTRIBUTING AUTHORITY

The third important element of organizing is determining how authority is to be distributed among positions. Authority is power that has been legitimized by the organization. Two specific issues that managers must address when distributing authority are delegation and decentralization.

1). The Delegation Process – Delegation is the establishment of a pattern of authority between a superior and one or more subordinates. Specifically, delegation is the process by which managers assign a portion of their total workload to others.

The delegation process involves three steps. First, the manager assigns responsibility or gives the subordinate a job to do. Second, the manager gives the subordinate the power (for instance, the power to lead a group of other workers. The third step is that the manager establishes the subordinate's accountability- that is, the subordinate accepts an obligation to carry out the task assigned by the manager.

2). **Decentralization and Centralization -** is the process of systematically delegating power and authority throughout the organization to middle and lower level managers. A decentralized organization is one in which decision making, power and authority are delegated as far down the chain of command as possible.

Some organizations may instead choose to centralize power and authority. Centralization is the process of systematically retaining power and authority in the hands of higher level managers. In a centralized organization, decision making, power and authority are retained at the higher levels of management.

Of the two continuums, organizations that choose to follow decentralization tend to be more successful.

15.10 COORDINATING ACTIVITIES

The fourth major element of organizing is coordination. This is the process of linking the activities of the various departments of the organization.

i). **The need for coordination** – The primary reason for coordination is that departments and work groups are interdependent. They depend on one another for information and resources to perform their respective activities. The greater the interdependence between departments, the more coordination the organization requires if departments are to be able to perform effectively.

ii). **Structural Coordination Techniques** – There are many techniques for coordinating. Some of the most useful devices for maintaining coordination among interdependent units are the managerial hierarchy, rules and procedures, liaison roles, task forces and integrating departments. Organizations that use hierarchy to achieve coordination place one manager to be in charge of interdependent departments or units.

Routine coordination activities can be handled via rules and standard procedures.

Another way is to use a manager in a liaison role to coordinate interdependent units by acting as a common point of contact. He or she may not have formal authority over the groups but instead simply facilitates the flow of information between units.

A task force may be created when the need for coordinating is acute. When the interdependence is complex and several units are involved, a task force may be assembled by drawing one representative from each group. When the project is completed, task force members return to their original positions.

Integrating departments are occasionally used for coordination. They are similar to task forces but are more permanent. An integrating department generally has some permanent members as well as members who are assigned temporally from units that are particularly in need of coordination.

15.11 CONTROLLING

Once again, we introduce you to the concept of controlling. It is one of the key elements in the management of an enterprise.

Controlling is the monitoring of the progress of the enterprise as it works towards its goals so as to ensure that it is effectively and efficiently achieving its goals. It involves checking to see if plans are being realized.

In other words, controlling is the regulation of an enterprise's activities so that some targeted elements remain within acceptable limits. Without this regulation, an enterprise will not know how well it is performing in relation to its goals.

THE PURPOSE OF CONTROL

There are four functions of control as indicated below:

i) To help an enterprise adapt to environmental changes.

ii) To help an enterprise limit the accumulation of error

iii) To help an enterprise cope with organizational complexity.

iv) To help an enterprise minimize costs.

THE CONTROL PROCESS

Regardless of the type of an organization, there are four fundamental steps in any control process.

a). Establishing Standards (Setting Standards)

The first step in the control process is establishing standards. A control standard is a target against which subsequent performance will be compared. Standards established for control purposes should be expressed in measurable terms. They should also be consistent with the organization's goals. A final aspect of establishing standards is to identify performance indicators. Performance indicators are measures of performance that provide information that is directly relevant to what is being controlled.

b). **Measuring Performance**

The second step in the control process is measuring performance. For control to be effective, performance measures must be valid. Production performance may be expressed in terms of unit cost, production quality, or volume produced. Employee performance is often measured in terms of quality or quantity of output.

c). Comparing Performance Against Standards

The third step in the control process is comparing measured performance against established standards. Comparing performance against standards will result in one of the three outcomes: a) performance that is higher, b) lower, or c) identical (even) with the standard.

d). Considering Corrective Action

The final step in the control process is determining the need for corrective action. After comparing performance against control standards, one of the three actions is appropriate: a) maintain the status quo (do nothing), b) correct the deviation, or c) change the standards.

Maintaining the status quo is preferable when performance essentially matches the standards.

When performance has deviated from the standards some action will be needed to correct the deviation.

Changing the established standards usually is necessary if it was set too high or too low at the outset

UNIT 16

16.0 LEGAL RESPONSIBILITIES AND INSURANCE

OBJECTIVES

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

- **State various legal responsibilities associated with running an enterprise.**
- **Discuss different types of insurance schemes that may be used by an enterprise.**

16.1 LEGAL RESPONSIBILITIES

The word legal refers to anything having to do with the law. In Zambia, the legal system is the combination of laws, processes, and people that go together to protect our rights and safety. Elected officials, judges, the courts, lawyers, and police officers are all part of the legal system.

When running an enterprise, ensure that you observe the following legal requirements:

REGISTRATION AND CERTIFICATE OF INCORPORATION

One of your legal obligations before you start operating is to first ensure that you register your firm. Registration will enable you to get a certificate of incorporation.

In Zambia, companies are formed by registration under the Companies Act Chapter 388 of 2006 of the Laws of Zambia. Thus a company is formed by the issuance of a certificate of incorporation by the Registrar of Companies. The certificate identifies the company by name and serial number.

PAYING TAXES

Another legal obligation of any business firm is to ensure that the firm pays its fair share of taxes. There are many different types of taxes that a business firm and its employees are expected to pay. Some of these are, property taxes (taxes levied on the value of property), corporation taxes (levied on all corporations), presumptive taxes (taxes paid by people in the informal sector, e.g. marketeers, minibus, and taxi drivers), etc.

All governments in the world have a tax system. This is because it costs money to run a government, and the tax system is the government's way of obtaining this money.

To help in the collection of Taxes, the Zambian government established the Zambia Revenue Authority to undertake this task.

Price Discrimination: A business firm should guard against engaging in price discrimination. This is a legal requirement that every businesses entity should observe.

Price discrimination occurs when a seller charges different buyers' different prices for the same product, and when the price differences are not related to cost differences.

The Environmental Council of Zambiaregulates business firms as to the amount of pollution they can emit into the air or rivers. As a manager of an enterprise, you must know the limits of how much you can legally emit in the environment.

The National Pension Scheme Authority (NAPSA) ACT N0. 40 of 1996of the laws of Zambia requires every employer who are runs an enterprise to pay to NAPSA in respect of his or her employees. The NAPSA Scheme consists of an employer's contribution and an employee's contribution. A contributing employer shall pay contributions to NAPSA each month.

The Industrial and Labour Relations Act N0. 27 of 1993 of the laws of Zambia states that every employee shall as between himself and his employer, have the following rights:

- The right to take part in the formation of a trade union.
- He right to be a member of any trade union of his choice

No employer, or any person acting on his behalf shall prevent, dismiss, penalize or discriminate against or deter an employee from exercising these rights confirmed on him by sub section (1).

TheMinimum Wages and Conditions of Employment Act(Laws Volume 15 Cap 276) Statutory Instrument N0. 7 of 2006of the law of Zambia outlines the required minimum wages that employers should pay their least paid employees. Usually people who are engaged as a general worker, cleaner, handyman, an office orderly, or a watchman are the least paid.

As an employer running an enterprise it is your responsibility to find out the minimum wages before you engage people as employees.

The Factories Act (CAP 441) OF 2006 0f the laws of Zambia states that this act is intended to make further and better provision for the regulation of conditions of employment in factories and other places as regards the safety, health and welfare of persons employed therein, to provide for the safety, examination and inspection of certain plant and machinery, and provide for purposes incidental to or connected with the matters aforesaid.

- The act requires firms to provide protective clothing and appliances to their employees.
- It requires all employers to provide a safe working environment.

TheWorkers' CompensationAct N0. 10 OF 1999 of the laws of Zambia was created to provide for the establishment and administration of a Fund for the compensation of workers disabled by accidents occurring, or diseases contracted in the course of employment, and to provide for the payment of compensation to dependents of workers who die as a result of accidents or diseases. Employers are required, by the law, to make payments to the Fund on behalf of their employees.

16.2 BUSINESS INSURANCE

Business insurance protects against losses in four major risk areas. These are loss of property, liability losses, loss of earning power, and loss due to dishonesty or nonperformance.

LOSS OF PROPERTY

There are many forms of insurance available to protect against property losses. The two most common are fire and marine insurance.

Fire Insurance policies can be used to cover loss or destruction of an enterprise's buildings, fixtures, machinery, equipment, or other property resulting from fire.

Marine insurance policy can be used to cover the loss of goods that are being transported by water. Marine insurance may be in form of ocean marine insurance or inland marine insurance.

Burglary and robbery insurance: this protects against losses due to theft of money, merchandise, and other business items.

Vehicle insurance: protects against loss in the event of theft or property damage to cars, trucks or other vehicles. It also protects against personal injury to the driver or passengers

LOSS OF EARNING POWER

Business interruption insurance: This is the type of insurance that compensates a business for loss of income during the time repairs are being done to a building or property after a natural disaster.

LOSS DUE TO DISHONESTY OR NON PERFORMANCE

Fidelity Bonds: These protect a business from employee dishonesty. Usually, businesses require employees who handle money to be bonded. If a bonded employee steals the money, the bonding company pays the loss. This is to reimburse the enterprise for the losses.

Performance Bonds: These are also called surety bonds. They insure against losses that might occur when work or a contract is not finished on time as agreed. For example, a building contract might be required to purchase a performance bond to guarantee completion of the job on time and according to specification. The company that issues the performance bond is responsible for damages if the contract is not completed.

LIABILITY

Product liability insurance: protects against business loss resulting from personal injury from defective products manufactured or sold by a business.

UNIT 17

17.0 ENTREPRENEURSHIP EDUCATION?

This chapter starts with a discussion on the different terms used for describing entrepreneurship in education. Then various definitions are outlined and discussed. Value creation is presented as a commonality uniting different views in the field. Entrepreneurial competencies are discussed and exemplified through some competencies often termed as entrepreneurial. Based on these different terms and concepts, connections to general education are made by contrasting different pedagogical approaches and discussions. Some theoretical roots to entrepreneurship in education are given and briefly discussed.

17.1 Terminology of entrepreneurship in education

The two most frequent terms used in this field are *enterprise education* and *entrepreneurship education*. The term enterprise education is primarily used in United Kingdom, and has been defined as focusing more broadly on personal development, mindset, skills and abilities, whereas the term entrepreneurship education has been defined to focus more on the specific context of setting up a venture and becoming self-employed (QAA, 2012, Mahieu, 2006). In United States, the only term used is entrepreneurship education (Erkkilä, 2000). Some researchers use the longer term *enterprise and entrepreneurship education.*

Wide and narrow views on entrepreneurship

Being entrepreneurial can mean many things to many people. A common conception according to Gartner (1990) is that entrepreneurship is about entrepreneurial individuals creating innovative organizations that grow and create value, either for the purpose of profit or not. But entrepreneurship does not have to include the creation of new organizations, it can also occur in existing organizations (Shane and Venkataraman, 2007). It is not only limited to the entrepreneurial individual, but also to entrepreneurial opportunities and the relation between the individual and the opportunity, i.e. the individual-opportunity nexus as described by Shane (2003). Stevenson and Jarillo (1990) define entrepreneurship as "a process by which individuals - either on their own or inside organizations - pursue opportunities without regard to the resources they currently control" (p.23). Bruyat and Julien (2001) use a constructivist approach and propose a definition incorporating not only the entrepreneur, but also the new value created, the environment within which it takes place, the entrepreneurial process itself and the links between these constructs over time. They also propose the terms "individual" and "entrepreneur" to represent teams whenever applicable.

17.2 Educating about, for and through entrepreneurship

Entrepreneurial education is often categorized into three approaches, see figure 1 (Johnson, 1988, Heinonen and Hytti, 2010, O'Connor, 2013). Teaching "about" entrepreneurship means a contentladen and theoretical approach aiming to give a general understanding of the phenomenon. It is the most common approach in higher education institutions (Mwasalwiba, 2010). Teaching “for” entrepreneurship means an occupationally oriented approach aiming at giving budding entrepreneurs the requisite knowledge and skills. Teaching “through” means a process based and often experiential approach where students go through an actual entrepreneurial learning process (Kyrö, 2005). This approach often leans on the wider definition of entrepreneurship, and can be integrated into other subjects in general education, connecting entrepreneurial characteristics, processes and experiences to the core subject. While the “about” and “for” approaches are relevant primarily to a subset of students on secondary and higher levels of education, the embedded approach of teaching “through” entrepreneurship can be relevant to all students and on all levels of education (See for example Smith et al., 2006, Handscombe et al., 2008). Some important challenges have however been identified when trying to embed entrepreneurship into education this way, such as resource and time constraints, resistance from teachers, assessment challenges and cost implications (Smith et al., 2006), see further in chapter 4 below.

17.3 Value creation as the common core of entrepreneurial education

The varying definitions of entrepreneurship and resulting variations in pedagogical approaches have made it difficult to give teachers firm advice on how to approach entrepreneurial education (Fayolle and Gailly, 2008). If a useful definition could be agreed upon, the field and the teachers could benefit significantly. For the purpose of this report, Bruyat and Julien’s (2001) definition grounded in the concept of *value creation* is outlined more in detail below and constitutes the basis of many of the resulting recommendations in this report. This does not mean that it is the only suitable definition, merely that the author of this report has judged it to be particularly useful for entrepreneurial education.

Bruyat and Julien (2001) state that studying the entrepreneur (or team) in isolation is inherently wrong, as it is not solely from the entrepreneur that entrepreneurship occurs. Entrepreneurship is as much about the change and learning that the individual entrepreneur experiences by interacting with the environment as the change and value creation the entrepreneur causes through his/her actions. Learning and value creation are thus seen as two main aspects of entrepreneurship. This view aligns better with the learning focused aims of educational institutions than many other definitions of entrepreneurship. It forms the basis of a resulting definition of entrepreneurial education leaning on value creation as a main goal for students. Letting students try to create value to outside stakeholders will then result in development of entrepreneurial competencies.

Alluding to famous educational philosopher John Dewey's notion of "Learning-by-doing" the author of this report has proposed to label this a "Learning-by-creating-value" approach grounded in the field of entrepreneurship (Lackéus et al., 2013). According to this definition of entrepreneurial education, if a pedagogical intervention lets students learn to create value for other people (own group and teachers excluded), it is indeed entrepreneurial education. It could be done by actual value creation for other people as formal part of the curriculum (a preferred teaching "through" approach), or by learning about how to create value to other people (a less effective teaching "about" approach).

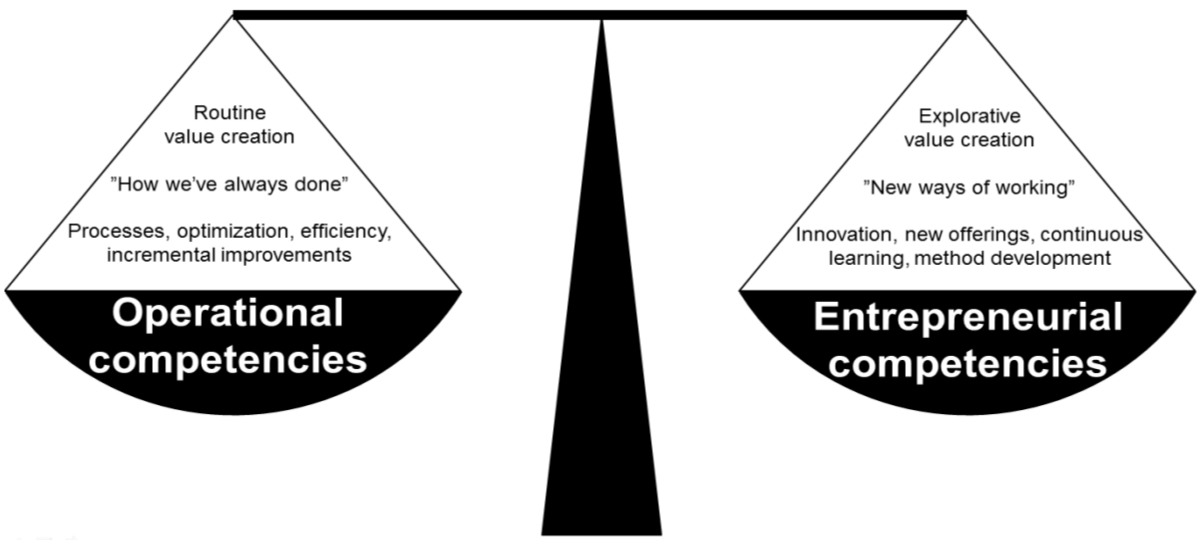
A definition of entrepreneurial education in line with this has been proposed by Danish Foundation for Entrepreneurship (Moberg et al., 2012, p.14) as "Content, methods and activities supporting the creation of knowledge, competencies and experiences that make it possible for students to initiate and participate in entrepreneurial value creating processes". This definition of entrepreneurial education leans on the following underlying definition of entrepreneurship: "Entrepreneurship is when you act upon opportunities and ideas and transform them into value for others. The value that is created can be financial, cultural, or social." (p.14).

Implicit in these definitions is the notion of *entrepreneurial* value creation, i.e. that the value created should be novel, but also that it requires some kind of initiative on behalf of the value creator, that it involves acquisition of resources needed to create the value, that the value creation process is managed and owned by the initiator of the process (i.e. the student) and that this initiator also assumes the risk of failure (Shapero and Sokol, 1982, Okpara and Halkias, 2011). Value creation occurs extensively in society, and is tightly connected to people's happiness since helping others results not only in making a living but also in feelings of meaningfulness, participation, engagement and life satisfaction (Baumeister et al., 2012). Value creation is however seldom entrepreneurial. Two main categories of value creation are routine value creation and explorative value creation (O'Reilly and Tushman, 2013). Routine value creation is based on operational competencies such as process management and execution, optimization and incremental improvements. Explorative value creation is based on entrepreneurial competencies, see further in next section. Finding a balance between these two forms of value creation is important for society but difficult to achieve. Routine value creation is often emphasized due to its greater certainty of short-term success. As a solution to the resulting lack of explorative value creation, researchers have advocated separating structures between routine value creation and explorative value creation, i.e. forming ambidextrous organizations (O'Reilly and Tushman, 2004).

Table 1. Value creation examples. *How different stakeholders in society are creating value for others*

Stakeholder	**Creates value for**	**How value for others is created**	**F/S/C type**	**R/E type**
Established business	Customers, employees and shareholders	By offering commercial services and products	Financial value	Routine
Business entrepreneur	Customers, employees and shareholders	By offering novel commercial services and products	Financial value	Explorative
Social entrepreneur	Society and individuals in need	By offering novel social services and products	Financial, social and cultural value	Explorative
Welfare state	Citizens of the state	By offering welfare services	Financial, social and cultural value	Routine
Family member	Other family members	By always being there	Social value	Routine
Pet	Other family members	By always being there	Social value	Routine

Artist	Other individuals	By entertaining, provoking and triggering new thoughts	Cultural value	Routine / explorative
Student	Future employers /	By preparing for work life; by	Financial, social	Routine



Two kinds of value creation. *Routine value creation is based on operational competencies such as process management and execution, optimization and incremental improvements. Explorative value creation is based on entrepreneurial competencies. A balance between them is desirable but seldom achieved.*

17.4 Entrepreneurial competencies

The main goal of most entrepreneurial education is to develop some level of *entrepreneurial competencies*. Table 2 contains a framework outlining some competencies often deemed to be entrepreneurial. Entrepreneurial competencies are defined here as knowledge, skills and attitudes that affect the willingness and ability to perform the entrepreneurial job of new value creation. This definition aligns with much of the literature on competencies in general as well as on entrepreneurial competencies (See for example Sánchez, 2011, Burgoyne, 1989, Kraiger et al., 1993, Fisher et al., 2008). The definition as well as the competencies in Table 2 can be viewed from a wide as well as a narrow perspective. Marketing skills can for example be necessary for a start-up in need to market its newly developed products, but also for a student wanting to get class-mates excited about an entrepreneurial project in order to get them to contribute to its development.

There are striking similarities between many of the outlined entrepreneurial competencies and what researchers label “non-cognitive factors”, such as perseverance, self-efficacy, learning skills and social skills (Farrington et al., 2012). Table 2 outlines a continuum showing that the top rows represent cognitive competencies, i.e. primarily intellectual capacity based competencies, and the bottom rows represent typical non-cognitive competencies. Cognitive competencies are easy to teach and evaluate, whereas non-cognitive competencies require learning-by-doing and are more difficult to evaluate (Moberg, 2014a). The current educational policy climate emphasizing high-stakes standardized testing, international large-scale assessments and institutional ranking has led to a focus on cognitive competencies, neglecting non-cognitive competencies. This has led to a narrowing of the curriculum, teaching to the tests and a de-professionalisation of teachers (Hursh, 2007, Amrein and Berliner, 2002, Ball, 2003, Young and Muller, 2010). The risks with such a neglect of non-cognitive competencies is increasingly being acknowledged by researchers (Farrington et al., 2012, Morrison Gutman and Schoon, 2013, Levin, 2013), highlighting the strong research evidence that students’ non-cognitive competencies significantly impact academic performance and future labor market outcomes, perhaps even more than cognitive competencies (Moberg, 2014b). See figure 4 for five general categories of non-cognitive factors, and the reciprocal relationship between academic mindsets, perseverance, behaviors and performance.

Table 2. Entrepreneurial competencies. *Framework outlining some key entrepreneurial competencies and their relation to cognitive and non-cognitive competencies. Adapted from (Lackeus, 2014).*

Main theme	**Sub themes**	**Primary source**	**Interpretation used in this report**
Knowledge	**Mental models**	(Kraiger et al., 1993)	Knowledge about how to get things done without

			resources, Risk and probability models.
	Declarative knowledge	(Kraiger et al., 1993)	Basics of entrepreneurship, value creation, idea generation, opportunities, accounting, finance, technology, marketing, risk, etc.
	Self-insight	(Kraiger et al., 1993)	Knowledge of personal fit with being an entrepreneur / being entrepreneurial.
Skills	**Marketing skills**	(Fisher et al., 2008)	Conducting market research, Assessing the marketplace, Marketing products and services, Persuasion, Getting people excited about your ideas, Dealing with customers, Communicating a vision.
Resource skills		(Fisher et al., 2008)	Creating a business plan, Creating a financial plan, Obtaining financing, Securing access to resources
Opportunity skills		(Fisher et al., 2008)	Recognizing and acting on business opportunities and other kinds of opportunities, Product / service / concept development skills
Interpersonal skills		(Fisher et al., 2008)	Leadership, Motivating others, Managing people, Listening, Resolving conflict, Socializing
Learning skills		(Fisher et al., 2008)	Active learning, Adapting to new situations, coping with uncertainty
Strategic skills		(Fisher et al., 2008)	Setting priorities (goal setting) and focusing on goals, Defining a

			vision, Developing a strategy, Identifying strategic partners
Attitudes	**Entrepreneurial passion**	(Fisher et al., 2008)	”I want”. Need for achievement.
Self-efficacy		(Fisher et al., 2008)	”I can”. Belief in one’s ability to perform certain tasks successfully.
Entrepreneurial identity		(Krueger, 2005, Krueger, 2007)	”I am / I value”. Deep beliefs, Role identity, Values.
Proactiveness		(Sánchez, 2011, Murnieks, 2007)	”I do”. Action-oriented, Initiator, Proactive.
Uncertainty / ambiguity tolerance		(Sánchez, 2011, Murnieks, 2007)	”I dare”. Comfortable with uncertainty and ambiguity, Adaptable, Open to surprises.
Innovativeness		(Krueger, 2005, Murnieks, 2007)	”I create”. Novel thoughts / actions, Unpredictable, Radical change, Innovative, Visionary, Creative, Rule breaker.
Perseverance		(Markman et al., 2005, Cotton, 1991)	”I overcome”. Ability to overcome adverse circumstances.

REVISION QUESTIONS

1. **How would you describe an entrepreneurial school? (20 Marks).**
2. **Why should entrepreneurship be made as a compulsory subject in schools. (20 marks).**
3. **Write an essay with relevant examples on how you would integrate entrepreneurship in you subject of specialisation. (20 marks).**

4. **To what extent can entrepreneurship education develop entrepreneurial intentions in students/pupils? (20 marks).**

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