

NATIONAL OPEN UNIVERSITY OF NIGERIA

MBA 883



Small Business
Management
Module 2

MBA 883 Small Business Management

Module 2

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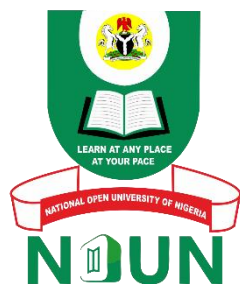
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Published in 2021 by the National Open University of Nigeria

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Unit I Characteristics for Success in Small Business

1.0 Introduction

In the last unit, we discussed advanced opportunities analysis, which provided us with a background for looking at business opportunities. In this unit, we shall discuss the characteristics for success in small business. In treating the characteristics for success in small business, we shall be looking at characteristics for success in a small business.

2.0 Objectives

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

- identify those characteristics that are essential for success in small business.
- discuss the characteristics in detail.

3.0 Main Content

3.1 Characteristics for Success in Small Business

In practical terms, it is easy to know that not all business turn out to be successful. Some are successful while some are not.

Apparently, there must be reasons that stand to explain the reasons behind every business that turns out to be successful. There must be those characteristics that are essential for success. These are called the characteristics for success in small business. It is those characteristics that we now want to discuss.

3.1.1 Technical Competence

One of the most important characteristics for success in a small business is technical competence. Technical competence refers to the ability of the entrepreneur to understand the business in question and also possess the requisite knowledge and skills to engage in the business. For example, a person engaged in the business of photography must understand the handling of cameras, films and to some extent film processing. These are the things that contribute to successful photography. An architect engaged in architectural practice must be able to design good houses.

A motor mechanic who does not understand how to tune a car will end up losing all of his customers.

A medical doctor engaged in medical practice should be able to handle simple ailments like malaria. If that is not the case with him, he will soon find that clients will not make repeat calls to the clinic.

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

Even where the entrepreneur takes the business to the next level, the issue of competence continues to be very relevant. In the enlarged business organization, core competence

which is a bundle of skills that an organization possesses is very important. Core competence as a bundle of skills enables a business provide goods and or services to its customers. The core competence of Federal express (Fedex) is logistics management. It is the understanding of logistics management that enables Fedex provide courier services to its clients nationwide. Sony's core competence is miniaturization. This core competence enables it to build strong and compact electronic goods that are world class. So we need to repeat the fact that every successful entrepreneur needs to have good technical knowledge of the business he/she is going into or thinks of going into.

3.1.2 Mental Ability

Another important characteristic for success in small business is mental ability. For an entrepreneur to be successful, he / she must have good mental ability. When we talk of mental ability, we are talking about the capacity to understand. Mental ability enables the entrepreneur think and develop competitive strategies. The ability to think enlarges the entrepreneur's vision and generates ideas on how to see competition not in small terms but from a wider perspective.

In business, apart from knowledge, there is the very crucial need for the entrepreneur to possess general knowledge. The possession of general knowledge enables the entrepreneur to have a wider view of the various components of a business and also picture how they join together.

Mental ability enables a good entrepreneur to anticipate the moves of competitors well in advance and take necessary strategic steps to ensure business survival.

3.1.3 Human Relation Skills

Possession of good human relation skills is another characteristic for success in entrepreneurship. In general terms, it is very easy to see that most successful entrepreneurs have good human relations skills. Possession of good human relations skills ensures that the entrepreneur gets along well with the following:

- their employees
- business associates
- customers
- suppliers
- government.

Generally, when we are discussing human relations skills we are thinking of three basic skills namely:

- communication skills
- motivational skills
- leadership skills.

Let us discuss these three skills briefly. Communication basically is the process of exchanging information between one person and another. Or it could be between one person and a group of persons. Communication also could be between an enterprise and third parties or customers. Inside the enterprise or organization, the entrepreneur needs

to exchange information at various levels. There is need to communicate with the workers so that management functions are accomplished.

Communication provides a link between people in an organization. Generally, the principles of communication indicate that effective human relations skills involve the following:

- Addressing people by name
- Smiling at people
- Speaking to people (audibly)
- Being warm to people
- Being friendly
- Showing Interest in people
- Being a great listener
- Looking for opportunities to praise people
- Acting like a member of a team
- Being humble.

Motivational skills is another key characteristic for success in business. An entrepreneur invariably works with people some of who turn out to be subordinates. Managers should understand how to motivate people. Ordinarily, motivation is a process of inducing people to engage in an activity willingly. Although in the literature, money has been identified as a key motivator, there are other motivators such as:

- Good work environment
- Full appreciation for work done
- Job security
- Promotion on the Job.

Leadership skills are another important human relation skills. A good leader attracts good followership. A good leader shows how to do it. Some good leadership traits include the following.

- ability to socialize well with people
- self-assurance
- self-control
- emotional stability and ability to withstand pressures.
- good moral standing
- confidence.

Self-Assessment Exercise

List four leadership traits that you are aware of.

A Practical Business Idea for Class Discussion

Commercial Grinding Mill Project

A lot of the food and drink input of Nigerians is produced from assorted grains like millet, corn, soya beans: These grains are converted to such items like soya beans and milk, ogi, corn flour, corn vita, bourn vita and the rest. On a more relevant scale, the conversion of cassava to garri, fufu or starch involves the process of grating. Based on these types of market information, it is easy to see why a well-designed commercial grinding mill located in high density areas and close to markets can be relied upon to generate significant cash flows to an investor.

Technical Information

The project highlighted in this write-up is a grinding mill shop designed to provide dry and wet milling services to the public. The shops will have a uniform design and replicated in all the locations where the investor is operating.

Each milling location (shop) will have five (5) mills running on wet and dry basis and two cassava graters. To accommodate the inconsistencies of NEPA, each shop will have a stand by generator and a deep bore hole since this project consumes a lot of water. Service will be on first come first served basis. For a start, the investor should take-off with four (4) shops carefully targeted at high density locations.

Technical Data

MILL FEATURES:	Hopper inlet systems. Low noise with cone receivers.
POWER DRIVES:	Electric motors. Single phase 2 hp – 5hp
POWER:	Power Holding Company or 10 KVA generator
ACCESSORIES:	Power drive belts, spare pulleys, bolts and nuts,

Grinding discs and electric motors, water pumps.

FINANCIAL HIGHLIGHTS	N
Pre-Investment outlays	20,000
Rent / accommodation (2 yrs) for 4 locations	96,000
Machinery / Equipment	100,000
Utilities	400,000
Working Capital	20,000
Total Project Cost	636,000
Projected Year 1 Income	1,200,000
Projected Year 1 Expenses	400,000
Projected Year 1 Profit	800,000

3.1.4 High Achievement Drive

Generally, most successful entrepreneurs are very high achievers. But success does not come easy. You must work for it. High achievers are always driven by the passion to

achieve and succeed in whatever they are engaged in. But how do you identify a high achiever?

In small business management literature, high achievers have three important characteristics namely:

- Taking responsibility for all their actions especially in finding solutions to problems.
- Taking of calculated risks
- Ensuring feedback in their operations.

Lazy people unlike high achievers hate work and do not have lofty objectives to be met. They have small plans. High achievers are usually driven by a passion to succeed and they do have big plans. Big plans attract energy.

3.1.5 Creativity

Creativity happens to be another important characteristic for success in entrepreneurship. Ordinarily, creativity is the ability to process and arrange information in ways that lead to new knowledge.

Creative people end up with Innovations and also innovative ways of doing things. They create new processes and designs.

For example, Edwin Land developed the Polaroid Camera which was an enhanced camera with the ability to produce pictures instantly. This move by Edwin Land gave Polaroid a head-start over its closest rival, Kodak.

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

- They generate many new ideas in a short time
- They are motivated by challenges
- They convert problems into opportunities
- They believe in themselves
- They value their mental independence
- They are very flexible in their thinking
- They enjoy experimenting with new ideas.

4.0 Conclusion

In this Unit, we discussed the characteristics for success in small business. Some of the characteristics discussed are Technical competence, mental ability, Human relation skills and Creativity.

5.0 Summary

Success in entrepreneurship requires deep characteristics for success. The characteristics should be present in the entrepreneur or learnt through formal or informal education. If the characteristics for success are embedded in an entrepreneur, it means that success will

come easy. Technical competence, mental ability, human relation skills and creativity have been discussed as key characteristics for success in entrepreneurship.

In our next unit, we shall discuss the Technical plan.

6.0 Self Assessment Exercise

Human relation skill is very important in an entrepreneur. Discuss the three components of human relation skills.

7.0 References/Further Reading

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

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

ANSWERS TO SELF ASSESSMENT EXERCISES

The four leadership traits are:

- Good moral standing
- Self-assurance
- Self-control
- Confidence.

Unit 2 The Technical Plan

1.0 Introduction

In the last Unit (Unit 1), we discussed characteristics for success in small business. In this Unit, we shall discuss the Technical plan. In discussing the Technical plan, we shall examine the various components of the technical plan.

2.0 Objectives

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

- explain what a business plan is
- enumerate what a technical plan is
- highlight how it is related to a business plan.

3.0 Main Content

3.1 The Technical Plan

A key function of management of any business is planning especially when a business is to be started from the scratch. When a business is to be started especially from the scratch, the entrepreneur needs a formal business plan. The business plan is a document which sets out what a business is going to do and how it is going to do it.

To ease our discussion we shall divide the business plan into five segments namely:

- the technical plan
- the management plan
- the marketing plan
- the financial plan
- the economic plan.

Following our arrangement, we shall discuss the technical plan in this unit.

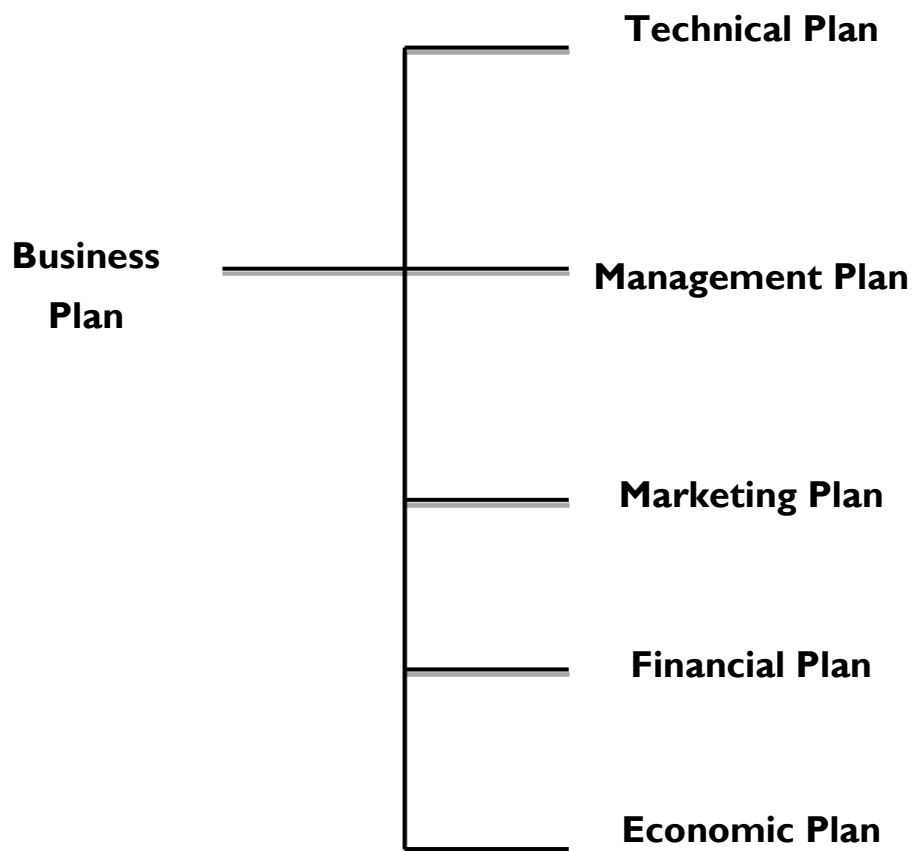


Figure 6.1: Structure of a small business plan

From what we have seen so far, a technical plan is a component of what is known as a business plan. The technical plan addresses the technical issues affecting a business. But before we delve into Technical plans proper, we would do ourselves some good if we first discussed factors affecting location of a business.

3.1.1 Factors Affecting Location of a Business

A very important aspect of business planning is the ability to site a business where it should be and also maximize returns to the owners. Choosing a location for a business is not an easy task. However, irrespective of the type of business that is to be started, certain key factors stand out as influencing the location of business. Some of the factors are described below.

Personal Factors

At times, personal factors alone determine where a business will be located. For example an entrepreneur might decide to locate a business in his home town just to generate employment for the local folks. Also another entrepreneur might choose a location simply because of the climate.

Nearness to critical markets

A majority of businesses are set up mainly for profit motives. A few are non-profit making. And so if a business is to receive patronage, it has to have customers. Therefore, businesses tend to locate close to where their markets are. From our own understanding markets tend to be concentrated in large cities like Ibadan, Lagos, Onitsha, Kano and Aba.

The large cities have critical markets based on their population and the accompanying purchasing power. A city that has a large work force invariably will have high purchasing power needed to translate needs into effective demand.

Nature of the business concerned

Apart from nearness to critical markets, the nature of the business goes a long way to determine where it will be located. For example, a convenience goods store should be located where customers have quick and easy access to, wholesalers locate according to different criteria. They may not locate at critical mass areas.

Rather they locate where the rent is fair and the roads available too.

Barber shops, restaurants and tobacco shops tend to locate close to each other.

Nearness to Suppliers

For manufacturing businesses one of the major factors affecting location is nearness to suppliers especially of critical raw materials. Raw materials costs are critical costs in a manufacturing set up and in many cases raw materials form about 70% of the total costs of a product.

Nearness to Power Supply

Another major factor affecting location of businesses is nearness to Power Supply. Power is very important for every business but more important especially in a manufacturing concern. Power is required to power the various machinery and equipment. Power is also needed for offices. Even where power is available, erratic power supplies disrupt production plans and invariably lead to manufacturers not meeting market demand.

Transportation

Every business needs transportation services. Customers coming to every business location make use of roads where they exist. If roads do not lead to a business location, it becomes very difficult to move raw materials into a factory and also finished goods from the factory to the consumers of the goods.

A Practical Business Idea for Class Discussion

Palm Oil Production Plant

Palm oil is an important food item in the Nigerian diet. It is primarily used in cooking and is rich in Vitamin A. It is used as industrial raw material by soap and vegetable oil industries hence its industrial importance. Put together therefore, we have a product that has a wide market and presents good investment opportunities for a small scale investor.

Technical Considerations

The project considered in this write-up is a medium sized palm oil plant. Since the basic raw material for the project is fresh fruit bunches (FFB) from the oil palm tree, the problem of

raw material sourcing is not likely to arise. The basic and necessary machinery for the project are the boiler / sterilizer, rotary stripper; digester and clarifier.

Production Process of Palm Oil

Quartered fruit bunches are introduced into the boiler / sterilizer and left for about 30 minutes under hot steam for boiling and sterilization to take place. The quartered bunches are then fed into the rotary stripper which strips the fruits from the quartered bunches which are still at a very high temperature of about 110°C. The loose fruits from the rotary stripper are then fed into the horizontal digester for maceration. In the digester, the palm fruits are beaten in to a paste. Hot water which is introduced into the digester forces the thick paste and water into the oil clarifier unit. In the clarifier, the oil is separated from the water and palm oil is collected from a tap. Investors are advised to use the **tenera** oil palm fruit because of its high oil yielding abilities.

Technical Data

MACHINERY: Digester with capacity of digesting 480kg of loose fruit per hour.
CLARIFIER: Volume – 1000 litres per operation
POWER: Power Holding Company + Electric motor 20 Hp.
 Plant Installed Capacity: 2700 tons of FFB handling capacity per annum.

FINANCIAL HIGHLIGHTS

	N
Pre-Investment Outlays	100,000
Rent/Accommodation	250,000
Machinery/Equipment	800,000
Utilities	400,000
Working Capital	200,000
Total Project Cost	1,750,000
Projected Year 1 Income	5,000,000
Projected Year 1 Expenses	3,700,000
Projected Year 1 Profit	1,300,000

3.1.2 The Components of a Technical Plan

By components of a Technical plan, we mean those things that ought to be considered as parts of the technical plan. Our plan in this discussion is to itemize the various items and draw up a check list later. Let us now look at the various items starting from land and buildings.

Land and Buildings

In the consideration of land and buildings, we should focus our attention on the place where the business is located or to be located. Also apart from the land, we shall focus attention on the buildings to be erected on the land, we should look at their adequacy or otherwise.

All things relating to land and buildings will come under land and buildings in the Technical plan.

	Has this been taken care of in the plan?
Rent payment Land acquisition Construction of offices Construction of factory buildings Drainage Perimeter fence Security	

Table 6.1: land and buildings checklist**Machinery and equipment**

The first component of a technical plan we identified was land and buildings. After the land and buildings, the next item to be considered is machinery and equipment. In a manufacturing set up, machinery and equipment are very critical. In this segment, it is necessary to identify the machinery and equipment that will be required for a proposed venture.

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

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

After the identification of the machinery and equipment, there will be the need to identify the raw materials to be used and their sources.

Following the identification of the raw materials, there is the need to describe the production process of the product in question. For example in laundry soap manufacture, caustic soda is reacted with palm kernel oil to yield soap.

	Has this been taken care of in the plan?
Identification of machinery / equipment List of machinery / Equipment required for the manufacturing Raw material requirement Raw material sources Production process Maintenance arrangements	

Table 6.2: Machinery / equipment checklist

The Production Plan

We have just discussed machinery and equipment in a technical plan. Let us go a step further to discuss the production plan. In discussing production plans, we shall define capacity in relation to production. In the literature, there are three types of capacity namely:

Installed capacity

This is the highest output of a machine if it works every second, minute, hour, day and month.

Attainable capacity

This is a realistic capacity of a machine and it takes into consideration, plant break down, repairs, public holidays etc.

Actual capacity

There are 3 shifts of 8 hours each per day. Actual capacity depends on the market, availability of raw materials and other inputs.

Utilities

Under utilities, our intention is to discuss the availability of basic utilities that are involved in standard manufacturing or business set ups. The key utilities involved are:

Power

This refers to both public and private sources of power and their reliability.

Water supply

This refers to both public and private sources of water supply and their reliability.

Self-Assessment Exercise

In a manufacturing set up, the Plant has three capacities

List the three capacities

	Has this been taken care of in the plan?
Public power supply	
Private power supply	
Total power requirements of the machinery / equipment	
Public water supply	
Private water supply	
Total water requirements of the business	

Table 6.3: Utilities check list

Technical Support and Maintenance

Businesses that are technical in nature require that machinery and equipment should operate at maximum efficiency. Operating at maximum efficiency means that the relevant machinery and equipment should be routinely serviced. There is also the requirement that

repairs be carried out on equipment if breakdown occurs. In most practical cases, technical support can be arranged for a small business. Technical support can be provided by an Engineering firm which can carry out repairs on machinery, generators etc.

4.0 Conclusion

The technical plan was treated in this unit. Under the technical plan we discussed matters relating to the technical aspects of a business plan. In doing this, we also developed a check list for the components of the technical plan.

5.0 Summary

We have said that business plans are documents that set out what a business seeks to achieve. We also saw that a technical plan is a major component of a business plan. Under the technical plan, we discussed such things as land and building, machinery and equipment etc.

In the next unit, we shall discuss the management plan.

6.0 Self Assessment Exercise

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

7.0 References/Further Reading

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

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

ANSWERS TO SELF ASSESSMENT EXERCISES

The Three capacities of a plant are

1. Installed capacity
2. Attainable capacity
3. Actual capacity

Unit 3 The Management Plans

1.0 Introduction

In the last unit, (Unit 6), we discussed the Technical plan. In this unit, we shall go ahead and discuss the Management plan. In doing so, we shall discuss the various components of the management plan.

2.0 Objectives

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

- explain what a management plan is
- discuss the components of a management plan.

3.0 Main Content

3.1 The Management Plan

We have earlier said that a business plan is a document which sets out what a business is going to do and how it is going to do it.

The way a business plan is arranged is in components. In unit 6, we discussed the first component of a business plan which we called the Technical plan component. The next component which we shall discuss is the management plan.

The management plan addresses the issues concerning how a business will be run. It will address issues concerning the legal form of the business, the organization structure of the business, the management team and the staffing of the business.

Also issues regarding to regulation and business permits are usually contained in the management plan segment of a business plan.

The management plan is very important because in every business, success or failure depends on the management.

3.1.1 The Legal Form of a Business

There are various forms in which a business can be operated. Understanding the legal form of the business is important as it enables us to understand what a business can do legally and what it cannot do. Let us now discuss the various forms in which a business can be operated.

The Sole Proprietorship

In the Nigerian setting, the simplest form of business organization is the sole proprietorship. Under the sole proprietorship, a man or woman undertakes to establish a business and run the business as the sole proprietor. The sole proprietor is responsible for the strategic direction of the business. He reaps all the profits and also bears all the losses if the company fails to make a profit.

Registered Business Names

A lot of men and women go about their businesses in their own personal names. In their shops or business locations, they may not have sign boards indicating where they are. But the proper thing to do while engaged in small business is to register the name of the business. In line with the Registration of Business names Act of 1963, any person wishing to do business in any name other than the person's name is required to register the name as a business name. Examples of business name are:

- Leo Okoro trading as Leotraco Industries
- Peter Umoh trading as Umoh agencies.

Usually when a business is registered as a business name, a certificate of registration is issued by the registrar of business names. The certificate of registration is different from the certificate of incorporation which we shall discuss at a later stage in this unit.

Partnerships

Another form of small business organization is the partnership. Partnership is defined as the relation which subsists between persons carrying on a business in common with a view of profit. Apparently two or more persons can combine to form a partnership. A partner has unlimited liability for what is done on behalf of the firm by his other partners unless the articles of partnership otherwise provide.

Another important thing to note is that no formality is required to bring a partnership into existence. Thus creation of partnership can be either orally, by conduct or in writing.

Incorporated Companies

In Nigeria today, many businesses are run as incorporated companies. The most important feature of an incorporated company is the principle of its corporate existence. Following this principle, an incorporated company is regarded as a separate legal entity, distinct from, though composed of, the individuals who make up the corporate body. The rule about the concept of legal entity of an incorporated company was laid down in Salomon Vs Salomon which stated that "the company is at law a different person from the subscribers.

So that although the company has no physical existence nevertheless, it is regarded in law as a separate person like any natural person. Thus a company can sue or be sued in its own name.

Let us go ahead and discuss other key features of a company.

The Memorandum of Association

The memorandum of Association is the company's charter and it defines the limits to the company's powers. The memorandum of Association must contain the following information.

- The name of the company
- The objects clause – defining the powers of the company.
- The limited liability clause
- Capital clause – the amount of its Authorized capital.
- Registered office.

The Articles of Association

The Articles of Association are the regulations governing the internal management of a company. Usually the articles of association are subordinate to and controlled by the

memorandum of association. Items to be found in the articles of association are such matters as transfer of shares, meetings, voting rights etc.

In the Incorporation of a company, all the necessary documents including list of directors are lodged with the Corporate Affairs Commission. If the application is successful then a Certificate of Incorporation is issued.

At this point in time, we must point out that in the Nigerian context, there are two main types of companies – private and public companies.

Self-Assessment Exercise

List four information that you can find in a memorandum and articles of association of a company.

3.1.2 The Organization Structure

We have discussed the various forms of business organization. We did this so that you would be able to distinguish each form of business organization from the other. Having done that, our next task is to discuss the organization structure.

In many standard businesses, work is arranged in units, sections, departments and divisions. The organization structure shows the various units in an organization and the relationships between the units. Reporting lines in the organization are also captured in the organization structure.

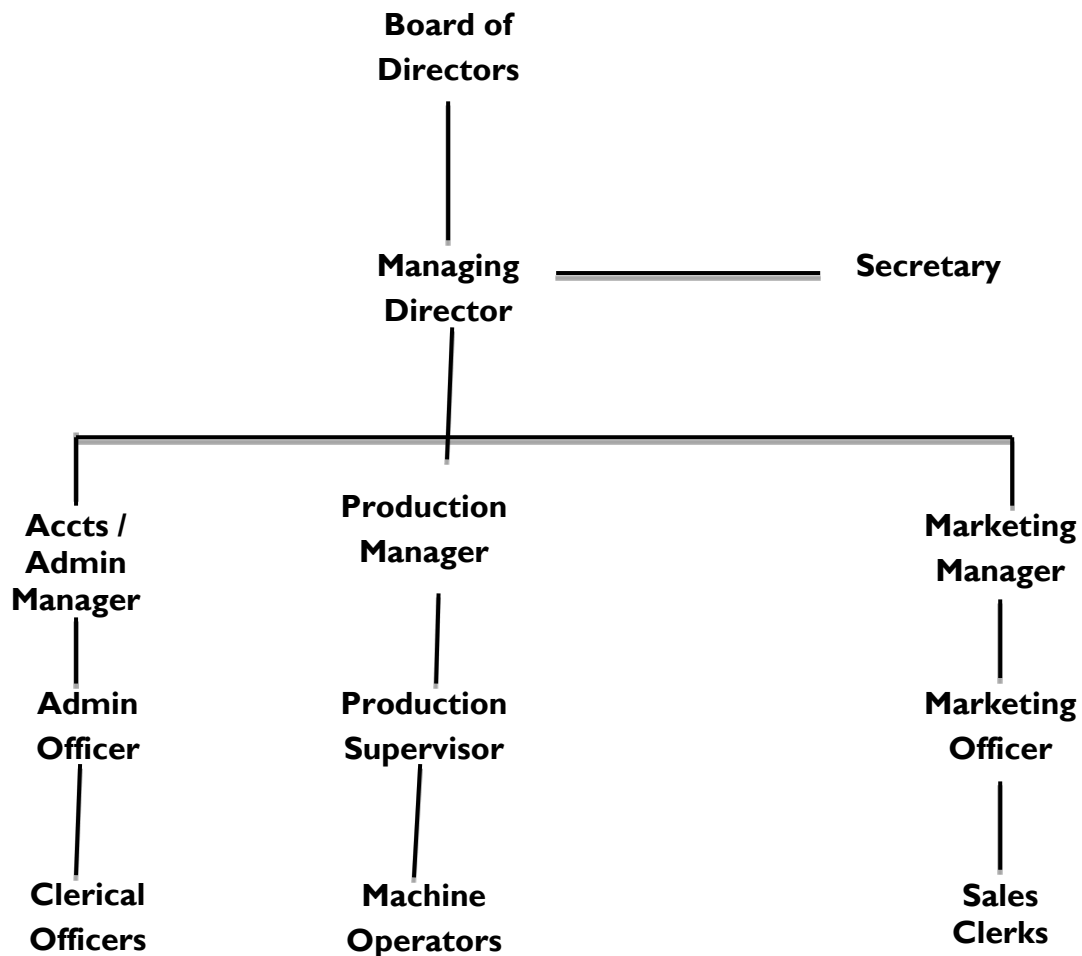


Figure 7.1: Organisation Structure in a Manufacturing Firm

A Practical Business Idea for Class Discussion

Palm Kernel Cracking Plant

After the manufacture of palm oil, the palm kernel is left as residue. In a lot of areas, most of these palm kernels are just abandoned and left to waste possibly because the primary investor has collected his primary interest – the palm oil and has nothing more to do with the kernel. At the other end of the Investment vehicle, there exist organizations/people seeking to use the palm kernel for other activities. Before the palm kernel can be reached, the outer shell has to be removed through cracking. So we now identify an investment opportunity where the investor positions to crack palm kernels only and sell the kernels to other users like the palm kernel oil producers.

Technical Considerations

The project under consideration is a palm kernel cracking plant to be devoted solely to the cracking of palm kernels. Working on a single shift of 8 hours, the plant can crack 5 tons of palm kernels. If the plant is run on 3 shifts per day, the plant is capable of cracking 5,475 tons of palm kernels per annum. However, to accommodate time lost to maintenance of equipment, equipment failures and breakdown, we indicate that the plant can run for 300 days in a year. Actual running capacity will be based on the investor's market opportunities and demand. Although it is noted that the key equipment for this project is the cracking machine, investors should be aware that the cracker/separator is a more technically superior machine to the simple cracker which only cracks but cannot separate the kernel from the outer shell. Investors should therefore insist on the cracker / separator equipment to make production work easier and cost efficient.

Palm Kernel Cracking Process

The palm kernel cracker / separating machine is usually mounted on a rigid platform reinforced with metal and cement blocks because of the vibrations from the machine. The cracking process is relatively simple. Palm kernels are fed into the hopper and the power switched on. The cracked palm kernels are then discharged into the palm kernel separating chamber for separation of the kernel from the shell. The kernels are then bagged ready for the market.

TECHNICAL DATA	
CRACKING MACHINE DETAILS	Capacity: 15 tons per day Specifications: Cage rotor of about 350 mm diameter and 4 Cracking openings, cast cracking pads and Adjustable basement.
POWER POWER DRIVES	Power Holding Company 20 Hp electric motors with geared options

	Has this been taken care of in the plan?
What are the divisions in the business? What are the departments in the division? What are the units in the department? Who are the key managers? What are their qualifications? How many staff do you need?	

What skills do you want in them? What are the salaries that will be paid to the staff?	
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Table 7.1: Management plan checklist

	Has this been taken care of in the plan?
What consultants do you need? Why are they needed? What form of legal ownership will be used? What licenses do you need? What permits do you need? Has the business registered with NAFDAC? Who is the Chief Executive of the business? What special qualifications or experiences are needed for the Chief executive post?	

Table 7.2: Management plan checklist (continued)

4.0 Conclusion

The management plan was treated in this unit. Here, we discussed the forms of business organization that you are likely to encounter. We also developed a check list for the components of the management plan.

5.0 Summary

We have said that a business plan is a document that sets out what a business seeks to achieve and how it wants to do it. The management plan is a key aspect of a business and examines the management aspects of the business. It focuses attention on the staffing of an organization to enable it meet organization needs.

In the next unit, we shall discuss the marketing plan.

6.0 Self Assessment Exercise

The management of any business is very crucial if it has to succeed. When preparing a management plan for a start-up project what do you consider as the most important things that must be in the management plan?

7.0 References/Further Reading

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

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

ANSWERS TO SELF ASSESSMENT EXERCISES

The four information to be found in a memorandum and articles of association are:

1. The name of the company
2. The objects clause
3. The amount of the share capital
4. The registered office of the company

Unit 4 The Marketing Plan

1.0 Introduction

In the last unit (Unit 3), we discussed the management plan which addressed key issues concerning how the small business will be managed. In this unit, we shall discuss the marketing plan which is a crucial component of the business plan.

2.0 Objectives

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

- Develop a marketing plan.
- discuss the contents of a marketing plan.

Main Content

3.1 The Marketing Plan

We have seen that a business plan is a key document that sets out what a business are going to do and how it is going to do it. A business plan though seen as a large picture is made up of some smaller plans or pictures. The marketing plan is one of such plans or pictures.

The marketing plan addresses all issues concerning the marketing of the small business products or services. The marketing plan addresses issues relating to the market, competition, pricing, product distribution policies, advertisement and other issues.

3.1.1 Potential Customers

A starting point for our discussion is to properly define who the potential customers of the business are or will be. Customer definition is not an easy task as we shall soon see.

Sometimes confusion arises as to what is a customer because people also fail to distinguish customers from consumers.

The term consumer refers to the person or one who uses a product (or service) for his personal satisfaction or benefit. In the industrial sector, the consumer is the one who changes the form of a product to alter its identity. For example a soap manufacturer will buy caustic soda and use it to manufacture soap. He is the consumer of the raw material. On the other hand, a customer may be a consumer or a dealer who buys a product and eventually resells the product.

Also even for a service, the business should clearly identify the types of consumers that they wish to serve.

For example there may be many types of hotels because of the types of customers that need to be served namely:

- hotel for students
- hotel for travellers
- hotel for high class individuals.

	Has this been taken care of in the plan?
What type of business are you planning? What products or services will you offer to the market? Who is your potential customer? How do you define your potential customer? What are your customer characteristics? What are their income levels? Who are the consumers of your product or service? Are the consumers different from the customers? Where are your customers located?	

Table 8.1: Potential Customers Checklist.

A Practical Business Idea for Class Discussion

Palm Kernel Oil Extraction Plant

Palm kernel oil (PKO) is derived from the pressing of the palm kernel with palm kernel cake as residue. Market demand for palm kernel oil is very high because of the various uses to which it is put. PKO is used to produce bar soaps, liquid detergent, edible vegetable oil, body cream and pomade. In the medical area, it is used as an anti-convulsant in domestic households, used in the manufacture of anti-hista-mines and other pharmaceutical preparations. The major clients of the prospective investor in this project will be major soap producers (Lever brothers, PZ etc), refiners of vegetable oils, pharmaceutical companies and also the feed millers who will use the palm kernel cake as additive to livestock feeds.

Technical Consideration

The project under consideration is a plant dedicated to the manufacture of palm kernel oil and palm kernel cake. The core equipment / machinery required include oil expeller, toaster, receiving tank and storage tank. Because the oil will be consumed by human beings, it is safer to use stainless steel for both the receiving tank and the storage tank. Working on a single shift of 8 hours per day, a total output of 3 tons of PKO and 3.6 tons of Palm kernel cake is achievable. On 3 shifts per day and for 1 year, installed capacity of the plant is 3,285 tons of palm kernel oil and 3942 tons of palm kernel cake. Attainable capacity is projected at 90% of the plant installed capacity.

Production Process of KO

Clean, sorted palm kernel fruits are loaded unto the toaster for controlled heating. The heating increases the rate of oil extraction. The heated palm kernels are now fed into the oil expeller through the inlet cone. A collecting funnel drives the kernels into the crushing/extracting chamber where the kernels are pressed by a motorized screw press. Palm kernel oil is collected through a funnel into the receiving tank while the palm kernel cake is discharged through the terminal funnel and collected as a residue.

TECHINICAL DATA**OIL EXPELLER****SPECIFICATIONS:**

Cage Stator with sieve filtration.

Gear motorized Screw pressing system

Cake adjuster unit oil tap and central flow.

Hanging hopper inlet cone.

FINANCIAL HIGHLIGHTS	N
Pre-Investment Outlays	100,000
Rent/Accommodation	400,000
Machinery/Equipment	700,000
Utilities	350,000
Working Capital	300,000
Total Project Cost	1,850,000
Projected Year I Income	20,000,000
Projected Year I Expenses	17,000,000
Projected Year I Profit	3,000,000

3.1.2 Evaluating The Size of The Market

Apart from identifying who the potential customer of the small business is, there is the need for us to go ahead and evaluate the size of the market for our products or services. The evaluation of the size of the market is very important because it gives us a picture of the total market size in terms of naira and kobo.

A standard marketing plan should state the market size of the product or service in question. The size of the market is usually estimated by using both qualitative and quantitative methods. To enable us approach our studies carefully, let us follow the following steps in our effort to evaluate market size:

- Define demand
- Examine factors affecting demand
- Examine demand for Intermediate and capital goods
- Build market demand.

Defining Demand

For us to be able to properly prepare a marketing plan, we need to define and understand what we mean by demand. It will help us to prepare a good marketing plan.

For purposes of our study, we shall define demand for a product or service as the total quantity of goods or services that able customers in a defined area are willing to buy at set prices. In effect therefore, demand refers to a set of quantities that customers are willing to buy at different prices. In the traditional economics setting, the demand curve is downward sloping (with a price and quantity axis).

It will also be very important for us at this particular time to define and distinguish between two types of demand – Total market demand and Project demand. Total market demand

refers to the total demand within a set Geographical area like Nigeria. For example we can make a statement that the total demand for beer in Nigeria is 10 million bottles per annum. The meaning of the statement is that in Nigeria, the total quantity of beer demanded is 10 million bottles at the current ruling prices. But we also need to define another type of demand which we shall call **Project demand**.

Project demand is not the same thing as total market demand. It is a sub set of the total market demand. If a market for a product or service already exists, project demand is the projects share of total market demand. If a market is saturated with goods, new projects may face the difficulty of selling their products or services.

By and large, it is important to focus attention on a project demand. Mistakes which tend to be fatal occur when analysts confuse market and project demand

Factors Affecting Demand

We have just defined demand which is very important in our study. But we need to go a step further to examine the factors affecting demand in the market place. It is going to help us build a good demand schedule and also a better marketing plan.

In the traditional economics platform, one of the most important factors affecting demand is price. If we assume a well behaved demand curve, then the higher the price of a good, the smaller the quantity that will be bought. Also the lower the price, the greater the quantity that will be purchased. This appears to be a rational behaviour especially where human beings are involved.

Another important factor affecting demand for a product or service is the income of the population. Given a basket of income available to purchasers, it is logical to believe that the higher incomes people receive, the more goods and services they are likely to purchase. So we can say with a measure of confidence that a population with a higher income is more likely to purchase more goods and services than a population with a lower income.

Apart from income, population is another major factor affecting demand in any given setting. It is certain that a large population certainly demands more goods and services than a smaller population. A major aspect of any population which we should not forget is the ethnic and religious structure of the population.

The ethnic structure of a population affects the type of goods and services that will be demanded. For example in the Nigerian setting, palm oil tends to sell much more in the southern states than in the North because most southerners tend to use palm oil in cooking. But in the Northern States, ground nut oil seems to be more available and by implication the people use more of it for their cooking.

Also, religion is another aspect of any population that needs to be looked at while drawing up any demand schedule. Again in the Nigerian setting, Pork is not an acceptable diet for Muslims but most Christians eat pork. These are the type of critical inputs you need when you are trying to build a demand schedule which of course is a critical input in building of a marketing plan.

Prices of other goods also tend to affect demand. For example tea and sugar are said to be complementary goods since they go hand in hand. It is therefore logical to say that the price of tea at any given time will affect the demand for sugar. In the same fashion, bread and butter also appear to be complementary goods.

Demand for Intermediate and Capital Goods

When we largely discussed demand, our general thinking appeared to be that the goods discussed ought to be consumer goods. But that is not always true. There are some goods

which are generally known as Intermediate and also capital goods. It is important that we understand these two types of goods.

We shall go ahead to discuss intermediate goods as goods which are not purchased for immediate consumption but rather are used in the production of consumer goods. For example flour is an intermediate good mostly used in the manufacture of bread. Tyres also appear to be intermediate goods if purchased by a car manufacturer. But tyre is also a consumer good if purchased by Mr. Solomon for use in his car.

On the other hand, capital goods are those goods that are used for the manufacture of both intermediate and consumer goods. A manufacturing plant is a capital good. One thing we need to know about capital goods is that they last for very long periods because of their nature.

Building Market Demand

We have defined what demand for a product or service is generally. Also we understand what a population is.

Let X = no of persons in a population

Y = average number of a given product consumed by each person in that Population per annum

Then XY = Total market demand per annum for the product in question

Self-Assessment Exercise I

There are 400,000 persons in a city called Madas. Each person in the city drinks a bottle of water daily. What is the annual demand for water in Madas?

3.1.3 Forecasting Future Demand

As at the time of preparation of a business plan, some of us will assume that building the demand schedule for a product is all that is required. But that is not true because the analyst should be able to forecast future demand for the product in question or the service. Forecasting future demand appears to be a very difficult task because there is a lot of uncertainty attached to forecasting of a future event. Ordinarily, demand for many goods may be either stable, erratic or out rightly unpredictable. Social change, structural adjustments, change of taste and technology all add up to make forecasting a difficult task especially of demand.

Usually, there are two basic approaches that are available when we are trying to forecast demand namely:

- Qualitative techniques
- Quantitative techniques.

Qualitative Techniques

Qualitative techniques are mainly desk methods which are based on reports obtained from various sources. One of the sources could be expert opinion obtained from a pool of experts in an industry. The experts usually are seen to be knowledgeable about a product or industry and therefore are in a position to forecast what the future demand for a product is likely to be.

Another way of obtaining information for use in forecasting demand is known as the Sales Force Composite method.

Under this method, salesmen in a particular industry can provide expert data on demand. But in most cases; the data and the forecasts that they provide differs significantly from that provided by a panel of experts. The general belief is that since salesmen operate at the grass root level, they are more knowledgeable about the demand for products and the accompanying forecasts.

Quantitative techniques

Majority of the data generated by the qualitative techniques are often unreliable, biased and plagued by subjective state of mind of the people making the forecasts. As so, we think they are clumsy data in the hands of the entrepreneur.

Quantitative techniques in forecasting however are less subjective and are more or less based on past data.

In the main they are mathematical in nature and tend to be more accurate. One of the quantitative techniques used is the Time series approach. The time series approach generally has become very popular with analysts who are trying to forecast the demand of a good or service. The general feeling is that time is a crucial explanatory variable that explains the future.

According to this thinking, past data can explain relationships between the demand of a commodity and time. For example, we can display the relationship between demand and time in a graphical way.

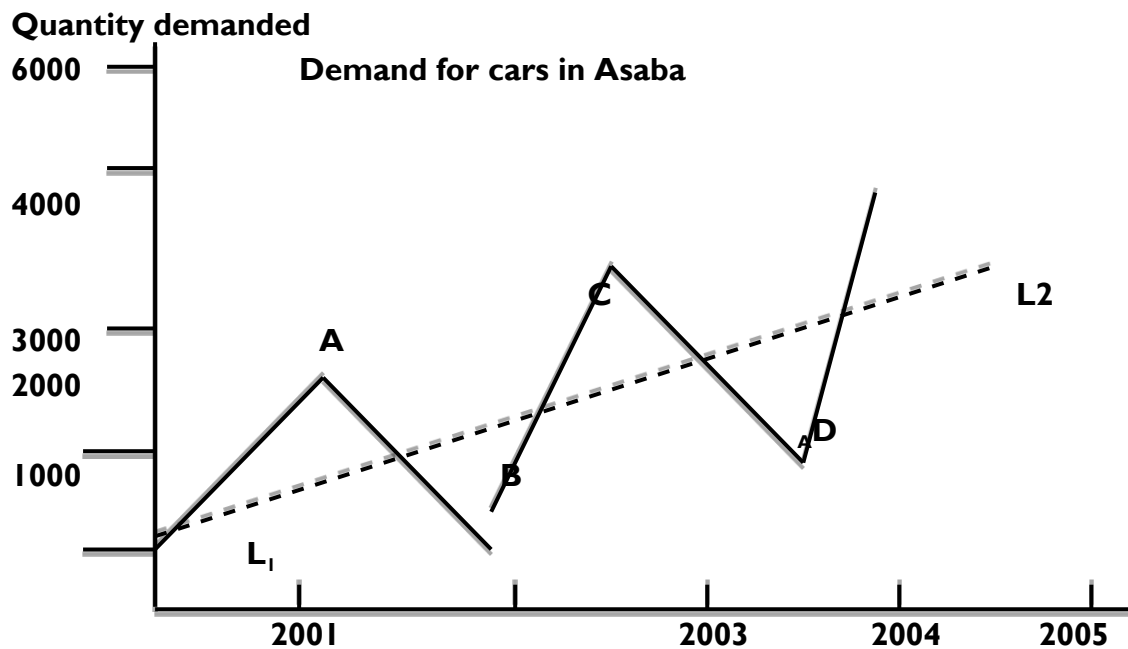


Figure 8.1: Demand for cars in Asaba

	Have you covered this in the plan?
How big is the market? Who are your competitors? How are they faring? What is the structure of the competition? What are your competitors prices? What are your prices? What are the trends in the market? What market share are you thinking of.?	

Table 8.2: Marketing plan check list.

	Have you covered this in the plan?
What are your competitors strengths? What are your competitors weaknesses? What is your strength? What is your weakness? What is your competitive advantage? How will you distribute your goods? How will you promote your goods? What is your customer service policy?	

Table 8.3: Marketing plan checklist

4.0 Conclusion

In this unit, we discussed the marketing plan which in itself we saw was a component of a master plan which we called a business plan. We also developed a check list for the marketing plan.

5.0 Summary

All along, we have highlighted the fact that a business plan is a critical document that sets out what a business seeks to achieve and how it wants to do it.

The marketing plan that we have just discussed is a key component of the master business plan. It examines the marketing aspects of a plan. Just like we did, we discussed market demand, factors affecting demand etc. The marketing plan checklist was also drawn up. In the next unit, we shall discuss the financial plan.

6.0 Self Assessment Exercise

You are preparing a marketing plan for a new instant Noodle. What are the key information that must be contained in the marketing plan that you are preparing?

7.0 References/Further Reading

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

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

ANSWERS TO SELF ASSESSMENT EXERCISES

One person drinks 365 bottles of water per year. 400,000 persons will drink $400,000 \times 365$ bottles = 146,000,000

The annual demand for water in Madas is 146,000,000 bottles of water per annum.