

NATIONAL OPEN UNIVERSITY OF NIGERIA

# MBA 883



Small Business  
Management  
**Module 1**

# **MBA 883 Small Business Management Module 1**

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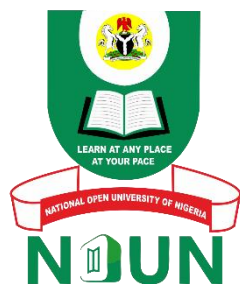
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Published in 2021 by the National Open University of Nigeria

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# Unit I The Nature of Small Business

## 1.0 Introduction

In this course (MBA783), we will focus our attention on the process of establishing, organizing and running a small business. But to enable us proceed and properly guide our thoughts, there is the urgent need for us to understand what we mean by a small business. We can do this by identifying the characteristics a business must possess to qualify as a small business.

## 2.0 Objectives

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

- explain the nature of small business
- define a small business
- identify a small business in your environment.

## 3.0 Main Content

### 3.1 The Nature of Small Business

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

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

#### 3.1.1 Definition of Small Business

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

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

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

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

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

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

### 3.1.2 Identifying a Small Business

Although we have succeeded in defining a small business, we need to go a step further to provide a framework that will enable us identify small businesses in our environment. We need to establish the criteria that distinguish a small business from a big business.

Some of the criteria are:

#### **Initial Capital Outlay**

Initial capital outlay refers to the financial resources that are required to start up a business. If the initial capital outlay required to start a business is small then that fact alone may lead us to conclude that a small business requires a small amount of money to start. For example, with at low as N3,000 (three thousand naira only), a newspaper vending business can be started. Also, a road side kiosk may require a total initial financial outlay of about N7000 (seven thousand naira only) to start. However, on the other hand, if a large sum of money say N50,000,000 (Fifty million naira only) is required to start a particular business, then that business is not a small business. Rather it is a big business.

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

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

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

#### **Number of Employees**

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

#### **Ownership Structure**

Ownership structure is another criterion that can be used to distinguish between a small business and a big one.

You know that ownership structure of business can vary widely. A business can be owned by an individual and run on a sole proprietorship basis.

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

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

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

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

### **Type of Technology Employed**

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

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

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

### **A Practical Business Idea for Class Discussion**

#### **Investing In an Exercise Book Making Plant**

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

#### **Technical Information**

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

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

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

#### **Self-Assessment Exercise I**

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

### 3.1.3 Types of Small Business

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

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

#### **Trading and Commerce Enterprises**

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

- bread
- recharge cards
- soft drinks
- sachet water.

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

#### **Service enterprises**

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

Examples of service enterprises include:

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

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

#### **Small Manufacturing Enterprises**

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

Examples of small manufacturing enterprises include:

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

### **Self-Assessment Exercise 2**

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

## **4.0 Conclusion**

This unit treats the nature of small business.

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

## **5.0 Summary**

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

## **6.0 Tutor-Marked Assignment**

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

List the four criteria.

## **7.0 References/Further Reading**

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

### **ANSWERS TO SELF ASSESSMENT EXERCISES**

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

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

The three types of small business are:

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



## Unit 2 Advantages and Disadvantages of Small Business

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### 1.0 Introduction

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

### 2.0 Objectives

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

- explain the advantages and disadvantages of small business.

### 3.0 Main Content

#### 3.1 Advantages and disadvantages of small business

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

##### 3.1.1 Low Start-up Capital

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

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

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

Some of the goods hawked include the following:

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

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

### 3.1.2 Ease of Entry and Exit

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

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

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

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

### 3.1.3 Operational Flexibility

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

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

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

- Branch Analyst
- Branch Manager
- Head office credit unit
- Management credit committee
- Board credit committee.

## 3.2 Disadvantages of Small Business

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

### 3.2.1 Lack of Capital

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

### 3.2.2 Lack of Adequate Technology

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

### 3.2.3 Lack of Managerial Skills

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

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

### **A Practical Business Idea for Class Discussion**

#### **Investing In an Envelope Making Plant**

Envelopes need no introduction. Every day, across the Nation, envelopes are used to dispatch both local and international mails. The use of envelopes cuts across all segments of the society. Think of the volumes used daily by banks, insurance companies, manufacturing

concerns, the Army, Police, Navy, public and private schools, courier companies etc. The list is endless. It is estimated that current annual demand for envelopes in Nigeria is in excess of 5 billion units in various sizes, shapes and qualities. It is noted that there are different qualities of envelopes in the market and these are targeted at different user segments.

### **Technical Information**

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

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

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

### **3.2.4 Vulnerability to Economic Changes**

In business, change is inevitable and occurs very frequently. Bird flu disease affected the poultry Industry in Nigeria adversely in the year 2006 and wiped out a very large number of birds in most poultry farms. Big farms were able to manage the crisis while the small farms that had no access to medical technology ended up losing all their birds to Bird flu disease. In such cases, you will realize easily that a small business is more vulnerable to economic changes than big businesses. When there are down turns in the economy, the first and major casualties are the small businesses. They are the first to begin to experience financial difficulties and their low capital base obviously cannot absorb huge operating losses arising from adverse economic changes. On the other hand, big corporations have the capacity to absorb economic shocks due to their strong capital base. They also have experienced managers who are able to manage change.

### **Self-Assessment Exercise**

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

## **3.3 Why People Engage In Small Business**

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

### 3.3.1 The Need for Independence

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

### 3.3.2 Job Security

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

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

### 3.3.3 Family Employment and Community Service

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

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

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

### 3.3.4 Challenge

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

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

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

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

## 4.0 Conclusion

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

## 5.0 Summary

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

## 6.0 Self Assessment Exercise

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

## 7.0 References/Further Reading

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

### **ANSWERS TO SELF ASSESSMENT EXERCISES**

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

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

## Unit 3 Introduction to Opportunities Analysis

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### 1.0 Introduction

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

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

### 2.0 Objectives

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

- discuss the concept of opportunities analysis.

### 3.0 Main Content

#### 3.1 Introduction to Opportunities Analysis

The most important task facing the small scale business entrepreneur is that of identifying business opportunities in the larger macroeconomic environment. You will realize that the economic landscape is dominated by such large multinationals like John Holt Plc, Nigerian Breweries Plc etc. Given their sheer size and presence, the multinationals control the market and dictate the operating standards. Given this scenario, how should the small business entrepreneur analyse the opportunities available?.

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

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

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

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

1. Given the competition, what are the products and services that I could select to provide and why?
2. What is the current level of demand for the chosen product or service?
3. What is the supply situation for the product or service?

4. Are there barriers to entry?
5. What is the industry likely to look like in the next 2 or 3 years?

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

### 3.1.1 Demographic Trends

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

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

#### Age Distribution of the Population

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

AGE				POPULATION
0	-	5	years	3,000,000
6	-	10	“	1,500,000
11	-	16	“	2,000,000
17	-	25	“	1,200,000
26	-	40	“	3,000,000
41 and above				4,000,000
<b>Total</b>				<b>14,700,000</b>

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

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

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

#### The Size of the Working Population

Of course, we know that not all members of a population are gainfully employed. For example, people in the age bracket 0 – 5 are not usually employed but rather they depend on the working population. In real life, the working population is found in the 17 and above bracket.



The importance of estimating the size of the working population is that it enables us to measure purchasing power of a population. In our situation – Nigeria, the work force is divided into two namely:

- Public sector employees
- Private sector employees.

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

### **The Birth Rate and the Death Rate**

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

### **The Sex Distribution of a Population**

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

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

### **Mobility Trends**

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

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

### **Ethnic and Religious Structure of A Population**

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

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

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

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

## **3.1.2 Economic Trends**

When trying to search for opportunities in the macro environment, the would-be entrepreneur needs to understand economic trends in the economy. Economic trends will

be seen from the interplay of fiscal and monetary policies. Very critical to our analysis are the following:

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

### 3.1.3 Political and Regulatory Trends

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

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

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

### 3.1.4 Socio – Cultural Trends

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

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

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

### **A Practical Business Idea for Class Discussion**

#### **Handkerchief Manufacturing**

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

#### **Technical Considerations**

The project under discussion is a small but dedicated plant for the manufacture of handkerchiefs only using locally sourced textile materials (cotton). On a single shift of 8 hours and using a labour force of 6, the plant can produce 4,000 pieces of handkerchiefs.

On a day of 3 shifts of 8 hours each, a production of 12,000 pieces of handkerchiefs can be produced. However, this write up assumes 2 shifts per day for 300 working days in a year. The key machines required are hinged cutting machine, whipping machine, trimming machine and loose items like scissors. Technical care is essential in the production process of handkerchiefs.

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

### 3.1.5 Classification of Goods And Services

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

#### **Essential Goods**

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

#### **Non – Essential Goods and Services**

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

#### **Durable Goods**

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

#### **Non-Durable Goods**

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

<b>ESSENTIAL GOODS</b>	<b>NON-ESSENTIAL GOODS</b>
Water Fuel (petrol and kerosene) Food items Housing Medical care Salt	Cheese Butter Whisky Wine DVD player High definition television
<b>DURABLE GOODS</b>	<b>NON-DURABLE GOODS</b>
Motor cycle Aeroplane Ship Refridgerator Air conditioner	Car spark plug Car contact set Car fuel filter Water candle filter

Deep freezer Building	
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**Figure 3.2 Classification of goods and services.**

This is based on the Rogets consulting group model.

### Self-Assessment Exercise

Haliru is a four-year-old child.

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

### 3.1.6 Steps Involved in Conducting Opportunities Analysis

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

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

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

## 4.0 Conclusion

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

## 5.0 Summary

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

## 6.0 Self Assessment Exercise

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

## 7.0 References/Further Reading

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

## **ANSWERS TO SELF ASSESSMENT EXERCISES**

The list of ten goods regularly used by Haliru is:

- Water
- Drugs
- Soap
- Pomade
- Rice
- Milk
- Beans
- Clothes
- Powder
- Shoes

## Unit 4 Advanced Opportunities Analysis

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### 1.0 Introduction

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

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

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

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

### 2.0 Objectives

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

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

### 3.0 Main Content

#### 3.1 Advanced Opportunities Analysis

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

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

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

##### 3.1.1 Data for Advanced Opportunities Analysis

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

<b>DATA TYPE</b>	<b>INFORMATION CONTAINED THEREIN</b>
TOTAL POPULATION DATA	Shows the total population of Nigeria arranged state by state. Gives a picture of people in every state of Nigeria
SEX DISTRIBUTION OF POPULATION	Shows the total population broken down into males and females. It gives investors the opportunity of knowing the quantity of males and females. Those investing in female products know their markets in advance.
TRANSPORTATION BASIC DATA	Provides basic data on the transport sector. Gives Investors opportunities to examine the sector critically for investment opportunities.
COMMUNICATION SECTOR DATA	Provides data on the Nigerian Communication Sector.
EDUCATION BASIC DATA	Provides basic data on the education sector. Investors can use the data to project for demand for exercise books etc.

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

<b>STATE</b>	<b>TOTAL</b>
Abia	2,833,999
Adamawa	3,168,101
Akwa Ibom	3,920,208
Anambra	4,182,032
Bauchi	4,676,465
Bayelsa	1,703,358
Benue	4,219,244
Borno	4,151,193
Cross River	2,888,966
Delta	4,098,391
Ebonyi	2,173,501
Edo	3,218,332
Ekiti	2,384,212
Enugu	3,257,298
F C T	1,405,201
Gombe	2,353,879
Imo	3,934,899
Jigawa	4,348,649
Kaduna	6,066,562

Kano	9,383,682
Katsina	5,792,578
Kebbi	3,238,628
Kogi	3,278,487
Kwara	2,371,089
Lagos	9,013,534
Nasarawa	1,863,275
Niger	3,950,249
Ogun	3,728,098
Ondo	3,441,024
Osun	3,423,535
Oyo	5,591,589
Plateau	3,178,712
Rivers	5,185,400
Sokoto	3,696,999
Taraba	2,300,736
Yobe	2,321,591
Zamfara	3,259,846
<b>TOTAL</b>	<b>140,003,542</b>

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

STATE	TOTAL	MALES	FEMALES
Abia	2,833,999	1,434,193	1,399,806
Adamawa	3,168,101	1,608,123	1,561,978
Akwa Ibom	3,920,208	2,044,510	1,875,698
Anambra	4,182,032	2,174,641	2,007,391
Bauchi	4,676,465	2,426,215	2,250,250
Bayelsa	1,703,358	902,648	800,710
Benue	4,219,244	2,164,058	2,055,186
Borno	4,151,193	2,161,157	1,990,036
Cross River	2,888,966	1,492,465	1,396,501
Delta	4,098,391	2,074,306	2,024,085
Ebonyi	2,173,501	1,040,984	1,132,517
Edo	3,218,332	1,640,461	1,577,871
Ekiti	2,384,212	1,212,609	1,171,603
Enugu	3,257,298	1,624,202	1,633,096
F C T	1,405,201	740,489	664,712
Gombe	2,353,879	1,230,722	1,123,157
Imo	3,934,899	2,032,286	1,902,613
Jigawa	4,348,649	2,215,907	2,132,742



Kaduna	6,066,562	3,112,028	2,954,534
Kano	9,383,682	4,844,128	4,539,554
Katsina	5,792,578	2,978,682	2,813,896
Kebbi	3,238,628	1,617,498	1,621,130
Kogi	3,278,487	1,691,737	1,586,750
Kwara	2,371,089	1,220,581	1,150,508
Lagos	9,013,534	4,678,020	4,335,514
Nasarawa	1,863,275	945,566	917,719
Niger	3,950,249	2,032,725	1,917,524
Ogun	3,728,098	1,847,243	1,880,855
Ondo	3,441,024	1,761,263	1,679,761
Osun	3,423,535	1,740,619	1,682,916
Oyo	5,591,589	2,809,840	2,781,749
Plateau	3,178,712	1,593,033	1,585,679
Rivers	5,185,400	2,710,665	2,474,735
Sokoto	3,696,999	1,872,069	1,824,930
Taraba	2,300,736	1,199,849	1,824,930
Yobe	2,321,591	1,206,003	1,115,588
Zamfara	3,259,846	1,630,344	1,629,502
<b>TOTAL</b>	<b>140,003,542</b>	<b>71,709,859</b>	<b>68,293,683</b>

**Table 4.3: Sex distribution of Nigerian Population (Census 2006)**

#### **TRANSPORTATION BASIC DATA, 2004**

<b>Road Transport</b>	<b>2004</b>
Length of roads (in kilometer)	34,403
Principal roads	15,688
Paved Roads	27,957
of which bad portion	6,466
Motor Vehicle population (000)	2,176
of which newly registered (000)	402
Number of road accidents	14,279
of which; persons involved	22,248
of which persons killed	5,351
<b>Air Transport</b>	
Loaded freight (000tonnes)	22,518
Unloaded freight (000tonnes)	63,158
Passengers departing (Number)	733,445
Transiting Passengers (Number)	37,857
Arriving passengers (Number)	711,781
Aircraft arriving (Number)	9,097

Maritime Transport	
Loaded good (000tonnes)	10,634
Unloaded goods (000tonnes)	27,569
Arriving ships (Number)	6,278
of which Tankers (Number)	998
Passengers arriving by sea (N0.)	506
Passenger departing by sea (N0.)	329
Railway Transport	
Length of railway lines (km)	3,505
Number of Loco motions (N0.)	46
Number of Carriages (N0.)	251
N0 of Wagons (N0.)	1,410
Passenger Traffic (000Passengers – km)	1,157,042
Goods traffic (000tonnes-km)	139871

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

**Table 4.4 Transportation basic data**

#### COMMUNICATION SECTOR 2004

DESCRIPTION	2004
Telephone lines in use (fixed) (000)	1030
Telephone lines Cell phone (mobile) (000)	8.300
Tele density	7.77
Outgoing Direct traffic (million)	65.3
Incoming Direct traffic (million)	421.6
Telephone exchange (Number)	312
Telephone booths (Number)	4153
Telephone Transit Centres	53
Internal Mail	41.4
Total Mail sent abroad (000)	4.6
of which by air (000)	4.4
Mail received from abroad (000)	13.0
of which by air (000)	12.5

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

Note: in paid minutes

**Table 4.5: Communication Sector Data**

#### EDUCATION BASIC DATA, 2004

DESCRIPTION	2004
STUDENTS:	

Student in Primary School (000)	25464
Students in Secondary School (000)	6343
Students in University equivalent (000)	267.5
Students in University (000)	621.4
<b>TEACHERS:</b>	
Teachers in Primary School (000)	627
Teachers in Secondary School (000)	209
Teachers in University equivalent (000)	NA
Teachers in University (000)	23.8
<b>INSTITUTIONS:</b>	
Number of Primary Schools	57,582
Number of Secondary School	11,590
Number of University equivalent	76
Number of University	52

Source: Fed. Min. Education, National University Commission, National Board for Technical Education

N.A = Not Available

University equivalent includes institutions like the polytechnics, specialized tertiary,

**Table 4.6: Education basic data.**

### 3.1.2 Use of Data for Advanced Opportunities Analysis

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

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

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

Now take a closer look at Table 4.4.

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

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

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

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

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

### Self-Assessment Exercise

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

### A Practical Business Idea for Class Discussion

#### Production of Distilled Water

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

#### Technical Considerations

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

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

#### Production Process

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

<b>FINANCIAL HIGHLIGHTS</b>	<b>N</b>
Pre-Investment Outlays	40,000
Rent/Accommodation (2 years)	100,000
Machinery /Equipment	500,000
Utilities	60,000
Working Capital	50,000
Total Project Cost	750,000
Projected Year I Income	15,000,000
Projected Year I Expenses	12,000,000
Projected Year I Profit	3,000,000

### 3.1.3 Forecasting Future Demand

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

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

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

#### **EXAMPLE**

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

#### **SOLUTION**

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

Cars demanded in year 2008 = 515,000 cars.

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

## 4.0 Conclusion

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

## 5.0 Summary

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

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

## 6.0 Self Assessment Exercise

What types of data are required for Advanced Opportunities Analysis?

## 7.0 References /Further Reading

Leon Ikpe (1999): Project Analysis and Evaluation.

Impressed Publishers, Lagos

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

### **ANSWERS TO SELF ASSESSMENT EXERCISES**

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

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