

## **ENTREPRENEURSHIP EDUCATION S.2 TERM ONE (CONTINUATION) AND TERM TWO WORK.**

**TOPIC:** BUSINESS STARTUP PROCESS

**LESSON ONE:** LEGAL FORMS OF BUSINESS OWNERSHIP

SOLE PROPRIETORSHIP

### **LEARNING OUTCOMES**

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

- i) explain the meaning of sole proprietorship.
  
- ii) identify sole proprietors in your community.
  
- iii) explain the advantages and disadvantages of sole proprietors.

### **Introduction**

In this lesson we are going to learn the business start-up process or simply how to start up a business. We shall start with the sub-topic the Legal Forms of Business Ownership. There are four legal forms of business ownership from which you can choose. These are: sole proprietorship, partnership, liability companies and cooperatives. Therefore, you as an entrepreneur should be able to choose the most suitable form for your business. Now let's look at them one by one starting with Sole proprietorship.

### **Sole Proprietorship**

Did you know that there are people who do business alone? Have you ever seen a person doing a business alone? If the answer is yes, then that type of business is called Sole Proprietorship, and the person is called a sole trader or a sole proprietor. **Sole Proprietorship/sole trade** is a business that is started and owned by one person. He/she starts a business, contributes the capital needed, operates the business, enjoys all the profits and bears all losses alone. A sole proprietor may be assisted by family members or may hire some workers to assist in the day to day business activities.

### **Advantages of Sole Proprietorship Business**

The following are the benefits enjoyed by a business owned by one person (sole proprietorship):

- It is easy to start and dissolve the business because there are no legal formalities involved.
- Decision making and implementation is easy because you can take on spot decisions to exploit opportunities from time to time. This is because it is not necessary to call any meeting or go through formalities of major approvals.
- A sole trader is his/her own boss. When you own a business, then you are a boss of yourself. You are not answerable to any other person. You have full control over your business as there is no outside interference. This gives you a higher degree of independence.
- He enjoys the profits alone and bears all the losses. This provides the sole proprietor with a high degree of incentive since he/she knows that his/her wisdom and hard work can benefit him/her and his/her mistakes can ruin him/her.
- A sole proprietor enjoys top secrecy. He is the only person who knows his/her business secrets and has a better chance to preserve them than any other form of business ownership. The owner is not required to publish the accounts of the business like in companies.
- The sole trader mainly employs family members. This creates employment opportunities for family members.

### **Disadvantages of Sole Proprietorship Business**

Having looked at the advantages of a sole trader, there are some disadvantages which include the following:

- In an event of making losses, an entrepreneur suffers all losses alone
- The capital resources of a sole proprietor are limited. This may make the expansion of the business difficult if not impossible.
- The entrepreneur may be over worked since he/she is alone in business so may be the purchasing manager, sales manager, and accountant among others, and may work for longer hours hence being overworked which affect the quality of life.
- Unlimited liability i.e. in case of business debts, his/her private assets can be taken away to pay them. There is no distinction between business and personal property.
- Lack of continuity for the business; the life of the business depends upon the life of the owner, usually when the owner dies, the business comes to an end or collapses.
- There is limited or no specialization since the sole proprietor/trader may do all the work by him/herself alone yet a sole proprietor may not be good in all business aspects due to personal limitations.

### **Conclusion**

We have looked at the meaning of sole proprietorship, the advantages and disadvantages of such businesses. Now I want us to do the following activity.

#### **ACTIVITY**

1. Identify any three sole proprietors/sole traders in your community.
2. What are the characteristics of sole proprietors in your community?

3. What challenges do sole trade businesses identified above face?
4. Suggest ways how the sole traders in your community can overcome the challenges they face.

## **LESSON TWO: PARTNERSHIP LEARNING OUTCOMES**

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

- i) explain the meaning of Partnership business.
- ii) explain the advantages and disadvantages of Partnership businesses.

### **Introduction**

In this lesson we are going to look at the second legal form of business ownership focussing on partnership. When you want to do business, you may choose to own it alone. This is what is known as sole proprietorship. You may decide to contribute capital and co own the business with others.

The legal forms of businesses that are co-owned include partnerships, liability companies, and cooperatives.

### **Partnership**

The law defines partnership as a relationship that exists between persons carrying on a business together in common with a view to making profits. Each of these persons is called a partner, the relationship that subsists between them is partnership and the business is called a firm. For example, if Moses, Mary and Tracy jointly own a shop called MOMAT Traders, the three are individually called partners, the relationship that exists between them is partnership, and MOMAT Traders is the firm.

A partnership may be temporary or permanent. A temporary partnership is the one formed for either a specified period or a specified purpose, at the expiry of which, or on fulfilling the specified purpose, the partnership comes to an end. A permanent partnership is the one that is intended to continue indefinitely, therefore its end is not known at the time of formation. The minimum number is two and the maximum is 20. However, the number can go up to 50 if each of the partners is a professionally a qualified person.

### **Partnership Deed**

If you were to be a partner, you would find it convenient and useful to prepare a written agreement before entering into a partnership. Such an agreement is called a partnership deed or partnership agreement. Therefore, Partnership deed is a written agreement between or among the partners before entering the partnership outlining the basis on which the partnership is being formed, for future reference. A partnership deed contains among others the following;

- Name of the Partnership business
- Date of the agreement

- Purpose for which the partnership is formed
- Name, address and occupation of all the partners
- Amount of capital contributed by each partner
- The ratio in which profits and losses are to be shared
- Rights of partners for example right to inspect books of accounts, right to sign documents on behalf of the business etc.
- Duties allocated to partners
- Duration of the partnership if it is a temporary partnership

### **Advantages of Partnerships**

A business owned by two or more people has the following advantages:

1. Much capital is raised partners can raise more capital towards the financing and managing of the business than a sole proprietor.
2. They are easy to form because they involve a few members who mutually agree to do business together and the formation does not require many legal formalities.
3. There is no or less fatigue since work is shared among partners. This on one hand reduces the work load for each partner and on the other hand helps partners to specialise in particular fields.
4. Partnership can have a better combination of talents. For example, a firm of lawyers can have several partners each being an expert in a particular field.
5. There is room for expansion of the business since much capital can be raised.
6. There is more hope of continuity in case of one has a personal problem such as sickness, and death of a relative, the gap can be bridged by other partners.
7. Losses and liabilities are shared. This reduces the effect to an individual partner.
8. New partners may easily be admitted for purposes of expansion.

### **Disadvantages of Partnerships**

In order to enjoy the above advantages, some businesses start as sole proprietorships, and convert into partnerships. However, a partnership business has the following disadvantages:

1. Partners have unlimited liability. This means that they are fully responsible for the debts or losses of the business, therefore, in case of business debts, their personal assets can be taken to pay the business debts.
2. Misunderstandings are likely to come up. Partners are liable to disagree on various matters affecting the business which may affect/retard the progress of the firm.
3. There is delay in decision making and implementation because all major decisions must be taken by the consent of all partners which may delay and sometimes may result into failure to take advantage of a good opportunity.
4. If one partner makes a mistake, all the partners suffer the consequences.
5. Non – transferability of interest. A partner cannot transfer part or all of his/her capital contribution to another person without the consent of all partners.

6. Lack of continuity: unless specified in the partnership deed, if one active partner dies, or is declared bankrupt or resigns and withdraws from the partnership, then the business has to come to an end.

#### **ACTIVITY**

- a.) Explain the advantages of partnership businesses over sole proprietorship.
- b.) Why is it necessary for partners to prepare a partnership deed?

### **LESSON THREE: BUSINESS LOCATION LEARNING OUTCOMES**

By the end of this lesson, you should be able to explain the factors that should be considered when choosing the location of business.

#### **Introduction**

Having selected a legal form of business to operate, you have to choose a strategic place where to locate it. **Business location** refers to the setting up of a particular business in a specific area. This is different from **Business premises** because a business premise comprises of buildings where the business is operating from.

#### **Factors that affect Location of a Business and its Premises**

You or any other entrepreneur may be influenced by any or a combination of the following factors when choosing the location of the business:

- a) **Nearness to Market.** A business should be located as nearer to the market or customers as to save on the transport cost for both the business and customers. Nearness to the market is important especially where the products are bulky, perishable, fragile and costly to transport or when competitors are located nearer the customers.
- b) **Nearness to the Source of raw materials.** A business should be located as nearer as possible to the source of raw materials as possible especially when the raw materials are bulky or perishable. This reduces the cost of transport and the risk of perishable raw materials getting spoilt. Examples include cement, dairy and sugar factories, quarry, etc.
- c) **Access to transport and communication network.** Whenever possible, a business should be located along all-weather roads to facilitate free movement of its raw materials, products and customers all the time. The location should also have communication services like telephone, faxes, e-mail, internet services, etc. to facilitate quick transfer of information to or from the business to the customers, suppliers, bankers.
- d) **Availability of premises to be purchased or leased.** Affordable premises required by the business to operate should be available in terms of renting, purchasing, or leasing. The available premises/ land should be large enough to allow expansion of the business if required at a later date.

- e) **Availability of human resources/ labour.** A business should be located in an area where the required labour whether skilled, semi-skilled or unskilled is readily available at reasonable wage rates.
- f) **Government policy about the location of the business.** Any business has to be set up in an area that is in line with the Government policy on location of businesses. The government may direct the location of some enterprises in a given area for different reasons such as providing employment opportunities, balancing industrial growth in the country and protecting the natural environment among others.
- g) **Nearness to the source of power.** A business or industry that uses a lot of power / electricity for its operation should be located as nearer as possible to the power source.
- h) **Accessibility to the source of water.** A business should be located as nearer as possible to a permanent source of water especially where water plays an important role as a component or raw material in the production process of the business goods for example soft drinks, beer, textiles, dairy farms, and brick making among others.
- i) **Security of the area.** A business for example a bank should be located in an area that is safe, for safety of lives and business property
- j) **Availability of business support services.** A business should be located in an area where business support services such as banks (for financial support) and insurance services (to protect the business against risks) are readily available.

**Activity**

- a) Having looked at sole trade and partnership businesses, giving reasons, explain the business you would opt for.
- b) Explain the factors which the sole traders in your community could have considered in locating their businesses where they are.

## LESSON FOUR: IMPORTANCE OF SETTING GOALS IN BUSINESS LEARNING OUTCOMES

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

- i) explain the meaning of a goal ii) explain the characteristics of a good goal
- iii) explain the importance of setting goals in business iv) use SWOT to set business goals

### Introduction

“All who have accomplished great things have had a great aim; have fixed their gaze on a goal, which was high, one which seemed impossible” **A GOAL** is an aim of achieving something within a definite time frame. OR It is a target or specific measurable result that one wants to achieve at a defined time in the future. A business goal is what an entrepreneur expects to achieve over a given period of time. Goals may be personal, institutional/ organisational or business goals.

### TYPES OF GOALS

Business goals can be into two broad categories;

#### 1. Short term goals/Objectives.

These are targets that a business expects to achieve within a short period of a year or less. Examples of short term goals include;

- To increase production capacity by 5% within one year.
- To increase the sales by 25% by the end of the year.
- To increase the business market share by 10% within six months.
- To increase the number of skilled workers to 100 by end of year.

#### 2. Long term goals

These are goals that are achieved after a long period exceeding one year. Long term goals require more preparation and more resources and therefore cannot be achieved in a short run. Examples of long term goals include:

- To increase the farm size from 10 acres to 25 acres in three years.
- To increase the market size by 20% in five years.
- To change the production methods from labour intensive to capital intensive in six years.
- To become a market leader within eight years.

### CHARACTERISTICS OF A GOOD GOAL

The success of a business depends on the ability of the entrepreneur and his/her team to set “**SMART**” goals and working hard to achieve them. A good goal should be **SMART**, that is Specific, Measurable, Attainable, Realistic, and Time-bound as explained below; a) **Specific**

A good goal should be clear in terms of what is to be achieved, and how it will be achieved. For example: to reduce operating costs, to increase the sales, to increase output, to increase profits etc.

**b) Measurable**

A good goal should have indicators to prove or show whether it is being achieved or not and if achieved, how much of it is being realized. For example: to reduce operating costs by 20%, to increase the sales by 20%, to increase output by 5%, to increase profits by 10% etc.

**c) Attainable/Achievable:**

A good goal should be achievable or workable. A goal should not be impossible to achieve. For example, if you are the operator of a school canteen with a population of 1,000 students and you set as your goal to sell a minimum of 200 pancakes every day, it is attainable. If on the other hand your goal is to sell 10 crates of beer at the school canteen, when even the school administration does not allow alcohol at the canteen, then it is not achievable. d) **Realistic:**

A good goal should be realistic. This means that a good goal should be possible to achieve given the available resources and capacity of the business. So when setting your goals for the business ask yourself such questions. Do I/ we have the resources to make the objectives happen? Do I/ we have the money, people, machines and materials to make my/our objective happen? For example, it is not realistic to set a goal to sell 100 eggs every day when you only have 5 layers.

**e) Time-bound |:**

A good goal should be clear in terms of when it should be achieved. It should have a time frame. State when you will achieve the goal. A good goal should have a set time within which it is to be achieved or accomplished. It should not be left open ended. For example, it is wrong to say that the business goal is to increase the number of workers. You will have to state the time by which this will have been achieved.

## **IMPORTANCE OF SETTING GOALS IN BUSINESS**

Setting goals is the first step in turning the invisible into visible; therefore, setting goals is very vital in the following ways:

**1. Goals Provide targets to be achieved**

Goal setting helps to set specific targets to be achieved within a specific period of time. If a goal is set, it is easily identified and everybody in the business works towards achieving it. Therefore, goals provide both the entrepreneur and the other workers targets / aims which drive them in all business activities well knowing what they are striving to achieve

**2. Helps guide in decision making.**

Setting goals enables an entrepreneur to make decisions that are in line with the set goals.

**3. Helps to ensure effective use of resources**



The goals that are set help the entrepreneur to use the available resources well. Because resources are scarce, they are put to the best use in order to achieve the set goal.

**4. Helps in evaluation of business performance.**

When the business goals are well set, the entrepreneur finds it easy to evaluate business performance. He / she will be able to find out the extent to which the business has been successful in achieving its goals. This is particularly important since entrepreneurs always want to get feedback about their business progress in order to plan for the future.

**5. Goals help in business planning**

All business plans should be made according to the set goals or objectives. We plan to achieve something and in the absence of goals, planning becomes hard.

**6. Goals help the entrepreneur and his/her team/ workers to remain focused and work harder**

People put in effort to achieve set goals. If the targets are not known the workers do not concentrate and may lose focus.

**SWOT ANALYSIS**

**SWOT Analysis** is the process of identifying the **Strengths, Weaknesses, Opportunities and Threats** of an organisation or business.

**S = Strength**

These are internal factors within the business that make it stronger and give it an advantage over other businesses. The strengths are helpful in achieving its goals or objectives. For example, if a business has skilled manpower, this is strength.

**W = Weaknesses**

The weaknesses of a business are the internal limitations or constraints that the business faces. They are the attributes of a business that hinder achieving its objectives. For example, if a business has little capital to do the things that have to be done in the business that is a weakness.

**O = Opportunity**

These are external conditions that are helpful in achieving the business objectives. Opportunities originate outside the business and therefore the business does not have control over them.

**T = Threats**

These are external conditions that are harmful in achieving the business goals and objectives. They originate outside the business.

**Using SWOT Analysis to Set Business Goals**

The success of a business depends on both internal and external factors and it is therefore important that a business analyses both internal and external issues affecting

it. SWOT analysis is used to identify the important internal and external factors that affect a business **NB:**

Before setting goals, a business should first evaluate itself so that it is able to set for itself realistic goals. By evaluating itself, the business is able to know its strengths and weaknesses and therefore be able to know what it can achieve and what cannot achieve. The entrepreneur should also be able to identify the opportunities and threats to the business.

**The business should be able to:**

- use the business strength.
- stop weaknesses from weakening the business.
- exploit the business opportunities to the advantage of the business.
- defend or plan against threats so that they do not affect the business.

**ACTIVITY: CASE STUDY**

**Read the case study below and answer the questions that follow;**

During the Covid-19 lock down, the President of the Republic of Uganda and the Ministry of Health gave guidelines on how to prevent the spread of Corona Virus Disease. Okello a university student who was doing petty jobs to raise his tuition wondered what he could do during the lock down to raise funds for his survival and to raise tuition for the remaining two years of study. Okello came up with a long list of ideas, ranging from making sanitizers, masks and spray bottles. Eventually, he settled for selling masks since no one sold them in his community. He thought this would be a good opportunity since it was a requirement for everyone to wear a mask.

Okello believed that he could do this business because of his ability to work hard, good understanding of market trends, ability to complete work even in the face of discouraging constraints and willingness to take calculated risks. He, however, noted some of the factors, which might constrain him such as limited tailoring skills to make masks, poor communication skills and losing his temper quickly. Other factors that he thought were not in his favour were unexpected competition and security related cases in the community. The fact that some people in the community believed that Corona Virus Disease was non – existent was a threat to his business. **Questions about the case study**

1. Identify Okello’s goal.
2. Fill in the following chart using information from the case study in setting Okello’s business goals.

**SWOT chart**

<b>Strengths</b>	<b>Weaknesses</b>
i) .....	i) ..... ii)
ii) .....	.....

<p>i)                    <b>Opportunities</b></p> <p>ii)                    .....</p> <p>                         .....</p>	<p style="text-align: center;"><b>Threats</b></p> <p>i)                    .....                    ii)</p> <p>                         .....</p>
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## Term 2

**TERM TWO**

**TOPIC: MANAGING A SMALL BUSINESS ENTERPRISE LESSON 01: MANAGEMENT LEARNING OUTCOMES**

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

- i) explain the meaning of management.
- ii) explain the management tasks. iii) explain importance of management in a small business enterprise. iv) prepare a budget for a small business.

**Introduction**

A small business is normally started by a single person who manages the business. Sometimes he/ she manages the business with the help of family members. Some small businesses do not employ managers because the entrepreneur does the management himself/herself. All businesses whether big or small.....

Management is the art of getting things done through people and proper utilisation of the business' resources like capital, raw materials and time to achieve its objectives and goals.

**MANAGEMENT FUNCTIONS**

These refer to activities that are carried out by management in the business. The management

Function includes the following;

- a) **Planning.** This involves setting the goals and objectives of the business that are to be achieved in a given period of time. Managers plan for the business by setting aims/targets so as to give the business a sense of direction. Other workers will then work according to the plans set by the managers.
- b) **Organising:** This involves finding out the activities that are to be done in given departments or sections for effective business operations.

The manager organises people and resources within the business to perform specific tasks. Managers organise people by giving them specific duties to perform, and assigning supervisors to supervise them.

- c) **Controlling:** this involves monitoring business resources such as workers, time, money, and assets like cars, computers and furniture are put to better use. Managers help to measure and evaluate the work that other workers do, to make sure that what is being done is done in the right way. It is the duty of the manager to identify inefficient workers and take the right steps to correct the situation. This helps to reduce wastage of resources.
- d) **Staffing:** This involves identifying the need for people to work in the business, recruiting them, training them and paying them for the work done. Therefore, it is the function of the manager to ensure that the business has the right number and quality of people who are well motivated to do what is required of them.
- e) **Co- coordinating:** management co- ordinates different workers and different departments of the business such as the marketing department, production department, sales department so that they work in harmony.
- f) **Commanding:** managers give orders and instructions to the other staff so that targets and deadlines are met.
- g) **Motivating:** This is a process of encouraging people to do what they are supposed to do willingly towards the achievement of business goals. managers have a function of inspiring and encouraging their workers by showing appreciation for the work done, allowing them to participate in decision making process, paying their salaries regularly and giving them incentives, bonuses and benefits. This helps to make workers work harder and improve on the quality of their output.
- h) **Communication.** This is the process of passing information from one person to another and also receiving feedback from different people in business ie customers, suppliers, workers etc. Through communication, an entrepreneur transmits and shares ideas, opinions, facts and information to his/her suppliers, workers and customers for successful performance. Communication should be open so that when employees receive and act on information from the entrepreneur, they give feedback.
- i) **Leading.** This involves motivating and guiding employees about the best methods of work through giving them adequate information.
- j) **Communication.** This is a process of passing on information from one person to another.
- k) **Decision making.** This involves choosing the best alternative among the many available options.
- l) **Budgeting.** This involves preparing a budget. A budget is a statement/ plan which show the expected income and expenditure of the enterprise for a given period of time. The manager has to budget for the business so as to know what resources are required and where the resources will be used.

## **BENEFITS OF BUDGETING TO THE ENTREPRENEUR**

Budgeting is very important in business in the following ways:

- Budgeting helps in daily supervision of cash receipts, expenditures and payments made.
- It facilitates proper and timely payment of taxes, rent and other related expenses.
- It helps in prompt settlement of business debts like paying business creditors on due dates.
- It helps to put the available resources i.e. money to better use.

## **MANAGEMENT TASKS**

Everyone in business or at the place of work or even at home has work to do, that work is what we call a task. Therefore, a task is a piece of work that somebody has to do. We looked at Management functions which are the tasks to be performed by different departments. Therefore, Management tasks refer to activities organised in departments/units for particular purposes. Management tasks are categorised into four major categories:

### **i. Production Management tasks**

Production management tasks involve activities that begin from acquisition of inputs (or factors of production) which have to be transformed and converted into outputs (goods and services) required by customers. Production activities include, acquiring inputs (such as land, capital, raw materials, human resource and information) and transformation of the inputs into output. **ii. Marketing Management tasks**

Marketing management concentrates on meeting the customers' needs and drives the production activities to ensure that it provides the required products in desired quantities and qualities. **Marketing Management tasks include**; finding out the customer's needs, products, and their quantities, prices that customers are willing to pay but are profitable to the business, informing and persuading customers to buy the products, selling the goods or services to the customers, and getting business goods or services within the customers' reach.

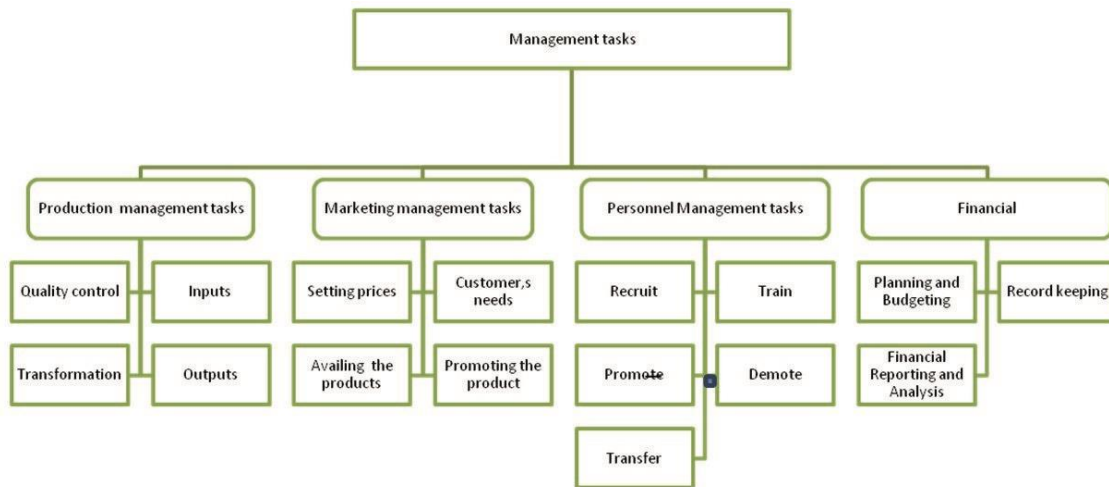
### **iii. Personnel/human resource management tasks**

These are activities that involve managing workers and getting them to do all their duties as required in the enterprise. They include tasks such as; determining the need for additional staff, recruitment of workers, training the workers in the required skills, motivating of staff, and terminating the services of the staff who are no longer needed in the business.

### **iv. Financial Management tasks.**

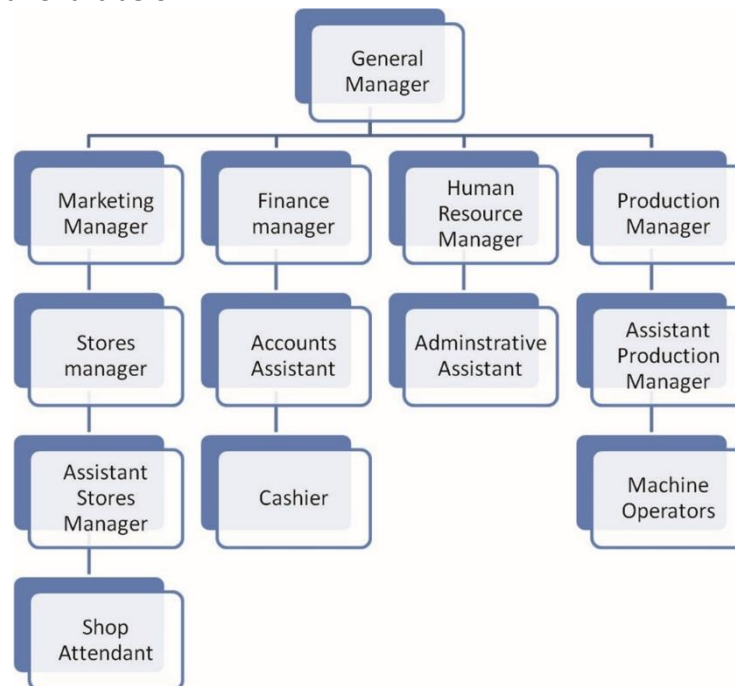
Financial management involves the routine activities, which are performed within the enterprise to ensure that funds are available and put to better use. Financial management tasks include: Supervising daily cash receipts and expenditures, banking of surplus cash balance, settling debts of suppliers of goods or services on time, Record-keeping and Budgeting.

## DIAGRAM SHOWING A SUMMARY OF MANAGEMENT TASKS



## DIAGRAM SHOWING ORGANISATIONAL CHART

In many businesses, management tasks are performed by different departments, each department is headed by a department manager, as indicated in the Organisational Chart below.



## IMPORTANCE OF MANAGEMENT IN A SMALL ENTERPRISE

Management is important to different stakeholders as follows:

### 1. Shareholders;

- Management helps to invest the shareholders' resources (capital) into business activities to produce quality products and services that can meet customers'

needs. This enables the shareholders to earn dividends after the business has made profits.

## **2. Employees;**

- Management helps to assign employees the right jobs as per their knowledge, experience, attitudes and interest.
- It helps to communicate to employees the business policies, procedures and objectives and the strategies to be used to achieve the objectives.
- It ensures that the working conditions of employees are conducive. I.e. ensures that the cleanliness, heat, light. Safety, furniture etc. are adequate and acceptable.
- It provides social support services or benefits to boost the employees' morale and dedication to service.
- It provides psychological counselling to reduce stress and tension of employees at work as well as personal problems.
- It helps to provide fringe benefits in addition to salary i.e. medical insurance, sick leave, pension benefits, and free education for workers.
- It encourages involvement of employees to participate in business affairs like proposing how to improve on business performance etc.

## **3. Consumers**

- Management provides good after sales services for example, free installation when one buys.
- It is important in guiding the production department to produce quality products and serve them at competitive prices.
- It also ensures correct advertising which does not mislead the customers.

## **4. Inter-business relations**

- Management helps to maintain the inter-business relationships through fair trade practices, good quality products, proper quantity of the product, good methods of payment, fast model of delivery and quality of services.

## **5. Government**

- Management ensures that its business operates within the provisions of law and regulations of the state. Therefore, the following are observed - There is proper and timely payment of taxes.
- Environmental laws are respected.
- Provision of employment to citizens.

## **6. Community interests**

Management is important in the community in the following ways;

- It provides jobs to people within the community
- Contributes funds for public activities such as repairing hospitals, roads, schools etc.
- It provides sports tournaments and cultural functions for the society.

- It provides goods and services needed in the community.
- It provides market to the community members. I.e. selling their products to the business or becoming agents, dealers or distributors of the business products.

### ACTIVITY

You have received two million shillings to start up a small business of your choice

- Prepare a budget to show how you will spend the two million shillings.
- Prepare an organizational chart for your business.

## TOPIC: MARKETING IN A SMALL BUSINESS ENTERPRISE LESSON TWO: MARKETING LEARNING OUTCOMES

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

- explain the meaning of marketing.
- describe the channels of distribution.
- explain the factors considered when selecting a distribution channel.
- explain the methods and advantages of sales promotion.
- discuss the factors considered when choosing the medium of advertising in a small enterprise.

### MARKETING IN A SMALL BUSINESS ENTERPRISE

The major aim of any business is to sell its goods or services to its customers. For products to be bought buyers must know that these goods or services exist, get convinced that they need the products and also be able to get these commodities. This requires the entrepreneur to market his goods or services. **Marketing** refers to the series of activities an entrepreneur does to find out who the customers are and what they need or want. Hence, Marketing activities include activities such as; finding out what people or customers need or want, developing/providing the goods or services that meet the identified needs or wants of customers and setting prices that customers can afford and are willing to pay and will enable the entrepreneur to make profits.

#### CHANNELS OF DISTRIBUTION

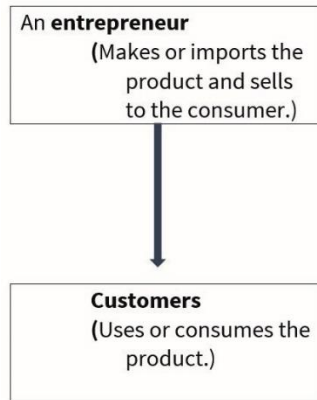
When you have products (goods or services) for sale, you have to decide how your products will reach the customers. You will have to find ways of supplying your customers. **Channels of distribution**, therefore, are the methods/ways in which products are made available from the producer to the customers. There are different ways in which an entrepreneur can distribute his/her products to the customers. These **include** the following;

##### a) **Direct distribution Channel (Short Distribution Channel)**

This is where you as an entrepreneur make and sell your products directly to customers who are the final users of the goods or services. It is also known as short channel distribution.



### ***Illustration of Direct Distribution***



Direct distribution is important for some businesses because there is direct contact between the entrepreneur and the customer. The customers can also explain what they like which enable the entrepreneur to make products that satisfy their needs. However, it can be expensive and time consuming in terms of reaching and serving the customers.

### **b) Retail distribution Channel (Medium Distribution Channel)**

This is where you sell your products to retailers who in turn sell to customers as final users of the product.

### ***Illustration of the Retail Distribution Channel***

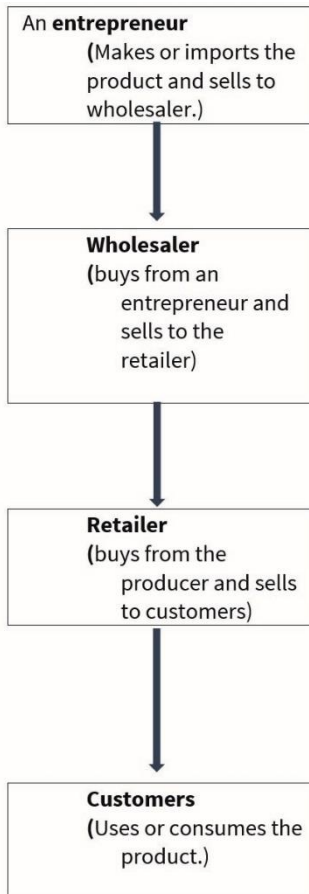


This form of distribution is useful for businesses that import or make products in large quantities. Retailers reach many customers, and help to increase the business market and total sales which in turn help increase the profits. This is common with commodities like sugar, soap, salt and foodstuffs. However, an entrepreneur who sells to retailers may lose contact with the customers. In the process, the entrepreneur may not know what the customers like. In addition, the entrepreneur's product may not be effectively promoted since some retailers also sell the competitor's products. The entrepreneur may lose income by selling to the retailers at a lower price to allow them sell at a profit.

### c) Wholesale Distribution Channel (Long Distribution Channel)

This channel of distribution involves an entrepreneur selling the products in large quantities to wholesalers who in turn sell them in smaller quantities to retailers. The retailer then sells the goods to customers who are the final users of the product.

#### *Illustration for Wholesale Distribution Channel*

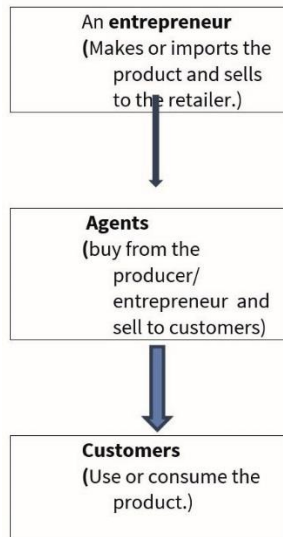


Wholesale distribution is useful for businesses that make or import products in very large quantities. Wholesalers help an entrepreneur to reach out to a large area and many customers, which increase the chances of raising sales and profits. Just like retail distribution, through wholesale distribution an entrepreneur may lose contact with the customers of his/her products, and will easily know exactly what they want. The products too may not be well promoted since wholesalers may also be selling many other products from competitors.

### d) Marketing and Selling Agents Distribution Channel

These are agents who sell products on behalf of entrepreneurs and are paid a commission based on the value of the amounts sold.

#### *Illustration of the Marketing and Selling Agents Distribution Channel*



## FACTORS TO CONSIDER WHEN CHOOSING A CHANNEL OF DISTRIBUTION

When you want to distribute your goods, you have to first consider certain factors in order to select the most appropriate channel. These factors include the following:

- a) Nature of the product: Perishable products such as milk, vegetables, fruits, etc. and expensive items like gold cars, computers require short or direct distribution channels while durable products like books, clothes and utensils can be sold through the wholesale distribution channel.
- b) Reliability of the channel and its image. A reliable channel is able to provide and avail goods and services to customers whenever need arises. This encourages customers to make repeat purchases.
- c) Cost effectiveness: The aim of the business is to minimize the operating costs and maximize profits. An entrepreneur should therefore choose a channel that is less costly or is likely to reduce his /her operating costs in order to maximize his/her profits. But at the same time, the channel should reduce the total price of the products in order to make them competitive in the market.
- d) Location of the target customers: If the customers are near and within the reach of your business, direct or short distribution channels should be used. This will enable the entrepreneur to get more information about the product's ability to meet the customer's needs and reduce distribution costs. But if customers are far and dispersed then other channels of distribution may be used.
- e) Availability of storage facilities: Storage facilities ensure the safety and stocking adequate quantities of the product. If the producer, wholesaler and retailer have good storage facilities, the customers can buy from any depending on their convenience.
- f) Availability of middlemen: In circumstances where the middlemen are not readily available, producers have to sell directly to the consumers.
- g) Level of competition: if there is stiff competition, then a short channel should be used where the entrepreneur delivers goods directly to the consumers quickly and more safely.

## SALES PROMOTION

Businesses today are highly competitive because there are many entrepreneurs selling similar products. This means that each entrepreneur/business has to carry out different activities to attract more customers and even maintain the old ones. Sales promotion refers to all activities carried out by the business in order to attract customers to buy business products and maintain the old customers. Methods of sales promotion include the following:

- i) Branding: This refers to giving a product a name or design to distinguish it from other products. A good brand name attracts customers to buy the products.
- ii) Attractive Packaging: Uses of attractive packaging materials attract customers, sometimes well packaged products appear to be of a high quality.
- iii) Giving free samples: A sample is free product given to potential customers representing the many in representing the many at the entrepreneur premises. Free samples are normally given for new products. This helps to attract customers who are able to see how good the product is and its benefits.
- iv) Offering Credit facilities: Some firms give credit facilities to increase their sales. By selling on credit the entrepreneur attracts customers to buy more product than they would have bought. This also helps to create a good relationship the customers there by maintaining the old customers.
- v) Offering after sales services: This is a free service offered by the entrepreneur to the customer arising from what has been bought by the customer for example free of charge repair for a specific period e.g six months or one year, Cleaning or servicing of the equipment at regular intervals free.
- vi) Offering discounts: A discount is a reduction in the actual price of a commodity for particular buyers. For example, if the seller decides to reduce the price by a certain percentage, then that's a discount for the buyer. Sellers give discounts to buyers who buy in bulk, those who pay in time and those who buy regularly. This is another way of attracting and promoting sales.
- vii) Attractive display of goods: Well displayed products in and outside the shop attract customers to buy the products. It is easy for customers to identify the products they want to buy.
- viii) Personal selling: Personal selling is where a salesperson moves door to door selling products to customers in homes and at places of work. Some customers do not have time to go for shopping and yet they are willing to buy the products. So with personnel selling the seller reach out to customers in different areas thus promoting sales.
- ix) Sponsoring social events: Businesses promote sales through sponsoring events like football tournaments, social events etc. for example MTN sponsored MTN Marathon 2019, African cup of nations 2007 and was also the official sponsor of the football World cup 2010 in South Africa, Airtel sponsored the Kabaka's run 2019.
- x) Giving gifts: Some businesses offer gifts to customers. e.g., T-shirts, pay school fees and other businesses paint people's houses using their logo.
- xi) Advertising: This is giving information about a product to the prospective customers to make them more informed and interested in buying it. Advertising may be Informative advertising or Persuasive advertising.

Persuasive advertising is the type that intended to induce / entice or attract the general public to buy a good or service, while Informative advertising is a form of advertising that gives information to the general public about the available goods or services, the type of goods, where they are found, their prices, uses, and any other relevant information.

Advertising can be done through different media such as radios, TVs, newspapers, billboards, internet, flyers, brochures etc. Advertising is the most common form of sales promotion.

### **FACTORS TO CONSIDER WHEN CHOOSING THE MEDIUM OF ADVERTISING IN A SMALL ENTERPRISE**

You should consider the following factors to choose a suitable medium for advertising your products.

- i) Cost of media: The medium should be relatively cheap and affordable. It should not be more expensive than the value / cost of goods and should leave enough room for an entrepreneur to make profit. Expensive and technical goods can be advertised through televisions and magazines while cheap ones may be advertised through posters, radios etc.
- ii) Target customers: When the goods being advertised are targeting the rich people, you may use televisions and magazines to advertise them. On the other hand, if they are for ordinary people, an entrepreneur may use radio, sign posts, posters, banners and local newspapers. If the goods being advertised are demanded by the rural people, an entrepreneur may use radio or posters. If they are for urban people, televisions, newspapers and magazines would be most appropriate. Illiterate people can best be reached through radios, television while the literates can be reached by newspaper, magazines in addition to radios and television.
- iii) Age group of customers: If the customers are teenagers and youths, videos, magazines, T- Shirts and television can appeal to them much more while the radio and newspapers can do well for adults.
- iv) Speed and urgency of information: If you want to sell your goods very fast, an urgent and speedy medium like radio, television and daily newspapers would be more appropriate to appeal and reach the targeted audience.
- v) Geographical area to be covered: Depending on the area you want to cover, you should use an appropriate medium eg if the target is a regional area, then regional media may be used, e.g. regional radio or newspapers.
- vi) Media used by the competitor: You should use a better medium than his / her competitors for a competitive advantage. One should therefore first study what your competitors are doing and then aim at 'beating' them.
- vii) Availability of the medium: You should use a medium which is available to and affordable by your business.
- viii) Channels of distribution: You should choose a media that is in line with and in favour of the channels being used for distribution of products. For example, the media should be able to mention your wholesalers, retailers, agents, etc.

## Advantages of Sales Promotion

- **Sales promotion helps to inform the public about the presence of the products** and where they can find it. For example, if the product is advertised over the radio, or newspapers, customers become aware of the existence of the product, its features and its price.
- **Customers are saved the time of searching for products.** Advertising and other forms of sales promotion help the customer to know where products can be got and so they do not have to waste time and money moving from place to place in search of products.
- **Through sales promotion a business can sponsor development programs** like education and maintaining sanitation.
- Some ways of promoting sales are entertaining. Some businesses use music to pass on information to customers.
- **Sales promotion increases sales** since customers become aware of the products and are attracted to buy.
- **Some businesses provide free gifts to customers** e.g. for example Celtel had a promotion in which winners got houses. These gifts improve people's standards of living.
- **Sales promotion creates a good relationship between the seller and the buyer.** For example, if the seller offers credit facilities to customers, a seller and the buyer become friends.

### Activity:

1. Identify any two businesses in your community, and list the channels of distribution used in the businesses. Give reasons why such channels were adopted.
2. Examine your local environment, identify and list businesses which use;
  - i) Direct distribution channels ii)  
Retail distribution channels iii)  
Wholesale distribution channels iv)  
Marketing and selling agents