



IICA



**BUSINESS MANAGEMENT FOR
SMALL BUSINESSES IN
TRINIDAD AND TOBAGO: A GUIDE**

**INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE
OFFICE IN TRINIDAD AND TOBAGO**

Ernst and Young Building, Orange Grove Road, Tacarigua
Tacarigua Post Office, Tacarigua, Trinidad and Tobago
Telephone: 645 1058/9. Call "ICAROS" 645 1800

11111111

00000992

**BUSINESS MANAGEMENT FOR SMALL BUSINESSES
IN TRINIDAD AND TOBAGO:
A GUIDE**

Small Business Management for the
Rural Development Process in Trinidad and Tobago Project

IICA Office in Trinidad and Tobago
Tacarigua Post Office, Tacarigua,
Trinidad and Tobago

January 1990

BV 0.912011

11 CA
3M A21TT
90-02

TABLE OF CONTENTS

Introduction		1
Part I	BUSINESS MANAGEMENT ACTIVITIES	
Chapter one	The Importance of Business Management	5
Chapter two	Organizing Production	9
Chapter three	Calculating the Price of Your Product	33
Chapter four	Basic Record Keeping	51
Chapter five	Evaluating Your Business	95
Chapter six	Planning	125
Part II	MARKETING	
Chapter seven	What is Marketing	175
Chapter eight	A Checklist for Making a Marketing Plan	226



INTRODUCTION

This guide to Business Management for Small Businesses was developed for the many small business people who want to know more about operating their businesses better, but find the existing materials too difficult. It was also prepared for the trainers (extensionists, field officers and promoters) who work together with small business people, trying to improve their management skills.

The material was adapted from two documents entitled, "Operating a Small Business in Jamaica: A Guide" and "Marketing Barbadian Small Business Products: A Guide" which were originally developed in Jamaica by a number of agencies that joined together in a united effort to produce something which could be useful to all and expensive to none. A Small Business Training Advisory Committee was formed to guide the preparation of the materials, the training of trainers, the testing of material and the training of producers. USAID in Jamaica contributed financial assistance.

The agencies which contributed to the original manuals by providing resource material include:

- Agricultural Cooperative Service, USDA, USA
- Cornell University, USA
- Dominican Development Foundation, Dominican Republic
- Dominican Women in Development, Dominican Republic
- Institute for Social Development and Human Promotion, Argentina
- Management Consultants, Ltd., Dominica
- Mexican National Development Foundation, Mexico
- Peace Corps, USA
- Women in Development, Inc., Barbados

Women and Development Unit, UWI., Barbados
Small Business Administration, USA.

Also, among the reference material used were:

"Administering Our Agricultural Enterprise: Technician and Farmer Guide" by Hector Murcia.

"Analysing your Farm Financial Performance" by Kenneth H. Thomas, R.N. Weigle and Richard O. Hawkins

"Community Profit" by Wismer and Pell

"Consultancy for Small Business" by Malcolm Harper

"Farm Management Handbook" by Guillermo Guerra

"Oklahoma State University-Looseleaf Enterprise Record Book" by Mike L. Hardin and Joseph E. Williams

"Successful Small Business Management" by Tate, Megginson, Scott, Trueblood

"Marketing: What Is It and Why Is It Necessary for Women?"
The Tribune Newsletter #25, 2nd Quarter 1985, International Women's Tribune Centre Inc.

"Marketing: What It Is and Why It's Important for Women"
The Tribune Newsletter #31, 2nd Quarter 1985, International Women's Tribune Centre Inc.

"Business Basics-Marketing Strategy", Small Business Administration, USA

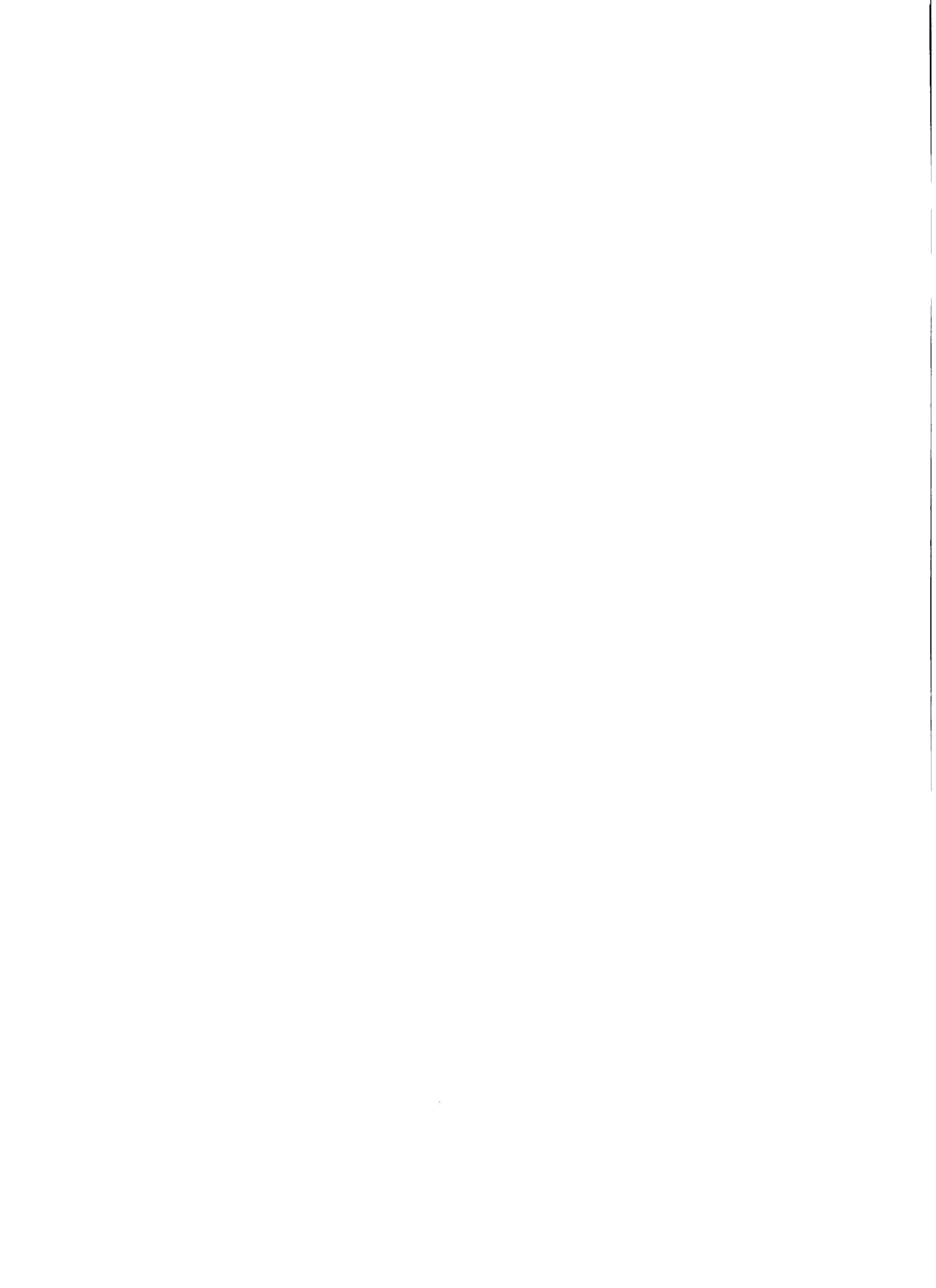
"Marketing - Course 3", Dominican Development Foundation

"Ice Almanac"- Peace Corps Times, September/October/November, 1985

This manual, "Business Management for Small Business: A Guide", seeks to outline the basic management techniques necessary for the successful operation of any business.

PART I

BUSINESS MANAGEMENT ACTIVITIES



THE IMPORTANCE OF BUSINESS MANAGEMENT

WHAT IS A SMALL BUSINESS?

A small business is an enterprise owned by an individual or group or an organisation producing and/or selling goods or services in order to make a profit. The definition usually includes any business with a small volume of sales and assets of less than TT\$500,000.00.

DIFFERENT KINDS OF SMALL BUSINESS

Manufacturing

A manufacturing business is one which uses basic raw materials to produce items for sale to its customers.

Retail

A retail business is one which buys goods from manufacturers or wholesalers and sells them to the people or the customers who use them.

Agriculture

Agriculturalists produce crops and livestock for sale to their customers. Farmers, fishermen, and foresters engage in all the business activities from making decisions about what to sell and to whom to sell as well as marketing their finished products.

Service

A service business sells tasks that are done by people for others who are willing to pay for these efforts.

Too often when we say business we think only of manufacturers or industrialists. We would like to also focus on the micro-entrepreneurs such as the small farmers, shoemakers, potters, fishermen, shopkeepers and market vendors who are all small business people.

The differences between a small business and a large business is not merely limited to size, since each enjoy certain advantages over the other.

Some of the advantages of being a small business person are as follows:

- i. You as an individual or group own the business.
- ii. You make all the decisions
- iii. You are free to use your skill and to develop them
- iv. All the profits accrue to you
- v. You have close personal contact with your customers and can satisfy their special needs
- vi. You can readily adapt to changing conditions

On the other hand, some of the problems of being a small business person are as follows:

- i. You may be short of capital
- ii. Your market for your product or service may be too small
- iii. You may be one person trying to do everything
- iv. You may not be able to enjoy discounts and may have to pay more for services, materials and supplies because of small purchases
- v. The owner may not be a good manager

WHAT IS MANAGEMENT IN SMALL BUSINESS

All the activities that guide a small business to run smoothly and to achieve its desired goals; some of the most important of these activities include:

- Organizing production
- Price calculation
- Record keeping, including stock control and production records
- Evaluation of business performance
- Planning, including budgeting and cash flow planning
- Administration of marketing activities

Each of the major activities will be dealt with in the chapters that follow while Part II will deal specifically with Marketing.

CAN YOU THINK OF ANY MORE BUSINESS ACTIVITIES?

THE IMPORTANCE OF BUSINESS MANAGEMENT

As can be seen from the list above, management involves a lot of things and it is not an easy task. Once a manager is able to do all of these things or see that they get done, it means that he is in control of the business. He can control all the physical, human and financial aspects of his business.

It is good to remember that good management is just as important in small businesses as in large ones. Small business people have to be good managers out of necessity and they must continue to improve.

ORGANISING PRODUCTION

WHAT IS PRODUCTION?

Production involves changing **Inputs** such as raw materials, labour, skills, planting materials, fertilizers or feed into **Outputs** or goods and services for sale to consumers.

Although we usually think of the term 'production' as having to do with the manufacturing of an item, the term can also be used to mean creating an income by growing crops, producing small items, buying goods for resale, or offering a service in an effort to earn an income for yourself and to make a profit.

Throughout the manual when we refer to your 'product' we are referring to manufactured goods, livestock, goods for resale and services.

ORGANISING PRODUCTION

To be able to organise your production, you should know what to produce, how to produce it and how much of it to produce.

A. What to Produce:

What anyone decides to produce depends on many different factors, such as:

What he likes to do, for example, his hobbies

What he is capable of doing, for example, his special skills

What he is accustomed doing, for example, following in the family tradition

What resources are available, for example, he may have access to a lot of land, or an empty building.

CAN YOU THINK OF ANY MORE FACTORS?

The most important consideration however, in deciding what to produce is the question; CAN I SELL WHAT I PRODUCE? It is a good management practice to secure a market before production begins. If there is no market for your good or service, then you must consider the next best alternative.

Refer to the manual entitled, "Starting and Financing a Small Business in Trinidad and Tobago: A Guide", for preparing feasibility studies.

When you are sure that you can sell what you produce, you need to decide how to produce it.

B. How your Product or Service is Produced

The production process has certain features which are common, whether you are involved in making an item, offering a service or farming; You have to decide:

1. What inputs are required
2. What steps or actions you will use to change the inputs to outputs
3. What special skills, tools, equipment or machinery will be needed
4. Within what time period the work will be done

5. The number of units that will be produced
6. What standards are to be set for maintaining quality

Here, the most important consideration is the method you choose to convert the inputs into outputs and this is what is referred to as the choice of technology.

Since converting inputs into outputs is a major concern of your business activities, success in business depends to a large extent on your ability to do this as efficiently as possible, at the lowest possible cost, while maintaining good quality standards.

C. How much to produce

The determination of how much depends on the size of your market and choice of technology.

Following is a suggested methodology for studying the way you produce to see if you can make improvements.

- a. Make a step-by-step list of how your product is made and how it is marketed; all the activities involved in getting the raw materials to selling the product to the buyer.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____

b. Estimate how much you are producing and in what period of time

Quantity I am producing _____

Time period _____

c. In each step of your production process consider your requirements for the following.

Materials

Tools and equipment

Labour

Utilities

Space

Money

Here are some of the things you should consider:

MATERIALS

This would include raw materials, supplies and seeds and it would be necessary to know in advance;

How much is available?

Will additional quantities be needed?

Where is it available?

Is the right type and quality available?

Will the supply be regular and reliable?

TOOLS AND EQUIPMENT

Are the tools and equipment needed readily available?

Are spare parts available locally and if not, how long will it take to secure spares from overseas?

Do you need to train other people to use the tools?

LABOUR

What skills are needed?

Are people with these skills readily available?

How many persons will be needed?

At what time will they be needed?

Who will do what?

- who will manage, that is, who will keep records, coordinate, supervise and control
- who will be responsible for purchasing
- who will do the actual physical labour
- who will ensure that standards are observed
- who will market

UTILITIES

This would include gas, fuel and electricity.

Are all the utilities readily available on site?

Will it be necessary to rewire or make special adaptations?

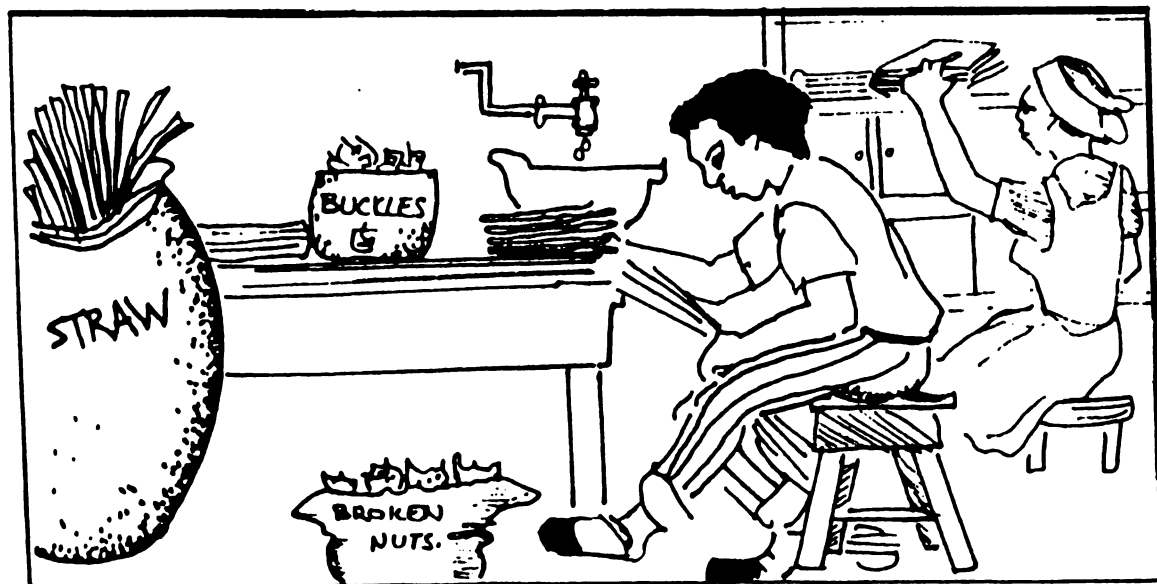
SPACE

Is the required space available for the production activities?

Is the required space available for storage?

Is the required space available for packaging?

What changes can be made to better utilise the available space?



MONEY

How much is needed for buying materials?

How much is needed to pay wages?

How much is needed for rental?

How much is needed for maintenance?

How much is needed for utilities?

How much is needed for transport?

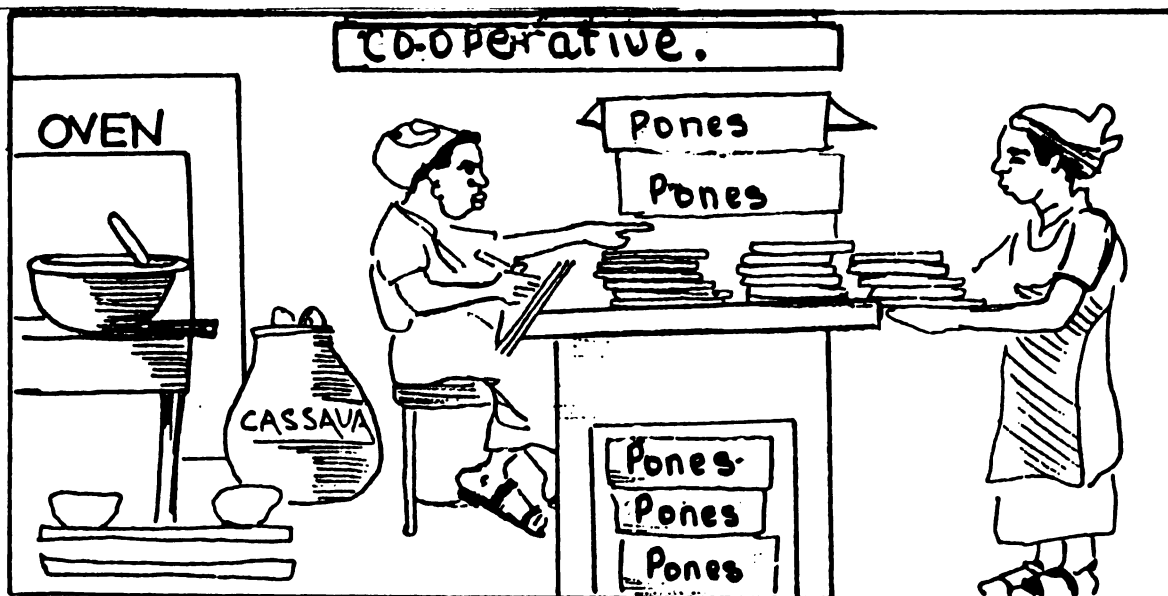
What is the total amount required?

How much do you have available?

Where can you get additional sums of money if needed?

- d. Review each step of the production process to see how you can change any aspect of it in an attempt to increase the volume of production, improve quality, or lower costs.

WRITE DOWN THE CHANGES YOU THINK WILL IMPROVE THE PRODUCTION PROCESS



Let us look at an example of how one business reorganized its production to become more efficient and increased its earnings.

A group of ten ladies in Blanchisseuse, near Maracas Bay, are members of a cooperative which makes cassava pone. After a few months in production, they were producing an average of 250 pones per day. However, they felt that with some minor changes in the production process, they could increase their output.

First, they listed the steps in their production process:

1. Buy cassava
2. Peel, cut and wash cassava
3. Grate cassava
4. Squeeze cassava
5. Mix ingredients
6. Cook the pones
7. Package the pones
8. Deliver and collect payment

Next, they considered their requirements for each step of their production. On a chart they put an 'x' where problems existed.

PRODUCTION CHART

Production Steps	Factors to Consider					
	Material	Labour	Space	Tool & Equip	Util.	Money
Buy cassava						
Peel and cut			X			
Grate						
Squeeze				X		
Mix Ingredients						
Cook						
Package						
Deliver and collect						

They identified two problems, namely, not enough space to peel, cut and clean the cassava and the fact that they had no tools for extracting the juice to cut down on the time-consuming process of squeezing by hand.

They were then able to agree on the following solutions:

1. They rearranged their available space, by separating the cutting and peeling areas from the grating area, thereby creating enough space for each operation

2. They approached CARIRI where they were able to secure a device for squeezing the liquid out of the grated cassava by using a device similar to a pastelle press made of stainless steel.

The cooperative also reviewed each step of the process to see if they might increase the rate of production and they concluded that if the members specialized in certain tasks, they would become more efficient and could then speed up the production. As a result, they decided to assign themselves special tasks.

Three members were assigned to cut, peel and wash. Four members were assigned to grate and squeeze. Two members were assigned to mix the ingredients, shape and cook and one member was responsible for buying the cassava, packaging the finished product delivering and collecting the payment. She was also responsible for controlling quality while packaging the pones since she would make sure that the size, shape, thickness and colour were all up to the correct standard.

The group also agreed to stagger their working hours. They decided to have the three members who cut, peel and wash, come to work at 8:00 am. and work until 4:00 pm. The four members who grate and squeeze would come at 8:30 am. and work until 4:30 pm. and the rest would come in at 9:00 am. and work until 5:00pm. The result was that the volume of production rose immediately to 300 pones per day increasing their earnings considerably. They believe that with time, practice and extra effort, they will eventually get to a target of 500 pones per day. They know that they can sell these quite easily, because the demand is high, few other people are making pones and the price at which they sell is reasonable.

The examples which follow will give you hints on how to organise production for farmers and retailers.

ORGANIZING PRODUCTION IN AGRICULTURE

In the business of farming there are several factors to consider when thinking about organising your production. As we saw earlier the three main points to consider are what, how, and how much, to produce.

We also noted that there were many factors which could influence an individual in the choice of goods and services that he produces, such as, tradition, skills and the availability of resources. Most importantly, we noted that a producer must determine before hand whether he can sell all that he produces.

What to Produce:

In agriculture, the first consideration is what resources are available, that is, what can be produced on the particular farm. To determine this, you must consider the type of soil present, the terrain, the amount of rainfall and the seasonality, the wind conditions and the availability of water.

From among the crops or animals which can be sustained on the land, a farmer must choose those which will give good profits and which have available markets.

In agriculture there are also additional factors to consider. Let us look at two of the more important ones: risk and seasonal work patterns.

1. Risk

Frequently, those crop which give the highest average returns over a number of years are also the most risky. Over three or four years they may make quite a large profit within each year, while in the other years they lose money. If the entire farm is planted to a crop like tomatoes, for example, the farm may experience two to three years of low prices which could bankrupt the farm before a good year comes along. With such crops, it is usually wisest to produce them in small quantities along with other crops which give smaller but more stable returns.

2. Seasonal Work Patterns

Many crops which give high returns require a great deal of work during certain very definite periods of the year and little or no work during the rest of the year. For example, one acre of a very intensive crop may need the full-time work of ten (10) persons in March and again in September, but little work for the rest of the year. A farm with five people can only take care of 1/2 acre of this crop. If they have a one acre farm, the rest of the farm would be idle. The five persons might also be idle for most of the time except in March and September unless a crop or produce that require little or no care in March and September can be produced.

If extra labour cannot be hired when needed, it is usually better to produce a small acreage of such intensive crops in combination with other crops which will provide work the other ten months of the year.

How Much To Produce:

For any given farm, the more acreage you have available for one particular crop means that there will be less available for other crops. You will therefore have to decide on a main crop and one or more complementary crop.

Main Crop:

1. Determine from among the crops your farm can produce, which will give the best income per acre and per person, without too much risk.
2. Determine how much of this crop you can handle with other people assisting.
3. Determine what periods of the year you will have idle land and time, that is time not required by the main crop.

Complementary Crop:

1. Select one or more complementary crops which work requirements fall mainly in the slack work periods of the main crop. Produce as much of it as your available land and time permit but without competing for the time that must be given to your main crop.

One other major consideration is if you plan to produce most of the food your family consumes, the land and time required for these crops must be taken into account.

How To Produce:

It is important that the way you produce results in good quality products. The price paid for inferior quality farm products is much lower and often unprofitable. The inputs used in production is of considerable importance.

Inputs

The volume and quality of the inputs such as seeds, breed stock, fertilizer, feed, insecticides and fungicides determines your final product. Better quality and higher quantity products usually require the use of high quality or greater quantity inputs.

Sometimes, the added cost of inputs is greater than the extra income you would earn by producing more. You should therefore carefully examine the costs and returns of alternative ways of producing and choose the most profitable way - not necessarily the most productive.

For example, farmers may sell their ginger at \$1.20/lb. Using a lot of fertilizer and an extra weeding, it may cost a farmer \$12,000.00 to produce 9,600 lbs of ginger. By using less fertilizer and only one weeding, it cost them \$7,680.00 to produce 8,000 lbs.

The higher yield costs $\frac{12,000.00}{9,600} = 1.25/\text{lb}$

The lesser yield costs $\frac{7,680.00}{8,000} = 0.96/\text{lb}$

At a selling price of \$1.20 per lb it is more profitable for the farmers to produce at the lower yield.

Before choosing a system of production needing certain inputs make sure they are readily available when you need them.

One important input is machinery. Using tractors or other machinery usually gets the farm work done much faster. However, it also means added costs in the initial investment and in such costs as depreciation, repairs, and operating costs (gas, oil, etc.). In addition, buying machinery commits you to its use for several years and so limits your flexibility since you may not be able to change your product or your method of production because your machinery may be limited to a certain product or way of doing things. Be sure the machinery is justified before buying.

In deciding on your production system and the amount of machinery, ask yourself these questions;

- will the machinery make it possible for me to produce more?
- how much will the machinery increase my costs?
- how does machinery costs compare with labour costs?
- will I be busy all year or will the use of machinery result in a lot of idle time? This is important especially on a small farm.
- will it increase my net income (profit) after all the costs are taken into consideration?

Risks

Often the way of producing which gives a higher income also involves higher risks. For example, planting a crop such as tomatoes earlier than usual may mean that it is harvested earlier and getting it to the market when prices are higher, but this may involve the greater risk of losing the crop if there are not enough early rains.

With livestock, planting fodder crops for them is expensive and may mean less income, but in a dry severe season a farmer without his own feed, who would have taken the risk of not planting, (in the hope of avoiding that extra cost and so getting higher income), would have to buy more expensive feed or see the animals go hungry, lose weight or die.

Financing

Many systems of production which give high returns are also more expensive. Do not select one of these systems unless you can be sure you will have the required money available. Remember also, that borrowed money has a cost (interest payments) and this additional cost needs to be considered in deciding how profitable the higher cost system will be.

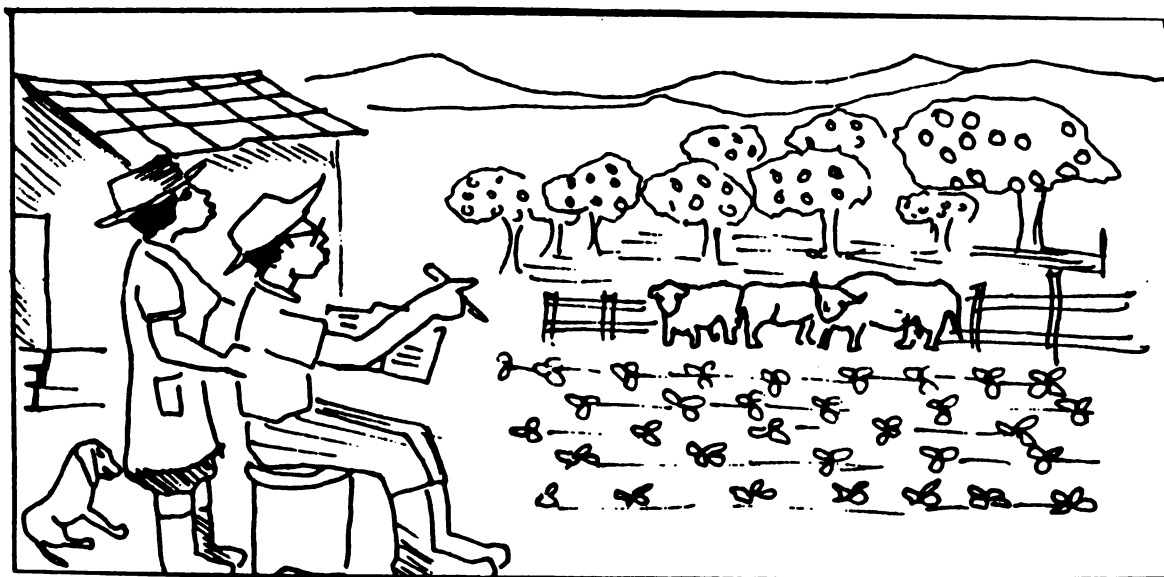
ORGANISING PRODUCTION IN AGRICULTURE- LIVESTOCK:

In livestock production, there are three particular aspects that should be carefully considered in organising your production: Animal Health, Feed and Breeding.

1) Animal Health

For livestock in general, but in the tropics in particular, Animal Health is critical to running a successful business. You can have major losses in your business if your animals get sick. You must be sure to know all the diseases and infections which your type of livestock can get together with the measures required for prevention and cure.

In organising your production, make sure you are prepared to take the necessary action at the most timely moments. This includes having the medicines or treatments at the right time.



2) Feed

Animals are "living factories". They convert raw materials such as feed into saleable products such as meat, eggs and milk. If they do not receive enough of the right type of feed, they will be unable to produce profitable quantities of good quality products.

In organising your production, make sure that you are prepared to provide the quantity and quality of feeds required by your livestock for high production throughout the year.

3) Breeding

Good breeding management is important to making profits. For example, a ewe that does not get pregnant on time is an "idle factory". She is costing money and labour. A ram that does not get the ewes pregnant is even worse because his "idleness" may result in many ewes being idle.

In organising your production, make sure that you will be able to keep track of the fertility of your animals.

Whenever there is an animal that is infertile, get rid of it at once; it is costing you money.

It is important to note that diseases, parasites and not enough feed may be the cause of infertility. Improving health and feed may bring back fertility.

It is generally more profitable to breed your females to superior males, that is, purebreds or halfbreds from high producing families. The offspring will usually be

larger, grow faster and make more money for you. This may require some extra work in your production; making sure the females are guarded against impregnation by a "scrub" male and having access to a superior male if you do not own one. It is more work, but it generally pays well in the long run.

ORGANISING PRODUCTION IN RETAILING

The major considerations remain what, how and how much to produce; but the questions take on different meanings.

The question of what to produce becomes: What kinds of goods to purchase for resale?

You should consider some of these questions listed below:

Should I continue selling the same items I have been selling?

Should I change to a higher quality of the same kinds of products that I have been selling?

Should I change to a lower quality range of products?

Should I sell a mix of both high and low quality items?

Should I introduce new, related products?

Should I sell out my present stock and sell completely different kinds of merchandise?

If you are thinking of changing the types of products you sell, you should ask yourself the following questions about each of the possibilities considered.

Do I have sufficient market for these new products?

Do I have the necessary capital available to make this change?

Will the added business be worth the risk to the established part of my business?

Do I have the space available?

Do I have a good, continuous source of supply for these products?

Do I have sufficient knowledge of this product?

Here is an example:

Val Russell is considering adding a line of fresh meats to the small, "Russell's Family Shop". Val asks herself each of the questions listed above.

Do I have sufficient market?

Val knows that a number of her customers have asked for fresh meat and she knows that there are no other fresh meat stores in the neighbourhood; she decides the market is sufficient.

Do I have the capital?

She knows that it will take all of her available cash to put in a stock of fresh meat and she will have to borrow \$5,000.00 to purchase some used refrigeration equipment to store and display the meats.

Will it be worth the risk?

Val's banker is willing to lend her the \$5,000.00 to purchase the refrigeration equipment but she will have to use the existing business as security. She decides the risk is too great.

Is the space available?

Val notes that by rearranging the stock in the shop she can make space available.

Is there a good, continuous source of supply?

She does not have an established source of fresh meat.

Do I have sufficient knowledge of the meat business?

Val admits that she does not know a lot about the meat business.

When Val looks at the answers to these questions, she can see that she has twice as many "NO's" as "YES's". She concludes that this would not be a good time to expand into the fresh meat business. However, since she has the space available and seems to have a sufficient market, she will take some time to learn as much as she can about the market and search for a good, dependable supplier and when she has acquired more capital, she can be ready to expand into the fresh meat business.

Do you think Val made the right decision?

Can you think of any ways in which she could turn the "No's" into "Yes's", so that expanding her business would be possible?

The question of how to produce becomes How to sell your products?

Promotion techniques will be covered in the chapters on "Marketing"; however, here are a few other points to consider:

The location of your store is very important. A convenient location helps to attract new customers and keep old ones.

Do as much as you can to promote the products you sell, for example, run sales and advertise.

Give your customers prompt service.

Be sure that your customers are treated by you and your employees in a pleasant and courteous manner.

Pay attention to the layout of your stocks to allow easy selection by your customers.

Keep your products neatly arranged, clean and plainly priced.

Keep your place of business as tidy and as well lit as possible.

The question of how much to produce becomes How many of each item should I have in stock?

You should try as much as possible to have on hand the goods your customers want in sufficient quantities to satisfy demand. In order to do this, you should have a system of stock control which will give you important information about the goods you sell:

what products you have on hand

what products you need to order

what products are fast movers

what products are slow movers

There are other things you should consider as well, such as:

1. How long will the product remain saleable
 - will it spoil quickly, like fresh fruit, vegetables, dairy products or meat?
 - will it lose its usefulness after a certain time like batteries or certain chemicals?
 - will it lose its appeal after a certain time like some type of clothing and only fetch a low price or become difficult to sell?
2. How quickly can the product be obtained from your suppliers. You must have enough of each item in stock to satisfy customers' demand between delivery dates.

CALCULATING THE PRICE OF YOUR PRODUCT

When you guess the price at which you sell your product, you may either underprice it and thus deny yourself and your family the income you should rightly receive from its sale. On the other hand, you may overprice your product and your customers are likely to buy elsewhere. In either case, you may be the loser.

Calculating what it costs to produce your product is the basis for putting a fair price on it.

In order to calculate an accurate and reasonable selling price for each item you produce, you should therefore calculate the cost of producing that item.

The first step is to set a time period of approximately how long it takes to produce the item; that is, one day or week or one month and write down the number of items you produce in that period,

The second step is to calculate the total cost of making these items by adding up all the various costs which went into making the item.

The third step is to calculate the cost of each individual item (the unit cost) by dividing the total cost by the number of units produced.

At the end of this exercise you will find a blank form for doing the calculations for determining your selling price.

NOTES ON THE FORM:

DIRECT COSTS:

These include costs for raw materials, packaging and labelling materials, wages and transportation.

- a. Raw Materials include materials such as wood, cloth, nails, baking ingredients, thread, wool, seeds, plants and any other basic materials you use to make your product. You should list each one and put the cost of the actual amounts that you use in the production of the finished item within the specified time period.
- b. Packaging and labelling include cost of materials used in packaging and the cost of the labels for the number of items finished within the production period.
- c. Labour includes the wages you pay to employees and any allowances you make for your own labour. If you are not sure of how much to charge, use the rate you or the family member would get if working for someone else. Your labour costs would include time spent in actual production as well as time spent on such activities as marketing.
- d. Transportation includes costs incurred in transporting the raw materials and in transporting the finished goods.

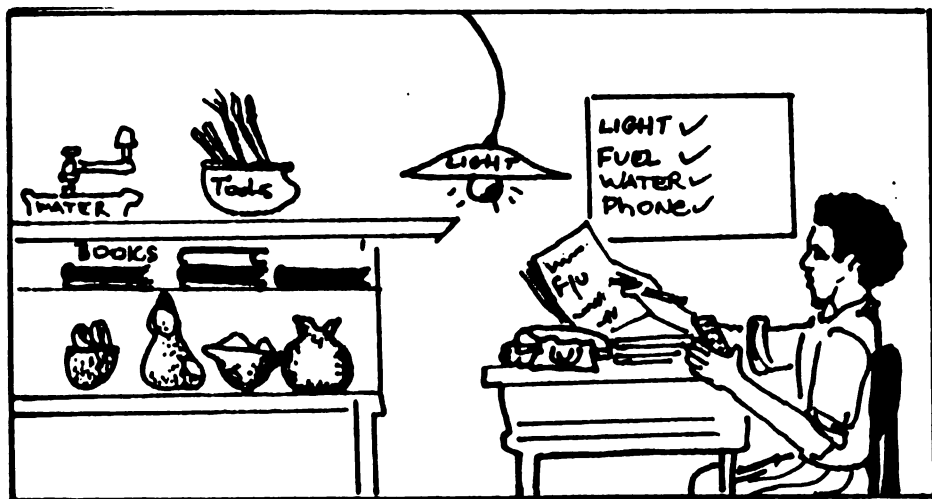
INDIRECT COSTS:

- e. Indirect costs include rental, electricity, telephone, water, fuel, supplies, servicing of equipment, stationery stamps record books and advertising. These costs are referred to as 'indirect' because they are costs the business has to meet whether it produces one (1) or six hundred (600) items. When calculating your price, list these costs as accurately as possibly and calculate how much was actually used up for the production period; for example, if you pay \$400.00 a month for rental and your production period is one week, then the rental cost will be:

$$\frac{200.00}{4} = \$50.00 \text{ per week}$$

PROFIT:

- f. Profit; there is no strict rule about the amount of mark up you should add to your cost, however, a conservative and commonly used profit is 20% of total costs. You should decide what rate you will use.



CALCULATION OF SELLING PRICE

PRODUCT Embroidered Place mats & napkins PRODUCER Jucille Rodney
 PRODUCTION: 3 sets produced in 1 week
 No. of Items Time Period

DIRECT COSTS

a) <u>RAW MATERIALS</u>		\$	c
<u>fabric</u>	_____		
<u>Thread</u>	_____		

			<u>30.00</u>
b) <u>PACKAGING & LABELLING</u>			
<u>Cartridge paper</u>	_____		
<u>Cellophane paper</u>	_____		
<u>Labels</u>	_____		

			<u>.30</u>
c) <u>LABOUR</u> Rate/day or hour X No. days or hours			
HIRED _____ X _____			
SELF <u>\$ 9.60 / 1/2 day</u> X <u>5 x 1/2 days</u>			<u>48.00</u>
UNPAID FAMILY _____ X _____			
d) <u>TRANSPORT</u> (both ways, for buying raw materials and for delivery of finished items)			<u>10.00</u>

OTHER COSTS

e) _____

f) _____

INDIRECT COSTS

g) RENT _____		<u>12.00</u>
h) PHONE BILL _____		
i) ELECTRICITY _____		
j) WATER RATE _____		
k) FUEL/OIL/PROPANE GAS _____		
l) SMALL TOOLS & EQUIPMENT _____		<u>5.67</u>
m) SERVICING _____		
n) STATIONERY, STAMPS, etc. _____		

OTHER COSTS

o) _____

p) _____

TOTAL COST (add a to p)	<u>105.97</u>
COST PER ITEM (divide Total Cost by No. of items)	<u>35.32</u>
PROFIT _____ <u>20 %</u>	<u>7.06</u>
SELLING PRICE (add cost per item and profit)..	<u>42.38 per set</u>

What should you do if the selling price you have calculated is different from your present asking price?

1. The first thing to do is check your figures to make sure that all your calculations are correct and that you have made no errors when adding or multiplying.
2. If your calculated selling price is less than your actual selling price, keep selling at your present price unless you feel you can make more money by lowering the price and increasing your sales.
3. If your calculated selling price is more than your actual selling price, you should increase your selling price. If you find you cannot sell as much at this higher price, you will have to look for ways to reduce the costs incurred in the making of your product. To do this, you should look at each of your costs individually, for example, look at the cost of raw materials and try to reduce each item of cost without reducing quality.

You can reduce the cost of each item you make by increasing the number of items you make in the specified production period. Increasing the RATE OF PRODUCTION can be achieved by :

- working at a faster rate
- reorganising your production to reduce wastage
- using labour-saving equipment where labour costs are high
- improving the working environment, such as the lighting and ventilation

- using incentives such as a bonus to reward extra effort

However, you should be sure that you can sell the additional items you make either to your existing markets or to new markets which you have identified.

Price Calculation for Retail Businesses

In a retail business, the price at which you sell your goods is obtained by adding a mark up to the purchase price which is large enough to cover all your operating expenses, depreciation and profits.

The profit mark up can be as much as you wish, as long as the selling price you set is close to the price of your competitors.

The mark up is usually expressed as a percentage which varies depending on:

- a. the type of goods sold
- b. the expenses which have to be covered in handling the goods, and
- c. whether the selling price is controlled by law.

For example, most grocery stores add a mark up of 40% on items such as meats, milk, cheese, butter, vegetables, etc., which have to be refrigerated. Other items which do not need refrigeration are marked-up between 25% and 30%. Items for which the selling prices are controlled have a mark-up of between 2% and 15%.

Price Calculation for Small Farmers

For small farmers, the real life situation is a little different when it comes to price calculation, because of the following factors:

- you have little control over the market prices
- the quantity you produce will not affect the market price
- you cannot always predict what prices will prevail in any year, unless Government guarantees prices or whether you contract the sale of your product
- you have little control over the weather, diseases, insects and other factors which can change the yields
- for perennial crops and larger livestock, you may be committed to produce inspite of high costs and adverse market prices.

A small farmer, or a small businessman for that matter, may wonder why bother to estimate cost and price if he has such little control over the market. Even so, it is important that you have available at the beginning of each year, or of each production period, the most accurate estimate possible that you can make.

If it looks like you are going to loose money, you will be forewarned to watch expenses even more carefully than usual, to put off or limit purchases and personal expenses as much as possible and to work hard at controlling disease and insects and get high yields as possible.

If it looks like you will make money, it gives you time to think about the best ways you can use the money and to make plans for reinvestment.

There are almost always room for minor adjustments you can make to improve matters once you have a good estimate of what is likely to happen during the year. (Some of these are discussed in the exercise on Organising Production).

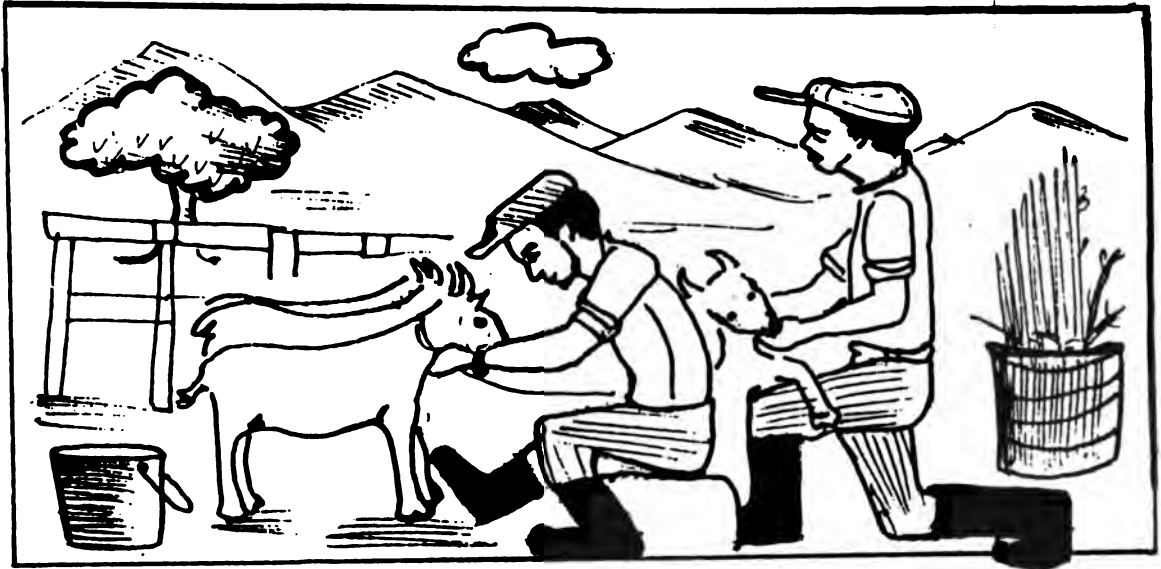
Following is a format you can use to compare costs and prices for your crops and help you to decide which crop or combination of crops is likely to give you the best wages.

	Product <u>A</u>	Product <u>B</u>	Total
1. Estimated price per unit	<u> </u>	<u> </u>	
2. Total expected yield	<u> </u>	<u> </u>	
	units	units	
3. Total expected receipts	<u> </u>	<u> </u>	
	units x price	units x price	
4. Total expected costs (except labour)	<u> </u>	<u> </u>	<u> </u>
5. Net receipts	<u> </u>	<u> </u>	<u> </u>
6. Work time (days, weeks, months)	<u> </u>	<u> </u>	<u> </u>
7. 'Wages'	<u> </u>	<u> </u>	<u> </u>

Here is how you use the format:

1. Write down your most accurate estimate of the price per unit that you expect to receive for each product.
2. Write down the total production you expect for each product.
3. For each product, multiply total expected yield by expected price per unit. This gives you total expected receipts from each product.
4. Work out the cost of producing the total yield of for each product but do not include the cost of your labour.
5. Now for each product, subtract total expected costs from total expected receipts. This gives you the amount of money available to pay you for your time and effort in growing the product.
6. Next, estimate how much time you or your family will spend in the growing of each product.
7. Finally, for each product, divide Net Receipts by the number of days or weeks worked in the production of the item. This will give you your estimate of what wage you are likely to get from your work on each product.
8. a. Add the total receipts expected of products A and B
b. From these totals subtract total expected costs for products A and B. This difference is the amount available (net receipts) from all your products.

- c. Divide this amount by the total time worked. This will tell you the average 'wage' per week/day received from your total farm business.
9. Some products will pay better (expected wages) than others. See if you can adjust your farm production plan to produce more of the better paying products and less of the poorer paying products.



Here are two simple examples:

Example 1

Farmer Burke produces only products A and B.
Here is a summary of his calculations.

	<u>Product</u> <u>A</u>	<u>Product</u> <u>B</u>	<u>Total</u>
Price per unit	1.00	.50	
Total expected yield	6,000	7,000	
Total expected receipts	6,000	3,500	9,500
Total expected costs (except labour)	5,500	2,500	8,000
Net receipts	\$ 500	\$1,000	1,500
Work time	100 days	100 days	200 days
"Wages"	\$ 5.00	\$10.00	\$7.50
	per day	per day	per day

Farmer Burke decided to spend more of his time on Product B, that is, to grow more of it and less on Product A because Product B pays him better 'wages'. He would also look at other possible products that would pay better for next year.

Can you think of what might be Product A and Product B in your farming area?

Example 2

John Williams has the chance to lease two acres of fairly good natural pasture land not far from his home. He is thinking of leasing this land and rearing goats. Before deciding, he estimates the costs and returns he would expect. Here are his estimates:

Size of enterprise

On this kind of pasture, he believes he can feed well, five ewes and their kids per acre.

Production

Average production in the area is about 1.5 kids sold per ewe, per year. He believes that by rotating the pasture's use wisely and strictly controlling internal parasites, he can average two kids sold per ewe or a total of 20 per year.

Price and Income

Kids of six months to a year old are selling in his area for around \$100.00 and the demand is strong. His 20 kids would bring in an income of 2,000.00 per year.

Investment

Young half-breed ewes are selling for about \$300.00. With care, they will continue in production for about six years. He would need \$3,000.00 to buy 10 ewes. Pegs and rope or light chain for picketing would cost another \$100.00. He has part of the money needed, that is \$1,100.00 and a friend is willing to lend him the balance of \$2,000.00. The loan is to be paid back from the income earned from the sale of the kids.

Loan repayment

His friend expects to be repaid during the next four years, with 15% interest per year on the unpaid balance. This averages out at \$500.00 loan premium and about \$190.00 in interest per year.

Cash expenses

Pasture rental is \$100.00 per year. Medicines and drenching \$240.00 per year.

What should John decide? _____

Why? _____

In making his decision, should John main consideration be;

Net cash receipts

Cash available to John

Both

Why? _____

What will happen if John is only about to raise and sell one kid per ewe per year? _____

Labour and Management

John Williams estimates it will normally take one and a half to two hours a day to care for the goats, plus a full day each month for drenching. This works out to be the same as 90 days or 13 weeks of full time work.

Now let us summarise John's estimates of Investment, Costs and Returns:

Investment

His own savings	1,100.00
Loan	<u>2,000.00</u>
Total investment	3,100.00

Annual Receipts

20 kids at \$100.00/kid	2,000.00
-------------------------	----------

Annual Cash Expenses

Pasture rental	100.00	
Medicines and drenching	240.00	
Interest payment	190.00	
		<u>530.00</u>
Net Cash Receipts		1,470.00
Loan repayment		<u>500.00</u>
Cash available to John		970.00

BASIC RECORD KEEPING

It is very important to keep records when you are in business. Records tell us what has happened in our businesses. No one can tell exactly what will happen in any business in the future, however, we can have a much better idea of what to predict if we know what has taken place in the past. Our records tell us what has happened in the past and keeps us informed of the present.

Many people feel that they can carry around a great deal of information in their heads, but as a business person, in order to operate your business efficiently and profitably, or in other words, in order to manage your business, you need to record certain types of information.

For the small business person, records can be kept in a simple and inexpensive manner and still provide the information which is needed to make decisions.

1. THE RECEIPT BOOK

The Receipt Book tells us what happens to our cash. When we receive cash in our business we should give a receipt and keep a copy for our records. When we pay out cash we should get a receipt from the person we pay, keeping it for our records.

Following is a sample receipt.

No. 001	July 7	1985
RECEIVED FROM	Neville Johnson	
the sum of	forty five	
	Dollars	fifty Cents
for 10 wooden carvings.		
\$ 45 : 50 :	Per Richard McKenzie	

The receipt will tell us a lot about our business:

- we will know how much money we have received, each day, week month or year in our business
- we will know who are our customers
- we will know which of our products sell the best
- we will know what time of the week or month or year our business does best
- we will find out where we spend most of our money. This information can help us to find ways to lower our costs when necessary.

Thinking of a sale you made last month or recently, fill in the receipt below:

No.....		.....19.....	
RECEIVED FROM.....			
the sum of			
.....		Dollars.....	Cents.....
.....			
\$	:	:	Per.....

Complete the next two receipts for two other sales made in the last month or the last two sales you can remember.

No.....		.....19.....	
RECEIVED FROM.....			
the sum of			
.....		Dollars.....	Cents.....
.....			
\$	:	:	Per.....

No.....	19.....
RECEIVED FROM.....	
the sum of	
.....	Dollars.....
.....	Cents
.....	
\$:
:	Per.....

Look at the two receipts you have just completed.

- What is the total amount you received?
- From whom did you receive the money?
- which products were purchased?
- what were the dates on those receipts?

From your answers, you should be able to tell:

- who are your best customers
- which of your products sell the best
- what time of the week or month your business does best.

Now look at some receipts you have received from the people you have bought from. What has the money been spent on? Can you think of ways you can reduce any of these costs.

Following is another type of receipt. This one allows you to record a part-payment showing the amount due before and after the payment. You can also show whether the payment was made with cash, cheque or money order.

001

DATE 16-7 1985

RECEIVED FROM Mavis Reid \$ 60 — 00
Sixty DOLLARS

FOR deposit on 1 evening dress.

Thank You

AMOUNT OF ACCOUNT	\$ 100.	00	<input checked="" type="checkbox"/> CASH
THIS PAYMENT	\$ 60.	00	<input type="checkbox"/> CHEQUE
BALANCE DUE	\$ 40.	00	<input type="checkbox"/> M.O.

BY Lose Barrett

Some businesses sell their products for cash only and sell only the products they have available at the time of the sale. Other businesses sell products which will be available at some future time. These businesses need to use an Order Book

2. THE ORDER BOOK

The Order Book is used so that both the buyer and the seller will have a record of the agreement they made. The order should contain as much information as possible so that there will be no disagreement between the buyer and the seller when delivery of the product is made. This will help the business have satisfied customers. Satisfied customers will come back and buy from the business again and will tell their friends about the business.

When you visit your customers to market your product, always take you order book with you, along with your receipt book.

Following is a sample of a page from an Order Book.

	ORDER		No. 030
day order placed →	Date	July 8, 1985	Terms
	From:	The name of the person buying His / her address	
	To:	The name of the person selling His / her address	
	Please supply by (the delivery date)		
the quantity of the goods →	A	the name of the goods	
		@ the unit price	\$ XX.00 ← the price of the goods
			Total \$ XX.00 ← the total price of the goods
		Amount advanced (if any)	
		Balance (if any)	
terms agreed on by both buyer and seller →	Terms :		
	Signed :		
		(the person buying)	
		Date order placed.	

The terms of the payment is very important on the order form. These may be either cash on delivery (C.O.D), part-payment/balance on delivery or on credit terms.

It is very important to ask your customer for as large a part-payment as he is willing to give you. This payment lessens the chance of the customer 'backing out' of the agreement, as he would generally lose the part-payment if he did. The greater the risk to the seller of this happening, the higher should be the part-payment.

Credit means that you have agreed to accept payment for your goods several days after you have delivered them. You should decide how long you are willing to delay payment. Credit terms usually vary from five (5) to sixty (60) days depending on the size of the order and the particular customer you are dealing with.

These receipts will form the basis of our Cash book which is one of the most important records.

3. THE CASH BOOK

You cannot control your business unless you keep track of how much money you collect and how much you spend each day. You must know how your cash is coming in and going out. A simple way of doing this is by using a Cash Book.

The Cash Book should be written up at the end of each day after you have finished all buying and selling, or as often as your business requires. A cash book has ruled pages with several columns. For each day's record-keeping, both sides of the book must be used.

Money collected (CASH IN or Receipts) is recorded on the left hand side and money spend (CASH OUT or Payments) on the right hand side.

CASH IN					CASH OUT				
DATE	QTY	DETAILS	RECEIPT	BAL.	DATE	QTY	DETAILS	PAYMENT	BAL.

Figure 1.

First, you will have to write the headings at the top of the two pages. Figure 1 shows you how to do this.

In Figure 1, you will see that the first column on the left of each page is headed 'Date', the second 'Qty.' which stands for 'Quantity', the third 'Details', the fourth and the fifth are for 'Dollars' (\$) and 'Cents' (c).

Figure 2 shows you how to write up the Cash Book, and explains what goes under the headings. On the day you start keeping your Cash Book, you will collect all your receipts or your records of sales made and all other monies received for the business, and you will have your list of all payments you made that day. Remember, only your cash transactions go into your Cash Book; these would include payments made by cheque or money order, but not money owed to you on credit.

CASH IN

CASH OUT

DATE	QTY	DETAILS	RECEIPT	BAL.	DATE	QTY	DETAILS	PAYMENT	BAL.
16.4.85		Opening balance		80.00	16.4.85		Part payment -		
	100 lb	Yam	80.00				Spray can	220.00	
		cash refund	300.00			1 tin	Lettuce seeds	43.60	
		Total cash				1 tin	Diazinon	17.85	
		available		460.00			Transportation	20.00	
							Total cash out		301.45
							Closing balance		158.55
				460.00					460.00

Figure 2.

Start on the left hand side - the Receipts or CASH IN section. Let us go step by step.

- i. Write in the date.
- ii. Under 'Details' you should write 'Opening Balance'. Your 'Opening Balance' is the amount of cash you have in the business when you begin trading on the given date. Any money you have for the business, whether it is in your cash pan or elsewhere, is included in your 'Opening Balance'. In our example in Figure 2, the farmer started keeping the Cash Book on April 16, 1985. That morning he had \$80.00 in his cash pan. This is his 'Opening Balance'. He wrote this amount in the 5th column.
- iii. Next, you must list all receipts for the day - all sales

and any other monies that come into the business. (You can get information about your sales from your receipt book).

In our example, one sale was made and the farmer also got a cash refund. To record the sale (100 lbs yams @ 80 cents per pound; a total of \$80.00), he did the following:

- a. In the 'Quantity' column, he put 100 lbs.
- b. In the 'Details' column, he put yams
- c. In the 'Dollars and cents' column he put the total amount collected for the yams - \$80.00.

The cash refund is entered in the same way. Next, the total amount of money received on that day is added up and this new total is added to the 'Opening Balance' to give the 'Total Cash Available'.

For example:	Opening Balance		\$80.00
	Day's Receipts	80.00	
		300.00	380.00
	Total Cash Available	<u> </u>	<u> </u> \$460.00

The 'Total Cash Available' is then the total amount of cash the farmer had available to spend for the business that day.

- iv. Let us now move to the right hand side - the Payments or CASH OUT section. While receiving cash for sales, the business is likely to be paying out cash for raw materials, supplies, rent, wages, transportation, etc. Payments made during the day must be put in the CASH OUT section.

Let us look again at Figure 2:

On the same day, the farmer made the following payments:

Part-payment on 1 spray pan	\$220.00
1 tin lettuce seeds, costing	43.60
1 tin insecticide, costing	17.85
Transportation	20.00
	<hr/>

The total spent for the day was then: \$301.45

This total is the 'Total Cash Out'. He put this amount on the line under the figures.

- v. Next, we will find out how much money is left over at the end of the day. This is the 'Closing Balance'. In the example, we know that the farmer had a 'Total Cash Available' of \$460.00, and that the total amount paid out, or 'Total Cash Out' was \$301.45. The 'Closing Balance' - what he had left over at the end of the day is therefore:

Total cash available	\$460.00
Minus Total cash out	<u>301.45</u>
is equal to Closing Balance	<u>\$158.55</u>

Use the line under 'Total Cash Out' to enter the 'Closing Balance'. Now count the cash you have in your cash pan (and elsewhere) at the end of the day. This amount should be the same as the 'Closing Balance'. If it is not, then:

- a. You may have added or subtracted incorrectly either on the 'Cash In' side or the 'Cash Out' side, or on both sides. Check your figures.
 - b. You may have given or received incorrect change when you sold your goods or when you made your purchases that day. Try to recall and change the figures so that the true transactions are recorded.
- vi. Now we can balance our books. Add the 'Closing Balance' back to the 'Total Cash Out'. This figure is then entered in the \$ and c column under the figure for the 'Closing Balance'. It should be the same as the amount, "Total Cash Available" on the CASH IN side.

In the example,

Closing Balance	\$158.55
Plus Total Cash Out	301.45
	\$460.00
	\$460.00

You will recall that \$460.00 was the 'Total Cash Available' on the 'CASH IN' side. This shows that we have 'balanced' our Cash Book. Draw a line across both pages to close off that day's transactions.

- vii. Start off your entry for the next working day by entering the date and the 'Opening Balance'. This will always be the same as the 'Closing Balance' from the previous day, since your Cash Book is written up when trading is over for the day.

Figure 3 shows you examples of entries for 3 successive days. Look carefully at the way the entries are made and notice the following:

- a. The 'Closing Balance' at the end of each day is always the same as the 'Opening Balance' for the following day.
- b. In order for your Cash Book to be balanced for the day, the 'Total Cash Out' plus the 'Closing Balance' must be equal to the 'Opening Balance' plus the 'Total Receipts'.
- c. The columns on both pages headed 'Notes' may be used to record cheque numbers for payments received or made by cheque, to list receipt numbers, or for any notes you may find useful to you.
- d. The 'Closing Balance' should be the same as the amount of money in the cash pan. You should count it to make sure.

Use the sample Cash Book page at the end of this exercise to practice recording the money you collect and spend in your business each day. Do this for as many days as you can fit on the page. After that, purchase a Cash Book or rule the columns in an exercise book and use it to keep your records. Soon you will always be able to tell how your business is making out and you will be well on your way to being a better manager.

Figure 3

CASH IN (RECEIPTS) +

DATE	QTY.	DETAILS	UNIT RATE	\$	¢	\$	¢	BANK	NOTES
16-4-85		Opening balance				80.	00		
	100	lbs. Yams	80¢	80.	00				Receipt # 027
		cash refund		300.	00	380.	00		
		Total cash available				460.	00		
						460.	00		
17-4-85		Opening balance				158.	55		
	1 1/2	cut. tomatoes	\$100-	150.	00	150.	00		Receipt # 028
		Total cash available				308.	55		
18-4-85		Opening balance				308.	55		
	100	lbs. yams	80¢	80.	00				Receipt # 029
	1	goat kid		100.	00	180.	00		# 030
		Total cash available				488.	55		
						488.	55		
19-4-85		Opening balance				407.	15		
	100	lbs. yams	80¢	80.	00				Receipt # 031
	220	lbs. cabbage	30¢	67.	20				# 032
	50	lbs. tomatoes	90¢	45.	00	192.	20		# 033
		Total cash available				599.	35		
						599.	35		

CASH OUT (PAYMENTS)

DATE	QTY.	DETAILS	UNIT RATE	\$	c	\$	c	BANK	NOTES
1-4-85		Part-payment - Spray Pen		220.	00				} Receipt # 6148
	1	tin lettuce seeds		43.	60				
	1	tin Diazinon		17.	85				
		Transportation		20.	00				
		Total Cash Out				301.	45		
		Closing balance				158.	55		
						460.	00		
1-4-85	30	Crocus bags		15.	00				} Receipt # 80765
	1	tin Fungicide		46.	40				
		Transportation		20.	00				
		Total Cash Out				81.	40		
		Closing balance				407.	15		
						488.	55		
1-4-85		Wages - self, Palmer		225.	00				} Receipt # 00521
		Partner hand		25.	00				
		Lease - land		150.	00				
		Transportation		20.	00				
		Total Cash Out				420.	00		
		Closing balance				179.	35		
						599.	35		

SUMMARISING YOUR CASH BOOK

Your Cash Book, which records the money which is collected and spent in your business, is undoubtedly one of the most important records you should keep. From it you can get information which will help you when you plan for the future and look back at how your business did in the past.

Information about how much money was spent in order to operate the business - buying raw materials and supplies, paying wages, rental, etc - and how much was collected from the sale of your product or service, will be needed when you prepare your budget and financial statements.

Summarising your Cash Book will allow you to easily obtain this information when you need it. You can summarise all your payments in an Expense Record and your receipts in a Sales Record.

4. THE EXPENSE RECORD

This is a simple way of listing all the Expenses or Payments in your business according to the type of payments, so that at the end of a month or quarter or year, you can easily find out how much was spent on a particular item of expenditure, say Rental or Wages.

Figure 5 shows you the simple format which Doreen uses for her dressmaking business.

You can use this format as well. You can rule the columns in a book or you can copy this format on sheets of paper.

You will see that the first two columns are headed 'Date' and 'Details'. In Doreen's format there are also ten 'money' columns,

the first one being used for the 'Total'. You can, however, have as many money columns as you need to fit in the expenses or payments you have in your business.

Here is a list of some expenses you may have:

1. Raw materials or supplies
2. Packaging and labelling
3. Wages (for self)
4. Wages (for others)
5. Transportation
6. Rental
7. Utilities (you may have one column for all of the utilities or you may have a separate column for each)
8. Fuel
9. Rental
10. Insurance
11. Machine, Tools & Equipment
12. Repairs and Maintenance

WHICH EXPENSES DO YOU HAVE IN YOUR BUSINESS?

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Figure 5 Expense Record

DATE	DETAILS	TOTAL		SUPPLIES		WAGES (Self)	
		\$	¢	\$	¢	\$	¢
May 1	Thread, zippers, bus fares	24.	00	15.	00		
4	Wages	115.	00			65.	00
11	Wages	115.	00			65.	00
14	Thread, hooks, bus fares	29.	00	20.	00		
18	Wages	115.	00			65.	00
24	Public Service Co.	40.	00				
25	Wages	115.	00			65.	00
31	Mr. Chambers	80.	00				
	TOTAL	633.	00	35.	00	260.	00

Now let us see how Doreen wrote up the Expense Record for the month of May. From the CASH OUT section of her Cash Book, Doreen discovered that on May 1, she spent the following:

Threads and zippers	\$15.00
Bus fares	9.00
	<hr/>
	\$24.00
	<hr/>

First she wrote in the Date, then under, 'Details' she wrote thread, zippers, bus fares. Under 'Total' she wrote \$24.00. Under 'Supplies' she wrote \$15.00 and under 'Transport' she wrote \$9.00. You can see that in this way, she can tell not only how much she has spent in Total but also what types of expense are most important. Each time an entry is made in the Cash Book under CASH OUT, Doreen lists it on her Expense Record.

WAGES (staff)		TRANSPORT		RENTAL		UTILITIES			
\$	c.	\$	c.	\$	c.	\$	c.		
		9.	00						
50.	00								
50.	00								
		9.	00						
50.	00								
						40.	00		
50.	00								
				80.	00				
200.	00	18.	00	80.	00	40.	00		

At the end of the month, all the money columns are totalled. In the example, you can see that her Total Expenses were \$633.00, the amount she spent on Supplies was \$35.00 and so on.

Here's some information which came out of Doreen's Cash Book for the month of June. Use Figure 6 to write up the Expense Record as Doreen would have done for that month.

1. On June 1, 8, 15, 22, and 29, wages of \$65.00 were paid to Doreen and \$50.00 to her staff.
2. On June 4, 11, 18 and 25 bus fares were \$10.00, \$8.50, \$12.00 and \$9.00 respectively.
3. The water bill of \$10.00 was paid on the 13th.
4. Accessories were bought on June 4, 11, 18 and 25 for \$12.00, \$21.00, \$18.00 and \$16.50 respectively.
5. The rental of \$80.00 was paid to Mr. Chambers on June 30th.

5. THE SALES RECORD

Here you will list the sales you make on a daily, weekly or monthly basis. If you sell different kinds of products, this record will be especially useful, as it will allow you to see how much was received from each type of item you sell and to compare this with the receipts from other types of items and with the total receipts for the period. You can also record the quantity and unit price of each type of item sold.

Figure 7 Sales Record

TIME PERIOD	TOTAL RECEIPTS		CIGARETTES (pk. of 20)				SOFT DRINKS (ea.)			
			QUAN.	UNIT PRICE	VALUE		QUAN.	UNIT PRICE	VALUE	
	\$	¢			\$	¢			\$	¢
JAN.	2,516.	40	480	4.00	1,920.	00	432	1.40	518.	40
FEB.	2,340.	40	424		1,696.	00	480		576.	00
MAR.	2,519.	60	446		1,784.	00	552		662.	40
APR.	2,574.	00	458		1,832.	00	480		576.	00
MAY	2,811.	30	453		1,812.	00	384		460.	80
JUN.	2,744.	50	414		1,656.	00	456		547.	20
JUL.	2,805.	70	437		1,748.	00	408		489.	60
AUG.	2,996.	40	460		1,840.	00	504		604.	80
SEP.	2,829.	70	451		1,804.	00	388		465.	60
OCT.	3,254.	50	396	5.50	2,178.	00	428		513.	60
NOV.	3,332.	90	390		2,145.	00	531		637.	20
DEC.	2,897.	30	303		1,666.	50	568		681.	60
TOTAL	33,522.	70	4,839		22,081.	50	5,611		6,733.	20

Clarence Baker has a stall at the corner of two busy streets in the city. He sells cigarettes, soft drinks, sweets, rock buns and ripe bananas to passers-by and to people who work in the area. At the end of each day he records the receipts from the sales he made during the day in his Cash Book and in his Sales Record. He also uses the Sales Record to summarise his monthly sales.

Figure 7 shows you the simple format Clarence Baker uses to summarise the receipts from the sale of his goods over one year. Use Figure 8 to write up the record of your sales.

SWEETS (ea.)				ROCK BUNS (ea.)				RIPE BANANAS (ea.)			
QUAN.	UNIT PRICE	VALUE		QUAN.	UNIT PRICE	VALUE		QUAN.	UNIT PRICE	VALUE	
		\$	¢			\$	¢			\$	¢
720	10¢	72.	00								
684		68.	40								
732		73.	20								
660		66.	00								
675		67.	50	689	60¢	413.	40	192	30¢	57.	60
709		70.	90	640		384.	00	288		96.	40
761		76.	10	700		420.	00	240		72.	00
698		69.	80	663		397.	80	280		84.	00
717		71.	70	658		394.	80	312		93.	60
688		68.	80	672		403.	20	303		90.	90
653		65.	30	661		396.	60	296		89.	80
686		68.	60	659		395.	40	284		85.	20
8,443		844.	30	5,342		3,205.	20	2,195		658.	50

6. PRODUCTION RECORDS

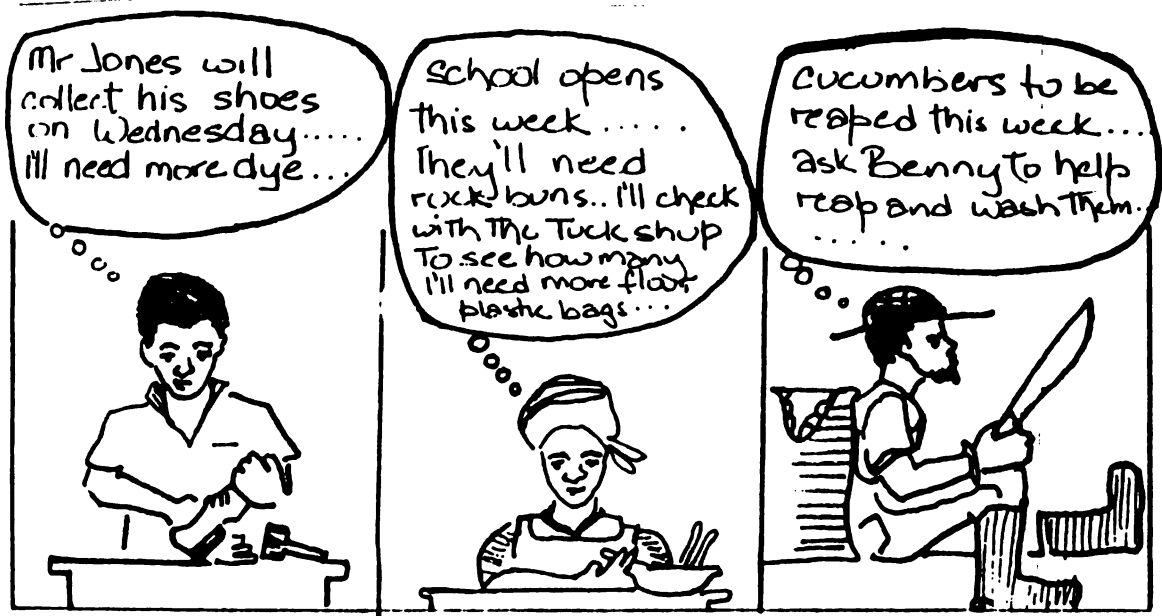
Records are useful because they allow you to write down information which will be helpful in planning or making important decisions about your business.

Production records help you to prepare for and organize the work which has to be carried out during production, as well as to keep track of what you have produced and how well you performed during production.

Before Production

If your business is to succeed, your production should run as efficiently as possible. To do this, you will have to spend some time planning for production. This will involve:

- deciding on which items you will produce
- setting targets for producing the quantities of these items
- deciding on the quantities of the inputs (raw materials, seed, fertilizer, etc.) you will need to produce them
- deciding how many people you need to help you
- estimating the costs of production (the costs of inputs, labour and overheads) and planning your cash flow to meet those payments
- making sure that your product is of "good" quality

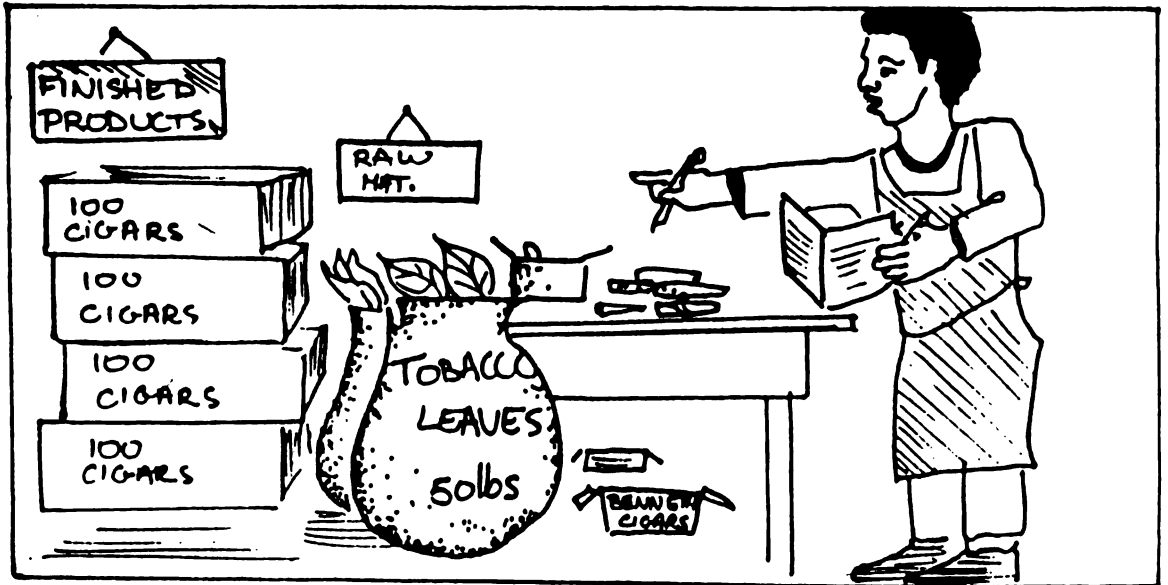


Thinking about these things is just a start; to be properly organized, you need to write them down, to prepare **production schedules**. You can make a schedule for each month, then for each week, then for each day. (For farms, a Production Schedule is usually prepared for the year, then broken down into monthly or seasonal production schedules).

Mortimer Bennett has a small cigar making business. He rolls the cigars and sells them to wholesalers who then package them in fancy boxes and export them to overseas markets. Mortimer has a secure market for his cigars and these days he can hardly keep up with the demand for them. Since he works on his own, he must make the best use of the time he has available to produce, so he prepares production schedules monthly, weekly and daily.

When he sits down to prepare his production schedule he first considers what he must produce. He also thinks about how he will produce it and when. Based on this he can figure out what he must produce and how much of it, when he will purchase it and how much it will cost.

Here is the plan Mortimer has made for the month of May, showing what he plans to do each week, in order to fill both the orders he has received and those he expects to receive.



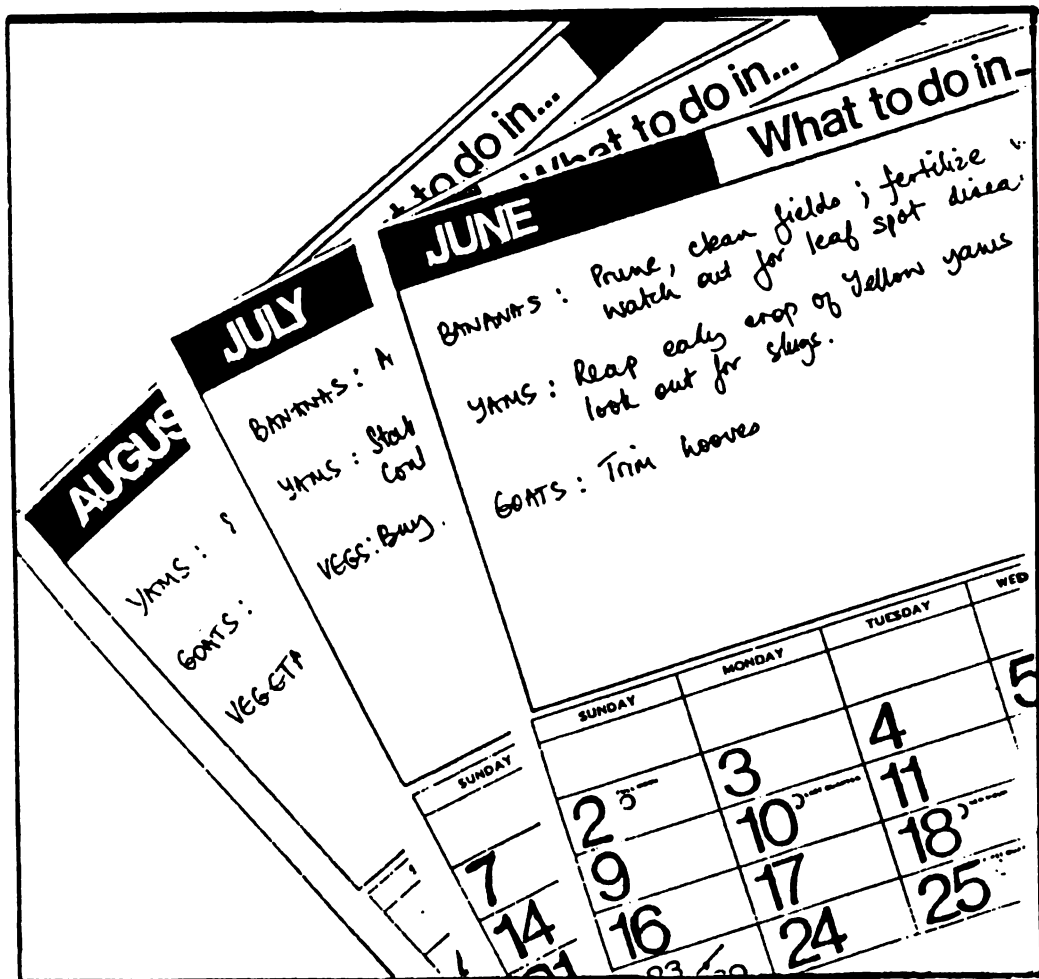
PRODUCTION SCHEDULE FOR MAY

WEEK 1:	Purchase leaves (all grades)
	wrapping paper; Roll 2,000 cigars-package.
	in 50's.
WEEK 2:	Roll 2,500 cigars-package in 50's.
WEEK 3:	Purchase leaves: roll 2,000 cigars.
	-package in 50's; Deliver order of
	100PKs. TO CHENS.
WEEK 4:	Roll 2,500 cigars-package in 100's for
	delivery to Mr Martin.

By making his schedule ahead of time, Mortimer can determine what his raw material needs will be and can so organize his time so he can meet his targets for production and delivery without affecting the quality of his product.

He can also determine how much money will be required for buying raw materials and packaging materials, so if he doesn't have cash, he can arrange for credit with his suppliers.

Henry Burke is a small farmer. To help him prepare for and organize his production work and expenses, he uses a large calendar which has space on each month's page where he can write.



First, for each crop and livestock enterprise on his farm, he determines the amount he plans to produce and how he plans to produce it. Then he writes down for each month, each of the tasks he has to perform. By studying these entries, he can determine what time of the year he may need extra help and when he is likely to have slack periods.

Second, he figures out just when he will need the various inputs (seeds, fertilizer, insecticides, etc.) for his enterprises and writes down the dates when he will purchase them. He makes sure that these dates are well in advance of when the inputs are to be used so he can be sure that they will be available when needed.

Third, he jots down just when he will need to spend money and how much. He also determines when he will be selling products and how much he expects to receive from their sale. By looking at those dates when he will spend money and when he will receive money, he can tell if there will be any periods of cash shortage and take the necessary steps beforehand to deal with them.

Remember, production planning involves making the best use of your time. Wasted time means wasted money and lost opportunities. So when you make your production schedule, be clear about what you will do, when you will do it, and how long it will take.



Have you thought about production plans for your business for next month? Think about the things you need to do and make schedules on this page for the month, for one week in the month and for one day in the week.

SCHEDULE FOR NEXT MONTH	SCHEDULE FOR FIRST WEEK IN NEXT MONTH	SCHEDULE FOR MONDAY NEXT WEEK
WEEK 1:	MONDAY	7:00
.....	.....	8:00
.....	TUESDAY	9:00
WEEK 2: .....	.....	10:00
.....	.....	11:00
.....	WEDNESDAY	12:00
WEEK 3: .....	.....	1:00
.....	THURSDAY	2:00
.....	.....	3:00
WEEK 4:	FRIDAY	4:00
.....	.....	5:00
.....	SATURDAY	6:00
.....

During and After Production

During production you should keep a close watch on the production schedule you had prepared beforehand. This way, you can

monitor your progress and make adjustments if things don't go according to your plan. It is wise to record what actually takes place during production.

PRODUCTION RECORDS IN AGRICULTURE:

If you are a small farmer, you are likely to have several different enterprises, the mix of which may change from season to season. One of the main reasons that a farmer keeps production records is to measure the performance of a particular crop or livestock enterprise. In order to do this, during production you should keep a separate record for each enterprise. This will allow you to compare inputs with outputs and enable you to make sensible decisions regarding the management of each enterprise and compare the returns of each of them.

If you have crops mixed in one place, it may not be possible to get an accurate figure on fertilizer, labour and other costs for each crop. However, this problem may be overcome by keeping a record for that piece of land and adding all the costs and all of the money you earn from all sales from that area, from the time the first crop was planted until the last crop was reaped and sold.

In effect, a record is kept on the combined costs and total returns of everything grown on that piece of land during the year. It is wise to record your own labour and all family labour, and to put a cost on this in the record even though no actual payment is made.

On the following pages are examples of a single crop production record and livestock production record. Note that much of the information contained in them can be obtained from your cash book.

SINGLE CROP PRODUCTION RECORD

LUCEA YAMS - 1985

Planted: February 6, 8, 9, 10, 11

Area: Half acre

Expenses:

150 plants 1/2 lb each	45.00
Forking land: 1 day	25.00
Making hills and planting out (50c ea.)	75.00
150 stakes at \$60/100	90.00
Staking	15.00
Weeding	15.00
25 lb - 12:24:12 fertilizer	10.00
Spreading fertilizer	10.00
20 bags for bagging yams @ \$1.50	30.00
Digging and toting	75.00
Treating seed	<u>15.00</u>
TOTAL COSTS	<u>405.00</u>

Sold to Jimmy Jones 500 lbs @ 60c	=	300.00
Sold to Paul Blake 150 lbs @ 55c	=	82.50
Sold to Boysie 250 lbs @ 55c	=	<u>137.50</u>
TOTAL SOLD	=	520.00
Used 50 lb @ 55c		<u>27.50</u>
TOTAL VALUE		547.50
TOTAL COSTS		<u>405.00</u>
NET PROFIT		142.50

TOTAL REAPED 975 lbs

Total sold 900 lbs

Total used 50 lbs

Total spoilt 24 lbs

975

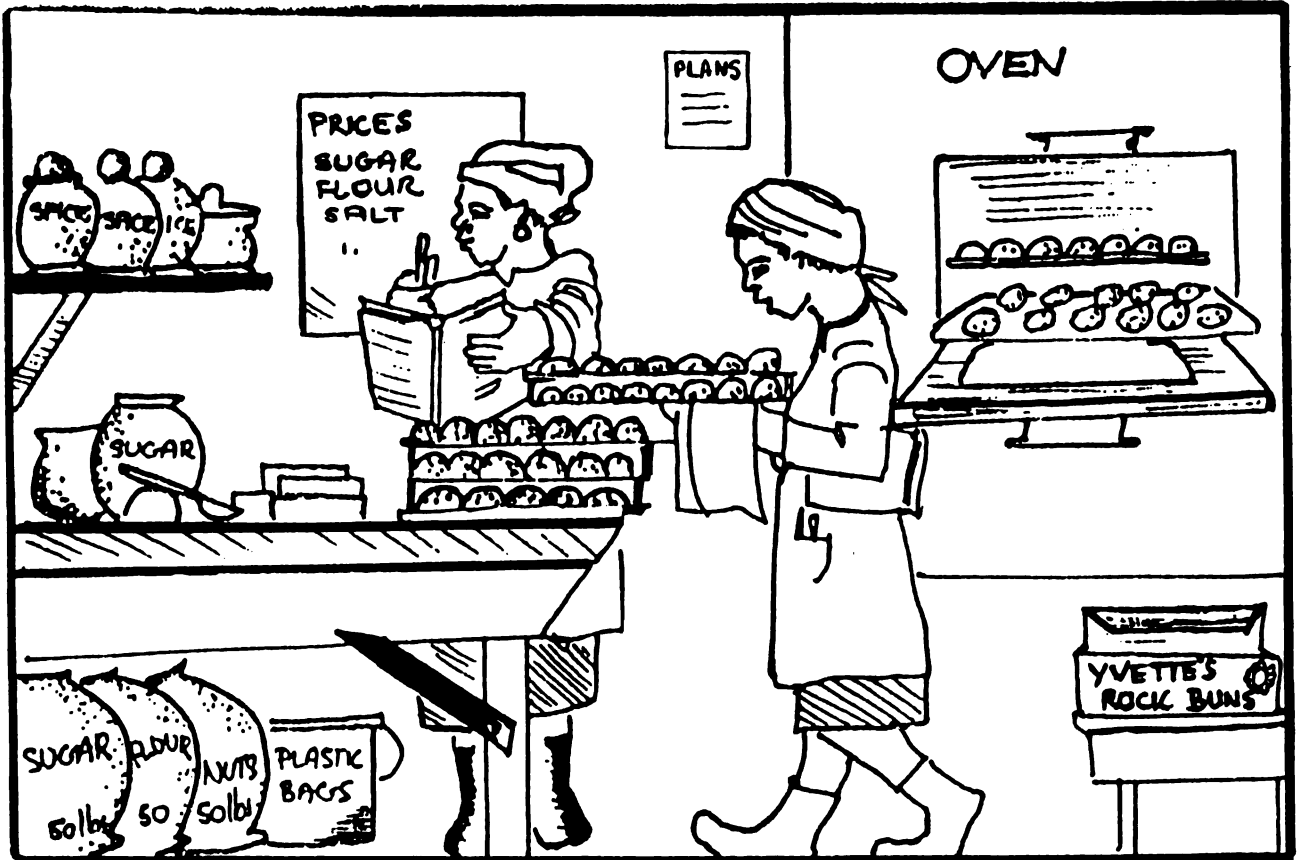
LIVESTOCK PRODUCTION RECORD
PIG ACCOUNT FOR JANUARY 1984

Date	Item	Spent	Received
Jan. 3	10 x 50 lb bags pig feed	\$350.00	
3	Worm medicine	6.00	
10	Sold 3 piglets to Mrs. Brown		\$180.00
15	Sold 1 pig to meat shop (150 lb)		450.00
21	To vet for one visit	30.00	
21	For medicine for Scours	20.00	
	Repairs to pig pen: material	46.00	
	labour	10.00	
24	2 piglets died		
28	Sold 2 pigs to meat shop (263 lbs)		789.00
28	Bought 25 bags pig feed	<u>875.00</u>	<u> </u>
		<u>\$1,337.00</u>	<u>\$1,419.00</u>

Similarly, during and after production manufacturers need to record:

- the actual quantities of product made each day
- the quantities and costs of raw materials and packaging materials
- the number of persons involved in production and the cost of their labour
- the time spent in production and in non-productive activities (down time)
- production yields, that is, the number of items produced in each production period
- quantities and descriptions of items placed in storage
- quantities and description of items sold

Yvette Morgan, who makes rock buns, keeps track of her daily production by writing up a Batch Card. On it she records the exact amounts of raw materials she uses and their costs, the amounts and costs of packaging and labelling materials used and the amount and cost of her time and that of others helping her.



Here is an example of one of her 'Batch Cards'.

BATCH CARD					
PRODUCT: <u>Coconut Rock Buns</u>					
BATCH SIZE: <u>14 doz</u>					
DATE: <u>09 April, 1984</u>					
INGREDIENT	QTY.	UNIT	QTY.	UNIT COST	TOTAL COST
RAW MATERIAL:					
FLOUR	14	lb.		\$.52	\$7.28
SUGAR	7	lb.		.82	5.74
EGG	14	ea.		.26	3.64
MILK	7	cup		.48	3.36
MARGARINE	84	oz.		.066	5.54
COCONUT	14	cup		.50	7.00
SPICE	14	tsp.		.05	.70
BAKING POWDER	21	oz.		.30	6.30
TOTAL RAW MATERIAL COST 'A'				\$	39.56
PACKAGING:					
PLASTIC BAG	14	ea.		.05	.70
LABEL	14	ea.		.005	.07
TOTAL PACKAGING COST 'B'				\$	.77
LABOUR / TIME RECORD					
NAME	TIME SPENT		RATE/HR.		TOTAL COST
Me	6 hrs.		1.66		9.96
Angela Smith	3 hrs.		1.20		3.60
TOTAL LABOUR COST 'C'				\$	13.56
TOTAL DIRECT PRODUCTION COST = 'A' + 'B' + 'C'					
$39.56 + .77 + 13.56 = 53.89$					
DIRECT COST PER UNIT				= \$3.85 per dozen	

Because of frequent increases in the prices of many of the ingredients she uses in her recipe, Yvette must always make sure that the selling price of her buns adequately covers production costs. When the 'total production cost' on her batch card is increased (or decreased) Yvette does her price calculation exercise again to help her make decisions about the price of her rock buns.

The batch card can be used by other manufacturers too. Bridget Brady makes leather sandals to order. Her customers choose any of several styles she has available. Bridget tries to quote prices keeping in mind that these have to cover the cost of the quantity of leather which each style will require. To make sure her pricing is correct, for each sandal made, Bridget prepares a batch card similar to Yvette's on which she carefully notes the actual amount of material used including the portion which is wasted, and the time it took her to make it. (The Price Calculation exercise cannot be done without this information).

The records you prepare before production begins help you to make sure you are prepared for the work which has to take place during production. The benefit of keeping records during and after production is that you can analyze your production performance so that, if necessary, you can improve your performance in the future.

Production records help you to:

- see how well or how poorly you did compared with what you expected. Farmers in particular, can compare their performance with other years and with the performance of their neighbours
- discover the things that went well and those that went poorly

- measure your efficiency: how many items you made in a certain period of time; crop yields per square or acre; production per animal; time spent per square or per animal; receipts per square or per animal
- compare input with output, look at expenses and profit or loss for your farm or manufacturing business
- detect changing conditions: in the environment (e.g. changing weather conditions), in the market (e.g. prices rising or falling, changes in demand), in the economy (trends in fashion, etc.)

Finally, by keeping and then studying these records, you are taking the first important step towards doing a more efficient and profitable job of managing your business in the future (See also exercise on 'Increasing Income and Profits').

7. STOCK CONTROL RECORDS

If you make a product for sale, that is, you are a manufacturer, your stocks include raw materials, goods-in-process and finished goods. If you are a retailer, your stocks are the items you buy for resale. If you are a farmer, your stocks include seeds, feed and inputs such as fertilizers, insecticides, etc.

When your business has stocks, you have invested money in them. If you have too much stocks, you may be tying up money (which could be put to better use). You may also be having problems with storage, as well as running the risk of losing them as a result of theft, damage or out-datedness. However, if you have too few stocks, your production may be hampered or you may lose valuable sales.

As a manufacturer, you want to be sure that you always have enough raw material on hand, in the right quantities, to make your products. You also need to know how many finished items you have on hand, so you can fill orders already secured. If you are a retailer, you want to have enough goods on hand for your customers to buy from you, but at the same time, you don't want to have too many of those items which do not sell quickly.

Whether you are a manufacturer or a retailer, you need to be able to control your stocks:

- to decide which materials you must have on hand at all times
- to make sure that you always have on hand enough of the items that you need to carry on your business, but not too much that excess cash is tied up in the stocks. (This is true whether they are raw material finished goods or items you have bought for resale).
- to know how much to order at a time and when to order
- to ensure that stocks do not decrease in value as a result of poor storage or improper handling
- to prevent wastage
- to prevent theft

How do you go about controlling your inventory? You can do this by keeping stock control records.

Below is an example of how a small shopkeeper controls her stocks of goods using stock control records. If you are a manufacturer with stocks of raw materials, goods-in-process and finished goods, you can use the same method with slight changes to keep track of your stocks.

Val Russell has a small shop at the front of her house from which she sells grocery items to the people living in her small community.



She has over forty items of stock in the shop. She has devised a way to keep track of them to make sure that she can account for each item and that she always has in stock those items which her customers need.

She does not own a cash register, but each day when sales are made, she writes down the items she has sold in her sales records. In another book, she has recorded a list of every item she has in the shop. At regular intervals, she counts these items - she does STOCK-TAKING.

In columns which she has ruled across the pages of her stock book, she notes the following at stock-taking:

- Opening stock (the quantity of the item she had in the shop the last time she took stock).
- Purchases (the quantity of the item she bought since the last time she took stock). She gets this from her

purchases record or her Cash Book.

- Sales (the quantity of the item she sold since the last time she took stock). She gets this from her Sales Records or from her Cash Book.
- Closing stock (the quantity of the item she now has in the shop).
- Re-order level (the quantity, experience has taught her, indicates that a new order should be placed so that they will arrive before the item has run out of stock)
- Quantity to order (the amount of the item she will buy to replenish her stock. Her sales records can help her to decide how much this should be).

In addition to these, stock-taking allows Val to physically check the condition of the goods in the store. She can also note which items are slow movers and which are fast movers and can decide if she will sell at discounted prices, those items which are not selling well.

This is what a page from Val's stock book looks like

DATE OF STOCK-TAKING _____ 19____						
Item	Opening Stock	Purchases	Sales	Closing Stock	Re-Order Level	Quantity to Order
Milo (large)						
Milo (small)						
Teabags (25)						
Coffee, small						
Rice (2 bags)						
Sardines (tin)						
Sugar (dk 2lb)						
Sugar (gran 2lb)						
Condensed milk						
Corned beef						
Soap powder (lg)						
Soap powder (sm)						
Bleach (10oz)						
Soap, cake						
Soap, bath						
Oil, coconut(pt)						
Oil, soya bean						
Margarine, stick						
Margarine, tub						
Toilet paper, sg						
Noodle soup (pk)						
Whole chickens						
Saltfish						

Figure 9.

Listing these assets and their values allows you to prepare the Net Worth Statement and the Income Statement which tell you how well your business did financially over a particular period, usually one year. Assets should be listed and valued each year. Comparing total values of each year with the next year will allow you to find out how well your business is doing over time - whether it is increasing or decreasing in value, and by how much.

When to list them?

Physical assets are normally listed at the beginning of the business year - usually at a time when business activity is lowest. In many businesses, this corresponds to the start of the calendar year on January 1. For farming businesses, assets are usually listed when amounts of crops and supplies on the farm are lowest. Each year the list should be prepared at about the same time.

How to value them?

The main purpose of listing your business' physical assets and comparing the resulting financial statements from year to year, is to see how well your business is performing over time. Therefore the value which you place on each of these assets will affect the value of your business.

There are generally four ways to value them:

1. At cost
2. At cost plus value added
3. At cost less depreciation
4. At market value

You should use one or more of these ways depending on the types of assets your business owns:

1. At cost

This is the price at which the asset was bought. The following assets are normally valued at cost:

Raw materials

Goods bought for resale

Supplies

Feed and farming inputs such as seeds, insecticides, fungicides, etc.

Land

Note that land is valued at cost and not at market value, despite the fact that real estate prices usually increase over time. This is so because increasing the value of your land on your financial statements tends to inflate the image of how your farm business is doing.

2. At cost plus value added

For manufacturing stocks of goods-in-process and finished goods, there is a value added to the cost of the raw material used to produce them.

Goods in process are items on which work has started but not completed. Their cost is found by adding up all those costs which went into getting them partially completed - the raw materials costs, the labour cost and any other manufacturing costs. This is also true in farming, for growing crops which have not yet been harvested.

Finished goods are costed at the TOTAL of all the costs which went into making them: the cost of raw materials plus other costs of production (direct labour and manufacturing overheads).

3. At cost less depreciation

Assets such as buildings, machinery, vehicles, tools, furniture, fixtures, fences, etc., wear out over time and therefore have a limited 'useful life'. This must be taken into account when they are valued, in order to obtain a true picture of the value of the business. A portion of the of cost of the asset is subtracted from its original cost each year for the duration of its useful life. The useful life of the asset can be determined by using guidelines contained in accounting manuals, or by using your own estimate.

The table below shows examples of ranges of useful lives for some assets. When in doubt, use a conservative estimate of the useful life of an asset.

Asset	Useful life (yrs)
Buildings	30-50
Automobiles	5-10
Production machinery and equipment	2-15
Farm machinery and equipment	2-15

If, for example, you estimate that a given machine will have a useful life of ten years, then 1/10th of its costs must be subtracted from its value each year. If you estimate that it will have a useful life of only five years, then 1/5th of its original cost must be subtracted from its value each year.

This is known as 'Straight Line Depreciation'. You are assuming that the asset will decrease in value the same amount each year. This is the simplest way to estimate depreciation. (There are other ways which are more exact but more complicated to work out).

4. At market value

The following are valued at their estimated sale price:

- a. Livestock
- b. Crops which have been harvested but not sold at the time the assets are listed.

It is important that once you have decided to use a particular way for valuing each asset or group of assets that you continue to use the same way each year. If you change the way you value your assets from year to year, then your financial statements may not give as reliable a picture of how your business is doing.

How to list them

Every item owned by the business should be listed and counted. Below is an example of a form you can use to list assets which depreciate in value over time. The information filled in is for a farm business, but the form will work just as well for any other kind of business owning assets which depreciate.

Description	Year Bought	Cost	Years of Life	Annual Depreciation	Value 1984	Value 1985	Value 1986
Plow	1980	\$ 300	15	\$ 20	\$220	\$200	
Tractor	1979	2,000	10	200	800	600	
Shovel	1983	20	5	4	12	8	

Farmers can use the form below when listing items which do not depreciate in value over time (land, for example), or are not kept from one year to the next (such as harvested but unsold crops).

DESCRIPTION	1984			1985		
	Amount	Value per unit	Total value	Amount	Value per unit	Total value
Farmland	5 acres	\$900.00	\$4,500	5 acres	\$900.00	\$4,500
Red peas	10 bu.	3.00	30	100 bu.	2.40	240
Potatoes	20 cwt.	40.00	800	5 cwt.	25.00	125

Below is an example of a form which can be used when listing stocks (raw materials, goods in process, finished goods, goods bought for resale, supplies).

Type of Stock: Raw Material		Date: 01-01-85	
Location: Storeroom #1			
Description	Quantity	Unit Cost	Total Cost
Fabric cotton, green	6 rolls	\$350.00	\$2,100.00
" " , blue	3 "	350.00	1,050.00
" linen, white	5 "	480.00	2,400.00
Thread, poly, black	8 spools	18.00	144.00
" " , white	8 "	20.00	160.00
Button, large, wood	2,000	.44	880.00
Hooks, stainless steel	5,000	.24	1,200.00

BUSINESS STATEMENTS

In this exercise, we will prepare financial statements which will assist you in deciding just how well your business is doing financially and help you to get some ideas on how to improve it.

As the manager of your business, your main goal is to make sure that the business does well enough so it can provide you with a satisfactory income. To find out how well your business is doing financially, you will need to measure how profitable it is and compare its present performance with its performance in the past.

The exercise will be divided into three parts: The first part will help to determine the financial performance of a business which:

1. does not own stocks of goods
2. owns stocks of goods but the changes in the level of stocks are so small that the worth of the business is not greatly affected by these changes. For example, a roadside vendor starting off each day with about the same total value of stocks
3. buys goods or services for cash
4. sells goods or services for cash
5. does not own equipment, machinery, buildings or land

If your business falls into this category, you should read Part One of this exercise.

In Part Two, we will prepare statements which will help to determine how well your business is doing financially if it:

1. owns stocks of goods for resale or for use in making items for sale

2. buys goods or services for cash or credit
3. sells goods or services for cash or credit
4. does not own equipment, machinery, buildings or land

If your business falls into this category, you should also read Part Two of this exercise. An example of this type of business is a parlour.

You should read Part Three as well, if your business:

1. owns stocks of goods for resale or for use in making items for sale
2. owns equipment and/or machinery
3. owns land and/or buildings
4. buys goods or services for cash or credit
5. sells goods or services for cash or credit

An example of this type of business is a small garment manufacturer.

BUSINESS STATEMENTS- PART ONE

In this part, we will prepare the Net Cash Income Statement (also known as a Profit and Loss Statement). This is a summary of the Cash Receipts (money coming into the business), Cash Payments (money spent by the business) and the Profit or Loss which results from the operation of the business over a period of time.

The Net Cash Income Statement measures the performance of the business over a span of time, and can be done for a month, a quarter, or a year. By comparing the statements over different periods, you will be able to tell how profitable your business is, and whether it is improving or declining.

How often you prepare the statement depends largely on the volume of sales the business makes. For example, if you run a business having sales which go up and down from month to month, you may want to measure its performance monthly. On the other hand, if the business normally has slow periods during the year, you may want to measure its performance every quarter, every six months or once per year, depending on how long those slow periods last.

How To Prepare a Net Cash Income Statement

Let us learn how to prepare this Statement for one year. We will use the Sales Record and the Expense Record to find out what took place in the business over the year, such as:

1. The total amount of money the business received from sales of goods or services.
2. The amounts the business paid out for the year on:
 - a. Raw materials, packaging materials or supplies
 - b. Wages to the owner of the business
 - c. Wages to the employees
 - d. Transportation
 - e. Utilities (water, electricity, phone)
 - f. Rent
 - g. Any other items

Let's see how a small business person, Clarence Baker, prepares the Net Cash Income Statement.

Clarence Baker has been in business for a little over two years. He has a stall at the corner of two busy streets in the city. He sells cigarettes, soft drinks, sweets, rock buns and ripe bananas, to passers-by and to people who work in the area.

Clarence wants to know if his business made a profit last year. From his Sales Record and Expense Record he discovered the following:

1. The sales for the year amounted to \$33,522.70
2. He had paid himself \$4,940.00 in wages
3. He spent \$26,376.44 on purchase of goods for his stall
4. Transportation costs were \$1,560.00

This is the statement he prepared:

NET CASH INCOME STATEMENT
Clarence's Corner Stall
January 1 - December 31 Last Year

Sales (Receipts)		\$33,522.70
<u>Payments (Expenses)</u>		
Purchases of goods	\$26,376.44	
Wages to self	4,940.00	
Transportation	<u>1,560.00</u>	
Total payments		<u>\$32,876.44</u>
Net Cash Income (Profit or Loss)		\$ 646.26

Clarence was pleased that the business had made a profit. He thought back to the previous year when he had prepared the Net Cash Income Statement. He remembered that he had just been able to get a small wage for himself each week, as things had not gone well for the business that year. He looked back at his records and compared the statements for the two years.

NET CASH INCOME STATEMENT
Clarence's Corner Stall

	Jan 1 - Dec 31 LAST YEAR	Jan 1 - Dec 31 YEAR BEFORE LAST
Sales (Receipts)	\$33,522.70	\$23,465.89
 <u>Payments (Expenses)</u>		
Purchases of goods	26,376.44	19,007.37
Wages to self	4,940.00	2,860.00
Transportation	<u>1,560.00</u>	<u>1,404.00</u>
Total payments	32,876.44	23,271.37
Net Cash Income (Profit)	\$ 646.26	\$ 194.52

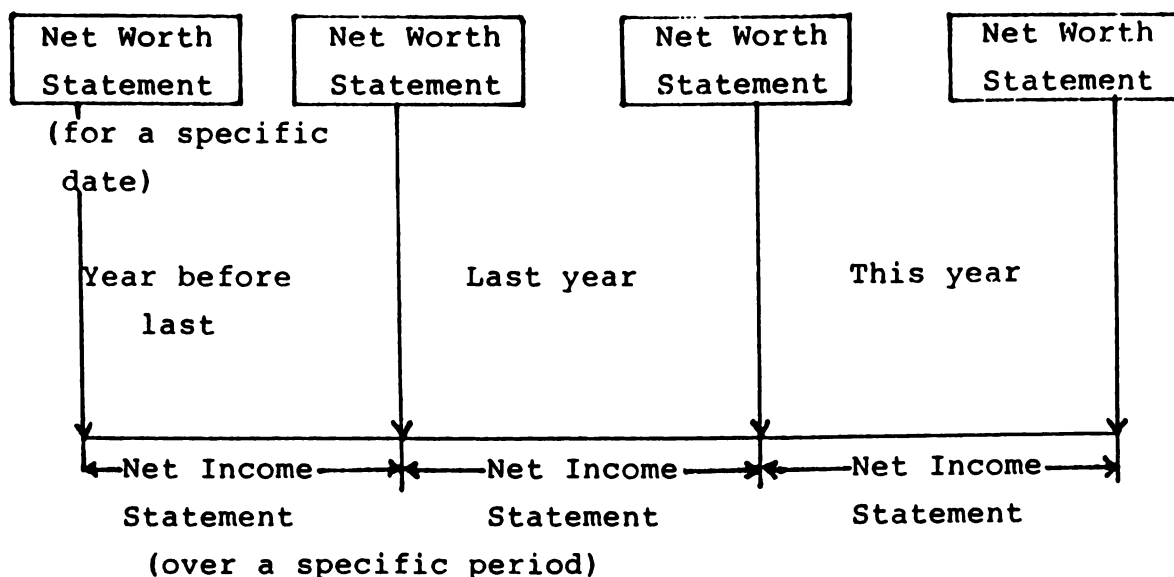
What can you tell about Clarence's business from the Net Cash Income Statement of the two years?

BUSINESS STATEMENTS- PART TWO

When a business has stocks (merchandise, raw materials, goods-in-process, finished goods, supplies, feed, seeds fertilizer, insecticide, etc.), it is not possible to get a true picture of the financial condition by preparing the Net Cash Income Statement we just discussed. This is so because changes in the quantities (and, therefore, total value) of these assets held by a business at different points in time, affect the financial condition of the business. To get a better picture of what is happening financially in the business, we need to prepare two statements:

1. The Net Worth Statement (also known as a Balance Sheet).
2. The Net Income Statement (or Profit and Loss Statement).

The Net Worth Statement shows the financial position of the business at an instant in time, but the Net Income Statement measures the performance of the business over a period of time, whether it be a month, a quarter or a year. As the illustration below shows, the Net Income Statement records the changes which occur between two Net Worth Statements.



The relationship between these two statements will become clearer after you have looked at the example which follows.

Let us see how the two statements are prepared for a retail business having stocks of goods.



Val Russell operates a small corner shop in the country. Two years ago, the owner, Mr. Brown, died. His wife decided to put the shop up for rental as she was getting old and could not manage the shop. Val lived next door and decided to rent the shop. She had been thinking about starting a small business and the opportunity came at just the right time. Val bought some of the items which had been in the shop and some other items with money she had been saving for a few years.

Val wants to know how well her business has performed over the two years in which she has been operating the shop. She prepares the Net Worth Statement which shows the financial condition of the business at a specific date.

It shows that:

WHAT THE BUSINESS IS WORTH
is equal to

WHAT THE BUSINESS OWNS minus WHAT THE BUSINESS OWES

What are the things the business OWNS?

Remember, these are called ASSETS. They can be divided into two categories:

1. Current (short-term) assets
2. Fixed (long-term) assets

Current assets are mainly cash and other assets which can be quickly turned into cash; or can be used up in the business in the near future (within 1 year). For example current assets may be:

1. Cash (money in the bank and the cash pan)
2. Money owed to the business by customers
3. Savings belonging to the business
4. Pre-paid bills (insurance premiums, rental, etc.)
5. Stocks (merchandise, raw materials, goods-in-process, supplies, feed and farming inputs)
6. Non-breeding livestock, work animals (horses, donkeys, etc.) and livestock kept less than one year (broiler, rabbits, etc.)
7. Stored and growing crops

Fixed assets are items which the business uses in the production of goods and services offered for sale, and are not themselves normally used up or sold in the near future (within one year). These include:

1. Land
2. Buildings
3. Machinery (including vehicles) and equipment
4. Furniture and fixtures (e.g. shelves, cupboards etc.)
5. Large breeding animals (cows, goats, etc.) and work animals

What are the things the business OWES?

These are called DEBTS. The debts of a business are mainly to lenders or suppliers who have loaned money or given your business credit.

The DEBTS OWED by a business can be placed in two categories:

1. Short-term debts
2. Long-term debts

Short-term debts are due for payment in the 'near future', that is, anytime within the year and include:

1. Money owed to suppliers (for goods bought on credit)
2. Short-term loans
3. Money owed for services provided e.g. wages, (to employees), electricity supplies, etc.

Long-term debts on the other hand, are due for payment over a period longer than one year. These include:

1. Mortgage loans on land or buildings
2. Other bank loans

So at the end of Val's business year which was at the end of December, Val prepared the Net Worth Statement which follows.

NET WORTH STATEMENT
RUSSELL FAMILY SHOP
December 31, (Last Year)

ASSETS (WHAT THE BUSINESS OWNS)

Cash	\$1,393.00
Money owed by customers	827.00
Stocks	5,220.00
Pre-paid bill (rental)	<u>120.00</u>
<u>Total assets</u>	<u>7,560.00</u>

DEBTS (WHAT THE BUSINESS OWES)

Money owed to suppliers	1,104.00
<u>NET WORTH</u>	<u>\$6,456.00</u>

Val knew that in order to really find out how well her business had performed she would have to compare the Net Worth Statement with that of the previous year. This is the result:

NET WORTH STATEMENT
RUSSELL FAMILY SHOP

	December 31 Last Year	December 31 Year before last
<u>ASSETS</u>		
Cash	\$1,393.00	\$ 493.00
Money owed by customers	827.00	557.00
Stocks	5,220.00	3,350.00
Pre-paid bill	<u>120.00</u>	<u>150.00</u>
Total assets	<u>7,560.00</u>	<u>4,550.00</u>
<u>DEBTS</u> Money owed to suppliers	1,104.00	974.00
<u>NET WORTH</u>	<u>\$6,456.00</u>	<u>\$3,576.00</u>

What was the Net Worth of Val's business at the end of December last year? \$_____.

What was the Net Worth of Val's business at the end of December year before last? \$_____.

Has the worth of Val's business increased, stayed the same or decreased?

What was the change in net worth over the year? \$_____.

Val then prepares the Net Income Statement which summarises the Receipts and Payments, to find out whether her business made a profit or not for the year just past.

To prepare the Net Income Statement for the year just past, Val first had to find out from her records:

1. The total sales. All sales made by her business for the year, including cash and credit sales.
2. The cost of goods sold. To get this, she first adds the cost of the Opening Stock to the cost of those items of stock purchased during the year. Then she subtracts the cost of the Closing Stock. (The Opening Stock is the total value of the shop's stock arrived at when she listed and valued her assets on January 1st, last year. The Closing Stock is the total value of the stock at the end of December last year - the same as the value arrived at when she listed and valued her assets on January 1st, this year).
3. The Gross Margin. She gets this by subtracting the Cost of Goods sold from the Sales. The Gross Margin is the 'mark up' she has made for the year on the items she sells in the shop.
4. The Total payments. All payments made by the business for the year. This includes cash and credit purchases: purchases of items of stock, payment for rental, transportation, wages, utilities and interest payments on loans, etc.
5. The Net Income. This is calculated by subtracting the Total payments from the Gross Margin.

This is what her Net Income Statement looks like.

NET INCOME STATEMENT
RUSSELL FAMILY SHOP
January 1 to December 31
this year

Sales		\$36,000.00
Cost of Goods Sold		
Opening Stock	\$3,350.00	
(plus) Purchases (of items of stock)	<u>19,510.00</u>	
	22,860.00	
(minus) Closing Stock	<u>5,220.00</u>	
		<u>\$17,640.00</u>
Gross Margin		\$18,360.00
Gross Margin		
<u>Payments</u>		
Wages to Val	\$7,200.00	
Wages to Son Son	3,000.00	
Transportation	1,080.00	
Rental	1,440.00	
Electricity	2,400.00	
Other payments	<u>360.00</u>	
Total payments		15,480.00
Net income (Profit or loss)		2,880.00

Val was very pleased that she had made a profit this year and she hopes that the business will do well again, next year.

With the help of these financial tools, Val is confident that her business will be able to keep on making profits, if she keeps a close watch on the financial aspects of her business.

It should be noted that Val put back all her profits into her business. (The increase in Net Worth is exactly the same as her profits). This is a good idea if ^{z1} you want your business to grow.

BUSINESS STATEMENTS- PART THREE

If your business owns fixed assets, that is, items such as buildings, machinery, equipment, furniture, etc., there is an important factor which you must consider when you prepare the financial statement we have been learning about.

This factor is known as **Depreciation**.

Except for land, which usually does not depreciate, most Fixed Assets wear out sooner or later and therefore have a limited 'useful life'. A portion of the cost of these fixed assets is therefore considered as an expense to the business and is known as a **Depreciation Expense**.

Doreen Willie left her regular job at a clothing factory at the end of April last year, in order to start her own dressmaking business. She invested all her savings amounting to \$1,530.00 in cash in the business. At the beginning of May, she used some of the cash and \$1,000.00 which she borrowed from the Industrial Development Corporation to buy some furniture and equipment.

This is what she bought:

1. a straight stitch sewing machine, costing \$1,800.00
2. three chairs, costing \$50.00 each
3. a work table, costing \$300.00
4. small tools, costing \$150.00



During the first month in operation, the fixed assets of Doreen's business began to depreciate. In order to prepare the financial statements at the end of that month, Doreen had to determine what the depreciation expense was for each of the fixed assets owned by her business.

For example, she found out (from an accounting manual which gives the 'useful life' of various items of fixed assets) that the sewing machine should have a 'useful life' of ten years. She therefore charged as a depreciation expense, an equal portion of the cost of the machine each year for 10 years.

The machine cost her \$1,800.00, so she charged as a depreciation expense:

$$\frac{\$1,800.00}{10} = \$180.00, \text{ each year for 10 years}$$

Similarly, she determined the yearly depreciation expenses for the other fixed assets:

<u>Item</u>	<u>Useful Life</u>	<u>Costs</u>	<u>Depreciation expense</u> (per year)
Chairs	5 years	\$150	$\frac{(\$150.00)}{5}$ \$30.00
Work Table	5 years	\$300	$\frac{(\$300.00)}{5}$ \$60.00
Small tools	5 years	\$150.00	$\frac{(\$150.00)}{5}$ \$30.00

To determine the amount of depreciation for one month she divided these values by twelve. (There are 12 months in the year!) The depreciation expense on the machine was therefore:

$$\frac{\$180.00}{12} = \$15.00 \text{ each month for the year}$$

Similarly, for each month, the depreciation expense on the chairs was estimated to be:

$$\frac{\$30.00}{12} = \$2.50$$

and on the work table:

$$\frac{\$60.00}{12} = \$5.00$$

and on the small tools:

$$\frac{\$30.00}{12} = \$2.50$$

This meant that the total depreciation expense on her Fixed Assets at the end of May last year was:

Machine	\$15.00
Chairs	\$ 2.50
Work Table	\$ 5.00
Tools	<u>\$ 2.50</u>
TOTAL	\$25.00

How did she record the Depreciation Expense on the financial statements she prepared? Let's have a look at the statements she prepared at the end of May last year.

NET WORTH STATEMENT
DOREEN'S DRESSMAKING EST.
MAY 31 last year

ASSETS

Current Assets

Cash	\$604.00	
Money owed by customers	196.00	
Pre-paid bill	<u>80.00</u>	
Total current assets		\$880.00

Fixed Assets

Equipment	\$1,800.00	
Small tools	150.00	
Furniture	<u>450.00</u>	
	\$2,400.00	
Less depreciation	<u>25.00</u>	
Total fixed assets		\$2,375.00
TOTAL ASSETS		\$3,255.00

DEBTS

Bank Loan	\$1,128.00	
<u>NET WORTH</u>		<u>\$2,127.00</u>

NET INCOME STATEMENT
DOREEN'S DRESSMAKING EST.
MAY last year

Receipts

Sales \$750.00

Payments

Wages to Doreen \$260.00

Wages to staff \$200.00

Rental 80.00

Electricity 40.00

Interest on loan 12.00

Trimmings and accessories 35.00

Transportation 18.00

Total payments \$645.00

Depreciation expense 25.00

Total expenses 670.00

Net Income (Profit or loss) 80.00

On the Income Statement, the accumulated Depreciation expense is added to the total payments to get the Total Expenses. Notice however, that on the Net Worth Statement, the Depreciation expense is deducted from the original cost of the fixed assets.

What do these statements tell you about Doreen's month old business?

Now one year later, Doreen compares the Net Worth statement of this May with last May.

NET WORTH STATEMENT
DOREEN'S DRESSMAKING EST.

	May 31 this	May 31 last year
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash	\$1,360.00	604.00
Money owed by customers	483.00	196.00
Pre-paid bill	<u>80.00</u>	<u>80.00</u>
Total Current Assets	1,923.00	880.00
<u>Fixed Assets</u>		
Equipment	1,800.00	1,800.00
Small tools	150.00	150.00
Furniture	<u>450.00</u>	<u>450.00</u>
	2,400.00	2,400.00
Less accumulated depreciation	<u>325.00</u>	<u>25.00</u>
Total Fixed Assets	2,075.00	2,375.00
TOTAL ASSETS	3,998.00	3,255.00
 <u>DEBTS</u>		
Bank loan	-	1,128.00
Money owed to suppliers	149.00	-
TOTAL DEBTS	149.00	1,128.00
 NET WORTH	 <u>\$3,849.00</u>	 <u>\$2,127.00</u>

What has happened to the value of Doreen's Fixed Assets over the year? _____

After one year, has the Net Worth of her business increased, decreased or stayed the same? _____

What is the change in the Net Worth? \$_____.__

This is what her Income Statement was like after one year in operation.

NET WORTH STATEMENT
DOREEN'S DRESSMAKING EST.
JUNE 1 (last year) to MAY 31 (This year)

Receipts

Sales \$9,600.00

Payments

Wages to Doreen \$3,120.00

Wages to staff \$1,850.00

Rental 960.00

Electricity 729.00

Interest on loan 144.00

Trimmings and accessories 468.00

Transportation 307.00

Total payments \$7,578.00

Depreciation expense 300.00

Total expenses \$7,878.00

Net Income (Profit or loss) \$1,722.00

How much profit did Doreen's business make for the year?
\$_____.__

How does the Net Income Statement link with the Net Worth Statements for May 31, last year and May 31, this year?

Do you think Doreen has managed her business well? Why?

Can you now find out how well your business is doing?

Preparing financial statements for Manufacturers and Farmers

If you are a manufacturer with stocks of raw materials goods-in-process, finished goods or a combination of these, there is another way you can prepare your Income Statement. In the example which follows, the Income Statement is prepared in two stages. In the first stage, a Manufacturing Statement is prepared showing the Cost of Goods Manufactured and the Cost of Goods Sold after changes in the levels of stocks, production wages and overhead costs have been taken into account.

In the second stage, the Net Income is calculated. This is done by:

1. Subtracting the Cost of Goods Sold from the Sales to get the Gross Margin
2. Subtracting Selling and administrative expenses from the Gross margin.

The first example which follows, shows a Manufacturing Statement and a Manufacturing Income Statement which have been prepared for one month's operation.

The second example shows a small farm Net Worth Statement. Note that the accumulated depreciation expenses have already been subtracted from the values for the Fixed Assets shown on the Net Worth Statement.

Manufacturing Statement (One month)

	<u>Raw materials</u>		
	Opening Stock	100.00	
plus	Purchases	<u>300.00</u>	
	Total available	400.00	
less	Closing Stock	<u>90.00</u>	
	<u>Raw materials used</u>		310.00
	Production wages		80.00
	Production overheads		
	Rent	40.00	
	Electricity	20.00	
	Depreciation on equipment	<u>5.00</u>	
			<u>65.00</u>
			455.00
	<u>Work-in-progress</u>		
plus	Opening Stock	<u>30.00</u>	
			485.00
less	Closing Stock	<u>45.00</u>	
	<u>Cost of goods manufactured</u>		440.00
	<u>Finished goods</u>		
plus	Opening Stock	<u>100.00</u>	
			540.00
less	Closing Stock	<u>120.00</u>	
	<u>Cost of Goods Sold</u>		420.00

Manufacturing Income Statement (one month)

<u>Sales</u>	\$480.00
Costs of Goods sold	<u>420.00</u>
Gross margin	60.00
<u>Expenses</u>	
Selling and administrative expenses	35.00
<u>Net Income</u>	\$ 14.50

NET WORTH STATEMENT

SMALL FARM

December 31, 1984

ASSETS

Current assets

Cash in bank	3,000.00
Money owed by customers	2,200.00
1 calf (under 1 year) @ \$300.00	300.00
2 goat kids @ \$25.00	50.00
15 piglets @ \$30.00 each	450.00
4,000 lbs yam (harvested, not sold)	2,000.00
2 acres ginger (six months old)	1,800.00
Livestock feed (10 bags pig ration) (5 bags calf ration)	350.00

Fixed assets

Land 6 acres plus improvements	14,400.00
House	7,000.00
Cow shed \$25 per sq. ft. X 150 sq. ft.	3,750.00
Pig pen \$15 " " " 100 " "	1,500.00
Storeroom \$60 per sq. ft. X 100 sq. ft.	6,000.00
Motorized sprayer (bought June 1984)	670.00
Breeding bull @ \$2,500.00	2,500.00
2 cows @ \$1,800.00 each	3,600.00
2 in-calf heifers @ \$2,000.00 each	4,000.00
1 boar pig @ \$550.00	550.00
2 breeding sows @ \$400.00 each	800.00
1 doe goat @ \$150.00	150.00

TOTAL ASSETS

55,070.00

DEBTS

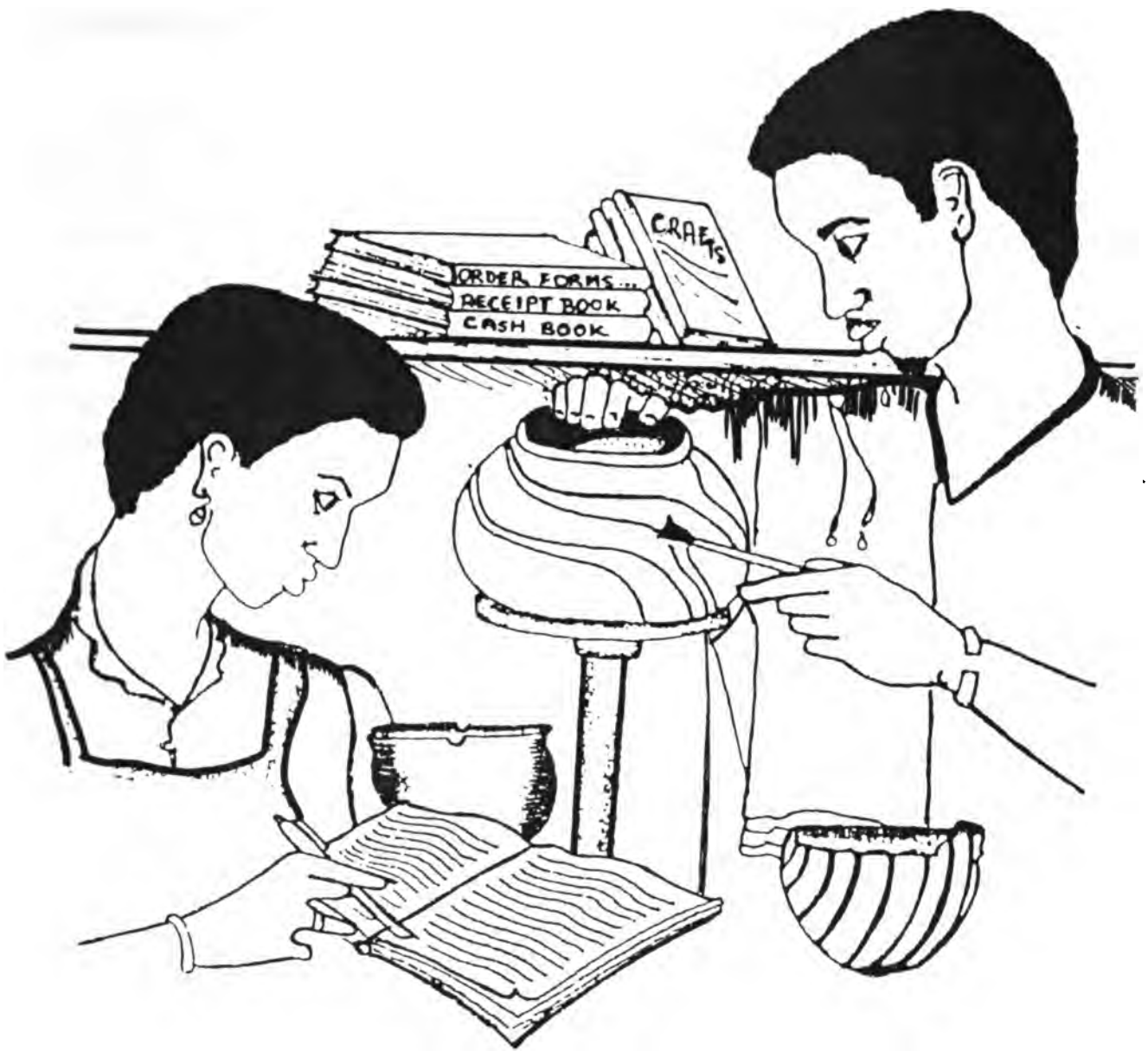
Balance on hire purchase of motorized sprayer	420.00
Balance of loan for pig keeping from Agricultural Development Bank	<u>1,360.00</u>

TOTAL DEBTS

1,780.00

NET WORTH

\$53,290.00



PLANNING

Running a business well involves spending some time thinking about what will happen in the future. This is called Planning. Planning for the future is important so things don't take us by surprise.

When events in our lives take us by surprise, we lose control and things just happen, instead of our making them happen. The same can be true in business. If we are taken by surprise, we lose control and our business runs us, instead of our running it.

Planning for your business can be tiresome work, but well worth your effort in the long run. A plan helps you to run your business well. It allows you to:

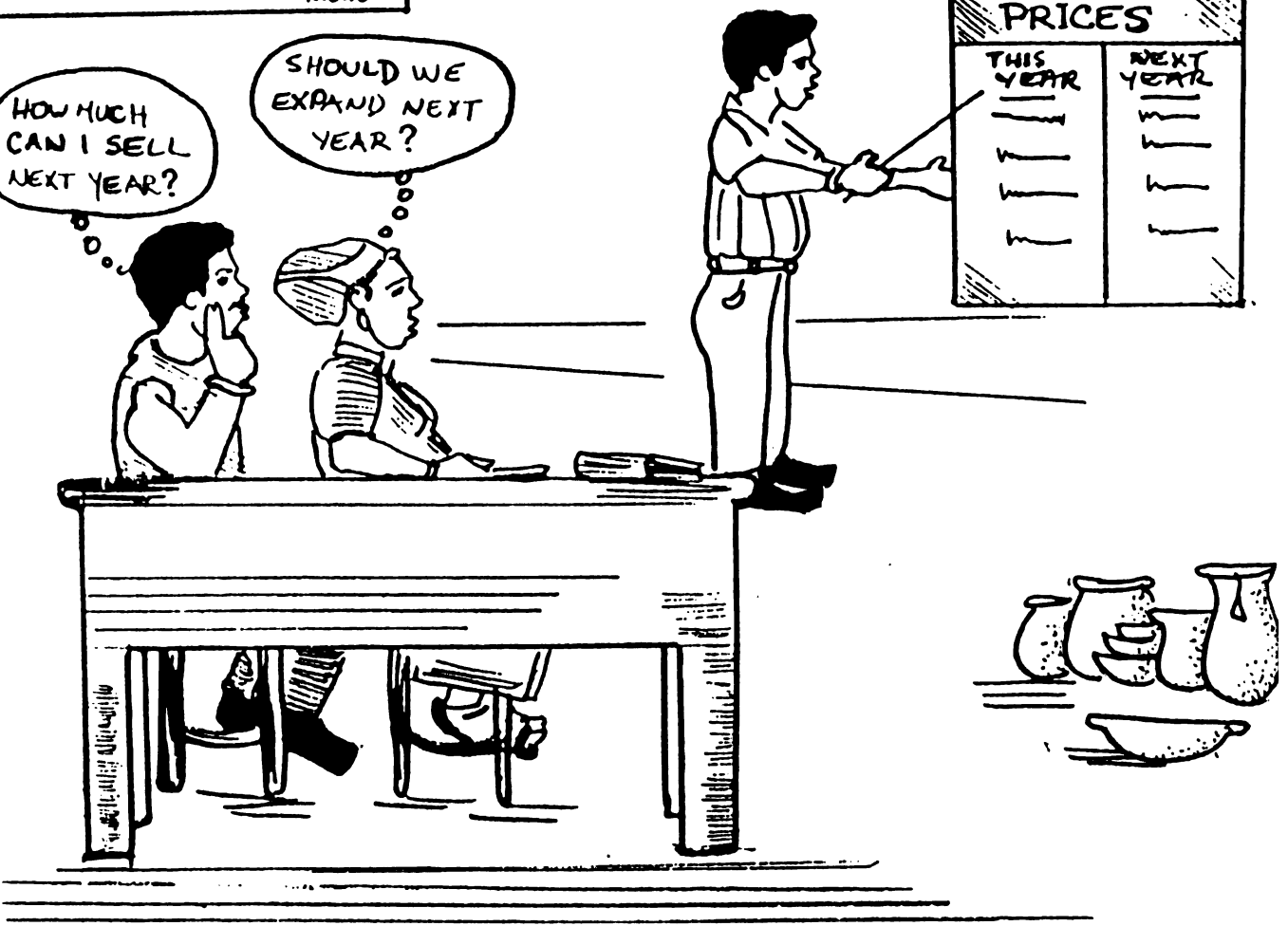
- a. set goals for your business, that is, to decide what you want to achieve for the business in the future
- b. decide what you need to do in order to achieve the goals you set
- c. keep track of how you are doing once you have set about putting your plans into action
- d. show others that you are serious about the way your business is run (especially if you need to seek financial assistance).

GOOD PLAN
GOOD BUSINESS
MOTTO

HOW MUCH
CAN I SELL
NEXT YEAR?

SHOULD WE
EXPAND NEXT
YEAR?

PRICES	
THIS YEAR	NEXT YEAR
—	—
—	—
—	—
—	—



So, why is planning important in business?

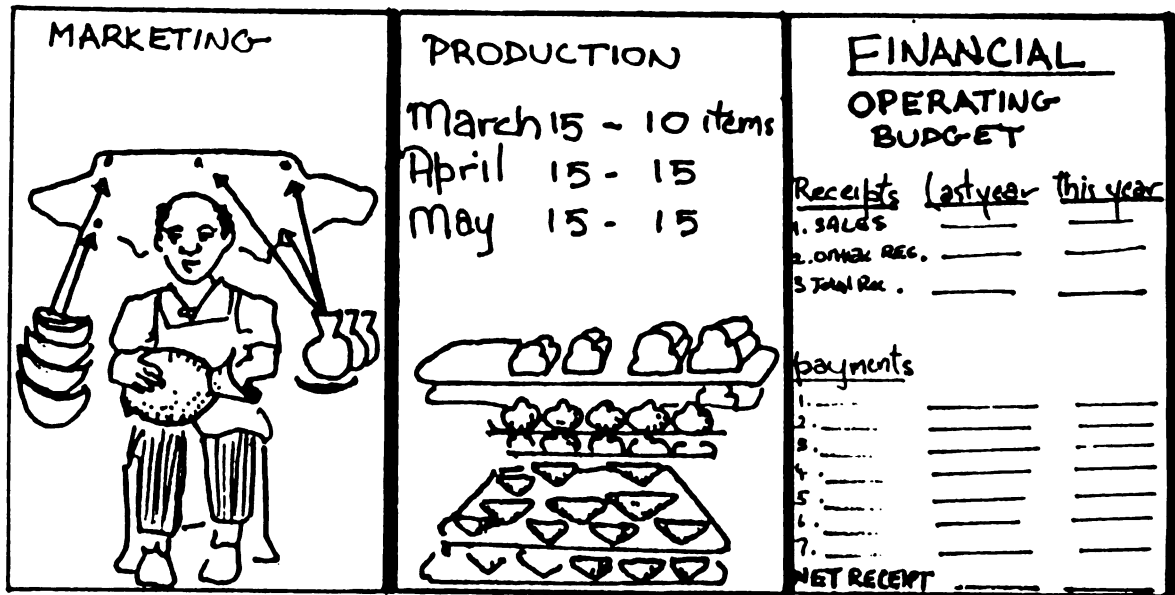
Tomorrow I must collect more straw; next day take the baskets to Market; next day sell all day; day after I will prepare the straw; and Sunday I will rest.



What goals do you have for your business?

Business plans can be divided into three types:

- **MARKETING PLANS:** those having to do with selling the product or service
- **PRODUCTION PLANS:** those having to do with the day-to-day making of the product or delivering of the service
- **FINANCIAL PLANS:** those having to do with receipts and payments in the future



MARKETING PLANS

If your major goal is to increase the income your business earns from selling your product or service, your marketing plans will be crucial to making that goal happen. When you make your marketing plans, you should consider the several ways in which you can increase the earnings of your business by increasing the volume of sales, such as:

1. selling more of your products to present customers

2. finding new customers to buy your product or use your service
3. creating new products or offering other services for sale to both old and new customers
4. trying out new areas in which you think you can sell your products or service
5. making your products or service more competitive by:
 - lowering the price (do this only if you can make more money by selling more)
 - improving the quality without greatly increasing the cost
 - making other changes to improve its ability to sell

Have you thought about making marketing plans for your business for the coming year? Write down the ways you think you can increase the sales of your product or service.

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Once you have considered how you will increase your sales you should be able to make decisions about the number of items you will sell in the coming year. This is your **Sales Target**.

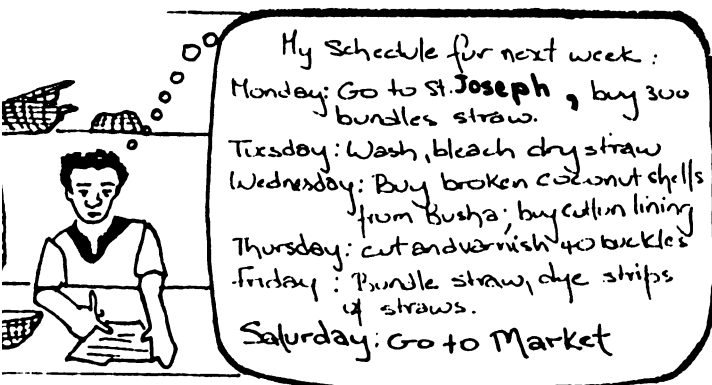
PRODUCTION PLANS

Having decided what you will produce and the quantities of them which you will produce, the next step is to make production plans. This will involve:

- a. setting targets for daily, weekly and monthly production
- b. deciding on the kinds, quantities and quality of inputs (raw materials, planting materials, feed, fertilizers) to be used
- c. making sure that the inputs are available and at reasonable costs
- d. deciding how many people will be needed for production.

Your production plans can be written down in the form of a production schedule which outlines all the tasks you have to perform and allows you to check on how well you are sticking to your plan.

Let's look at schedules Susan and her husband Joe made for their small business - a stall close to the Cruise Ship Complex in Port of Spain. Joe buys and prepares the materials which Susan uses to make hats, bags and belts. Joe works from home, while Susan is at the stall, working while she sells.



FINANCIAL PLANS

A financial plan is called a **Budget**. The budget is usually prepared at the start of the business year. It shows the amount of money the business hopes to receive during the year and how that money will be spent in order to meet all expenses and keep the business going. The budget also shows how much money will be left over at the end of the year after all operating expenses have been met (Surplus or Profit), or what the shortfall (Loss) will be. This type of budget is called an 'Operating Budget'. Another type of financial plan, called a 'Cash Flow Plan', helps you to foresee how money will come in and go out of your business daily, weekly or monthly. By making this plan, you can tell ahead of time whether you will be able to make payments when they become due, arrange to delay them or take a loan to pay them off.

The following two exercises explain how to prepare these financial plans.



Remember, planning is important for your own life and is a necessary tool for making your business work well. A plan makes you think ahead, so you can set goals for yourself and your business and work towards achieving those goals.

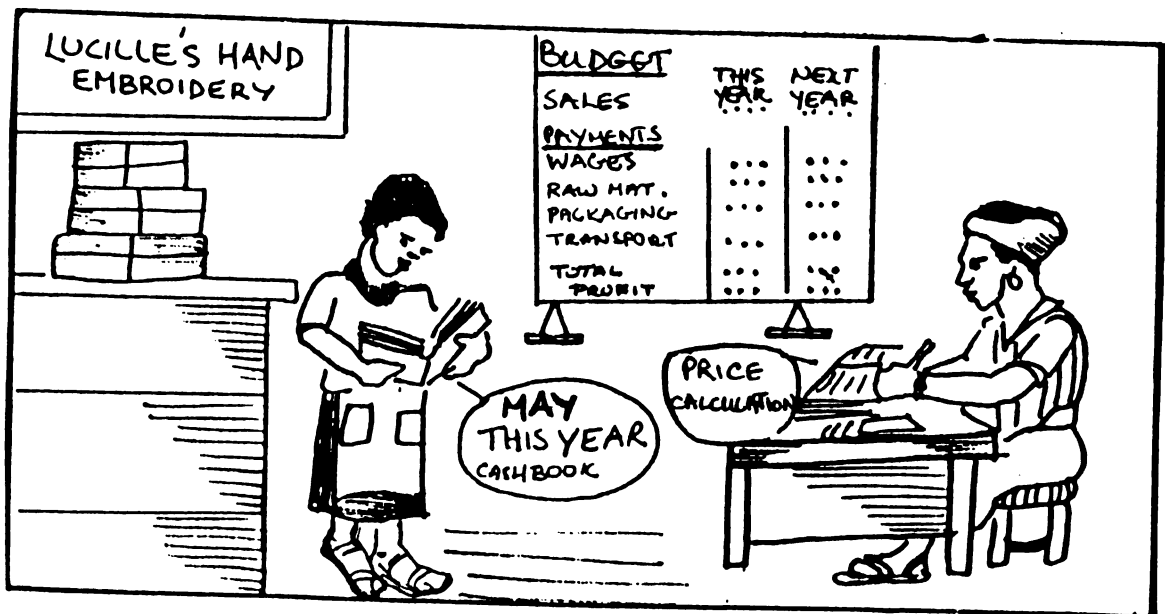
So, the time to start planning is now!

BUDGETING

A budget is a financial plan which shows estimates of receipts and payments for a specified period of time. Budgets can be made for any period of time. In this exercise, you will learn how to prepare an annual budget. However, the same method can be used for any time period - a month, a quarter, six months, etc.

Before you prepare your budget for next year, there are certain things about your business which you must consider. It is useful to ask yourself questions about what will happen in your business next year, such as:

- a. How much it is likely to cost you to make your product and how many items you are likely to be able to produce and sell
- b. What your selling price is likely to be
- c. What the total income from sales of your product is likely to be.



So the first thing to do is to think ahead about what each product will cost you to make next year. A good way of predicting this is to look back at what costs were this year and then estimate what costs will be like next year and how they will differ. To find out, look at a price calculation you did very recently or at your Cash Book. For a set production period, say one week or one month, find last year's costs for making the number of items you normally would make in that period.

Here is a format you can use for writing down this year's costs and the costs which you are likely to pay next year.

Product _____

Production period _____

DIRECT COSTS

	<u>THIS YEAR</u>	<u>NEXT YEAR</u> <u>(Same volume)</u>	<u>NEXT YEAR</u> <u>(change in volume)</u>
Raw materials	_____	_____	_____
Packaging & Labelling	_____	_____	_____
Labour: Hired	_____	_____	_____
Self	_____	_____	_____
Unpaid Family	_____	_____	_____
Transportation	_____	_____	_____

INDIRECT COSTS

Rental	_____	_____	_____
Electricity	_____	_____	_____
Water	_____	_____	_____
Telephone	_____	_____	_____
Fuel	_____	_____	_____
Small Tools & Equipment	_____	_____	_____
Servicing	_____	_____	_____
Stationery, Stamps etc.	_____	_____	_____

Under 'this year' and beside those costs which you paid for this year, fill in the amounts it cost you to make the particular number of items in the production period you have chosen.

Now think about what costs are likely to be next year to make the same number of items in the same production period. Will costs go up, remain the same or go down? By how much do you expect them to change? Decide what you think each cost is likely to be and write this down under 'next year' (same volume).

Thinking over what happened in your business this year, and your estimates about the market next year, what quantity of the item do you think you can produce and sell each week or month (the production period you chose) next year?

QUANTITY OF ITEM/PRODUCT I CAN PRODUCE AND SELL EACH WEEK/MONTH NEXT YEAR.

If you figure that you will produce and sell more or fewer items next year than you did this year, you will have to work out what it will cost you to produce the increased or decreased number of items.

Note, that for some costs, like raw materials, packaging and labelling materials and wages, increasing or decreasing the volume of production will result in a proportional increase in them. That is, if volume of production is doubled, these costs also double, or if the volume of production is halved, then they are also halved. These are Direct Costs. Other costs, the Indirect Costs such as rental, are fixed. That is they are the same whether or not production is increased or decreased.

Now, using the form, first fill in under 'next year' (change in volume), the increased or decreased direct costs which will result from the change in volume of production. Then decide whether or not the indirect costs will go up, or stay the same and fill those in.

Now add up all the costs (Direct and Indirect) you estimate for 'next year' with the changed volume. This will give you the TOTAL COST for making the items each week or month. Next, divide the total cost by the number of items you will produce and sell next year. This will give you the cost per item.

TOTAL COST = \$ _____.

COST PER ITEM = \$ _____ (divide total cost by number of items to be produced)

Now that you have worked out the cost to produce each item next year, think about the price at which you will sell each item. Remember that your price per item must be greater than the cost to produce each item in order for business to be good next year. Remember however, asking too much higher a price may mean less sales of your product, which means you would have to plan to make fewer items. To help you decide what price you will sell at, think about your selling price this past year.

Were you able to sell all you produced this past year?

If the answer is yes, do you feel you can increase your price and still sell as many or more items?

If the answer is no, why weren't you able to sell all your products? Was the price too high?

Now make a decision about your selling price for next year and write it down.

SELLING PRICE PER ITEM/PRODUCT FOR NEXT YEAR: \$_____.

Now multiply the price per item by the quantity you will make and sell to get total receipts from sales for one week/month next year.

$$\begin{array}{rcccl} \underline{\hspace{2cm}} & & \text{X} & \underline{\hspace{2cm}} & = & \underline{\hspace{2cm}} \\ \text{price per item} & & & \text{quantity} & & \text{receipts from} \\ & & & & & \text{sales for one} \\ & & & & & \text{week/month} \end{array}$$

BUDGETING -PREPARING THE BUDGET

Now you have the basic information which is needed to prepare your budget. On the following page you will see the format for preparing the budget for a year. You will have to decide how the business year will run: will it run from January to December, or will 'this year' finish this month and next year begin next month?

Since the budget we will prepare will be for a year, and the figures you have worked out for Receipts and Payments are for one week or one month, you need to convert them in order to include them in your budget.

If the production period you chose was one week, then multiply the figures by 50 to get one year's receipts and payments.

If the production period you chose was one month, then multiply the figures by 12. BUDGET

BUDGET

For Year beginning _____ 19__ and Ending _____ 19__

RECEIPTS

PRODUCTION PERIOD

NEXT YEAR

Week x 50

Month x 12

A. SALES	_____	_____
B. OTHER RECEIPTS	_____	_____
C. TOTAL RECEIPTS	_____	_____

PAYMENTS

A. RAW MATERIALS	_____	_____
B. PACKAGING & LABELLING	_____	_____
C. WAGES: To myself	_____	_____
To Others	_____	_____
D. TRANSPORTATION	_____	_____
E. RENT	_____	_____
F. UTILITIES	_____	_____
G. OTHER PAYMENTS	_____	_____
H. INTEREST PAYMENTS	_____	_____
I. TOTAL PAYMENTS	_____	_____
PROFIT (SURPLUS) OR LOSS	_____	_____

Let's go step by step:

1. RECEIPTS

- A. SALES: In the first column, write down the amount you expect to receive from sales for one week or one month. Multiply this figure by 50 or by 12 to get sales for next year.
- B. OTHER RECEIPTS: Under NEXT YEAR, write any other monies you expect will come into the business, such as interest on savings or donations.
- C. TOTAL RECEIPTS: Add A & B to get the total receipts you expect to come into the business next year.

2. PAYMENTS

- A. RAW MATERIALS: In the first column, put the expected cost of raw materials for one week or month next year. Multiply by 50 or 12 to get total raw materials cost for NEXT YEAR. For farmers, include here, costs for purchased seed, fertilizer, insecticides, etc.
- B. PACKAGING & LABELLING: Do the same figuring to get the packaging and labelling costs for NEXT YEAR.
- C. WAGES: Do the same to get the expected wages for yourself and others (hired and unpaid family) for NEXT YEAR.
- D. TRANSPORTATION: As before, multiply the expected costs of transportation by 50 or 12 to get the cost for NEXT YEAR.

- E. RENT: Multiply the rental you expect to pay for one week or month by 50 or 12 to get the rental for NEXT YEAR.
- F. UTILITIES: Add all the costs of utilities: electricity, water, telephone and fuel, you expect to pay for one week or month and multiply them to get costs for NEXT YEAR.
- G. OTHER PAYMENTS: Do the same for any other payments you had figured for one week or month, to get these payments for NEXT YEAR.
- H. INTEREST PAYMENTS: Include total interest payments you will make on loans for your business NEXT YEAR.
- I. TOTAL PAYMENTS: Add all the payments (A - H) to get total payments for NEXT YEAR.

PROFIT (Surplus) or LOSS: To get profit or loss, subtract total payments from total receipts.

Now you have your budget for next year.

BUDGETING -LOANS

Where Do Loans Fit Into Your Budget

Loans are often an important part of starting up and running your business. They are discussed in detail in the manual on "Starting and Financing a Small Business in Trinidad and Tobago: A Guide".

When you get a loan, there is an added cost to your business which is called the interest. Interest payments therefore, must be included in your budget as an expense or payment. You may find

it necessary to borrow money in order to operate your business the way you have budgeted it for the year. There are two different situations which may occur.

1. There may be a lapse in time between the moment when you have to pay production expenses (eg. for raw materials, wages, etc.) and the moment when you receive money from sales. You may therefore want to take a loan to meet these expenses. This is called a short term loan.

A good example is annual farm crops. A farmer has to spend money for seed, fertilizer and other costs while growing the crop, and only receives money after he harvests and sells the crop. If he does not have enough savings, he may need to borrow money to pay for those expenses and then repay the loan after harvesting and selling the crop.

2. You may need more land or buildings, or need to buy new equipment or machinery or replace old ones, and you may not have enough money saved to do this. You will therefore need a loan, known as a long term or capital investment loan.

Your budget can tell you whether or not it is worthwhile or unwise to get either or both of these types of loans. ✓

Here is how you budget in the case of a short-term loan:

1. Find out how much interest you will need to pay during the year on your loan or loans
2. Include this as an expense

3. If your budget still shows a profit after interest payments, then you should have no trouble repaying the short-term loan.

For a long-term loan, you are using the money to buy items which will be used for several years to come. In this case you need to be sure you can repay the loan before what you bought with it becomes useless, but not necessarily in one year.

Here is how you budget in the case of a long-term loan:

1. If you have money in savings, decide how much of it you are willing to use in buying the item.
2. Subtract this from the cost of the item. The balance must be paid for with a loan.
3. Decide how much of your wages for the year you are able and willing to save and use to pay the loan.
4. To this, add your annual profits. This is the maximum amount you can pay for each year on the loan.
5. See if you can get a loan for the length of time you would need. If you can't pay off the loan before the item is likely to wear out, it is unwise to buy it. Wait until you have more savings, or figure out how to produce without the item.
6. Along with the interest on the loan, you must include in your budget, the depreciation expense - the loss in value which results from machinery, equipment, etc. wearing out over time.

Now remember:

Include any interest payments you may have in Total Payments and; Be sure that your Profit (plus any of your wages you are willing to use for this purpose) is sufficient to at least cover any loan repayments you may have during the year. If this is not the case, then you must either find some way to increase PROFITS, or arrange to refinance the excess loan repayment to the following year.

For example:

A.	PROFIT or SURPLUS	\$250.00
	Loan Repayment	175.00

This example shows that you will be able to meet your loan repayment and still have some Profit left.

B.	PROFIT or SURPLUS	\$250.00
	Loan Repayment	300.00

This example shows that you must find a way to either increase Profits, postpone some of the loan repayment to next year, or use some of your wages for loan repayment.

Now let's look at an example of how a small business person prepared her annual budget.

Yvette Morgan, the lady who makes rock buns, says: "At the end of the year (in December), I sit down and make my budget for the coming year. This helps me to get an idea of whether the business will do well financially and I can also decide whether or not I will be able to expand the business. This past year I produced 29,377 rock buns (over 500 a week) and sold them at 75c a piece. My total receipts for the year were therefore \$22,033.00.

My payments are shown on the next page, by kind of expense, and totalled \$21,641.58. This gave me a profit of \$391.42. Next year, I plan to increase the price of my rock buns to 95c each. The way costs are rising, I feel it is justified and that I can reach my new sales target of \$35,804.00. I estimate the following increases in costs, as a result of increases in prices and volume of production.

<u>For one week's production</u>	
Raw Materials	from \$252.35 to \$426.48
Wages	from \$ 74.77 to \$ 97.20
Transportation	from \$ 17.77 to \$ 30.02
Packaging & labelling	from \$ 5.27 to \$ 7.54
Utilities	from \$ 51.20 to \$109.20

I expect the rental to remain the same and I have no plans to hire more help. I estimate that I can do the work with the same amount of hired help as this year, because we have learned to be more efficient. I have also included in my budget for next year, \$210.00 to pay for painting and pest control in my work area.

In order to increase my rock bun production, I have applied to the Industrial Development Corporation for a loan to buy another stove. I expect the loan will be approved and that I will receive the money in January. The interest payment on the loan will be \$145.00 for the year".

On the next page you will see the figures from Yvette's Cash Book summaries showing receipts and payments for the year. With the information she has given, try to work out her budget for next year.



BUDGET

For Year beginning _____ 19__ and Ending _____ 19__

<u>RECEIPTS</u>	<u>THIS YEAR</u>	<u>NEXT YEAR</u>
A. SALES	<u>\$22,033.00</u>	_____
B. OTHER RECEIPTS	_____ - _____	_____
C. TOTAL RECEIPTS	<u>22,033.00</u>	_____

PAYMENTS

A. RAW MATERIALS	<u>12,617.69</u>	_____
B. PACKAGING & LABELLING	<u>263.64</u>	_____
C. WAGES: To myself	<u>3,000.00</u>	_____
To Others	<u>738.46</u>	_____
D. TRANSPORTATION	<u>888.46</u>	_____
E. RENT	<u>1,440.00</u>	_____
F. UTILITIES	<u>2,560.00</u>	_____
G. OTHER PAYMENTS	_____ - _____	_____
H. INTEREST PAYMENT	<u>133.33</u>	_____
I. TOTAL PAYMENTS	<u>21,641.58</u>	_____
PROFIT (SURPLUS)	<u>\$ 391.42</u>	_____
OR LOSS		

BUDGET

For Year beginning _____ 19__ and Ending _____

19__

<u>RECEIPTS</u>	<u>THIS YEAR</u>	<u>NEXT YEAR</u>
A. SALES	_____	_____
B. OTHER RECEIPTS	_____	_____
C. TOTAL RECEIPTS	_____	_____

<u>PAYMENTS</u>		
A. RAW MATERIALS	_____	_____
B. PACKAGING & LABELLING	_____	_____
C. WAGES: To Myself	_____	_____
To Others	_____	_____
D. TRANSPORTATION	_____	_____
E. RENT	_____	_____
F. UTILITIES	_____	_____
G. OTHER PAYMENTS	_____	_____
H. INTEREST PAYMENT	_____	_____
I. TOTAL PAYMENTS	_____	_____
PROFIT (SURPLUS)	_____	_____
OR LOSS		

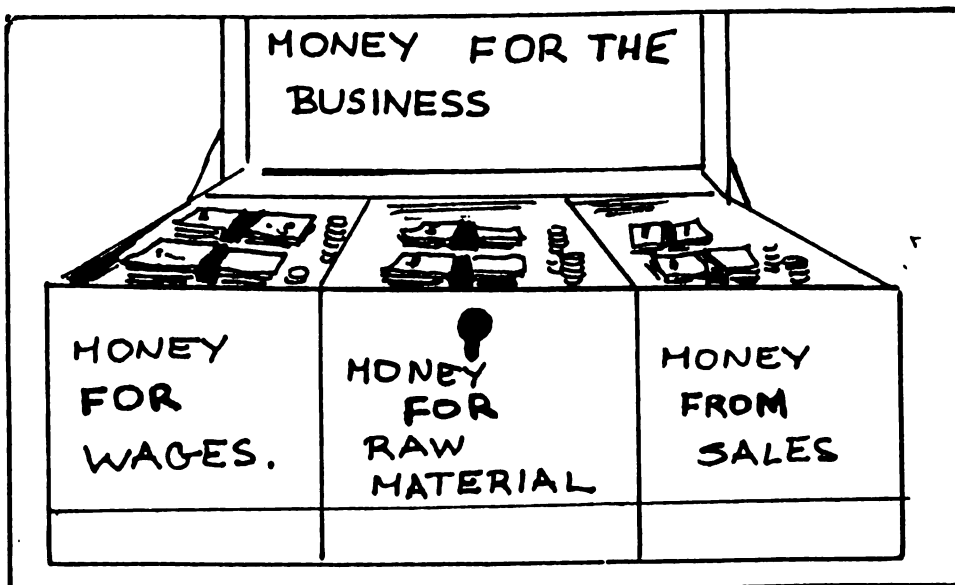
CASH FLOW PLANNING

The success of your business depends largely on how well you manage the money which comes in and goes out of your business daily, weekly, monthly and yearly.

A good manager always makes plans.

We have already discussed how important it is to plan - for our own lives and for our businesses, and you have prepared a budget listing the receipts and payments you expect in your business for the coming year.

In this exercise, we will go a step further and plan for the flow of money into and out of your business. We will show you how this is done first for the year and then for each month at a time. These plans, called CASH FLOW PLANS are very important and are necessary even for a business which is established and doing well.



Do YOU know why its important to prepare cash flow plans?

You remember Yvette Morgan, don't you? - the lady who has the business baking rock buns for schools in her area? Let's ask her.



"Preparing my cash flow plans helps me to make sure that I can make the payments for the business when they become due, like the repayment of a loan. This also helps me to know when the business will be short of cash - then I can make special efforts to collect any money owed to the business, or I may have to take less wages for myself. Also, if I find that at times there will be more cash than is needed, I can put the extras in a savings account at the bank or buy raw materials in bulk".

Yvette has agreed to show us her cash flow plans and she will help us to make some of our own.

"I prepared my cash flow plan for the year after I'd prepared the year's budget. First, I looked at all the receipts the business hopes to have for the year. If you look on the next page at my budget, you will notice that this year the business hopes to make \$35,804.00 in sales. Next, I divided this amount among the twelve months of the year, according to the sales expected each month.

The payments to be made each month are worked out in a similar manner. Many of the payments, such as the costs of production (for raw materials, packaging, fuel) will vary depending on the level

of sales expected. Other payments will be constant during the year, like the rental and loan payments".

BUDGET

For Year Beginning January 1, 1985
and Year Ending December 31, 1985

RECEIPTS

NEXT YEAR

A. SALES	35,804.00
B. OTHER RECEIPTS	-
C. TOTAL RECEIPTS	35,804.00

PAYMENTS

A. RAW MATERIALS	21,324.00
B. PACKAGING & LABELLING	377.00
C. WAGES	4,860.00
D. TRANSPORTATION	1,501.00
E. UTILITIES & RENT	6,900.00
F. OTHER PAYMENTS	210.00
G. INTEREST ON LOAN	145.00
H. TOTAL PAYMENTS	35,317.00
<u>PROFIT OR LOSS</u>	487.00

"On the next two pages is the format I've used to prepare my plan for the year. Let me explain how it is filled in and you can use it to make your own cash flow plan".

FIGURE 10

	JAN	FEB	MAR	APR	MAY
BEGINNING CASH (E LAST MONTH) A					
RECEIPTS	////	////	////	////	////
SALES 1					
OTHER RECEIPTS 2					
MONEY FROM LOANS 3					
TOTAL RECEIPTS (ADD 1 - 3) B					
TOTAL CASH (ADD A & B) C					
PAYMENTS	////	////	////	////	////
RAW MATERIALS 4					
WAGES 5					
TRANSPORTATION 6					
PACKAGING AND LABELLING 7					
UTILITIES AND RENT 8					
MACHINE & EQUIPMENT PURCHASE 9					
LOAN REPAYMENT 10					
OTHER PAYMENTS 11					
TOTAL PAYMENTS (ADD 4 - 11) D					
ENDING CASH (C MINUS D) E					

- LINE A: This is the amount of cash which is carried forward from the previous period, the BEGINNING CASH - in this case, from the previous month. This may be cash in hand, or money in the bank, or both.
- LINE 1: Here you will put the figure for the amount you expect in SALES each month.
- LINE 2: On this line you should record any OTHER RECEIPTS you expect to come into the business, apart from sales. (You may record a 'partner' draw here, for instance).
- LINE 3: If you had applied for a loan, you should write down the amount of money you will receive in the month you expect to receive it, on the line, MONEY FROM LOANS.
- LINE B: On this line, you will add all the receipts (lines 1 to 3) you expect to come into the business to get the TOTAL RECEIPTS for each month.
- LINE C: Add the Total Receipts (B) to the BEGINNING CASH (A) to get the TOTAL CASH.
- LINE 4: If you buy RAW MATERIALS every month, record the amount you will spend on this line. If you do not buy every month, put the amount you will spend on the line, in the month or months you expect to do so.
- LINE 5: Record the WAGES you will pay yourself or your employees each month, on this line.
- LINE 6: Record the amount you are likely to spend on TRANSPORTATION each month on this line.
- LINE 7: Record the amount you will spend on PACKAGING AND LABELLING materials at the time you will buy them, here.
- LINE 8: Record the payments for UTILITIES (like electricity, water, phone, fuel) and RENT each month, on this line.
- LINE 9: If you plan to buy tools, machinery or equipment, put the amount you will spend in the month you will do so, on the line, MACHINE & EQUIPMENT PURCHASES.

LINE 10: If you had received a loan, record the payments you will make on the loan every month, on this line, LOAN REPAYMENT.

LINE 11: Any OTHER PAYMENTS you are likely to make for the business during the month should be recorded on this line.

LINE D: Add all the payments for each month (lines 4 - 11) to get the TOTAL PAYMENTS and place on this line.

LINE E: Subtract the TOTAL PAYMENTS (D) from the TOTAL CASH (C) to get the ENDING CASH for the month. This amount becomes the BEGINNING CASH (A) for the following month.

On the next two pages you will see the plan I finally decided to work with. When preparing the plan, I always had to make sure there would be enough cash available at the times when items were to be purchased or bills to be paid. This wasn't always easy, and often I had to plan to put off some payments until enough money became "available". For example, although I would have liked to paint my work area in January, I decided it was best to put it off until Eastertime. Also, in order to increase my rock bun production, I had applied to the Industrial Development Corporation for a \$1,000.00 loan to buy another oven. I expect that the loan will be approved and that I will receive the money in January. I will have to pay back the loan over 15 months, and this year the payments will be \$83.00 per month, except January when I will only pay interest of \$12.00. Since my profit was not enough to cover the repayment on the loan principal, I had to plan to take less wages than I normally would in the month of August. Hopefully if I can manage to sell more rock buns during the year, I may later be able to take that month's wage in full, after all".

FIGURE 11

		JAN	FEB	MAR	APR	MAY
BEGINNING CASH (E LAST MONTH)	A	390	291	503	720	376
RECEIPTS		////	////	////	////	////
SALES	1	2,940	3,924	4,265	1,962	4,265
OTHER RECEIPTS	2					
MONEY FROM LOANS	3	1,000				
TOTAL RECEIPTS (ADD 1 - 3)	B	3,940	3,924	4,265	1,962	4,265
TOTAL CASH (ADD A & B)	C	4,330	4,215	4,768	2,682	4,641
PAYMENTS		////	////	////	////	////
RAW MATERIALS	4	1,750	2,338	2,540	1,169	2,540
WAGES	5	405	430	443	377	443
TRANSPORTATION	6	125	165	180	82	180
PACKAGING AND LABELLING	7	177				
UTILITIES AND RENT	8	570	696	802	385	782
MACHINE & EQUIPMENT PURCHASE	9	1,000				
LOAN REPAYMENT	10	12	83	83	83	83
OTHER PAYMENTS	11				210	
TOTAL PAYMENTS (ADD 4 - 11)	D	4,039	3,712	4,048	2,306	4,028
ENDING CASH (C MINUS D)	E	291	503	720	376	613

JUN	JUL	AUG	SEPT	OCT	NOV	DEC	TOTAL
613	675	290	62	69	173	390	1111
1111	1111	1111	1111	1111	1111	1111	1111
4,265	980	940	2,940	3,434	4,265	1,624	35,804
4,265	980	940	2,940	3,434	4,265	1,624	36,804
4,878	1,655	1,230	3,002	3,503	4,438	2,014	1111
1111	1111	1111	1111	1111	1111	1111	1111
2,540	586	560	1,750	2,045	2,540	966	21,324
443	351	220	405	417	443	378	755
180	40	40	125	144	180	60	1,501
200							377
757	305	265	670	641	802	325	6,900
							1,000
83	83	83	83	83	83	83	925
							210
4,203	1,365	1,168	2,933	3,330	4,048	1,812	36,992
675	290	62	69	173	390	202	1111

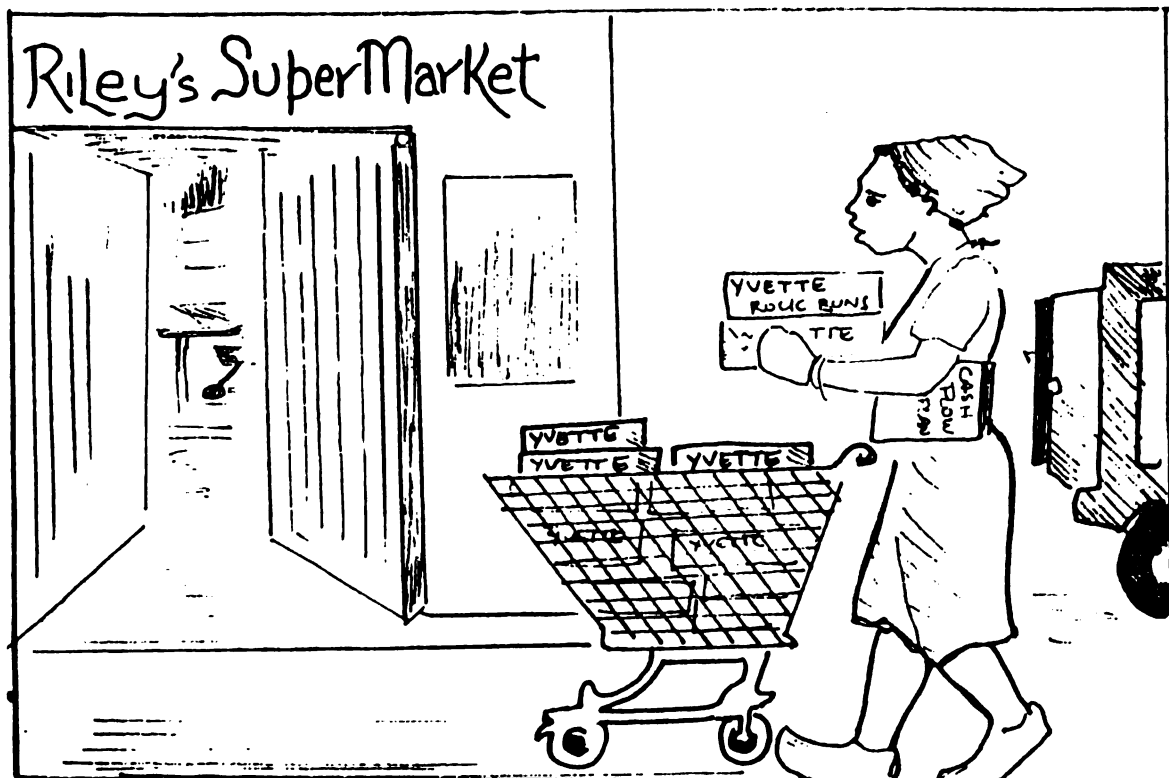
"The plan for the year serves as a guide for preparing cash flow plans for each month. Now let's have a look at the plan I've made for January this year....."

CASH FLOW PLAN for _____
(month)

		WEEK 1	WEEK 2	WEEK 3	WEEK 4	TOTAL
BEGINNING CASH (E LAST MONTH)	A	390	68	428	391	//////
RECEIPTS		//////	//////	//////	//////	//////
SALES	1		970	1040	930	2,940
OTHER RECEIPTS	2					
MONEY FROM LOANS	3	1,000				1,000
TOTAL RECEIPTS (ADD 1 - 3)	B	1,000	970	1,040	930	3,940
TOTAL CASH (ADD A & B)	C	1390	1038	1468	1321	//////
PAYMENTS		//////	//////	//////	//////	//////
RAW MATERIALS	4	300	550	450	450	1,750
WAGES	5		25	30	360	405
TRANSPORTATION	6	10	35	50	30	125
PACKAGING AND LABELLING	7			177		177
UTILITIES AND RENT	8			370	200	570
MACHINE & EQUIP. PURCHASES	9	1,000				1,000
LOAN REPAYMENT	10	12				12
OTHER PAYMENTS	11					
TOTAL PAYMENTS (ADD 4 - 11)	D	1322	610	1077	1030	4,039
ENDING CASH (C MINUS D)	E	68	428	391	291	//////

"Before I made that plan, I visited the manager of the school's canteen and she had given me an order to supply rock buns to the school for the start of the new term in the second week of January.

In the first week, I made my production and cash flow plans and I even bought the ingredients I would need to fill the order. Would you believe that on the day school should have started, I was told that the opening had been put off for a week! Luckily, I was able to make some sales to a few supermarkets, amount to \$518.00, but that set me back quite a bit, since I had planned to make over \$900.00 in sales that week. Of course, it meant that I had to make some changes to my cash flow plan for January. Although things didn't work out in the way I'd planned, I still managed to pull through. I think I managed that week, because I had made my plans, keeping in mind that those kinds of unexpected situations sometimes arise"!



CASH FLOW PLAN for _____
(month)

	WEEK 1	WEEK 2	WEEK 3	WEEK 4	TOTAL
BEGINNING CASH (E LAST MONTH) A					////////
RECEIPTS	////////	////////	////////	////////	////////
SALES 1					
OTHER RECEIPTS 2					
MONEY FROM LOANS 3					
TOTAL RECEIPTS (ADD 1 - 3) B					
TOTAL CASH (ADD A & B) C					////////
PAYMENTS	////////	////////	////////	////////	////////
RAW MATERIALS 4					
WAGES 5					
TRANSPORTATION 6					
PACKAGING AND LABELLING 7					
UTILITIES AND RENT 8					
MACHINE & EQUIP. PURCHASES 9					
LOAN REPAYMENT 10					
OTHER PAYMENTS 11					
TOTAL PAYMENTS (ADD 4 - 11) D					
ENDING CASH (C MINUS D) E					////////

INCREASING INCOME AND PROFITS

Once your business 'gets off the ground', you should look for ways to make it more profitable. After all, the better you manage your business, the better your income will be.

One way to study your business and look for ways to increase income, is to look at each of the following:

- the Price you receive for your product or service
- the Cost of making your product or providing your service
- the amount or Volume of your product or service which you sell

Price

The higher the price you receive for your product or service, the greater your income is likely to be.

Normally, the price you can get for your product is determined by market forces - factors which are usually beyond your control, such as:

- a. the supply or the amount of the item available on the market
- b. the demand - how much the item is sought after by customers
- c. what competitors are charging for the same or similar items

The price at which you sell therefore, will resolve around the market price. It is important then, that you make sure that your selling price adequately covers the costs of making your product leaving enough profits to carry on your business.

Can you think of some ways to successfully increase the price of your product?

Cost

The lower the cost of your product, the higher your income is likely to be. Costs should be reduced as much as possible without lowering quality. If you look at your CASH BOOK you can see how you are spending your money. Let's look at some ways money is spent running a business:

- buying raw materials and packaging materials
- buying goods for resale
- paying for transportation
- paying wages
- paying for utilities
- buying tools and equipment
- servicing tools and equipment

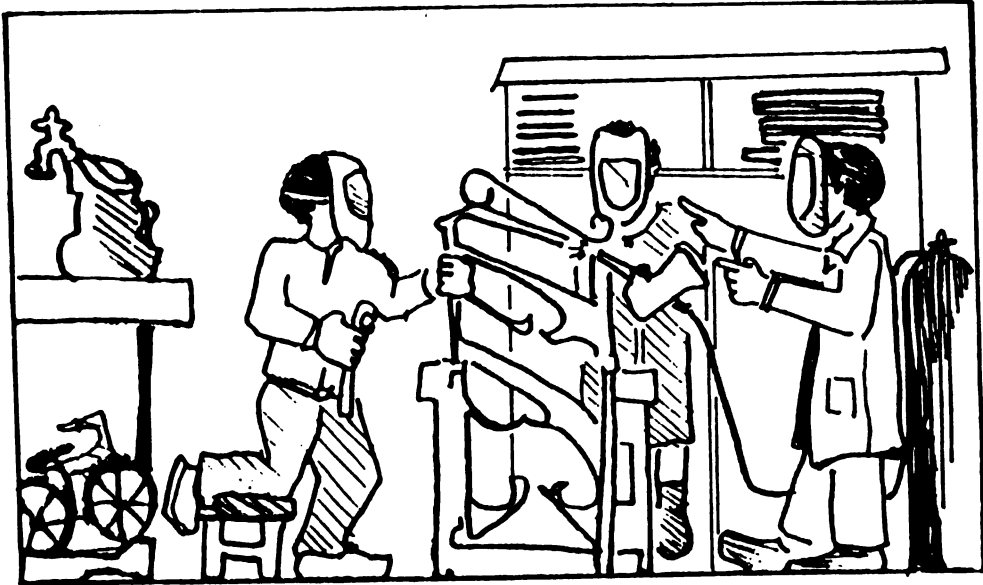
Now let's discuss how we can go about keeping costs as low as possible for each kind of expense.

Raw Materials, Packaging Materials and Goods for Resale

When buying these items, you should consider the following:

- buy good quality items which are not too expensive (or your costs will increase) or not too cheap (or the quality of your product or service will suffer).

- avoid keeping too many items as stock, since this means money tied up in the business which could be put to better use
- store stock items properly, in a safe place; this way, you will avoid theft, damage, or spoilage of your goods
- buy items in bulk where possible as, generally, prices are lower when you buy in large quantities.



Let us look at an example:

Alfred runs a welding business, making outdoor furniture and burglar bars out of steel rods. The rods come in 20 foot lengths and are sold at different rates:

\$10.00 when purchased from 1 to 99 pieces

\$ 9.00 when purchased from 100 to 299 pieces

\$ 8.00 when purchased in lots of 300 pieces and over

Alfred has just secured an order to make outdoor furniture. He must complete the order in one month and he figures that he will need to use about 50 rods each week in making the furniture.

He has to decide how to buy the rods, so he compares the amount of money he would spend if he bought the rods every week, every fortnight, or once for the month.

QUANTITY	COST	COST OF 200 RODS
50 per week	\$10 per length	\$2000.00
100 per fortnight	\$ 9 per length	\$1800.00
200 per month	\$ 9 per length	\$1800.00

He decides to buy 100 rods every fortnight. This will cost him the same amount as if he had bought all 200 rods at the beginning of the month, and he will have half as much money tied up in stocks of rods.

How much did Alfred save by buying the rods every fortnight instead of every week? \$_____.

Why do you think he bought them every fortnight instead of once for the month?

Transportation

Costs for transportation are high and continually rising, so you have to think of ways of keeping these costs as low as possible. You can do this in several ways:

- join with other members of your community and transport goods together
- if several persons buy materials or goods at one place, elect someone to buy for everyone

- look for opportunities to buy goods or supplies and market products on the same trip
- plan the trips you have to make to buy raw materials and supplies and to market your products. You should prepare clear schedules for your daily, weekly and monthly activities, so you can identify all the tasks you need to carry out. Then each time you go out, you should be able to plan your routes and save on time and money.

Wages

The wages you pay your employees represent money spent for the use of their time. You should therefore make sure that their time is used well (efficiently). How can you do this?

Look at their work area. It should be:

- well laid out, so that each person has enough space in which to work
- well lit, so everyone can see properly
- well ventilated (have enough air passing through)

Watch them while they work:

- see to it that each employee knows what his tasks are
- set guidelines for the time they should spend on each task
- monitor how well they perform

Let's look at an example:

Lucille Rodney has a business making sets of hand-embroidered place mats and napkins at her home and she employs her cousin Madge to help her make them. Their production target is 10 sets per week and in order to meet that target they have assigned themselves special tasks.



Lucille was put in charge of the purchasing of raw materials and packaging supplies, marketing the finished sets and all the embroidery. Madge was given responsibility for the cutting, stitching, ironing and packaging of the sets. They each made schedules so that they would be able to work together to meet the target they had set themselves.

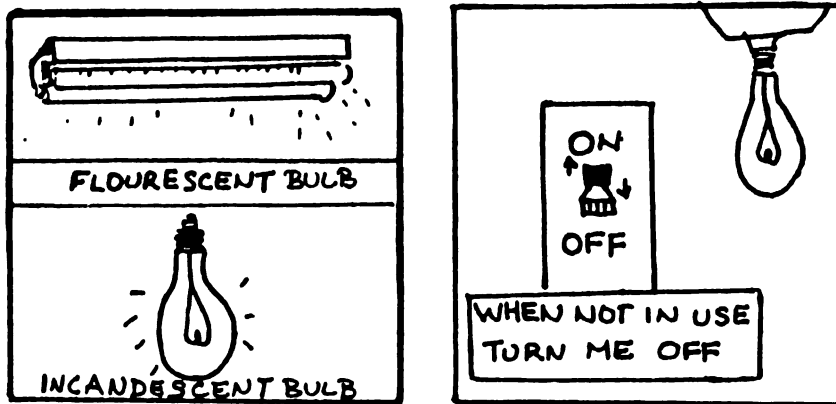
Utilities

If you use things like electricity, water and the telephone in your business, you no doubt spend a large portion of your budget on these utility payments. It is important to think of how you can keep the cost of these services down without affecting the productivity of your business.

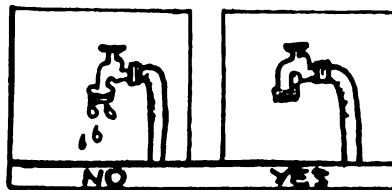
Let's look at a few ways in which we can keep our electricity bills low:

- switch off lights when they are not in use

- use electric tools and equipment efficiently - plan their use wisely and switch them off when they are not in use
- service tools and equipment at regular intervals so that they do not use more electricity than they need to
- if you need lighting for your business and can afford the higher initial cost, use fluorescent lighting rather than incandescent lighting - fluorescent bulbs produce three times more light per unit of electricity than incandescent bulbs do.



You can see then, that in order to keep your electricity bills low, you have to conserve (save on its use).



The same applies to the use of other utilities you pay for in your business. You should check to make sure that water pipes do not leak or drip and waste water; you can see to it that the telephone is used wisely - plan the calls you have to make so that you remember to say the things you meant to say to your customer or to your supplier or banker. You should also keep it locked when it is not in use, so that only those you wish to, will use it.

Tools and Equipment

If your business owns one or more of the following items - tools, machinery, equipment, vehicles - you are likely to have invested a great deal of money in them. You might have had to get a loan and pay interest on the loan for a considerable period, in order to buy them. You therefore expect them to be useful to you for a long time. For that to happen however, they must be properly used and regularly maintained. One of the most difficult costs to deal with in a business which owns machinery, equipment or vehicles, is **Preventive Maintenance**; that is, taking steps to see that the vehicle or piece of machinery is well taken care of, to avoid having to repair it because of lack of proper care. It is not easy to accept the idea that we can sometimes reduce costs by spending more money.

Let us look at an example:



Leroy has bought a used pick-up truck to transport his produce from his small farm to the market. The truck cost him \$9,000.00

and he figures that it should last him 10 years, if given proper maintenance. Leroy has decided to look at his expenses for the vehicle for the coming year. He estimates that he will use about 300 gallons of petrol, 30 quarts of oil and he will pay \$100.00 for the licence for the pick-up. He knows that, like buildings, machinery and equipment, his motor vehicle will lose some of its value as time goes by. Leroy thinks that he may be able to cut the oil use of the pick-up by 50%. However, he is concerned that by doing this, the estimated life of the pick-up may also be reduced by 50%.

10 YEAR ESTIMATED LIFE

ORIGINAL COST	\$9,000.00
ESTIMATED LIFE	10 years
LOSS IN VALUE PER YEAR	\$ 900.00
	(\$9,000.00 divided by 10 years)

5 YEAR ESTIMATED LIFE

ORIGINAL COST	\$9,000.00
ESTIMATED LIFE	5 years
LOSS IN VALUE PER YEAR	\$1,800.00
	(\$9,000.00 divided by 5 years)

Leroy will treat the loss in value (depreciation) of his vehicle as an expense (cost) in his business, so he compares what the vehicle would cost him for the year if he were to spend \$300.00 on oil, or reduce the amount he'll spend on oil by 50%.

10 YEAR ESTIMATED LIFE

LOSS IN VALUE FOR THE YEAR	\$ 900.00
PETROL 300 gallons at \$9.00/gallon	2,700.00
OIL 30 quarts at \$10.00/quart	300.00
LICENCE	<u>100.00</u>
TOTAL YEAR'S COST	\$4,000.00

5 YEAR ESTIMATED LIFE

LOSS IN VALUE FOR THE YEAR	\$1,800.00
PETROL 300 gallons at \$9.00/gallon	2,700.00
OIL 15 quarts at \$10.00/gallon	150.00
LICENCE	<u>100.00</u>
TOTAL YEAR'S COST	\$4,750.00

What was the difference in cost? _____

Which cost him less? _____

What should Leroy do? _____

Can you think of other ways to reduce costs in your business?

r

Volume

The larger the number of products you sell, the higher your income is likely to be.

Here are some ways you can sell more of the products you make or the service you have to offer.

1. Find new customers to buy your product. Explore the market to locate more people who will buy from you. One way to do this is to advertise - tell people about your product. Put notices with information about yourself and your product on notice boards, or hand them out to people in offices, in shops, or at the corner of the street. Ask your friends to tell their friends.
2. Make changes in the design and quality of your product to attract people and convince those who previously bought from your competitors to buy from you instead.
3. Lower the price of your product. This may increase demand and is usually the easiest way to increase the volume of sale.
4. Find a wholesaler who will market your products for you. Wholesalers are usually better equipped for retail selling and will usually buy in large quantities if the price is reasonable. You will of course have to lower your selling price to the wholesaler so that he can add his own markup.

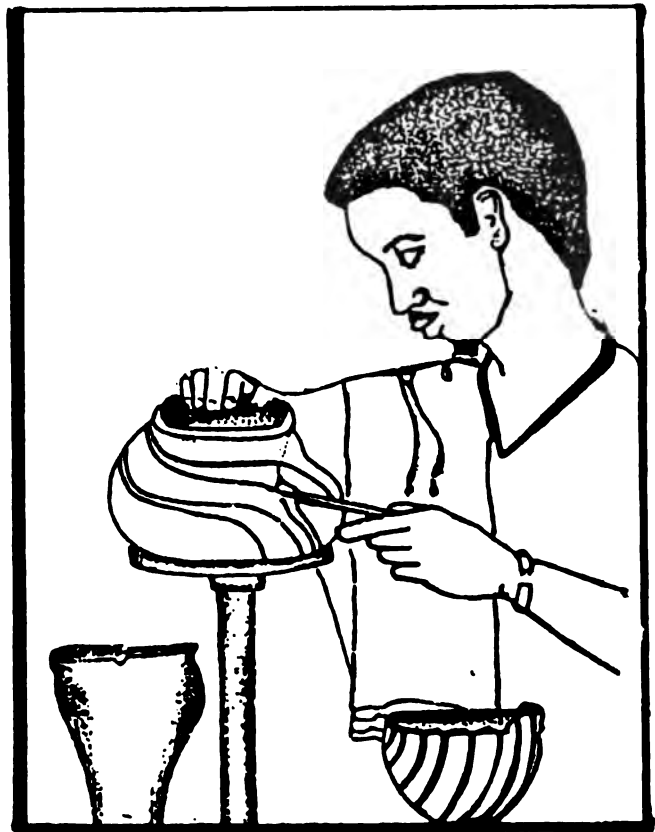
What ways do YOU think you can use to sell more of your products?

r

In practice, all three factors of price, cost and volume should be considered together. Considering all three together improves the chances of your business making more profits and therefore of you getting a higher income.

Here is an example:

Marcel Grant lives in Princes Town and works in a factory which makes clay pottery. A few weeks ago when he was laid off from his job, he decided to start a business producing pottery for sale. After a week or two, he found he was capable of producing ten medium-sized vases in five days. In addition he knew he must work for an extra day each week, marketing. Marcel was very proud of the vases he produced and felt that he could get \$35.00 for each of them. The first few times he went out selling, he had an extremely hard time selling the vases. Sometimes it would take three or four days before he sold one vase. A social worker in his community who also taught business management, helped him to do a price calculation to work out what his costs were. The result showed that each vase cost him about \$15.00 to produce before profits were added. This means he had been making a profit of \$20.00 on each vase, but selling very few of them. The social worker advised him to consider lowering his price to see whether this would result in more vases being sold. He took the social worker's advice and found that he could easily dispose of 10 vases in one week, at a price of \$20.00 each. (The \$20.00 covered costs of \$15.00 leaving \$5.00 for profit). His profits soared to \$50.00 each week! (His competitors, a few young men in his community were still trying to sell their vases at \$30.00 and \$35.00).



Realising that the social worker had given him good business advice, he started going to the training sessions which were organized to help small business people in the community. He discovered that he could increase his profits beyond \$50.00, by doing one or more of the following things:

He could either:

1. Produce 12 vases instead of 10 at the same cost of production (\$15.00) and sell them all at \$20.00 each (a profit of \$5.00). His profit would therefore be \$60.00 per week.

That is: 12 vases at \$5.00 profit = \$60.00

or

2. Try to cut costs of production from \$15.00 per vase to \$14.00 per vase. If he still sells 10 vases, at \$20.00 each, he will earn \$60.00 profit, since \$1.00 of his production costs would go to his profit.

That is: 10 vases at \$6.00 profit = \$60.00.

3. Increase the price to \$21.00 while keeping production costs at \$15.00 and selling 10 vases each week. \$1.00 added to the price would increase his profit to \$6.00.

That is: 10 vases at \$6.00 profit = \$60.00.

He finally decided to try a combination of all these methods and, by trial and error, discovered that he could trim his production costs to \$14.75 per vase, increase his selling price to \$20.50 and by working harder at producing and marketing, he could make and sell twelve vases per week, giving him a profit of \$69.00, each week.

PART II

MARKETING

WHAT IS MARKETING?

Marketing is a number of activities which need to be done so that the goods and services you produce are bought by the people who will use them.

Marketing starts before production begins, since as we saw in Part I, **before** you decide what to produce and before you begin production, you must consider whether you will be able to sell what you produce.

In order to market a product or service well, you should know, in advance:

- What you will sell to your customers
- Who will be your customers
- What will they be willing to pay for your product
- How will your product get to your customers.

WHAT IS A MARKET?

A 'market' refers to a place or location where buyers and sellers meet, for example, the town or village market place where vendors go to sell their goods and buyers go to purchase them.

A 'market' refers to a number of sellers who supply the same or similar goods or services, for example, a farmer producing oranges would be part of the fresh fruit market.

A 'market' refers to a number of buyers who demand the same or similar goods and services, for example, the market for eggs is

usually high around Christmas time when a large number of people buy eggs.

A 'market' refers to a price which is paid for a good or service at a particular time, for example, the market for eggs at Christmas time would be good for sellers since the price for eggs would be higher than usual.

A 'market' refers to the type of consumers for the same or similar goods or services, for example, the tourist market refers to buyers who are tourists.

Sellers talk about several different types of markets for their goods and services, such as:

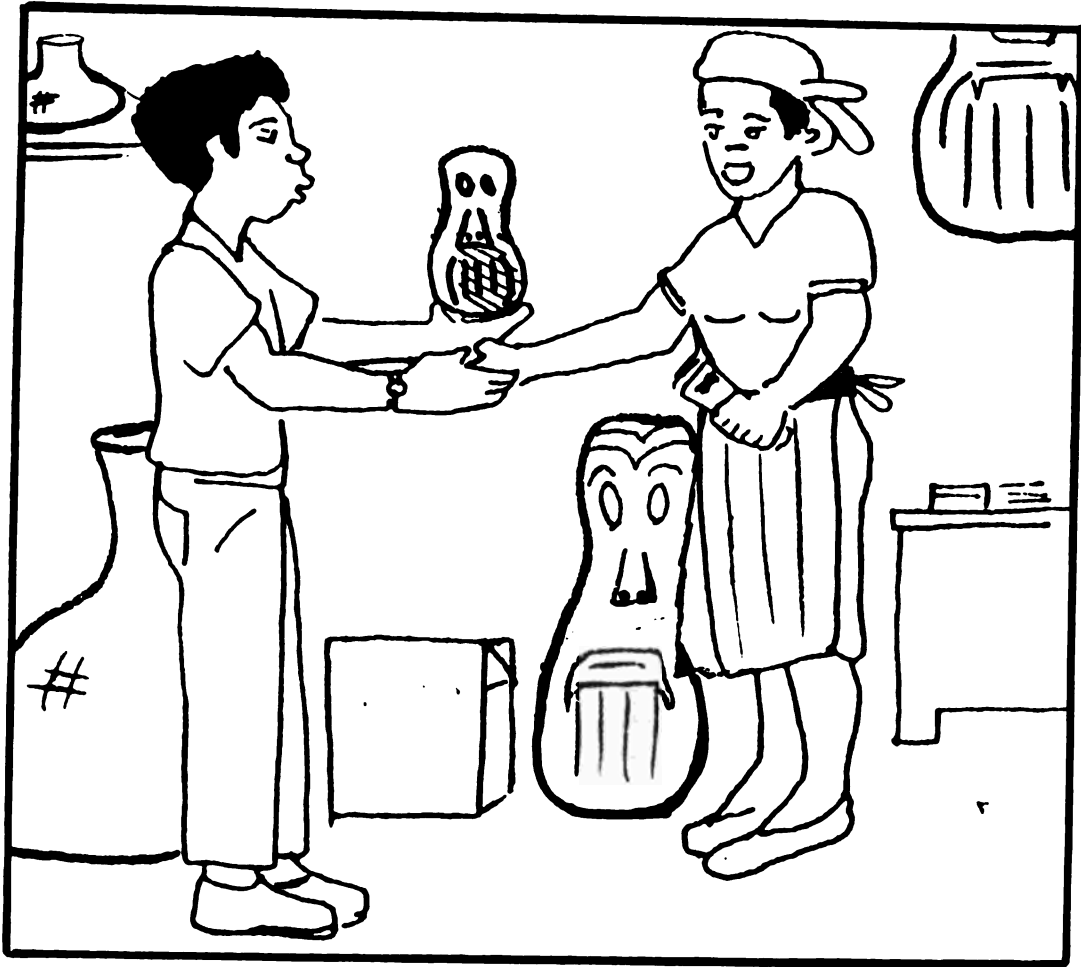
- a. National markets, or possible buyers in the same country.
- b. Regional markets, or possible buyers in a district area or region.
- c. Local markets, or possible buyers in nearby areas.
- d. Export markets, or buyers overseas.
- e. Tourist markets, or buyers who are tourists.

WHAT DO YOU MEAN WHEN YOU SAY "MARKET"?

Many small business persons complain that their goods or services are not selling as well as they would like them to be. Marlene Johnson from IICA has been talking to a number of small business persons to find out from them what their problems are and to offer them advice on how their marketing practices can be improved. Here are some parts of the conversations she had with them.

Marlene first talked to Fitzroy Moore, a woodcarver selling to tourists in the Cruise Ship Complex, Port of Spain.

Marlene: "What kinds of problems are you having with your marketing, Fitzroy?"



Fitzroy: "My big problem is that although I have many different kinds of carvings on display in my stall and customers say my prices are reasonable, the tourists don't buy enough pieces for me to make a good income. I have lots of nice, big African masks, but they only go for a few small pieces."

Marlene: "So why do you still make those big masks?"

Fitzroy: "I've been making these masks for years. It's what I do best!"

Desmond Jackson owns a small grocery shop in a rural village. He told Marlene of his problem.



Desmond: "Recently, many of my customers have stopped buying from my shop and have started buying from the new shop down the road."

Marlene: "Why do you think this is happening?"

Desmond: "I suppose it's because the new shop sells on credit and stocks fertilizers, seeds and hardware items, as well as groceries. All I have in my shop are groceries."

James and Jessie Wright, who own a small farm in St. Mary's Village had this conversation with Marlene.

Marlene: "You have a good crop of peppers here - how is your marketing going?"

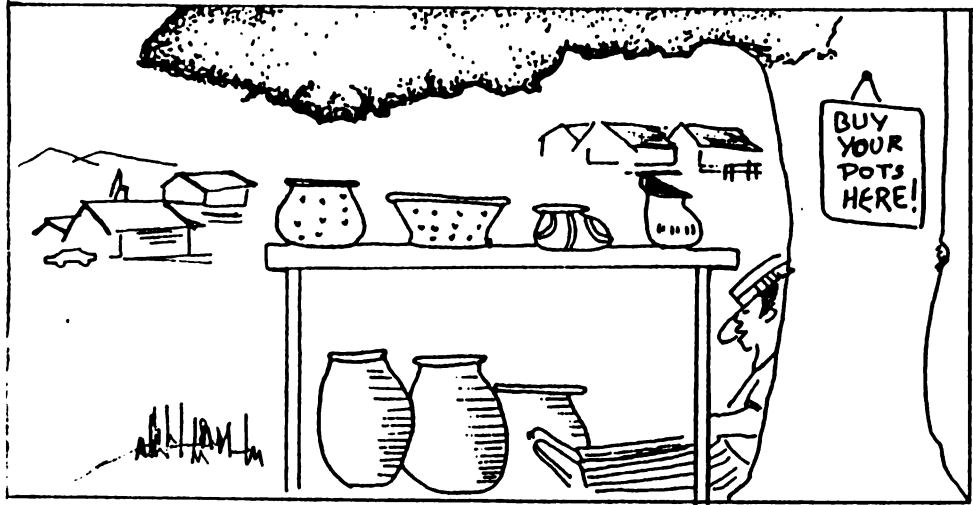
James: "Up to now we've been selling the peppers to a factory four miles away, which processes them into a pepper sauce. The factory will take all we produce - but the price they offer is really low! We just manage to cover our costs and make a small profit. We'd like to do better."

Jessie: "I've been selling some to vendors in the market. I get a good price per dozen but the market vendors can only take a limited amount, so we're forced to sell the rest to the factory."



Marlene: "You've got a van haven't you? Why not try to link up with an exporter who might take a large enough volume and pay a better price?"

Boysie makes clay pottery. Recently, he's been selling his pots on the corner of a busy intersection in a well-to-do neighbourhood in County Caroni. Marlene found him asleep beside his stall.



Marlene: "Have you been selling many of your pots here?"

Boysie: "Not many. I was sure that they would sell quickly here. These people have lots of money; they can afford to buy my pots, but I've only sold two in one week. I sold at least ten per week in Port of Spain!"

Marlene: "What went wrong? Didn't the people like them? Did they think they were too expensive?"

Boysie: "I think the prices were O.K. Some people said they didn't like the brown colour and the glaze and some said they were too big, but I never got those complaints in Port of Spain!"

Marlene then talked to Akel, a vendor who buys goods in Caracas and sells them from a stall in an uptown plaza.

Akel: "People are always complaining that my goods are too expensive. They don't know that I have to cover my air fare, customs duties, taxi fares..."

Marlene: "Are other vendors charging the same prices as you" How do they get their customers to buy their goods?"

Akel: "The other vendors buy the same kinds of goods, but in bulk and at cheaper prices than I do, that's why they can sell for less."



It was pouring rain, so Marlene sheltered in a small hairdresser's shop in a little village on the outskirts of Rio Claro. While waiting for the rain to stop, she decided that she

might as well go in and get a wash and set. She introduced herself to the hairdresser who said his name was Bob Sutherland.

Bob: "Sorry about the water in here; the roof leaks in a few places, but never mind, I'll give you the best wash and set you've ever had!"

Marlene: (Looking around the shop) "How's business these days?"

Bob: "Oh its bad! But I don't understand why my customers are leaving - there isn't another hairdresser nearby who gives a better haircut - and at such a reasonable price."

Marlene: "Have you asked any of the women in the village why they are not coming back?"

Bob: "Oh, one or two of them say the shop needs attention. My daughter used to help take care of the shop but, since she went away to study, I'm doing the best I can. It's not as bad as they say it is, is it?"

Can you tell what went wrong with the way these people did their marketing? Let's look back at each of their conversations with Marlene to find out what went wrong.

WHERE THEY WENT WRONG

HOW TO IMPROVE

Fitzroy

Desmond

**James &
Jessie**

Boysie

Akel

Bob

Here are some questions for you to think about and suggestions on how you should go about your marketing.

1. What will I sell?

It is much easier to sell what people want, so before you start producing, make sure that you find out what features and kind of quality your customers will be looking for in the product or service you want to sell.

2. Who will I sell to?

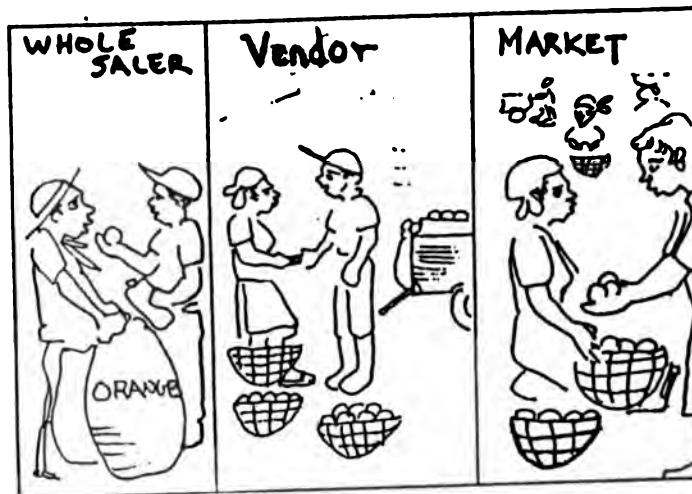
A small business cannot cater to everyone, so it is important that you find just who are the people who will buy your product or service and do all you can to encourage them to buy.

3. How much will I sell my product or service for?

You should put a price on your product or service which customers will pay, always making sure that you cover your costs. Deciding what is the best price to charge is sometimes not an easy task; usually there is no one price you can ask but rather, there may be a range of possible prices. You should remember however, that sales usually fall when prices are raised, so try to sell at a price which adequately covers your costs and allows you to sell in large enough volumes to make your business profitable.

4. How will my product get to the consumer?

You can't sell a boatload of bananas to one consumer in England. If you cannot sell directly to the people who will use your product, there are other ways in which you can get your product to consumers. For example, you can sell through retailers or wholesalers.



5. What can I do to increase sales?

There are many simple, but special things you can do to encourage customers to buy more of your product or service. Things like offering discounts, putting up attractive displays or signs, giving away samples or handing out leaflets are only some of the ways you can use to promote your product or service.



You should also try as much as you can to be competitive with other people who sell goods and services. You can:

- i) Watch how your competitors treat their customers and try to do better;
- ii) Look at the prices competitors are charging when you set your price;
- iii) Do things to make your product or service more appealing than those of your competitors:

CAN YOU THINK OF ANY ACTIVITIES YOU CAN DO TO INCREASE SALES?

IMPORTANT MARKETING ACTIVITIES

Marketing involves many important activities, some or all of which must be done if business persons are to be successful at selling their crops, goods or skills, satisfying their customers and making money.

A marketing strategy is a plan which outlines the methods you will use to get customers to buy more of your product than your competitors' products. In this and other exercises, we will talk about some of the more important activities which you may have to do, as a marketer of the products you make, crops you grow, goods you buy for resale or services you perform. These activities must be considered when you prepare your marketing plan. They are:

- Doing a market study
- Getting what you sell to the consumers
- Transporting what you sell
- Storing your goods or crops
- Packaging and labelling what you sell
- Controlling quality
- Promoting what you sell
- Looking at costs and pricing what you sell

1. A Market Study

A market study is going out and getting information from possible buyers on how acceptable and appealing your product is to them, as well as how well it will compete with similar products, how much it should be sold for, where it should be sold, and whether you can sell enough for it to be a worthwhile venture. While doing the study you also get a chance to 'test' your product with consumers and this is a good way of finding out whether or not

your product will do well on the market.

To be as efficient as possible in selling your goods or services you should try as best as you can to find out about your customers and your competitors, **beforehand**.

This is information you should have whether you are thinking about producing a new product, service or goods for resale or if you want to increase sales of existing products. Studying the market will help you to decide:

- What to sell
- To whom you sell
- At what price to sell
- How to get it to buyers

A Market Study is the collection and analysis of all the information that will help you answer these questions. The two main aspects of the market study is the demand and the supply.

A. Demand

Finding out how many people not only like your product or service, but are willing to buy it is very important, because then you have a better idea of what your chances are for selling a new product or service, or for expanding sales in your existing business. Many business people make the mistake of trying to sell something because they think people will like it and buy it. However, they should first find out how many people like it, whether or not they are prepared to buy it for the price being asked and whether they will buy it often enough for the seller to make a satisfactory income from it.

Fitzroy Moore made that mistake:

Fitzroy had been making large, 'African' masks, carved out of wood, for years. When he set up his stall in the Cruise Ship Complex, he stocked it with mostly big masks, figuring that the tourists would like them, as he did. Some tourists did, but it took him a long while to find out that there were just not enough tourists who liked the masks and who were also prepared to buy them, even though the prices were fairly low. Many of them complained that the carvings were far too large for them to carry back home.

You must find out as much as possible about your 'customers'.

- Who your customers are likely to be,
- How many of them there are, that is, what is the demand for your product or service,
- Where they are located,
- What features customers are looking for (so that you can be sure that what you offer for sale is what people will want to buy),
- How much of your product or service customers are likely to buy,
- What time of year customers will buy more of your product or service,
- What prices they will pay for your product or service.

B. Supply

In doing your market study you must consider how your product will compare to the same or similar goods and services also available. Your study should give you the answers to the following questions:

- Are there similar products or services available?
- What level of quality are customers willing to pay for?
- For a product, what features (size, colour, shape, style, etc.) are customers buying?
- What prices are they paying?
- What quantities are they buying?
- Can I sell all I produce at a profitable price?
- Are sales of similar products or services increasing, decreasing, or remaining the same?
- Are there unexplored markets?

In doing your market study, you must consider the other business people who are also selling to your possible customers. These are your competitors. There are a number of questions which can be asked about competitors, such as:

- How many competitors are offering similar products or services?
- Why can I expect people to buy from me and not from other producers?
- What quantities are these competitors selling?
- How long have they been in business?
- How do you think they will react to a new business, a new product or service, or increased competition?
- What prices are they charging?
- How do they get their products to customers?
- How do they promote their products or service?
- Have they been expanding their businesses or cutting back?
- What do you estimate their marketing costs to be?

Another important aspect of a Market Survey is getting your product to the consumers:

Channels of Distribution

1. What is the best way to get my product to the users?

Sell to them directly?

Sell through retail shops and they sell to them?

Sell through wholesalers, who sell to retailers, who sell to them?

2. What mark-up will:

wholesalers put on? \$ _____ . ____ or _____ %

retailers put on? \$ _____ . ____ or _____ %

3. What can the wholesaler or retailer do for me that I cannot?

You can see then, that there is a lot you need to know about the "market" in order to sell your goods or service and make money for your business. If you have never done a market study, shouldn't you do one now?

How will you get all this information?

You can go to the 'market'; that is where you will find the answers first hand, or you can get the information from previous studies. These are available from such institutions as the Central Statistical Office (CSO), the Industrial Development Corporation (IDC), the Central Bank of Trinidad and Tobago, the Association for Caribbean Transformation (ACT) and the National Agricultural Marketing Development Corporation (NAMDEVCO).

Doing a Market Study - Some Helpful Hints

In order to do a good job of getting the information about the market which you need to develop your marketing plan, you must go about doing your market study in an organized and business-like way.

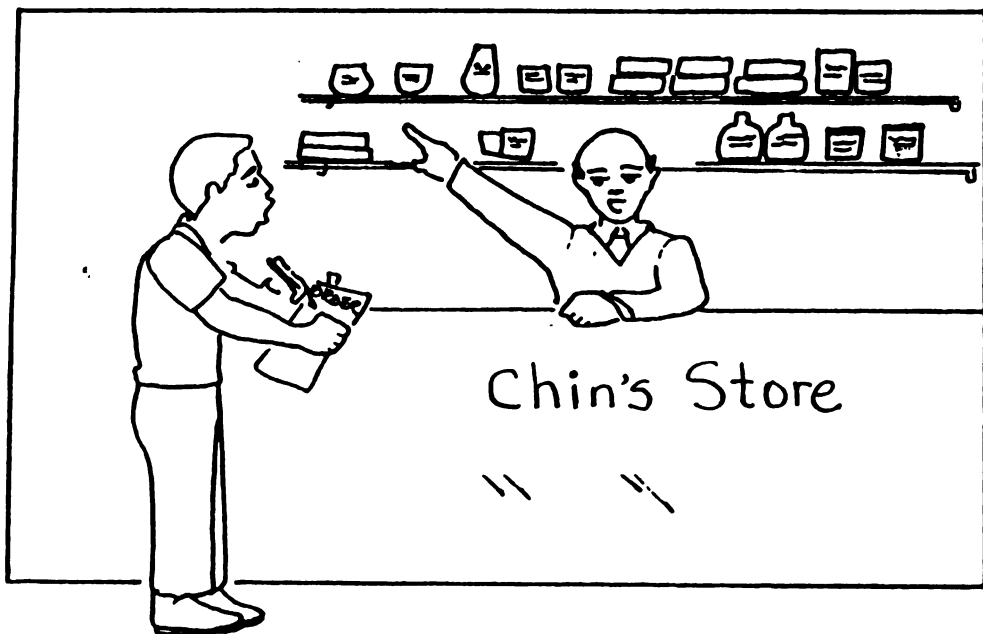
Here are some suggestions which can guide you when you carry out YOUR market study.

- i. If you must get first hand knowledge, decide where you will go to do your study.

A good place to start would be in the places you expect to find the people you think will buy your product. Deciding where to go also depends on whether you plan to sell directly to consumers or whether you will sell to "middlemen" or store owners.

Here are some places you might go to do your study;
If you plan to sell directly to consumers:

busy street intersections, offices, markets, fairs,
exhibitions, bazaars



If you plan to sell to "middlemen":

markets shops, supermarkets, grocery stores, etc.

You might also find out from other sellers, who are the people they sell their goods to. This will give some ideas on where to go.

Do you have more suggestions to add to this list? Where else could a seller go?

You must not forget to "check out" your competitors as well, because you need to be aware of where they sell their goods or services, what they sell, how much they sell for, and so on.

Now, where will YOU go to do your study?

ii. Make contacts with possible customers.

Making as many contacts as possible with likely customers, storekeepers, vendors, etc., increases your chances of getting a good estimate of the number of people and shops who might be willing to buy your product. It will also give you valuable information on what people like about your product and what changes, if any, they think they would like to see made to it.

When you make your contacts, you should introduce yourself giving your name or the name of your business and explain what you are about. You might also ask the person's name and if you are told, use it when you address the person. If the person seems

interested and offers you suggestions or advice, take note of these and be sure to thank them for their help. It is also a good idea to note the names and addresses of the people who show interest in your product or service, so that you can contact them in the future.

iii. Prepare samples to "test" your product.

If yours is the kind of product that can be "tested" using samples, this is a good way of getting reactions from possible buyers. It gives them an opportunity to see the product, to taste it, feel it, smell it, or whatever they need to do with it, in order to give you their opinions of it. You should be aware however, that sometimes, when customers are asked for their opinions, they often tell you what they think you WANT to hear, rather than the way they really feel about your product. However, don't let this stop you from trying to get feedback on your product as there are people who will give you their honest opinions.



You must make sure, however, that the sample you present to possible customers is an accurate example of what the product will be like. On no account should you give people false impressions about your product. This can only hurt your reputation as a good business person - a reputation which once lost, may never be regained.

Here is an example:

In doing her market study to find out how customers would like the baked products she planned to produce, Sheila Smith took samples to the supermarkets, shops and schools where she planned to sell them. She asked each person who sampled her products to tell her how they like the taste, the size, the package and the price at which she planned to sell them.

After spending a week testing her products, Sheila was able to make her marketing plan. For instance, instead of making one pound and two pound buns as she had planned to do, she decided to make more of the smaller half-pound buns. These were the sizes she had planned to sell in the schools, but grocery-store shoppers also said that they would rather buy the small size buns than the larger sizes.

iv. Take your order book with you!

You may find many opportunities to get orders when you are doing your market study. However, don't start making the product unless you have a firm commitment from the buyer, including a down-payment, if possible.

Doing a market study is hard work but if you want to be successful at marketing your product, it is a very important activity.

2. GETTING WHAT YOU SELL TO CONSUMERS

Getting your product, crop, merchandise or service to your customer is probably the most important of all the activities you will have to perform when marketing.

Some business persons sell directly to consumers - the people who use their product or service, while others sell through one or more persons, sometimes called "middlemen". Some middlemen buy from producers and sell to consumers and are called "retailers". Other middlemen buy from producers and sell to retailers who then sell to consumers. They are called "wholesalers".

Let's find out more about these middlemen before we discuss how you can become more efficient at getting what you sell to the consumers.

RETAILERS

Retailers sell goods directly to consumers. Business people who buy goods in order to resell them at a profit are involved in retailing. So too are business people who produce and also sell their goods directly to consumers.

Retailers sell from a number of places. Here are some of them:

- From their own stores;
- From cooperative stores and parlours;
- From their homes or from friends' homes;
- From stalls on the sidewalks, in the markets; or bazaars;
- From cars, vans, bicycles or motorbikes
- Selling from house to house

Are you a retailer? Yes _____ No _____

What do you sell? _____

Who do you buy from? _____

Where do you sell from? _____

Who do you sell to? _____

If you are not a retailer, do you know of any businesses in your area which are involved in retailing? What types of goods do they sell?

TYPE OF BUSINESS

TYPE OF GOODS

WHOLESALEERS

Wholesalers are the link between producers and retailers, because they sell the goods they buy from producers, to retailers. Retailers then sell the goods to consumers. Through use of this 'chain', producers usually get lower prices for their goods when they sell to wholesalers, as these wholesalers must then sell to retailers and put their markup on the price.

In addition to helping producers sell their goods, wholesalers sometimes pass on many helpful hints, for instance, giving advice on what kinds of products sell best. Often too, they know a lot

about what is happening in the market place and can therefore be valuable sources of market information.

Wholesalers can also help producers to reduce their costs for transportation and storage as well as the expense of keeping large stocks. This is because they are usually better able to handle and store large quantities of goods. Many wholesalers also have their own sales staff who sell the goods they stock to several different retailers. To retailers, wholesalers are important because:

- a. they offer a range of products to choose from, since they usually buy from several kinds of producers;
- b. they may also offer delivery and storage services. This not only reduces retailers' costs of transportation, but also the cost of keeping more stocks than they need.

Do you know of any wholesale businesses? Yes _____ No _____

What types of goods do they handle?

Whom do they buy from?

Who buys from them?

So you see that for producers who are not able to sell their goods to the consumers themselves, or those who cannot sell enough of their goods, middlemen can be helpful in a number of ways:

- they come in contact with many consumers or other middlemen and can therefore expose producers' products to more people than producers could on their own.
- they can help to select suitable prices, so that consumers will be encouraged to buy.
- they can help to reduce producers' costs of transportation, storage and promotion.

However, there are some disadvantages of selling through middlemen. Can you think of any?

How do YOU now get your goods to consumers?

I sell directly to consumers _____

I sell through middlemen _____

I do both _____

Do you sell all that you produce? Yes ___ No ___

If you answered 'No', perhaps you should consider selling through a middleman, who might be able to help you sell more of your goods. If you are already selling through a retailer or a wholesaler, but not selling as much as you would like to, you might consider looking for other retailers or wholesalers who might do a better job of helping you sell your goods. Whichever way you decide to use, make sure that it is the most profitable for your business.



3. TRANSPORTING WHAT YOU SELL

There are a variety of ways that your product, crop, merchandise, or service can get to your customer and transportation is an essential activity for that to happen. The question you just answered, "How do you now get your goods to consumers?" may determine if you will be responsible for transporting your product or service to the consumer.

Depending on your type of business, your customers may come to you to buy your products or service, or you may have to transport your product or service to them.

Can you name some businesses which do NOT transport their goods or services to customers?

Can you name some businesses which do transport their goods or services to customers?

In your business, do you transport your goods or services?

Yes _____ No _____

If yes, how do you transport your goods or services?

Can you think of other ways? _____

If no, how does your product or service reach your customer?



Ben Williams is a farmer who has two acres of Irish potatoes. He sells his potatoes at harvest time through several markets. Many vendors go to his farm to buy potatoes to resell in their market stalls. Ben hires a neighbour with a truck to transport 300 pounds of potatoes a week to a local restaurant. The Potato Co-operative picks up the remainder of his crop at the farm gate.

Who are Ben's customers?

How is he transporting what he sells?

How do the different methods of transporting the potatoes affect the price Ben receives?

Do you have any suggestions for Ben?

Remember, transporting your goods or services is an important marketing activity. You need to plan ahead to be certain your goods or services will reach your customers. You must also remember that methods of transporting will affect your income, so consider it when you price your goods or services.

Transportation is also a cost to be considered when producing. When setting up your business you should choose a location which is easily accessible to your market in an effort to reduce your costs.

4. STORING WHAT YOU SELL

Storage is an important activity of marketing. Storing what you make, grow or buy for resale, allows you to keep goods on hand so that they are available when customers want to buy them. Storing your goods or crops can also allow you to keep them until a time when it is more profitable for them to be sold. However, when making the decision to store your goods, you should always take into account the costs of storage and the possibility of losing some or all of your product through spoilage or shrinkage. Thus, the additional income you will receive from the products you store should always be greater than your storage costs, and consider the cost of losses which may result from storage.

Neville thought he had done the right thing when he decided to store his crop of pigeon peas last December, instead of selling it to the many buyers wanting pigeon peas for their Christmas dinners. He had stored previous crops and had made good money selling the peas when the supplies fell early in the new year. But this time he had not been careful enough in storing the crop, and the moisture in the air caused by the prolonged rains had ruined his chances for making any money at all.

Storage may also be necessary if marketing is seasonal and you must accumulate your goods until the buying season begins.



Do you store your goods or crops before selling them?

Yes _____ No _____

If you answered "Yes", why do you store them?

Where do you store them?

5. PACKAGING AND LABELLING WHAT YOU SELL

Packaging your product properly is an important marketing activity which can help to sell more of your goods or help you to get a higher price for them. Either way, packaging your product may make more money for you, provided the additional money you earn from selling more, is greater than the packaging and labelling costs.

Packaging protects goods and keeps them in good condition until they reach the consumers. Attractive and sturdy packaging can also help to attract customers' attention and so help to increase sales. Labelling of packages is also important, as labels provide information about products which can help customers decide whether or not a product is what they want to buy.

Labels should contain information about products, such as:

- the brand name, the name of the product and its contents
- the address of the business
- instructions for care and protection
- an expiry date
- its weight, size, volume, etc.

The amount of information which needs to be put on a label will depend on the type of product. For example, a sculptor need only inscribe the title of the work, his initials and the date on his craft, while a food processor should include on the label of the product a list of ingredients, the volume of the contents and the name and address of the business.

6. CONTROLLING QUALITY

The first step in quality control is to decide what will be the quality of the product or service you will offer to customers. Then, from the moment you select the inputs which will go into producing your product or service, growing your crops or rearing your animals, quality control should begin. This means ensuring that the materials you start with are the right quality which will make the product what you want it to be. But quality control should not stop there. It should continue through the entire process of production until the finished product has been made or grown, or the job completed.

In addition, the quality of your products should be consistent, that is, if you make a particular product, all of that sort of product should be of the same quality. Here is an example which shows what can happen when producers make products of inconsistent quality.

When Pat Wade and her sisters Denise and Sandy started producing fruit jams for the local market, they made the jams with lots and lots of fruit. Their market study had shown that many consumers were dissatisfied with the amount of fruit in the jams already on the market. In first few months of business, sales were much higher than they had ever anticipated. Soon however, they were forced to lower the amount of fruit in the jams as fruits were in short supply and prices for them had become exorbitant. Because of this, sales fell quite low and by the end of the first year, the sisters had lost so much money that they decided to give up the business and go back to their old, paying jobs.

What was important in this example?

Here are some hints on how you can control quality in your production process. Remember that before you adopt any of these suggestions, you should work out the possible costs and likely increases in returns, so that you end up making money and not losing.

1. Have someone responsible for controlling quality in your production process. This should be someone who knows the process well and is a good worker.
2. Prepare a sample of the product which is satisfactory to you and to your buyers.
3. Decide what steps will be used to produce the item. For example, if you are making a stuffed toy, first you will get all the different types of material, then you will trace the patterns, then you will cut and so on.
4. Decide what standards must be met for each step in production. Those responsible for quality control should check regularly to ensure that these standards are being met.
5. The finished product should be compared to the sample to ensure that it is of the same standard.

7. PROMOTING WHAT YOU SELL

Promotion is a way of getting customers to buy more of your product or service, but is an activity which should only be considered if the returns to you (increased sales) will be greater than the cost of the promotion.

Promotion is also helpful in providing customers with information about your product or service; that it is available, what price it is sold for, where it can be bought and something about its qualities and characteristics.

There are many ways to promote your products or services. Some of these ways include advertising in newspapers, on radio, television, magazines and newspapers or exhibiting at fairs and bazaars and giving away samples.

Selecting the most suitable way to promote your business is very important if it is to succeed. Before you begin to promote your business however, you should ask yourself these important questions:

- How much money do I have to spend on promotion?
- Considering the amount I have available to spend, what are the types of promotion which will give me the best value for my money and also help to get more customers interested in my product or service?
- How much more net income will it provide me?

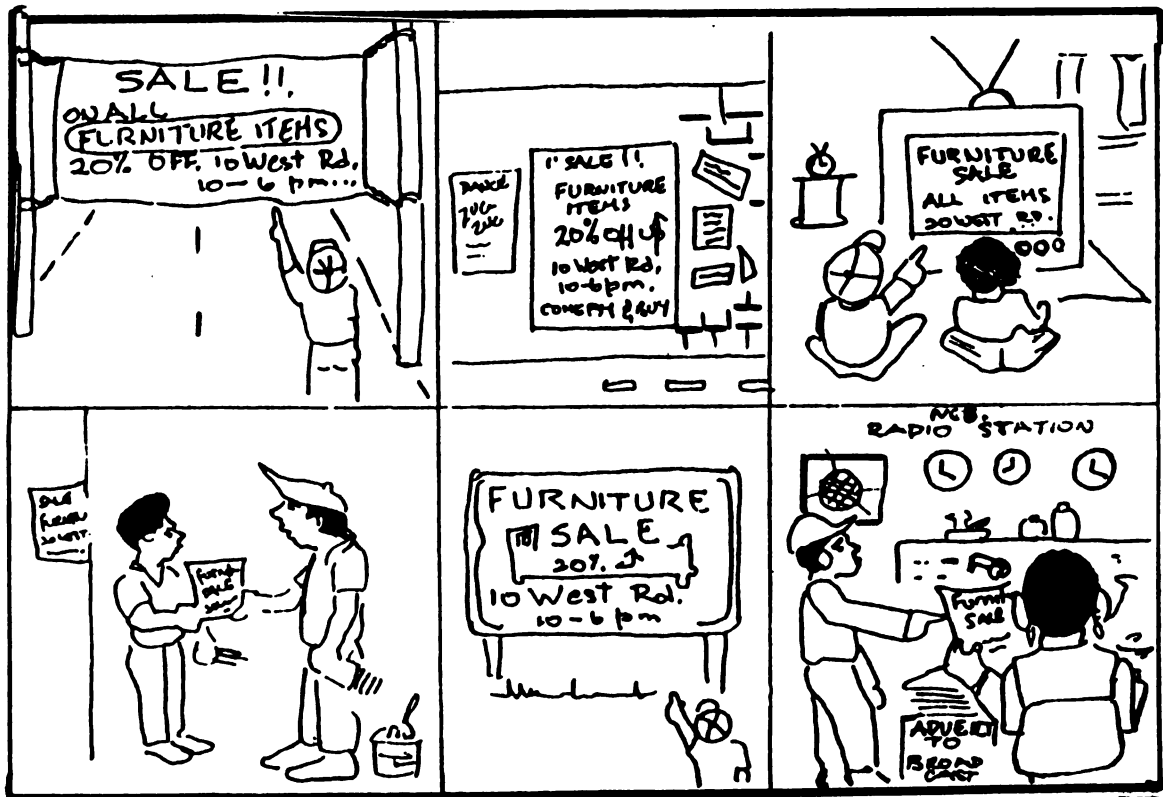
Now let's talk about some of the more well-known ways business people use to promote their products or services.

Advertising

Advertising is often done through radio, television and newspapers, although other forms of advertising such as using leaflets, posters, outdoor signs, etc., are also popular. Although some types of advertising can be expensive, they have the advantage of being able to reach a larger group of people than can any other method of promotion.

Do you advertise your product or service? Yes _____ No _____

What type(s) of advertising are you using?



How much does it cost you to advertise? \$ _____. per _____

Have your sales increased as a result of advertising?

Yes _____ No _____

If you answered yes, by how much? \$ _____.

Is the increase in sales more or less than the cost of the advertising? More _____ Less _____

Trade Fairs and Exhibitions

Taking part in fairs and exhibitions is a good way to reach customers at relatively low cost. These events usually attract large crowds of people who go to look at the displays, so instead of the seller going to find customers, the customers go to them. People not only go to look at the displays, but also to buy or place orders for goods. The seller gets a chance to make personal contact with customers, to answer questions, to demonstrate the uses of the product and to find out just what consumers want.

Shortly after he started his own furniture-making business, Marvin Brown was invited to display some pieces of his work in an exhibition put on by the Ministry of Settlements and Public Utilities. The exhibition was held each year over two days, to show off the work which could be done by small business people. Marvin made up some samples of furniture and also hand-wrote some leaflets telling what kinds of furniture he produced, where they were available and their range of prices. The response was overwhelming! As a result of his efforts, he obtained several orders, including a contract to supply bed headboards to a thriving furniture store.

Have you ever promoted your product at a fair or exhibition?

Yes _____ No _____

How much did it cost (for your time and materials)? \$ _____.

Did sales increase? Yes _____ No _____

By how much? \$ _____.

Was it worth the effort? Yes _____ No _____

Samples

A sample is used to show customers what a particular product is like. Small samples looking like the actual product may be given away to customers, or actual-sized products may be kept by the seller to be shown to customers. Bakers or candy-makers might give away samples of their products, but furniture-makers will keep samples in their shops so that they can display the types of goods they produce.

Samples allow customers to gain first hand experience of the product whether by testing, touching, smelling, inspecting, or using them. Giving away samples is a good method of introducing a new product to consumers, letting them know that the products are available and allowing them to prove for themselves the advantages of using the products.

Producing samples could be expensive, so if you decide to use them as a way of promoting your product or service, be sure that your business will benefit in terms of increased sales, over and above the amount you spend making them.

Do you think giving away samples or showing samples of your products would be a good way of promoting your business?

Yes _____ No _____

Middlemen

Many wholesalers and retailers assist small business people by promoting their products for them. Not all of them do however, so you should first find out if this service is offered. However, you should think carefully about doing business with middlemen just because they will promote your product for you. You should be satisfied that they can sell more of your product than you could on your own.

Devon Kidd makes a line of leather products. Three years ago, he arranged with a chain of retail shops selling craft items to market his products on his behalf. He had agreed to sell to the shops in bulk at discount prices, hoping to take advantage of the fact that the shops were located all over the island, and that they ran an effective advertising programme using billboards and ads in the daily newspaper.

After three years however, Devon was forced to end the arrangement. For some time, he had been concerned that orders for his products were not forthcoming from the shops. He did some research and found that excessive "mark-ups" were being added on his products. Although the products were getting good publicity, they were overpriced and competing products were selling in much larger volumes.

TYPE OF PROMOTION	WOULD IT REACH MY CUSTOMERS?		WILL THE BENEFITS BE MORE THAN THE COST?	
	YES	NO	YES	NO
Leaflets, Posters	_____	_____	_____	_____
Business Cards	_____	_____	_____	_____
Billboards	_____	_____	_____	_____
Display signs	_____	_____	_____	_____
Advertisements	_____	_____	_____	_____
- on radio	_____	_____	_____	_____
- on television	_____	_____	_____	_____
- in newspapers	_____	_____	_____	_____
- in magazines	_____	_____	_____	_____
- at the cinema	_____	_____	_____	_____
Fairs & Exhibitions	_____	_____	_____	_____
Samples	_____	_____	_____	_____
Middlemen	_____	_____	_____	_____
Satisfied customers	_____	_____	_____	_____

Have you made up your mind which promotional activities suit your business best? What have you decided?

8. PRICING WHAT YOU SELL

For the small producer, deciding on the 'correct' price to charge for goods or services is often a difficult task.

In deciding what price to charge for your product or service, you must consider three important things:

- a. What it costs you to produce your product or service
- b. What competitors are charging for similar products or services
- c. Customer demand for your product or service.

Let's talk more about these.

A. PRICING WHAT YOU SELL -COSTS

The first step in setting a price for your product or service is to know what your costs are and then add to these an adequate mark-up so that a profit can be made.

What are your costs?

Your costs are those which go into making and selling your product; growing and selling your crops and rearing your livestock; providing a service; operating your store or stall.

These would include:

PRODUCTION COSTS: those for raw materials, farm inputs or supplies, wages for yourself and the people who work with you, utility costs, rental and transportation costs for buying raw materials or supplies, etc.

These costs include both direct and indirect costs incurred in making the final product.

MARKETING COSTS: those for promotion, packaging and labelling, storage, delivery of goods or finished products, etc.

What production and marketing costs do YOU have in your business?

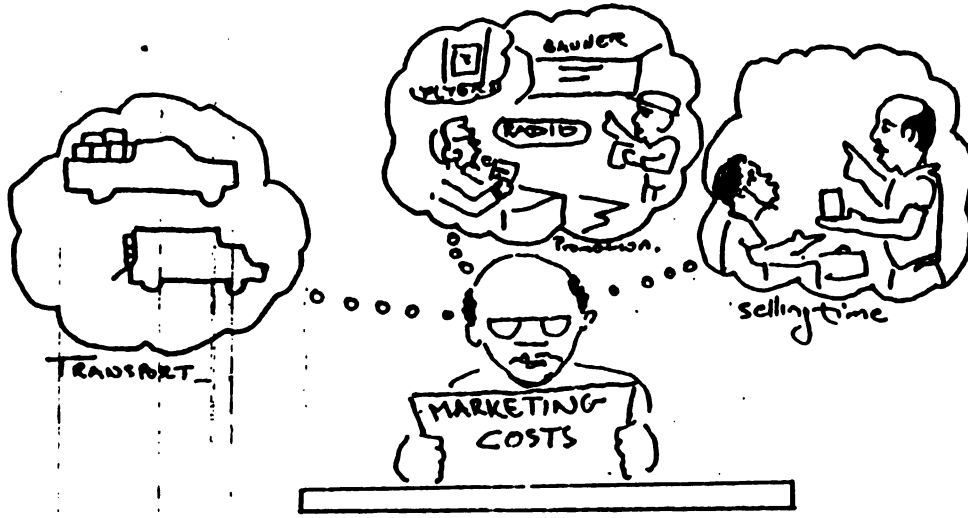
(You should review chapter three on 'Calculating the price of your product' for more detail on the calculation of costs).

If all goes well and you are successful at marketing, then you will sell enough to cover your costs, leaving sufficient profits to keep your business alive and to help it grow.

However, if your costs are more than your income, then you will lose money and the business will fail. So in planning your marketing programme, you must look carefully at your costs, to make sure that they are kept at a level which your business can afford and will allow it to make profits.

MAKING YOUR MARKETING BUDGET

It is always a good idea to make a budget, listing what your business can expect to earn from sales, and the costs which will have to be covered in order to produce the number of items you think you can sell. You should also pay careful attention to your marketing costs, **for these are often underestimated by small business people.** The budget can be for any time period you choose - a month, a quarter, six months, or a year.



Here are some questions to consider when thinking about the marketing costs you should budget for in a particular time period. When considering these, you should remember that every marketing activity costs money and that these costs will have to be added to the price of your product or service. Therefore, you should make sure that the marketing activity you perform will result in increased sales for your business AND increased profits.

What costs will I have for delivering my goods to customers?

\$ _____.

How much stock should I keep on hand to sell?

How much must I spend on space to store this stock? \$ _____.

If I operate a store, how much will I have to pay for:

rental? \$ _____.

utilities? \$ _____.

How much should I spend on packaging and labelling? \$ _____.

How much would each of these kinds of promotion cost if I used them for my business:

Leaflets	\$ _____.	Billboards	\$ _____.
Posters	\$ _____.	Neon signs	\$ _____.
Business cards	\$ _____.	Display signs	\$ _____.
Advertisements: on radio			\$ _____.
on television			\$ _____.
in newspapers			\$ _____.
in magazines			\$ _____.
at the cinema			\$ _____.

By how much would sales increase using any or all of these kinds of promotion? \$ _____.

Therefore, which form(s) of promotion will I use?

Which way of getting my goods to the users would cost less?

selling to them directly	_____
selling through a wholesaler	_____
selling through a retailer	_____
selling in large volumes	_____

What discounts will I give?

to wholesalers _____

to retailers _____

for large volumes _____

By how much would sales increase as a result of giving these discounts? \$ _____.

Will I offer credit to attract customers? Yes _____ No _____

By how much will this increase sales? \$ _____.

Who will be eligible for credit? _____

(Remember that giving credit costs a business, although most people do not realise it. If you must give credit, perhaps because your competitors do, avoid giving it to customers you don't know or to those who don't pay their bills. You should only give it to regular customers and those you know well).

What services will I offer along with my product? _____

How much will this cost? \$ _____.

Will sales increase by doing this? Yes _____ No _____

By how much? \$ _____.

What about the cost of the time you spend marketing? You should ask yourself:

How much time should I spend making existing products more attractive and appealing?

How much time must I spend selling? _____

making deliveries _____ collecting money? _____

What is the total time I will spend on these activities?

You can see then that marketing costs money. It is such an important part of your business however, that it cannot be ignored. You must therefore think about how doing any or all of these various activities will increase sales and profits for your business, look at their costs and make decisions on how you will proceed. Whatever you decide, remember that your marketing costs must be included when you consider what price to charge for your product or service.

B. PRICING WHAT YOU SELL -COMPETITION

Another factor to take into account when thinking about the price to charge, is the price competitors are charging for similar goods and services.

Your product or service may have certain features or advantages which you can justify a higher price than your competitors'. It may be that you are a master craftsman with

skills that few other craftspeople have and so your product is of a very high quality; or it may be that you are a creative shoemaker who produces trendy and well-made shoes.

On the other hand, you may decide to charge a lower price than your competitors' in order to get more people to buy your product or service rather than theirs.

In order to decide which of these strategies you will use, you should consider using the price at which you can get the most profit.

Here are some questions to ask yourself when considering whether or not you should lower your price below that of your competitors:

If I lower my price, will I be able to sell sufficiently more units and make more profit?

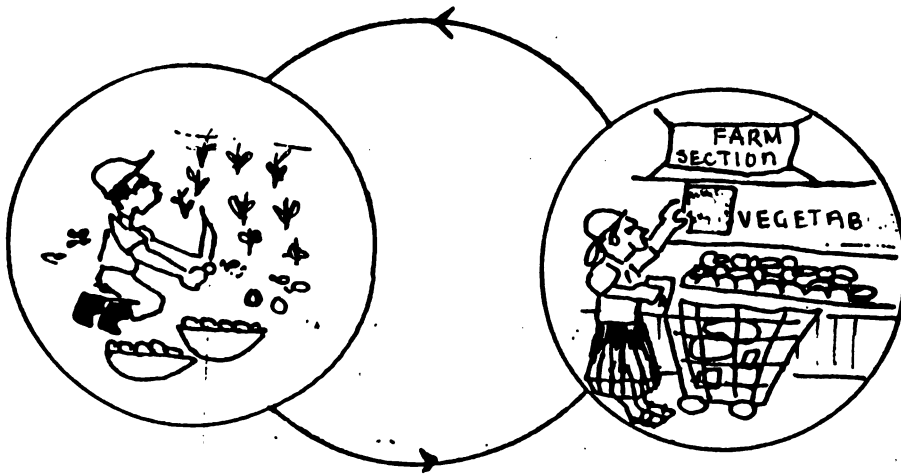
If competitors then lower their prices, what effect will this have on my sales?

If you are thinking about raising your price above your competitors', ask yourself:

Will I be able to sell a sufficient number of units at this higher price, to make more profit for my business?

C. PRICING WHAT YOU SELL -CUSTOMER DEMAND

The price people are prepared to pay for goods or services, usually depends on SUPPLY (the quantities of goods or services which are available) and DEMAND (the quantity of goods or services which people are prepared to buy at a particular price).



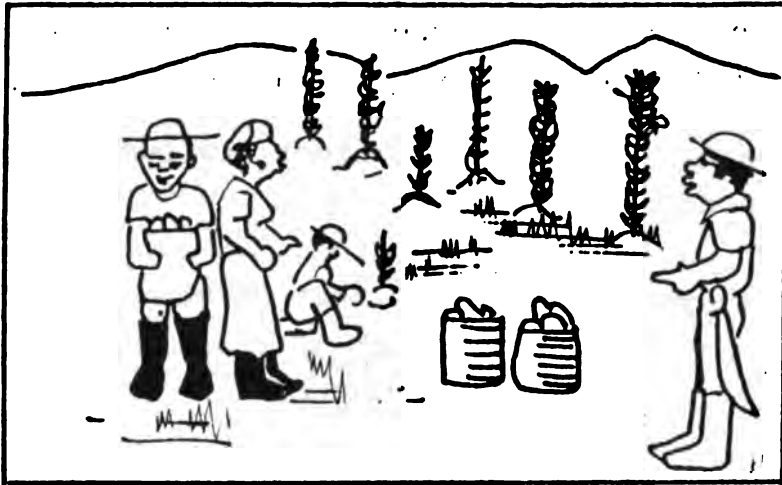
Here's a chart which shows the relationships between price, demand and supply.

	THE PRICE	THE CUSTOMER
When the supply increases	FALLS	BUYS MORE
When supply decreases	RISES	BUYS LESS

	THE PRODUCER	THE CONSUMER
When the price rises	WILL PRODUCE MORE	WILL BUY LESS
When the price falls	WILL PRODUCE LESS	WILL BUY MORE

Most products experience 'gluts' and 'shortages' over time because of this type of relationship.

Can you think of examples of this occurring with a particular product?



Courtney grows sweet corn in St. Patrick and sells his crops to two food processing factories near his farm. His farm business has done well in the three years he has been producing corn. A few months ago, he decided to expand his acreage. Just after planting the increased acreage, the larger of the two factories closed down. At harvest, Courtney was unable to sell any additional sweet corn to the smaller factory and for what he could sell on the market, he got a much lower price.

How did the forces of demand and supply affect courtney's business?

What should Courtney have done? _____

Although the forces of supply and demand have an important say on what price you can reasonably charge for your product or service, you still have to set your price.

In doing that, you have to consider how customers will react to the price you set.

If you raise your price above that of your competitors, your customers may only buy your product if they feel that it has an advantage over your competitors' products which would justify the higher price.

Also, when setting your price, you must think about whether you will sell directly to your customers or whether you will sell through a wholesaler or a retailer. If you sell your goods or crops through a wholesale or retail store, or through a vendor, you must sell them at a price which allows these 'middlemen' to add their mark-up and still keep your price competitive.

You can see then that there is a lot more to pricing your product or service than meets the eye. In pricing, you must be aware of how the forces of supply and demand work in the marketplace. You must also consider what your costs are as well as what prices other producers or sellers are charging for similar products.

A CHECKLIST FOR MAKING A MARKETING PLAN

CHECKLIST

THINGS TO DO	DONE
1. Plan your product	
2. Do a market study	
3. Look at product strategies	
4. Look at distribution strategies	
5. Look at promotion strategies	
6. Look at pricing strategies	
7. Prepare your marketing plan	

We have prepared a checklist because as we saw in the previous chapter there are quite a number of activities to be undertaken under 'Marketing'.

The checklist serves to highlight the essential elements which should be considered when making your marketing plan or marketing strategy. You are encouraged to use the checklist on this page as a guide in preparing YOUR marketing plan.

1. PLAN YOUR PRODUCT

The first part of your marketing plan is your product plan.

Why is product planning important?

- To ensure that the right product is produced for the market.
- To prevent costly mistakes which can result when you try to sell poorly designed products.
- To give your business an opportunity to earn more money from selling an improved product or a new product which you want to sell along with existing products.
- To give your business an 'edge' over your competitors, as new products are developed keeping in mind what buyers want. Also the existing products you now make can be refined to keep up with changes in trends, fashion, etc.
- To ensure that you keep up-to-date with changes in technology and changes in fashion.
- To minimise risks by having a mixture of high risks and low risks products or "money makers" and "loss leaders"

Since most small businesses serve a limited area, it is important to consider that the number of customers it serves can change over time because of people moving in and out of the area due to changes in the size of families, the ages of family members, their interests, needs and incomes.

Products which are carefully planned to suit what consumers want to buy, are by far better sellers than those which are not. It is therefore worth the time to plan your product carefully, for it is no use trying to market a product which is hard to sell, when with less effort, you could be marketing what people want to buy. As we saw in chapter two on "Organizing Production", the most

important consideration in deciding what to produce is the question: CAN I SELL WHAT I PRODUCE?

When should you plan your product?

You should plan your product when you want to:

- a. Start a new business.
- b. Improve the sales of a product you now sell.
- c. Start selling a new product because demand for your existing one is low and your business is in danger of failure.

How can you plan your product?

There are four steps to planning your product: These are:

- I. Searching for product ideas
- II. Screening ideas
- III. Making the idea a reality
- IV. Making samples

Let us start with the first step.

Step I - Searching for Product Ideas

If you want to start a business and are trying to decide what to produce, you should look at the products now being offered on the market, paying particular attention to:

- QUALITY
- DESIGNS
- PRICES

This should give you some ideas about a product you can make and sell. If you are already in business, you may have some ideas about a new product which you could sell along with existing products. Or you might be thinking about changes you could make to a product you now make, which is not selling well.

On the other hand, you may want to start a new business, or want to make improvements to your product, but you have not come up with an idea. One good way to search for new ideas is to consider the following questions:

- What skills do I have which could be put to good use?
- What skills could I learn which could be put to good use?
- What resources are available?
- What products are in demand, but short in supply
- Which I could produce or sell?

After finding out what customers want and deciding what you will produce, you must regularly look at your stocks to see what unprofitable items can be dropped and new products added. After you have been in business for some time, you should check your sales record to see which products are not selling.

Step II - Screening Ideas

After deciding on possible products, you should ask yourself the following questions about each of your product ideas.

1. Do I know enough about the product? Do I have the skills to make it?
2. How many and what kinds of people are likely to buy my product? Will I have sufficient market for it?
3. Will I be able to sell the product at a price which will allow my business to make a reasonable profit?

4. Are customers satisfied with the product now being produced, in terms of price, quality, etc?
5. Will I be able to find the money which is needed to start producing it?
6. Will I have a good, continuous source of supply of raw materials and will their prices be reasonable?
7. What production problems am I likely to have?
8. Will the added business interfere with the established part of my business?
9. How many people are already producing the product? Will I be able to compete with those people making the product?

You will need to spend some time and money to go out into the field, finding out about possible buyers, suppliers, competitors, prices and sources of financing, in order to answer these questions, before you proceed to the next step.

Step III - Making the Idea a Reality

If the idea is good, then consider the following guidelines when planning the product:

- think about the raw materials you will use
- think about the quality and performance
- think about colours and design
- think about the uses of your product
- think about the number of different versions, varieties or styles you will offer
- think about the sizes you will offer
- think about costs

Think about the raw materials you will use

When selecting raw materials, you should think about:

- How safe and suitable they are to work with
- How they will affect the quality of the product and thus its sales appeal.

While some raw materials are suitable to make the product, they may not be the best ones to use. For example, some woods are not the ideal types for making furniture or even some types of craft. The types of chemicals used in producing food items is extremely important. Materials should also be strong enough to take 'wear and tear' and also be fairly easy to work with.

Remember that the quality of the raw materials you use to make your product affects the quality of the finished item, so be careful that you do not spoil the sales appeal of your product by using inferior raw materials.

Think about quality and performance

Your product should be of good quality and give good service. This does not mean that you should make products of higher quality than customers want, or use unnecessary or expensive packaging. For instance, if your product will be thrown away after a short period of use, it would make no sense to try to make it last for a long time, or to use expensive packaging on it.

If there is an established standard for your product you should ensure that everything is done to maintain that standard during production. To ensure good quality, quality control should begin from the moment you select the raw materials, continue when you use your skills to make the product until the item is finished, packaged, labelled and delivered for sale.



In farming, this involves the selection of the best seeds or livestock to proper fertilizing or preventative medicines to proper handling and harvesting and post-harvesting techniques. It is also important to note that in agriculture the quality of the goods begin to deteriorate once the crop is harvested (or the livestock killed). **Quality cannot be improved, only maintained.**

The quality should also be consistent. This means that each item must be made with the same standard of quality. Every time consumers buy your product, they should know what to expect from it. Your product must be reliable.

Think about colours and design

For certain products, the colour and design may be the most important considerations when consumers buy. This is true for garments, for example. Choosing the right colour or combination of colours is therefore important for two reasons.

1. It must make the product attractive for the buyer.
2. It must help the product to function well.

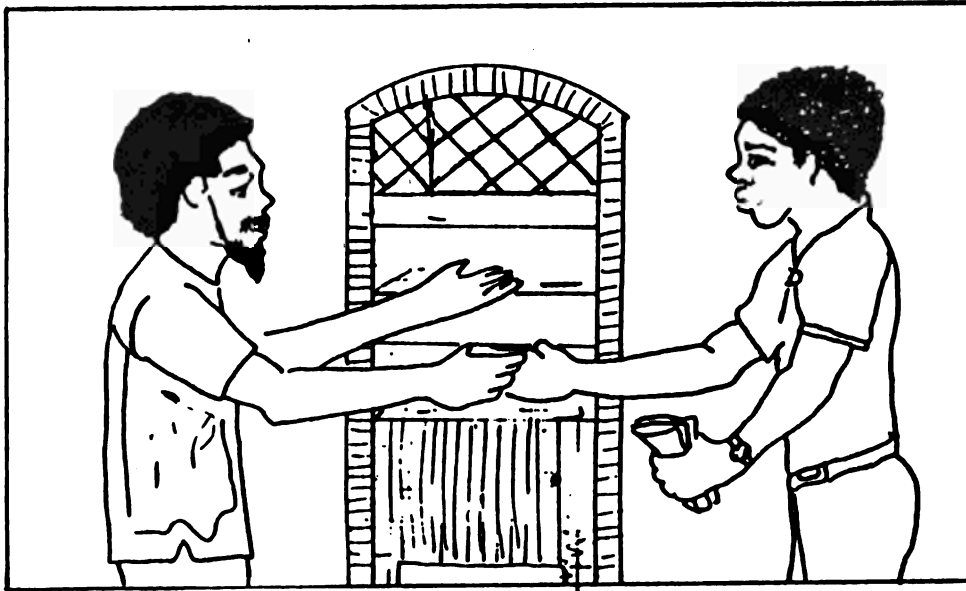
For example, clothing for young boys are usually made using dark-coloured fabrics, since these hide dirt. Parents then won't have to change their boy's clothing so often in the course of a day.

Using colours that are in fashion also attracts buyers to a product. However, there are some colours which should not be used with certain products, so you should try to avoid using colours on your product which would look strange. Your colours should also blend in with your design.

The design of your product should be simple and practical. It should help the product to function well and also look attractive. Creating good designs is not always easy, so if you are not very good at designing, you should try to get someone who is good at it to help you. Even though this may cost you more money, it will pay off in the long run.

Think about the uses of your product

Most products perform one function, but it is better when you can design your product to serve more than one purpose. ▽



Lennie Morgan makes wicker furniture, and makes it well. Most of his friends who work in wicker make the usual type of furniture and craft items - chairs, tables, baskets, and so on. Lennie decided, however, that he would make something which was unique. So he set about looking through magazines which had pictures showing furniture suitable for apartments and townhouses. There are quite a number of townhouse and apartment dwellers who, he imagined, would need compact but attractive furniture for their homes. After hours of browsing through magazines, Lennie designed a unit which he figured could be put in a bathroom or a bedroom. It has three sets of shelves on which could be placed books, towels, or "nicksnacks" and at the bottom it has a compartment which can be used for storage.

The first day he put the unit on the sidewalk where he normally made and sold his work, the owner of a store stopped and bought the one he had made and ordered five more! Since then Lennie has worked hard at planning the designs of his wicker furniture so that not only are they attractive, but functional as well.

Think about the number of different versions, varieties or styles you will offer

You should try to limit the number of different versions, varieties or styles of your product. This will help to avoid problems when customers want to make re-orders. It is also costly to stock too many differing products, so plan to offer only a few different kinds.

Often, sales are lost because a producer cannot quickly supply the exact version a buyer wants. This is especially true for many craft producers who create slightly different versions of the same product, and, as a result, someone who tries to buy two identical items from the same producer has a hard time finding them.

When your product has features that competing products do not have, your business has an advantage. Your product is easier to sell when it is not identical to others. You should also be aware that if your product is unique and is popular with consumers, it will more than likely be copied. So it is good when you can keep changing your product to stay ahead of the competition, but still not produce too many different versions.

Think about the size

Sometimes it is hard to decide on the number of sizes to offer. Although it is simple to sell one size, some products must be marketed in different sizes. In these cases, it is best to offer the most popular or common sizes in order to cut down on costs. It must not be forgotten however, that often small businesses thrive by offering products in sizes or quantities that are not produced by large businesses. In this way, many small businesses capture markets which are not well served by large businesses.

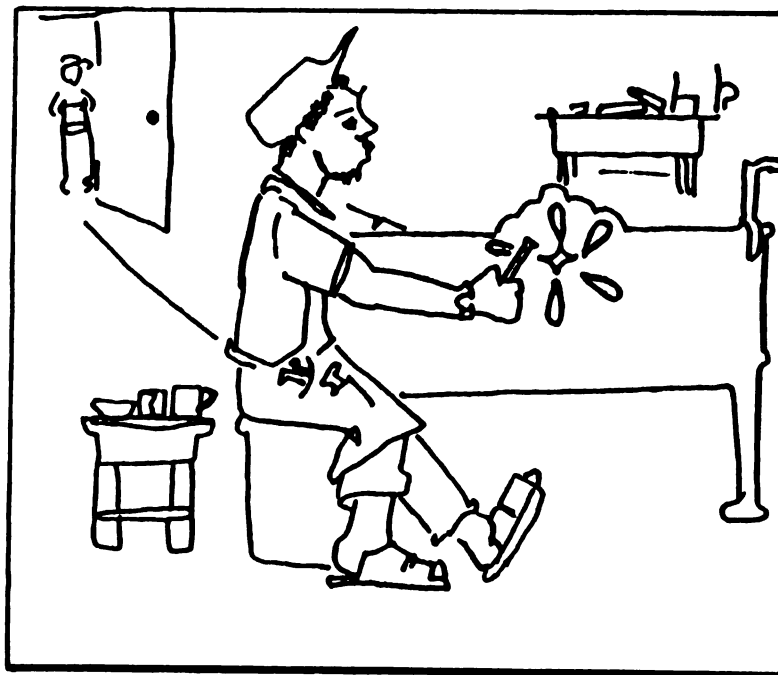
Think about costs!

Every feature a product has, costs money. To lower costs, try to keep the number of features you add to your product to a minimum. Ask yourself the question:

Will it cost me more to produce this feature than a customer is willing to pay for it?

Customers may want to see improvements made to your product but may not be willing to pay the extra price for them. So keep your product as simple as you can, as this will also make it easier for you to produce and sell it.

When Marvin Brown was planning the designs of the bead-headboards he would manufacture for Leo's Furniture Store, he considered whether he should make the headboard with elaborate carvings all over, or with a plain finish and a simple but attractive carved design in the middle of it.



He knows that the customers who buy furniture from Mr. Hinds' store don't have very much money to spend. If he doesn't keep the prices of the headboards reasonable, they might not be sold and he might not get many more orders from the store. He therefore decided to make the headboards simple, but attractive, so that the selling price can remain at a level he knows customers will want to pay.

Think about the gestation period or how long it takes for the product to be made because this affects how much stock you will have on hand. In farming, you may want to:

- Stagger the production (not planting all of a crop or raising all of the livestock at the same time) so that all the produce does not require marketing at the same time (this also affects quality).

Step IV - Making Samples

Once you have decided on the different features that your product will have, you should make a set of samples which can be shown to buyers, in order to get their responses.

Developing samples takes time and money, but you should never be afraid to drop the product at this stage if it should prove to be too costly or too difficult to make.

When sampling, ask the following questions:

What do present or possible customers say they like about my produce?

What do they say they don't like about it?

What suggestions have they made about it?

2. DO A MARKET STUDY

Identifying the market

As we saw in the previous chapter a market study involves studying the demand for, and the supply of your product and is the second step in your marketing plan once you have clearly identified what you are going to produce.

You must investigate the market, that is, you must get as much information as possible on the product, the quantities demanded, the customers, the supply and your competitors.

The next step is to test the market to determine the accuracy of the information that you have collected.

After doing the market study and testing the product, you should find out whether or not it is feasible to make it. You should do a Feasibility Study which will help you to decide if making and selling the product is likely to be a successful venture. If the venture turns out to be feasible, then you must identify where the money will come from to begin production. (For information on how to do a Feasibility Study refer to the manual "Starting and Financing a Small Business in Trinidad and Tobago: A Guide").

If you plan to go ahead and market your product there are three important things which must be done:

- You must identify the customers to whom you will sell, that is, you must 'target' the 'segment' of the market in which you will operate.

- You must determine the volume of your product which you will sell.
- You must decide what costs you will have to meet and how much profit you will aim for.



Identify customers to whom you will sell

Before you can begin to plan your market strategy, you must be clear about who are the people who will buy your product, so that you can put all your efforts into satisfying those customers. This will help you to avoid spending a lot of time selling to people who are not interested in buying your product, or selling to those who will not buy enough for it to be worth your while.

Marcel Grant thought that he could sell more of his clay pots in Maraval where many "well off" people live. So he set up

a display on a street corner in the residential area and spent two weeks there trying to sell his pots without success. After that, he decided that his 'target market' was clearly not the people who lived in that area at all, so he decided to go back to San Juan where he had always sold his pots. There he would make a renewed effort to find ways in which he could increase his sales to customers there.

Do you know who are the people who make up your 'target market'?

Yes _____

No _____

Who are they?

Make a sales forecast

Deciding how much of your product you will sell over a particular period, (called making a sales forecast) is an essential part of making a marketing plan. Because sales of your product represents perhaps the only source of income to your business, making this prediction is vital if your business is to operate smoothly.

The sales forecast allows you to think about:

- a. How much of your product you can expect customers to buy from you.

- b. How you will plan and organize your production to be able to produce the number of items you expect to sell.
- c. How you will budget for the income you expect from sales and the expenses your business will have to meet in order to produce and sell your product. The sales forecast also helps you to plan for the flow of cash in your business, so you can meet your expenses when they become due.

Decide how much profit to aim for

In making your marketing plan, another important task is deciding what level of profits you will aim for after costs have been covered. When looking at the ways in which you can market your product, the most important consideration should be, which way will result in your business making the greatest amount of profits. After all, profits keep your business alive and help it to grow.

Your next aim, when preparing your marketing plans, is to consider the ways in which you can influence your customers to buy more of your product than that of your competitors. This will involve looking at:

- a. Product strategies - what you can do with your product to influence more people to buy it.
- b. Distribution strategies - how you can make sure that your product is easily obtained by consumers.
- c. Promotion strategies - how you can promote your product to achieve maximum sales and minimum cost.
- d. Pricing strategies - how you can price your product to get the most profit for your business.

Let us look first at how using different product strategies can help you to gain an 'edge' over your competitors.

3. LOOK AT PRODUCT STRATEGIES

A product strategy is the method or combination of activities that you do to influence more people to buy your stock of products. If your existing products are not selling well, or your market study has shown that the product you plan to sell will not do well on the market, consider doing one of the following:

- a. drop the product(s) not selling well and develop new ones.
- b. alter your existing product(s) by either lowering or raising quality.
- c. add new products to your line or variations of the same product.

a. Dropping Products

Products which are unprofitable or outdated should be dropped from your line and new products should take their place.

If you already have a product on the market, you should be able to foresee the time when this decision should be made, as this could mean the survival or death of your business.

On the following page is an illustration of the product life cycle. It shows the different stages which a product passes through during its life span. Look carefully at this illustration as an understanding of the product life cycle will help you to make decisions on whether or not you should drop a product which is not selling well.

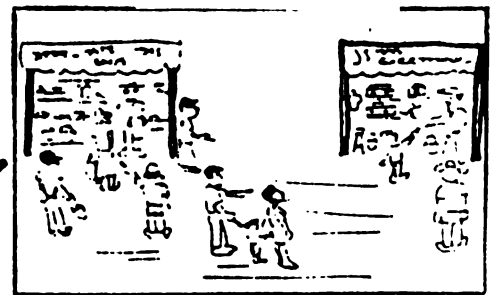
1. Pioneering stage



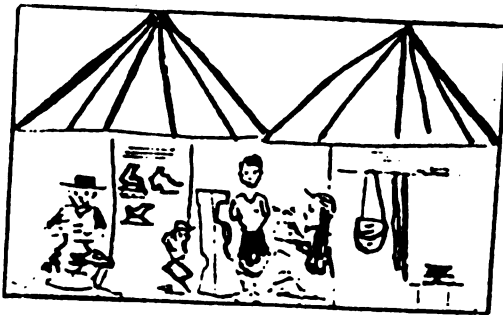
2. Growth stage



3. Maturity stage



4. Decline stage



5. Abandonment stage



- i. Pioneering stage This is when a product is new on the market and people are trying it out for the first time.
- ii. Growth stage This is when the market accepts a product and it is selling fast. If profits are attractive, competitors will join the race and, after a time the price will begin to fall because of the increased supply on the market.
- iii. Maturity stage As prices fall, profits decline and some competitors begin to drop out of the race. Competition is usually stiff during this period.
- iv. Decline stage This is when the product begins to get out-dated and sales start to slow down. The normal practice is to cut down on costs at the stage, in order for the business to stay alive.
- v. Abandonment stage At this stage the product is dropped because it is no longer a good seller and it has become unprofitable to produce.

Sometimes a new technology or innovation is introduced which makes the product take on a different form and it is once more attractive, and the cycle is repeated.

What product do you make for sale?

What stage in the product life cycle do you think it has reached?

What stage in the cycle would you say that the following products have reached in Trinidad and Tobago? Tick one.

	<u>Pioneering</u>	<u>Growth</u>	<u>Maturity</u>	<u>Decline</u>	<u>Abandonment</u>
Hoola-Hoops	_____	_____	_____	_____	_____
Bar-b-Que Chicken	_____	_____	_____	_____	_____
Clay pipes	_____	_____	_____	_____	_____
Jams & Jellies	_____	_____	_____	_____	_____
Ceramics	_____	_____	_____	_____	_____
Bottled soft drinks	_____	_____	_____	_____	_____
Wicker furniture	_____	_____	_____	_____	_____

How do you think knowing about the product life cycle can help you to make decisions about your product?

b. Altering products

You should try to keep up with changes in trends and fashions, so that the product you offer does not lose its appeal because it is 'behind the times'.

Also, if sales are declining and indications are that customers do not like a particular feature of your product, it may be worth making the changes which customers would like to see. If this will mean increased costs, it should only be done if you are sure that you will be able to sell a sufficient number of units at the higher price.

c. Adding products

Adding a new product to your line can often help to boost sales in your business, especially if the product will be a good seller.

What are some of the advantages of adding a new product to your line? Here are a few possibilities:

- you are able to offer a wider selection for customers to buy
- it helps you to use up idle tools and machines
- it helps you to use up idle time
- it allows you to use up waste material which would otherwise be thrown away.

Can you think of other advantages?

What product strategies could you use to increase sales of your products?

4. LOOK AT DISTRIBUTION STRATEGIES

A distribution strategy is the method of ensuring that your product is easily obtained by consumers. In thinking about the most efficient ways to get your products to the users, you must consider:

1. Whether you will sell to consumers directly, sell through a wholesaler and/or retailer or do a combination of these.
2. Which markets you will sell in - national, regional, local, tourist, export, or a combination of these.
3. Whether or not you will keep stock of products and if you will, how much stocks should be on hand at any one time.

"Market them myself or sell through middlemen?"

This is the question to ask yourself. One simple method, in order to make the decision, is to make a chart so you could look at the advantages and disadvantages to each choice.

ADVANTAGES

DISADVANTAGES

Market to consumers by
yourself

You will be able
to put on a
higher markup,
so profits could
be greater.

You will have
control over
pricing and
sales.

You may have
little selling
experience.

You may not be
able to reach
the total
market.

You don't have
the time.

You don't have
the resources.

Market through
middlemen

They have more
local and
overseas contacts.

They have more
experience in
marketing than
you do.

They have the
resources to
promote and
export

They are located
all over the
island.

They buy cheaply
and sometimes
put on high
markups.

You will have
less control
over pricing
and sales.

In this particular example, there were more disadvantages than advantages to marketing for yourself. The best way to get the products to consumers would be to sell through middlemen in this instance. How will you market your products?

Another consideration is which market to sell in.

You may decide to aim for the national and tourist markets as these may have the greatest potential. There are sometimes already a network of stores which could carry some products.

The next consideration is, 'Do you need to keep stocks on hand?'

Keeping stocks on hand would allow for quick delivery when orders come in. You must work out what minimum levels to keep of each product and if some proved to be poor sellers, cut down on production of these items.

Have you considered what strategies you could use to get more of your products to consumers? What have you considered?

5. LOOK AT PROMOTION STRATEGIES

A promotion strategy is the method of exposing your product to as many persons as possible to achieve maximum sales. Promotion strategies are intended to encourage customers to purchase more of your product. Advertising, merchandising and sales promotions, are part of any promotion strategy.

ADVERTISING

Advertising is used to inform the public of your products and the uses they can make of these products, while convincing customers to buy them at your store or stall.

- The amount of money you spend on advertising should be recovered from increased sales. You can use a percentage of projected sales or a fixed amount for each extra unit to be sold.
- Some of the types of advertising media available would be newspapers, radio, television, telephone yellow pages, out-door signs, store signs, and hand carried leaflets.
- The message should describe your products so that the customer will understand the benefits of buying from you. It should also be aimed at satisfying customers' needs.
- It is important to measure the short term and long term results of advertising by comparing sales increases, and the resulting profit, compared to the money spent on the advertising.

For example,

Alana Owen needs to encourage her customers who normally buy coconut water to buy fresh fruit. She decides to put up two signs beside her stall. A large sign that she will keep permanently beside her stall costs her \$100.00. It reads:

"Keep Healthy! Stay Trim!
Eat Fresh Fruit! Drink Coconut Water!"

The second sign costs her \$40.00 and she will display it for one week only. It reads:

"BANANAS!
Regularly 35c each. This week only ...25c with
purchase of 1 water coconut!"

She sells 200 bananas in this way during the week and makes \$30.00 profit on the extra sales of bananas. Since she spent \$40.00 on the sign, the short term result was a loss of \$10.00. However, since her sales of bananas keeps increasing she concludes that the long term results of the \$140.00 will be bigger profits and that the money spent on signs was indeed a good investment.

Long term results of advertising are more difficult to measure. In Alana's case it changed the buying habits of her customers and once the increased profit from bananas exceeded the \$140.00 spent, it was successful.

Another successful long term effect advertising can have is through the association of a product with your business, so that when customers need these products they think of your business as the place to purchase them.

MERCHANDISING

Merchandising is the promotional effort made for a product, especially at the point of purchase. Merchandising includes:

- Window displays
- Store banners
- Packaging and labelling the product
- Product demonstration
- Samples
- Selling efforts by store employees including good product knowledge and by being polite and helpful to customers.

SALES PROMOTIONS

Sales promotions are used to make advertising and merchandising more effective. It gives your store a specific event to advertise and attracts customers to the store so that the merchandising effort can be effective. It usually consists of one or more of the following:

- Special prices
- Anniversary of going into business
- Store remodelling or expansion
- Special purchases
- Fashion shows (for clothing retailers)
- Discontinuing one or more products

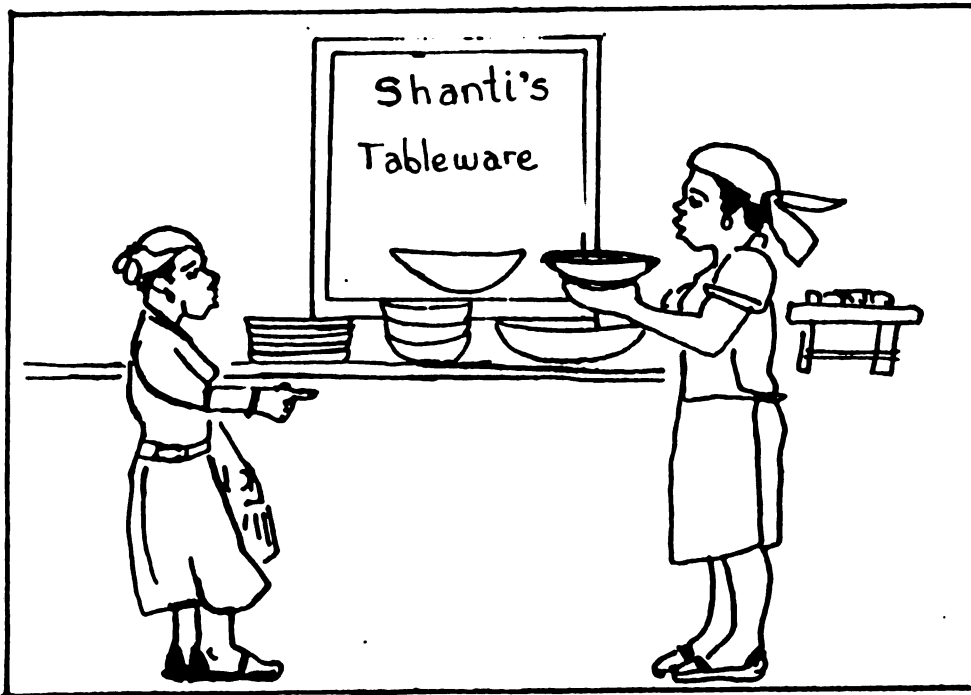


You should determine whether the sales promotions are really effective or are reducing profits. sometimes their costs may exceed the benefits.

Carlton Brown has an opportunity to buy an orange-flavoured soft drink at 90c per bottle if he buys 10 cases at one time. He normally pays \$1.05 per bottle. Because of this special purchase price, he lowers his selling price from \$1.60 to \$1.30 per bottle. His sales increased from 1 case per day to 2 cases per day. His unit contribution therefore increased from $24 \times 55c = \$13.20$, to $48 \times 40c = \$19.20$. He decides that it was a good promotion.

If you plan to market a new product or want to increase the sales of existing ones, it is a good idea to use one or more of the many promotional activities discussed in the exercise "Promoting what you sell".

Remember that the promotional activities you use must reach your 'audience' - the people who will buy your products. Also, you should be sure that sales will increase as a result of the activities and that your net income or profit will also increase.



When she was considering the promotional strategies which could be used to launch her new line of products, Cecile looked at the chart in the exercise on "Promoting what you sell."

This is how the chart looked when she considered possibilities for promoting her product line:

TYPE OF PROMOTION	WOULD IT REACH MY CUSTOMERS?		WILL THE BENEFITS BE MORE THAN THE COST?	
	YES	NO	YES	NO
Leaflets, Posters	_____	_____	_____	_____
Business Cards	_____	_____	_____	_____
Billboards	_____	_____	_____	_____
Display signs	_____	_____	_____	_____
Advertisements	_____	_____	_____	_____
- on radio	_____	_____	_____	_____
- on television	_____	_____	_____	_____
- in newspapers	_____	_____	_____	_____
- in magazines	_____	_____	_____	_____
- at the cinema	_____	_____	_____	_____
Fairs & Exhibitions	_____	_____	_____	_____
Samples	_____	_____	_____	_____
Middlemen	_____	_____	_____	_____
Satisfied customers	_____	_____	_____	_____

Although there were several types of promotion which could be used to reach her customers, Cecile decided that there were only four for which the benefits to the business could outweigh their costs. These were using posters, attending fairs and exhibitions, promotion by middlemen and recommendations from satisfied customers.

The craft shop at the airport had made an order for several products in the line, so Cecile checked with a printery and found that the cost for making colour posters was quite reasonable. The posters would show her complete new line, attractively displayed. She figured that sales of her products in the craft shop could easily double if she put up the posters in key areas of the airport. She also asked the store manager to display her line of products in a special area so that when customers came into the shop they would see the display and he agreed.

What promotional strategies will you use to increase sales of your product?

6. LOOK AT PRICING STRATEGIES

A pricing strategy is the selection of a price or range of prices that will give you the greatest profit over the longest period of time.

Establishing prices involves three primary considerations.

1. Minimum Prices

Selling price should cover costs of production and marketing and also include some profit.

Under normal conditions, costs can be considered a minimum price. Only when closing out a product line or reducing supplies of outdated stock should you sell at or below cost, and then only if it is necessary. Pricing below cost should not be a continuous

policy; you cannot make a profit continually selling at or below your cost.

2. Maximum Prices

Your competition will influence how far above cost you can sell. If you price your product higher than your competitors, you will lose sales, and if you price your product lower, you may decrease profits even with the additional sales you may get.

3. Customer Reaction (Demand)

You must always be looking for customer reaction to your prices. Will they recognize advantages such as free delivery, or better credit terms, and purchase your products even when priced higher than others? Will they think your product inferior if you price it lower than others?

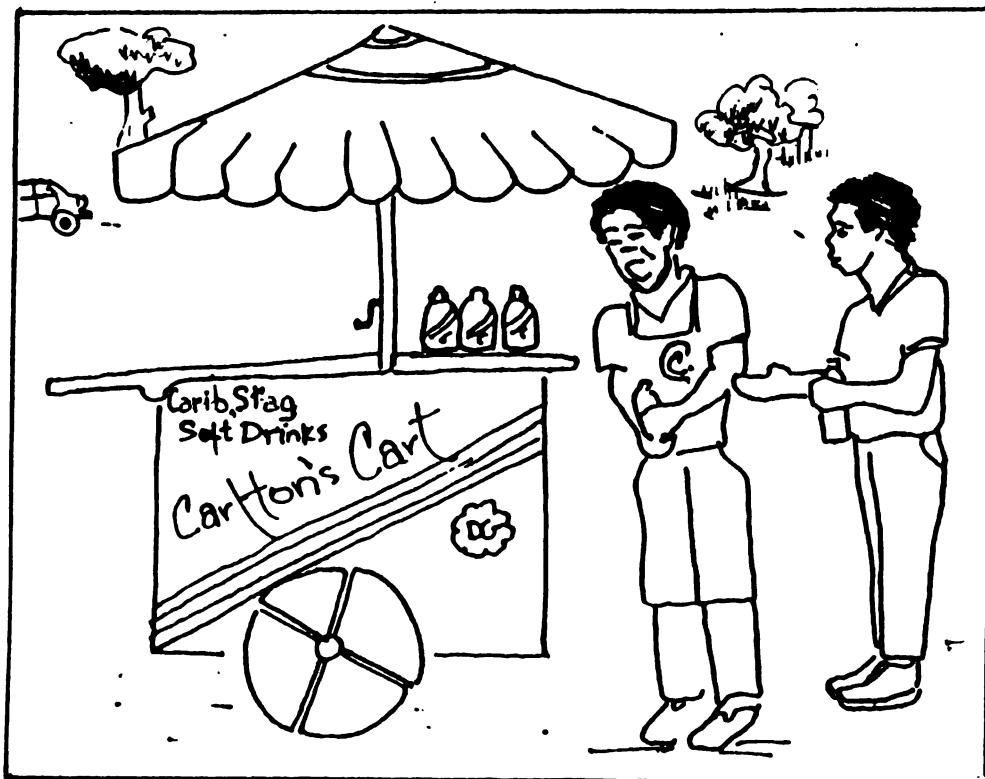
PRICING STRATEGIES -SETTING MARGINS

A margin is an amount added to your cost price and is largely determined by what customers are willing to pay. To determine margins, you should consider the following:

- a. The first step is to establish your product costs. This is the purchase price of your products, including transportation costs to get them to your place of business. These can be called your direct costs.
- b. Next we consider your indirect costs or overheads. These are the costs of doing business which include rent, utilities, supplies, labour, depreciation of assets, and so on. Your business has these costs regardless of the volume of sales. The difference between direct cost and

selling price is the margin, and can be called Unit Contribution. A break even point (no loss or no profit) can be established by dividing indirect costs by unit contribution for a particular time period.

You must also remember that prices to wholesalers and retailers should be low enough to encourage them to buy your line of products. You must consider that your products must be able to compete with similar products even after the wholesalers and retailers add their markup.



Carlton Brown buys beer and soft drinks which he re-sells from a mobile cart. The beer he buys costs him \$2.00 per bottle, including the delivery charge.

Direct cost \$2.00 per bottle.

He sells a bottle of beer for \$2.40, so his margin, or unit contribution, is the selling price less the direct cost or
 $\$2.40 - \$2.00 = 40c$.

Margin 40c per bottle.

Carlton pays himself \$100.00 per week; he pays no rent or utilities and he has no assets to depreciate, so his labour is his only indirect cost.

Indirect cost = \$100.00 per week.

If he sells 250 bottles of beer in a week, his unit contribution will equal his indirect cost and he will reach the break even point, that is, no profit or no loss. Any further sales of beer or similarly priced items will produce a profit for him.

$$250 \times 40c = \$100.00$$

The greater the margin, the smaller the volume of sales needed to get to the break even point and the quicker you become 'profitable'. Here is an illustration:

1 Selling 250 bottles at \$2.40 (unit contribution 40c)

Indirect Costs \$100.00

$$250 \times 40c = \$100.00$$

Break even point

(no loss, no profit)

Higher volume

2. Selling 300 bottles at \$2.40 (unit contribution 40c)

Indirect Costs \$100.00

$$300 \times 40c = \$120.00$$

\$20.00 profit

Lower volume

3. Selling 200 bottles at \$2.40 (unit contribution 40c)

Indirect Costs \$100.00

$$200 \times 40c = \$80.00 \quad \$20.00 \text{ loss}$$

Higher price

4. Selling 250 bottles at \$2.50 (unit contribution 50c)

Indirect Costs \$100.00

$$250 \times 50c = \$125.00 \quad \$25.00 \text{ profit}$$

PRICING STRATEGIES -PRICE VARIATIONS

Let's see what will happen to Carlton's business if sales lag and he decides to reduce the price of his beer by 20c. His unit contribution is therefore reduced to 20c and he will have to increase his sales to 500 bottles of beer to reach the break even point before he begins to make any profit.

Lower price

1. Selling 250 bottles at \$2.20 (unit contribution 20c)

Indirect Costs \$100.00

$$250 \times 20c = \$50.00 \quad \$50.00 \text{ loss}$$

2. Selling 500 bottles at \$2.20 (unit contribution 20c)

Indirect Costs \$100.00

$$500 \times 20c = \$100.00 \quad \text{Break even point}$$

(no loss, no profit)

PRICING STRATEGIES- GOVERNMENT CONTROLLED PRICES

In a situation in which government controls prices of some of our products we cannot change them. If the controlling price does not bring the revenue we need, we will have to raise the price on some of our other related products to compensate.

WHAT PRICING STRATEGY WOULD BE BEST FOR YOUR BUSINESS?

Have you thought about strategies you can use when pricing your products, to gain an 'edge' over your competitors?

WHAT HAVE YOU CONSIDERED?

7. PREPARE YOUR MARKETING PLAN

The quantity of a product which can be sold depends on how well a seller can combine the things which go together to make for successful marketing of the product.

Customers buy not only because the price of a product is favourable, but they also take into consideration the features which the product might have, the ease with which they can obtain it, and whether or not it has been promoted. So in order to get customers to buy more of your product, you must first make sure that you are offering the 'right' kind of product, selling it at the 'right' price, promoting and getting it to the customers in the most effective way.

Having considered product, distribution, promotion and pricing strategies, you can now make a plan for marketing your products.

Here's how Cecile's marketing plan looked.

"In marketing my new line of wooden plates and bowls, I will be aiming at those consumers who want wooden tableware which are long-lasting, yet attractive in design. I will begin to market these through a number of outlets in Port of Spain, San Fernando and Arima. My products will be bought by both locals and visitors to the island and will be priced moderately and in line with what competitors are charging. Special discount prices will be available if customers buy in bulk. Colour posters showing the complete line will be placed at points where large numbers of people gather, such as at the two airports. In addition, I will display my products at craft fairs and other exhibitions in order to promote the line. I will also rely on consumers who appreciate the high quality and reasonable prices of my products to spread the word".

WHAT DID YOU THINK OF CECILE'S MARKETING PLAN?





