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Consultancy for Small Businesses

by: Malcolm Harper

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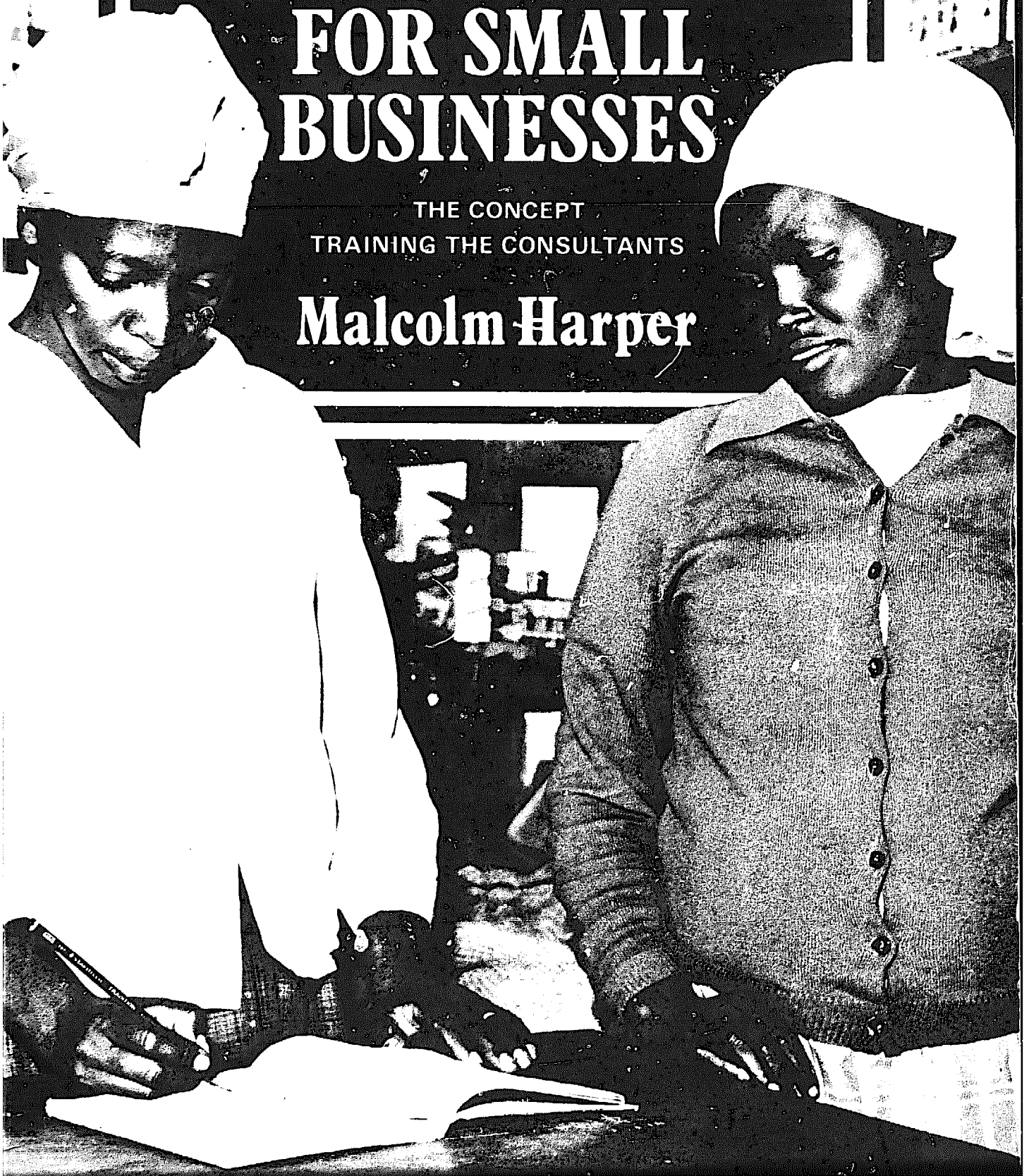
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# CONSULTANCY FOR SMALL BUSINESSES

THE CONCEPT  
TRAINING THE CONSULTANTS

Malcolm Harper



#### **About this book**

This manual is the result of a six-year experiment to provide an economic on-the-spot advisory service to small businesses in developing countries.

The concept arose when the author's interest was aroused by an invitation to contribute to courses for small business people in Kenya. He soon found it necessary to visit small businesses and to attempt to assess their situation, diagnose their problems and devise appropriate solutions.

After some months, he evolved a standard approach which might fairly easily be taught to students who could then provide some sort of elementary consultancy service to small enterprises.

Eventually 7 unemployed school leavers were trained to apply the system which had been evolved. They worked for 6 months with nearly 200 small businesses and succeeded in making a significant difference to the management skills and profitability of the majority.

The concept was then taken up by an American organisation, Partnership for Productivity, and was applied on a wide scale in Western Kenya. It has also been adapted, in part, by small enterprise promotion organisations in Malaysia, Brazil, Indonesia and Sri Lanka. Many of the original ideas have been discarded, and others modified, for the system is intended to be adapted to local needs. However, this manual provides sufficient basic material to enable interested readers to adapt the system to their own requirements.

Organisations interested in rural development and the success of small business as a necessary part of that development will find that this book provides some solutions to the perennial problems of small scale entrepreneurs.

Malcolm Harper was educated at Oxford University and the Harvard Business School. He managed a medium-sized hardware business, manufacturing and selling its products in Great Britain and abroad, before moving to the University of Nairobi in 1970 to take up the position of Senior Lecturer in the Department of Business Administration. While in Kenya he developed and tested the concept of a consultancy service which is described in this book and has since applied these small enterprise training and extension techniques in India, South-East Asia and elsewhere. He is now Director of the Marketing Development Centre at the Cranfield School of Management, UK, and is primarily engaged in the development of new approaches to management training for use in developing countries.

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A project of this sort has naturally involved large numbers of different people and I should first of all thank the consultants and their business clients who have so patiently allowed themselves to be used as material for this continuing experiment. The Ministries of Commerce and Finance of the Government of Kenya and the University of Nairobi provided funds and support for the initial research. Large numbers of scholars and practitioners have helped at various stages but particular thanks are due to Peter Meehan and Chrysantha Hetiararcha of the YMCA Sri Lanka, Luis Fuenzalida of UNO Bahia in Brazil, Fadyar Notanagoro of the University of Airlangga, East Java, Hans Singer of the Institute of Development Studies, University of Sussex and Charles Slater of the University of Colorado at Boulder. The publishers have tolerated inordinate delays with equanimity and I am particularly grateful to them for agreeing to sponsor the publication of a work which cannot by its nature enjoy a large circulation.

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become more theirs than mine. In particular, William R. Ramey took the bold step of deciding to experiment with the concept and David Scull saw that although it involved a considerable departure from the original programme it could become a most valuable improvement. Renault Beakbane provided invaluable liaison and encouragement from the British side of the organisation, Lee Dresser further evolved and improved the original idea and, above all Eldon Helm and Richard Ramey allowed me to make completely free use of the very comprehensive manual that they had prepared to describe their Western Kenyan experience with the consultancy service. Richard Ramey went even further, thanks partly to support from USAID, and spent some two weeks assisting with the actual preparation of the manual and in particular of the training course contained in the second part. I must therefore thank him and my wife and family who tolerated the irregular hours and unannounced visitors involved in the work, for making it both possible and enjoyable to complete the manual.

Malcolm Harper,  
Cranfield School of Management, 1976

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## INTRODUCTION

This manual attempts to summarise the results of some five years of experiments to provide economic on-the-spot consultancy to small businesses in developing countries. The initial stages of the work were carried out in Kenya by myself and by Partnership For Productivity, and some subsequent experiments have been carried out in Brazil, Sri Lanka and Indonesia. The results, and the techniques which have been developed, cannot claim to be universally applicable, since every country, and every type of business in every country, is different. The emphasis is on adaptation and selection of whatever appears to be useful in a particular situation.

My interest in this field started as a result of a chance invitation to contribute to courses for small business people in Kenya; it soon became evident that the business people were learning very little although I was learning a great deal and I started to visit the businesses themselves in order to attempt to assess their situations, diagnose their problems and devise appropriate solutions. It was possible to work with a number of small businesses for some months and as a result I evolved a standard approach which it was suggested might fairly easily be taught to inexperienced trainees who could thus provide the same sort of elementary consultancy service.

After a year of trials with undergraduates from the

University of Nairobi, it was clear that they could easily offer useful individual advice to small business people, and in the following year seven unemployed fourth form school leavers were recruited and trained to apply the system as it had by then evolved. They worked for some six months with nearly 200 small businesses and succeeded in making a significant and measurable difference to the management skills and profitability of the majority of their 'clients'.

At this stage the concept was taken up by Partnership For Productivity and was applied on a fairly extensive scale in Western Kenya. Many of the original ideas were discarded or modified as a result of this experience; this manual endeavours to summarise the latest conclusions gathered from Partnership For Productivity and from tentative experiments elsewhere. The system, if it may be so called, is continually evolving and the manual would no doubt be very different if it had been written two years ago or were to be re-written in two years time. It is hoped that readers may be encouraged to apply those parts of the material that appear to be applicable to the task of small business management training in their own areas, and that they will share their experience with others so that a body of experience may gradually be developed.

*If any readers are interested in obtaining more detailed information about applications of the concept described in this book they may write to the author at The Marketing Development Centre, Cranfield School of Management, Cranfield, Bedford MK43 0AL, UK; or to Partnership for Productivity, P.O. Box 170, Annandale, Virginia 22003, USA.*



# **PART ONE: THE CONCEPT**

# CHAPTER 1: WHY HELP SMALL ENTERPRISES?

## To Whom is This Manual Addressed?

This manual is addressed to anyone who is involved in the promotion and development of small enterprises in developing countries. If the reader is in a position to recommend the establishment of a small business extension service either nationally or on a small scale in a particular village or district, he will clearly find much that is of value to him. It is also to be hoped that people who are presently working in such services at any level or who are in any way concerned with training, advising, financing or otherwise assisting small-scale business owners, will be able to make use of some of the ideas for organising and training small business advisors.

The reader may work for national or local government, for a voluntary or official development assistance agency or for a bank, manufacturer or any other organisation which is concerned with improving the operations of small enterprises.

Although the manual describes a particular system for organising and training small enterprise advisors or consultants, each reader must clearly be selective in his use of the material; some parts may be irrelevant or unnecessary and others may require considerable modification before they can be fitted into a particular institutional structure. Chapter Six describes some examples of the ways in which this type of service has been implemented in various parts of the world. Each of these is very different and the reader should not try to impose a particular model in circumstances where it is not appropriate.

## What is the Purpose of this Manual?

This manual describes a system which has been successfully used to provide individual on-the-spot management advice to small enterprises at a reasonable cost. The objective is to enable the reader first to understand what the system can do and, secondly, if it appears likely to be useful to put it into effect in his own country, with suitable local modifications. The manual provides the material necessary for identifying the needs of any particular group of small businesses and for selecting, training and managing the field staff who are to advise them. There is also guidance on how to evaluate the system when it is in operation.

The second part of the manual gives detailed material for training the small business consultant. Anyone who wishes to become fully familiar with the system which is described must be sure to look at the training course as well as the first part which gives the background and describes the type of organisation structure within which the consultants should operate.

The system was first conceived, designed and tested at some length in East Africa. It has since been applied on a larger scale by Partnership For Productivity in Western Kenya and further tests have been undertaken in India, Sri Lanka, Brazil, Indonesia and Malaysia.

Research suggests that the problems of small businesses are not fundamentally different in other countries of the world, but it is obviously necessary that the training material and other parts of the manual should

be modified to suit local circumstances. Suggestions are given as to how this might be done without altering the basic structure of the system. It should be emphasised that this manual can also be used as a source of ideas and material which are to be included in other systems of assistance for small businesses. The best programmes are those which are devised by the people who actually run them; this material is being made available because it describes something which works in the field and it is hoped that it will make some contribution to the improvement of small business management in many countries.

It is generally recognised that small businesses have a particularly important part to play in the development of employment opportunities and economic progress because they are in a far better position than large organisations to make use of 'intermediate technology'. It is not enough however, for business people to be encouraged to use appropriate technology; they must learn how to decide what is right for their particular business, how to calculate costs and selling prices, how to sell their products and generally how to operate a successful and profitable enterprise. The system described in this manual is, in a sense, a way of conveying 'intermediate management' to small enterprises — the method itself is also labour intensive and may therefore be considered as an example of 'appropriate training'.

The system cannot on its own solve the unemployment problems of rural areas nor can it correct all the management faults of small business people. If such a system is a part of a well planned and co-ordinated programme of assistance it should provide a useful means of reaching out to the small business people in order to bring information to them, to obtain information from them and to train them to manage their businesses more effectively in the future.

## What is a Small Enterprise?

It is important from the outset to be clear what we mean by a 'small enterprise'. The term can be defined in various ways according to the circumstances in which it is being used; the Harvard Business School in the United States offers a course for managers of small businesses and these are defined as having an annual turnover of less than ten million dollars. In many developing countries there are only one or two businesses which are *not* small by this definition. Sometimes people classify businesses by the number of employees and maximum numbers of fifty, a hundred or more people have been used to define the point at which a business ceases to be 'small'.

Yet another way of describing the size of a business is to refer to the way decisions are taken in it. For the purposes of this manual, we may choose this method and say that we are mainly concerned with businesses where the manager is not a specialist in management but is chiefly occupied in carrying out the main function of the business. In a workshop he is a skilled carpenter or metal worker as well as being the manager and in a shop he spends most of his time selling goods across the counter. In many cases the person who

makes the decisions is also the only person who works in the business at all and the majority of the businesses which have been helped by this type of advisory service employed five people or less. It will be clear from a study of this manual that the system is simple; this means that it is economical but it also means that skilled and experienced business people may not be able to learn a great deal from the advisors. This limitation can in fact be an advantage; too many programmes of assistance for small farms or businesses only help the most successful which are in fact the least in need of help.

Strict definitions are less useful than a general idea of the type of small business for which the system is intended. Everyone who knows the rural areas and the poorer parts of cities in developing countries is familiar with large numbers of businesses that operate in these areas. We may exclude men and women who only visit the markets once a week or so in order to sell their produce, but all the people who spend most of their time in a business enterprise other than a farm can be included.

Small retail shops are obviously the most numerous and thus the most important. Many people think that shop-keepers do little except to make profit which has the effect of increasing the prices paid by the public and decreasing the returns to the farmers and other producers. In fact they perform valuable functions which are particularly necessary in developing countries where people need to be able to buy what they need near to their homes at times convenient to them. It is only necessary to imagine what would happen if there were no 'middle men' between farmers who grow things or factories which make them and the people who buy and consume them. Clearly there is a job to be done between the producer and the consumers; if there are large numbers of small traders trying to do it, competition alone will ensure that the cost of the service is not too high.

In addition to small retail shops there are usually many other small business enterprises in the villages and towns of developing countries. The number and variety will depend on the size of the community they serve, but most villages have a carpenter, a tailor and perhaps a mechanic or general metal worker. In farming areas there are often small mills to process small-holder produce; larger villages or small towns may be served by bakers, bicycle repairers, garages, blacksmiths, brickmakers, bus and taxi operators and shoemakers as well as having large numbers of retail shops. The climate, crops and customs of each part of the world lead to many other types of small businesses and whatever people's needs may be someone will probably start a small business to satisfy them.

In many countries there are concentrations of particular types of business in one place. Groups of this sort may come together because of local supplies of raw materials such as clay, bamboo forests or farm produce or they may be in the same place because the various enterprises perform different tasks which contribute towards a final product. As a group they may make up a fairly large industry, employing some hundreds of people, but each unit within the industry is independent and has to be treated as a small business

since each owner makes his own decisions as to how he will conduct his affairs. Each unit therefore has to be managed and there is often a need for co-ordination and joint activity which requires a high degree of effective and sensitive management.

Field experience has shown that the consultants can provide useful advice to non-commercial enterprises. Schools, small co-operative societies and local level polytechnics have all been helped by small business consultants of this type and there is no reason to restrict their services purely to commercial enterprises.

It is important to be clear from the outset that the use of the pronouns 'he', 'him', or 'his' in no way implies that small business is in any way an exclusively male activity; in many countries there are more business women than there are business men. Business often provides a route whereby women can break out of their traditional restricted role in society.

It should also be clear that there are enormous numbers of the types of enterprises which can benefit from a service such as is described in this manual. No business is too small; our concern is with people rather than with money and if a business is the main occupation of at least one person it deserves assistance and attention however small its turnover may be. There are such large numbers of very small businesses that there is, in fact, very little risk that there will be any difficulty in deciding how big a business must be before it ceases to qualify for advice and assistance. More specific suggestions on this point are given in the section on field organisation and management of the service but if all businesses with specialist managers are excluded there will still be more than enough candidates for advice.

Governments and private and public aid agencies are particularly concerned with developing small business in rural areas. There are very good reasons for this concern, but small businesses in the cities are equally in need of help. The practical applications of the system described in this manual have so far mainly been in rural areas apart from in Brazil but the system is equally applicable in densely populated urban areas. Less time will be spent on travelling and there may be a need for closer supervision but the basic principles will be the same.

### **Why Should We Try to Help Small Businesses?**

Anyone who reads this manual will most likely believe that small businesses are good for a country and that they have an important role to play in economic development. Nevertheless before we go into the details of how they can be helped to play their part in nation building, we must understand what it is that small businesses do for a country and why they need assistance. There are a number of good arguments against small businesses and it is important to understand these and their counter arguments if we are to become involved in small business development. We should remember that arguments in favour of small businesses are not necessarily arguments against big ones; society needs a range of different sized enterprises. With this caution in mind it may be useful to present the arguments for and against small businesses in the form of a conversation between 'Mr Pro' small

business and 'Mr Anti' small business. Try to answer 'Mr Anti's' arguments before reading 'Mr Pro's' answers.

Mr Anti: You believe we should encourage and assist the small businesses in our country, don't you?

Mr Pro: Yes I do.

Mr Anti: Well, I disagree. Our country's goal is to develop the economy so that we can be as wealthy as the industrialised countries. They are rich and successful because of big firms, many of which operate in different countries; these firms are big enough to afford the latest machines and techniques; how could a mechanic in one of our villages ever make a car to compete with Ford or Volkswagen?

Mr Pro: Our market for cars is not big enough to support a large car factory. We need products which are appropriate for our stage of development.

Mr Anti: You are condemning our people to second-rate and old fashioned products and working conditions, which can never compete on world markets. Have you never heard of economies of scale?

Mr Pro: In industrialised countries, firms are big because they have to be. Only a big company can afford to buy or operate the machines that they must have because labour is so expensive. Look at all our unemployed people and look how short we are of the foreign exchange which is necessary to buy machinery. Small businesses are the best way to make the most of our most plentiful resources, willing workers, without using much of our scarcest, foreign exchange.

Mr Anti: Foreign companies will build big factories here if we encourage them to do so, and they will employ our surplus labour in safe factories.

Mr Pro: Foreign companies come here to make a profit; in the end they will want to take their profit out, which is only reasonable since they put the original investment in. We need foreign firms for some activities, but if it is possible to use local management, local money and local labour we should do it. Small businesses are the best way to do this. They employ five, ten or more times as many people for each unit of output. Perhaps their wages are lower and the roof may leak during the rainy season, but experience in industrial countries has shown that people are happier working in small units where they know everybody and are involved in the whole manufacturing process. Physical comfort may not make up for loneliness and lack of satisfaction. In any case it is better to employ one person in ideal conditions or ten in slightly less comfort?

Mr Anti: Big businesses will build their factories in our cities and provide jobs for the thousands of unemployed who live in shanty towns on the edge of every large town. Small businesses are

scattered all over the country and are quite impossible to control.

Mr Pro: We need jobs in the city but even more we need jobs in the country to encourage people to stay at home. Every time you create a job in the city, two or three people come to the city to try and get it, so that it creates more urban unemployment in the end. Small businesses can be scattered across the country as our people are.

Mr Anti: But what about the products and services of small businesses? They are so often poorly designed and made of scrap material like old tins. Compare the sandals made by a village shoemaker out of an old car tyre with the ones made in the factory out of plastic. No wonder the rough village sandals are half the price.

Mr Pro: Did you know that the shoe factory spends more money on imported raw materials than it does on wages, that most of its managers are foreigners and that they need three thousand dollars worth of imported machinery for every man they employ? A village shoemaker uses material that would otherwise be thrown away and his only machinery is a hammer, a pair of pliers and a piece of old iron he uses as an anvil; he probably employs at least one relation and possibly another assistant and people who could never afford the plastic sandals can pay for his. The finest product in the world is no good to the person who cannot afford it.

Mr Anti: What about the risks? We all know how many small businessmen fail; they lose their money, their employees lose their jobs and if any one has been foolish enough to sell materials to them on credit, they never get paid. Is this good for the country?

Mr Pro: Haven't you heard of the survival of the fittest? We need our own entrepreneurs and managers who can run big businesses as well as small ones and the best way to learn is in the hard school of experience. Businesses fail because their competitors do better; this is good for the general public and the standards of products and service are improving all the time.

Mr Anti: That may be, but a successful small businessman may become very rich; are we not committed to a policy of redistribution of wealth?

Mr Pro: Rich men become rich because they create wealth, for themselves and the community. Heavy taxation can redistribute the wealth once they have made it but if we never let them make it, society will be all that much poorer. Small enterprises can also be owned by co-operatives or village groups too, they don't have to be private.

Mr Anti: What about their designs though? How can a small business match the efforts of a large corporation with hundreds of scientists?

Mr Pro: Large research laboratories develop products for large scale manufacture. Our country is

made up of many different types of people growing different crops and having different needs, we may all be threatened by the diseases and it is reasonable to fight diseases with the standardised drugs developed in big laboratories. We may need large numbers of different shapes of hoe, or different types of cart, or different types of service from shops. Only small businesses are flexible enough to change and adapt when our needs change. Really new things are invented by individuals not by committees. In the same way, small businesses come up with good ideas far more quickly and far more often than large ones do. If they fail the individual cost is small, but big firms cannot risk failure; this means that they often fail to introduce new ideas at all.

Mr Anti: What about capital and management? Big firms can go to the banks and try to influence government investments and they can train or hire the best managers from around the world. How can our small businesses compete for management or for money?

Mr Pro: As you know, our society is based on the family; progress is destroying many of the links and loyalties on which we have relied but small businesses can actually strengthen the family. A typical small business can be managed and staffed by a family and how else can all the capital or the human ability which is hidden away on our farms and villages be put to profitable use? Many people do not trust banks and they have no access to stocks and shares. They will, however, invest their savings in their own businesses and people will even sell surplus cattle or land to raise money for a business.

Mr Anti: Yes but how can government possibly control all these small businesses? We are trying to plan the development of our country and officials can personally speak to a few big business managers to make sure that they conform to the national plan. Nobody even knows how many small businesses there are in our country so how can we control what they do?

Mr Pro: Government represents the people and maybe thousands of small businesses owned and managed by our own people are more likely to reflect national goals than a few large businesses which may be largely foreign owned and managed. When we set our own businesses up we still have serious problems; when the government tries to set up large national corporations they are, as you know, often inefficient or corrupt. If government directs and encourages the activities of small businesses by assisting them to develop in certain areas or activities, it can have a greater effect on the nation as a whole than can be achieved through a few large enterprises.

Mr Anti: Most of the industrialised countries have moved towards small numbers of large enter-

prises. Why should we be trying to encourage large numbers of small enterprises?

Mr Pro: All the industrialised countries reached their present prosperity because large numbers of small scale business people started new enterprises and developed new techniques. There is no reason to suppose that our country can jump direct to large scale enterprises; many industrialised countries are now regretting the large proportion of their economic activity which is in the hands of large companies and are trying to reverse this trend.

Mr Anti: Small scale business people are often dishonest and in our society we tend to despise them as thieves rather than looking up to them as leaders in economic development. Why should we try to help these people?

Mr Pro: I do not think you will be able to give me many examples of dishonest business people who have succeeded for very long. Let me ask you a question; quite apart from the poverty of our country, what sort of personal failings have prevented our country from developing and prospering as it might?

Mr Anti: Well, I suppose people tend to be cautious, to lack initiative, to delay making decisions, to refuse to face up to problems, they are unwilling to take responsibility or to show imagination and self reliance and are unwilling to work together. Nowadays people always seem to expect someone else, usually the government, to solve their problems for them. It is often said that our public and private sector managers are not as effective as they might be because they are always looking for short term returns.

Mr Pro: Yes that is a reasonable list of human failings. You will find that a successful small-scale business person suffers from few or none of these weaknesses. He *has* to make decisions, to take calculated risks, to face up to and solve problems and to take responsibility for what he is doing because otherwise his business will fail. Success in small business very often involves investing money in the business rather than withdrawing it for personal expenditure. Qualities of this sort, such as self restraint, imagination, initiative and self reliance are present in every successful small business. Small businesses can provide a school for this type of behaviour, a source of effective managers and an example to the rest of the community.

### **Why Do Small Businesses Need Help?**

Even if we are convinced that small businesses can play a valuable role in a country's development, we still have to justify any particular attempt to assist them. Many things are valuable, but this does not necessarily mean that they need help.

Businesses need capital, suppliers, equipment, buildings, customers, employees and above all proper management. We shall investigate later how we can find out the needs of any specific group of small businesses,

and we shall see that they do not always need what they believe they need. Nevertheless, there are difficulties which face small businesses in particular:

1. *Capital* -- Most good business people are short of capital, since they have more ideas than they have money to put them into effect. Nearly all small business people think that their main or even their only problem is their shortage of capital, and we shall see later that they are not always correct. There are, however, particular reasons why small businesses find it difficult to raise capital. Banks may be anxious to help, but it often takes as long to assess a loan application from a small business as from a large one, and it may cost more to administer the loan, even if there is no risk that it will not be repaid. The bank's profit depends on the amount of money lent on each loan, and they will obviously prefer large loans, to larger businesses, if the demand for loans exceeds the supply as is so often the case. The family may be willing to lend money, but when this source is exhausted the small business owner may be at a disadvantage when compared with his large competitors; it may fall to government to solve this problem by providing subsidised loan programmes, through the existing banking network or through a specially created lending institution.

2. *Customers* -- Every business needs customers, but small business people often find it particularly difficult to sell enough of their products to keep them busy and earn a reasonable living. They cannot afford to hire salesmen or to advertise like big international companies are now competing in remote rural markets, and small businesses are at a disadvantage even in their own villages. They are far less able to sell their goods into the urban areas which are growing so fast, and where people often need the products of small businesses, because the large firms can afford to use every modern marketing tool in the city. Governments can help by helping small business people to obtain their share of public contracts, but business people themselves must play the major role, by learning how to sell and market their goods, and by combining with other businesses when this can enable them to reach out to more customers than they can on their own.

3. *Joint Activities* -- Small business people often need to co-operate with one another, in order to obtain

reliable and economical supplies of raw materials, in order to market their goods or in order to present their point of view to government and the general public. They cannot easily do these things on their own, but any form of co-operation requires initiative from an experienced individual who has the time and ability to organise it. If none of the small businessmen themselves have the time or ability to do this, some outside organisation may have to organise some form of co-operative effort. Only in this way can small businesses compete with large ones for sources of supply, for markets, and for government attention.

4. *Management* -- Finally, and most importantly, small business people are in need of assistance in management. They must compete with managers and management techniques which have been tried and tested elsewhere; we have already defined small businesses as those where management is in a sense a part-time activity, carried on by someone who is mainly a craftsman or a shop assistant. Small businesses cannot earn enough to pay for full-time managers, so that their owners have to learn for themselves how to manage while they are carrying out their normal jobs in the business. Small businesses which are owned and managed by indigenous people are often a quite new development in many developing countries. There has, therefore, been no opportunity for children to learn from their parents or for young people to learn through a system of apprenticeship, and every small business has had to start from the beginning. Some form of training is obviously needed to make up for this disadvantage, but because of their size individual small businesses are unable to organise this for themselves. It is therefore necessary for an outside organisation to take a hand, and the purpose of this manual is to enable a really useful form of management training to be made widely available.

5. *Information* -- Small businesses are often unable to take advantage of services provided by Government or other organisations simply because they do not know about them. Small business people often infringe the law because they are not aware of it. In the same way that small business people are unaware of services or regulations which affect them, Government and others are often ignorant about the numbers, locations and problems of small business people. There is a need for a communication system which conveys information in both directions.

## CHAPTER 2: SMALL BUSINESSES AND THEIR PROBLEMS

We have seen that small businesses are at a disadvantage in some ways, and may need assistance in obtaining finance, in finding customers, in organising joint activities, and in management training. This manual is about one way of providing management training and advice, but if the owners of small businesses are asked what they need most they will nearly always reply that they need more capital. They may agree that they need help with management, and that some form of joint activity would be useful, but the need for more money is almost always claimed to be the most serious problem. We must therefore examine the problem in some detail, if there is such a serious shortage of capital, it may be wrong to provide management assistance before ensuring that small businessmen have enough capital to manage.

There are no international statistics on the financial situation of small businesses, and there is very little data available anywhere because most small businesses keep no useful records. Field trials of the system described in this manual showed that in many countries the shortage of capital was to some extent illusory, and experts from other countries have found that small businesses in their countries are no different. Statistics are however less revealing than real life examples, and it may be useful to describe a few businesses where the owners claimed that they needed more capital but further investigation showed that something rather different was needed. Readers who are familiar with small businesses in their own countries may recognise this type of situation. Guidance is given in Chapter 4 as to how the financial situation of a small business can be investigated and analysed, so that readers can confirm for themselves whether the following cases are similar to the small businesses with which they have to deal.

### A. The Baker

#### *First Impression*

The baker claimed that he needed more capital; his ovens and his labour were only half occupied because he could only sell his bread through his shop. If he had a pickup-van he could transport the bread to outlying villages and run his bakery at full capacity. He therefore asked for a loan to buy a pickup.

#### *Investigation and Analysis*

Careful investigation revealed that the daily cost of running a pickup on the very bad roads in the baker's home area would almost equal the total value of the bread it could sell in one day. The neighbouring villages were widely scattered, along four different roads out of the town where the bakery was, and it would be necessary for the pickup to pass through the town three times a day in order to reach all the villages. This meant that the vehicle would have to cover many miles, and the villages were too small to buy more than a few loaves each. If the baker had been able to obtain a loan and buy a pickup, he would very soon have

gone bankrupt, because of the high expenses of running the vehicle when compared with the very small profits to be obtained from selling more bread.

#### *Conclusion*

When the baker realised how expensive it would be to run a pickup, he considered other methods of transportation. He contacted the local bus company, and arranged a scheme whereby they transported the bread to a large number of villages along all four routes; the conductors collected the money from the customers, and the baker was able to calculate that there was still a small profit on each loaf for himself.

#### *What help did the Baker really need?*

The baker did not need a loan or more capital of any sort. He needed to know how to calculate the costs of his proposal and of his bread; the results of his calculations encouraged him to find a better solution to his problem.

### B. The Tailoress

#### *First Impression*

The tailoress seemed to have a successful and growing business. She employed three tailors, and sold large quantities of clothes through her own shop near the entrance to the town market. She had recently started to make school uniforms on contract to local schools, and this business was growing very rapidly. She said that she needed a loan to buy two more sewing machines, since she had so many orders for school uniforms.

#### *Investigation and Analysis*

Orders that come easily must always be carefully examined. The tailoress had never worked out the cost of the clothes she made, since every item in her shop was copied from imported clothes and the selling prices were fixed slightly below the prices of the originals from which the designs were copied. The schools had asked for quotations, based on samples, and the tailoress had carefully worked out the amount of cloth, buttons and thread needed for each garment and had estimated how many minutes it would take a tailor to cut it out and sew it. She had added the cost of materials to the tailor's wages, and had put on 10% profit. These prices always secured the contracts, but investigations showed that it was necessary to add at least 25% to the cost of materials and labour to cover 'overheads' such as sewing machines, rent and maintenance. The tailoress was, therefore, losing money on every uniform and was trying to increase her losses by buying two more sewing machines.

#### *Conclusion*

The tailoress was shown how to calculate costs, and she revised her quotations at once. She still obtained a reasonable number of contracts, although far less than before; the profits from her growing business were soon sufficient to buy one sewing machine, and later another, without the help of a loan.

#### *What help did the Tailoress really need?*

Here again, a loan would have been a disaster. The tailoress needed instruction in simple cost accounting techniques; this knowledge eventually enabled her to achieve her objectives without assistance from outside.

### **C. The Miller**

#### *First Impression*

The Miller owned good machinery, but he claimed that unless he was awarded a long term government loan he would be unable to make use of it. Corn was harvested twice a year; the miller had to be able to buy grain from the farmers as soon as it was harvested, so that he would have enough to mill and resell until the next harvest. If he did not pay cash for the corn straight off the fields, the farmers would transport it to the city where they could sell it without difficulty.

#### *Investigation and Analysis*

The miller wanted a loan, which would have to be repaid in equal instalments over ten years. He needed to buy corn twice a year; for two short periods he needed large sums of ready cash, but as he milled and sold the flour he soon came back into balance. The loan that he wanted was therefore unsuitable for his needs.

#### *Conclusion*

The miller was given some instruction on the various sorts of loans that were available, and was told about the services of commercial banks. He opened a bank account and was granted overdraft facilities on the security of his machinery, so that he only borrowed money when he needed it; at other times the bank paid him interest for the cash he deposited.

#### *What did the Miller really need?*

The miller needed more capital, but in the form of temporary working capital for two short periods every year rather than a long term loan. He needed instructions about different sources of finance, and introduction to the banking services which were available but not familiar to him.

### **D. The Shopkeeper**

#### *First Impression*

The shop did little or no business towards the end of each month. The reason was clear; half way through the month the stocks of sugar, salt and kerosene almost always ran out. There were large quantities of dresses, tinned baby foods, blankets and other goods, but customers preferred to buy these things from the same shop where they bought their staple necessities. The shopkeeper said she had not got enough money to buy sufficient stocks of sugar, salt and kerosene for the whole month. Many of her customers bought goods on credit, and they could not pay until the end of the month. She had to pay cash for her supplies from the wholesaler, and she said that she clearly needed a loan to enable her to hold sufficient stocks.

#### *Investigation and Analysis*

Although there was not enough sugar, salt or kerosene even for one month's sales in stock, there were enough dresses, tinned foods and other goods to last six

months or even a year. The shop had more than enough stocks in total; the trouble was that they were the wrong stocks.

#### *Conclusion*

The shopkeeper was shown how to take stocks, and quickly appreciated that her purchases and stocks of each item should be based on the rate of sales. She was introduced to the idea of cut price sales and other means of releasing the money tied up in slow moving goods; she used the money raised in this way to buy staples and other goods her customers needed, and, thereafter, she controlled her stocks so that she managed a higher level of sales with substantially less money tied up in stocks of unsold goods.

#### *What did the Shopkeeper really need?*

The shopkeeper, like the other small business people, believed that she needed more money from outside, because she needed more stocks. In fact, she had too many stocks and what she needed was instruction on the principles of stock taking and stock control; she needed to be shown that she could reallocate her money to different stocks without having recourse to loans at all.

### **E. The Tank Maker**

#### *First Impression*

The tank maker manufactured circular water tanks out of corrugated iron sheets. He had to spend a great deal of time, and money, in buying ready curved sheets from the city and transporting them to his village. He asked for a loan to buy a curving machine for himself. With this he could save time and money, since he could buy uncurved sheets from the dealer in the village without going to the city.

#### *Investigation and Analysis*

The tank maker was one of five in the village; all were under pressure from a city manufacturer who delivered ready-made tanks to the village. The tank maker who wanted the machine could only have used it for about two hours every week, and it would have been difficult to increase his production because there were no trained metal workers available to employ as assistants. The interest and repayment instalments on the loan would have exceeded his monthly profits.

#### *Conclusion*

The tank maker was shown how to calculate the cost of the curving machine each month, and he soon realised that he could not employ it economically on his own. He was encouraged to join together with the other tank makers; they pooled their resources and bought the machine together, and then continued to manufacture and sell tanks on their own, but shared the use of the machine. They were enabled to compete with the city-made tanks, and they had time to make more tanks because they no longer had to collect curved sheets from the city.

#### *What did the Tank Maker really need?*

He needed a machine, but more importantly he needed to know how to calculate the cost of owning a machine. When he realised the problem of owning a machine



## CHAPTER 3: HOW CAN WE IMPROVE SMALL BUSINESS MANAGEMENT?

Small business people sometimes need more capital, but they nearly always need management training and advice. Better management can help them to make better use of their existing capital; they may be able to achieve their objectives without a loan. Many small business people fail to realise that if they do get a loan they will have to repay it with heavy interest charges over many years. If their enterprise does not succeed they may lose their whole business, or even their land, cattle and homes which they have pledged as security. If a small business person still believes he needs a loan after he has analysed his situation properly he is far more likely to make good use of the money he borrows, and thus be able to repay it. How, therefore, can we improve the management of small businesses?

The examples given in the previous chapter were drawn from actual experiences. The investigation and analysis were carried out by the business owners themselves with assistance from a consultant. There is, however, no reason why these simple principles of good management which the business people used to analyse their problems and develop solutions should not have been learned in some other way. Management is taught nowadays in many different ways, like languages, mathematics, crafts and other skills, and we must examine all the various ways of transferring knowledge so that we can be sure that we select the correct one for the critical task of teaching small business people how to be better managers of their enterprises.

Before deciding on a method of teaching in any situation, it is first necessary to describe the people who have to be taught, and what we want to teach them. All too often teaching is undertaken without this preliminary investigation, and fails to achieve its objective because the methods chosen are not suitable for the target students or the subject matter. First, the target students who are small scale businessmen and women such as we have loosely defined in the introduction: who are they, and which of their characteristics may be important when we are considering how to teach them something?

1. There are very *large numbers* of them. There are few accurate counts of small businesses, anywhere, but it is unlikely that there will be less than three small businesses per thousand population in any country, however poor, and there may be ten or more per thousand in a wealthier country. National populations are usually counted in millions; we may, therefore, be dealing with something between three thousand and ten thousand businesses for every million people. Even the smallest country, therefore, has large numbers of small business people.

2. Small businesses are *widely scattered* because people start them where they live. Large scale enterprises are often located in or near the capital city, or in a few other places, but small businesses will be found in the same places as their customers, the ordinary men and women of the country. In most developing nations,

the majority of the people are farmers, earning their living from the land and their homes are spread fairly evenly over the fertile parts of the country. The markets and villages where small businesses operate are similarly scattered over all the inhabited parts of the country.

3. Small business owners are usually *not well educated*. In some countries many may be illiterate, and nearly everywhere government and large businesses attract most of the university and secondary school graduates. There are exceptions, but usually the owners of small businesses have had a limited formal education.

4. Small business people speak a variety of *different dialects and languages*, and because of their limited education they may find it difficult to communicate in other than the local vernacular.

5. Small businesses are often *competitive with one another*. They may be willing to co-operate to a certain extent, but there is always a risk that one person's success will result in the failure of his neighbour. If a farmer grows more maize or rice than his neighbour, the less successful farmer will not suffer. If one shopkeeper sells more clothes, or a mechanic mends more cars, it may be because people have more money to spend, but it is also possible that his customers have come to him because they prefer his services and prices to those of his competitors.

6. Small businesses are *different from one another*. Many of them really are very different, even if they are in the same line of business, and nearly every business person believes that his problems and opportunities are unique. Since we are trying to teach the business owner, we must accept his belief as to his own uniqueness, regardless of how similar his business may appear to another.

7. Small business people *themselves are different*, even if their businesses are similar to one another. Some are businessmen, some are businesswomen, some are old, and others are young, some have many years experience and others have only been in business for a few weeks, some are concerned about their reputation in the area and others only want high profits; in fact, small business people are drawn from all parts of the population, and cannot be neatly described or categorised in the same way as a group of school children or most other types of students.

8. Small business people are *busy*, as their name suggests. They often run their businesses single handed and may have a farm or other activity as well. If they are away their businesses may have to be closed until they return, or, worse still, the businesses may be left in the hands of an ignorant or incompetent assistant. Employees of large enterprises enjoy regular leave periods, and may be absent for other reasons as well. A small business person is often tied to his business all day and every day.

9. Small businesses are *small*. This may be obvious, but it means that in national terms no one business is very important. If ten or even a hundred small businessmen

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**The Trainees Are:**

Numerous . . . . .  
Widely scattered . . . . .  
Poorly educated . . . . .  
Speaking different languages . . . . .  
In competition with each other . . . . .  
Different from one another . . . . .  
Busy . . . . .  
Small scale . . . . .  
Vulnerable . . . . .

**What is Taught Must:**

Affect attitudes and behaviour . . . . .  
Enable the trainees to analyse and practice, and not just to describe or repeat. . . . .  
Be attractive. . . . .  
Interest the trainees because in part at least it offers a quick return . . . . .  
Enable the trainees to act independently without support . . . . .  
Be remembered for many years . . . . .  
Be right for each trainee . . . . .

**The Training Itself Must Therefore Be:**

On a large scale  
Effective over a wide area  
Simple  
Decentralised  
At least partly confidential  
Flexible and adaptable to individual circumstances  
Brief  
Inexpensive per trainee  
Correct for each trainee

Intensive with opportunity for feedback and discussion  
Practical with opportunities for the trainees to do things themselves  
Encouraging and aggressively presented

Personally relevant

Build confidence  
Thorough  
Personal and individual

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why some broadcasting time should not be devoted to an important minority such as small business people. Most people have access to a radio, even if they do not own one, and this is a very economical way of spreading information among large numbers of people over a wide area. Radio is purely a one-way means of communication, however, and the message must inevitably be the same for everyone whatever their level of understanding and their particular problems.

**Correspondence Courses**

These involve a two-way flow of information. The training institution sends out texts and exercises, and the trainees return their own work which is marked and commented upon and returned to them again so that they can see how well they are doing. Correspondence courses need a reliable mail service which reaches the whole country, and it is often difficult for any but the most enthusiastic trainees to do the necessary concentrated study at home without quiet, comfortable and well lit conditions to work in. People often succeed in passing examinations through home study by correspondence courses, but small business owners and managers need different kinds of skills from those that are tested by examinations. Ability to answer a written question correctly is not the same thing as ability to manage a business successfully, and it cannot usually be acquired by the same sort of instruction.

**Classroom Instruction**

Classes are usually held at some central point within an area. The trainees may attend all day for a few days, a week or for much longer, and particularly if they sleep and eat at the training college where the courses are given, they can concentrate completely on their studies. They are together with other trainees with similar training needs, and they can discuss their problems and ideas among themselves as well as learning from the instructor. Small enterprises are usually very

dependent on one owner or manager, and he cannot leave the business unattended for a long period without losing sales or otherwise failing to satisfy customers. It is also possible to organise part time courses where the classes are only given for an hour or so two or three times a week, in the evening or at some other time when the trainees can conveniently be away from their place of work. It may be easier for business owners to come to part-time courses than to be away from work for the long period involved in a full-time course, but the travel problems may mean that this method is only possible in urban areas where many small business people live in a small area. In addition the trainees may find it difficult to remember what they learn because each class is separated by several days when the lessons can be forgotten.

Small business people have often had little formal education, and they may find it difficult to readjust to the classroom situation after many years of practical experience. There are advantages in learning in a group, but the subject matter must inevitably be general and therefore may not be suitable for the particular circumstances of the trainees, each of whom believes at any rate that his circumstances are unique. If the course participants are in any way competitive with one another, as they are likely to be, they will probably be unwilling to reveal the details of the problems which are in fact of most concern to them.

**Individual Consultancy**

Individual advisors, who may be called consultants or extension officers, visit the trainees on their own and teach them on the job.

The trainees are able to apply and test their ability in the same place and on the same tasks for which it is eventually intended. This form of training is often used for farmers and for community development, but the skills needed for business consultancy are usually too scarce to allow a large scale economical consultancy

service to be provided for small business people.

This unfavourable judgement of individual consultancy as a training method is based on one assumption. We are accepting without examination that consultants must be highly qualified and therefore scarce and expensive. Before rejecting this training method we must re-examine this assumption. Farmers are often quite effectively advised by extension officers with very little education or practical experience, providing that they have been properly trained and are well organised in the field. In any particular rural area, most of the farmers are likely to have similar problems and opportunities, so that standard advice on seed selection, cultivation techniques and so on is usually suitable for nearly all farmers. If the extension officer has been properly trained he knows what should be done, and only has to pass the information on in a reasonably persuasive manner.

Small business management may in some ways be easier than farming, because it often requires less technical knowledge, but one difference between a small farm and a small business is that small businesses are in fact more different from one another. Even if the products made or sold are very similar, the credit policy, the way in which the products are bought or made, the methods of dealing with customers and so on can vary very widely between one business and another.

A business advisor must therefore be able to do more than pass on standard instructions and check that these have been followed on subsequent visits. He must be a sort of 'business doctor' who can examine each 'patient' individually, diagnose the problems and prescribe the right remedies. It is wrong to advise an illiterate businessman to keep a record of cash movements, and a special price reduction or other marketing suggestion may be excellent if it is recommended to one business man in a market but useless if five competing businessmen are advised to do it. The advisor must therefore be more than a transmitter of information. He must obtain information from each business by enquiry and by observation, and must then put together a picture of the business and its problems and opportunities. This will lead him to understand the situation, so that he can make appropriate recommendations for improvement.

It is generally believed that individual diagnosis and prescription are more difficult than standardised advice, and this is why business advisors are said to need high academic qualifications and business experience. The cost and scarcity of suitable candidates usually means that individual advisory services are impossible, so that those interested in helping small businesses have to use the other techniques which we have examined. These are generally far less effective for the particular situation of small business, and the results are far from satisfactory.

There is clearly a need, therefore, for some system

which would enable less qualified and quite inexperienced staff to provide useful advice for small business people. Small businesses are important in any economy, but each individual business, because it is small, has little impact on the economy as a whole. Any advisory or training service, whether it is financed by the small business owners themselves, or by the government or some other interest, must be economic; the money spent on providing the service must be justified in terms of the overall benefits to the nation as a whole. Individual advice and training must of necessity involve large numbers of advisors and their salaries and expenses must be quite low if the costs are not to exceed any conceivable benefit.

In addition, there are other arguments apart from cost for attempting to employ less qualified staff than are generally thought necessary for business consultancy. Small businesses are scattered throughout the countryside, and are not found only in towns or cities. They are often dirty or insanitary and living and travel in rural neighbourhoods may be inconvenient and difficult. Highly educated people may believe that their education has released them from conditions of this sort, and they are often unwilling to suffer the discomforts of peasant living conditions. The same problems may arise in their meeting with simple uneducated small business people. The business persons may respect their education and experience, but doubt the relevance of what they say to their particular problems, while the sophisticated graduate may despise or patronise the business owner, so that no useful communication is possible. Less qualified advisors, who have been educated locally and still see themselves and are seen as members of the local community, are likely to be more willing to work with the community, and more able to work effectively with local people.

There are thus many reasons for employing relatively unqualified and inexperienced advisors for small enterprises; there are however some obvious difficulties. People without specialised commercial experience and training do not know what to look for in a business, or how to identify the important factors which show the true nature of the problems and the possible solutions. They must therefore be provided with a simple system to enable them to do this; a consultant who is trying to advise a large corporation is faced with a vast number of possibilities, and it would be impossible to say in advance what questions should be asked or what symptoms should be expected. Small enterprises are however simpler; their financial situation can quite briefly be described, and their problems are usually not very different from those that affect the other small enterprises in the same area. The following chapter describes a simple system that has been tested in many different countries; experience suggests that reasonably intelligent people can make use of these lists of questions to make a very reasonable assessment of the position of an enterprise, and to suggest appropriate remedies, with a minimum of specialised training.

## CHAPTER 4: HOW TO FIND OUT WHAT SMALL BUSINESSES NEED

We have seen that business consulting involves two tasks; diagnosis and recommendation. The one follows from the other, but it may be useful first to consider the problem of how an inexperienced advisor without lengthy specialised training can obtain a useful picture of a business, which can form the basis for subsequent recommendations. The system of diagnosis which is recommended for advisors may also be used to confirm the existence of problems of the type which we have discussed. Any reader who is interested in the possibility of organising a small business advisory service should himself try out the procedure which is described in this chapter on a small sample of local small businessmen. This trial will show whether the particular businessmen have the type of problems which rather low level advisors can help to solve, and it will also be a useful test of the relevance of the procedure itself in local circumstances.

Many of the best large scale business consultants are accountants by training, and this is no coincidence. Accountants have over the years devised ways of describing the condition of a business. These techniques may originally have been designed to show the owner of a business how his investment was faring, or to give an idea of the financial strength of the business to anyone who proposed to lend money or extend credit to it. They are now however widely used by managers within businesses, and by outside advisors as a means of giving a rapid appreciation of the condition of the enterprise. Even though a business consists essentially of people, who are making or selling physical objects, money provides an invaluable measuring device to enable us to see what the people have achieved and how they are achieving it.

The language of accountancy is specialised and complex; non-accountants are often bewildered by terms such as assets, liabilities, debtors, creditors and so on. As a result they may feel that they cannot make use of accountants' figures and it is generally recognised that only qualified accountants can produce the figures in the first place. This is not necessarily true; the same basic techniques which enable a shareholder to examine the performance of a large public corporation can be used to show a businessman the state of his business and what should be done to improve it. The figures need not be completely accurate, rough estimates can often show the situation as clearly as precise figures and if some information is totally lacking this fact also suggests that certain record keeping procedures should be introduced in order to provide information for a thorough analysis.

### The Uses of Capital

We saw that one of the most common problems of small business people is that they think they need more money but are in fact using the money that they do have in the wrong way. The first object of any diagnosis must therefore be to discover how the businessman is using his capital. Capital can be invested in

buildings or equipment or stocks of raw material or finished stocks ready for sale. It can also be kept as money, either deposited in the bank or in the form of cash. It may in addition be lent out to customers; banks and moneylenders do this on their own but many other businesses also lend money to their customers, by allowing them to buy goods on credit. This may not appear to be a loan, but if a business person sells something to a customer today and allows him a month to pay for it, he is really lending him the money for a month. The list of questions overleaf has been designed to help a consultant find out how a shopkeeper is using the capital in his business. No technical accounting terms are used, but this information is in fact a list of what accountants call the 'assets' of the business.

Before examining the details of these questions, we must be sure that small scale business people will in fact be willing to answer them. If a business owner suspects that the information will be used to assess his taxes, or to show what is worth stealing, or even in order to satisfy local curiosity, he will obviously not answer the questions, or worse still he will deliberately give false information. It is therefore most important that the advisor should be introduced, or introduce himself, as someone who wants to help the business. This statement in itself will not necessarily be enough to get over the initial suspicion. The best approach, which is followed in the brief introductory question which precedes the request for factual information about cash and so on, is to show an immediate interest in the problems of the business owner himself. This should indicate that the information which he is being asked to give will only be used to help solve his own problems. The consultant training course examines the problem of initial suspicion in some detail. Experience has shown that the problem can in fact be quite easily overcome, and the use of young local inexperienced advisors may help to avoid fear of government or other outside 'spying'.

These questions have been used in a number of languages; the details may vary from one kind of business to another; a manufacturer for instance, will have raw materials and work in progress as well as finished stocks ready for sale. A manufacturer's version of the questions is included in Part 2 (see Handout 42.1). Most importantly, the language and description of what is required are simple enough to be understood by any advisor and even by an illiterate business owner.

### The Sources of Capital

Once the uses of funds have been identified, it is necessary to find out where the money has come from. This information in particular may be very sketchy. The business owner should know or be able to find out what he owes to suppliers and what official loans are outstanding. His own or his family's investment in the business is less easy to determine; he may know how

**FIRST CONSULTING FORM**

VILLAGE/MARKET/TOWN \_\_\_\_\_ DATE OF 1ST SESSION \_\_\_\_\_

NAME AND ADDRESS OF BUSINESS \_\_\_\_\_

CONSULTANT \_\_\_\_\_ YEAR BUSINESS STARTED \_\_\_\_\_

TYPE OF BUSINESS \_\_\_\_\_

What is the most important problem in your business? \_\_\_\_\_

Better MANAGEMENT may help you to get over this problem; I am not giving loans, chasing debts or asking about taxes, but trying to HELP you to manage this business better with some ADVICE. I am trying to give you advice especially for *your* business. I do need some information from you before I can do this.

First, I need to know what you have in your business today, and how much it is worth.

Is this building your property? (Y/N) If so, what is its value now? \_\_\_\_\_

What is the value of all the furniture, and equipment you have in your business, if you had to sell it today? \_\_\_\_\_

What is the value of all the goods in stock today? \_\_\_\_\_

Do you give any credit at all? (Y/N) If so how much is owed to you today, by all your customers, whether overdue or not? (Try to add up the total from the debtors record) \_\_\_\_\_

Does the business have a bank account? (Y/N) If so, how much is in it? (Try to check the bank book) \_\_\_\_\_

Do you have any other money which can be used for the business when necessary? \_\_\_\_\_

How much CASH have you got here now which belongs to the business? (Try to see the actual money) \_\_\_\_\_

The total amount of money, or value of other things that you are using in your business today is therefore TOTAL 'ASSETS' \_\_\_\_\_

much he started with, but his subsequent investments or withdrawals are unlikely to have been recorded. This is not too serious a problem. The total sum of money involved in the assets of a business must have come from somewhere; that which has not been lent by suppliers in the form of trade credit, or by banks, must have come from the owner's own investment, or from the profits of the business which were not withdrawn. The size of this 'balancing figure' is often a valuable indication of the progress of the business. Unless a

substantial investment of money from outside has been made subsequent to the foundation of the business, it can be assumed that the majority of the amount has come from profits retained in the business. If the amount is substantial, it indicates both that the business has been successful and that the owner has exercised restraint in his withdrawals. The answers to the list of questions will therefore show the sources of money in the business or its 'liabilities' as accountants describe them.

**FIRST CONSULTING FORM (Continued)**

Let us try to see where this came from. Do you get any credit from your suppliers? (Y/N) \_\_\_\_\_  
 If so, how much do you owe them altogether today? (Try to check from records) \_\_\_\_\_

Do your customers ever pay in advance? (Y/N) If so, how much have you got from them at the moment for goods not yet taken? (Try to check from records) \_\_\_\_\_

Have you ever received loans from any source? (Y/N) If so, how much do you owe at the moment? \_\_\_\_\_

How much money did you and your partners (if any) put into this business at the beginning? \_\_\_\_\_

How much have you put into it since then? \_\_\_\_\_

The total amount put into the business by you or 'lent' from other sources is therefore  
 TOTAL \_\_\_\_\_

The difference between this and the total value of what is in the business has come from profits earned by the business and not withdrawn or from losses made since it started. \_\_\_\_\_

The total value of the business is therefore (transfer total from bottom of previous page) \_\_\_\_\_

Do you have any *other* business such as cash crop farming (        ), a restaurant (        ), transport services (        ), another shop (        ), other (        )?

If so, are all the figures which you have given to me the ones for this business *alone* or does the cash or any other item belong to the others as well? (Correct as necessary).

**The Operation of the Business**

We have now obtained a complete picture of the business at a particular time, or at least we have discovered what additional information is required in order to produce such a picture. We now need to obtain the 'moving picture' which shows what the business achieves over a period. We shall then be able to combine the account of what has been done with the description of the business that has done it in order to see what changes are necessary in order for the results to be improved.

The third list of questions shows the information that needs to be obtained in order to construct the 'moving picture' of the business, or the profit and loss account.

**FIRST CONSULTING FORM (Continued)**

Now let us see how much profit or loss you are making each month.

What is the total value of your sales in an average month? (Try to check from cash records, debtors records, guesses of a day's sales, or your observations) SALES TOTAL \_\_\_\_\_

What does it cost you to buy the goods that you sell for this amount? (Check opening stock and goods bought – less closing stock, or receipts, or average gross profit on sales) \_\_\_\_\_

What do you *yourself* take out of the business in an average month in wages, salary, value of goods taken out and not paid for, gifts to relatives and so on? (Check records) \_\_\_\_\_

Do you employ any others in this business? If so, how many? (        ) What do you pay them in total per month? \_\_\_\_\_

What rent do you pay per month? \_\_\_\_\_

What do you spend on transport each month? \_\_\_\_\_

What do you spend on water, electricity, wrapping materials etc., each month for the business? (Be sure no expenses are forgotten) \_\_\_\_\_

What do you spend on loan interest and repayments each month? \_\_\_\_\_

What is the MONTHLY cost of your licences? (Check licence certificate) \_\_\_\_\_

Your total expenses per month are therefore EXPENSES TOTAL \_\_\_\_\_

The difference between your total expenses and your sales is your profit/loss  
 TOTAL PROFIT/LOSS \_\_\_\_\_



**LIST OF RECOMMENDATIONS (Continued)**

RECOMMENDATIONS

d) Free Gift  
 Item .....  
 Present Stock .....  
 Basis of Gifts .....

e) Exchange with Other Traders  
 Item .....  
 Present Stock .....

Advertise, Item .....  
 How .....  
 (Try actually to do it)

Buy New Stock,  
 Item .....  
 Qty. ....

OTHER

DATE	DATE	DATE	DATE



## CHAPTER 5: PERSUADING PEOPLE TO CHANGE

We have seen that it does not require the use of complicated jargon or specialised accounting knowledge to produce a useful set of accounts for any business, or at least to show what information is needed before such a set of accounts can be produced. Information on its own however is of no value; it is useful only if it leads to improvements in the business, and consultants and their clients will soon recognise the futility of collecting information for its own sake. Even a preliminary enquiry into the problems of small scale business owners is likely to be difficult unless the enquirer shows that he is using the information he obtains there and then for the business person's own benefit. It is all the more important that any piece of information that is given to the field consultants by their clients is used as the basis for practical recommendations.

It may be thought that even if consultants can conquer initial suspicion and obtain information, their clients will never take advice from them because of their youth and inexperience. Any learning is most effective if the learner believes that he himself is the source of the new knowledge and this may be the only way somebody can learn from a person whom he believes knows no more than himself. A skilful teacher does not tell a child that two and two make four, but leads the child to this conclusion by a series of carefully chosen questions, so that the child feels he is making the discovery for himself. Similarly, on a higher level, a small business consultant must act as a guide rather than an instructor. The following dialogues, which more or less accurately record conversations which actually took place, illustrate the sort of approach that is necessary.

### The Shopkeeper

Consultant: 'These figures show you that your shop is making a good profit on everything it sells, but it is not selling enough. How do you suppose you can sell more goods?'

Shopkeeper: 'By having more customers.'

Consultant: 'And why do you think customers come to a particular shop?'

Shopkeeper: 'Well, they come where their friends are, where they can find what they need, and where it is convenient.'

Consultant: 'Your shop is convenient, and you have many of your friends and family around here. Can they find everything they need here?'

Shopkeeper: 'Well, I have everything the other shops have.'

Consultant: 'Do your customers know you have it?'

Shopkeeper: 'Well, it's all here on the shelves or on the floor for them to see.'

Consultant: 'Can they see it from outside in the market place before they have even decided to come in?'

Shopkeeper: 'No, I suppose not.'

Consultant: 'How can you tell them that you have what they need in here before they ever decide to come in?'

Shopkeeper: 'I'm not sure.'

Consultant: 'Come outside a moment. Now look around the market, which shops are the busiest? How are they different from the others?'

Shopkeeper: 'They're all brightly covered with advertisements, and my shop looks very uninteresting. I can soon change that.'

They then went on to discuss obtaining more sales per customer, by selling products that were not already in stock elsewhere in the village. Here again the shopkeeper herself recommended the idea, and the specific items which people presently had to travel to town in order to find.

### The Metal Window Frame Maker

Consultant: 'You say you want an electric grinder to smooth the corners of your window frames now that there is power in the village, but you cannot get a loan. Our figures show us that you have a large amount of money tied up in this business already. What was the biggest item?'

Window M: 'The stock of metal strips for windows.'

Consultant: 'How many months will that big pile of strips last you?'

Window M: 'About 6 months.'

Consultant: 'And how often do you go to the city where you can buy more steel strips?'

Window M: 'Every week.'

Consultant: 'And why did you buy 6 months worth then?'

Window M: 'Because I got 2½% discount for buying such a large quantity.'

Consultant: 'How many grinders could you have bought for the money you paid for that strip?'

Window M: 'Three or four, but I needed the strip.'

Consultant: 'Yes, but in order to save 2½% on the strip you deprived yourself of the grinder. Would you rather have the great heap of steel strips and the 2½% saving or a grinder?'

Window M: 'A grinder I suppose, but what can I do about it now?'

Consultant: 'Are you saving already for your next 6 months purchase of steel strips?'

Window M: 'Yes, I already have a quarter of the money I need.'

Consultant: 'What else might you do with that money?'

Window M: 'Well, it might be enough for a grinder by the end of next month. . .'

Here the idea of capital as something which can be employed as is most profitable at the discretion of the owner, was introduced by the questions of the consultant but the idea appeared to originate from the businessman himself.

### Flour Miller

- Consultant: 'After all our calculations it looks as though your customers owe you the equivalent of two months sales. Why are they so slow to pay?'
- Miller: 'Well, they are poor people like me and they only pay when they have to.'
- Consultant: 'How do they know how much they owe you?'
- Miller: 'When I tell them.'
- Consultant: 'How do you do that? It took you and me two hours to go through all those scraps of paper and add up the bills. How do you manage?'
- Miller: 'They all know they owe me something and they pay as they can.'
- Consultant: 'Do you think customers are more likely to pay if you can tell them exactly what they owe you?'
- Miller: 'I suppose they are.'
- Consultant: 'How do you think you could improve your recording of bills so that you could tell them how much they owed you at once as soon as each customer came in at the end of the month with money in his pocket?'
- Miller: 'Well, all these scraps of paper are a mess. Maybe I could put them all together on a clip or even in an exercise book.'
- Consultant: 'Would you then add up each total only when the customer came in at the end of each month?'
- Miller: 'I suppose I could keep a running total and always have the total added up for each customer.'
- Consultant: 'Let's see in this book how you could lay it out...'

The miller suggested the improved debt recording procedure and the consultant only showed him the proper lay-out after the miller had realised the value of a better system.

### Blacksmith

- Consultant: 'We have worked out that your business is losing money every month. Why do you think this is happening?'
- Blacksmith: 'Well, I have nothing to do most of the time, but I still have to pay rent for the forge, and if I stop paying wages to my four assistants the best of them will go to the city to look for work. So I keep paying out money for wages and rent, but I have not got enough business.'
- Consultant: 'Why?'
- Blacksmith: 'The large new sugar mill has rented most of the land from the farmers; they use machines for cultivating the cane, and nobody wants to buy my tools any more.'
- Consultant: 'How do you sell your tools?'
- Blacksmith: 'As you can see, I have a few leaning against the wall and people come to buy them.'
- Consultant: 'How do big companies, like cigarette factories and torch battery makers sell

their products? Do customers have to go to the factories to buy them?'

- Blacksmith: 'Of course not, they sell through wholesalers, and to shops like that over there.'
- Consultant: 'Do people in other places still need the kinds of tools you make?'
- Blacksmith: 'In the country further away from the new mill, ten and twenty kilometres from here, the Government is encouraging independent small holders to grow sugar-cane, I suppose they still use this type of tool.'
- Consultant: 'Where do they buy from?'
- Blacksmith: 'It is too far for them to come here I know that. Maybe they can get them in their villages, but I don't think there are any blacksmiths there.'
- Consultant: 'Are there any shops there?'
- Blacksmith: 'Of course there are. Wait a minute, maybe they could sell my tools for me. I shall go over there next week to see what I can arrange.'

Through a series of questions the consultant led the blacksmith to consider the possibility of distributing his tools through shops. He was successful in arranging for a number of shops to sell his tools and his business recovered.

### Oxcart Maker

- Consultant: 'Your carts need to be slightly cheaper to compete with these from the city. How can you lower your price?'
- Oxcart M: 'We have already worked out the cost of each cart; you can see that I make very little profit on each one.'
- Consultant: 'How could you lower the price without reducing your profit?'
- Oxcart M: 'By reducing the cost, but how could I do that?'
- Consultant: 'What was the most expensive item when we worked out the cost?'
- Oxcart M: 'The wooden boards which I use for the body of the carts.'
- Consultant: 'How could you reduce their cost?'
- Oxcart M: 'There is only one saw mill here now, and I do not want to use cheaper wood, or to make the carts any smaller.'
- Consultant: 'Why are the boards on the sides the same thickness as the floorboards of the cart?'
- Oxcart M: 'When I started making carts five years ago, I got a big pile of boards that thick from the sawmill that closed down.'
- Consultant: 'Where do you buy timber now?'
- Oxcart M: 'From the new sawmill.'
- Consultant: 'What about your customers, what sort of timber do they need?'
- Oxcart M: 'Now you mention it, some people have been complaining that my carts are too heavy; thinner side boards would save weight and money, and they would be quite strong enough even if they were only half as thick as the floorboards.'

The oxcart maker completely redesigned his carts as a result of this conversation; they were lighter, easier to make and far less expensive as a result.

## CHAPTER 6: WHO IS TO PROVIDE THE SERVICE?

The preceding pages have described a system for individual consultancy for small businesses, and the reader will by now have some idea of how it actually works in practice. There are many perfectly valid reasons for doubting whether the system as it is would work under a new set of circumstances, and the reader should at this stage try out the procedure on some small businesses which are known to him. If the business people are made to realise from the beginning that the intention is to help them with their problems they should be willing to co-operate, and it should be possible to confirm by experience that what is proposed is practicable. It should also be possible to develop and adapt this system to local circumstances. After a few trials the reader should have a better idea than before of the nature of small businesses in his area, and, more importantly, it should have been possible to give one or two useful management pointers to the businesses themselves.

If the reader approaches a small representative sample of small businessmen in this way, he will not only test the system, but will also get some idea of their major problems. We have seen that experience with small business people throughout the world has often shown that most of them believe that their major or only problem is their shortage of capital. The information obtained, and the recommendations given, may show that this belief is indeed the case but as in the numerous examples already discussed, there are always many other problems which the business owners can solve for themselves. If these management errors are corrected, the shortage of capital may appear to have been illusory. If there is still a genuine need for more capital, the businessman will as a result of improved management be able to make far better use of it than he would have done before.

The system may need modification, and the list of recommendations in particular may have to be supplemented or changed according to the most frequent local problems. It may also be worth producing a special list of questions and recommendations to suit particular types of local businesses which need management assistance. Once it has been accepted that the system as presented here, or some modification of it, can indeed be a useful tool for bringing better management to small businesses, it is necessary to investigate the practical problems of organisation, staffing and management.

So far we have said nothing about the type of institution which might operate a small business consultancy service. There are many types of organisations which have an interest in improving the efficiency of small business; these may include the following.

### 1. Suppliers

Small businesses are important customers for manufacturers of equipment, raw materials and finished products for resale to the public, and some of today's small businesses will be the large ones of the future. Far-sighted suppliers are interested not merely in how

large an order they can obtain here and now; it may even be to their long term advantage to advise a customer to buy less, or a smaller machine, if by so doing he will be more successful and thus a better customer in the long run. One of the best ways of increasing sales to small businesses is to offer them credit, but this can be expensive if the businesses are badly managed and unlikely to be able to pay their bills. If a supplier wishes to increase his sales by offering credit he may be well advised to attempt first to improve the standard of management of the small business owner to whom he hopes to sell his products.

### 2. Development Agencies

Government and other organisations are often interested in extending the use of various modern techniques in developing countries, not because they can make money by selling them, but because their use would benefit the people. The Ministry of Agriculture tries to persuade farmers to use hybrid seeds, new tools, modern fertilisers and insecticides, and health and welfare organisations are anxious to promote the use of family planning devices or other health products. Sometimes organisations like these try to develop their own system for distributing the products involved, but they often find that existing small businesses are a cheaper and more effective way of bringing things to the mass of the population. The distribution job will be performed more efficiently, with less need for supervision, if the distribution outlets are well managed, and government ministries and others are often prepared to devote substantial resources to improving retail management for this reason. They may also be interested in persuading local craftsmen to manufacture and sell simple improved farming tools or other locally used equipment. Here again, it is necessary to improve the general management standards of the small business people who are to make the new products and also to bring them the necessary information about the new products.

### 3. Banks

A banker's business consists of receiving deposits and lending money to individuals and to businesses. If businesses are more successful more of them will open bank accounts and make larger deposits. Bankers have often been accused of using the funds deposited by small scale local enterprises for lending to large organisations which are often of foreign origin. The bankers sometimes have no choice, since the local small enterprises are so badly managed that they cannot safely be given loans. Banks are therefore interested in improving the management of small businesses both to increase their deposits and to make them into reliable borrowers. A different and more urgent need arises when a bank has lent money to a small business owner who then falls behind on repayments. The bank may enforce its legal rights and recover some part of the loan at a considerable expense in legal fees and loss of good will. The bank may alternatively try to help the busi-

ness man to rescue his business so that he can repay his debts and carry on in the future. Individual consulting is clearly the best way of doing this.

#### 4. Government

Many government or other organisations are interested in improving small business management. It is in the national interest if every aspect of the economy is efficiently managed and makes the best use of the resources employed in it. Many governments have started subsidised lending schemes to lend money to small businesses which is a reasonable response to the business people's own belief in their need for more capital. Borrowers from subsidised government banks often fail to repay their loans as agreed, and government is therefore forced to concern itself with management if only to recover money already lent out. It is obviously more effective to try to improve management before lending money, or in order to show that loans are not needed at all. For this reason government agencies are probably the most likely organisations to want to become involved in small business consultancy.

#### 5. Voluntary Organisations

In many countries village-based voluntary organisations are involved in trying to promote economic development. These may be of local or foreign origin, and include churches, chambers of commerce and private charitable foundations. They may originally have been interested in education, health or agricultural practices but it often becomes clear that small businesses are an essential part of community development. Organisations of this sort are an ideal basis for a small business consultancy service since they are not affected by centralised regulations, inflated city-based salary scales or the general bureaucratic resistance to change. It may be that an original initiative of this sort can be applied on a small scale and shown to work by a voluntary organisation and can then be taken up nationally by the Government or other large scale institution.

A number of different types of organisation are thus likely to be involved in improving small business management from a variety of motives. If individual consultancy is appropriate there are nevertheless certain basic rules which will apply to any service:

1. Experience has shown that small business people are often so anxious to receive a loan that they will be willing to do almost anything to increase their chances of getting one. It is tempting to encourage better management by offering loans as a reward. This must be avoided at all costs; if a businessman starts to keep a cash record, or to improve his stock control procedures because he thinks this will increase his chances of getting loans, he will not maintain the improvement, nor will he realise its full benefits. If he gets a loan he will revert to his previous practices because the new technique has served its purpose, and if he fails to receive a loan he will in due course abandon the improved practice because it has not done what he expected of it. The consultant may make use of a businessman's desire for a loan by saying that the consultancy may help him to achieve his ultimate objectives without having a loan at all. He may also

argue that if he does get a loan the consultancy will enable him to make better use of it, but it must never be stated or implied that the consultant's advice should be followed because this will lead to a loan being granted.

2. The ultimate objective of the organisation sponsoring small business consultancy may well be to sell more goods or develop customers for raw materials or banking and similar services. The organisation must however recognise that if the consultants are also actively engaged in promoting the organisation's other services they will be regarded by the business owners as ordinary commercial salesmen, and their general management advice will be regarded as subordinate to their main goal. Some suppliers find it necessary to foster the establishment of small-scale organisations to use or sell their products since none existed before. Oil companies set up independent garages, flour millers sponsor local bakeries, soft drink manufacturers set up small-scale bottling concerns and machining or welding equipment suppliers encourage the establishment of local workshops. Organisations in this situation can make good use of consultancy services, but here again the consultants must act in the interests of the small business owner before they consider the interests of their employer. If the service has been properly constituted there will in fact rarely be disagreements between the two interests.

3. Programmes which are suggested and started by the headquarters of a ministry, or the head office of a bank, often fail because the instructions, and the 'feedback' from the field have to go through so many different levels and different individuals. This is particularly likely when the programme concerns large numbers of small-scale enterprises and when there is a need for flexibility and change as the project develops. The best development projects are often started by local officials on their own initiative; these people prove that a certain approach can work by actually doing it on a very small experimental basis, with little or no special funding, and it can then be extended gradually from one region to another. This is probably the best way to start a small business extension service; if the original idea comes from headquarters a selected and reliable official in the field should be given the authority to experiment as he thinks fit for one or two years, with a minimum of control and interference from headquarters. Once he has developed a successful approach, and can show that it actually works in the field, it can then be formally adopted by the headquarters and applied elsewhere.

This manual cannot possibly describe all the different situations where it may be possible to start a small business extension service. It is unlikely that a special organisation would be set up to do this and it is usually better to work through existing institutions rather than to try and start new ones. One of the main difficulties in many countries is that too many organisations are trying to help small businesses; it is very difficult for them to avoid confusion and duplication of effort, and they start to compete with each other rather than trying to help small businesses. Every organisation needs some sort of headquarters, with a director and some administrative staff, and if there

are large numbers of different organisations or departments, there are likely to be large numbers of administrators who are not actually in the field helping small businesses at all.

In most countries there are some programmes of assistance for small businesses, and many people who are involved in them already realise that small business people need individual on-the-spot advice to enable them to make good use of the other services such as loans, courses or technical assistance. Officials who are responsible for granting loans, or instructors who teach on small business management courses, often try to get out to the small businesses themselves. This is not their main job, however, and they can only visit a very small number of businesses. This experience will certainly improve their ability as loan officers or management instructors, but they cannot possibly provide a full scale advisory service. It would be too expensive to recruit sufficient staff with the same qualifications as existing loan officers or instructors, and the system outlined in this manual should solve this problem.

In other cases, extension staff may already be in the field, advising farmers or assisting with general 'community development'. They may have had some elementary training in agriculture, child-care, sanitation and other subjects, but they are usually unable to help small-scale business people very much because business management is beyond their scope.

This is unfortunate since total community development can only take place if every part of the community progresses together, and small businesses are particularly important as a source of employment opportunities. The advice to farmers or mothers for instance, may also depend on small business people, since they will have to make or supply the necessary tools, fertilisers, medicines or other new items whose use is being recommended by the extension officers. The methods outlined in this manual can be used in these circumstances to enable existing extension staff to extend their coverage to small businesses.

The types of situation where a small business extension service can usefully be added to existing activities may be illustrated in this diagram:

ACTIVITIES COVERED

Services Provided	Farming	Community Development	Small Business
Loans	Yes	Yes	Yes
Courses	Yes	Yes	Yes
Technical Assistance	Yes	Yes	Yes
Individual on-the-spot Advice	Yes	Yes	No

A small business promotion organisation may need to offer individual advice, or an individual advisory service may need to include small business. In either case, the ideas in this manual may be of some help.

The concept of using people with no specialised business training, limited secondary education and no business experience as small business consultants is very new, and there has been little practical experience of its application in the field. It may be helpful to give a short account of some field experiences in Sri Lanka, Indonesia, Brazil and Kenya in order to show different types of situation where the method has proved to be useful.

### Sri Lanka

The YMCA in Sri Lanka has diversified its programmes in recent years to include vocational training, and other projects in the national interest. Two staff members became interested in the problem of management in small-scale enterprises and developed a training model for planning and setting objectives specifically for people with little or no previous management training. Experience with over 100 trainees in towns throughout the island clearly demonstrated the interest and need for this type of training. However, it was obvious that this should be followed up by visits to participants in their own businesses to ensure that they had actually applied what they had learned.

In another project, an eighteen-year-old staff member, a secondary school leaver, with no previous business experience, was asked to experiment with the procedures outlined in this manual. Though involved in other activities at the time, he contacted a number of rural small business people and started advising them on the basis of the information from the questionnaire in Chapter 4. Several businesses have adopted his recommendations. If he achieves further success, and results at the time of this writing suggest that he will, the approach may be modified on the basis of his experience and adopted by other workers elsewhere in Sri Lanka.

### Indonesia

In Indonesia the Government is heavily committed to assisting small business; there is a large loan programme which is administered by local branches of the state banks, and the Department of Industry provides large numbers of technical training courses for various types of small-scale business. They also run management training courses, but it is clear that individual follow-up is needed for participants in both types of courses if the best results are to be obtained. In some cases, participants have started to make new products as a result of what they have learned in the technical courses, but because of their lack of management skill, and because the products were not exactly suitable for their individual situation, this has led to substantial losses. They have been unable to calculate the costs of the new products nor have they been able to sell them. The Department of Industry cannot possibly follow-up all the course participants individually, since they already have more than enough work to do giving courses. Similarly qualified staff cannot possibly be recruited in sufficient numbers.

At the same time another Government department is responsible for a programme under which university students spend six months or two years based in rural villages; they provide advice on a wide range of subjects, but up till now they have not worked with small-scale business people.

It is now proposed that these community development volunteers should receive some training along the lines suggested in this manual so that they can fill the gap in the present small business promotion programme. Fortunately there is sufficient opportunity for co-operation at the village level in the field so that the specialised small business instructors and the general community development workers can work together effectively. In this way the training needs of the small business people can be satisfied without setting up a new institution.

### **Kenya**

Partnership for Productivity (P.f.P.) is a United States based non-profit foundation which aims to assist with the promotion of rural small-scale commercial and industrial enterprises in developing countries. Partnership for Productivity (Kenya) was set up in Western Kenya in 1970. Under the direction of a Kenyan board of directors, experienced businessmen came from the United States and the United Kingdom for two years each to advise local enterprises. Some of these businesses were also provided with loans. Several enterprises were assisted and some totally new ones were started, but the schemes suffered from a lack of continuity and rather limited coverage in relation to total expenses. The businesses tended to become totally dependent on P.f.P. assistance and some loans had to be written off.

In an effort to remedy this situation, P.f.P. started a village-based revolving loan fund in 1973, and provided a young accountant trainee to help the market committee administer this fund. This was highly successful, and the P.f.P. board was, therefore, highly receptive to the idea of using 'schoolboy consultants' when this was suggested early in 1974. A group of trainees was soon recruited and by early 1976, after two further training programmes had been run, around twenty consultants were in the field covering some 700 businesses. The specific results of this programme in terms of new jobs, increased profits and new activities are mentioned elsewhere in this manual. P.f.P. has found that by using consultants of this sort they have enormously increased their coverage, and they are effectively co-operating with banks, the few large-scale industries in the area and with Government officials. This successful initiative is being studied by people interested in small business development from elsewhere in Africa and other countries, and there is no

doubt that one reason for its success has been that the P.f.P. organisation is locally directed, and is small, flexible and not tied down by Government regulations and salary scales or the need to submit every proposal to a lengthy approval procedure. This example suggests that if a small business advisory service is started by Government or other large organisation, they should try very hard to make it as independent as possible, particularly in the early stages.

### **Brazil**

The city of Salvador, in Bahia province of north-east Brazil, has over one million inhabitants, and its population is increasing at around ten per cent per year. There is thus a desperate need for more jobs in the city itself and in the rural areas in order to discourage further urban drift. The Unido Nordestina di Asuba as Pequenos Organicaoes (UNO, Bahia) has been set up as an independent foundation in order to help develop small-scale enterprises. Its directors include representatives of large companies in the area, the University, the Government and the Rockefeller Foundation and funds are solicited from these and other sources. The Foundation retains its independence and flexibility however, and plans in 1976 to train some twenty first-year undergraduates who will operate as part-time small business consultants, supplementing the efforts of the ten final year students from the various faculties who are already advising small businesses. It is hoped to cover some eight hundred small businesses by the end of 1976 but the directors estimate that there may be sixty thousand small businesses in the whole region.

University students are not cheap, and in any case there are clearly not enough of them, nor are they conveniently located, to reach the mass of small businesses in rural as well as urban areas. It is therefore proposed that in 1977 the nucleus of thirty student consultants, of whom some will by then be full-time graduate employees, will train a further one hundred and twenty high school trainees who have failed to obtain a place at the University. There are large numbers of these young people, they are willing to work for a fairly low salary and they are scattered throughout the region. In subsequent years, if all goes well, the number will be increased so that the whole region will be covered. UNO Bahia cannot possibly achieve its objectives if they continue to employ only university students as consultants. Concern is already being expressed at the present cost per business assisted, and far larger numbers will be needed in the future. The Organisation is free to solve the problem as it thinks fit, and the methods of training and field organisation outlined in this manual should help UNO Bahia to make a significant impact on the employment situation in North East Brazil.

## CHAPTER 7: HOW TO SELECT CONSULTANT TRAINEES

Most developing countries have found that it is easier to provide education than to provide jobs. It should therefore not be a problem to obtain large numbers of applications for small business consultancy positions, given the relatively low qualifications that have been found to be necessary. Applicants can be solicited by advertising or by word of mouth, and the organisers of a consultancy service are more likely to be embarrassed by too many applications than to fail to obtain enough. In order to ensure that all applicants are basically suitable, it is necessary to specify the minimum qualifications at this stage. These should be more or less as follows:

### 1. Age

Field experience shows that business people are quite willing to accept advice from young people, but it is probably best to demand a minimum age of 20 or thereabouts. This will guarantee that all the applicants are adults, and if most of them have had some employment after schooling, or have suffered from unemployment, either experience will be valuable to them.

### 2. Sex

In many countries a large proportion of small businesses are owned and managed by women. Tradition may suggest that teaching or consulting is best carried out by a man, but field experience has shown that old traditions do not necessarily apply when people are faced with a new situation. Women should be employed as small business consultants if they are qualified to do so, and their success may well provide an example to other women who are constrained by outdated traditions.

### 3. Domicile

Applications should probably be requested only from people who live in the area where they will be required to advise small businesses. This is for three reasons:

- a) Research has shown that the best advisors are those who clearly know more than their clients about the subject of the advice, but are otherwise as close as possible to the background and origin of the people they are trying to help.
- b) A knowledge of the local dialect and of local conditions, such as harvest times and so on, is obviously helpful to a small business consultant.
- c) One of the main aims is to offer an economical service. Accommodation and transport costs can be minimised if the consultants live at home, and if their homes are in the middle of the area where the businesses which they are to advise are located.

If dialect and local knowledge are not critical, and funds are available for accommodation expenses, there may be social advantages in employing people as consultants away from their home areas in order to foster the development of a national as opposed to a narrow regional spirit of enterprise.

### 4. Education

Much of what is taught in schools will never be of direct value to a small business consultant. Schooling

is important, however, for four reasons:

- a) In a situation where only a minority can proceed beyond primary schooling, the very fact that a person has been to secondary school indicates that he is of above average intelligence, and perhaps more important, has unusual qualities of initiative and determination and a desire to better himself through hard work.
- b) Lessons of any sort train the mind to accept and retain information. This consultancy system depends for its success on the consultants working to certain principles and procedures which must be learnt during a very brief training period, and all things being equal a person with more schooling is more likely to be able to do this than one with less.
- c) Education is still a relative novelty for the mass of the people in many developing countries. Old people have traditionally been respected, but now the young who are educated beyond the average level are also regarded with some respect because people recognise that they know things of value to the community as a whole. Many of the small business people will be two or three times the age of the consultants, and their respect for education will help to compensate for the youth of the advisors.
- d) The main determinant of success in any task is the self-confidence of the person who is trying to do it. Young people who have succeeded in obtaining secondary education when it is only available to a minority are likely to be confident of their own ability, and this will help them in the task of advising small business owners. If they have been unemployed for a period after leaving school, they may have become disillusioned but success in obtaining a job as a 'business consultant' will rekindle their enthusiasm and self-confidence.

The optimum educational qualifications will vary according to local conditions; in some countries any full-time education beyond six or seven years of primary schooling may be unusual enough to set a person apart from the majority. Elsewhere, where education is more fully developed, it may be appropriate to recruit from those who have qualified for university but have not been fortunate enough to obtain a place, or even from Diploma or Degree holders. If the consultancy is to be economical, it is vital that the consultants should be willing to work for low salaries, and should be glad of the employment even though it is poorly paid and involves hard work, away from the bright lights and other attractions of the modern city environment. The correct level in any country can best be identified by starting at the highest educational level and examining the numbers and employment situation of each. The highest qualified are nearly always few in number and have no problem in finding employment. Further down the scale, a group will be identified who have above average education but for whom there are insufficient employment opportunities. This level of education is the one to specify for recruits to small business consultancy.

In some countries it may be possible to recruit trainee consultants who have had some secondary education and have also been through a short general course in commercial subjects, book-keeping or elementary accounting. Experience has shown that trainees with this type of qualification find it easier to grasp the basic principles involved and are able more quickly to progress into fairly high level consulting. Accounting and book-keeping are however, often taught in a way that is difficult to understand so that trainees who have been through this type of specialised course may have to be 'untrained' in order to enable them to explain the purposes and techniques of accounting in a simple way.

If people with this type of qualification are available, and if it is possible to recruit them within the budget of the organisation, then they are clearly preferable to secondary school leavers with no business training at all. If necessary however young people with four or less years of secondary education, who have done little mathematics and no economics or other business-related subjects are nevertheless able to be effective consultants after going through the training programme which is outlined in the second part of this manual.

### The Recruitment Programme

It is unwise to try to recruit more than five trainee consultants at one selection session. It should not be necessary for applicants to travel far to a selection session and it will be impossible to evaluate each applicant properly if too many are dealt with at the same time. If possible, six applicants should be invited to attend for interview for every one who is proposed to be recruited. A total of five recruits would therefore call for thirty applicants to be interviewed and this is obviously a large number for one occasion.

The tests and interviews will clearly take a great deal of time but because proper qualifications are of less importance than personal qualities, the interviewing process is absolutely essential. Examination results or reports from teachers or other referees bear little relationship to a person's initiative, self-confidence and ability to persuade others to co-operate and follow his advice. Only by interviewing a large number of applicants can the organiser be sure of obtaining trainees with the necessary personal qualities.

A consulting programme for small businesses can and should be started on a small scale. The concept and practice can be tested in one area and with one type of business and can then be modified and applied elsewhere. It is probably unwise to attempt to train more than twenty recruits together at the same time, and six or seven are a more suitable number. This makes the selection process less daunting than if several hundred recruits have to be selected all at the same time.

The procedure for the selection session should be as follows:

1. The written application letters should be evaluated on the basis of the stated qualifications and the presentation. Applicants who clearly do not conform to the simple educational qualifications already discussed, those who cannot provide adequate references and those who have presented their applications so poorly that they appear to have no idea of the importance of

first impressions, should be eliminated so as to leave a sufficient number to be invited to the actual interviews.

2. The applicants on the resulting 'short-list' should be invited to a group meeting at a central point in the area where they are eventually to be employed. A school or other suitable meeting place should be arranged, and the invitation should stress the precise time and place of the meeting.

3. The meeting should start with a brief presentation by the organiser. He should describe the job and should stress the hard conditions which are involved. He should reveal the exact salary which is to be offered, together with any contributions to expenses that will be possible, and he should stress that trainees or consultants who cannot grasp the principles involved or who abuse the freedom they will have because they work on their own without supervision, will be summarily dismissed. Applicants should then be invited to withdraw their applications if they are discouraged by this frank description of what is involved. Withdrawals at this stage can solve many problems later on.

4. A suitable local modification of the following test should then be given to the applicants. This tests applicants' ability to make simple calculations fairly quickly, and gives some idea of their basic appreciation of business principles.

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#### CONSULTANCY APTITUDE TEST

Time Allowed: TWENTY MINUTES

Write your answers, together with the necessary calculations NEATLY on the separate sheet provided.

1. A shopkeeper buys a box of 20 headache pills for \$1.80. He then sells the pills for ten cents each. How much profit does he make on each box?
2. Add \$93.50, \$3.75 and 65 cents. Take \$32.85 away from the total of these three amounts.
3. Take \$12.35 and \$23.50 away from \$1250.
4. A shopkeeper pays out rent of \$5 per month, licence fees of \$15 a year and transport costs of \$2 per month. What is the total of his annual cost of rent, licence fees and transport?
5. A shopkeeper has \$10 to spend on new stocks. She can either buy ten blankets, which she will sell for \$1.50 each, or one hundred packets of tea, which she will sell for eleven cents each. She will sell the blankets at a rate of one per month, and the tea at a rate of one hundred packets per month. Should she buy the blankets or the tea, and why?

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5. The tests should be marked as quickly as possible. It is likely that some at least of the applicants will have failed to answer any of the questions. These need not be interviewed or asked to stay any longer.

6. The remaining applicants should be asked to draw a simple sketch map showing exactly where they live in relation to the central point in the area where the consultancy service is to be provided. This will ensure that the final trainees who are recruited are reasonably well spread out in the area if possible, and the exercise of drawing a simple sketch map is also a useful test of



common sense and neat presentation, both of which are necessary for effective consulting.

7. As each applicant enters the private room where the individual interviews are held, the interviewer should evaluate his or her personal appearance. If he has made no attempt to appear neat and clean, this will suggest that he is not particularly interested in getting the job, and that he fails to appreciate the importance of making a good first impression.

8. The actual interview should last at least ten minutes for each applicant, and there should, if possible, be more than one interviewer. The objective should be to evaluate the applicant's self-confidence and initiative, since his academic qualifications and success in the written test should have proved his basic intelligence. The interviewer should ensure that the applicant is fully at ease, but if the applicant fails to overcome his nervousness, this is sufficient evidence to justify his rejection, since a consulting session is very similar to an interview; the businessman will evaluate the consultant before co-operating with him. Numerous techniques exist for evaluating the selling ability of applicants for salesman's jobs, and a similar approach is appropriate for small business consultants. One simple device is to hand the applicant a pen and to ask him to persuade you, the interviewer, to buy it, or to show you how to do some simple mathematical calculation, such as multiplication or division. The applicant's reaction to such an unexpected request, and his performance, will give a good idea of his likely behaviour in the consulting situation. Each applicant's personality in terms of potential as a small business consultant should be rated on the scales between ten for the best, and zero for the poorest.

9. The applicants should be asked if they have any business experience, even for a few months working in a relative's shop or store keeping in a warehouse.

10. Before and during the interview, each candidate should be rated according to a predetermined scale. Exceptionally good references, examination success in appropriate subject areas such as economics or mathematics, appropriate job experience and a well presented map and neat personal appearance should all be counted as one mark. The absence of any of these indicators should be counted as zero. If the written test score and the personality potential rating are also included this will give a maximum mark of twenty. The scores should be recorded on a prepared form of the following type:

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NAME:

CONTACT ADDRESS:

REFERENCES	0-1 . . . . .
RELEVANT EXAMINATION SUCCESS	0-1 . . . . .
RELEVANT JOB EXPERIENCE	0-1 . . . . .
MARK ON TEST	0-5 . . . . .
MAP PRESENTATION	0-1 . . . . .
PERSONAL APPEARANCE	0-1 . . . . .
PERSONALITY POTENTIAL	0-10 . . . . .
	_____
TOTAL	0-20 . . . . .
	_____

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Experience suggests that if the required qualifications have been put at the right level, and the opportunity has been effectively publicised there should be no problem in finding enough suitable trainees. The rating system outlined above can be used to avoid any indecision; but the marking system is only a tool; consultancy of this sort is more a matter of successful personal relationships than of any particular technical skill, and the interviewer is not likely to go wrong if he allows himself to be guided by his own personal reactions to the applicants as people.

At the conclusion of the selection session, the successful applicants should be given clear instructions as to when and where they are to report for duty. If administrative requirements allow it, there should be no delay for formal letters of appointment and other formalities since delays of this type lead to a lack of enthusiasm and even to a loss of potential recruits. In order to avoid any delay it may be possible for the selected recruits to start immediately with a census of the relevant businesses in their particular areas. This will introduce them to the environment in which they will be working, and will prepare them for the specific training which will occupy the first two months of their employment. The recruits will need very clear guidance on how to carry out such a census, since they will at this time have had no training of any sort. A possible format for the reporting form to be used is given in Part 2. A census of this sort can provide urgently needed information about the numbers, types and locations of small businesses in the area.

## CHAPTER 8: THE TRAINING PERIOD

The second part of this manual contains a complete training course for the consultants; much of the content and other details of the consultants' training will obviously depend on the institution which is running the advisory service, and the way it is organised. Chapter 6 described some possible types of institutions which could usefully offer a small business advisory service, and Chapter 9 gives some suggested guidelines to the supervision and organisation structure within which the consultants should work. The basic structure of the training course should be adaptable to any type or organisation, but it must be carefully amended, supplemented and modified before it can be used in any given local situation. The introduction to Part 2, and individual sessions, include suggestions as to how this can be done.

The training course includes detailed notes and guidelines for approximately twenty-one days of instruction. Each session involves one or more of the following methods of teaching:

1. 40% of the total time is devoted to lectures, with frequent suggestions for ways in which the instructor should elicit discussions and comments from the trainee consultants, and devices for ensuring that they have understood what is being taught.
2. 30% of the time is spent on exercises, where the trainees work on assignments such as case study problems, which reproduce some of the problems which they are likely to meet when advising small-scale business people. These exercises may be done by the trainees individually or working in small groups of two or three together, and they include role playing exercises and other devices whereby the trainees can reproduce, in the classroom, some of the situations they will meet in the field.
3. The trainees spend about 25% of the training period on field assignments, where they actually have to go out and gain experience of contacting small-scale businesses, with specific objectives. Such assignments are usually followed by discussion, so that the trainees can share their experiences, problems and ideas.
4. About 5% of the period is spent on tests, which will enable the instructor to check how well he is putting over the necessary knowledge and skills to the trainees. They will also help him to decide when trainees are ready to work with small businesses in the field.

The training programme concentrates mainly on shopkeepers; although small-scale industries are mentioned from time to time, the main emphasis is on retailers. This is because shopkeepers need advice, and because shopkeeping does not involve any craft or particular technical skill, but it includes all the management skills that are needed in any type of business. Novice consultants can therefore learn about the problems of management, and how to solve them, without being distracted by their ignorance of a particular craft. Nearly everybody has at one time or another bought things from retail shops. The trainee consultants will therefore start with some familiarity with the type of business they are going to advise.

Because there are so many shops, it is usually fairly easy to find convenient places for each trainee to carry out his practical assignments during training; during the class sessions themselves it may be useful to demonstrate a point in practice, and there are likely to be large numbers of shops nearby where this can be done. It may be more difficult to find conveniently located workshops of a particular kind.

There may of course be good reasons why the consultants should be trained to start by advising small manufacturing businesses, of all kinds or of a particular kind. The consultancy service may be associated with an organisation which is trying to develop a particular kind of activity, or it may be based in an area where there are large numbers of sawmills, bamboo processors, brick and tile makers, sugar mills or some other industry which depends on local materials.

This manual cannot include training material to cover every possible type of industry and for this reason it concentrates to some extent on retail shops. Suggestions are given as to how the service can be applied to manufacturing industries, and how the consultants' training may be extended to cover them. It is important to emphasise that management cannot be separated from the activity which is being managed, particularly in small businesses where the manager is nearly always a craftsman himself.

The consultants need not know as much about the techniques as the business owners themselves, but they must have some familiarity with what is involved; with experience they will be able to grasp the essential management aspects of any process in a short period, but at first they will need training in the technical aspects of every type of business they are to advise. Such training must be added to the basic course which is provided if the consultants are to start by advising manufacturing businesses. This can most easily be done by a minimum of classroom sessions to explain the basic processes, preceded and followed by fairly lengthy periods working in the industries themselves, as unpaid assistants and gradually as novice consultants, in the same way as they are expected to work in shops during the training period described in the second part of this manual.

It may be possible to employ specialist technical advisors who can be called upon by the general consultants to advise on particular problems. Even if such people are available the general consultants must have familiarity with the processes involved in the industries which they will meet in order to decide when there is a need for specialist advice. If a consultant is so bewildered by the noise, dirt and techniques involved in many small-scale manufacturing enterprises he will not be able to provide any useful general management assistance.

It may also be possible to hire an accounting specialist to deal with the accounting problems of the larger clients, a designer or artist who can help with the design of new products and with the creation of promotion material and signs, or a marketing specialist

to assist with the processing, storage and marketing of farm products, with individual clients' marketing problems and with the co-ordination of small units' joint marketing programmes. In one case in Kenya a general consultant obtained accountancy qualifications through home study on his own and he was promoted to accounting specialist in order to provide him sufficient responsibility and pay to prevent him from leaving for a better job. The experiment was extremely successful.

Technical specialists in metal-working, wood-working, leather technology, tailoring, ceramics, textiles, mechanics or other particular industries may be recruited when the service has reached the scale where proper use can be made of their services but it is important not to give the impression that a successful consultancy service depends on the presence of highly qualified specialists. In the early stages there are unlikely to be enough funds or clients in order to justify the employment of these people and an effective and viable service can be provided by general consultants alone.

It is more important to have someone on the staff who has practical business experience rather than to spend scarce resources on specialised technical knowledge. Management is the key factor which must control technology, and an experienced manager can usually help more than a highly qualified technician, both with training and with field consulting.

### Timing

The sessions outlined in the training programme may be given continuously over twenty-one working days. Within this period are a number of occasions when the trainees as a group and individually leave the classroom and go into the markets and businesses around them. It is also possible for the training to take two or three months, with fairly long periods of assignments to businesses between the classroom sessions. It may for instance be convenient to have two full days or four half days of classroom work each week, spread over two months with the remaining days being spent working in businesses or completing assignments at home. The choice of timing will depend on a number of factors:

1. If the field supervisors are themselves experienced and able to provide effective support to the trainees then it may be possible to have a short training programme. If, on the other hand, the supervisors themselves need more experience and confidence, and the training is being undertaken by one or two people who have some experience but are not supervisors themselves, it may be necessary to introduce the trainees more gradually to the real consulting situation by means of a longer course which almost unnoticeably shades into full consulting.
2. Travel and accommodation problems may make it less expensive and more convenient for the trainees to live together for three or four weeks, prior to returning home, or it may be easier for them to travel to a central point once a week for a longer period. If the trainees can do much of their training in the same area and the same businesses where they will eventually be working full time, this will help them to become

introduced and will encourage co-operation from the business people since they will feel that they have actually helped to develop the people who are going to advise them. Since the emphasis of the consultancy approach is on 'shared learning' rather than one way communication from the 'expert' to the client this involvement can be very helpful.

3. The trainers or the classroom facilities may only be available for a short period so that the training may have to be as brief as possible. If this is the case however, it is particularly important that the field supervisor should be involved in the training and should be able to continue the process in the field when the formal training ends. The training course is, in any case, only the first stage, and trainees should continue to have instruction on the job for as long as they are employed.

4. If the selected education level means that the trainees have some knowledge, however elementary, of book-keeping and simple accounts, and they have been reasonably well taught, the training process may be quicker. It is possible however that it will take longer to 'untrain' badly trained accountants than to introduce complete novices to the very simple techniques needed for this consultancy.

### Numbers

The training course, or variants of it, has been successfully used with groups of four or five trainees and with fifteen or more. The total number on any course will obviously depend on the number required for the service, whether it is the first stage or a subsequent expansion. Whatever the requirement, there will still be a number of questions to be answered:

1. How many extra recruits should be put into training to allow for voluntary departure or failure to master the material? Experience has shown that around one in four or five of the trainees will drop out during the training period. If they have been properly selected they should have no difficulty in following the material, and they should be enthusiastic. Errors are bound to occur however, and some trainees may leave because they are unwilling or unable to grasp the necessary lessons. It is more likely that some will leave because they find other jobs; if their training helps them in their new jobs it has by no means been wasted.
2. Should extension trainees be recruited with the deliberate intention of eliminating the lowest 'scorers' in the final test? It is probably not necessary or useful to start off the training course with the definite intention of eliminating some members at the end, since the atmosphere of competition and mistrust will not contribute to the co-operative learning which is necessary. Nevertheless, if less trainees drop out voluntarily than were allowed for, it may be necessary to eliminate one or more involuntarily. For this reason, all trainees should be clearly told at the beginning that they are 'on probation' for the period of the training course.
3. What is the ideal number of trainees to make up a training group? It is probably unwise to have less than three in a group, since there is a need for mutual support and the development of a group spirit to carry the consultants through the often lonely and discouraging periods they will experience when they are

working on their own. Twenty is probably the maximum, and with any more than eight or ten there will be a need for more than one full-time trainer to ensure that field work is properly supervised and that all trainees fully understand everything going on in a class session.

Six or seven is probably the ideal number and at the beginning of a small business advisory service they will obviously go into the field together under the same supervisor. At a later stage, when the service is growing it is probably better to train one or two new consultants for each field supervisor's area so that the new people can work in close association with those who have acquired some experience. The alternative is to train a complete group to be moved into a totally new area but it is probably better to take advantage of existing experience.

### **Location of the Training**

There is no need for an elaborate classroom or for expensive training equipment. A primary or secondary school classroom which is vacant during school holidays may be perfectly suitable. There need only be a good chalkboard and reasonably comfortable chairs and desks or tables. There is a need for individual copies of various worksheets and so on, but these can quite easily be prepared centrally and brought out to the training courses. There are also occasions when a tape recorder is useful but a portable machine is usually available.

It is most important to have the training as close as possible to the place where the trainees will be working in the field. One of the major benefits which comes from using unemployed and relatively inexperienced and unqualified consultants is that they may not yet have been 'infected' by the city life which is so different from the country areas where most people live. The trainee consultants will be willing to work in the rural areas, either because they have no choice or because they will not yet have experienced the 'bright lights' of the urban areas. They may genuinely want to work outside the city centres but the attractions are hard to resist. If the training takes place in a sophisticated urban environment the trainees may get the wrong impression about what they are going to be asked to do, and it will not be easy to find typical small-scale enterprises for them to study and work with during their training period.

If the consultants are to work with small businesses in a city, the training should of course take place in the city, but not, if possible, in a modern office block or university which is insulated from the real life circumstances of small businesses. A schoolroom or meeting hall in a shanty town or suburban area would be far more useful and suitable. If some trainees are discouraged by this type of classroom and choose to leave the training programme, this will be a useful self-selection device and will save later waste of time and money.

### **Instructors**

As a consulting service develops and grows, and because consultants inevitably leave for other jobs, it will frequently be necessary to hold training courses

for new recruits. Experienced supervisors, and consultants, will clearly be the best people to act as instructors in the training course and the training syllabus is presented in such a way that someone with little or no experience of teaching can put the material across so that the trainees will understand and learn from it.

It is most difficult to find instructors in the early stages of a service before there are experienced consultants and supervisors to draw on. It may be possible to use the services of foreigners who have had experience of this type of service in other countries, and the instructors should if possible have had some business experience.

The initiator of the project may be able to lead some sessions; since no service can ever succeed unless there is at least one person who is fully committed to it, it may be necessary for this one individual to teach and learn at the same time, after the initial survey described in this manual earlier.

If the course is given over a short period, with more or less continuous class sessions, it will be essential to have more than one instructor since otherwise the trainees will become too used to one voice and one point of view. Occasional sessions may be given by outsiders who represent a particular point of view. Suggestions are given in the syllabus for the type of person who may contribute, and at what stage.

Successful small-scale business people themselves will obviously be able to make a useful contribution not only because they can describe why they have succeeded but because they can give trainees a feeling for the type of person with whom they are going to have to deal. Experience has also shown that sociologists who have a feeling for practical application as opposed to pure theory can also make a useful contribution; there are many apparent social or cultural difficulties which the trainees may believe will prevent business people from adopting new and improved business practices. A skilled sociologist can show that cultural and social customs can be turned to good account and that there is no need for all traditions to be discarded if a business person is to succeed.

Government trade licensing officials, University teachers who carry out research on small-scale enterprises, bankers responsible for branches where small-scale business people are important customers, representatives of suppliers of raw materials, machinery or goods for resale, accountants and many others are all able to make a useful contribution, and their differing opinions as to the major weaknesses of small business management will provide a useful basis for discussion. Visitors of this sort must however be carefully briefed, and must understand and agree with the work that the trainees are to carry out.

All the instructors must recognise that they are learning as well as the trainees. The objective of the consulting is to help small-scale business people to recognise their own problems, to identify the opportunities open to them and to decide for themselves what they need to do and how to do it. The emphasis is on guided learning and self-instruction rather than on one-way teaching from a consultant who knows, to a client who does not.

The instructors must act in the same way towards the trainees; they must work with them to learn from the material provided and more importantly from the experience and ideas that everyone brings to the course and obtains during the practical assignments.

Business management is about people, and business consultants are particularly concerned with people. There are no right or wrong answers and both the training and field consulting are exercises in shared learning.

### Evaluation

The training syllabus includes many assignments and tests which are 'marked' by the instructor. Their main purpose is to show the *instructor* how well he is doing and what subjects need to be emphasised or repeated or dealt with in a different way. If at the end of a particular session some trainees have not grasped the material, the fault is not theirs. They may have been incorrectly selected, although this is unlikely if the selection procedure has been followed. It is more likely that the particular subject has been incorrectly put across or that too much has been attempted too quickly. In any case the instructor must blame himself and correct his own performance rather than criticise the trainees.

The tests or assignments will not only show the general level of learning; they will also show that some trainees are quite familiar with the subject and that others have failed to grasp it. The instructor should work hard to ensure that every trainee receives all the individual attention possible to give him the best chance of learning what is needed, and this is an argument for small numbers on any one course.

It may however sometimes be necessary to use the tests as a screening device, in order to eliminate the trainee who clearly should never have been selected, or to reduce the numbers to those actually required. Instructors should remember that consultancy involves far more than the ability to analyse figures and answer questions on paper. Experience has shown that the trainees who are most successful in the classroom are not necessarily those who perform best as consultants in the field.

A consultant who can successfully show a business person how to make a very simple improvement is more valuable than one who knows more about the most complicated aspects of management but is unable to persuade anyone to try anything. The instructors should therefore be sure to assess this type of skill as well as classroom performance.

This is obviously difficult, but a subjective assessment of each trainee's personality must be made as well as a formal marking of his performance in a written exam.

### Ongoing Training

The consultants must not consider themselves fully trained at the end of this formal training period. The training syllabus only covers the most elementary principles and the most frequent problems. Guided experience is the best school for management and this

is why the training syllabus itself includes working with small businesses from the very beginning.

It is probably necessary to 'round off' the formal training period with some sort of test and formal recognition that the consultants are ready to work on their own. This is probably the time when the appointments are confirmed, at least for a trial period of six months or more, and the consultants should also start to receive a regular salary at this time. In addition to these improvements in their status, the newly trained consultants may now be given some outward symbols of their position, such as official bicycles, brief cases, folders and slide rules. These symbols are mainly intended to give the consultants confidence in their own ability rather than to suggest that they are fully qualified in every way.

The initial training period, whether it takes place over four weeks or two or three months, is only an introduction and the consultants themselves, as well as their supervisors, must be continually aware of the need for further training and personal development. As the consultant's clients develop in management ability, so must the consultants themselves upgrade their own skill so that they can continually advise their clients. Each field supervisor must draw up and agree with each of his consultants a programme of ongoing training and the promotion policy of the service must make it very much in the consultants' interest to continue their studies after the completion of the initial course.

Ongoing on-the-job training may be carried out in a number of different ways:

1. Early success in persuading clients to adopt recommendations should be facilitated and encouraged since a consultant who has made a successful 'sale' of a recommendation will be far more confident of his ability thereafter. Even if clients have no useful figures on which to base recommendations, so that consultants will have to return several times before being able to put together a set of accounts, there are still recommendations which can be made, and which the client will accept at an early stage. These include simple promotional techniques such as the use of posters, price cutting of slow moving stocks and the adoption of simple debtor and cash recording systems. The consultant's first efforts should be directed towards businesses which are easy to understand, such as small-scale retailers, and business people who are known to be likely to co-operate. As the consultants become more skilled and experienced they can work with more difficult clients.

2. The regular meeting with the supervisor, which is described in the next chapter, should be a training session as well as a discussion of individual businesses and their problems. The supervisor may introduce new techniques when he judges that a business needs them and the consultant is ready to understand them; these new techniques can then be a part of the consultant's equipment for use with other businesses as appropriate. The consultants will also learn from each other, and they must be given opportunities to spend time with their colleagues for this purpose.

3. It may be possible to put together case studies based on individual clients, and to use these as a basis for monthly upgrading sessions led by the supervisor or by

a staff training specialist. In the same way that the initial training involved work outside the classroom from the beginning, classroom training should be continued occasionally to ensure that the basic principles are not forgotten.

4. The consultants will eventually identify more advanced business people who need and can understand more advanced techniques than those which were included in the training syllabus. If it is the policy to provide advice to high level businesses of this sort, it will be necessary in time to have a higher level of consultants to advise them. It is unlikely that all consultants will be able to graduate to a higher level, but those who are capable of this will need continuing advanced training, to enable them to service the more advanced businesses as well as those who have simpler needs.

5. It may be appropriate for the service to start with shop-keepers and then to extend its coverage to every type of small business. Before the consultants can advise metal workers, carpenters, millers, tailors and other small-scale manufacturers or service industries they will need to know something about technical

skills, processes and products as well as management in general. If a number of consultants have to learn about the same industry, it may be worth while organising a formal training course. Otherwise one consultant can work with a business of the particular type where he needs training, in the same way as all the consultants work with shopkeepers during the initial training period. In either case, this provides an opportunity for further learning which will widen the capabilities of the consultants and also improve the service they can offer to their original clients.

6. As the service expands and as some consultants leave, there will continue to be a need to organise introductory training periods for new recruits. It is said that the best way to learn is to teach, and selected consultants can benefit enormously from helping to instruct new recruits. This also solves some of the staffing problems involved in training programmes.

A small business advisory service depends entirely on its employees. In the same way as a factory maintains and improves its machinery, a consultancy must continuously upgrade and develop its only asset, which is people.



soon, the service will fail and will discredit the whole concept.

Whatever the number of supervisors finally selected, there are certain tasks which experience has shown must be performed; if these cannot be properly carried out, the number of supervisors should be increased or the number of consultants reduced.

1. Every consultant should have at least one and a half to two hours per week on his own with his supervisor, going through his week's work discussing problems and agreeing on the following week's programme.
2. In the early stages, the supervisor must personally introduce the consultants to every business person before the consultant starts to offer advice.
3. The supervisor must be personally familiar with every business person who is being advised in his area and must spend a certain amount of time every month calling on business people, sometimes with and sometimes without the consultant in question.
4. The supervisor must personally visit every business which a consultant suggests should be 'dropped', and must agree to this before the business is omitted from the regular calling routine.
5. The supervisor must collect, check, collate, and generally monitor all the routine reports from his consultants, and must report to the project leader every month.

These requirements may in themselves severely limit the coverage of the field supervisors as will the distance to be travelled within each area. If it is unclear how many consultants can be covered by one supervisor it is advisable to start with the lowest estimate and to increase the number of consultants if the field experience suggests that this is possible.

The role of the field supervisor is absolutely critical to the success of the consultancy service. The supervisors are in direct contact with the consultants and should know all the clients' businesses individually. The consultants themselves will inevitably at first behave to some extent like 'puppets', who react to what they see and find out as they have been taught to. This 'programmed response behaviour' can be very dangerous if it is not closely supervised, and only the front line supervisors can do this.

As the consultants get to know the business community in their area, and themselves become known, they will be asked for advice. In due course, they will be suggesting and introducing clients to the supervisor, rather than the reverse. The supervisor must maintain general control over the 'mix' of clients to ensure that the consultants cover an appropriate range of different types of business, and they do not concentrate only on the most receptive at the expense of the less progressive businesses which are in fact more in need of help. The consultant's allocation of time between these various clients must also be carefully monitored.

After some time, the consultants will need less day to day supervision. A certain number of consultants are bound to leave or be promoted so that there will always be a need for training and introducing new staff, but nevertheless, the supervisor will have more time available for his own consulting with larger, more specialised or other more difficult clients.

It is important that the supervisors should not try to

do the consultants' jobs for them. This is impossible, and if it is attempted the businesses will not be properly served and the consultants will never develop their own skills. It is best for the supervisors to concentrate on meeting and talking with the consultants rather than on visiting the businesses themselves. The supervisor must visit each business to introduce each consultant at the beginning but apart from this he should keep his visits to the minimum necessary for keeping in touch with the work of consultants under his control.

The consultancy reporting forms and procedures are sufficiently detailed to allow the supervisor to understand what is happening in each business, and only occasional visits should be necessary to ensure that the forms are a correct record of what is happening and to remind himself of the identity of each business person.

The supervisors must not give their consultants' clients the impression that they are checking up on their consultants by making unannounced calls and enquiries which suggest mistrust. The consultants should nevertheless be aware that their supervisors are taking an interest in every client and that they may call at any time on any business. This knowledge should protect the consultants from the temptation to 'fake' results or to pretend that they have been working when they have not, and they should in fact welcome the independent views of their supervisors about each client.

The supervisor should try to avoid asking the consultant to come to his office for their regular meetings. These meetings should be held in the villages and other places where the businesses are; it is most important that the supervisors should not become regarded as administrators who never leave their desks. If the service has offices of its own in the field, these may be used, but there are advantages in meeting as close as possible to the place where the consultants work every day. It may be possible to rotate the location of regular meetings so that all the consultants get a chance to see the area where each is working.

The consultants must realise from the beginning that the work is often very discouraging, and that they must expect frequent failures. Around a third of all businesses consulted are unlikely to accept any advice at all, in spite of continued effort, and clients who are apparently successful will often lose interest for no apparent reason at a point when the consultant is beginning to feel that he has really achieved something valuable. The consultant's weekly meetings with the supervisors must therefore be an occasion for encouragement and assistance rather than criticism and control; in addition to the time spent with the supervisors the consultants should be encouraged to spend time together with or without the supervisors. An hour or so each week will enable them to exchange ideas and will remind them that their difficulties and problems are not unique.

It is probably not useful to operate 'team consultants' with two or more calling on the same business. This may be necessary when a specialised technical advisor is called in, but usually the one to one relationship between a consultant and his client is the most effective way of introducing new ideas; it is also far

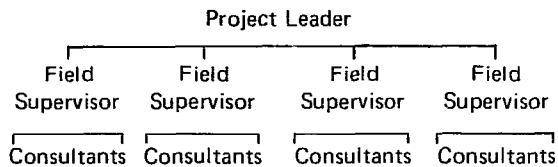


more economical than serving the same business with two consultants.

### The Project Leader

A consultancy service will probably be started by someone who is also the trainer and the first supervisor, with perhaps five consultants. If it is to grow beyond this, there will at once be a need for a second level of supervision. Experience indicates that one project leader can control up to four or five field supervisors so that the organisation should look like the accompanying chart:

BASIC ORGANISATION CHART



The project leader will soon be managing a fairly complicated organisation. Administration is bound to take up a considerable portion of his time; he will have to deal with forward planning, the selection of new consultants and field supervisors and financial control. In the early stages of the service he may well have to spend a great deal of time showing interested visitors what is happening because this will help to attract support and funds which will enable the service to survive.

It is absolutely vital that staff at all levels remain firmly in contact with small businesses and the field consultants. It should be possible for the project leader to have a few of his own clients to ensure that he remains in touch and he should spend as much time as possible in the field.

If possible the Headquarters of the service should be located outside the area in the capital cities where most Government offices are located; at no time should the service be allowed to get out of touch with the reality of small businesses however large it becomes.

If at all possible consultancy services should not be allowed to grow to the point where they need yet another level of supervisor above the project leader. When a service has more than four or five field supervisors a new more or less autonomous service should if possible be started in another area altogether, or dealing with different types of businesses. Clearly the services would co-operate but for the purposes of control and supervision the small unit is undoubtedly the best.

### Selective or Comprehensive?

A small business consultancy service can be highly selective or it may attempt to reach every small business in its area. In practice it is likely to adopt a compromise between these two extremes but it is useful to describe them in order to decide on the particular solution to be adopted in each situation.

1. The selective service examines each potential client very carefully and only starts to advise those who appear very likely to benefit from the service and to

expand their business and employment as a result. Once the consultancy is in progress, the clients are dropped as soon as they appear to be gaining new skills at a slower rate, so that all the resources can be concentrated on the few most promising small businesses. This 'elite' continues to receive advice at a continuously higher level for as long as the business owners continue to make good use of the advice.

2. The comprehensive extension service starts to advise every business person in the area unless they specifically refuse to admit the consultant. Even in this case the field supervisor tries hard to obtain a hearing. The consultancy service is maintained even if little or no improvement appears, and the consultants are closely controlled to ensure they spend as much time with less receptive clients as they do with the most promising. Clients are only 'dropped' after several months of regular calls have produced no change at all. Depending on the number of consultants and businesses to be covered, all clients are 'dropped' after a certain period and a new group is started. A conscious attempt is made to avoid suggestions to the more receptive business people which may damage the less progressive businesses which are in fact most in need of help.

It is unlikely that anyone would introduce a service at either of these two extremes. There is, however, likely to be a tendency towards one or the other policy and it is worth analysing the advantages of each.

### A. The Selective Service

1. No time is wasted on businesses which will not benefit from the advice.
2. The type of advice required becomes more and more advanced as time goes on, so that the consultants are always learning new techniques.
3. The advice is concentrated on individuals who will benefit most and will expand their businesses and create more jobs.
4. The businesses which are advised will continue to progress and may eventually be helped to become large scale businesses.
5. The total number of businesses to be advised is limited, so that each can be individually known to supervisors and consultants.
6. The service is unlikely to grow to the size where it has to be split in order to remain manageable.
7. As the few selected 'clients' improve, their competitors will have to follow their example so that the public at large will benefit from better service.
8. A selective service of this sort will identify and help the few born 'entrepreneurs' who are said to provide the key to genuine economic progress.

### B. The Comprehensive Service

1. The service will encourage the more equal distribution of wealth, since its objective will be to bring every business up to a similar level.
2. Since the consulting service is most likely to be provided by Government, it is right that its benefits should be available to every small business and not just to a selected few.
3. The level of advice required will remain quite simple, so that the consultants will be able to improve their skills as persuaders and teachers by continued practice.

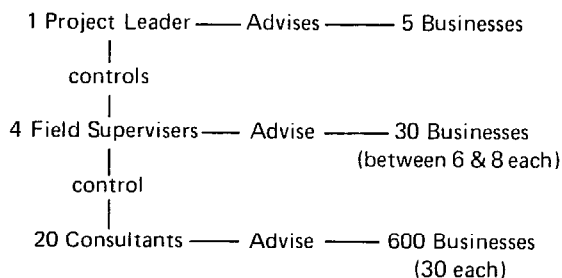
4. The level of advice required will not rise to the level where it requires more highly trained and experienced consultants.
5. The least prosperous and thus the most needy small business people will have every chance to improve their position.
6. The maximum number of small businesses will benefit, so that the general public everywhere will receive better services.

The reader will be able to add more reasons for and against each extreme; it is obvious that the right balance will be somewhere between the two and that it will depend on the policies and resources of the particular organisation responsible for the service.

The few small-scale business people who are really able and willing to take large calculated risks and to devote their whole attention to their businesses so that they continue to expand can undoubtedly make a major contribution to economic development. Some authorities believe that these 'entrepreneurs' are the most important factor in economic growth, and that ample supplies of capital, labour or natural resources are of no value without them. There is some truth in this point of view; experience shows that 'entrepreneurs' are even more likely to succeed if they have assistance and advice.

On the other hand larger and more successful business people undoubtedly need more skilled and experienced advisors than the smaller enterprises, and fast growing businesses quickly reach a point beyond which low level consultants are unable to help them. This suggests a two-tier system of advisors, which combines the merits of the selective and the comprehensive approach. The diagram illustrates the way in which the minority of high-level businesses can be advised by the higher levels of staff of the extension service; this means that as business people progress they move to a higher level of advisor. It also means that the field supervisors and project leaders can have their own clients. This will enable them to keep in touch with the field and to avoid the danger of becoming mere supervisors and administrators.

#### CONSULTANCY RESPONSIBILITY



There is also likely to be a need for specialists who are able to advise particular types of business. It is likely to be far harder and more expensive to find and recruit consultants of this sort than it is to develop general business consultants within the service itself. This fact alone may mean that it is impossible for an extension service to take its clients beyond a fairly elementary stage.

There are certain factors which indicate that the approach should be generally selective or comprehensive even though it is unlikely to go to either of the extremes which were outlined earlier.

A comprehensive approach may be favoured under some of the following conditions:

1. If national policy favours state, or co-operative control over medium and large scale businesses, it is unreasonable to encourage private business owners to expand to a level where they will be 'taken over' by public enterprises.
2. If the indigenous people have only recently started to own businesses there will be an urgent national need for simple upgrading for large numbers of beginners in business. When this is the case the extension service should devote all its efforts to reaching the largest possible number of businesses.
3. If for any reason there is a large scale nationwide demand for small business advisory services, the first priority is to satisfy this need, and only when all small businesses have received some help should the service start to concentrate its efforts on the most receptive.
4. If the service is financed in a way which makes it politically necessary for advisory services to be made widely available, no special effort should be devoted to a small selected group.

On the other hand, a more selective or two tier approach may be appropriate under some of the following conditions:

1. If local or foreign funding allows highly qualified and experienced consultants to be recruited, they should be allowed to work with enterprises which make good use of their skill.
2. If the constitution of the organisation running the advisory service allows businesses to be charged for consultants' services, the more expensive consultancy that is needed by more advanced businesses should where possible be paid for.
3. If within a region there are fairly large numbers of a particular type of business, it may be economic to afford specialist advice.

The final compromise will obviously depend on local circumstances; it should however be stressed that inexperienced consultants with the brief training period which has been suggested in this manual cannot possibly be expected to provide more than simple advice to fairly small businesses. After some time some of them will be promoted to field supervisors, and will by this time have gained the experience and confidence to offer somewhat higher level advice. The service may therefore be expected to start with a fairly comprehensive policy but to move in the direction of providing higher level services to a small number of selected businesses. Supervisory staff should keep in touch with the field by having their own clients; it is important that they should not let their own consultancy load take precedence over their main task which is to assist, encourage, guide and control the lower level consultants in the field.

#### How Often?

The number of consultants depends not only on the number of small businesses to be covered but on the frequency of calls on each and on the period during

which they are to be advised. It is not possible to lay down hard and fast rules; every organisation must decide for itself what is correct for the circumstances.

The best way to decide on the right interval between consultancy visits may be to leave it to the individual consultants. Sometimes a businessman may need daily reminders of assistance and at other times it may be better to leave him on his own for a month or more so that he can try any new suggestion and see for himself if he can undertake it and if it works as the consultant said it would.

Many small businesses are tied to a monthly cycle; they give credit to carry their customers over from one wage payment to another, and often their sales are mainly confined to a few days after the end of each month. In these circumstances, it may only be possible to try out a new way of recording or granting credit or a new way of promoting sales by allowing a full month, and there is no point in the consultant returning until the experiment has been completed.

On the other hand a businessman may be trying to record his daily sales in a new way, or to make a new product. In such a case the consultant might be able to help the businessman by calling every day, or even more than once a day. In these circumstances even a brief visit for a few minutes can often provide the necessary encouragement.

It may however be unwise to allow consultants to decide how often they should call on each business without reference to their field supervisors. Extension services are usually intended to reach the people who are least able to help themselves. It is therefore most important to be sure that the extension staff, or consultants, do not concentrate their time only on the most receptive or easiest businesses. Commercial salesmen are often closely controlled to prevent them from omitting the 'harder' customers and visiting only those who are most likely to give an order. Small business consultants are 'selling' better business practices, and they too must be organised so that they do what their employers intend and not what they themselves find easiest.

As a general rule every client should be visited at least twice a month even if one of these calls merely serves to remind the client that the consultant is still interested. It is more difficult to decide when the consultancy should be stopped because the businessman does not appear to be benefiting. Initial suspicion or even hostility may disappear when business people realise that their neighbours are benefiting. Experience has shown that clients who were at first unwilling even to talk to the consultant actually came round to the office a few weeks later and asked for advice. It is therefore, unwise to withdraw the services after only one attempt at introducing them.

If the client is willing, but because of apathy, lack of interest or his own inability, he cannot grasp what he is being taught, then there is clearly little value in persevering. It should be possible to introduce some improvements in over two thirds of the businesses contacted. The remaining one third should be given every opportunity to learn and the consultant's time has not been wasted if the clients have been shown that alternative methods are possible but have decided on

the basis of this information to continue in their present way. The consultancy service aims to provide clients with the opportunity to choose rather than to persuade or compel them to change; something therefore has been achieved if the possibility of change has been explained even if it is rejected.

### For How Long?

Businesses can benefit from only one visit even if the consultant does no more than point out to the owner that he needs more information before anyone can properly diagnose his problem. On the other hand a responsive business person can continue to benefit from expert advice more or less indefinitely; as the business progresses and expands a consultant can help the owner to see the way to even greater success in the future.

The organiser of a small business consultancy service must therefore decide on the period of consulting that is going to be provided for each business. The decision will depend partly on whether the service is to be comprehensive or selective; the selective approach requires a long term association with each client whereas the comprehensive method is more likely to achieve its objective if each businessman receives advice for a strictly limited period. This will allow the consultants to go on to other businesses which would not otherwise have been covered.

Both methods have been tried and a middle way is probably correct. There are really two separate questions to be asked:

1. At what point should the consultant be withdrawn because the business owner does not appear to be learning anything?
2. At what point should the consultant be withdrawn because the business owner is judged to have enjoyed his 'share' of the service and the time should be devoted to other businesses in the interests of equity?

If the service tends towards the selective approach described earlier the answer to the second question is 'never'. If a comprehensive approach is chosen, experience has shown that six months of regular consultancy visits is enough to make a significant difference to over two thirds of the businesses advised. In most cases new practices adopted during this period were still being practiced up to two years later. One year of advice to a business should therefore be enough to make a permanent improvement.

A point must come, however, when it is better to devote the time to another business; who is to say when this is and how can he judge? The decision must not be left to the consultants; they may suggest that a business should be dropped but the field supervisor must visit the client and review the situation before making any decision. This is most important since it prevents the consultants from taking the easy way out and getting rid of their most difficult clients.

Some business people may be co-operative up to a certain point; they may follow some simple suggestions but then fail to make any further use of the advice. It is reasonable to 'drop' such businesses after two or three visits have produced no further change. Other business people may co-operate, answer questions and say that they will carry out the consultant's suggestions,

but never actually make any changes at all. So long as the recommendations have been appropriate for the businesses and the ability of the owner, and this is why the field supervisor must make a personal check, it is reasonable to drop these businesses also after two or three visits have failed to produce any change. When

in doubt however the consultant should always be told to persevere. 'Extension' means 'reaching out'; if extension advisors come to believe that they need only concern themselves with their most receptive businesses, much of the advantage of individual on-the-spot consulting will be lost.

## CHAPTER 10: ADMINISTRATION

Consider the following situations in an operating small business advisory service:

1. A consultant spends a whole day waiting at home for his field supervisor to come to a regular weekly meeting, and the supervisor never arrives. The following day the consultant travels to the town where the supervisor is based to find out what has happened, while the supervisor, who was ill the day before, goes to the consultant's home and naturally fails to meet him.
2. A consultant takes two days off to attend a cousin's funeral without asking permission. His supervisor reduces his salary accordingly; the consultant objects, and both spend a day visiting the project leader in order to argue the case and to obtain a decision.

The consultants, field supervisors and project leaders spent some hours on these problems; this time made no contribution to the improvement of small businesses in their areas. In both cases, and in many similar situations, the time was wasted because insufficient time had been spent on administration *before* the service was operating.

It is impossible for every situation to be foreseen in advance, but these and many others should have been covered by arrangements which everybody could have known beforehand. In many cases a small business advisory service has to operate in areas where transport and communications are very inadequate. There will thus be many occasions when appointments cannot be kept, and it is difficult to tell people what is happening or to ask for permission in cases of emergency.

In these cases described, if everyone had known what to do if a field supervisor did not turn up for a regular meeting, or on what types of family occasions consultants could take time off, the confusion and disagreement would have been avoided. Everyone could have had more time to spend on their real jobs.

This manual cannot possibly suggest what arrangements should be laid down in every country since these must obviously depend on local conditions. We can, however, outline the main types of decisions which must be made and give examples of the ways in which they have been dealt with in actual experience.

### Transportation

Transportation arrangements will obviously depend on the distances involved and the funds available. Experience has shown that consultants are willing and able to walk on foot up to twenty kilometres a day in order to cover their clients, but it is obviously better for them to have bicycles if possible, in order to save time and energy for their actual consulting work.

It may be necessary to give each consultant a motor-bike if local conditions are such that it is the most generally available and common form of personal transportation, but quite apart from the expense this may involve problems of misuse, maintenance costs, delays through breakdowns and so on which mean that more time is spent in dispute and argument than is gained by faster transportation. In most areas it is probably better not to rely on public transport since this is often unreliable and expensive. In addition, time may be wasted in checking consultants' claims that they are unable to fulfil their programmes because of transportation problems. If

they are provided with their own bicycles they may be slower but they are more likely to arrive as arranged.

Whatever form of transportation is provided, it is probably better to allow the consultants to use their own vehicles as they wish and to make them wholly responsible for all maintenance and running costs. The salary or expense allowance should be sufficient to pay for whatever is involved, and this avoids disagreement and the waste of time with expense claims and so on.

Experience in Kenya showed that if fifty per cent of the cost of a bicycle was deducted from a consultant's salary over the first year of his employment, this ensured that he took responsibility for its care and treated it as his own. After one year, the bicycle belonged to him, but he was obliged to continue to use it in the service of the consultancy organisation.

The field supervisors will need to be more mobile than the consultants since they will be covering a larger area; there is no need for lavish arrangements or expensive vehicles. The emphasis is on simplicity and economy throughout the service and quite apart from the expense it is important that the consultants and their supervisors should not make themselves appear to be different from their clients. There are many people who are attracted to a job because they will have the use of a fine car, a luxurious office or other outward indications of status and authority. These 'status symbols' have their value in large organisations, but people who need this type of support are unlikely to succeed in small business consultancy.

### Expenses

We have already seen that transportation expenses should where possible be covered by a regular grant or by salary. If the consultants have to keep a record of each and every expense such as lunch, cups of tea, minor bicycle repairs or bus fares they may waste time in recording them and there will always be a temptation to submit false or inflated claims.

If they receive a regular monthly grant which has been calculated to cover routine expenses there is a possibility that they will try to save money on transportation and other expenses and thus perform their job less effectively. This should however be controlled by regular supervision and expense allowances are almost certainly simpler to administer than the reimbursement of individual items.

The expense payment should cover lunches, since consultants may otherwise try to return home in the middle of each day and thus lose valuable consulting time. There should also be some allowance for occasional soft drinks or cups of tea during the day, since it is often useful to discuss problems with a business owner informally. It may also be appropriate to buy something of this sort from a client. In many cases clients will entertain their consultants but at first it may be helpful to encourage their co-operation by buying something from them.

The consultants may need to be paid a laundry and clothing allowance, so that they can be well dressed at all times. They should certainly not dress like bankers or senior government officials, but they should appear

smart and clean in order to make a good initial impression.

### **Hours of Work**

The working hours of each day and the number of days worked each week will vary from one country to another. The consultants must work at times when business people are willing to see them, but this may not always mean normal office working hours. Some clients may prefer to see their consultants early in the morning, before the main business of the day; others may want to learn about better business practices during the quiet hour around lunch time while others may prefer the evening. Within reason the consultants must fit in with their clients' wishes. If a business is busy with many customers to be served or a number of workers to be supervised it may be quite impossible for the business owner to talk to the consultant for more than two or three minutes without interruption; it is impossible to make a proper diagnosis or to give anything but the simplest advice in these circumstances.

The working hours must therefore be flexible; the consultants must report what they have done each day and so long as they have in total worked the required minimum number of hours per week their supervisors should be satisfied. The weekly programme agreed with each consultant by his supervisor must of course allow for travelling time, and the schedule of visits must minimise the time spent in travelling between businesses. Even when they have made appointments the consultants will often fail to find the business people they hope to see.

The consultants should never develop a 'nine to five' mentality; like any salesman, they have to work when it is convenient for their clients, and this will often mean that they have to give advice early in the morning, during the lunch hour, at night or at weekends. Consultants have in some cases had to be restrained from working too hard for their own good; in order to ensure the burden is equally spread, and that consultants are protected against their own enthusiasm, it may be possible to grant time off, or extra leave periods to make up for excessively long hours at other times.

### **Offices**

The project leader, and the field supervisor, will need offices and some sort of secretarial assistance to help them with the collating and checking of consultants' reports and the maintenance of the necessary wage records and so on. It is more of a problem to decide whether the individual consultants should have any office facilities. If they do, they must be separate offices, located in the consulting areas, and there are several advantages and disadvantages of providing facilities of this sort.

#### *Advantages*

1. If the consultant spends a certain fixed period in his office every day or every week, it will always be possible for his supervisor, and his clients, to find him when they need him. Otherwise it may take several days to get a message to a consultant.
2. The consultant will have a place to keep his records, and a time and a place in which to do the necessary

work involved in keeping them up-to-date. Regular record keeping is an important part of the success of the consultancy procedure and an enthusiastic consultant can easily fail because he spends all his time advising and never takes time to fill in records and reports.

3. A regular 'office hours' system can develop into a useful 'business clinic'. If everyone knows that the consultant will be in his office from eight o'clock to ten o'clock on Mondays and Thursdays for instance, they can come for advice and assistance during these periods. This can be a useful way of recruiting new clients and of maintaining regular contact with old ones, but the consultants must not be allowed to use their office as a substitute for visiting the client's businesses themselves.

4. It may be useful for the consultant service to have a visible and permanent presence in the area where it is operating. A small but neat and regularly manned office in a village or market can create a favourable impression and may help to overcome initial suspicions as to the origin and motives of the service. It is unlikely that a single consultant will need any secretarial help but so long as the regular and perhaps very limited opening hours are clearly displayed and regularly maintained such an office can perform a useful advertising function for the service.

#### *Against*

1. The office will have to be in one place, but the consultants will probably be working in several villages, markets or districts. People outside the area where the office is located may believe that the service is mainly concentrated in that area, and the consultant himself may concentrate too much on that area because it is convenient for him and he is in more regular contact with the business people who are able to come to this office.

2. The purpose of a consultancy service is to give advice on the spot, in the business itself. There may be a need for classroom training, which should be integrated with consultancy, but this is quite a different type of service, requiring quite different skills. An office can easily become a classroom and unless the consultants have been trained as teachers as well as advisors they will not be effective in this role.

3. An office itself costs money, and it may tend to become a focus for the growth of administrative overheads and bureaucratic procedures which waste time and money. Small business consultants must be simple, down-to-earth and economic to be effective. An office can be the beginning of a very different type of organisation.

4. Commercial firms have found again and again that if travelling salesmen have offices they use them more than is necessary. Our consultants are salesmen of better small business management, and there is a danger that they will spend too much time in an office if one is available. In hot or rainy conditions, or when the job seems difficult, it is tempting to make an excuse to escape into a comfortable office. Close supervision can minimise this problem, but not remove it altogether.

Most of these disadvantages can be overcome by the close supervision which is necessary in any case. It

should not be possible for a consultant to spend too much time in his office, or to concentrate too much on one area at the expense of another, if he is being properly supervised.

The financial situation and the nature of the territory covered by each consultant will be important factors in the decision whether to provide individual offices or not, but if the costs can be met, the advantages more than compensate for the disadvantages. If consultants, or their supervisors, are spending too much time in their offices, this is a sure indication that the supervisory system is not working as it should.

### Discipline

Imagine that you are the project leader of a small business advisory service. Four consultants have been reported to you by their field supervisors for a variety of mis-doings; you must decide what action to take in each case:

A. Consultant 'A' has on more than one occasion drunk too much beer at lunch; clients have complained to this field supervisor that he has been drunk when he came to them in the afternoon. He has been warned to improve but has apparently continued to drink to excess.

B. Consultant 'B' has been found by his field supervisor to be working for a supplier of medicines 'on the side'. He has been using his calls as an occasion to take orders for these medicines as well as giving business advice. He has apparently been doubling his monthly wages with his commission on the sales of medicines. His consultancy performance appears to be up to standard in spite of this activity.

C. Clients of Consultant 'C' whose loan applications have been turned down by the bank have complained to the field supervisor that the consultant had told them that in return for sums of money which they had paid to him he would ensure that they would be given loans.

D. Consultant 'D' has consistently failed to achieve success in terms of accepted recommendations. He works hard and for longer hours than many of his colleagues but appears unable to persuade clients to follow his advice.

Before deciding how to deal with each individual, the project leader would do well to ask himself to what extent these failures by the consultants are the result of failure by the organisation which he directs. What do these individual cases tell us about how the service has selected and trained its consultants, or about how it controls and motivates them in the field? A consultant should not blame his client who fails to adopt a recommendation, he should examine his own performance and see how he has failed; similarly the organisation as a whole is at least partly responsible for failure by its members.

We shall consider each from the point of view of the organisation as a whole as well as deciding what should be done with the individual consultants.

A. Consultant 'A' is drunk on the job; he is not only failing to achieve good results but he is discrediting the whole service by his behaviour. He may have personality weaknesses which should have shown up during the selection and training process, or he may

not be properly supervised, but he should be dismissed at once before he causes further damage. The field supervisors' work and the training and selection procedure should be examined to see if they have in any way contributed to the problem.

B. Consultant 'B' is acting as a salesman as well as a consultant. This is dishonest but it suggests an excess of ability and ambition which he is unable to channel and satisfy through his official job. We should ask if he is being frustrated through the lack of promotion opportunities or his limited salary. Is he not getting sufficient satisfaction out of his job because of poor supervision or training? Are his expense allowances sufficient to enable him to make ends meet? He should be told to stop selling the goods and his compliance with these instructions should be ensured. He should at the same time be encouraged to devote his attention to his job by the possibility of promotion. If his aggressive personality appears to disqualify him from promotion it may well be worth asking whether the service should adjust its standards so that it can employ people with this type of personality since they are often the most useful consultants.

C. Consultant 'C' is accepting bribes from gullible business owners who want loans; he is discrediting the service and deliberately concentrating his clients' attention on their desire for loans as opposed to the needs for better management. He should be dismissed at once because of the damage he is doing to the reputation of the service and the interests of the businessmen he is misleading in this way.

D. Consultant 'D' appears to be inadequate at his job. This may be a fault of selection, training or motivation and control. If he has been badly selected, he should be assisted to find a more suitable job. If training is the problem, he should possibly be included in the next training course for new recruits; very often a poor performer can be changed into a leader by the experience of working with more intelligent but far less experienced new recruits. His relationship with his field supervisor should be examined, and in this and in every case the field supervisor should feel responsible for the performance of his consultants.

The consultants are expected to be able to advise business people who are often far older than themselves, and to be able to work on their own with a minimum of supervision. They should therefore not be treated like children or potential criminals, and their standards of effort and performance should be measured because they themselves want to achieve good results rather than because they have to obey a set of rules.

Nevertheless certain items should be clearly understood, in order to avoid misunderstandings of the sort which we examined earlier.

1. Timekeeping: consultants must work the minimum number of hours per month.
2. Honesty: consultants must not try to conceal the truth from their supervisors by false statements or entries on forms, nor must they mislead their clients.
3. Appearance: consultants must always be smartly dressed and appear well organised and efficient. They are trying to introduce order and efficiency and their personal appearance and behaviour can make a significant contribution to this.

4. Punctuality: consultants must be punctual. They must make and keep appointments with their business clients and with their supervisors so that their time can be fully and profitably employed.

Consultants should *not* be expected blindly to obey instructions about what their clients should or should not be advised to do. The business people are the consultants' individual responsibility, and they should view their supervisors as assistants and advisors rather than as controllers and critics.

### Forms and Reports

We have emphasised that a small business advisory service must be economical, simple and have a minimum of administrative overheads if it is to be effective. This suggests that there should be very few forms and reports, since these need secretaries, filing cabinets, copying machines and all the other aspects of bureaucracy.

Some forms are however necessary; think about the following situations and decide how they might have been avoided:

A. A shopkeeper has never kept any records of the sales he makes on credit. His consultant shows him how to keep up to date figures of the amounts owed him by each customer and draws up a sample sheet with the necessary columns. The businessman misses out one column when making up his own copies and as a result fails completely to follow the consultant's advice. At his next visit, the consultant has to start all over again and is additionally handicapped by the shopkeeper's previous discouragement.

This problem could have been avoided if the consultant had suitable pre-printed sheets which he could have given to his clients; those which will be used in quantity should probably be bound in pads and may well be sold rather than given away. Examples are included in the training course; it is important that consultants should not force new forms on business people whose present systems only need minor improvements; they must avoid imposing standard book-keeping procedures which are unsuitable for particular businesses or are beyond the ability of certain business people. Individual advice works because it is individual, and because any recommendations are based on knowledge of each business and its owner. B. A consultant calls on a business only to find he was expected the following day since the owner was not present for the previous visits and was misinformed about the next appointment. The consultant requests certain information only to be told that he has asked the same questions two months before. Finally the consultant asks the businessman how he is getting on with his progress of stock reduction, but the owner denies that he has ever been advised to reduce his stocks at all.

Misunderstandings of this sort between consultants and their clients can be avoided by regular use of the consulting forms which have already been introduced in Chapter 4. The particular forms which are used by consultants to monitor their dealings with each client depend on what types of business they are advising, but samples of the basic forms are included in the consultants' training course.

C. The project leader has to appoint a new field supervisor, and wants to choose him from the consultants in the field. He asks the existing three field supervisors for suggestions and they each nominate one consultant for promotion. They are unable to back up their recommendations with any specific information beyond their favourable opinion, and the project leader has no way of comparing the performance of the three nominees in order to select the best. At the end of the year the project leader has to submit a report on what the service has done during the year. Before funding can be continued or increased, the project leader is expected to show what the service has cost and how it is benefiting the businessmen and the country as a whole. The project leader has no record of the number of businesses being advised or of their performance; while he is trying to get this information from the field supervisors and the consultants the budget deadline passes and the service is left without financial support.

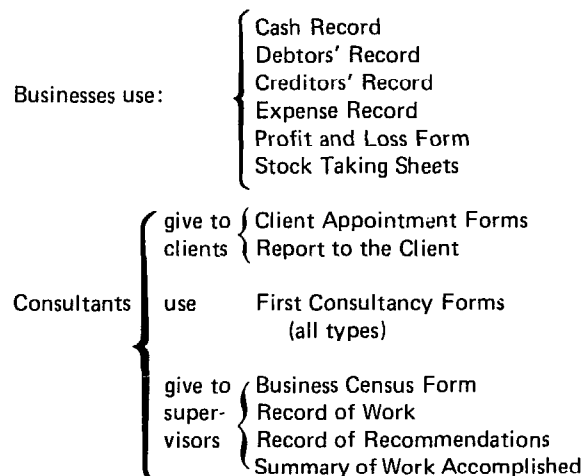
These difficulties occurred because there was no internal reporting system. The earlier forms are those used in the businesses themselves, with the guidance of consultants, and those used by the consultants to control and record their work with each business. These type of forms are a direct part of the consulting service and if the consultant was working on his own he would need little or nothing else in the way of records.

As soon as a number of consultants are employed, with supervisors, there is a need for 'internal' records; it is important that there should be as few as possible of this type of form, since time spent filling them in or studying them is not directly related to the consultancy or to supervision of consultants. Forms of this type can easily come to dominate the organisations they are intended to serve.

Experience has shown that certain forms are essential to enable the project leader and supervisors to know what is happening in the field and to plan the service properly; examples of these are given in the consultants' training course.

The uses of various types of forms may best be illustrated by a simple diagram as follows.

#### *The Use of Forms and Reports*





No specific examples are given of the types of form that should be submitted to the project leader by field supervisors, or by the project leader to whoever is ultimately responsible for the service. The details of these reporting procedures will obviously depend on the type of organisation which is sponsoring the service, but it is essential that all the information from individual clients should eventually reach the project leader in summary so that he can measure the overall effectiveness of the service and evaluate the performance of individual consultants and supervisors.

Administration, reporting, forms and procedures can easily become the masters of organisations rather than their servants. Every task performed by every individual at every level in the service should be regularly examined. The following questions should be asked:

1. Does the completion of the task in any way monitor or improve the consulting performance of individual consultants in the field?
2. Would the service function any less effectively if the time, effort and expense involved in completing this task were devoted to some other activity, such as more consultancy or more field supervision and training?

If the answer is 'no' to either or both of these questions, the particular task, whether it is filling in a form, attending a meeting or any other administrative job, should probably be stopped for an experimental period. This may show that it was valuable and should be reinstated and retained, but it is more likely that nobody will notice the difference and the service will benefit by saving time and effort.

### **Wages and Motivation**

Most job-seekers are interested mainly in security and money when they are first employed, but success in small business consultancy depends more on other motives. The consultants' day-to-day enthusiasm and commitment will be encouraged by a friendly spirit of competition, by the feeling that their work is appreciated and is important, and by the knowledge that their own skill is being improved and recognised. Supervisors should not use the threat of dismissal to overcome apparent failure, but should appeal more to positive and non-monetary motives. The supervisory and recording system that has been described should allow supervisors and each consultant to be continually aware of their results, and of the areas needing improvement. The consultants should feel that their supervisors, and the system for recording and monitoring results, are there to help them perform more effectively rather than to criticise and control them.

The consultants have been recruited from a group whose education is above average but for whom there are few employment opportunities. They may therefore be willing to work for a very low salary. One of the main advantages of this type of service is its low cost, and the wages of the consultants should therefore be limited to what is economic and equitable since the expansion and coverage of the service will depend on the continued economy of operations. Actual wages will obviously vary in various countries and will depend on the organisation which is sponsoring the service.

Government pay scales are often higher than is necessary to attract recruits of suitable quality but the wages should not be so low that the consultants will at all times be looking for a better paid job.

Small business consultancy carries a considerable status and the consultants will, if they are successful, undoubtedly feel rewarded by the value of what they are doing and the respect in which they are held by their clients and friends. The consultants in the first small-scale experiment in Africa were paid at the rate of thirty dollars per month and the larger-scale service now operating in Kenya pays around one hundred dollars per month. If the consultants are in some sense volunteers they may be willing to work for less than these amounts.

Whatever the salary, a significant proportion should probably be paid into a deposit account, along with a contribution from the service, and this amount should only be available to the consultant on his departure from the service. This provides him with some security if he does leave and may in addition, form the nucleus of an investment in small business. It is very much in the national interest if some consultants leave to start their own businesses and a 'trust fund' of this sort can provide them with the necessary capital.

The consultants' wages, from the very first day when they join the training course, should be paid into a bank account. This will encourage them to organise their finances properly and will enable them to instruct their clients in financial management and the use of bank accounts based on personal knowledge.

### **Evaluation of Consultants**

The consultants themselves need to know how well they are doing and to compare their performance with their colleagues. It is of course equally important that the field supervisors and the project leader should be able to evaluate the performance of each consultant. The purpose of evaluation is not to threaten or criticise but to enable the supervisor to help each consultant to do better.

There are a number of objective measures which can easily be recorded for each consultant:

1. The number of clients covered
2. The number of calls made per week
3. The number of recommendations made
4. The number of recommendations accepted

It is clearly dangerous to concentrate too much on figures of this sort since they only give a partial indication of the quality of each consultant's work. Emphasis on any one of these measures may in fact cause the consultants to work less well than they would otherwise. If consultants try to make as many calls as possible, or to make as many recommendations as possible, the quantity may be impressive but this may be at the expense of quality. Individual styles differ; one consultant may appear to be working very slowly, with a rather small number of clients, but his results in terms of long-term improved performance may be better than those of a faster moving consultant who covers many more clients and 'sells' a larger number of relatively unimportant recommendations. It may be possible to work out some sort of ranking system, whereby different types of recommendation, or clients,

count more than others. Such systems are bound to be arbitrary, and to pose more questions than they answer, but both supervisors and consultants will welcome any means which can easily be used to compare performance by the same consultant over time or by different consultants at the same time.

One system, for consultants advising only shopkeepers, was as follows:

Housekeeping recommendations accepted (cleaning, posters, price-tickets, well organised shelves, etc.) . . . . .1 point  
Book-keeping recommendations accepted (cashbook, debtors recording, receipt system etc.). . . . . 2 points  
'Attitude change' recommendations accepted (opening a bank account, disposing of slow moving stocks at a low price, starting to sell a quite new type of product, stopping or disposing of an unrelated activity). . .4 points

This system would produce the following type of results:

Consultant 'A'	Two shops open bank account . . . . .total 8 points
Consultant 'B'	One shopkeeper cut the price and sold off some slow moving goods, 4 points; two shopkeepers cleaned their shops, 2 points; one shopkeeper started to issue written receipts, 2 points; . . . . .total 8 points
Consultant 'C'	Eight shopkeepers put price labels on their goods. . . . .total 8 points

This is obviously a very crude way of assessing and comparing performance, but it is better than counting every recommendation the same, and does enable some sort of comparison to be made. People need standards by which they can judge themselves and targets at which to aim, and a simple system of this sort can be a useful tool so long as it is not allowed to dominate the whole system.

It may be appropriate to allocate different weights to different types of businesses, or to change the points depending on seasonal factors or the need to redirect the consultancy towards a particular objective. It is important however not to complicate the grading system too much, since it can never be more than a crude measure, and if it is not easy to understand and operate it will serve no useful purpose at all.

In the long run clients' improved sales and profits are probably the best means of measuring success and more will be said about this in the chapter on the evaluation of the service as a whole.

Individual consultants need a more immediate feedback of their results; a simple points system can only supplement the supervisor who should continually be evaluating the efforts of each consultant in a sympathetic and encouraging way.

## CHAPTER 11: FINANCE; COSTS AND EVALUATION OF THE SERVICE

We have already looked at the various ways of measuring individual consultants' performances and comparing them with one another; now we must examine ways of evaluating the service as a whole.

First of all it is worth asking why and whether it is necessary to evaluate it. Small businesses need better management and this type of service has proved in practice to be an economical and effective way of delivering management training to large numbers of business people. Evaluation itself takes time and costs money; so long as expenses are reasonably controlled and the consultants are supervised and motivated as has been described, why is it necessary to spend time on evaluation that will in itself do nothing to improve the service.

There are in fact a number of reasons why an activity of this sort should be evaluated, even though it is difficult and can never be completely accurate.

Imagine that you are a project leader and you must answer the following questions:

1. 'Your small business advisory service has been running for a year now. Have you achieved what you set out to do?'

An advisory service can only be properly directed if it has definite objectives which are stated and made known from the beginning; nobody can judge whether these have been achieved or not unless the service is evaluated.

2. 'You are requesting funds for a further expansion of your small business advisory service. This department has also been asked to spend money on subsidising a small business loan programme, and to sponsor a large number of full-time training courses for small business people. Our budget cannot cover everything; how are we to decide?'

The small business advisory service will cost money; whatever institution is starting and running it will presumably have other ways of spending their money. Some attempts must therefore be made to compare the results of small business advice with the results of other programmes. This must involve evaluation and the measurement of cost and benefits in a way that enables them to be compared with other activities.

3. 'This is the third year of your small business advisory service. Is its performance improving, declining or staying the same?'

The project leader or whoever is responsible for directing this service, needs more than control and comparison of individual consultants. He needs to be able to measure results over a period in order to ensure that the service consistently improves.

Evaluation is thus critical for the starting, maintenance and expansion of any small business advisory service; how can it be carried out?

### Costs

The first and possibly the easiest step is to calculate the *costs* of running the service. These must be estimated or 'budgeted' in advance in order to obtain funds, and then they must be calculated after they have occurred in order to compare them with the budget and with the benefits. What costs are involved in running a small business advisory service?

### 1. Start-up Costs

As with most projects, there will have to be a considerable investment before any 'production' or 'profits' can be expected. Unlike an industrial venture, however, these will not be investments in machinery and building but they will be investments in knowledge and people.

A service can only be properly planned on the basis of reliable data about the number of small businesses and their problems. The initial analysis along the lines described in Chapter 4 has to be carried out and the service has to be planned in detail. This takes time and money.

When the plans have been made and accepted, the consultants, supervisors and other staff have to be recruited and trained. They will have to be paid during this period and the training course or courses may involve outside instructors who will also have to be paid. Monthly expenses during the training period may well exceed monthly operating expenses. Supplies of reporting forms, bicycles, vehicles and so on will have to be bought at this time, so that the cash requirements will be greater than running costs alone. It is vital not to underestimate these costs or the duration of the start-up period.

### 2. Operating Costs

Most developing countries are short of capital to pay for offices, equipment, vehicles and so on, and there is a shortage of senior staff with practical experience in management and administration. The consultants however are to be recruited from surplus labour; the 'opportunity cost' of employing them, which is the value to the country of what they might have done instead, is little or nothing if they were previously unemployed.

The consultants are the 'fighting men' in the front line of the advisory service; any procedure, any equipment and any other staff should only be employed if they genuinely help the consultants to do their job better. Operating expenses will obviously depend on wages and salary levels. The following headings cover most of the likely items and the figures should be filled in according to local conditions.

### Major Cost Items for a Small Business Advisory Service

#### Consultants

- Salaries
- Regular transportation costs (bicycles etc.)
- Occasional longer transportation
- Equipment (files, brief-cases, calculators, slide-rules etc.)
- Training programmes for replacements and additions; and for upgrading staff in the field.

#### Field Supervisor and Project Leader

- Salaries
- Transportation
- Accommodation

#### Office and Administration

- Rent (headquarters, field supervisors, and if applicable, consultants' offices)

Equipment (typewriters, duplicators etc.)  
Accounts Clerk  
Secretarial costs  
Printing of forms for businesses, consultants and internal reporting purposes  
Stationery  
Telephone and postage

It may be that some specialist advisors are provided from foreign sources at little or no cost to the service itself. Their actual salaries may be far greater than would ever be paid locally. Their cost should be included in the budget and cost statements at a figure which comes as close as possible to what will have to be paid for equivalent local staff when foreign assistance is withdrawn. This will ensure that foreign assistance is not kept on longer than is necessary. If the service does not actually have to pay for such foreign advisors there will obviously be no need to request funds for their salaries and expenses, but these notional figures for their replacement costs must be included in the assessment of the costs and benefits.

When all the figures have been forecast and recorded, it will be possible to calculate the total costs of operating a service and of the start-up costs. How can we calculate the value of the benefits in order to justify these costs?

### Benefits

Try to imagine the rather unlikely situation of ten separate small business advisory services operating in one country. Imagine that each of the services has cost exactly the same amount of money to start up and operate for its first year. The ten project leaders have met to put their case for more funds; since there is only money to allow one of the services to continue, they are each anxious to present their own achievements in the best light. The argument might run like this:

Project Leader 1: 'My consultants have made a total of five thousand calls on two hundred different small businesses; these figures surely justify continuation and expansion of our service.'

Project Leader 2: 'Well we go by quality not quantity. The business people advised by my service have accepted a total of five hundred and fifty recommendations; this represents real progress and we must be allowed to continue.'

Project Leader 3: 'Businesses do not necessarily gain by accepting recommendations; our clients have on average increased their sales by fifty per cent, and a total of \$250,000 of extra business is being done each year. That is what I call genuine increased activity and the momentum must be kept up.'

Project Leader 4: 'Sales on their own are no good to anyone; business people are in business to make profits and the businesses advised by my consultants have on average increased their profits by forty per cent; an extra \$20,000 is flowing into the area every year. That is what I call real benefit and we want to do even better next year.'

Project Leader 5: 'Employment is what our people

need, not just profits for the owners of businesses. My consultants have helped their clients expand so that one hundred new jobs have been created in the area. This is really tackling the country's most severe problem, and we must build on our past success.'

Project Leader 6: 'Progress depends on innovation and business people who do new things. Ten totally new ventures have been started in our areas as a result of my consultants' advice. Development means change and we are bringing change to our people. Give us the money to continue.'

Project Leader 7: 'New ventures can be anything from a tea kiosk to a large factory. I know what we have achieved because my consultants have advised their clients so that a total of \$250,000 has been invested in new businesses in our area. This is measured expansion of the economy and this quality of advice must not be allowed to stop.'

Project Leader 8: 'My consultants have shown their clients how to withdraw \$50,000 from their businesses, without in any way reducing their profits or their level of service. All this capital which was previously lying idle in dead stocks, unused equipment or uncollected debts is now available to improve people's farms, education and so on; this gives immediate improvement in people's welfare and there is much more to be done.'

Project Leader 9: 'My consultants have done many of these things but I am proudest of all about the fact that ten of them have left the service during the year to take good jobs or start their own businesses. We have trained their replacements and I hope that many of these leave too. This really is a significant contribution in terms of skilled experienced managers. Let us have the funds to enable us to keep up the supply.'

Project Leader 10: 'Actually my friends, I don't want any more money. Towards the end of the year I introduced a scale of charges for advice. All my consultants' clients are willing to pay for the cost of the consultants; this is the best proof that it is good advice, and we can continue without any further help. Good-bye.'

There is obviously some truth in each of these arguments, and a sponsor would have difficulty in making a decision. All of them are better than the kind of argument put forward for many services of this sort, whose organisers claim that increased *expenditure* alone is the measure of their success without any reference to benefits at all.

It is clearly very difficult to assess the benefits which arise from a service of this sort but an attempt must be made. Increased profits and more jobs are certainly measurable and would be accepted by most people as reasonable goals at which to aim. One of the advantages of this type of service is that it provides a number of different benefits and it may be possible to justify the continuation and expansion of the service by reference to any one of them. This is particularly true if the service is being compared with some other activity whose objective is solely to provide jobs, to increase profits, to train entrepreneurs or some other single objective which is included in many of the benefits which may be expected to come from a small

business extension service.

It may be of interest that the Partnership for Productivity service in Western Kenya achieved the following results during its first year of operation:

*Achievements of PFP, Kenya*

Total clients profit increases/ total cost of service	2.66/1
Total client investment increases/ total cost of service	3.41/1
Total client sales volume increases/ total cost of service	22/1
Total jobs added	122
Cost per job added	\$345
Total number of businesses assisted	638
Cost per business assisted	\$66
Cost per client call	\$9
Cost per improvement adopted by client	\$17
Number of consultants trained	20
Cost per consultant trained	\$2100

Any one of these figures might be used in arguing the cases for the extension service; even the apparently rather high cost of training a consultant compares quite favourably with other training schemes particularly when the quality of training and experience are taken into account.

Objectives may be expressed in terms of any one or all of these measures of achievement; what is important is that they should be clearly stated from the very beginning in order to avoid disagreement of the type indicated in the dialogue between the ten organisers. The objectives must be measurable and if there is likely to be any conflict between them the priorities must be clearly stated. High profits for instance are often achieved by reducing employment; from the beginning everyone must be clear whether profits or jobs are of greater concern.

The objectives must also be measurable; if they are not stated in a way which allows the advisory staff and their sponsors to know whether or not they have been achieved, there is no point in having objectives at all. Vague phrases like 'develop' or 'promote' small business need to be explained; do they mean increases in the number of small businesses, their profits, their investments or their employment?

The objectives should be known and explained to the consultants and the regular reporting and control system should incorporate the necessary measurements wherever possible. In this way the project leader will at all times have up-to-date figures to show him how well the service has been achieving its objectives.

The funding organisation will probably require that the service should be evaluated by independent outside experts from time to time. It is important that evaluation of this sort, or regular internal evaluation procedures, should not be allowed to distort the quality of the advisory service itself. In one case for instance consultants were found to be concentrating on the following improvements:

1. Advising business people to put clear price tickets on all products.
2. Advising business people to put up posters advertising price cuts.

3. Advising business people to open bank accounts
4. Advising business people to use the service's own recommended forms for cash and debtor records

They were neglecting all other recommendations, such as better credit and stock control, reduced personal withdrawals, planned saving for future investments and so on. When the situation was investigated it appeared that the consultants were concentrating on those particular four improvements because they were ones which could easily be checked by the field supervisors, the project leader or outside assessors. Other recommendations, which might have been more suitable for some businesses, were neglected because the evaluation procedure tended to ignore these as being too difficult to check.

Rigorous evaluation is essential for proper management, and should be demanded by sponsors. It is also very valuable as a means of attracting support, since 'hard' figures are far more convincing than general statements of good intention or results. A small business advisory service may have to compete with other small business promotional programmes such as subsidised loan schemes, courses or industrial estates. The eventual goal should obviously be planned and integrated co-ordination of all services, but since an individual consultancy service is a relatively novel idea it may at first be necessary to struggle for funds and recognition. Verifiable figures giving actual numbers of jobs created or new businesses started will be a very convincing weapon in such a struggle.

**Possible Objections**

When a small business advisory service is being proposed or when its performance is being evaluated, various objections and comments must be expected. Consider the following objections and think how you could deal with them before reading further.

1. 'How can you present "before" and "after" figures when much of the advice involves book-keeping and figures for most of the businesses are not available until the advice has been followed?'

It is certainly likely to be impossible to find figures for sales or profits for most small businesses when they are at first contacted by the consultants. If the consultants are successful, a number of businesses will in due course be keeping the necessary records to enable them to work out these figures, but by the time these figures are available the businesses should already have improved in a number of other ways because of the consultants' help. It is therefore impossible to give any 'before' or 'after' figures for these businesses and evaluation will have to depend on approximate initial estimates or on more easily measured figures such as the numbers of people employed. If the consultants advise the businesses for long enough it may be possible to compare results over a period, but much of the most important improvement may well have taken place before any figures were available. It is not correct to assume that the changes in sales or profits which occur in those businesses which did have reliable records from the beginning are typical of all the businesses; they are likely to be larger and possibly more receptive to new ideas.

2. 'These improvements are very impressive, but would some or all of them not have taken place anyway, without any advisory service at all?'

A full scale evaluation might include a 'control group' of small businesses which were not being advised, but this is likely to be expensive and difficult to find and the very act of measurement will itself have some effect on the performance of this supposedly untouched group. There is also a moral dilemma involved in deliberately neglecting a group which can in fact be reached and monitored by the service. In such a case, the interests of rigorous evaluation may conflict with the natural desire of the service to help everyone who can be reached. Improvements can be directly related to ideas which came from the consultants but since the consultancy procedure depends largely on shared learning it is often impossible to say where an idea came from. It may however be possible to compare the rate of improvement with national figures, or regional ones if they exist, and this should give some indication of the effect of the service itself.

3. 'You have told me about many businesses which have improved and grown as a result of your consulting. You have said nothing about the competitors of your clients; how do you know that every job and every extra investment, sale or profit has not been matched by an equal decline elsewhere, inside or outside the area you cover?'

This objection is one argument for a comprehensive approach which is likely to identify businesses which are suffering as a result of others' improvement, and which deliberately refrains from promoting improvements which will damage other local businesses.

There are many businesses where the capital and labour employed would be better used in some other way; if the consultancy service contributed to the redeployment of such resources, both by improving the performance of more competitors and advising the failures how to extricate themselves from their failure, then it will have made a significant contribution. There may be a few alternative ways in which labour may be employed but when it is combined with capital which has been released from a marginal small business it is often possible to invest in a small farm enterprise which can also employ labour.

Experience has shown, however, that the whole economic activity of an area, and not just of one or two businesses, can be improved by comprehensive consulting. In Kenya, in more than one instance, a whole market and the area around it became more prosperous as a result of the work of small business consultants; the more successful businesses prospered but the marginal businesses also improved their results and the general improvement in wellbeing was obtained without any measurable decline elsewhere. Most countries are trying to redirect activity to rural areas, and in such areas extra sales may be made at the expense of large, possibly foreign, businesses in the cities. If genuinely new activities are being started they are actually creating new wealth; if we also assume that one man's profit must be made at the expense of another man's loss we are really denying that overall economic development is possible at all.

## **Paid or Free?**

If we are primarily interested in serving the interests of small scale business people themselves, then their willingness to pay for the service is certainly the most valid way we can evaluate our success. Should advice be provided for nothing or should the small business people pay for it?

It is important first of all to stress that charges are unlikely to make the service self supporting. The initial investment will have to be paid for before any consultants are in the field, and the amount of money which most small business people can afford is unlikely to cover the operating expenses. Experience has shown that many business people are willing to pay for advice after they have had a chance to experience the initial benefits of it; it is very difficult to persuade them to pay for it at first when they may be suspicious and difficult to convince that the service is of any value to them at all.

It is however possible to make a charge, so what are the arguments for and against?

### **For**

1. If the service generates a proportion of its own funds it will be less dependent on outside sources, and can concentrate on really satisfying its clients.
2. People tend to value things for what they cost. If the advice is free business people may fail to keep appointments and disregard the advice. If they pay for it they will appreciate it.
3. It is always difficult to decide when a business is not benefiting from the consulting. If the business person refuses to pay he is making this decision himself and the consultants are thus prevented from wasting their time on unreceptive clients.
4. If the consultants' visits are free, business people will probably not expect very high standards. If they have to pay, they will demand good advice and punctual and efficient service. This will control and motivate the consultants far better than the field supervisors can.
5. We have seen that evaluation is difficult. If the advice is paid for voluntarily we have an automatic and easily calculated means by which it is possible to assess individual consultants and the service as a whole.

### **Against**

1. The smallest and poorest businesses are likely to be unable to pay for advice. These would most probably be those most in need of help, operating in the least prosperous areas.
2. One of the problems of economic progress is that the rich tend to get richer while the poor get poorer. If advice has to be paid for, the service as a whole will tend to direct itself towards the largest and most successful businesses which can afford to pay for and will make good use of the advice, but are least in need of assistance.
3. If the consultants are involved in collecting money, this may cause administrative problems and they may be tempted to overcharge or to advise clients without reporting them to their supervisors. There may also be problems of competition between the service and genuine commercial consultants.

4. If the advice is free, the consultants should be motivated by their desire to help people. If a charge is made per call or per month, the consultants may try to cover too many clients or to make too many calls, and the shared learning element of the service may be damaged.

5. A small business advisory service will presumably be intended to develop employment opportunities, to help particular groups or to develop particular industries and not just to help small business owners to make money. If the advice is paid for, it will be difficult to ensure that any interest other than those of the business owners are satisfied.

The final decision will obviously depend on local circumstances; there is as yet little field experience to suggest which policy is appropriate but the following may represent a reasonable compromise:

1. The service should at first be provided free of charge to all clients.
2. After a trial period of approximately six months during which each client has had a chance to appreciate the value of the service a nominal charge should be made; this should not aim to cover the cost of the service but is intended to make the client value the service and thus to take more note of the consultant's recommendations.
3. If a two-tier service with specialist technical advisors and more advanced management advisors is introduced the services of the higher level of consultants should almost certainly be charged for if this is administratively possible.

## CHAPTER 12: FURTHER DEVELOPMENTS

A small business consultancy service such as we have described should be able really to improve the management of the small businesses it serves. It will be difficult to persuade the authorities that the idea can work at all, and once initial support has been obtained many problems and discouragements will be met before the service starts to achieve measureable results. The initiation, foundation and operation of even a fairly small service, employing perhaps fifteen to twenty consultants under a project leader and three to four field supervisors, will be a considerable achievement of which anyone could feel proud. There is certainly no need to do anything more than continue to run, and possibly to expand the service, so that small-scale business people come to accept it as a regular part of their business lives, in the same way that farmers in many countries regard the agricultural extension service.

There are however a number of other ways in which small business people can be helped and many of these can usefully be added to and integrated with a small business advisory service. We saw earlier that loan programmes and classroom training courses in particular often fail to achieve their objectives. There may already be programmes of this sort and it would be altogether wrong to think of them as competitors in the task of helping small business. They have an important role to play and many of the problems associated with loans and courses can be remedied if they are administered in co-operation with a small business consultancy service.

### Loans

We have seen that it is dangerous to associate advisors with lending money, because the business people will come to see the advice as a means of getting a loan rather than as something worth having for its own sake. There is no reason, however, why bankers or others associated with loan programmes for small business should not work in conjunction with a small business consultancy service; it would probably be wrong for the consultants, or even the field supervisors, to give any formal recommendations or otherwise about individual applications for loans, but on an informal basis there is a great deal to be gained from an exchange of information. Once a loan has been granted it may be very useful for the consultant to ensure that the money is being used as proposed so that the borrower will be able to repay his loan as agreed.

If there is no special business loan programme, or if it is not reaching genuine applicants who can manage their funds properly and have good uses for more finance, it may be possible for a small business consultancy service to co-operate with local commercial banks. Banks have to make loans in order to make profits, and bank managers often find it difficult to lend to small-scale businesses because of the expenses involved in processing applications and in servicing the loans. They may nevertheless be anxious to make loans to small businesses, particularly in rural

areas, for political reasons. A fruitful informal relationship can develop between commercial banks and the consultancy service which does not 'taint' the consultants with lending but nevertheless allows co-operation where it is appropriate. By judicious co-operation of this sort it may be possible for a commercial bank to make loans to small businesses without undue administrative expense.

Another useful device which has been successfully proved in practice is a local revolving loan fund. A fairly small sum of money is made available to the small businesses in one village or market to be lent out for short periods at reasonable interest rates. The fund is administered by a committee of responsible business people from the area, and the loans are usually repaid very quickly because the committee, and other people, realise that the next round of loans cannot be made until the money is returned by the first borrowers. This system can significantly upgrade a whole village at very little cost; consultants and their supervisors can initiate and help to set up funds of this sort, and can then assist with record keeping for the committee and advice to individual borrowers. This seems to be a more fruitful and less expensive way of making capital available to small businesses than a centrally administered loan programme, and it fits in very well with the 'grass roots' approach of a small business consultancy service.

### Courses

We saw that courses often fail to achieve their objectives because the participants are unable, in the short time available, to become re-accustomed to classroom learning. Practical people also find it difficult to apply to their own situations techniques which they have learned in general terms.

These problems open two opportunities where small business consultants can help to make courses more effective. First, consultants can identify small business people who appear ready to gain from a course; they must be able to leave a qualified deputy in charge of their businesses, they must be sufficiently well educated and flexible to learn and apply what is taught and they must need the particular skills which are to be taught in the course. Suitable participants are likely to come from the larger businesses, and a father may send his son to learn new techniques which he feels are too complicated for the older generation or which he cannot master because of his poor education.

Secondly, after the course, consultants can help participants to apply what they have learned in their own businesses. It is helpful if the consultants can attend some courses, and they may be able to contribute some of their experience of a wide range of business problems. Co-operation of this sort helps to ensure that different organisations work together to help small business.

There are many reasons why individual consultancy can achieve more than classroom teaching in groups. There are, however, occasions when group teaching is



very effective as well as being less expensive per participant. A consultancy service will identify a relatively small number of genuine 'entrepreneurs' who appear to be the sort of people whose ventures may grow into medium or large-scale businesses, and eventually make a significant contribution to the economic development of their country. If funds are available, these people can receive higher level consultancy; it may also be possible to organise special courses for them, to generate an enterprising spirit of informed risk taking and initiative. Techniques have been developed whereby it is said to be possible to increase such people's initiative and to develop their desire for success. It may be possible for 'achievement motivation' courses of this type to be put on by the same organisation that runs the consultancy service, and prior individual selection by the consultants will ensure that the participants in such courses are those who are most likely to benefit from them.

### Research and Information

One of the main reasons why small business is often neglected in development programmes, and why projects designed to help small businesses often fail, is that very little is known about them in many countries. It is quite easy to find out financial data and other information about larger organisations, because there are not many of them and they usually have accountants and managers who can tell governments and others about their results and future intentions.

Small businesses are poorly documented. Even their numbers are usually unknown in most countries, and the business owners themselves often do not know their sales turnover or their profits. This consultancy system depends on the basic financial information which is obtained on the first and subsequent visits. Although it is obviously vital that information about individual businesses should not be divulged to anyone without the permission of the owners, the basic statistics can be very valuable to many other organisations as well as being necessary for the efficient planning of the consultancy service itself. Depending on the financial situation of the service, it may even be possible to carry out special surveys during the course of

the consultancy on behalf of public or private organisations which need specialised information about small businesses. Typical examples of this which have occurred are:

1. A Ministry of Agriculture wanted to distribute fertiliser in a new area. They needed information about the number of shops, their exact location, their opening hours and their average financial position.
2. A manufacturer wanted to advertise his food products in a rural area, but needed first of all to have some information about how many shops stocked his products in the various villages and towns in the area.
3. A manufacturer of portable gas welding equipment wanted to find out how many of a particular type of metal worker there were in a province, in order to decide whether the potential justified the appointment of a representative to cover the province.
4. A family planning agency wanted to distribute contraceptives in an area; they needed to know the number of shops, the sex, the religion and educational standards of the shopkeepers and the whereabouts of the shops.

Consultants must never confuse their message by acting as a salesman; information of this sort can however easily be obtained by simple observation and enquiry; although it may be preferable for the service to be financially independent it may be very valuable to have occasional supplementary income from research projects of this sort. In any case the government and other public organisations may be more willing to work through small businesses if they are able to obtain information about them.

Apart from special enquiries the organisation should also try to promote the cause of small business in general; this can most effectively be done by using data to show the importance of small businesses as employers, and by referring to the types of service they provide and so on. Information of this sort can be publicised by regular reports to the press; if the public at large and in particular those in positions of authority realise how important small businesses are to the economy they will be more willing to change laws that unfairly restrict small business activity and to sanction funds for programmes which assist them.

## SUMMARY

This part of the manual has attempted to describe the whole process from assessing the training needs of small business people to evaluating the success of a consultancy service to satisfy those needs. The reader must in addition look at the consultants' training course which is provided in the second part; the lectures, discussions, exercises and field assignments included in the course will give a far more realistic impression of what consultants need to know and how they should operate.

It should once again be stressed that the whole concept is very much in its infancy; because of differences between one environment and another it will never be possible to generalise about what should be done to operate a successful service, and many of the suggestions in this manual may be quite inappropriate for some situations.

Readers are invited to share their experiences if they make an attempt to apply any part of this consultancy system since this will allow the material to be improved in the future. It is not expected that it will often be possible or appropriate to apply the system as it stands, using all the procedures, forms, training materials and so on. This would almost certainly be a mistake, since the key to the successful use of a manual of this sort is intelligent selection and modification rather than wholesale application. The publishers will welcome any comments from readers who are in touch with small business people in developing countries, and they hope that the manual will make some contribution to improving their management ability.



*A shopkeeper in Kenya recording a credit sale*



*Partnership for Productivity consultant helping to calculate stock values*



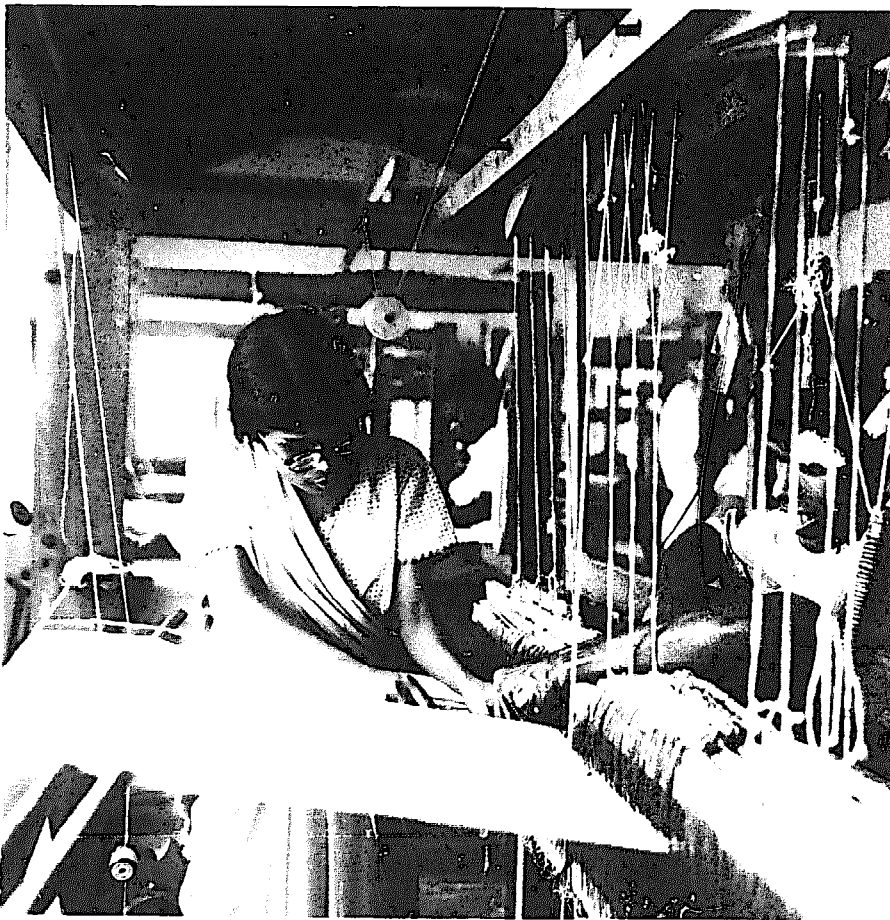
*Business consultants outside their office in Western Kenya*



*Partnership for Productivity consultant working with a shopkeeper in Western Kenya*



*A village rope and twine business in Ecuador*



*A small-scale handloom weaving business in India*



*A small-scale machine knitting business in Nepal*



*A scene in a leather tanning business in Morocco*

**PART TWO:  
CONSULTANTS' TRAINING COURSE**

## INTRODUCTION

This course has been designed to provide material for training small business consultants, it must be used in conjunction with the first part of the manual, which shows how the course fits into the overall system of low cost individual advisory services for small businesses in developing countries.

Several aspects of the administration and organisation of the training course are dealt with in the first part of the manual; these include:

- a) the selection of trainees
- b) the numbers to be trained at one time
- c) the location of the course
- d) the time over which the course should run
- e) possible sources of instructors for the course
- f) evaluation of trainees
- g) on-going training after the course

### Objectives

Individual objectives are given for each of the fifty-one sessions which make up this course; the overall objective is to enable trainees to provide management advice to small business people which will be accepted, understood and applied and which will improve the performance of the small businesses.

Trainees and instructors may be used to education and training which has as its objective the acquisition of knowledge or learning by rote which can be tested in examinations. As a result of attending this course, trainees should be able actually to achieve results in the field. This involves practical skills but since the major advantage of individual consultancy is that the approach and advice are right for each individual business, the main emphasis is on skills of analysis and communication rather than on learning any particular terminology or predetermined techniques.

Trainees and their instructors may be unfamiliar with this type of learning and may attempt to revert to the traditional learning of lists and definitions. This should be avoided and it should be made clear from the outset that the objective is performance rather than knowledge for its own sake.

### Learning Methods

The emphasis throughout the course is on participative learning. The trainees are expected to contribute as much or more than the instructor and they are provided with exercises and field experience which will enable them to do this. A successful small business consultant is one who is able to learn *with* his clients rather than acting as a traditional teacher who tells all and never asks or listens. In the same way the course must be a shared learning experience and the instructors must not be afraid to admit that they themselves do not know the answers to every question.

The material includes the following types of sessions:

a) *Lecture/discussions*; extensive notes are provided to guide the instructor through each session of this type and frequent suggestions are given for questions and discussion points. The instructor should use these pages

as his own notes in the course and should make them his own by writing on them, modifying, adapting and supplementing them. Spare space is left on the right hand column for this purpose. It must be emphasised that this is *not* a book. The material provides some basic notes which instructors should make into their own personal material.

b) *Exercises*; these are bound together at the end of each session, with references at the beginning of each session in which they are to be used. They should rarely, if ever, be used as they stand. At the very least the dollars and cents and names should be changed for local currency and local names and where possible the examples, exercises and case studies should be rewritten to include local industries and typical circumstances. It should be emphasised that most of these exercises are for discussion rather than being questions to which there are right and wrong answers; the material does not include suggested answers for any except a very few of the exercises. This is partly because an instructor must work through every exercise before attempting to use it with the trainees, but in addition there is room, particularly with the later case studies, for wide divergence of opinion and it would be altogether wrong to suggest that there is only one correct point of view.

c) *Role-playing Exercises*; consulting involves persuading people to change and it is important that trainees should have some practice in this type of skill before they go out into the field as independent consultants. They may be unfamiliar with this type of exercise but the instructor can help them relax by playing the initial roles himself and by generally creating an informal and uncritical atmosphere.

d) *Field assignments*; there are a number of sessions where the trainees are individually assigned to businesses for a whole day or where they tour market areas as a group. These are a vital element in the training course and they are one reason why the course should be held in an area where there are many of the types of business which the consultants will be ultimately advising.

It is important to make a careful selection of the businesses to which the trainees will be assigned, particularly in the early stages of the course. In these sessions the business people will be teaching the trainees far more than they themselves will be learning and it is important that the business people should be anxious to co-operate and to help with the training process. They need not be extremely efficient businesses and it is perhaps better if there are obvious management errors which the trainees can pick out even at an early stage; what is important is that the people with whom the trainee will be associating during these days will understand the situation.

e) *Tests*; the main examination is scheduled as the last session of the course but should only form one part of the total evaluation process. The instructor must make a determined attempt to evaluate the personal skills of the trainees throughout the course since



success in a written examination is a very poor guide to success as a small business consultant in the field.

Many of the exercises which are incorporated in earlier sessions provide an opportunity for the instructor to evaluate progress and learning so far; if any or all the trainees show in these exercises that they have failed to grasp what has gone before, the instructor should regard this as evidence of his own failure rather than of the trainees' lack of ability. He should go over the material again in a different way to ensure that the trainees grasp every aspect properly before proceeding to the next stage.

### **Flexibility and Adaptation**

The fifty-one sessions are presented as a full-time course which can be run over approximately one month. As was suggested in the first part, there are many alternative ways of organising the course and although it is unlikely that all the material given in these sessions could be covered in any less time, there are certainly many advantages in stretching the course over three months or more with longer periods of assignment to businesses and individual work at home in between the classroom sessions.

It may be that the trainees already have some elementary training in book-keeping and accounts and some sessions can be omitted; in this case it may be possible to run the course in less than a month. There is no reason why individual sessions or exercises should not be extracted from the course and used on their own for small business consultants or for any other training purpose; many of the sessions would be useful for training small business people themselves in courses and others would fit in well into polytechnic or first-year university management courses.

The timing of each session is extremely approximate and it may be found that far longer is needed to get through all the material, particularly some of the case studies and the exercises. If this happens it may be possible to omit some of the exercises or to make the course last longer. The suggested one month period is merely a basis on which instructors should build with their knowledge of local conditions.

It is also vital that all the exercises, examples and other material should be carefully adapted to local circumstances *before* material is presented. There are many examples in the lecture sessions as well as the exercises which use dollar currencies; these should obviously be changed in advance to local currency and in addition names. Products and types of business should be modified as well.

The standard currency unit that is used is the United States dollar; this should not merely be converted at the existing rate of exchange but the orders of magnitude should be translated into local currency

depending on the typical scale of the businesses which the trainees will be advising.

In particular wage rates and product prices may appear too low in some countries; these should be corrected and the other figures should be checked to ensure internal consistency.

### **Equipment and Facilities**

There is no need for elaborate facilities; the trainees need to be reasonably comfortable and to be able to write where they sit, and there should be a large blackboard. The instructor should make generous use of the board to illustrate calculations and emphasise particular points. He should also invite trainees to present their own conclusions and analyses to the rest of the class on the board.

A large quantity of duplicated material is needed and there should be adequate typing and duplicating facilities. The necessary material can be prepared in advance if the facilities are not available at the same place or time as the training course but in any case it is important to organise the preparation of material carefully in advance. In the summary of sessions on the following page the material requirements are listed and these should be carefully noted since many of the sessions depend on each trainee having a copy of the relevant exercises or other papers.

During the role-playing sessions, it may be useful to have a portable tape-recorder but this is not essential. If overhead projectors or closed circuit television facilities are available they may be used but they are certainly not necessary.

It is far more important that the training course should take place in an environment which is close to that in which the trainees will ultimately be employed. It should be possible in the middle of a class session for the instructor to take the group out to observe a small business which is within walking distance of the classroom; this is a far more dramatic 'visual aid' than any film, tape or slide.

### **On-going Training**

It should be stressed at the beginning and throughout the course that it is only the first stage in the consultant's training; they will continue to learn in the field and although they will from the beginning be able to give some elementary advice, their performance should continue to improve throughout the period of their employment. The trainees must not have the impression that if they successfully complete the course they are fully qualified to advise small-scale businesses. They have merely been prepared to take their first closely guided steps into individual small business consultancy.

## COURSE OUTLINE AND SESSION SUMMARY

<i>Page</i>	<i>Day</i>	<i>Session No.</i>	<i>Title</i>	<i>Handouts and Materials for Trainees</i>	<i>Objective To Enable Trainees to:</i>	<i>Time</i>
<b>INTRODUCTION</b>						
64	1	1	What are we here for?	Course summary and timetable	Describe the purpose of the Consultancy Service.	2 hours
68	1	2	What is a business?	—	Define a business and describe the various types of business in their area.	2 hours
70	1	3	Exercises in simple records	Ex. 1-4*	Appreciate the purpose of basic business records.	2 hours
76	1	4	The First Consulting Form	Form*	Be introduced to the structure and purpose of the form.	2 hours
80	2	5	Observing a Business	Handout*	Observe and identify the various financial transactions in a business.	All Day
<b>BASIC CONTROLS</b>						
82	3	6	The Cash Book	Cash Book Page*	Set up and maintain a Cash Book.	4 hours
86	3	7	Giving credit and the Debtors Record	Debtors Record Page*	Set up and maintain a Record of Debts owed by customers.	7 hours
89	3	8	Creditors and Expense Records	Record Pages*	Set up and maintain records of creditors and expenses.	7 hours
93	3	9	Banks and Business	Local Cheques etc.	Describe the services of banks and how to use them.	2 hours
96	4	10	Exercises in simple records	Ex. 1-7*	Check that they have achieved objectives 6-9.	All day
108	5	11	Stock management	—	Control stocks	2 hours
110	5	12	Stock Taking	Stock Record Forms*	Count, value and record stocks.	4 hours
113	5	13	Exercises in stock management	Ex. 1-2*	Practice the techniques learned in Sessions 11 and 12.	4 hours
117	6	14	Stock control in a shop	Stock record forms (12.1) and handout 14.1*	Apply their knowledge of stock management in a real business.	All day
<b>MANAGEMENT ACCOUNTS AND DECISIONS</b>						
119	7	15	Balance Sheet and Profit and Loss	'Profit or Loss' form*	Construct a B/S and P/L Account for an enterprise.	4 hours
124	7	16	Exercises in accounts	Ex. 1-2*	Practice the techniques learned in session 15.	4 hours
127	8	17	The Break-Even Point	B.E. Graph*	Calculate the Break-Even Point for an enterprise.	2 hours
129	8	18	Short Term business decisions	—	Use simple accounting data to make business decisions.	2 hours
131	8	19	Exercises in business decisions	Ex. 1-2*	Practice techniques learned in sessions 17-18	2 hours
135	8	20	Analysis of real business data	Ex. 1-3*	Develop recommendations for businesses based on simple data.	2 hours
146	9	21	Obtaining information	Handout 4.1 (2 copies) + handout 21.1*	Appreciate the practical difficulties of obtaining information.	½ day
<b>MARKETING</b>						
148	9	22	Shop walk around	Handout 22.1*	Observe marketing practices in the field.	½ day

<i>Page</i>	<i>Day</i>	<i>Session No.</i>	<i>Title</i>	<i>Handouts and Materials Required</i>	<i>Objective To Enable Trainees to:</i>	<i>Time</i>
150	10	23	Demand in the market place	—	Identify the sources of demand and select the right products to satisfy it.	2 hours
153	10	24	Distribution and pricing	—	Explain the importance of correct choice of suppliers and pricing policy.	2 hours
155	10	25	Promotion	—	Describe techniques of shop promotion and their application.	2 hours
157	10	26	Shop layout and display	Paper, scissors etc. for layout exercises	Recognise good layout and display techniques	2 hours
159	11	27	Layout and display exercises	Tinned goods etc.	Practice sales promotion techniques.	2 hours
<b>THE FINANCIAL AND SOCIAL ENVIRONMENT</b>						
161	11	28	Financial management		Describe the sources and uses of funds in a small enterprise.	2 hours
164	11	29	Exercises in financial planning	Ex. 1-2*	Practice techniques learned in session 28.	2 hours
168	11	30	Social factors		Identify non-financial factors which enter into small business decisions.	2 hours
<b>SELLING AND COMMUNICATIONS</b>						
173	12	31	Salesmanship	—	Identify and describe good selling techniques.	2 hours
175	12	32	Marketing exercises	Ex. 1-3*	Analyse marketing and selling problems and make appropriate recommendations.	3 hours
183	12	33	Role-playing in selling	—	Practice selling techniques.	3 hours
184	13	34	Giving advice in a shop	Handout 4.1, 34.1*	Appreciate the difficulty of persuading clients to change.	All day
186	14	35	Selling better management	Handout 4.1*	Appreciate the type of selling involved in the consultant/client relationship.	3 hours
191	14	36	Consultancy role playing	—	Experience the problems of persuading business people to change.	3 hours
<b>PLANNING</b>						
192	15	37	Objectives and budgets	—	Recognise the importance of planning towards previously identified goals, and develop simple budgets.	3 hours
195	15	38	Loans	Handout 38.1* Local loan application form	Identify occasions when a business really needs a loan and describe ways of obtaining loans.	3 hours
200	16	39	Exercises in long term planning and 'loan hunger'	Ex. 1-4*	Practice techniques learned in sessions 37-38.	½ day
<b>MANUFACTURING ENTERPRISES</b>						
212	16	40	Introduction to manufacturing	Handout 40.1*	Identify the common aspects of all types of business enterprise.	½ day
214	17	41	All Day in a factory	Handout 41.1*	Gain experience of a manufacturing enterprise in action.	All day

<i>Page</i>	<i>Day</i>	<i>Session No.</i>	<i>Title</i>	<i>Handouts and Materials Required</i>	<i>Objective To Enable Trainees to:</i>	<i>Time</i>
216	18	42	Consultancy for manufacturers	Mfrs. Consultancy Form, Handout 42.1*	Identify the ways in which consultancy for manufacturers differs from consultancy for shops.	2 hours
224	18	43	Manufacturing management	—	Describe the essential features of product selection and design and factory layout and quality control.	3 hours
228	18	44	Cost accounting	—	Calculate the costs of products made in small manufacturing business.	2 hours
230	19	45	Exercises in manufacturing management	Ex. 1-3*	Practice the application of techniques learned in sessions 40-44.	3 hours
<b>ADMINISTRATION</b>						
236	19	46	Organisation and regulations	List of rules for Consultants	Follow the prescribed Administrative Procedures as members of the Consultancy Service.	2 hours
237	19	47	Internal forms	All Forms Handouts 47.1, 47.2, 47.3, 47.4, 47.5, 47.6*	Identify, fill in and use the prescribed forms and reports.	2 hours
246	20	48	Exercises with forms	As above	Practice and check their ability to fill in and use the prescribed forms.	2 hours
<b>REVIEW AND EVALUATION</b>						
247	20	49	How to be a small business consultant	—	Integrate all they have learned into an effective overall approach to the consultancy task.	4 hours
251	20	50	Review	—	Review what has been covered in the course and clear up outstanding difficulties.	4 hours
252	21	51	Final examination	Handout 51.1*	Demonstrate that they are prepared to start small business consultancy in the field.	

**Note:** The timings are based on an average eight hour day; if the working day is shorter than this, the course can be spread over a longer period.

The times allowed for Exercise Sessions are generally insufficient for trainees adequately to prepare the exercises; the sessions are intended for group discussions and explanation by the instructor and individual preparation should be done during the evenings or at other times outside the formal sessions.

\* Asterisked entries indicate handouts to be copied for trainees' use.

## SESSION 1: WHAT ARE WE HERE FOR?

The content of this session will depend very much on the institution which is organising the service and the details of its administration; the aim is primarily to *set the scene* for the course, so that trainees will be able to concentrate on the material and will understand how the individual consultancy fits into the national programme for small business development and promotion.

### Administration

It is not possible to concentrate on the course, and learn, unless one is free from other distractions and worries.

There are a number of questions which may be worrying trainees; they themselves may not be aware of their need for information, or they may be embarrassed to admit their uncertainty, but by the end of this session every trainee must know the answers to the following questions:

- 1) Where am I going to sleep during the course?
- 2) Where am I going to eat during the course?
- 3) What money shall I be paid during the course?
- 4) Who will pay for my food and accommodation during the course?
- 5) Will I get any sort of certificate at the end of the course?
- 6) When shall I know whether I have passed or failed the course?
- 7) If I fail what will happen to me?
- 8) If I succeed what will happen next?
- 9) How well must I do in order to pass the course?
- 10) What stationery, books and other materials will I need during the course, where shall I get them and who will pay for them?
- 11) How long is the course?
- 12) How many hours a day will I have to work during the course?
- 13) How much 'homework' shall I have to do during the course?
- 14) Who will pay for any travelling I have to do during the course?
- 15) After the course, what shall I be able to do that I cannot do now?

The answers will depend on local circumstances; the following points will have to be stressed in any case:

- 1) The course is only the first stage in a lengthy process of learning which will continue indefinitely. It is *not* a complete course in consultancy, but merely enables trainees to move into the field and to start 'learning by doing'.
- 2) Trainees will be tested at the end, but they will be evaluated throughout the course; they have been carefully selected and there is no reason why anyone should fail so long as they work hard and use their imagination and initiative.
- 3) The course is a group learning exercise; trainees will be exposed to business situations from the very beginning and will be expected to contribute as much or more than the instructor. Consultancy cannot be learned from a teacher or a book, it has to be learned by sharing experience.
- 4) Nobody will be criticised for saying that he or she does not understand, or for asking for further explanations. Trainees will be blamed for not asking for further information or explanations, since their ignorance is bound to come out in the tests or when they are in the field.
- 5) Consultancy involves hard work and it will be impossible to complete the training course without doing a full day's work, every day. If any trainee finds this impossible it will be in his or her own interest to leave the service.

### The Importance of Small Business

Trainees must understand the *purpose* of the service they are being trained to provide; this means that they should appreciate the importance of small business in the country as a whole, and in the area where they will be working. Trainees will be confused by too many statistics, and they may not be available, but some or all of the following questions may be discussed, both for the country as a whole, and the district where the trainees will be working:

At the beginning of this and every session, refer to the *objectives* of the session, ensure that trainees understand what they are trying to achieve, and stress that they themselves are responsible for telling the instructor if they think they are not achieving the objectives.

Trainees cannot be expected to ask all these questions, even if they need the information. They should be invited to express their uncertainties, and it is better to state something that everyone knows than to leave one trainee uncertain.

Discuss with trainees the real meaning of qualifications. Are trainee teachers, engineers or policemen actually fully prepared for their jobs when they complete their formal training?

Do not discourage trainees, but make it clear that they will have to work very hard during the training course and thereafter.

Ask trainees to guess how many jobs are provided by small business.

- The total number of small businesses.
- The total turnover of small businesses.
- The total employment of small businesses.
- The *proportion of all jobs, turnover, etc.* that is provided by small business.

It is also important to appreciate the *variety* of small businesses and it is interesting to list all the services which are provided by small businesses. Their value to society is illustrated by trying to imagine what would happen if there were *no* small businesses.

Most of the services provided by small business *can* be provided by larger organisations, and often are.

Small businesses have certain advantages over large ones, from the point of view of:

- The owners of the businesses.
- The customers of the businesses.
- The suppliers to the businesses.
- The employees of the businesses.

The advantages will depend on local circumstances, and the particular businesses which the service is intended to advise, but small businesses usually have the following advantages:

- 1) Small businesses usually employ more *people*.
- 2) Small businesses usually need less *capital*.
- 3) Small businesses usually need less *foreign* skills.
- 4) Small businesses are usually *owned by local people*.
- 5) Small businesses are usually scattered *throughout* a country, not just in the capital cities.
- 6) Small businesses usually provide services or products which are right for *local conditions*.
- 7) Small businesses provide a place for people to *invest* their capital.
- 8) Small businesses are a good *school* for future managers of large businesses.
- 9) Small businesses are usually *convenient* for their customers, because there are many of them.
- 10) Small businesses are *flexible* and quick to adapt to change.

### The Problems of Small Business

Small businesses are important to society; they also have particular *problems*, which an extension service can help to solve. The particular problems will depend on local conditions and legislation, but they may be considered under these general headings:

- 1) *Capital*; small business people are, or believe that they are, short of capital.
- 2) *Markets*; small businesses often lack demand for their products or services.
- 3) *Harrassment*; small businesses are often damaged by Government and other regulations which weigh unfairly on them.
- 4) *Technical skills*; small business people often find it difficult to obtain the technical training they need to compete with larger enterprises.
- 5) *Security*; small businesses often suffer more than large ones from theft, corruption and natural hazards.

There may be other problems; to a greater or lesser extent they can all be reduced or eliminated by better *management*.

Management has been defined as:

'Making the best use of available resources'

This means succeeding *in spite of* difficulties such as the problems mentioned before.

### Assistance for Small Businesses

In nearly every country there are some kinds of assistance for small businesses; it is essential:

- to know what is presently being done in this field;
- small business consultants must appreciate the *gap* which the extension service is aiming to fill;

Ask trainees to imagine what would happen if there were *no* small businesses. How else could the same services be provided? Would they be as useful and economical?

Ask trainees to compare the numbers of jobs provided by one large firm or several small businesses, providing the same total amount of particular services.

Suggest, or ask trainees for examples of, small businesses which exemplify these advantages.

Ask trainees to describe examples of small businesses which have failed to serve customers, their owners, their suppliers or the national interest.

Ask trainees to explain the failures.

Ask trainees for examples of each type of problem.

Ask trainees to suggest how each of the problems might be relieved by better management.

- they must be able to inform small business people about the other services that are available.

The types of service, and the institutions which provide them, will obviously be different in each country. It is useful to discuss them under the following general headings:

1) *Loans*

- Commercial banks.
- Special small business programmes.
- Government lending bodies.
- Suppliers' credit programmes.

2) *Training*

- Technical schools.
- Chambers of commerce courses.
- Ministry courses.
- Correspondence courses.
- Suppliers' training programmes.
- Books.

3) *Technical Services*

- Specialised Government services  
(Ministries of Agriculture, Mines, Industries, Trade, etc.)
- Suppliers' advisory services.
- Industry research institutes.

There may already be some individual advisory services for small business. If so, they should be explained, and the need for this particular service identified.

### The Role of Extension

Small business people need *individual, on-the-spot*, advice which is especially '*tailored*' for their business.

To be effective, it should be:

- Personal
- Thorough
- Confidential
- Confidence building
- Encouraging
- Practical
- Convenient
- Flexible
- Simple
- Comprehensive
- Extensive

The principle and operation of an individual advisory service should have been briefly explained to trainees at the recruitment session when they were selected, but this should be repeated in more detail.

A typical consultant's day includes failures, frustration and problems as well as the successes that make the job so satisfying.

The *results* of this service, or others elsewhere, should be described; these should be 'brought to life' by examples of ways in which individual business people and their customers and employees have benefited, or might benefit, from the service.

### The Training Courses

The training course should be outlined; this should include an account of the timing that has been chosen, and a brief run through of the sessions; this should stress in particular:

- 1) *The 'on-the-job' sessions*; these occupy about one quarter of the total time, and mean that trainees will be able to experience what it is like to work in a business, and with business people, from the very beginning.

It is vital that trainees co-operate with the business owners with whom they are 'placed' during these sessions. They should be willing to work as unpaid assistants, in return for the opportunity to observe and discuss the management of the business.

Ask trainees to suggest ways in which small business people can obtain assistance of each sort. How effective is it?

Ask trainees for examples of business people who have received assistance in the form of loans, training etc., and who have not benefited. What was missing?

Ask trainees to rate courses and other methods of training, and an individual advisory service, by these standards.

Ask trainees to say how they think a small business consultant spends a typical day.

Describe a typical day in the work of a small business consultant, or invite an experienced consultant to talk about his work.

Give each trainee a copy of the timetable, including a summary of session titles, duration and objectives.

2) *The exercises and assignments*; these occupy rather over a quarter of the total course and may be done at home or in the classroom according to the way in which the course is organised. Trainees must complete these as well as they can without help; they must remember to be careful and *accurate* in the simple calculations which are involved. In an exercise, the mistake of writing \$100.00 instead of \$10.00 will only mean the loss of a mark. For a consultant in the field, such an error might lead to a totally wrong piece of advice which could cause permanent harm to a business.

3) *The lectures and discussions*; these occupy just under a half of the course; they are not lectures in the ordinary sense. Trainees are continually asked to comment, contribute, discuss and disagree; if trainees think of the instructor as the source of all knowledge on the subject (which they may have been encouraged to do at school), they will learn very little.

Trainees should not generally take notes; they will be given copies of forms and other papers which they need. During the sessions they must concentrate on what is being said, and they must contribute whenever they do not understand, do not agree or feel that they have a point which will add something to the session.

Check that trainees have a suitable place with adequate lighting, to study if they are to work on exercises at home.

Ask trainees how much they were expected to contribute to class sessions at school. Were they expected to disagree with the teacher?



## SESSION 2: WHAT IS A BUSINESS?

This course aims to help you learn how to help small-scale businesses by giving them advice on how to run their businesses better.

We must therefore at the very beginning understand what we mean by the term '*business*'. There must be something in common between the millers, shopkeepers, carpenters, garage mechanics and all the other people we call 'businessmen'. We are interested in small businesses, but vast international firms that make cars, petrol, aeroplanes and so on are also 'businesses.'

What have they in common with the small-scale businesses with which we are familiar?

Businesses involve people doing things for other people and being paid for it.

Is the Police Station a business, or the Ministry of Agriculture, or a church?

The police, governments and churches do serve people, and are paid for it, but they do not do it for a *profit*. We shall talk later on about what profit is, how it can be measured and what it is used for, but since we are trying to help businessmen, and they want to make a profit, we should know how they do it.

Businesses that are owned by a group of people, such as co-operatives, may not be intended to produce a profit, but their success depends on their providing their services to customers and members as economically as possible; the management task is therefore similar whether a business is privately or co-operatively owned.

The most profitable businesses are those that provide the most services and sell the most goods.

They do this because they serve their customers better than other businesses.

Business success is therefore a matter of *service*. Customers come first, but suppliers, workers and owners all have to be satisfied too or they will refuse their supplies, their labour or their investment. A businessman must therefore balance the interests of customers, owners, suppliers and workers.

Unlike government, the police and similar organisations, a business has *competitors*; there are nearly always other businesses where customers or members can get similar services, and there may also be other places for workers to work in and investors to invest in. A business manager must therefore always be improving; if he does not, someone else will take his customers.

Competition produces better services for customers, and better working conditions for workers. It also leads to collapse and loss for businessmen who do not know how to compete.

If we can learn how to help them, we shall be helping their customers, the investors, the suppliers and the businessmen themselves. We shall also be helping *the country as a whole*; small businesses in particular are good for a country because they employ more people, in more places, than large businesses, they are scattered all over the country and are not concentrated in the overcrowded cities, they do not need imported machinery or foreign managers like big businesses, their products are designed for and by local people, and they are a school for businessmen who may later own big businesses.

**What sort of things do small businesses do?**

- 1) Some businesses *make or grow* things; factories, farms and workshops.
- 2) Some businesses *buy and sell* things; retail shops and wholesale traders.
- 3) Some businesses *transport* goods and people; bus companies, taxi owners, and transport firms.
- 4) Some businesses deal in *money*; banks borrow money from people who temporarily have more than they need and lend it to those who need it, and can eventually pay it back.

Ask trainees to name some types of business known to them.

Ask trainees to name some international firms.

Ask trainees to suggest what distinguishes a business from other organisations. They may mention people working together, being paid for it, service to the public or profit.

Ask trainees how businessmen make profits. They may mention good management, high prices, hard work and service to customers.

Ask trainees who has to be served as well as customers.

Ask trainees what will happen if each of these interests is neglected, or served to the exclusion of the others.

Ask trainees to identify the competitors of local businesses known to them. Are there any monopolies with no competition?

Ask trainees what effect this has on the standard of services offered to the public.

Ask trainees why small businesses are good for a nation.

Ask trainees if they think farmers are businessmen.

All these sorts of businesses are *satisfying needs*:

- customers' needs for things to eat and drink and wear;
- farmers' needs for fertilisers, seeds, tools or somewhere nearby to sell their produce;
- factories' needs for a few large customers who will buy their goods and redistribute them in smaller quantities;
- retailers' needs for one place which they can buy all the products they want to stock instead of having to go to each factory.

Small businesses do a lot of different things; they are also *owned and managed* in many different ways.

### How do businesses grow?

Let us follow the imaginary history of a small-scale businessman who starts a business.

- 1) He sells some cattle or uses his savings to start his business. He *owns it all*, and manages it himself.
- 2) He wants to invest more money in the business, and the profits alone do not provide enough money to buy what he wants. He asks a friend to put some money in and join him. Now they are *partners*.
- 3) The partnership prospers, and they want still more money to invest in the business so that it can become even bigger. He and his partner (there may be more than two of them by now) do not know anyone else who has the money they need and is willing to join the business and to run all the risks of loss or bankruptcy. So they invite other people, who do not know them well but have money to invest, to buy '*shares*' in the business. These '*shareholders*' share in the profits, but if the business fails they only lose their investment, not everything else like the partners who are fully responsible. Now it is a *limited company*, because the risks of the members are limited.
- 4) The bigger the business gets, the more profit it makes, and probably this will mean that there is more to re-invest. The business can now *grow from its own* profits, without having to look outside for help.

**Co-operatives** are another different type of business.

A number of people may want to have some particular service, such as a shop, a vehicle, some farm produce processing equipment or a tractor, but none of them on their own can pay for it, or use it economically. They all subscribe a small amount, but together it is enough to buy what is needed. They have a committee, appoint managers, and the members share the profits in relation to how much they use the service.

### Government Businesses

Some businesses are owned and managed by the government and not by private people; this is because they are too big or too important for individuals to own.

- Most businesses are small, privately owned enterprises; they provide services for their customers, jobs for their employees and a living for their owners; we are here to help them.
- The training and initial consultancy will concentrate on *shops*, since these are so numerous and are in some ways simpler than manufacturers.

Ask trainees what it is that shopkeepers do for people. Are they just an unnecessary group between producers and final users?

Ask trainees what service wholesalers perform.

Ask trainees to suggest different ways in which businesses are owned.

At each stage, ask the trainees where the businessman might go to get more money; they may suggest the bank every time, but they know how difficult it is to get bank loans. Ask them what else the businessman might do, if the banks refuse.

Ask trainees what else might happen if the business grew still more. If it was very large, or important, it might be taken over by the government.

Ask trainees to suggest yet another form of ownership.

Ask trainees to describe co-operatives they know. Do they have particular management problems? Why?

Ask trainees what businesses are owned by government. How does this affect their management?

Discuss the importance of small shops, or of whatever group the consultants are to work with initially.

## SESSION 3: EXERCISES IN SIMPLE RECORDS

This session introduces the idea of describing a business in financial terms, as an aid to understanding what has happened in the business, and thus to making suggestions as to ways of improving the business.

The four exercises are very simple, and lead up to the 'first consulting form' which is introduced in session four.

There is no mention of technical terms such as 'assets', 'liabilities', or 'debtors' and 'creditors'. These are introduced later, but are of little importance; what matters is that trainees should appreciate the *use* of these simple figures as tools of business analysis.

### Exercise 1: Azim's Vegetable Shop

Trainees should be given about ten minutes to work on this alone, with no introduction, and the instructor should then go through the calculations with the group, ensuring that every trainee understands what is involved.

The following points should come out in the discussion:

- 1) Businesses have other expenses apart from the cost of the materials or supplies which they buy for resale. Azim 'gained' \$100 on his vegetables alone, but he only managed to obtain \$30 for his own use after paying the other expenses.
- 2) Business people must keep some records, even to be able to make up a simple account of this sort. Trainees may discuss how they think Azim might have recorded these 8 items of information.
- 3) Azim earned himself \$30 during the month. Was this his wage, or the profit of the business? Trainees should begin to appreciate the importance of separating the owner's affairs from those of the business he owns.

### Exercise 2: Mrs. Habib's General Kiosk

Trainees should be given about ten minutes on their own for this exercise, although they may finish sooner. The instructor should then go through the figures, summarising the items into the four categories of building, equipment, stocks and cash and showing the two sources of money - Mrs. Habib's investment and the loan. The figures should be laid out as the trainees suggest, and the instructor should avoid any mention of 'balance sheet', 'assets' or 'liabilities'.

The following points should be made:

- 1) It is necessary to summarise and categorise the various items of expense. There are various ways of doing this, and the choice will depend on the detail needed and the time available.
- 2) A business person can decide, at the beginning or later on, how he or she will 'deploy' the money in the business. Spending *more* money on stocks or equipment means having *less* for the building or the cash box, and so on.
- 3) It is useful to describe a business in terms of where the money has come from, and how it is used. This ensures that all the money that has been allocated to the business is accounted for, since the total of what has been acquired from the owner, from suppliers, loans and reinvested profits, must equal the total of the various ways in which it is used.

### Exercise 3: Salim's Shop

Trainees should be given about ten to fifteen minutes on their own for this exercise; it is intended mainly to reinforce the lessons of Exercise 1, with the addition of the element of stock increase or decrease having to be taken into account when calculating cost of goods sold.

The instructor should work through the exercise with the trainees, asking them for each point and ensuring that every trainee understands every step.

The following points should be made:

- 1) It is impossible to know what has been sold by a business, or what its cost, without knowing the stocks on hand at the beginning and end of every period in which you are interested.
- 2) What has been used in a period must be what was on hand at the beginning, *plus* what was bought during the period, *less* what remained unsold at the end.

This simple calculation causes a great deal of trouble. Every consultant *must* understand it and be able to apply it from this stage on; the principle can be simply illustrated with sticks of chalk, ticks on the blackboard, chairs or any other moveable item.

The instructor should, if necessary, set more examples to ensure that every trainee can calculate the cost of goods sold in this way.

- 3) Every cost item must be included, even if the payment is made for a longer period than that in which we are particularly interested. Annual payments must be divided by 12 to get monthly costs, or by 52 to get weekly costs.

#### **Exercise 4: Mohamed's Shop**

Trainees should again be given ten to fifteen minutes on their own with this exercise, which is mainly a reinforcement of Exercise 2. The additional points, which should be brought out by the instructor when he goes through the exercise with the trainees, are as follows:

- 1) It is possible, approximately at any rate, to make up a financial picture of a business that has been operating for some years, with few records of any sort. This is a vital point for consultants who will generally be advising businesses which have been running for some time but for which there are no regular accounting records.
- 2) Apart from the building, the equipment, the stocks and the cash which were introduced in Exercise 2 as ways of 'using' money, it can also be put in the bank or lent to customers in the form of credit (trainees should realise that to obtain credit is exactly the same as obtaining a cash loan).
- 3) In addition to the owner's own investment, or a private loan, it is also possible to obtain money from banks or from suppliers, in the form of credit.
- 4) If some estimate can be made of the total value of what is in the business, *and* of what has been put into it at the beginning or during its life by the owner or from other sources, the difference between the two totals will be what has been *left* in the business by the owner, out of its profits. If more has been put in from outside than is now in the business, it has either lost money during its life, or the owner has taken out more than the business has earned.

## EXERCISE 1: AZIM'S VEGETABLE SHOP

Azim started his retail business on June 1st, 1976. He found another job at the end of the month, so he closed the business on June 30th, 1976.

He made a note of the following facts during the month:

1. He spent a total of \$200 on vegetables for sale.
2. He sold all the vegetables, for a total of \$300.
3. He paid rent of \$20 for his stall in the market.
4. He paid a licence fee of \$10 for the month to the market committee.
5. He paid his cousin a total of \$20 for assistance during the month.
6. He paid \$15 for the transport of the vegetables from the farmers to the market.
7. He paid \$5 for paper bags to wrap the vegetables he sold.
8. He took \$30 from the takings during the month for his own personal expenses.

How much money did Azim's vegetable shop make or lose during its life of one month?

## EXERCISE 2: MRS. HABIB'S GENERAL KIOSK

Mrs Habib was given \$500 when she retired from her job at the factory, and she decided to use the money to open a general kiosk. Since she was well-known in the area she was able to borrow another \$500 from a friend for the business; she spent the money as follows:—

1. She bought some shelves for \$50.
2. She bought a cupboard for \$30.
3. She bought a set of weighing scales for \$60.
4. She bought a cash box and lock for \$10.
5. She bought timber and nails to build her kiosk for \$200.
6. She paid the carpenter \$100 for putting up her kiosk beside the road in front of her house.
7. She paid the painter \$50 for painting the stall.
8. She spent \$100 on 5 bags of sugar to sell.
9. She spent \$50 on 3 bags of flour.
10. She spent \$200 on a variety of tinned foods.
11. She spent \$100 on soft drinks, medicines and tea.
12. She kept \$50 in the cash box to use for change.

Summarise the way Mrs. Habib invested her money in order to present a simple financial 'picture' of the business as it was when she was ready to start. Include a statement of where she obtained the money.

### **EXERCISE 3: SALIM'S SHOP**

Salim started his shop on January 1st, 1976. At the end of January he wanted to know how well he had done. He had noted down the following facts:

1. He had started the month with \$100 worth of goods in his shop.
2. During the month he had bought \$50 worth of goods, in addition to the stocks he had at the beginning.
3. At the end of January he counted up his stocks, and worked out that they were now worth \$110.
4. He had kept a record of his cash, so he knew that he had received \$60 from his customers during January.
5. His rent was \$60 for the whole year, and this included payment for the use of all the equipment in the shop.
6. The total of his licences for the whole year was \$12.
7. He had taken \$10 from the shop for his own use during the month.
8. During January he had not given any credit to his customers, and he had paid cash for all his supplies.

How much money had Salim gained or lost during January, 1976?

## EXERCISE 4: MOHAMED'S SHOP

Mohamed started his shop in January 1965. He had invested \$50 which was all his savings at the time. On January 1st, 1975 his brother Juma asked Mohamed what he had achieved in 10 years of business. Mohamed said that he had managed to keep himself and his family, and to send his five children to school. Juma answered that this was indeed very good, but he wanted to know how much the business was worth today, on January 1st, 1976, so that they could compare it with the original \$50. Mohamed did not know what to say, but they decided to see if they could find out. Mohamed made a note of the following facts, which he thought might be useful to them.

1. There was \$5 in the cash box, belonging to the shop.
2. He had opened a bank account for the shop in 1971, and there was now a balance of \$15 in it.
3. His customers owed him a total of \$30 for goods he had sold to them on credit.
4. He had counted up his stocks the previous day, December 31st, 1974 to see how he was doing, and he found that they were worth a total of \$200.
5. He had bought his building two years before, for \$1000.
6. The shelves, counters, and other equipment in the shop were worth a total of \$100.
7. He owed his wholesaler a total of \$50 for goods he had bought on credit.
8. He had borrowed \$1000 from the Commercial Bank to buy the building, and he had so far only repaid \$200.

Put together a financial description of Mohamed's business on January 1st, 1975, showing how the money was being used in the business and where it had come from.

Assuming that Mohamed did not put any of his own money into the business after his initial \$50, how much of the profits had he re-invested during the ten years of the business life?



## SESSION 4: THE FIRST CONSULTING FORM

The questions in the first consulting form are designed to obtain the following information about a business:

- 1) How the money is being used at the moment.
- 2) Where the money was obtained from.
- 3) What gain or loss is being made by the business each month.
- 4) What information that should be available is *not* available.

The last item is often the most important at first; if a business person cannot answer a question, this immediately suggests a need for better record keeping.

We should go through each question on the form, and ask ourselves:

- 1) Will our business people be *able* to give us this information?
- 2) If not, how can they be advised so that they *can* obtain the information?
- 3) Will our business people be *willing* to give us this information?
- 4) If not, how can we *persuade* them to give us an accurate answer?

The information obtained from clients with these questions, or the lack of information, is not the whole story; it must be combined with intelligent *visual* observation of the business person and the business premises, stocks, equipment, etc.

Only this type of observation can reveal the answers to questions such as:

- 1) Is the business person literate?
- 2) Is the business neat and clean?
- 3) Are the stocks well organised?
- 4) Are stocks balanced in quantity?
- 5) Is there any effort to promote sales?
- 6) Are the goods of good quality?
- 7) Is the business person interested?
- 8) Does the business person trust the consultant?
- 9) Does the business person really understand what is being asked?
- 10) Does the business generally look progressive or heading for failure?

Information of this sort is vital in order to make decisions about what suggestions shall be made, and at what pace:

- 1) What level of book-keeping will this person be able to reach?
- 2) How many recommendations should this person be able to absorb in one visit?
- 3) After how long an interval should the consultant call back to check progress?
- 4) Is this business likely to survive long enough for recommendations to take effect?
- 5) What simple housekeeping improvements will improve this business without any need for analysis of figures?

During the course techniques will be covered which will enable trainees to:

- 1) Advise business people *how* to obtain all the information on the form, and on similar forms for manufacturers.
- 2) Analyse the information in order to diagnose the constitution of the business.
- 3) Determine what needs to be done to improve the business.
- 4) Persuade the business person to co-operate in the whole process of giving information, co-operating in the analysis, helping to develop solutions, and applying and evaluating them.

Give each trainee a copy of the First Consulting Form, for retailers (Handout 4.1)

Go through each question on the form, ask trainees to comment on each.

Ask trainees how business people can obtain the necessary information for each answer.

Ask a trainee to act as a consultant and give typically vague, uncertain, unwilling etc. replies. Ask trainees how they will deal with these.

Do not at this stage go into detail on recording etc. techniques but merely ask trainees to identify what is missing.

Do not allow trainees who are already familiar with book-keeping to go into detail.

'Role Play' several consultant/client meetings with the form so that all trainees are familiar with its layout and content.

Ask trainees what might be symptoms which would indicate answers to these questions?

Ask trainees to suggest items of better housekeeping that would improve shops known to them.

# FIRST CONSULTING FORM

Shopkeeper

VILLAGE/MARKET/TOWN \_\_\_\_\_

DATE OF FIRST SESSION \_\_\_\_\_ CONSULTANT \_\_\_\_\_

NAME AND ADDRESS OF BUSINESS \_\_\_\_\_

YEAR BUSINESS STARTED \_\_\_\_\_

TYPE OF BUSINESS \_\_\_\_\_

What is the most important problem in your business? \_\_\_\_\_

Better **MANAGEMENT** may help you to get over this problem. I am not giving loans, chasing debts or asking about taxes, but trying to **HELP** you manage this business better with some **ADVICE**. I am trying to give you advice especially for *your* business. I do need some information from you before I can do this.

First, I need to know what you have in your business today, and how much it is worth. \_\_\_\_\_

Is this building you property? (Yes/No) If so, what is its value now? \_\_\_\_\_

What is the value of all the furniture and equipment you have in your business, if you had to sell it today? \_\_\_\_\_

What is the value of all the goods in stock today? \_\_\_\_\_

Do you give any credit at all? (Yes/No) If so, how much is owed to you today, by all your customers, whether overdue or not? (Try to add up the total from the record of debtors). \_\_\_\_\_

Does the business have a bank account? (Yes/No) If so, how much is in it? (Try to check the bank book). \_\_\_\_\_

Do you have any other money which can be used for the business when necessary? \_\_\_\_\_

How much **CASH** have you got here now which belongs to the business? (Try to *see* the actual money). \_\_\_\_\_

The total amount of money, or value of other things that you are using in your business today is therefore **TOTAL 'ASSETS'** \_\_\_\_\_

Let us try to see where this came from. Do you get any credit from your suppliers? (Yes/No) If so, how much do you owe them altogether today? (Try to check from records). \_\_\_\_\_

Do your customers ever pay in advance? (Yes/No) If so, how much have you got from them at the moment for goods not yet taken? (Try to check from records). \_\_\_\_\_

Have you received loans from any source? If so, how much do you owe at the moment? \_\_\_\_\_

How much money did you and your partners if any put into this business at the beginning? \_\_\_\_\_

How much have you put into it since then? \_\_\_\_\_

The total amount put into the business by you or 'lent' from other sources is therefore **TOTAL** \_\_\_\_\_

The difference between this and the total value of what is in the business has come from profits earned by the business (or losses). \_\_\_\_\_

The total value of the business is therefore (Transfer total from above). \_\_\_\_\_

Do you have any *other* business such as cash crop farming (     ), a restaurant (     ), transport services (     ), another shop (     ), other (     ).

If so, are all the figures which you have given me the ones for this business *alone* or does the cash or any other item belong to the others as well? (Correct as necessary).

Now let us see how much profit or loss you are making each month.

What is the total value of your sales in an average month? (Try to check from cash records, debtors records, guesses of a day's sales, or your observation) SALES TOTAL

\_\_\_\_\_

What does it cost you to buy the goods that you sell for this amount? (Check opening stock and goods bought *less* closing stock, or receipts, or average gross profit on sales)

\_\_\_\_\_

What do you *yourself* take out of the business in an average month in wages, salary, value of goods taken and not paid for, gifts to relatives and so on? (Check records)

\_\_\_\_\_

Do you employ any others in this business? How many? ( ) If so, what do you pay them in total per month?

\_\_\_\_\_

What rent do you pay per month?

\_\_\_\_\_

What do you spend on transport each month?

\_\_\_\_\_

What do you spend on water, electricity, wrapping materials, etc. each month for the business? (Be sure no expenses are forgotten).

\_\_\_\_\_

What do you spend on loan interest and repayments each month?

\_\_\_\_\_

What is the MONTHLY cost of your licences? (Check licence certificate).

\_\_\_\_\_

Your total expenses per month are therefore

EXPENSES TOTAL

\_\_\_\_\_

The difference between your total expenses and your sales is your profit/loss.

TOTAL PROFIT/LOSS

\_\_\_\_\_

CLIENT \_\_\_\_\_ CONSULTANT \_\_\_\_\_

R = RECOMMENDED

C = COMPLETED

**RECOMMENDATIONS**

Keep Cash Book

Record Debtors and Advances

Record withdrawals of cash (in cash book). Pay for goods withdrawn, if necessary by withdrawing cash and recording it.

Count and Value stock on (Date) . . . . .

Tidy up Premises with Special Attention to . . . . .  
.....

Rearrange Stock, in Particular . . . . .  
..... (Items)

Open Bank Account

Where . . . . .

Monthly Deposit . . . . .

*Reduce Stocks by:*

a) Lower Price

Item . . . . .

Present Stock . . . . .

Present Price. . . . .

Target Stock. . . . .

b) Stop Buying

Item . . . . .

Present Stock . . . . .

Target Stock. . . . .

c) Return to Supplier

Item . . . . .

Present Stock . . . . .

d) Free Gift

Item . . . . .

Present Stock . . . . .

Basis of Gifts . . . . .

e) Exchange with Other Traders

Item . . . . .

Present Stock . . . . .

Advertise, Item . . . . .

How . . . . .

(Try Actually to do it)

Buy New Stock,

Item . . . . .

Qty. . . . .

Other

	DATE	DATE	DATE	DATE
Keep Cash Book				
Record Debtors and Advances				
Record withdrawals of cash (in cash book). Pay for goods withdrawn, if necessary by withdrawing cash and recording it.				
Count and Value stock on (Date) . . . . .				
Tidy up Premises with Special Attention to . . . . . .....				
Rearrange Stock, in Particular . . . . . ..... (Items)				
Open Bank Account				
Where . . . . .				
Monthly Deposit . . . . .				
<i>Reduce Stocks by:</i>				
a) Lower Price				
Item . . . . .				
Present Stock . . . . .				
Present Price. . . . .				
Target Stock. . . . .				
b) Stop Buying				
Item . . . . .				
Present Stock . . . . .				
Target Stock. . . . .				
c) Return to Supplier				
Item . . . . .				
Present Stock . . . . .				
d) Free Gift				
Item . . . . .				
Present Stock . . . . .				
Basis of Gifts . . . . .				
e) Exchange with Other Traders				
Item . . . . .				
Present Stock . . . . .				
Advertise, Item . . . . .				
How . . . . .				
(Try Actually to do it)				
Buy New Stock,				
Item . . . . .				
Qty. . . . .				
Other				

## SESSION 5: OBSERVING A BUSINESS

A total of 5½ days, or over a quarter of the training course, is spent actually working in businesses. It might be argued that it is impossible for trainees to do anything worthwhile so early in their training, but the intention of these periods is to enable the trainees actually to experience the problems of the business people they are to advise, and to observe at close quarters the ways in which businesses are managed. They will then be able to appreciate the need for the techniques which they learn, otherwise they may learn how to keep the various records and so on, but since they have no idea of the situation in which these techniques are to be applied, or the problems they are designed to solve, they will not really understand what they are doing.

Each trainee should be assigned to a shop for this first day; the shops should be selected and their owners must agree to co-operate well in advance of the course. The shops should be selected on the following basis:

- 1) They must be convenient to the place where the course is being held, so that a minimum of time is wasted in travelling.
- 2) They must be reasonably typical of the shops in the area, in terms of size, apparent activity and success and type of business.
- 3) They should if possible be reasonably similar to one another, so that the experience of each client will be comparable with those of the others in the group.
- 4) Each trainee should, if possible, be alone in the shop, since this will give them experience of the relationship involved in consulting.
- 5) The owner should appear to be of average management ability; the shop should not be the busiest and best in the area, but it should not be dirty, poorly stocked and obviously near to failure.
- 6) The owner must understand the purpose of the service, and the objective of the trainees' sessions in shops. They must appreciate that the trainees are only just beginning their training, and must not expect useful advice at this stage.
- 7) The owner should realise that he can expect the trainee to act as a free unpaid assistant during the time he or she is in the shop, and that in return the trainee can expect to be able to discuss problems and ask questions.

During this first day in the shop, the trainees should be told to make notes on the following aspects of what they see and hear:

- 1) How well is the cash controlled, and how safe is it?
- 2) Does the business owner know how much cash is being received and paid out?
- 3) Are the owner's withdrawals of money from the business properly recorded?
- 4) Do any customers buy goods on credit? If so, how well are their purchases and payments controlled? Can the owner see at a glance how much is owed by each customer?
- 5) Does the owner buy any goods on credit from suppliers? If so, can the owner be sure that when he is asked for payment he is only paying what is due, and does the owner know what his obligations are at all times?
- 6) How does the owner decide what goods to put in stock?
- 7) How does the owner decide what quantities to buy?
- 8) What other problems or deficiencies are apparent?

The trainees should be asked to note down their own specific suggestions as to what the business owner might do to improve each aspect where improvement is needed. Trainees should not at this stage try to persuade the owners to adopt the improvements, but they may of course discuss them with the owners, and obtain their reactions. They should not be expected to fill in the first consulting form for the business in which they spend the day, but they will be able to observe the availability or otherwise of the necessary data.

## **SESSION 5: OBSERVING A BUSINESS**

You will spend the whole day in a retail business which has been specially selected for this purpose. The objective is to familiarise you with real business conditions, so that you can appreciate the kinds of problems which your consulting is intended to solve.

The shopkeeper has been briefed on this exercise; he or she appreciates that you are just beginning your training, and you will not be expected to teach a great deal; you should try to learn and observe, and it may be that your questions will teach the shopkeeper something of value.

In particular, you should consider the following aspects of the management, and you should note down your answers to these questions, together with your ideas of how any deficiencies might be remedied. You need not at this stage try to persuade the shopkeeper to follow your suggestions, but you should try to discuss them with him.

- 1) How well is the cash controlled, and how safe is it?
- 2) Does the owner know how much cash is being received, and how much is being paid out?
- 3) Are the owner's withdrawals from the business properly recorded?
- 4) Do the customers buy goods on credit? If so, how does the owner record this? Can he tell at a glance how much each credit customer owes?
- 5) Does the owner receive any credit from suppliers? If so, does he know what he owes at any time?
- 6) How does the owner decide what goods to put into stock?
- 7) How does the owner decide what quantities of goods to buy?
- 8) What other problems or deficiencies are evident?

## SESSION 6: THE CASH BOOK

### Keeping Records

It is necessary to keep records in order to manage a business successfully. Records are kept so that the manager can understand and analyse what is happening in the business.

The type of records needed will vary from business to business, depending upon the type and size. However, most small-scale businesses should keep these:

- Cash book
- Debtors Record
- Expense Record
- Creditors Record
- Stock Record
- Profit/Loss Account
- Balance Sheet

Records should be kept from the date when the business begins, and be kept up to date throughout the life of the business.

The records should be kept in books in the business. The records should be orderly and neat and not written on sheets of paper which can be lost or misplaced.

### The Cash Book

There are many ways of keeping accounts and many different kinds of cash books. Some businesses require very complex cash books. Most small businesses only require a simple book.

This Cash Book is of particular use to small-scale businesses because it can be kept up to date every day.

In time, a small-scale business may grow so that a book-keeper is needed. The book-keeper may have to keep a more complicated cash book. With most small-scale businesses this form is enough.

Two things must be known to keep a cash book - How much money has been received (Cash In); How much money has been spent (Cash Out).

The following is an example and explanation of a simple cash book for one day:

Ask trainees *why* records should be kept. What happens if they are *not* kept?

Ask trainees *what* records should be kept. Ask for, or suggest, examples of difficulties that can be avoided by keeping each of these records.

Ask the trainees *when* the records should be filled in.

Ask trainees *where* the records should be kept.

Ask trainees to describe the effects of badly kept records.

Ask trainees what a cash book does for a business.

Distribute sample cash book page, handout 6.1.

Ask trainees what they need to know to keep a cash book.

Draw layout of sheet on board. Explain each step in filling it out.

MONEY INTO CASH BOX					MONEY OUT OF CASH BOX				
DATE		DETAILS	\$	c.	DATE		DETAILS	\$	c.
Dec.	1	Balance in cash box at beginning of day	50	00	Dec.	1	Salim & Sons for supplies	27	70
		Cash Sales (Receipts)	10	70			Rent	4	00
		Debtors (Customers payment of outstanding debts)	5	00			Wages	9	00
							Allowance - Self	4	00
							Total Out	44	70
							Balance in cash box at end of day	21	00
			\$65	70				\$65	70
Dec.	2	Balance in cash box at beginning of day	21	00					

**Money In** -- on the left hand side.

The amount of cash on hand at the beginning of the day is called the **Balance** or **Cash In Hand**.

**Cash Received** during the day is filled in by showing the amount of money paid by debtors and the cash sales.

**Money Out** -- on the right hand side.

This is money paid out during the day. It may be computed from vouchers or receipt records.

The balance of **Cash On Hand** is the difference between **Money In** and **Money Out**. To find the **Balance**, add up both sides and subtract the total on the right hand side from the total on the left hand side.

If the money in on the left hand side is added to the money out on the right hand side, the totals will be equal, like a pair of scales, and this is why it is called the **Balance**.

A cash book can be used to **control** the use of money and to **record** what has happened to it.

Work through on the board and ensure that trainees are familiar with the procedure before going on to the following example.

Give the trainees another example similar to the first one.

Go through the following example.

MONEY IN				MONEY OUT					
DATE		DETAILS	MONEY		DATE		MONEY		
			\$	c.			\$	c.	
Dec.	1	Cash in hand	250	00	Dec.	1	Supplier	200	00
		Cash Sales	100	00			Wages	40	00
		Debtors	75	00			Rent	30	00
							Self	30	00
			\$425	00			Balance	100	00
								\$400	00
Dec.	2		\$100	00					

Something is wrong with the **Money Out** side; on a second look, the manager discovers that he gave an employee a \$25 advance which wasn't recorded.

### Exercise

These figures list the **Money Out** and **Ending Cash** for a business for four days.

14/4/75	—	Starting Cash	\$110.00	
		Purchases	63.00	
		Ending Cash	125.00	(Cash in \$78)
15/4/75	—	Purchases	137.00	
		Wages	20.00	
		Drawings	25.00	
		Ending Cash	108.00	(Cash in \$165)
16/4/75	—	Purchases	57.00	
		Gift to friend	10.00	
		Ending Cash	121.00	(Cash in \$80)
17/4/75	—	Purchases	30.00	
		Ending Cash	80.00	(Cash in ?)

Ask trainees what is wrong. Why don't the sides balance? What might have happened? How do we find out? Where should the advance be recorded?

Write this list on the board.

Show trainees how the first day's figures should be transferred on to their cash book page. Ask them to transfer the remaining three days and to work out the **Cash In** for each day.

What appears to have happened on the last day?

(On 17/4/75 the 'ending cash' was \$41 less than 'ending cash' from the previous day. (\$121 — \$80 = \$41). Purchases were only \$30. Therefore even if there were *no* sales that day, there is still \$11 unaccounted for).





## SESSION 7: GIVING CREDIT AND THE DEBTORS' RECORD

Even if a business person is not interested in keeping any record of cash movements or of the volume of sales, there is one type of record which nearly every business needs.

This is a record of *debtors*, that is, a record of the names of people who have bought goods on credit, how much credit they have been given, and when they pay.

Before seeing *how* such a record should be kept, we must examine more important questions:

- 1) Should a business give credit *at all*?
- 2) If so, to *whom* should credit be given?
- 3) *How much* credit should they be given?
- 4) *How long* should they be given credit?

Many small businesses fail because they sell goods on credit and do not get paid; for this reason, many people say that small businesses should not give credit to anyone, ever.

### When to give credit?

- when customers genuinely *need* to buy on credit.
- when they can really repay what they owe, and the business owner has some way of ensuring that they do.
- when the money lent out to customers in this way cannot more effectively be used in some other way.

Customers who are farmers, and who need goods this month which they will only be able to pay for when they harvest their crops, are the most familiar example.

Employees with regular salaried positions, such as schoolteachers, and Government staff, who are paid monthly, are another.

### To whom to give credit?

To customers who fulfill these conditions:

- 1) They are reliable trustworthy people, known as such to the business owner or to reliable informants.
- 2) Their economic position is such that they will not only be able to pay but also willing to repay.
- 3) Their business must be sufficiently valuable to the business to justify 'lending' money to them, for this is what selling goods on credit actually is.

The big customer who may not be reliable, or the wholly reliable wealthy customer whose business is not worth the expense, should be turned down.

### How much credit to give?

Customers will not buy from a business just because it gives credit, they need other important services first;

- The necessary equipment, premises and facilities.
- The necessary goods in stock.

Money 'lent' in the form of credit could have been used to finance these 'assets' which are necessary before anyone will want to buy goods on cash or credit terms.

Credit should only be offered so long as the amount involved does not prevent the proper provision of these 'assets'.

However well customers are 'vetted' before they are given credit, and however closely they are kept to their limits, some will, perhaps through unforeseeable accidents, be unable to pay as promised.

The business must not give so much credit that a combination of such mistakes can 'break' the business.

Each *individual* should be given credit only within an individual *limit*, fixed after consideration of:

- The amount that the customer *needs*.
- The amount justified by the customers' likely purchases and their profitability to the business.
- The amount that can safely be relied upon to be earned within

Ask trainees what record nearly every business has.

Discuss what proportion of local businesses sell goods on credit. How do they decide whether or not to do so?

Discuss examples of businesses which have failed because of uncontrolled credit.

Ask trainees why businesses should sell on credit.

Ask trainees what period of credit local farmers need.

Ask trainees how business people should choose which customers should be given credit.

How *do* local business people actually choose?

Describe a few hypothetical local applicants for credit, and ask trainees whether or not they would allow them credit, and how much, for how long.

Ask trainees whether local business people set any credit limits. If so, how are the limits set?

If not, when do business people refuse to extend any more credit?

How else might the money be used to satisfy customers?

the specified period and repaid to the business in question. The customer may be receiving credit from a number of suppliers; each one must not allow itself to be deluded that it will get *all* the proceeds from crop sales etc.

#### How long to give credit?

Credit should be given for as short a period as possible, since money has a value over time. If a customer takes two months instead of one month to pay, the business is deprived of the money for twice as long, and the credit has cost twice as much to give.

The period should depend on:

- The time when the customer expects to receive the funds with which he will pay.
- The maximum amount of time over which it is possible to forecast the behaviour and fortunes of the customer. This will obviously differ from one customer to another.

Longer credit means less *flexibility*; if a certain product becomes in short supply, or an unexpected purchasing opportunity occurs, or there is a need for a replacement machine, short term credit can soon be gathered in and the money used to pay for what is needed.

Longer term credit may involve six months or more; by the time the money is paid, the opportunity may have disappeared, or the business itself may have failed altogether.

- Giving credit is - dangerous  
- expensive  
- time consuming

These disadvantages can be minimised by:

Good initial credit decisions; Good Debtors' Records.

#### Controlling and recording credit

Credit decisions should *not* be entrusted to employees; they should be made by the business owner only, and customers must realise that employees are *not* authorised to grant credit in the first place, *or* to grant credit beyond limits.

The debtors' record should give a complete record of:

- The name of the customer. (This may include children etc. authorised to buy on the account.)
- The credit limit, or maximum amount allowed to be owed at any one time.
- The payment date, by when the account should be cleared.

The amount owing at any moment, without the need for calculating the debt from a long list of transactions.

- A note of what was bought on each transaction, with the dates and a signature from the customer.
- A note of all amounts paid.

Many businesses record credit on scraps of paper, or in old exercise books, with all the customers mixed up; it is impossible to find out what is owed without lengthy calculations, and this in itself delays payments, particularly at busy times of the month when there is no time to add up figures.

Each customer *must* have a separate sheet; they may be loose leaf sheets, each customer may have a separate book if there are only a few credit customers.

This layout has proved itself useful, and simple to fill in and keep up to date: (see layout facing page)

- Column 1 - Date.
- Column 2 - Particulars should include individual items purchased when possible.
- Column 3 - Price for each item listed in the particulars.
- Column 4 - Total amount for the entire purchase.
- Column 5 - Amount the customer pays.
- Column 6 - Balance owed.
- Column 7 - Balance of deposit.

Ask trainees how long local credit customers are usually given to pay their bills. How is this period determined and enforced?

Ask trainees what is the effect on a business of long credit terms

Ask trainees how local business people delegate the granting of credit to their employees.

Ask trainees to describe credit recording systems they have seen.

Do disputes arise because customers deny that they ever made certain purchases? How can these be avoided?

Distribute Handout 7.1 and draw the following example on board explaining each step.

## DEBTORS' RECORD

**NAME:** MRS. SALIM

**CREDIT LIMIT:** \$100

**PAYMENT DATE:** EACH MONTH

Date	Particulars (or items)	Price		Total		Paid		Balance Owed		Balance of Deposit	
		\$	c.	\$	c.	\$	c.	\$	c.	\$	c.
19.1								0	00		
20.1	Groceries			1	50	1	00		50		
26.1						10	00			9	50
18.2	Groceries			15	00			4	50		
23.2						4	50	0	00	0	00



## SESSION 8: CREDITORS' AND EXPENSE RECORDS

### Creditors' Records

People who sell goods to a business on credit are called *creditors*. If the business operator buys goods on credit he should keep a Creditor's Record to know how much is owed.

One page should be kept for each supplier and the date payment is due should be noted. Every time a purchase is made from each supplier, it should be entered on the page by date, invoice number and the total amount due.

When payments are made they are also entered by date and cheque or receipt numbers and the amounts paid.

In the balance column is the constant total of the amount owed, adding the latest purchases. After payment is made the amount paid is subtracted from the previous balance and a new balance figure shown.

This record, like the Debtors' Record, has the advantage of being continually up to date with every transaction. It is also very simple and takes very little time to keep up to date.

Ask trainees why a Creditors' Records should be kept. What may the creditors do if the business has no record of amounts owed?

Give the trainees handout 8.1.

Draw form on board and explain its use.

What are the advantages of this type of Creditors' Record?

Work through the following example on board.

NAME: Abdullah & Sons Ltd.

DATE PAYMENT DUE: 5th of the month

Date	Particulars Invoice or Cheque-Receipt No.	Total Paid		Total Purchased		Balance	
		\$		\$		\$	
12/3/76	Invoice No. 1256			25	00	25	00
31/3/76	Receipt No. 76	25	00			00	00

### Expense Record

The Expense Record is used to record the nature of all the expenses related to the business so that each item can be itemised for the Profit and Loss Statement.

Give the trainees more similar examples until all of them grasp the principles involved. Ask trainees what the Expense Record should be used for. Is it needed? Why? Give the trainees handout 8.2. Give the trainees the following example.

Date	Particulars	Total Paid		Supplies		Rent		Salaries		Drawings		Transport		Licenses	
		\$		\$		\$		\$		\$		\$		\$	
Dec. 1	Meat-Azim & Son	200	00	200	00										
Dec. 2	Trade Office	20	00											20	00
Dec. 3	Self - Salary	50	00							50	00				
Dec. 4	Salim's Salary	40	00					40	00						
Dec. 4	Mustafa's Salary	40	00					40	00						
Dec. 4	Trader's Supply Co.	60	00									60	00		
Dec. 4	Mrs. Mohamed	95	00			95	00								
<b>TOTAL EXPENSES</b>		<b>505</b>	<b>00</b>	<b>200</b>	<b>00</b>	<b>95</b>	<b>00</b>	<b>80</b>	<b>00</b>	<b>50</b>	<b>00</b>	<b>60</b>	<b>00</b>	<b>20</b>	<b>00</b>

The classification of expenses will depend on the type of business and the amount of detail required.

What classification might be useful to:

- 1) A Tailor?
- 2) A Restaurant?
- 3) A Grain Miller?

Give trainees additional examples, and work through on board, ensuring that all trainees understand.

(Materials, wages, machinery, repairs, rent etc. as above)

(Food, wages, equipment, fuel, cutlery, etc. rent etc. as above)

(Grain, fuel, machinery, repairs, packaging, wages, rent etc. as above)

Use other local examples as appropriate.





### EXPENSE RECORD

Date	Particulars	Total Paid		Supplies		Rent		Salaries		Drawings		Transport		License	

## SESSION 9: BANKS AND BUSINESS

Business people complain that they never have enough money; why should they want to put what little money they have into a bank?

What problems arise as a result of keeping more cash than is actually needed for change and other day to day transactions?

Security – money can be stolen by thieves

Dishonesty – employees are tempted by large sums of money

Extravagance – the owner of the business may withdraw too much money if the cash is ready to hand

What services do small business people need to help them with cash management?

- A place where they can put the money they do not need immediately, and where it is completely safe.
- In addition to complete security, they need to be able to put money in, and take it out, with a minimum of inconvenience.
- Assistance with recording the movements of cash, particularly the larger amounts.
- A way of paying large bills to avoid any actual cash changing hands at all.
- A way of paying regular bills, such as rent or licenses, so that they are not forgotten.
- A place where it may be possible to borrow money to tide the business over for short periods, since most businesses need more money at some time than at others, and will tend to have a surplus at some times during the month and a need for more cash at others.

This sounds like a very impressive range of services, and would be very expensive; banks are in business to make money, like any other enterprise, so what services do they provide, and how can they help with these cash management problems?

### Why put cash in the bank?

First it is important to be clear that money in itself is of no value; it is worth keeping cash only because it *will* enable you to buy something in the future. The possession of cash, in your pocket or a cash box, means *risk*, *temptation* and the *expense* of storage or replacing the cloth that the pocket is made of.

When money is *used* it starts to be useful; until then it is a nuisance, but it is worth having some cash because you may need to use it very soon.

Cash management consists of having to hand the cash you will need to *use*, and no more, before you have a chance to obtain some more.

Every business person, and individual, is likely to have found some ways of 'storing' cash, and the various methods vary in terms of:

Security; Convenience of access; Other benefits

Gold ornaments are fairly secure, particularly if they are attached to your daughter's ear, and they may increase (or decrease) in value if the price of gold changes. It may not be very easy to withdraw the money from this form of storage (particularly if your daughter wants to keep her ear rings), and it provides no other services such as recording, paying bills etc.

Hiding the cash is a common method, and a bad one. It is not secure. There is no protection against inflation. There are no side benefits such as the pleasure obtained from ornaments.

It is not readily accessible, since the owner usually has to conceal the hiding place and cannot take money out or put it in whenever he wishes.

Banks are the modern way of storing surplus cash, and they provide many services. How do they do this?

### How does a bank operate?

At the same time as some people, or businesses, have a temporary surplus of cash, and want to *store* it safely and conveniently, other people, or businesses, need more cash than they have, and want to *borrow* money.

Discuss with trainees how the businesses which they have seen on the course store their money. Is it secure from theft or dishonesty of staff? Do owners withdraw too much?

Ask trainees to suggest how businesses might be helped to manage their cash.

Ask trainees how much cash they have in their pockets right now. What use is that money to them, at this moment?

Ask trainees how business people often store their surplus cash. (Under the bed, in a hole in the ground, in the form of gold ornaments).

Discuss other ways of 'storing' money that are used locally. (Buying cattle, loans to family and friends, stocks of food or other goods). Identify advantages and disadvantages of each.

All economic activity is really based on the fact that some people have more of something than they need, and others have less; businesses, markets, and so on have grown up so that surpluses can be exchanged and everyone can get what he or she needs.

Farmers have more coffee, tea, rice or maize than they want to eat, so they exchange the surplus using money as a medium of exchange, for clothes, tools, meat or other things they do not produce. They do this through traders, since it would be very inconvenient for every farmer to have to seek out for himself all the people who actually wanted to consume his surplus.

In the same way, banks are in business to collect together all the small surpluses of cash that many people have at any time, and to lend it out to other people, or businesses, that need *more*. Because the timing of surpluses and shortages differs from one person and business to another, the bank can maintain a balance.

People who need more money than they have are willing to pay for the use of it; they have to pay *interest*.

The bank is, therefore, able to repay some of this interest to the people who have stored their surplus of cash with the bank; the bank pays people in various ways:

It pays people interest

It provides *services* such as records, and means of paying bills

It provides complete security

All these things cost the bank money, but the bank can still make a profit because of the interest paid by borrowers.

**What services do banks provide to *depositors*, or people who store their surplus of cash there?**

Consider first the businessman who is making a reasonable regular profit, and wishes to save some of this so that he can buy a new machine, or a new building or some similar large item. How does a bank help him?

**The bank operates savings accounts.**

A savings bank holder can deposit cash at any time, in person or by mail. He is paid interest, he can withdraw reasonable sums at any time and the whole amount at a few days notice, and the money is secure. He also has a record of what he has in the account, his *pass book*.

This is really a cash book, similar to that used by the business man in his own business, but recording the payments, withdrawals, interest and balance of his account with the bank.

Now consider a business person who wants rather more; he needs to pay some bills without having to hand over cash; what can the bank do for him?

**The bank operates current accounts.**

A current account holder has a *cheque book*. This enables him to pay bills without cash, since his cheque, if he is *honest* and has *money in the bank*, is as good as money, and can in turn be paid into his supplier's account at the bank, or turned into cash. Banks will only give current accounts to people they know and trust, because the bank does not want its cheques to be dishonoured.

A business person with a current account can also ask the bank to make regular payments on his behalf, to save the trouble of remembering them. This is done by a *standing order*.

Now consider a business person who needs more money than he has, for a short period. How can the bank help him?

**The bank operates overdrafts**, whereby a current account holder can borrow money and write cheques for more than he has deposited.

The account holder has to pay *interest* on an overdraft, and the bank will not grant an overdraft to anyone who is not very well known and trusted. The best way to become eligible for an overdraft is to be a regular account holder of the bank for a period of years.

Banks run *no risk* when they operate a *savings account*, because the money is only paid out on sight of the *pass book*.

Banks run *some risk* when they operate a *current account* because even though they will not pay out money on a cheque unless there is

Refer to session 2 'What is a business?'

Ask trainees about private transactions between people with a surplus and those with a deficit. What types of problems arise with inter-family and other loans?

Find out and discuss the rates of interest paid on savings accounts and charged to borrowers. Discuss the bank's cost of services, staff, branches, security and stationery, etc.

Ask trainees what problems arise when business people need to save their profits in this way.

Distribute sample pages from a bank passbook, and pass round an actual book. Ask a trainee to explain how he uses his savings account.

Go through the entries on the sample page, and ensure that trainees understand what they mean.

Distribute sample cheques and pass round an actual cheque book.

Ask trainees to explain how they or people known to them use their current accounts. Explain what happens when a cheque 'bounces'.

Ask trainees for examples of suitable standing order payments.

Discuss the rate of interest charged locally, and show the cost of borrowing money.

enough in the account, the bank suffers when its cheques are dishonoured.

Banks run a *large risk* when they operate an *overdraft*, because the account holder is borrowing money, and even if he has lodged some security such as title deeds which the bank can sell if he does not repay, this is expensive and bad for the 'image' of the bank.

Business people therefore usually have to start with a savings bank account, progress to a current account and then, if they need it and have shown themselves to be competent and honest managers of their accounts, they may be granted an overdraft.

### **Bank records**

Business people have difficulty in keeping *records*. The savings bank pass book, and the cheque book stubs, are a form of record.

The current account *statement* is a very detailed story of what has happened to the account, and can be a very useful aid to financial management.

The business person must go through his statement when it is received, comparing it with the cheque book stubs and the record of money paid in, this will ensure that:

- Any errors made by the bank are picked up right away.
- Any cheque which the account holder has paid out but which has not been presented to the bank by the people to whom they were given are identified. They may have been lost, or delayed, but the account holder must be prepared for them to be presented later.

Banks provide an invaluable service and by operating a bank account a business person will learn to be a better manager of his own affairs. Eventually a bank, and its local manager, can become an informal assistant to a business; the bank gains from its customer's prosperity and is thus willing to help with all these services and with advice, contacts and so on.

Explain the system of collateral or security.

Give examples from personal experience of this type of progress

Go through a sample set of cheque book stubs, paying in counterfoils and a statement. Ask trainees to identify items on the statement that are not in the cheque book or paying in book — standing orders, old cheques presented after some delay, charges (if made locally), cost of cheque book, etc.

## SESSION 10: EXERCISES IN SIMPLE RECORDS

It is worth devoting a whole day to ensuring that all trainees are fully able to set up and maintain the simple records covered in Sessions 6 to 9, and to make use of a bank account. The information obtained from these records is vital for accurate completion of the First Consulting Form, and trainees must be completely confident with these techniques in order to be able to 'sell' and explain them to their eventual clients.

It is not enough for trainees to be able to carry out the necessary steps once, at their own pace. They should be given several exercises, each stressing different points and as the day proceeds the time pressure should be increased.

The exercises that are provided are merely a sample set of what should be done; like all the exercises in this course, they should be 'localised' with the correct currencies, names, products and so on, and additional exercises should be constructed to satisfy particular training needs.

### A. The Cash Book

Many business people keep some sort of record of their cash, but are unable to make any practical use of it; all they are doing is to waste their time and to delude themselves that they are in some way controlling their business simply because they are filling a note book with figures which are meaningless.

The trainees must learn the routine of keeping cash records, but they must also realise that the records are kept to be used:

- 1) To help control the actual cash, and avoid irregular or illegal use of it.
- 2) To measure the performance of a business by finding out what volume of sales is being achieved.

#### Exercise 1: Mustafa's Shop

This exercise is a very simple example of the type of information from which business people have to produce a cash record. The trainees should be given whatever time they need to complete the exercise, and the instructor should stress the following points when going through the calculations on the board:

- 1) The need for accuracy; trainees must learn to do simple calculations, *quickly* and *accurately*. Speed is less important than accuracy, but an effective consultant must have both.
- 2) The need for regular recording of the amount of cash in hand at the beginning and end of each day.
- 3) The need for regular recording of all amounts spent or withdrawn from the cash box for any reason; this includes purchases of goods and the owner's own withdrawals.
- 4) The importance of security; the cash must be secure as well as accessible to the owner during business hours, and the balance must be in a safe place during the night and other times when the business is closed. The value of a bank account can be mentioned here.
- 5) The use of simple techniques and devices to ensure that records are not mislaid or forgotten (a spike to hold receipts and other notes of sums paid out, a cash note book kept in the cash box itself so that it is always available and the owner is reminded of it whenever he opens the box).

Different versions of this exercise should be prepared as required, and trainees should be practised in the preparation of a cash book until they are all familiar with it.

#### Exercise 2: Juma's General Shop

This exercise brings together the results of a whole month, and is mainly designed to reinforce the lesson of Exercise 1. Trainees may need up to half an hour for this, and the following points should be stressed by the instructor when working through the exercise:

- 1) The need to calculate the *daily* sales at the end of *each day* in order to have proper control.
- 2) The importance of recording the value of goods that are withdrawn by the owner, as well as cash.
- 3) The need to record the purpose, as well as the amount, of each withdrawal.

### **Exercise 3: Habib and his Cash**

This exercise introduces the security aspect of cash recording, and requires the trainees to use some judgement when assessing the likelihood that Salim has been stealing, by analysing the variations in each days takings as shown by the figures.

The figures are also more difficult to add and subtract than those in the earlier exercises, since trainees must learn to work with real-life figures which are rarely neat and rounded off like those in many exercises.

The trainees may need more than half an hour for this exercise and when running through the calculations and assessment of results the instructor should stress:

- 1) That cash records, or any other sort of records, are not a complete protection against dishonesty. They can only make it harder for a thief, but the only real protection is to employ honest staff, or for the owner to control the cash himself.
- 2) The dangers of employing relatives in business.
- 3) The dangers of part-time management, and the possible advantages of shared ownership if the original owner cannot properly supervise the business. If employees share in the profits, they will not be so ready to reduce the profits by theft.
- 4) The importance of clear regular records, calculated daily.

### **B. Debtors' Records**

There are very few businesses which sell goods on credit and keep no record of the details. Even if the business person is illiterate he or she usually asks the customer to write down the amount of credit given. The difficulty is more often that the information is kept in a disorganised way, that records are frequently lost and that it is difficult to reckon up the amount owed when customers wish to pay or should be prevented from taking more credit.

The actual mechanics of keeping debtors' records are even easier than the cash records. All that is necessary is a clear layout and calculation of the balance after each transaction rather than at the end of a day, month or longer period.

### **Exercise 4: Abdullah's Debt**

This is a very simple exercise in calculating the balance outstanding on a customer's account. The trainees should be given up to ten minutes to make the calculations, and further similar exercises should be constructed if necessary to ensure that all trainees can do what is necessary.

When going through the calculations the instructor should stress:

- 1) The need for accuracy, since a mistake in the calculations will be unfair to both sides, and, even if the customer points it out in time, an element of mistrust will remain. Generally, customers are less willing to point out mistakes which benefit the business rather than those in their own favour, this means that the business owner will be the loser.
- 2) The importance of regular calculations of balances owing, after each transaction.
- 3) The importance of credit limits for individual customers.
- 4) The advantages of deposits which mean that for a time the business owes the customer money.

### **Exercise 5: Peter and his Credit Customers**

This exercise introduces the complication of several customers' records being mixed together. It provides another opportunity to practise fast accurate calculations, including the categorisation of a number of items.

This is valuable for categorising and summarising expenses from a long list of payments as well as for sorting out records of credit sales.

The trainees may need well over half an hour for this exercise. The instructor should stress the following points when going through the accounts of each customer:

- 1) The importance of separate records for each customer.
- 2) The advantage of having the figure of each customer's balance always ready, in case of a request for further credit or of unexpected ability to pay the account.

### **C. Creditor's Records and Expenses**

It may not be necessary to have an exercise in recording amounts owed *by* the business to its suppliers, since the method is exactly the same as that for recording amounts owed *to* the business *by* its customers.

There is however some value in further repetition and growing successful businesses are likely to obtain credit and to run the risk of losing track of what they owe.

#### **Exercise 6: How Much Do I Owe Haji?**

Trainees should be given about ten minutes for this exercise, and they must be sure to lay out their answers in the proper way with columns for the description and amounts of credit given, the amounts paid and the balance owing to or owed by the supplier.

The instructor should stress the following points:

- 1) The need to know how much is owed to the suppliers in order to make sure that the right amounts are paid.
- 2) The need to keep track of what is owed in order to ensure that the total does not exceed the capacity of the business to pay.

The proper recording and classification of expenses is essential for knowing what profit or loss has been made by a business.

The categories selected will depend on the type of business and the degree of detail that is needed. The exercise is, as they all are, merely a model for local adaptation.

#### **Exercise 7: Ali's Expenses**

Trainees should be given up to half an hour for this exercise. It is a further opportunity to practice fast accurate calculations, but judgement is also needed in allocating the expenses to the various classifications.

The instructor should stress the following points when going through the exercise:

- 1) The importance of recording all expenses.
- 2) The need to classify expenses.
- 3) The various ways in which expenses may be classified, depending on the type of business and needs of the owner.
- 4) The importance of separating personal from business money, and of recording all transactions between the two types even when the manager and the business owner are the same person.

### **D. Operating a Bank Account**

No exercises have been provided for this section, because the trainees must become familiar with local banking procedures, from layouts and so on. The instructor should construct exercises, possibly with the help of local bank staff, to cover the following topics:

- 1) How to write a cheque.
- 2) How to pay money in to a bank account.
- 3) How to understand a savings account pass book.
- 4) How to reconcile the cheque book stubs with the bank statement.
- 5) How to understand the bank statement.
- 6) How to open a deposit account.
- 7) How to open a current account.

Since the trainees should be paid by cheque, if at all possible, they will all be interested in learning about using a bank account for their

own purposes. They should become familiar with the necessary forms, and they should be able to identify errors in cheques, pass books and statements. The instructor should provide many examples, using wherever possible actual 'dummy' cheques, statements and so on from the bank(s) which trainees' client businesses may be expected to use. Trainees should not merely observe these examples but gain experience of their practical use. Up to half a full day should be allocated to familiarisation with bank procedures. If time allows, it may be possible to invite a bank official to lead part of the session so long as he is properly briefed and does not try to 'sell' the bank at the expense of helping the trainees learn what is involved in using the services of a bank.



## EXERCISE 1: MUSTAFA'S SHOP

Mustafa always made a note of the amount of money he had in the cash box at the end of each days business. He used to take the box home, securely locked, and bring it back to the shop each morning. He also made a note on a piece of paper every time he took anything *out* of the cash box; he kept these papers on a spike so that none would be lost.

He was not quite sure why he kept these pieces of information, except that someone had once told him that it was a good thing to do and he did feel more in control of his business as a result.

One day a salesman from a fertiliser company came to the market where Mustafa's shop was, and announced that his company was giving free display stands and advertising material to all the shops whose sales of all goods were greater than \$100 a week. Mustafa badly wanted to take advantage of this offer, since his fertiliser business was important to him, but he did not know how to prove to himself or the salesman that his sales were sufficient to qualify his shop.

The offer was made on a Saturday evening just before the shop was closed. Mustafa took home with him the cash box and his papers from the previous week, and was determined to work out what his sales had been during the week.

He had the following information:

	Cash at Start of Day	Cash at End of Day	Money taken out during Day
Monday	\$20	\$35	\$5
Tuesday	\$35	\$45	\$10
Wednesday	\$45	\$40	\$15
Thursday	\$40	\$50	\$5
Friday	\$50	\$50	\$20
Saturday	\$50	\$65	\$10

*Question:*

How much money had come into Mustafa's cash box during each day, and during the whole week?

Does he qualify for the offer from the fertiliser salesman?

## EXERCISE 2: JUMA'S GENERAL SHOP

Juma did not keep any accounts for his business, but he did make a note of how much cash he had at the beginning and end of each month, and how much he spent on wages, rent, licences and on his own expenses. He also kept all the receipts he got from his suppliers when he bought new stocks. He always paid cash for everything he bought, and all his customers paid cash too.

His son Mohamed came home from Secondary School during January 1976. Juma was very glad to see him, because he wanted some help with his business. In particular, he had a special problem, and he asked Mohamed to try to solve it.

Juma had had an argument with some of the other traders in the market over whose shop sold the most goods. They had agreed to compare their sales figures for December 1975 but Juma only had the following information:

- a) He had started the month with \$25.80 in the cash box.
- b) He added together all the receipts for new stocks bought during December, and the total came to \$257.20.
- c) He had withdrawn a total of \$23.40 in cash for his own use, as well as \$3.50 worth of goods for his own consumption.
- d) He had paid \$10.00 in wages to his assistant, \$6.00 for the rent for the month, and \$4.00 for transport of new stocks to his shop.
- c) He had finished the month with \$52.80 in the cash box.

What were the total sales of Juma's shop for December 1975?

## EXERCISE 3: HABIB AND HIS CASH

Habib was not sure that his cousin Salim was completely honest, but he had to leave him in charge of his shop most of the time, because there was nobody else available and Habib had a farm which needed a great deal of attention. Habib was able to visit the shop at closing time every evening, so that he could collect the money and the receipts which Salim had received for new stocks he had bought during the day. Habib did not allow any customers to buy goods on credit.

Habib counted the money every evening, and took it home. Then he brought it back to the shop each morning, before going to work on the farm. At the end of each week he took \$2.50 from the cash as his own share of the profits, and he also paid Salim \$2.00 each week out of the shop's money.

He paid himself and Salim on Saturday nights and the shop re-opened on Monday mornings.

Habib recorded the total amount of money he collected, and the total value of the receipts, for each evening. His records for two weeks of typical business read as follows:

Day	Issued in Morning	Collected in Evening	Cash paid for New Stocks
Monday	\$11.10	\$12.50	\$6.30
Tuesday	\$12.50	\$10.80	\$13.70
Wednesday	\$10.80	\$12.10	\$5.70
Thursday	\$12.10	\$8.30	\$3.00
Friday	\$8.30	\$12.50	\$4.00
Saturday	\$12.50	\$11.00	\$3.00
(deducted \$2.50 for Habib and \$2.00 for Salim)			
Monday	\$6.50	\$9.70	NIL
Tuesday	\$9.70	\$16.00	\$4.70
Wednesday	\$16.00	\$12.00	\$4.30
Thursday	\$12.00	\$13.70	\$1.80
Friday	\$13.70	\$9.50	\$6.40
Saturday	\$9.50	\$12.10	\$1.20
(deducted \$2.50 for Habib and \$2.00 for Salim)			
Monday	\$7.60		

### Questions:

1. According to Habib's records, how much money has been received from sales on each of the 12 working days which are listed and what was the total of sales during the period?
2. What was the total cost of new stock bought during the period, according to Habib's records? Is it likely that his stock was higher or lower in value at the end of the two weeks than at the beginning?
3. Do the figures confirm or disprove Habib's suspicions of Salim's honesty and why?
4. How should Habib lay out his cash record in future? Show how he should have recorded the information given above, to provide a better check on Salim's honesty.
5. If Habib lays out his cash record as you suggest, could he also use it to provide a record of the goods he takes out of the shop for his own use?

## EXERCISE 4: ABDULLAH'S DEBT

Mrs. Ismail knew that she should not allow Abdullah to owe any more than \$10, and she had kept a regular note of every transaction with Abdullah since they first allowed him to buy goods on credit at the beginning of the month. Now he had come in again and wanted to buy 50c. worth of cigarettes on credit; should she allow him to do this, or should she demand cash?

She had the following notes:

January 1st.	Bought goods on credit for \$1.50
January 3rd.	Bought goods on credit for 80c.
January 6th.	Bought goods on credit for \$2.50
January 7th.	Bought goods on credit for \$4.00
January 8th.	Bought goods on credit for \$1.00
January 10th.	Paid \$10.00 cash.
January 11th.	Bought goods on credit for \$5.00
January 15th.	Bought goods on credit for \$2.80
January 16th.	Bought goods on credit for 20c.
January 18th.	Bought goods on credit for \$2.00
January 19th.	Paid \$7.00 cash.
January 21st.	Bought goods on credit for \$6.00
January 22nd.	Bought goods on credit for \$1.10

## EXERCISE 5: PETER AND HIS CREDIT CUSTOMERS

Peter started his general shop in November 1975. He soon found that he had to allow his customers to buy goods on credit if he was to be able to compete with the other shops in the market, all of which sold goods on credit.

Peter kept a special book to write down the names of those customers who bought on credit from him, and the value of goods they bought. He also recorded in the same book when his credit customers paid him some money. This was usually at the end of the month, since they were mostly teachers who were paid each month.

On February 11th 1976 John came into Peter's shop in a great hurry. He said that he wanted to pay his outstanding bill at once, since he had got a job in the city and might not be able to come home for months or even over a year.

Peter appreciated John's honesty, but when he looked at his book, he found it difficult to tell him exactly how much he owed. Peter had carefully recorded every credit sale and every cash payment made by his credit customers since the business had started. The complete set of entries in the book read as follows:

November	2nd.	Andrew allowed \$1.80 credit
November	3rd.	Benjamin allowed \$2.60 credit
November	11th.	John allowed \$1.00 credit
November	15th.	Christopher allowed \$1.30 credit
November	20th.	David allowed \$2.70 credit
November	25th.	Edward allowed \$2.20 credit
November	28th.	Christopher paid \$1.30
November	28th.	Andrew paid \$1.50
November	29th.	Benjamin paid \$2.60
November	30th.	John paid \$1.00
December	2nd.	Edward paid \$1.50
December	3rd.	David allowed \$1.30 credit
December	4th.	Andrew allowed \$1.40
December	7th.	Christopher allowed \$3.10 credit
December	9th.	David allowed \$0.50c. credit
December	11th.	John allowed \$2.30 credit
December	15th.	Andrew allowed \$1.20 credit
December	20th.	Christopher allowed \$2.80 credit
December	21st.	David allowed \$1.80 credit
December	24th.	Edward allowed \$0.20c. credit
December	26th.	Benjamin allowed \$1.30 credit
December	27th.	Andrew paid \$1.00
December	27th.	Christopher paid \$3.00
December	29th.	Andrew paid \$1.00
December	30th.	John paid \$1.50
January	2nd.	Edward paid \$1.00
January	8th.	Andrew allowed \$2.20 credit
January	10th.	David allowed \$1.70 credit
January	15th.	John allowed \$1.10 credit
January	16th.	Christopher allowed \$7.00 credit
January	16th.	Andrew allowed \$6.00 credit
January	18th.	Benjamin allowed \$3.50 credit
January	25th.	David allowed \$2.20 credit
January	28th.	John paid \$1.00
January	29th.	Andrew paid \$1.00
January	30th.	Benjamin paid \$3.50
January	30th.	Christopher paid \$2.00
February	1st.	David allowed \$4.00 credit
February	6th.	John allowed \$1.40 credit
February	9th.	Andrew allowed \$0.30c.
February	10th.	Christopher allowed \$1.70 credit

**Questions:**

1. How much should John pay to clear his debt?
2. Had Peter laid out his record of credit sales and payments in a very useful way? Lay out the complete record in a different way so that Peter could immediately see, at any time, how much was owing from each customer.
3. If you were Peter would you take any action with any of your credit customers, and if so whom, and what action?
4. How could Peter use the improved record you have suggested not only in order to know anybody's debt at any moment, but in order to make sure that he only gave credit when it was worth his while, and to minimise the risk of customers not paying what they owed?
5. Make a list of the reasons why customers choose to buy from one shop rather than another. Is credit the only reason, or even the most important?

## EXERCISE 6: HOW MUCH DO I OWE HAJI?

Mrs. Azim did not want to offend her main supplier, who was also one of the most important people in the village, but she did want to be sure that Haji was not asking her to pay more than she owed. He had only started to sell her goods on credit at the beginning of the month, after her shop had been operating for about a year, and now that the month was at an end Haji had asked her to pay her debt of \$100. She had made one or two small payments during the month, and had purchased large amounts of goods, some on credit and some for cash. She had noted down every transaction since she did not want to make any mistakes, particularly in the first month. Her figures read as follows:

May	1st.	Bought supplies on credit for \$30.
May	2nd.	Bought supplies on credit for \$55.
May	4th.	Bought supplies for cash for \$20.
May	6th.	Bought supplies on credit for \$25.
May	8th.	Paid \$50 on account.
May	9th.	Bought supplies on credit for \$15.
May	11th.	Bought supplies for cash for \$10.
May	14th.	Paid \$30 on account.
May	16th.	Paid \$25 on account.
May	18th.	Bought supplies on credit for \$35.
May	20th.	Bought supplies for cash for \$5.
May	21st.	Bought supplies on credit for \$45.
May	21st.	Paid \$25 on account.
May	23rd.	Bought supplies on credit for \$50.
May	26th.	Bought supplies for cash for \$25.
May	27th.	Bought supplies on credit for \$20.
May	27th.	Paid \$50 on account.

Did Mrs. Azim owe Haji \$100, or more, or less?

## EXERCISE 7: ALI'S EXPENSES

Ali had decided that he should try to keep a record of how his business was faring; he realised that it was not enough to take away the cost of what was sold from the total for which he sold it, since there were also other expenses involved in his business. He also appreciated that it would be impossible to make any use of his figures unless the expenses were classified in some way so that he could take steps to control those expenses that appeared to be excessive. He decided on the following classifications:

1. Goods purchased for resale.
2. The value of goods taken for his own use.
3. Money taken for his own use.
4. The wages of his assistant.
5. Rent.
6. All other routine expenses.
7. The cost of items which he considered to be investments, and which would last many years.

He had noted the following expenses during the previous month, and now had to allocate them to the classifications he had selected, and work out the total of each type of expense.

Took \$5 worth of goods for own use.  
Withdrew \$2.65 for own use.  
Gave \$1.50 to nephew for school uniform.  
Spent \$10 on goods for sale.  
Spent on a pair of weighing scales \$40.  
Spent \$24.75 on goods for sale.  
Gave landlord \$30 for rent for the month.  
Paid \$12.50 wages.  
Paid \$2.55 for wrapping material.  
Spent \$15.50 on lamps for the shop.  
Spent \$2.35 on kerosene for lamp.  
Bought \$10 worth of paint for the building.  
Paid \$23.50 for new sign.  
Spent \$75 on goods for sale.  
Took goods worth 55c. for own use.  
Gave son \$7.10 for pocket money.  
Smoked pack of cigarettes from stock, worth 50c.  
Took \$6 for own use.  
Paid \$12 wages.  
Spent \$2.65 on new jars for sweets.

### Questions:

How should Ali allocate the expenses to each of the seven classifications?

What is the total for each classification?



## SESSION 11: STOCK MANAGEMENT

Businesses keep stock for many reasons:

- Customers want to buy goods at any time but supplies can only be bought occasionally.
- Larger quantities can be bought more cheaply.
- Seasonal or other shortages may occur; if stocks are kept, customers can still be satisfied.

### Purpose

The purpose of stock management is to maximise the stock turnover and to minimise the loss of stock in order to maximise business profits.

However, many times stock is used as a sign of prestige, as an investment, or as a way of storing cash.

In fact, stock is cash, but cannot be converted into money until it is sold.

It is useful to think of stock as a liquid, the flow of which must be directed and controlled for maximum advantage.

### Protection

Stock must be protected from a number of hazards. Proper stock protection requires care and planning.

**Waste.** Certain perishable goods must be sold within a relatively short period of time or they will spoil.

**Deterioration.** Certain goods deteriorate in quality if they are not sold within a certain period of time.

**Fire.** Some goods are fire hazards if they are not properly protected and stored.

**Fashion changes.** Certain goods, particularly clothing, lose their appeal because other styles come into fashion.

**Shop-soiling.** All goods can be damaged or made unappealing because they come into contact with other substances.

**Theft.** All goods can be stolen if they are not secured against theft by customers or employees.

**Drawing loss.** Sometimes the manager will take stock for personal use. These items should be recorded.

### Arrangement

Good stock arrangement has a number of advantages:

**Visibility.** It makes items visible to the customers and employees. The customer does not need to search for the item and the employee can tell whether the item is available very quickly.

**Protection.** Good arrangement can reduce spoilage, theft risk, and other damage or deterioration risks.

**Gains attention.** It attracts the customer's attention to particular items.

**Purchasing.** Proper arrangement enables the manager to tell very quickly whether additional quantities of an item are required. Thus the manager can save time and money by not unexpectedly running out of an item.

### Storage

The storage of stock has several advantages and disadvantages.

**Advantages** - An item is available in times of a general shortage or when the supplier is temporarily out of stock. If the *price* of an item goes up through inflation, then money may be saved by buying a large quantity prior to the price increase. Some customers may want a large *quantity* of an item or may prefer shopping at a well-stocked business.

**Disadvantages** - If protection is inadequate, there may be loss through damage or theft. The *space* taken to store the stock may be utilised in a better manner such as to increase work space or to increase the variety of items. The *money* invested in storing slow selling items may be better used in buying faster selling stocks, thus increasing stock *turn-over*.

Ask trainees why businesses keep stock at all.

Ask trainees what is the purpose of stock management.

Ask trainees whether or not they think stocks are managed properly in their areas. Ask for examples of bad stock management.

Ask trainees to list the hazards stock must be protected from  
Examples: meat, milk, bread, butter.  
Examples: drugs, tinned goods.  
Examples: lamps, stoves, kerosene, petroleum products.  
Examples: shoes, shirts, textiles.  
Examples: dust, dirt, grease, water stains.  
Examples: doors, locks, roof, should be secured. Goods should be placed in an area to minimise temptation.  
Examples: food products, building materials, toys.

Ask trainees to list the advantages of good stock arrangement.

Examples: place milk in a cool place. Place jewellery and nails behind a counter. Give additional examples.

Ask trainees to list the advantages of stock storage.

Give examples.

Ask trainees to list the disadvantages of stock storage.

Give examples.

## Stock Turnover

Stock turnover is measured by the speed (rate) at which goods are sold or used, measured by the number of times per year the average stock can be sold.

That is, if a store can sell 10 bottles of medicine per month and usually has 5 bottles in stock, the rate of turnover per month is  $2 \frac{10}{5}$  and the yearly rate of turnover is 24 ( $2 \times 12$ ).

Generally, the higher the rate of turnover the better. A policy of small net profits and quick returns (high rate of turnover) may be preferable to big profits and slow returns (slow rate of turnover).

Thus, if a store can sell 10 bottles of medicine a month at a profit of 10c. per bottle (each bottle costs 90c. and sells for \$1.00), and keeps an average stock of 5 bottles (worth \$5.00), the profit for the year will be \$12.00 ( $10c. \times 10$  per month  $\times 12$  months). Thus \$5.00 of stock investment will result in \$12.00 profit.

However, if the store sells one lamp per month for \$5.00 at a profit of 75c. per lamp, the profit for the year will be \$9.00 ( $75c. \times 1$  per month  $\times 12$  months). Thus a \$5.00 stock investment will result in a \$9.00 year profit, even though the profit per item is larger than on medicine.

So profit is partially determined by stock turnover and stock turnover is in turn controlled by good stock management.

The manager must determine the types of stocks he needs by estimating what the customers will want and how much they will want. He can then select the right stocks in the right amounts, recognising that the faster he sells his average stock, the higher his profits will be.

*Note:* The turnover rate should be determined at either the cost price or selling price. For example, the average stocks should not be measured by cost price, and the sales by selling price. Generally, it is best always to measure the turnover rate by selling price.

Give several other simple examples. Show calculations on board and ensure that all trainees can calculate stock turnover.

Show calculations on the board.

Give trainees similar examples and compare profitability of investment in stocks of staple goods such as flour or sugar with apparently more profitable but slower moving goods such as clothing or shoes.

Discuss stock management as observed by trainees. Are the fastest selling those which are well stocked? Have they seen stocks of slow-selling or even non-selling goods?

Explain the meaning of 'sleeping money' or 'dead money'.

Discuss the difficulty of calculating stock values at buying prices (17 boxes at \$4.20 per case of 36) versus selling prices (17 boxes at 15c. each).

## SESSION 12: STOCK TAKING

### Purpose

The purpose of stock taking is to determine the total value (at cost price *or* selling price) of the total stock and each item on hand at a certain date.

### Preparation

Several things should be done before stock taking.

- The stocks of each individual item should be grouped together.
- Damaged or old stocks should be reduced through a pre-stock taking sale.
- The business should be closed on a business day, or the stock taking should be done at a time when the business is normally closed.

### Timing

Stock taking should take place when:

The stocks of most items are at a *low level*. This saves time because there are not as many items to count.

When it is *most convenient* for the customers. This normally means at a time when the business is closed anyway.

*At the end of the financial year, or financial period.* This is necessary for taxes, and the compilation of certain accounting records such as the Balance Sheet and Profit and Loss Statement.

### Methods

There are two basic methods of stock taking:

*Detailed stock taking.* All items are counted and listed by both cost price and selling price. This method is very accurate but takes considerable time. From this count one may obtain the following equation:

Beginning Stock + Purchases - Ending Stock = Value of goods sold (calculated by cost or selling price).

*Short stock taking.* The stock is estimated through the following equation:

Beginning Stock + Purchases - Sales = Ending Stock.

This method is quick and may be obtained without counting each individual item, but it is error prone. For example, if there have been thefts, there may be less stock than this technique accounts for.

### Procedures

There are many procedures for stock taking. One simple method is described below.

- 1) Count from left to right across the shelf.
- 2) Count the top shelf first, then each shelf down until reaching the bottom.
- 3) Count all the shelves on each wall, starting with the wall to the left of the entrance and going from left to right.
- 4) Count everything on the ceiling.
- 5) Count everything on the floor.
- 6) Follow the above procedure for each room.

### Errors

There are at least four mistakes that are easily made when counting stock:

*Double-counting* - An item can be counted twice, thus giving an excessive total (too high).

*Missed items* - Some items may be missed and not counted at all, thus giving too low a total.

*Cartons* - There may be an incorrect number of items within unopened cartons.

*Incorrect price* - Some items may be priced incorrectly on the label and thus their value is under or over-estimated.

Ask trainees what is the purpose of stock-taking. What happens if a business person never takes stock?

Ask the trainees how they would prepare for the stock-taking.

Example: soiled fabrics sold at a discount.

Examples: in the early morning, at night, or on Sunday.

Ask trainees when the stock taking should occur.

At what time of the year are stocks low?

Discuss the time and effort involved in each method, and the pros and cons of each. Stress that short stock taking may be enough for monthly figures, but stock must be counted in detail at least once a year.

Ask trainees for other examples of potential errors.

Ask trainees what procedure they would use to count stock.

*Draw* a rough illustration of a typical shop on board to illustrate this sequence, or use a book shelf or 'mock-up' of a real shop display.

Ask trainees to follow this format and count everything in the room where they are sitting now.

Ask trainees what mistakes can be made when counting stock.

Ask trainees to count illustrations or 'mock up' displays of stocks, quickly. Discuss errors made.

Example: An unopened carton of tinned fruit may contain 23 tins rather than 24 as listed on the carton.

Example: The management have labelled the item at 25c. when in fact it is 28c.

## Benefits

There are several additional benefits of stock taking.

Stock taking reveals hidden or 'lost' items. Certain items behind doors or under counters which were forgotten or thought lost, are discovered.

Stock taking reveals *slow selling* items.

Stock taking reveals some items which are *out-of-stock*. Thus the manager will know that more should be ordered, or that the item isn't really necessary.

Stock taking reveals *incorrect pricing*. If some of the same item are marked differently than others, the manager will be able to determine the proper price and make corrections.

Stock taking forces the business owner to arrange the stocks neatly, which helps sales.

## Stock Taking Form

This form serves as a stock taking form as well as a record of turnover and gross profit on each item and all items. It enables the manager to determine the quantities to purchase of each item and/or what items should not be purchased.

Column 1 - 'End stock' - The quantity of each item on hand on the day of stock taking.

Column 2 - 'Unit Cost' - The cost to the business of each individual item.

Column 3 - 'Total Value' - The total value of the items (Column 1 x Column 2).

Column 4 - 'Begin Stock' - The amount of each item on hand at the previous stock taking.

Column 5 - 'Amount Purchased' - The total quantity of each item purchased between the last stock taking and the present stock taking.

Column 6 - 'Unit Selling Price' - The selling price of each item.

Column 7 - 'Quantity Sold' - The total quantity of each item sold between the last stock taking and the present stock taking (Column 4 + Column 5 - Column 1).

Column 8 - 'Total Cost' - The total cost value of each item sold in the period (Column 2 x Column 7).

Column 9 - 'Total Sales' - The total selling value of each item sold in the period (Column 6 x Column 7).

Column 10 - 'Gross Profit' - The gross profit on the total of each item sold during the period (Column 9 - Column 8).

If this form is used at least once a month or even more frequently, the business owner can analyse which items are selling, how fast they are selling, the profit margin, and the total profit on each item compared to the average amount of each on hand. (Stock turnover and return on stock).

If there have been any cut-price sales or giveaways of any items, they should be adjusted for, by noting the gross profit column with the actual rather than the standard profit.

Ask the trainees what additional benefits are achieved by stock taking. Example: a can of tinned fruit behind several cans of tinned vegetables.

Example: a lamp has been in the shop for six months.

Give trainees Handout 12.1.

Explain the form to the trainees. Draw the form on board and work through actual examples.

Obtain small amounts of actual goods and illustrate problems of untidy storage; difficult values (e.g. value of 17 tins which cost \$3.40 for 48); counting and evaluation of part empty sacks, jars; the need for estimates.

Ask trainees what additional uses the form has

Give examples of these management uses.



## SESSION 13: EXERCISES IN STOCK MANAGEMENT

Stocks are vital to any business, but poor stock management is probably the commonest form of misuse of capital among all types of enterprise.

From the consultant's point of view, this can be an advantage, since money tied up in stocks is usually more flexible than the other ways capital is employed.

A consultant can often make suggestions which will produce rapid and satisfactory results, and are thus valuable for their own sake and for convincing clients of the value of consultants' services.

It is most important that recommendations should be *right*, since fast *bad* results will prevent clients from taking any further advice.

It is important therefore that consultants should have practice in analysing stocks and recommending appropriate stock levels, buying quantities and methods of reducing surplus stocks.

### Exercise 1:

#### Question 1:

Trainees must realise the relationship between a profit margin and the turnover of stocks. Is it better to invest \$100 in bicycles and make \$40 in 3 months, or to invest the same amount in rice and make \$9 in one week, that is over \$100 in 3 months? Discussion should focus on shopkeeper's ability to estimate sales levels; this is difficult but most shopkeepers can make remarkably close estimates.

#### Question 2:

Recommendations for changes in stocks will include slowing down or stopping *purchases* of certain items, and new or extra *purchases* of others. It is almost always necessary first to suggest *reductions*; how can these be achieved?

- a) By stopping purchases -- this is a slow method, and certain goods may *never* be sold without a special effort.
- b) By increasing the rate at which the stock moves *out*. This may be done by low prices, extra sales effort, exchange with other traders, return to supplier or even by free gifts to purchasers of other items.

Suggestions for ways of disposing of *shirts*, *bracelets*, and *umbrellas* might include the following:

Shirts -- People need new shirts at all times, and the profit margin allows a substantial reduction; reduce price to \$6.00 and advertise the fact.

Bracelets -- Goodwill, and immediate increased business, can be developed by free gifts to regular customers, to those who spend more than a certain amount on one visit or to those who buy other slow-moving items.

Umbrellas -- People only buy umbrellas during the rainy times of the year; a lower price is unlikely to persuade them to buy when they do not *need* the produce at all. The umbrellas might be returned to the supplier, or some of them might be exchanged with other shops for a proportion of their excess stock of other items.

#### Question 3:

Consultants *can* help business people who are unable to read or write. Many illiterate business owners have simple and highly effective systems of stock management; it is possible to mark the proper space on the shelf for the maximum and minimum stock levels, so that it can easily be seen how much should be ordered; monthly sales of each item can be indicated by the right number of chalk marks on the shelf; these can be compared with the number of items in stock to decide when and how much to re-order.

### **Exercise 2: Bir Singh Wonders What to Buy**

This is an extension of the first part of the previous exercise. Trainees must assess the profit on each item in relation to the period over which the money will be tied up, and they should also remember that a stock assortment must include items which customers *have* to buy, so that they will come into the shop and have an opportunity to see things they have not thought about before.

## EXERCISE 1:

### WHAT TO BUY?

1. A shopkeeper has \$100 to invest in new stocks; which of the following should he buy?
  - a) 2 bicycles at \$50 each to be sold for \$70 each; it will probably take 3 months to sell them.
  - b) 450 kg. of rice at 28c. a kilo, to be sold at 30c. a kilo; this quantity should last about 1 week.
  
2. You have calculated that a shopkeeper has the following stocks in excess of requirements, and she has agreed to accept your advice on how to dispose of them; what methods would you suggest?
  - a) 20 shirts cost price \$5, selling price \$7.50 each.
  - b) 100 plastic bracelets, cost price 3c., selling price 5c. each.
  - c) 30 umbrellas, cost price \$2.50 each, selling price \$3.00 each.
  
3. An illiterate shopkeeper has agreed that he should attempt to control his stocks in line with expected sales; how would you suggest he should record his sales and decide on appropriate stock levels?



## EXERCISE 2:

### BIR SINGH WONDERS WHAT HE SHOULD BUY

Bir Singh's general shop had looked rather empty for a long time, and he was very happy when at last he managed to persuade his brother to lend him \$100 to buy more stocks.

He had already got in stock plenty of tea, cooking fat, oil, matches, potatoes, and large quantities of clothing. He had visited his wholesaler, and had made a note of all the things he wanted to buy. He listed each item, showing the cost price to him of the minimum quantity he could buy from the wholesaler, the price he would sell the goods for to his customer, and an estimate of the quantity he would sell in a month.

Bir Singh wanted to buy everything on his list, but when he added it all up he realised that it would take more than \$100. His list read as follows:

Item	Buying Cost and Minimum Quantity	Selling Price	Estimated Sales per month
Sugar	\$16.50 per 100 kg.	18cts. per kg.	500 kg.
Sodas	\$17.50 per case of 25 bottles	80cts. per bottle	4 cases
Flour	\$1.50 per 12 kg.	15cts. per kg.	100 kg.
Salt	\$9 per 100 kg.	2½cts. per 250 gr.	2 bags
Cigarettes	\$1.90 per carton of 10 packs of 20	1ct. per cigarette	50 packs of 20
Plum Jam	\$5 per carton of 24 tins	25cts. per tin	10 tins
Blankets	\$11 for 10	\$1.50 each	3 blankets
Saucepans	\$3.60 per dozen	35cts. each	10 saucepans
Bracelets	\$0.75 per 10	10cts each	25 bracelets
Sandals	\$3.30 per dozen pairs	32cts. per pair	10 pairs
Pens	\$28 for 48	85cts. each	12 pens
Soap A	\$4.50 per carton of 48 pieces	15cts. per piece	30 pieces
Soap B	\$3 per carton of 24 pieces	15cts. per piece	20 pieces
Soap C	\$1.50 per carton of 12 pieces	15cts. per piece	10 pieces
Paraffin	\$2.50 per dozen bottles	11cts. a litre	50 litres
Perfume	\$10 for 100 litres	35cts. a bottle	2 bottles
Sweets	\$0.50 per bag of 160	½ct. per sweet	6 bags
Biscuits	\$4 per carton of 48 packets	15cts. per packet	12 packets

Questions for Bir Singh Wonders What He Should Buy:

1. Why is it useful for Bir Singh to make an estimate of the number of each item he is likely to be able to sell in a month, as well as the purchase and the selling price?
2. Why is it important for Bir Singh to know the minimum quantity that can be bought from the wholesaler, as well as the profit and the likely sales?
3. Which is the most profitable item on the list? Is it necessarily the best thing for Bir Singh to buy? What other factors apart from the difference between the purchase and the selling price are important?
4. What items would you recommend Bir Singh to buy with his \$100?

## **SESSION 14: STOCK CONTROL IN A SHOP**

The first full day in a shop should have enabled trainees to appreciate the need for simple recording of cash, debtors and so on. The second session allows for a further full day, in which trainees should apply what they have learned about stock taking and stock control.

In addition to the particular aspects of the business to which their attention is directed, the trainees should also start to realise what it is like to work in, and to advise, a small business. They will come up against the owner's reluctance to admit past mistakes, and they will have to carry on a conversation with the owner in spite of interruptions from customers. Consultants should always allow and in fact encourage their clients to deal with customers quickly and courteously even when this means interrupting an important point in the advice, and they must develop techniques for ensuring that the business owner has remembered what has gone before even when the conversation is started again after a customer has been served.

The consultants may spend this second day in the same shop where they spent the first, or they may be placed in another business, depending on the size of the group and the numbers of convenient and suitable shops. It may not be possible to find enough businesses to allow all the trainees to work in different shops, and there are some advantages in trying to build up a relationship over more than one visit. It can also be useful to experience a greater number of business situations, so that whatever policy is adopted, there will be something gained. In the case of this particular day, concerned with stock control, it will be easier if the shops are fairly small, with not too many different items, or very large quantities in stock.

There should be some attempt to evaluate trainees' performance in this and the other days spent in businesses, since some trainees who do very well in the classroom and with written assignments may be very weak when confronted with a real shop and a real business person. The shopkeepers themselves may be approached informally for an assessment of the trainees' ability, or the instructor may be able to gather enough from personal observation and careful assessment of the trainees' own reports on their experiences.

It is particularly important that there should be enough time allowed for all trainees to discuss their findings on this and the other sessions in businesses. If possible, a period should be set aside during the afternoon and evening of the same day, so that the experience will be fresh in their memory. The instructor should ask individual trainees to report briefly on their findings, and should encourage discussion on different suggestions for reducing similar surplus stock, and difficulties of persuading shopkeepers to recognise their own previous purchasing errors. It may be advisable to subdivide the group for this type of discussion, and a small number of trainees can go to the shops where one or two of their members have been working in order to see the facts for themselves.

## EXERCISE 1: SHOP ASSIGNMENT

You will spend the day in a shop in order to gain practical experience of stock taking and stock control. You should proceed as follows:

1. Ensure that the shopkeeper understands why you are spending the day with him, and confirm his willingness to allow you to count stocks and discuss your findings with him.
2. Ask the shopkeeper to identify 30 fast moving items, where the amount in stock is small in relation to the rate of sales. List these on the stock-taking sheet.
3. Ask the shopkeeper to identify 30 slow moving or possible 'dead' stocks, where the stock level is high in relation to sales. List these also on the form.
4. Take stock of this total of 60 items. You should pay particular attention to the following points:
  - a) The cost of each item must be correct, and if necessary calculated per item from the buying cost per case etc.
  - b) The count must include any odd stocks that are separate from the main display, or that are in a stock room.
  - c) Shop-soiled, or totally valueless stocks, must be recorded separately.
  - d) A reasonable attempt should be made to estimate the quantities of small items that cannot be counted individually such as sweets, pills, grain or sugar in sacks etc.
5. Calculate the total value of the stocks of the 30 slow moving or 'dead' items, or of whatever number of these that appear to be excessive in relation to demand, the possibility of future shortage or price increase and the frequency of opportunities to buy more stocks.
6. If the shopkeeper says that he needs more capital, for stocks that are needed or for any other purpose, discuss the capital that is 'sleeping' in slow moving stocks and see what ideas he may have for 'waking up' the money. Make your own suggestions, and try to persuade the shopkeeper to try at least one or two of them.
7. Record the main points of your talk with the shopkeeper for later discussion with the other trainees.

## SESSION 15: BASIC ACCOUNTS

### Balance Sheet and Profit and Loss

#### Why Keep Accounts?

We have seen how a business person can keep a record of the movements of money in a business.

We have seen how to record:

- the movement of cash
- the credit we give customers
- the credit we receive from suppliers
- our expenses
- our stocks

These records on their own are very valuable and with their assistance a business person can:

- guard against theft
- make sure that customers pay their bills and are not given too much credit
- ensure that suppliers are paid what they are due
- keep a total of different items of expense
- make sure that he does not buy the wrong quantities of stocks

These are short term benefits however and a business person needs something to help him make more fundamental decisions. How can a business person:

- decide whether his prices are set at the right level?
- be sure that he is only withdrawing for his own use what the business can afford?
- decide whether to start a new venture altogether?
- decide whether to give more or less credit?
- decide whether he can afford to hire a new employee, or increase the wages of his present staff?

A business person is like someone walking along an unfamiliar path. If he keeps his eyes shut, or is blind, he may through luck manage to find the way and avoid falling down.

He will be far more likely to get where he wants if he can see where he has been and how he stands at any particular moment, and thus make some plans about where to go next.

Accounts are the 'eyes' of a business. They cannot *tell* a business person what to do, any more than our eyes *tell* us where to walk. They can, however, give us information which enables us to *decide* what to do, in the same way as eyes give a person information so that he can *decide* where next to put his foot.

Accounts, like eyes, are useless if they are not *used*. In fact they are worse than useless:

- neat unused accounts may give a false impression of security, the business manager may think that he cannot go wrong with such well written accounts.
- it takes time to prepare accounts; if they are then not used, the time would be better spent in a productive way.

#### Where The Information Comes From

Before looking at the accounts themselves, we must be sure what information we need to construct them, and where we shall get it from:

- All movements of Cash. *from* the Cash Book.
- Credit given to customers and when they pay. *from* the Debtors' Record.
- What is bought and its value. *from* the Expense Record.
- The value of goods in stock. *from* the Stock Record.
- Credit received from suppliers and when it is paid. *from* the Creditors' Record.
- What is spent on wages, rent, withdrawals etc. *from* the Expense Record.

Ask trainees what records have been covered in earlier sessions.

Ask trainees what is the purpose of each of these records.

Ask trainees how business people can make decisions of this sort without accounts. Do they often make bad decisions for lack of information?

Ask trainees for examples of unused accounts. Have they seen any in 'their' businesses? How long does it take business people to prepare accounts?

Check again that trainees are familiar with the purpose and working of each of these records.

Unless all these records are regularly maintained, from the very beginning of a business, it will not be possible to construct accurate accounts.

Many small businesses have not got any accounts at all but consultants must be able to help them in spite of this. How can it be done?

The first consulting forms introduced to trainees on the first day can provide a rough picture of the position and performance of a business. If clients are subsequently taught how to keep accounts, they may never really know what happened in the past but will be able to manage their businesses properly in the future.

### Starting a Business

Accounts describe a business quite independently of the person that started and owns it. If someone owns several businesses and it is possible to produce accounts for each of them, this must be done so that they can be properly managed.

When a business becomes very large, it may be legally separate from its owners so that they are not liable for its debts.

Small businesses are not usually 'limited liability' companies of this sort, and even if there are partners, each has to take full responsibility for the business.

When someone starts a business, he is creating something which may survive, grow or die, but while it continues, it can and must be described *separately* from the affairs of the person who owns it. The money, lands, stocks, equipment and so on that are used by the business belongs to the business, and should whenever possible be clearly distinguished from what belongs to another business, or to the owner's domestic affairs.

If we were to give someone some money to use on our behalf, we might ask them to write down two things for us:

- 1) Where they got the money from
- 2) How they used it

At the end of a period of time, we should want to see how the person had managed the money, so that we could recover some reward for our willingness to entrust the money to him.

The person who starts a business must consider the business just as we would consider the person to whom we entrusted the money. He must write down:

- 1) Where the money came from (usually called liabilities)
- 2) How it was used (usually called the assets)

Now let us imagine a Mr. X who decides to start a business. Let us see what he does, and try to record the various transactions in order to produce a statement of where the money came from, and how it was used.

Note that we are not interested in where Mr. X got the money from; we are concerned only with the business, the independent 'child' of Mr. X.

- 1) Mr. X. decides to invest \$100 in the business. He does not spend any of the money yet, he just decides that the business now owns \$100 in cash, which he puts on one side for it.

His first account will look like this:

Where the money came from (liabilities)	How the money is being used (assets)
Mr. X.     \$100	Cash       \$100
<u>\$100</u>	<u>\$100</u>

- 2) Mr. X. looks at the cost of stocks, and of the equipment he needs, and decides that the business needs more than \$100 to start with. He has no more money himself, so he persuades his friend Mr. Y. to become a partner by putting in another \$100.

The account of the business now looks like this:

Liabilities	Assets
Mr. X     \$100	Cash     \$200
Mr. Y     \$100	
<u>\$200</u>	<u>\$200</u>

Refer back to Handout 4.1

Ensure that trainees have copies of the first consulting form, and point out how each item of the balance sheet and profit and loss account is covered in the form as the points are covered in this session.

Ask trainees if they are familiar with any limited liability companies. Are they large or small? Why?

Ask trainees what can happen when business people confuse their personal and their business resources.

Ask trainees to imagine this situation, and to discuss what would be asked of the 'trustee'.

Point out that the technical names are of little importance.

Use a local example if possible.

Clearly most business people do not make a physical movement of money before they actually spend it, but explain the importance of clear definition of what is put into a business, particularly if partners are involved.

If North American accounting rules are followed locally, adjust the presentation accordingly.

Ask trainees if they know of partnerships. Do they work? Why not, sometimes? Would good regular accounts help to avoid disagreement?

3) Mr. X agrees with Mr. Y that the business will be managed by Mr. X. Mr. Y will share in the profits, if any, but will not have to do any work.

Mr. X now starts the shop. He finds a building, which he rents for \$20 per month, payable at the end of each month, and he buys \$120 worth of goods to sell, and \$60 worth of shelves and cupboards. This leaves \$20 in cash for change and later purchases.

The account of the business now looks like this:

<i>Liabilities</i>		<i>Assets</i>	
Mr. X	\$100	Furniture	\$ 60
Mr. Y	\$100	Stocks	\$120
		Cash	\$ 20
	<u>\$200</u>		<u>\$200</u>

Notice that the total is the same on both sides, it always will be, since the account is merely saying two different things about the same sum of money, but this is why it is called a *balance sheet*.

4) The shop is now in business. Mr. X has been keeping the proper records, and after a month he adds up his cash book and his expense record and obtains the following information:

Money spent on additional stocks	\$100
Spent on rent	\$ 20
Wage withdrawn by Mr. X as payment for his work	\$ 30
	<u>\$200</u>

(In the first month Mr. X neither gave nor received any credit).

5) How can Mr. X find out how well he has done in the first month?

Is it correct to say that he sold goods for \$200 and bought goods for \$100, so that his profit is \$100?

- This ignores the cost of rent and wages
- He may have sold more or less than the \$100 worth of goods he bought during the month because he started with \$120 worth at the beginning. What do we need to know before we can say what value he has sold? — The stocks at the end.

Mr. X therefore takes stock, and finds that he has \$110 worth in stock.

6) Mr. X can now calculate the value of what he has sold:

he started with	\$120 worth
he bought	+ \$100 worth
So he had a total of	<u>\$220 worth</u>
But he had left	— \$110 worth
So he had used	<u>\$110 worth</u>

7) Now Mr. X can work out whether he has made a profit or a loss. Has the business earned something for its owners, or has it merely consumed some of the money they put into it?

His profit and loss account will look like this:

Sales	\$200	
Cost of what was sold	\$110	
Difference, or 'Gross Profit'		<u>\$ 90</u>
Other expenses: Rent	\$ 20	
Wages	\$ 30	
	<u>\$ 50</u>	
Different or 'Net Profit'		\$ 40

### Depreciation

8) Has Mr. X taken everything into account, or is there something which has cost money which has been forgotten? What has happened to the value of the equipment? Has it increased, decreased or remained the same? Clearly it has decreased, because it will not last for ever, so Mr. X must make some allowance for this in calculating his profit.

Mr. X estimates that it will last for five years; after one year therefore it will be worth one fifth less than it cost, so it will be worth four fifths of \$60, or \$48.

In a year it will have lost \$12 in value, and in a month it will have lost one twelfth of this, or \$1. This must be taken into account in calculating the profit, which will now be reduced to \$39.

Ask trainees what problems are common with 'sleeping' partnerships of this sort. How can they be reduced? (By accurate accounts).

Ensure that all trainees understand that the business is separate from its owners.

Stress again the un-importance of technical accounting terms. What matters is the *use* of the figures.

Ask trainees what is missing?

Give several other examples of this calculation (starting stock *plus* purchases less ending stock *equals* cost of goods sold). All trainees must be quite familiar with this method.

Ask trainees if they consider this a good performance.

How do they think it compares with the businesses they have seen during the course?

Ask trainees how long business equipment lasts, eg. cars, tools, sewing machines, shelves, weighing scales.

## New Balance

9) Mr. X can now construct a new balance sheet. It will look like this:

<i>Liabilities</i>		<i>Assets</i>	
Mr. X	\$100	Equipment	\$ 39
Mr. Y	\$100	Stocks	\$110
Profits left in the business	\$ 39	Cash	\$ 90
	<u>\$239</u>		<u>\$239</u>

10) Mr. Y may now want some return for his 'investment' of \$100, and so may Mr. X. It is important to distinguish between the money Mr. X earns for *working* in the business, and what he earns from the profits. These are two different things, and he must not confuse them.

If they decide to take out a total of \$30, and to share this in the same proportion as their original investment, they will get \$15 each.

The new balance sheet will look like this:

<i>Liabilities</i>		<i>Assets</i>	
Mr. X	\$100	Equipment	\$ 39
Mr. Y	\$100	Stocks	\$110
Profits left in the business	\$ 9	Cash	\$ 60
Total	<u>\$209</u>		<u>\$209</u>

11) If during the next month, Mr. X decides that he can start giving some customers credit, and some of the suppliers start to give the business credit too, he may have the following figures at the end of the second month:

Value of additional stocks bought	\$ 90
Spent on rent	\$ 20
Wage	\$ 30
Depreciation	\$ 1
Total owing by customers (debtors)	\$ 20
Total owed to suppliers (creditors)	\$ 10
Total sales	\$210
Goods remaining in stock	\$ 90
Cash	\$120

12) Mr. X can now calculate his profit and loss accounts as follows:

Sales	\$210
Goods in stock at beginning	\$110
Goods bought	\$ 90
Total	<u>\$200</u>
But he had left	\$ 90
So he had used	<u>\$110</u>
'Gross profit'	\$100
Expenses (as before)	\$ 51
Difference, or 'Net Profit'	<u>\$ 49</u>

13) His balance sheet will look like this:

<i>Liabilities</i>		<i>Assets</i>	
Mr. X	\$100	Equipment	\$ 38
Mr. Y	\$100	Stocks	\$ 90
Profits left in the business	\$ 58	Owed by Customers	\$ 20
Money owed to suppliers	\$ 10	Cash	\$120
Total	<u>\$268</u>		<u>\$268</u>

If he continues to record every transaction, and to construct the balance sheets and profit and loss accounts at least every year and preferably every month, he will have a record of the progress of the business, and a statement of its position at each stage in its life. He will be able to use this as a basis for future planning and decisions.

(reduced by \$1)

Ask trainees if they are wise to take out nearly all the profit after one month.

Ask trainees why the cash has gone down by \$30.

Refer back to calculations in 6 and 7 to check that trainees understand this calculation.

Ask trainees why the equipment has dropped to \$38 after 2 months.

Distribute handout 15.1 and discuss how this can be used to help business people calculate their results.

## PROFIT OR LOSS?

BUSINESS: \_\_\_\_\_ PERIOD: \_\_\_\_\_

Keeping records of sales and expenditures in a cash book is only the first step on the road to a healthy business. The next step is to use these records as a means to know the condition of your business each month, and to decide what to do the following month.

Fill in this form regularly each month, and you will know how much money your business is gaining or losing.

TOTAL SALES	(From Cash Book)	\$ _____
OPENING STOCKS	(From Stock Taking)	\$ _____
PLUS PURCHASES DURING PERIOD	(From Purchase Record)	\$ _____
	TOTAL	\$ <u>_____</u>
LESS CLOSING STOCKS	(From Stock Taking)	\$ _____
COST OF GOODS SOLD		\$ _____
<b><u>EXPENSES</u></b>		
DRAWINGS	(From Expense Record)	\$ _____
WAGES	(From Expense Record)	\$ _____
RENT	(From Expense Record)	\$ _____
LICENCES	(From Expense Record)	\$ _____
TRANSPCRT	(From Expense Record)	\$ _____
WATER	(From Expense Record)	\$ _____
ELECTRICITY	(From Expense Record)	\$ _____
WRAPPING MATERIALS	(From Expense Record)	\$ _____
LOAN REPAYMENTS	(From Expense Record)	\$ _____
OTHER EXPENSES		\$ _____
	TOTAL COSTS	\$ <u>_____</u>
	PROFIT OR LOSS	\$ <u>_____</u>



## SESSION 16: EXERCISES IN ACCOUNTS

These simple exercises introduce the practical use of accounts to evaluate a business, and to make decisions for the future. The instructor should ensure that all the trainees are able to produce a simple balance sheet and profit and loss account for a business, given the type of data which is supplied in these exercises. If necessary, more similar exercises should be devised for this purpose.

### **Exercise 1. Shah's Business.**

In addition to the simple calculations involved in this exercise, trainees may discuss ways of measuring profitability (profit on sales, profit on money invested, profit compared with what might have been earned if the money had been put in the bank, and interest had been paid), and the problems of determining what is the 'right' amount for a business owner to withdraw as payment for his labour, when there are no alternative jobs available.

### **Exercise 2: Ali's Transport Service.**

This exercise shows that simple accounting techniques can be applied to transport enterprises just as well as to shops. When trainees have mastered the simple calculations, and have worked out how much money belongs to the business, they should discuss depreciation, owner's wages, and the difficulties of allowing for the replacement of major items such as a lorry when prices are increasing every year.

## EXERCISE 1: SHAH'S BUSINESS

'How have you been getting on? Have you made a good profit?' asked Shah's Uncle, when Shah came home one day. He had been running his shop in town for a year.

Shah got out a number of papers where he had written down various things which he thought were important for his business. He had noted the following facts:

1. He had opened his shop exactly twelve months before his visit home.
2. He had started his business with \$30 worth of stock.
3. After paying \$30 for the stock, he had set aside \$25 in cash for the shop.
4. He had paid \$7.50 a month rent, or \$90 for the year.
5. He had drawn \$15 a month from the shop's money for his own use, but he had not taken out any other money and he had paid for anything that he took from the shelves.
6. During the year he had bought goods from his wholesale suppliers for a total cost of \$360.
7. He had received a total of \$650 from his customers.
8. He now had \$20 worth of goods in stock in the shop, and there was \$45 in the cash box.

Shah thought that his business had been quite successful, but when his Uncle asked him if he had made a profit he did not know what to say.

### Questions:

1. Make out a 'Balance Sheet' for Shah's shop when he started a year ago, showing where he got the money from and how it was used.
2. Make out a 'Profit and Loss Account' for the shop for the year, showing how much money was received from customers, how much money was spent on goods and on other expenses, and how much profit or loss was made.
3. Make out a 'Balance Sheet' for the shop at the end of the year.
4. Was the business a success during its first year?
5. Should Shah take out more money from the business besides his monthly \$15?

## EXERCISE 2: ALI'S TRANSPORT SERVICE

Ali decided to start a transport service. He bought a lorry for \$2000, paying \$1500 in cash from his own savings. He promised to pay the balance of \$500 during the next two years, that is, 1975 and 1976. He put \$50 in cash into a cash box for day to day purchases by the business.

Ali hired Juma to be his driver at a wage of \$35 a month, and he arranged to pay \$10 a month for the rent of a lock-up garage for his lorry. He was awarded a contract by the Forestry Department for daily deliveries of timber to the mill. They paid him \$150 a month for the work, and this kept his lorry fully occupied for the whole of 1975.

He spent \$300 on fuel and oil during the year, and he spent an average of \$30 a month on spares and servicing. He thought that the lorry would last about five years, and that it would be worth nothing at the end of that period. Ali managed to pay back \$250 to the man who had sold him the lorry, as they had agreed, but he did not pay himself anything from the business during 1975. At the end of 1975 the Forestry Department still owed him \$300 for the work done during November and December, and he expected them to pay in early January.

The Forestry Department was satisfied with the job Ali had done, and he had been promised that he could expect to continue to receive the contract for as long as he could carry out the work. Ali was very pleased about this, but he did not know how much he should pay himself for managing the business, and he was also worried about how he would be able to buy a new lorry when his present one wore out in five years time. On January 1st 1976 he had accidentally mixed some of his own money with that belonging to the business, and he wanted to know how much money actually did belong to the business on that day.

### Questions:

1. Make out a balance sheet for Ali's Transport service at the start, on January 1st, 1975, and another on January 1st 1976, after a year's work.
2. How much money should there have been in the cash box belonging to the business on January 1st 1976?
3. Make out a Profit and Loss Account for the business for the year 1975.
4. Should Ali pay himself anything from the business, and if so, how much?
5. If his business continues as it is for another four years, will Ali be able to buy another lorry for the same price as his first one?

## SESSION 17: THE BREAKEVEN POINT

When a profit and loss account has been completed from the expense book and cash book, a loss or a profit will be found to have been made. The shopkeeper will probably want to know how to change the loss into a profit or how to make the profit larger.

For example, if a shop sells 10 bags of sugar per week:

1 bag of sugar cost \$5.00

1 bag is sold for \$6.00

The profit would appear to be \$10.00 (\$1.00 per bag).

However, the shopkeeper must pay rent, insurance, transportation, his own salary, etc. The shopkeeper calculates that all these costs amount to \$20.00 per week.

Thus:

10 bags of sugar sold	=	\$60.00
10 bags of sugar bought	=	\$50.00
		<u>\$10.00</u>
Other costs	=	\$20.00
Total (loss)	=	\$10.00

The shopkeeper will realise that he must sell more sugar to make a profit, but he wants to know how much.

There is an easy way to solve such a problem.

The formula is to find the minimum amount of sugar which must be sold so that there is no profit and no loss. This point is called the Breakeven Point (BEP). The formula is:

$$\text{BEP} = \frac{\text{Total Sales (\$)} \times \text{Other Costs}}{\text{Total Sales (\$)} - \text{Cost of goods sold (\$)}}$$

$$\text{BEP} = \frac{\$60 \times \$20}{\$60 - \$50} = \frac{\$1200}{\$10} = \$120$$

Which means that \$120 worth of sugar must be sold, or 20 bags of sugar.

To calculate from here what is needed to make profits, reckon as follows:

Profit on each bag x the no. of bags over 20. Thus, if the shopkeeper sells 25 bags of sugar:

$$\text{His profit} = \$1.00 \times (25 - 20) = \$5.00.$$

So by looking at the graph on the handout, we see that once we have sold enough sugar to pay for our other costs (overhead costs) which are in addition to the cost of the goods sold, we begin to make profits.

The same principle can be used to calculate the effects of price changes.

For example, if a shop is selling 20 bags of sugar a week, for \$6.00 a bag, cost price of \$5.00 a bag, how many more bags will have to be sold to make the same profit if the price is reduced to \$5.50 a bag?

Total present gross profit:

$$\$6.00 - \$5.00 \times 20 = \$20$$

New gross profit per bag:

$$\$5.50 - \$5.00 = 50c.$$

$$\text{Necessary number of bags} = \frac{\$20}{50c} = 40 \text{ bags}$$

If the shopkeeper is confident that he can sell at least twice the number of bags through the price reduction, he can reduce the price.

If the same shopkeeper wishes to calculate the effect of an increase in price, say from \$6.00 to \$7.00, the calculation is similar:

$$\text{Necessary number of bags} = \frac{\$20}{\$7 - \$5} = 10 \text{ bags}$$

These calculations are obvious and simple.

Most business people can carry out the necessary arithmetic, but they rarely do.

Price changes, new products and other changes are made blindly, without any attempt to calculate the likely effect on profits.

Give the trainees the following example: A butcher made a loss last year and wants to know how much meat he must sell to make a profit, or whether he should raise his prices. How can he find out? What would the trainees suggest?

Give the following example to the trainees. Use a more relevant local product if necessary.

Ask trainees what should be done. If trainees suggest raising the price, ask what effect this may have on sales. Tell them to assume that the price of sugar is controlled by law. Ask trainees 'how much more?'

Stress that accounts do not make profits; they just suggest how profits might be made.

Apply the formula to the example.

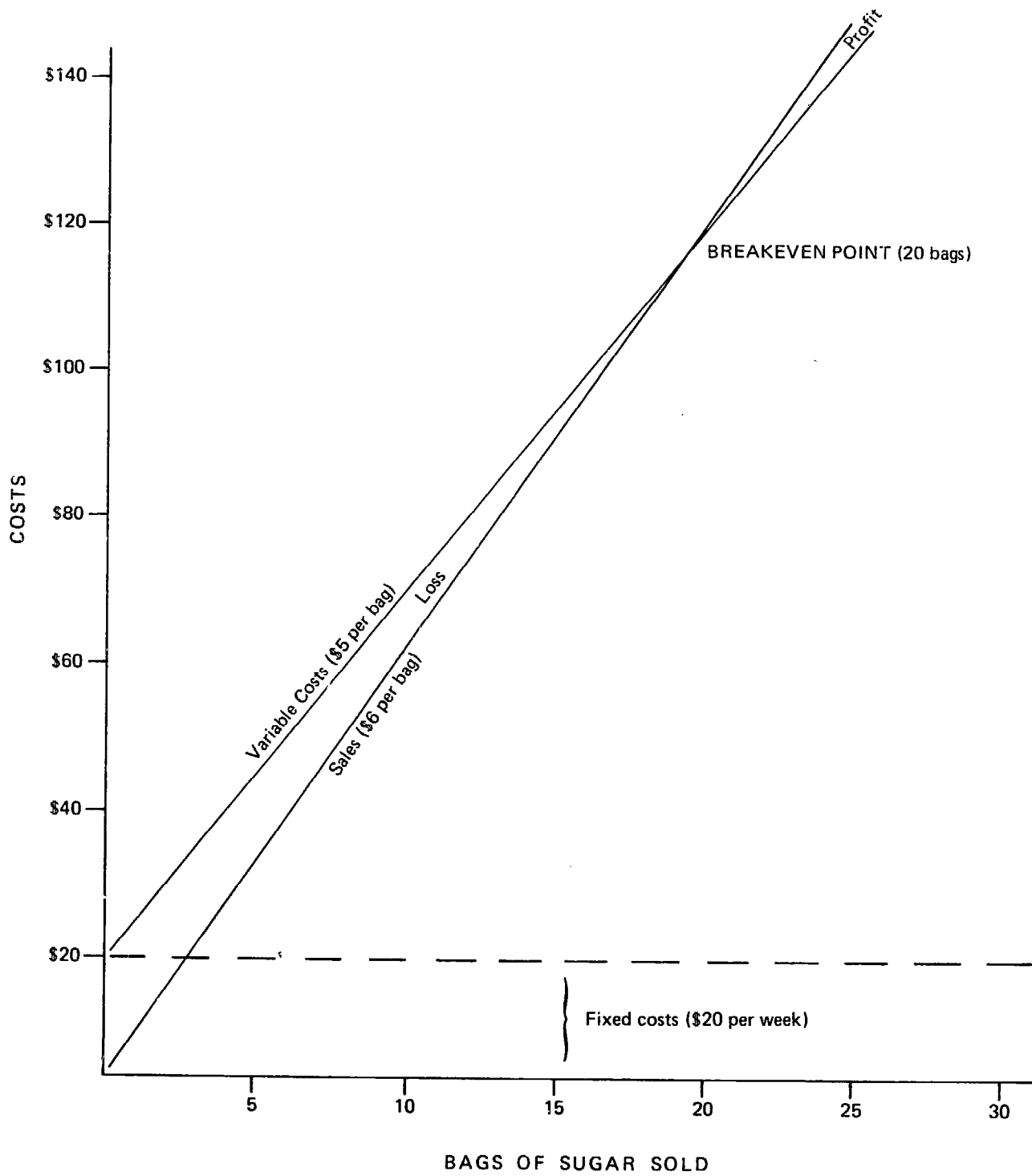
Ask trainees 'But what if the shopkeeper wants a profit?'

Draw the B.E.P. graph on the board, and explain it. Distribute Handout 17.1.

Ask trainees to do the necessary calculations themselves, before showing them on the board.

Make up more examples until all trainees grasp the principles involved.

### GRAPH TO CALCULATE THE BREAKEVEN POINT



## SESSION 18: SHORT TERM BUSINESS DECISIONS

### How Accounts Help

Two people with the same problem will usually arrive at different conclusions on how to deal with the problem.

Only time will tell which answer was correct and sometimes both answers are wrong.

Business people, however, should strive to minimise their chances of being wrong. Being wrong costs time, money, and frequently causes business failures.

A Balance Sheet and a Profit and Loss Account will show what resources are available to the business. However, the accounts do not tell the business owner whether or not he should *do* something or *how* to do it.

### Kinds of Decisions

Business owners spend most of their time making business decisions:

- What to buy
- At what price
- What to sell
- At what price
- Whom to employ for how much

### Example 1 – Stock Control Decisions

The business person must decide:

- What to purchase
- When to purchase
- How much to purchase

In making these decisions he will consider:

- Turnover
- Delivery time
- Money available
- Price fluctuations
- Durability of the goods
- Fashions
- Supply availability

The manager will have to decide the price level (mark-up) to put on the item, if it is not price controlled. He will know the mark-up will be determined by the price levels of the competitors and by the turnover rate of the stock.

### Example 2 – Credit Decisions

The business person will know that in general giving credit should if possible, be avoided because excessive credit is a major cause of business failures because debts are not repaid and money that could be used elsewhere is tied up. If credit must be given, the business owner must decide:

- To whom to give credit
- For how much
- For how long

He will consider the honesty, security, future potential and present relationship of the customer.

### The Value of Breakeven Point

The Breakeven Point provides the owner with a tool to analyse how *much* he needs to sell to make a profit. If he knows approximately how much he needs to sell, he can order the proper amounts of stock *and* find a way to sell that much. (As we will see later on, this tool is useful for setting business goals).

The BEP emphasises the importance of turnover for making a profit. Generally, the more quickly goods are sold, the higher the profit, after a period of time.

Ask the trainees to write down how they would recommend a client to reduce stock in one sentence. Note and discuss their different answers.

Ask trainees what might be learned. Stock reductions? Debtor reductions? Available credit?

Ask trainees what kinds of business decisions have to be made. What factors must be considered? How might each factor affect the decision?

Refer back to Session 5. How did the shop-keepers where the trainees spent the day make this kind of decision?

Refer back to Session 14.

Ask trainees whether business people make decisions about prices, or leave them to competitors, suppliers or customers.

Ask trainees what credit decisions have to be made. What factors must be considered? How might each affect the decision?

Refer back to Session 7.

Ask trainees if it is better to sell 100 bottles of soft drinks at 10c. gross profit each, or 20 bottles of medicine at 20c. gross profit each.

## Expansion

An expanding business usually makes more profits, hires more employees, and more people benefit from its success.

However, business expansion also brings more problems which the business owner should be aware of.

For example, the addition of more employees can mean the owner has less control over the business operation. It may be necessary to hire a book-keeper who must set up more complicated account books which the owner may not understand.

With the greater amount of stock necessary for a larger business, there is a greater chance that some of the stock control techniques will not be as effective and that certain stocks will be overlooked and stock turnover will drop.

### Example 3 – Credit or Stocks?

Few business people make use of simple arithmetic when deciding on prices, stock levels, whether to give credit and so on.

Fewer people appreciate the way in which *figures* can help to make different aspects of the business comparable with one another.

A shopkeeper is wondering what to do with \$100 which he has received from the sale of a cow:

- Should he put it in his savings account at the bank?
- Should he buy a stock of blankets?
- Should he give a certain customer credit of \$100?

He should try to assess the *financial* results of each alternative use of the money, so that he can compare them:

- The bank will be secure, and will pay 12% interest or \$1 a month.
- He will sell about five blankets a month, for a gross profit of \$1 each, or \$5 in total.
- The customer may increase his purchases by \$50 a month, giving an average gross margin of 20% or \$10 a month.

It appears that it will be most profitable to give credit; the business owner will also have to assess the *risk* involved in each alternative, so that the figures do not make the decision themselves, they just make it *easier* to make a *better* decision.

Ask trainees if the expansion of a business is always good? If not, why?

Ask trainees to discuss what problems arise from employing more staff.

How will expansion affect methods of stock control? (Greater need for a 'system' since visual observation is no longer enough).

Ask trainees how they would make this decision.

What else would the shopkeeper have to assess?

Which alternative would trainees recommend?

Devise more similar examples if necessary.

## SESSION 19: EXERCISES IN BUSINESS DECISIONS

These exercises focus on specific investment decisions, and are intended to show trainees how to calculate the estimated results of possible future actions in order to help decide what should be done. It is important to stress that the calculations do not in themselves make the decision; they merely provide the business person with a tool to help him make a better decision. It is not possible to be sure what will happen in the future, and estimates are based only on expectations. Simple calculations can however enable the business owner to compare different alternatives and to choose that which appears likely to be the most profitable. Very often business people make decisions on the spur of the moment, because they are attracted by a new possibility, or because they do not trust an idea which has been suggested. One of the main functions of a small business consultant is to help business people make their own decisions, by showing them methods such as those used in these exercises; the final decision must rest with the business owner, but these techniques should enable him to make an informed decision, which is more likely to be in his interest.

### Exercise 1. Ibrahim's Service Station

The trainees must extract the relevant information from the text, which is not a dissimilar task to selecting the right figures from a lengthy conversation with a business owner. They must calculate the cost of surfacing the forecourt, and of employing an extra assistant; they must then divide the extra monthly or annual cost by the average profit per litre of fuel, in order to assess whether the investment would be profitable or not. This is a good example of the use of figures for making decisions; a few simple calculations will show how many extra litres of fuel Ibrahim will have to sell each month before the investment would be worth while. It is not easy to estimate the effect of such an improvement on sales, but it is a great deal easier than trying to make the decision without any guidance from figures.

### Exercise 2. Saleh and Aziz.

This exercise involves a simple small-scale manufacturing business, and it illustrates the fact that a consultant does not need to have any knowledge of the technology of an industry in order to be able to give useful advice. It is simple to calculate how much money the partners are making each month, and how much more they would make if they were to buy the machine, the decision clearly depends on the estimate of future demand, but the calculations will show the minimum annual sales which will be necessary to justify the purchase of the machine.

After completing the calculations, trainees should discuss the difficulties of assessing future demand, and the problems of partnerships.



## EXERCISE 1: IBRAHIM'S SERVICE STATION

'I think I ought to have the job done, but I can't say why. I can't prove why I should have it done to my own or anybody else's satisfaction. How can you persuade me to do it?'

Ibrahim was talking to Abdul, a representative from the Giant Oil Company, about Abdul's suggestion that Ibrahim should put a tarmac surface on the forecourt area around his petrol pumps, and between them and the main road. This road had been tarmacked in 1975. Before this, Ibrahim had had one hand-operated pump to sell regular petrol just as an added service to customers of his general shop. He had rarely sold more than 3,000 litres a month.

The new road surface had greatly increased the flow of traffic, as it now provided a quicker route between two major centres. The Giant Oil Company had put in, at no cost to Ibrahim, three electric pumps, one each for super grade, regular grade and diesel oil. Ibrahim's sales had increased dramatically, and after a year he was selling about 4500 litres of diesel oil, 4,500 litres of regular grade petrol and about 2,000 litres of premium petrol every month. In addition, he sold about 150 litres of lubricating oil every month, and a large number of the drivers also bought various things from his general shop, so that his sales there had increased from about \$150 to about \$180 a month. Ibrahim's gross profit was 1 cent a litre on premium petrol, 0.9 cents a litre on regular grade, 0.8 cents a litre on diesel oil and 10 cents a litre on lubricating oil. In fact, his petrol sales had become by far the most profitable part of his business as far as he could see, and he sometimes wondered whether he was forgetting to improve his general store because he spent so much time on the petrol sales. Ibrahim could easily separate sales and wholesale costs of the shop from the petrol business, because all his petrol and oil had to be bought from the Giant Oil Company. He recorded his sales of petrol by regular dipping of the tanks, and the pump counters provided a check.

There were two new service stations, not associated with shops, which had been opened at a distance of about six kilometres on either side of the market centre where Ibrahim operated. They both had all the latest equipment, with illuminated signs; they were closer to the road than were Ibrahim's pumps and as they had been opened twelve months after the road had been resurfaced, their owners had naturally tarmacked the forecourt areas. They sold Mogul and Power brand petrol, and Ibrahim knew that they were prospering. Abdul said that their sales were growing faster than Ibrahim's, but Ibrahim was still quite pleased with his own results. His sales had been rising slowly for about a year, after the dramatic increase in traffic during the first year of operation of the new road and although traffic seemed to continue to increase, Ibrahim felt that his sales and profits were so much better than they had been before that he had nothing to worry about.

Abdul, on the other hand, was under constant pressure from the sales manager of Giant Oil to sell more and more petrol every month to all his customers, such as Ibrahim. He had pointed out to Ibrahim that his gravel forecourt and approach looked very shabby compared with the smooth black surface of the road. 'It may have been good enough when the road was bad, but now I am sure that it is damaging your business.' Ibrahim replied that he surely deserved one of the latest new illuminated signs in view of all the petrol he had bought over the years, and that this would be a more effective way of encouraging drivers to buy petrol. He also realised that the sign would be provided free of charge, whereas he knew he would have pay for the resurfacing of the forecourt. 'If you get the forecourt tarmacked, we shall supply you with our first sign in the District. How's that for an offer?' Abdul said. Ibrahim had to admit that the present surface looked rather inferior, although it was quite smooth, and he realised that the signs were given only to garages which looked first class in every other way. Unfortunately the pumps and tanks had been placed nearer the shop than the road. When the road had been unsurfaced it had been a very good thing to be fifty feet back from the dust and mud. Now the distance only meant that a larger area would have to be surfaced, and Ibrahim paced it and calculated that a minimum of 500 square metres would be necessary. He had already asked a contractor what the normal cost was of such a job, as even before Abdul had mentioned it, he had thought it would be interesting to see what it would cost. He had learnt that about \$2.40 a square metre was the minimum for a good, durable job with proper foundations, and it would also be necessary to improve the drainage at a cost of about \$100. The job would take about three weeks to complete, and there would be some inconvenience to customers during that time.

Ibrahim had saved a large part of the profits he had made over the last two years and he had lent \$1,300 to a relative, at 10% annual interest, to help him buy more land and expand his acreage of cotton. Ibrahim thought that it would be difficult for him to pay for the new surface without calling in this loan, as he had no other large sum of ready money. Other relatives and friends were anxious to borrow from him at the same rate of interest, and he was confident enough of their ability to repay, so that he had planned to lend out all his savings in this way. He believed that his relatives could probably borrow the money from the bank instead, but he hesitated to lose the satisfactory and apparently secure interest payments and risk offending his family. He was also worried about the increasing amount of his time that was being occupied by the petrol sales. He ran the shop and the petrol sales single-handed, but was seriously considering the need for another man to be a full time petrol attendant. Ibrahim

thought that he could get a satisfactory man for about \$15 a month, but realised that this would absorb the profit on many thousands of litres of petrol every year. Abdul was unable to offer any hope of lower wholesale prices for the petrol. 'We reward our dealers, and invest in their future success with electric pumps, illuminated signs and so on,' he said. 'We believe that a fixed price, whatever the volume, is in our dealers' interests as well as our own.'

Ibrahim wanted his petrol station to look attractive, but was unable to justify the expenditure on resurfacing and drainage to his own satisfaction, since he did not really know how he should set about trying to prove it to himself.

Questions for Ibrahim's Service Station:

1. What was the profit per month from Ibrahim's sales of petrol and oil?
2. What would be the total cost of surfacing the area between Ibrahim's pumps and the road? Would there be any other costs apart from the money paid to the contractor?
3. How much more petrol would Ibrahim have to sell each month in order to make it worth while to surface the area?
4. If Ibrahim had to employ a man at \$15 a month to deal with petrol sales, how many more litres of petrol would he have to sell each month in order to make the same profit as before?
5. Should Ibrahim have the area surfaced, and how should he pay for it if he did?

## EXERCISE 2: SALEH AND AZIZ

Saleh and Aziz had worked together making water tanks since 1970. By early 1973 they were making about twelve tanks a month. They sold them for \$35 each. Each tank included the following material.

Four flat steel sheets for top and bottom at \$1.50 each	\$6.00
½ kg. rivets at 40c. a kg.	20c.
12 sticks of solder at 25c. a stick	\$3.00
6 sheets of corrugated iron 1 metre square at \$1.80 a sheet	\$10.80

In addition to the cost of the corrugated iron sheets themselves, the partners had to pay 30c. each for having them curved on a special rolling machine. They could have bought the straight sheets for the same price from the stockists in their township, but they had to be curved in the city. It was therefore necessary to go to the city to buy the sheets and have them curved. It cost 10c. to bring each sheet back from the city when it had been curved. One of the partners had to make the journeys as well, and it took a whole day. The return bus fare was \$1, and they would usually collect about 30 sheets at a time. In spite of this difficulty in getting the sheets curved, the partners had done well with their business and they had saved \$800 between them. The money was in a joint account at the bank.

One day a machinery salesman visited Saleh and Aziz and offered them a new corrugated sheet curving machine just like the one used in the city. It was hand operated, and there were hardly any parts that could go wrong. The price was \$800 delivered to their plot. Saleh knew that such machines lasted over 20 years of hard use, and he wanted to order one. Aziz was not so sure. He asked Saleh what use such a machine would be if the business was to fail. Aziz said he would prefer to keep his share of the \$800 safe in the bank in case something went wrong with their business. Saleh said that they would be able to make far more money if they bought the machine and they would also have more time to make more tanks. The demand for their tanks seemed to be increasing, and he wanted to be able to take advantage of this.

Questions:

1. If Saleh and Aziz made 12 tanks in a month, and nothing else, how much did they earn for themselves during the month if they sold the tanks for \$35 each?
2. What was the full cost of one corrugated iron sheet, curved and delivered to the partners' plot?
3. What would be the benefits to the partners if they bought the sheet curving machine? How much more would they earn?
4. Was Aziz wise to want to keep a large sum of money in the bank in case the business was not successful?
5. How could Saleh persuade Aziz that they should buy the machine?

## SESSION 20: ANALYSIS OF REAL BUSINESS DATA

By this stage the trainees have covered the basic techniques of record keeping, accounts and analysis, and they have also spent two complete days in a shop so that they have some feeling for the practical realities of applying these techniques to real business. Trainees have been through the First Consulting Form, and they should appreciate that when filled in it contains the basic data necessary for analysing a business situation and making appropriate recommendations for change.

In this session trainees are given the opportunity to work from examples of completed forms. The initial introduction and questioning have been done for them. They must analyse the resulting information and decide what recommendations should be made. This will familiarise them with the way in which the forms are laid out, so that they will be able to make the necessary analysis quickly and correctly when they are actually working in businesses.

Examples are given of two shops and one manufacturing business. These are simplified versions of real business data, but they should if possible be replaced by completed forms from businesses in the local area which are similar to those the consultants are to advise. It should not be difficult to find real life examples of completed forms, since even before the start of a small business advisory service the organisers should have surveyed a number of small businesses in order to assess the applicability of this system and the particular training needs of the business people.

Trainees may think that all the information gaps must be filled before it is possible to give any recommendations. They should be reminded that information in itself does nothing for a client, and that unless the client obtains some immediate benefit from a consultant he is unlikely to accept his recommendations for very long. Trainees should ask themselves the following questions for each business:

- 1) What information is lacking?
- 2) What conclusions can be drawn from the information that is available?
- 3) What improvements are likely to be easy to implement and quick to produce results?
- 4) What missing information can most easily be obtained and will most quickly lead to new conclusions and further recommendations for improvement?
- 5) What combination of recommendations is the client most likely to accept, most likely to be able to carry out and most likely to benefit from?
- 6) How should these recommendations be presented and taught to the client?

It is unlikely that the client will be able to grasp and carry out more than two or three recommendations at a time. Trainees should decide what recommendations they would make, and why, and these should then be discussed with the rest of the group.

# FIRST CONSULTING FORM

Shopkeeper

VILLAGE/MARKET/TOWN VICTORYVILLE

DATE OF FIRST SESSION 7 MARCH 1976 CONSULTANT 'X'

NAME AND ADDRESS OF BUSINESS MUTHER'S STORE, PRESIDENT ST.

YEAR BUSINESS STARTED APRIL 1975

TYPE OF BUSINESS GENERAL SHOP

What is the most important problem in your business? I CAN AFFORD TOO FEW STOCKS, THEREFORE I HAVE FEW CUSTOMERS

Better MANAGEMENT may help you to get over this problem. I am not giving loans, chasing debts or asking about taxes, but trying to HELP you manage this business better with some ADVICE. I am trying to give you advice especially for *your* business. I do need some information from you before I can do this.

First, I need to know what you have in your business today, and how much it is worth.

Is this building your property? (Yes/No) If so, what is its value now?                     

What is the value of all the furniture and equipment you have in your business, if you had to sell it today? \$ 50

What is the value of all the goods in stock today? NOT KNOWN

Do you give any credit at all? (Yes/No) If so, how much is owed to you today, by all your customers, whether overdue or not? (Try to add up the total from the record of debtors). \$1100

Does the business have a bank account? (Yes/No) If so, how much is in it? (Try to check the bank book).                     

Do you have any other money which can be used for the business when necessary? No

How much CASH have you got here now which belongs to the business? (Try to see the actual money). \$10

The total amount of money, or value of other things that you are using in your business today is therefore \$1060 (+ STOCKS)  
TOTAL 'ASSETS'

Let us try to see where this came from. Do you get any credit from your suppliers? (Yes/No) If so, how much do you owe them altogether today? (Try to check from records).                     

Do your customers ever pay in advance? (Yes/No) If so, how much have you got from them at the moment for goods not yet taken? (Try to check from records).                     

Have you received loans from any source? No If so, how much do you owe at the moment?                     

How much money did you and your partners if any put into this business at the beginning? \$1000

How much have you put into it since then?                     

The total amount put into the business by you or 'lent' from other sources is therefore \$1000  
TOTAL

The difference between this and the total value of what is in the business has come from profits earned by the business (or losses). \$60 (+ STOCKS)

The total value of the business is therefore (Transfer total from above). \$1060 (+ STOCKS)

Do you have any *other* business such as cash crop farming (     ), a restaurant (     ), transport services (     ), another shop (     ), other (     ). No

If so, are all the figures which you have given me the ones for this business *alone* or does the cash or any other item belong to the others as well? (Correct as necessary).

Now let us see how much profit or loss you are making each month.

What is the total value of your sales in an average month? (Try to check from cash records, guesses of a day's sales, or your observation)

SALES TOTAL ABOUT \$250

What does it cost you to buy the goods that you sell for this amount? (Check opening stock and goods bought – closing stock, or receipts, or average gross profit on sales)

\$200

What do you *yourself* take out of the business in an average month in wages, salary, value of goods taken and not paid for, gifts to relatives and so on? (Check records)

NIL

Do you employ any others in this business? How many? (**NO**) If so, what do you pay them in total per month?

—

What rent do you pay per month?

\$20

What do you spend on transport each month?

\$10

What do you spend on water, electricity, wrapping materials, etc. each month for the business? (Be sure no expenses are forgotten).

\$9

What do you spend on loan interest and repayments each month?

—

What is the MONTHLY cost of your licences? (Check licence certificate).

\$1

Your total expenses per month are therefore

EXPENSES TOTAL

\$240

The difference between your total expenses and your sales is your profit/loss Shs.

TOTAL PROFIT/LOSS

\$10



## FIRST CONSULTING FORM

Shopkeeper

VILLAGE/MARKET/TOWN BANJUDATE OF FIRST SESSION 7 MARCH CONSULTANT 'X'NAME AND ADDRESS OF BUSINESS PEDRO'S STORE, MAIN SQUAREYEAR BUSINESS STARTED 1970TYPE OF BUSINESS GENERAL STOREWhat is the most important problem in your business? NOT ENOUGH CAPITALTO EXPAND

Better MANAGEMENT may help you to get over this problem. I am not giving loans, chasing debts or asking about taxes, but trying to HELP you manage this business better with some ADVICE. I am trying to give you advice especially for *your* business. I do need some information from you before I can do this.

First, I need to know what you have in your business today, and how much it is worth.

Is this building your property? (Yes/No) If so, what is its value now?                     

What is the value of all the furniture and equipment you have in your business, if you had to sell it today? \$400

What is the value of all the goods in stock today? \$5000

Do you give any credit at all? (Yes/No) If so, how much is owed to you today, by all your customers, whether overdue or not? (Try to add up the total from the record of debtors). \$600

Does the business have a bank account? (Yes/No) If so, how much is in it? (Try to check the bank book). \$100

Do you have any other money which can be used for the business when necessary? NO

How much CASH have you got here now which belongs to the business? (Try to see the actual money). \$100

The total amount of money, or value of other things that you are using in your business today is therefore \$6200  
TOTAL 'ASSETS'

Let us try to see where this came from. Do you get any credit from your suppliers? (Yes/No) If so, how much do you owe them altogether today? (Try to check from records). \$500

Do your customers ever pay in advance? (Yes/No) If so, how much have you got from them at the moment for goods not yet taken? (Try to check from records).                     

Have you received loans from any source? If so, how much do you owe at the moment? \$500

How much money did you and your partners if any put into this business at the beginning? \$4000

How much have you put into it since then?                     

The total amount put into the business by you or 'lent' from other sources is therefore \$5000  
TOTAL

The difference between this and the total value of what is in the business has come from profits earned by the business (or losses). \$1200

The total value of the business is therefore (Transfer total from above). \$6200

Do you have any *other* business such as cash crop farming (     ), a restaurant (     ), transport services (     ), another shop (     ), other (     ).

If so, are all the figures which you have given me the ones for this business *alone* or does the cash or any other item belong to the others as well? (Correct as necessary). SHOP ALONE



Now let us see how much profit or loss you are making each month.

What is the total value of your sales in an average month? (Try to check from cash records, guesses of a day's sales, or your observation)	SALES TOTAL	<u>\$1500</u>
What does it cost you to buy the goods that you sell for this amount? (Check opening stock and goods bought - closing stock, or receipts, or average gross profit on sales)		<u>\$1200</u>
What do you <i>yourself</i> take out of the business in an average month in wages, salary, value of goods taken and not paid for, gifts to relatives and so on? (Check records)		<u>\$150</u>
Do you employ any others in this business? How many? ( 1 ) If so, what do you pay them in total per month?		<u>\$50</u>
What rent do you pay per month?		<u>\$50</u>
What do you spend on transport each month?		<u>—</u>
What do you spend on water, electricity, wrapping materials, etc. each month for the business? (Be sure no expenses are forgotten).		<u>\$30</u>
What do you spend on loan interest and repayments each month?		<u>\$50</u>
What is the MONTHLY cost of your licences? (Check licence certificate).		<u>—</u>
Your total expenses per month are therefore	EXPENSES TOTAL	<u>\$1530</u>
The difference between your total expenses and your sales is your profit/loss	TOTAL PROFIT/LOSS	<u>— (\$30)</u>

CLIENT PEDRO'S STORE CONSULTANT 'X'

R = RECOMMENDED

C = COMPLETED

RECOMMENDATIONS

*7 MARCH*

DATE DATE DATE DATE

Keep Cash Book				
Record Debtors and Advances				
Record withdrawals of cash (in cash book). Pay for goods withdrawn, if necessary by withdrawing cash and recording it.				
Count and Value stock on (Date) . . . . .				
Tidy up Premises with Special Attention to . . . . .				
Rearrange Stock, in Particular . . . . . (Items)				
Open Bank Account Where . . . . . Monthly Deposit . . . . .				
<i>Reduce Stocks by:</i>				
a) Lower Price Item . . . . . Present Stock . . . . . Present Price . . . . . Target Stock . . . . .				
b) Stop Buying Item . . . . . Present Stock . . . . . Target Stock . . . . .				
c) Return to Supplier Item . . . . . Present Stock . . . . .				
d) Free Gift Item . . . . . Present Stock . . . . . Basis of Gifts . . . . .				
e) Exchange with Other Traders Item . . . . . Present Stock . . . . .				
Advertise, Item . . . . . How . . . . . (Try actually to do it)				
Buy New Stock, Item . . . . . Qty . . . . .				
Other				

## FIRST CONSULTING FORM

Manufacturer

Date 7 MARCH 1976Consultant 'X'Name of Business AHMED'S METAL WORKSType of Business METAL HARDWARE MANUFACTURERAddress PLOT 15. ZOKONI MARKETDate Business Started JULY 1969Name of Owner of Business MR. AHMED

I am trying to help the country's small businesses to make more money, by giving them advice. Before I can do this, I must know something about your business. I am sure you want it to expand; what is the most important thing that prevents you from being more successful than you already are?

Not enough customers ( ) Cannot afford the necessary machines (  ) Skilled labour scarce ( ) Material Problems (Specify) ( ) Poor Buildings ( ) Need for electricity ( ) Slow Payers ( ) Other Difficulties (specify) NEED \$500 TO BUY DRILLING MACHINE

I may not be able to help you get what you need, but there may be other ways of solving your problems, using what you already have. If my advice is to be any use, it must be based on your situation; I must therefore know something about your business;

Do you own the building? What is it worth, if so?

\$2500

What is the value of your benches, and other furniture?

\$ 500Do you own a vehicle? NOValue —

What small tools do you have? \_\_\_\_\_

Value ABOUT \$250

What machinery do you have?

Machine	Value
<u>SEAM ROLLER</u>	<u>\$100</u>
<u>METAL BENDER</u>	<u>\$250</u>

Total (Use separate sheet if necessary)

\$350\$350

What value of unsold finished products do you have?

Product	Number	Selling Price	Value
<u>TROUGHS</u>	<u>10</u>	<u>\$2</u>	<u>\$20</u>
<u>BUCKETS</u>	<u>20</u>	<u>\$3</u>	<u>\$60</u>
<u>GUTTERS</u>	<u>30</u>	<u>\$1</u>	<u>\$50</u>
Total (Use separate sheet if necessary)			<u>\$130</u>

\$130

What value of work-in-progress do you have?

Product	Number	Selling Price	% Made	Value
<u>TROUGHS</u>	<u>50</u>	<u>\$2</u>	<u>50%</u>	<u>\$50</u>
<u>BUCKETS</u>	<u>100</u>	<u>\$3</u>	<u>33%</u>	<u>\$100</u>
Total (Use separate sheet if necessary)				<u>\$150</u>

\$150

What stocks of raw materials do you have?

Material	Quantity	Cost	Total	Value
<u>SHEET STEEL</u>	<u>12 TONS</u>	<u>\$200</u>	<u>\$2400</u>	
<u>SOLDER</u>	<u>50 STICKS</u>	<u>\$50</u>	<u>\$50</u>	
Total (Use separate sheet if necessary)				<u>\$2450</u>

\$2450

'Total carried forward' from previous page \$2450

Do you give credit to your customers? How much do they all owe to you today, whether overdue or not (Try to check from records) \$300

Do you have a bank account. How much is in it? *NO* —

How much cash have you got which belongs to the business? \$370

The total value of everything in your business is therefore \$7000

Let us see where you got this money from;

Do you buy any goods on credit? How much do you owe now? *NO* —

Do your customers ever make advance deposits? How much have you got from them now, for goods not yet collected? *NO* —

Have you had any loans? How much do you owe now? —

How much did you invest at the beginning, and since then? \$1000

You, and your suppliers etc., have put in . . . . . total \$1000

The difference between this total, and the value of what is in your business today, must have come from your profits \$6000

The total value of everything in your business is, as we worked out before: \$7000

Now let us try to work out how much profit or loss you are making every month;

Do you sell your products direct to their users (✓) through other shopkeepers ( ), other means (specify) ( )

What are your sales in a month?

Item	Number Sold	Selling Price	Value of Sales
TROUGHS	200	\$2	\$400
BUCKETS	50	\$3	\$150
GUTTERS	450	\$1	\$450
Total (Use separate sheet if necessary)			<u>\$1000</u>

What value of materials do you use in a month?

Material	Quantity	Cost	Value
SHEET STEEL	2 TONS	\$200	\$400
SOLDER	10 STICKS	\$1	\$10
Total (Use separate sheet if necessary)			<u>\$410</u>

What do you spend on consumable tools each month? \$20

How many staff do you employ? 3 What are their total wages? \$200

What do you pay yourself, and how much do you withdraw from the business during the month? *NOT KNOWN* —

What do you pay in hire purchase charges each month? *NIL* —

What are your transport costs each month? *STEEL \$240 EVERY 6 MONTHS* \$40

What do you pay for electricity, fuel, water etc. per month? *GAS* \$30

What rent do you pay? \$50

What is the *monthly* cost of your licences? \$10

If you have a loan, how much do you have to pay each month in interests and repayment? —

The total cost of your monthly costs is therefore

\$760 + DRAWINGS

If we subtract this from your total monthly sales above we arrive at your monthly profit ~~or loss~~

\$240 - DRAWINGS

How many hours of direct labour of manufacturing do you average each month?

600 HRS

What are the total wages paid for manufacturing labour only?

\$200

Wages divided by the total hours of direct labour is your average cost per man hour

33 CTS.

The total of all manufacturing overhead expense is the total of all monthly costs less the materials purchased and the manufacturing labour. This amount is (? DRAWINGS)

\$150

Divide this amount by the total hours of direct manufacturing labour. This is your cost per hour for manufacturing overhead expense

25 CTS.

Your business is more difficult than a shopkeeper's, because you have to decide for yourself what prices to charge.

Let us try to calculate the cost of one of your best selling items.

Item GUTTER

How much material is used in this item?

Material	Quantity	Cost	Value
SHEET STEEL	3 KG	20 CTS.	60 CTS.
SOLDER	1 STICK = 100 GUTTERS	\$1	1 CT.
			<u>61 CTS.</u>

Total (Use separate sheet if necessary)

61 CTS.

What cost of labour goes into this item?

Worker	Wages	Time Taken	Value of Work
SALIM	\$75 / MONTH	400 / MONTH	19 CTS.

Total

19 CTS.

Based on the value of the sales of this item, compared with your total monthly sales, it should pay for . . . . .% of all your other costs apart from materials and wages which we have worked out above. The total of your other costs is . . . . . This item should carry . . . . . of this amount; this share, divided by your monthly sales of this item, gives . . . . . as the share of general expenses which should be carried by one unit of this item or your overhead cost per hour worked out above multiplied by the number of hours and/or part hours to produce this item

2 PER HOUR @ 25 CTS. PER HOUR 12.5 CTS.

Total Cost of Production per unit is

92.5 CTS.

Selling Price per unit is

\$1.00

Profit or loss per unit is therefore

7.5 CTS.

Is there any way in which you could reduce this cost, without reducing the quality? Let us examine every part of the item.

Can you use a different, or less, or thinner, material?

Can you simplify any part of the manufacturing process?

Can you do without any part altogether?

? REDUCE METAL THICKNESS, WEIGHT  
PER GUTTER REDUCED TO 2KG EACH,  
COST REDUCED BY 20CTS.



## SESSION 21: OBTAINING INFORMATION

Experience has shown that a consultant should be able to obtain the information necessary to complete the 'First Consulting Form' or to identify exactly what is not obtainable, in about half a day. This session is therefore designed to introduce trainees to the real task of obtaining information from a business. It is important that they should not believe that information comes automatically and that all that is required is for it to be analysed.

The earlier sessions in shops should have shown the trainees something of what is involved in recording and counting the value of cash, amounts owed by debtors, amounts owed to creditors and stocks. This will help them to explain to the shopkeepers in this session exactly what is needed, and to identify how information that is not available might be provided. They will also be introduced to the practical difficulties of finding out how much money has been invested in a business either when it was started or during its life. If the business is more than a year or so old inflation will mean that the figures for what was originally invested are meaningless today.

Trainees should concentrate on obtaining information rather than on analysis and recommendation, but if time allows after the actual figures have been filled in they should try to discuss changes or improvements in recording techniques which will help the business owner to obtain any missing information.

As in previous sessions spent in shops, trainees may work in the same businesses in which they have previously spent complete days, or in new ones. A half day should be enough for them to complete the form even in a business which they have not visited before, providing that the business owners are willing to co-operate. If sufficient fully co-operative business people can be found it may be better to place each trainee in a business which is new to him, but otherwise they should work in the same businesses where they spent sessions 5 and 14.

Discussion after this half day in a shop should focus on:

- 1) The problems of obtaining information.
- 2) The possibilities of analysis and recommendation based on the figures available before any improved bookkeeping has been introduced.

## SHOP ASSIGNMENT

You will be assigned to a shop where you are to spend a complete morning. Your task will be to complete (as far as possible) the First Consulting Form which was introduced in session 4 and with which you should now be fairly familiar. Half a day should be enough to complete this task, and it should also be possible to discuss with the shopkeeper any new bookkeeping methods which might be needed to complete the information.

You should have at least two copies of the form, and it may be better to make rough notes first before filling in the actual form.

You should bear the following general points in mind:

1. Be sure that the business owner knows *why* you are trying to obtain the information.
2. If the owner appears to be reluctant or unable to answer any question, go on to the next without pressing the point. The answer you want may come out later, you can return to it or the shopkeeper may not yet understand exactly what you are asking for.
3. Always allow customers to interrupt your enquiry, and do not allow the business owner to neglect his customers even if he prefers to go on talking to you and to let them wait.
4. Do not stop the business owner from talking about other business problems when you ask for some piece of information; business people benefit from talking to an outsider, and the information you want may come out of apparently unrelated remarks.
5. Be prepared when necessary to work with average figures, so long as more accurate figures cannot be obtained in the time available. Note on the form exactly how you have made any estimates that have been necessary.
6. When discussing new bookkeeping ideas, *ask* the shopkeeper how he would suggest that he could obtain the necessary information. Show him your suggested arrangements of debtors or cash records only if he appears interested, and do not present these as the only answer.
7. Cross check, by asking the same question in two different ways, whenever you think that the business owner might have misunderstood your question and is thus giving you a quite wrong answer.
8. Business people may give inaccurate figures because they do not want to appear foolish; do not challenge figures which are suspect, but try to show from your other more trustworthy data, or from your knowledge of costs and selling prices in the area, that you know the real answer to be very different.



## SESSION 22: SHOP WALK AROUND

Previous sessions in shops have given trainees an opportunity to become quite deeply involved in the internal workings of one business; they are now to put themselves in the position of customers who are free to buy from wherever they choose. This involves superficial comparison of initial impression, followed by rather deeper study of the reasons for these impressions.

The trainees should be conducted as a group around any convenient market where there are a large number of shops, and their attention should be directed to particular examples of good and poor marketing, display, housekeeping, promotion and so on. If possible the group should not exceed five or six. If there are more trainees than this on the course they should be subdivided for this session.

The trainees should discuss their reactions on the spot, standing in the street, or possibly in a tea shop or restaurant. The instructor should not try to hide the purpose of the tour from the business people, but this session is designed to enable the trainees to remember that the customer's point of view is what really matters.

## MARKET ASSIGNMENT

This session will be spent in a market, walking round observing shops from the *Customers'* point of view. You should make notes on the following points, or as directed by the instructor who accompanies you:

1. Which appear to be the busiest shops in the market? Why
2. Are any shops particularly empty and unattractive? Why?
3. Which window display is the most noticeable? What makes it so effective?
4. Which shop is making the best use of posters? What are they doing with them?
5. What can you see, from the outside, of the interiors of the shops? Does what you see make you want to go in or not? Why?
6. If you had to open a shop in this market, and could choose any site, which would you choose, and why?
7. If you happened to be unlucky enough to have a shop in a less frequented part of the market, and could not move, how would you try to attract customers to you in spite of your poor position?
8. If you had to buy some milk, which shop would you buy it from? Why?
9. If you had to buy a new suit of clothes, which shop would you go to first? Why?
10. Are there any general improvements to the market that the shopkeepers as a group might try to undertake in order to benefit all of them? What might be stopping them from taking any joint initiative of this sort?

## SESSION 23: DEMAND IN THE MARKET PLACE

A business person is in business to make a profit. To make a profit he must *sell* the product or service he offers to a customer. So, the customer becomes the most important person for the business. The business operator must find out what products the customer wants or needs and can afford. Before trying to sell any product he must ask such questions as the following:

- Is the product available?
- Is the price reasonable?
- Is it convenient for the customers to buy the product?
- Can demand be created or increased by showing more people the benefits of the product?
- Are competitors already selling the same product?

Certainly the business owner should not try to sell products that are not wanted, not needed, or that people cannot pay for. If he does there will soon be no customers.

A business person who has no customers will soon realise their importance – he will have no business at all.

### Right Product

The first thing to do is to find the right product to sell. This may also be a service, or a combination of products and services.

To decide what product to select the same questions are asked:

- What is needed?
- What is wanted?
- What are customers willing and able to pay for?

Once the basic product has been selected the following questions must also be asked:

- What quality?
- What price?
- What quantity?

Friendly, helpful service is also needed, to help the customer select and buy the right product and to show the customer how to use the product to maximum advantage.

Most businesses sell a great number of different products. This may be a mistake. It may be better to start with a few products that will certainly sell. Then slowly add new products as business experience is gained. This gives time to make wise decisions on what to stock and how much. This is learned by experience.

It is impossible to stock and sell *all* the products customers want. It uses up too much capital to stock goods which sit on the shelves for a long time.

Business people should therefore not try to sell slow-selling items and stock what will sell quickly, particularly when the business is new. As the business grows, it may be desirable to add a few slower selling items.

It is the customer who holds the key to a business and can answer most vital questions. Business people must keep in touch with the customers in the market place. They must ask for their advice on products and prices so the products that are wanted and *not* wanted will be known.

Many new business people look at their competitors and stock the same things. This is merely offering customers *more* of what is already available. The successful business owner is the one who finds out what customers want and are *not* already able to buy from other businesses.

### Right Quality

The business person must find out what quality goods customers want. The rule is to stock the best quality customers are willing to pay for. Again this is determined by:

Ask trainees what factors they would consider in deciding what goods to stock. How can they find out what the customer wants?

Ask trainees what questions should be asked when checking on the demand for a product or service.

Ask trainees what happens if there are no customers.

Ask trainees again what they need to know (needs, wants, willingness to pay of customers).

Ask trainees to suggest examples of products (food, drink, etc.) services (transport, repairs, entertainment etc., or combination (petrol *and* mechanics, restaurants etc.) provided by local small businesses.

Ask trainees what additional questions must be asked before a business can start to offer a product or service.

What services should be offered to the customer? Ask trainees for examples of shops with good products but unfriendly service. Do they succeed?

Ask trainees whether a business should sell few or many products at the beginning. Discuss examples of businesses which try to do too many different things.

Ask trainees how else they can know whether or not to stock a product. Ask for examples of fast and slow selling products.

Ask trainees from what other sources information can be obtained (suppliers, other markets, the Government).

Ask trainees what quality goods should be sold. What factors do they consider are important? (Price, competition, supplies).

- What is needed and wanted
- What people can afford
- What supplies are available
- What competitors are already supplying

*Competitors are also an important source of information:*

- Where do they buy their supplies?
- What discount do they give and get?
- What service do they offer their customers?
- Do they sell more? If so, why?
- What gaps are there in the services presently offered?

*Remember, the customers are always free to decide:*

- What they want and need
- What they will *pay* for it
- *Where* they will buy it

Customers cannot be forced to buy anything. The primary objective of a business is to satisfy customers. Increased business means that more customers are being satisfied.

### What Quantity

A business operator should remember the following when considering a bulk purchase:

- Only buy what can be sold
- Do not overstock
- If possible, buy in a group (with other businesses) from a good and honest supplier

Group buying will usually bring a higher discount. The result: a lower price for the customer and a higher profit for the businessman.

- Do not use so much capital on one item that other essential items cannot be bought.

The quantity to buy will depend on answers to the following questions:

- How much cash is available?
- What discount is offered for quantity purchases?
- What other products will have to be bought before this purchase is sold?
- What other expenses will fall due in the near future (e.g. rent, taxes, wages etc.)?
- What transportation is available?
- What storage space is available?
- Are the goods perishable?
- Are the goods likely to go out of fashion before they are sold?
- Are the goods likely to be in short supply in the future?
- Is demand for these goods seasonal?
- When will it next be possible to obtain supplies of these goods?
- How many of these goods will be likely to be used or sold before the next opportunity to re-stock?
- Is demand for these goods regular and predictable, or are people likely to want unexpectedly large quantities at short notice?

### What Price and Profit?

Correct pricing of products is vital to the success of a business. The price of a product must take into account:

- The cost of the goods, including delivery
- The demand in the market place
- The price level that will be acceptable to customers
- The price charged for the same product elsewhere
- The quality of the product

*There are several ways of increasing sales in the face of competition:*

- By lowering prices
- By altering the product or stocking a different product as a substitute
- By improved service to customers
- By using sales promotion techniques

Why are competitors important?  
How can a business owner learn from competitors?

What is the primary objective of a business? Can a customer be forced to buy?

Ask trainees: should a business buy in bulk? What factors should be considered?

Ask trainees what information they would need before deciding on quantities to buy or make.

Discuss each question and illustrate with local examples.

Ask trainees how to go about fixing a proper price and profit for a product. What considerations are important?

What should a business operator do if the competition makes it difficult to sell a product?

A business person must always know what the competitor is doing — not just the prices he is charging.

- Higher prices may mean lower sales and lower profits
- Lower prices may mean higher total sales and thus higher profits, but they usually mean lower profits
- It is easy and dangerous to lower prices. The successful business competes by offering *more* services for the same price, not the *same* services for a lower price.

Show by an example what sales increase is needed to make up for a price reduction.

Refer back to Session 17 for ways of estimating the results of price changes.

## SESSION 24: DISTRIBUTION AND PRICING

It is important for business people to have a clear picture of how goods of different kinds are distributed, sold, transported, delivered and serviced. Once a shopkeeper realises what steps a product goes through from a manufacturer to a retailer, he will recognise that distributors and wholesalers perform a valuable service. There are many advantages in having several competitive distributors. The shopkeeper can choose the one that gives the best price discount, credit and service in a friendly manner.

Shopkeepers may try to 'by-pass' wholesale distributors, and attempt to obtain lower prices by buying direct from producers. They usually find that the extra costs involved mean that there is little saved, and their time and capital are diverted from direct services to their customers.

The choice of supplier depends not only on the prices offered; suppliers provide other services, so that the cheapest price may in fact be more expensive than a higher price which includes more services.

*Example:* Which is the cheaper service for identical packs of 20 cigarettes?

- A) Price \$2 per carton of 10 packs  
 Terms: cash on delivery  
 Minimum quantity: 100 cartons  
 Delivery: charged extra at cost
- B) Price \$2.10 per carton of 10 packs  
 Terms: 60 days credit  
 Minimum quantity: 1 pack  
 Delivery: delivered free with other goods

Apart from price, suppliers offer different services in other ways:

- Transportation
- Credit
- Reasonable minimum quantities
- Security of supply in times of shortage
- Advice on what to sell and how to sell it

All these must be taken into account before deciding on a supplier.

### Setting Prices

There are several ways of determining prices. One person may add 20% over the cost of the goods to her. This is called 'cost plus' pricing (cost plus profit).

Another sets the price individually for each sale according to the volume of goods sold and the relationship and persistence of the buyer. This is called flexible pricing or bargaining.

It is generally best for shopkeepers to use cost-plus pricing where a percentage mark-up is used which will cover administrative and selling expenses and leave a profit. This mark-up percentage may be initially based on the average quantity of goods expected to be sold.

*Example:* A shopkeeper has the following regular expenses each month:

Rent	\$50
Wages	\$40
Lighting, wrapping material etc.	\$10
	<u>\$100</u>

She expects to sell each month goods to the total value, at cost price to herself, of \$1000. What percentage mark-up must she add on to cover her costs?

If she lowers her expectations and thinks she will sell only \$500 worth per month, what mark-up must she add?

In most cases the actual percentage will not be the same for every product sold.

A shopkeeper may set a mark-up of 20% on a product that costs \$1.00 and is expected to sell at a rate of 30 per week.

Ask trainees what steps a product goes through from the farm to the retail shop. Illustrate the process on the board and discuss the functions performed, and costs and values added, by each organisation involved.

What are the advantages of having many distributors?

Ask trainees what extra tasks local shopkeepers would have to perform if they had to buy direct from producers. Would they save money, and would customers profit?

Write these details on board, and discuss the decision.

Stress that the answer will depend on demand, cash positions etc.

Ask trainees to identify supplier services.

Ask trainees how to decide on a price mark-up. Should it depend on the volume sold? Should it be by cost plus profit? Should some other method be used? Give examples of each method.

If selling prices are legally controlled, or set by suppliers, obtain shopkeepers' buying and selling prices for a number of different items and compare the percentage mark-up. Discuss with trainees the reasons for the different rates of profit on different types of goods.

Write this problem on board. Discuss it with trainees.

(10% to produce \$100 monthly gross profit)

(20% to produce the same \$100)

Ask trainees what types of goods will normally have higher mark-ups.

He may use a mark-up of 40% for a product that costs \$1.00 and has average sales of 15 per week.

$$20c. \times 30 = \$6.00$$

$$40c. \times 15 = \$6.00$$

The average mark-up must be enough to cover all regular expenses, and earn a profit.

### **Stock Turnover**

Fast stock turnover is vital to the success of a business.

Slow moving stocks should not be hidden. They should be displayed prominently. Such stocks should only be bought if customers demand them and the profit mark-up justifies the cost of holding the stocks.

Regular stocks are the items that sell constantly and give steady profits. These should be kept in stock at all times because the customers expect to find them in the shop.

Some stocks must be sold quickly or they will become unsaleable.

Other stocks may not deteriorate physically but if they are not sold by a certain date they may remain unsold for a year.

Other stocks may become unsaleable through fashion changes.

All stocks tie up money; the business owner must always be sure that a particular item is the best available investment before putting it into stock. This includes raw materials for manufacturers as well as goods for resale in a shop.

A shopkeeper should continually experiment with small amounts of new goods, particularly those which are not sold by competitors. They may become successful and important additions to sales, and they will in any case make the shop more interesting to customers, who will want to see what is new.

It is useful to keep a 'want book' to note down customers' own requests for items which are not in stock. This will show customers that the shopkeeper is genuinely interested in satisfying their needs.

Ask trainees what should be done to promote sales of slow-moving stocks, regular stocks, and new types of stocks.

Examples: blankets, umbrellas.

Ask trainees for examples. (Bread, milk, newspapers).

Some seeds, fertilisers, insecticides, seasonal gifts.

Clothing, shoes, recorded tapes and records.

Ask trainees what items might be stocked by local shops, but are not. Why is this?

Ask trainees how 'their' shopkeepers responded when customers asked for goods that were not in stock. If they were unobtainable, did the shopkeeper try to suggest an alternative?

## SESSION 25: PROMOTION

Promotion is how the shopkeeper talks to the customer. The shopkeeper must inform regular customers, potential customers or perhaps the whole market place that he has a new and interesting product for sale. He is saying 'Come and get it!'

A product can be:

- Advertised in a newspaper
- Advertised in the cinema or on the radio
- Announced by a poster outside the shop
- Displayed in a shop window
- Announced by shouting over a loud-speaker

Promotion is an extremely important sales tool. For example, a shop might advertise a weekly or monthly sale, with a different item at a special price every week. Customers will look in regularly 'to see what the special is this week', and perhaps make other purchases also.

The best form of promotion is a reputation for good products, friendly service, fair prices and good management. Word-of-mouth promotion by satisfied customers is the best form of communication, but a business must supplement this by promotion and advertising.

### Cut Price Sales

Many people associate good promotion with cut-price sales. Sales are an important part of a promotion campaign. There are certain rules to follow when having a sale of damaged goods:

- If goods are damaged the customer should be told they are damaged.
- Generally, the earlier a damaged item is marked down, the less necessary it will be to lose money on the sale.

There are general rules to follow when having a sale of regular, undamaged goods:

- The discount should be enough to encourage additional customers to buy the product.
- There should be a deadline when the offer expires.
- A profit making item should be associated with the sale
- Try various techniques to promote a sale.

**SALE**  
 5c. off ½ kg. TEA  
 was 40c.  
 now 35c.  
 with 1 kg. of SUGAR at  
 NORMAL PRICE  
 HURRY! Offer  
 expires 25th April.

It is possible to make higher total profits from a sale. See the following example:

Tea	Regular Price	= 40c.
	Sale Price	= 35c.
	Cost to business	= 30c.

If ten packs of tea are sold weekly with a 10c. mark-up price then the profit =

$$10c. \times 10 = \$1.00$$

However, if forty packs are sold during a one-week sale at a 5c. mark-up then profit =

$$5c. \times 40 = \$2.00$$

So a 5c. reduction in price may lead to a double profit. This does not include the profit on a higher sales of sugar or other items which were bought because of the attraction of 5c. off ½ kg of tea.

Ask trainees: 'Suppose you have just filled your shop with a new product which your customers are not familiar with. You want to inform them that it has arrived. What would you do?'

Ask trainees to suggest ways by which a business can 'speak to the public' *before* they ask about a product.

Ask trainees to suggest other ways of getting customers to 'drop in' regularly. How might a shopkeeper advertise a regular sale of this sort?

Ask trainees if the best businesses are those that promote their products or those that do not.

How should damaged goods be promoted? Ask trainees for examples of damaged or 'shop soiled' goods that will never be sold without a cut-price promotion.

Ask trainees to suggest what price reductions might be necessary to encourage customers to buy more of specific local goods. Why must the reduction be enough to create *new* demand, and not just to give a reduction to people who would have bought anyway?

Ask trainees to make up a sale poster for tea or any other popular product on a piece of paper.

Ask the trainees how it is possible to make higher profits from a sale of goods with lower prices.

Illustrate the example to the trainees.

How many packs will have to be sold to maintain the profit? (20)

If only 20 are sold, how may this still result in higher profits? (Profit on extra sales of other goods sold with the tea).

Ask trainees what other means of promotion there are.



## Planning the Location

An important basic form of promotion is simply the location of the business. The business should be convenient for customers:

- Is it in the busiest part of the market area?  
Where do most of the potential customers live and work?
- Where is the nearest supplier?
- What are the neighbouring businesses? Do they appear busy and successful?
- Who was in the building before? Did the business fail? Why?

Most likely, the shop location will have to be based on what existing shop space is available. The business operator will have to make the best of the location.

If there is some choice of location, the decision might be based on these factors:

- Is there parking space?
- Is the road or sidewalk muddy?
- Is it close to public or heavily used buildings? (Banks, post office, council buildings etc.) That is, is the building near the flow of foot and motor traffic?

Once the building has been selected, it has to be equipped for the display of goods. The basic concern should be:

- How can purchasing be made as easy and comfortable as possible?
- The shop must be furnished with easily reachable shelves, where the goods can be well displayed and catch the customer's eye.
- The inside must be painted with light and happy colours. These colours will reflect the light both inside and outside so that the products can be seen.
- Everything must be orderly and clean, the shelves must be located so that they do not look crowded and can easily be cleaned.

If there is electricity available and it is priced reasonably, the shop must be well lit. A gloomy shop can make customers feel uneasy — they will want to get out again quickly, and they cannot see the products on sale.

Good lighting may also allow longer opening hours; many customers may find it more convenient to shop at night.

Ask trainees why the location is important. What criteria affect the selection of the business location?

What if there is a choice of a few different locations within a small area?

Discuss good and bad locations in business areas known to trainees. How can a business succeed in spite of a poor location? (By energetic promotion)

Ask trainees how can this best be done.

Ask the trainees to decide on the best location in the local area for a shop and ask them to design a model layout of shelves, etc.

## SESSION 26: SHOP LAYOUT AND DISPLAY

Once a business has its equipment and shelving, it is time to lay out the products. A business is easier to operate if it is well laid out -- the shopkeeper and the customers will know where everything is kept.

Products must be placed so that they are easily seen and easy to reach. Group similar items together in the same place so that the customer will feel at home in the shop. It will provide a sense of order and neatness which will impress customers.

*Example:*

<i>Foods</i>				
Biscuits and Bread	Tea/Coffee and Tinned Milk	Sugar and Flour	Tinned Fruit & Jams	Tinned Fish & Meat
<i>Non-Foods</i>				
Soaps and Powders	Polishes and Disinfectants	Toothpastes and Medicines	Pots and Pans	Clothing and Blankets

Put the cash box in a secure position and provide maximum visibility throughout the shop for both the customer and owner.

### Good Display

Goods should be arranged so that they can easily be seen and closely inspected by the customers.

If customers can easily see and touch what is for sale, they will be encouraged to buy.

*But*

They may also be tempted to damage or to steal.

How can this be prevented?

- All items that can be damaged by handling should be wrapped or put behind glass doors (e.g. bread, some fruits and vegetables).
- Small tempting items should be placed in jars or out of reach of children (e.g. sweets and aspirin).
- Easily portable valuable items should be placed behind glass doors which are locked or under glass counters which can only be reached by the shopkeeper (e.g. watches and jewellery).
- Larger valuable items should be displayed within easy reach of the shopkeeper's normal position by the cash box (e.g. farm tools, seed etc.)

Shopkeepers may argue that there is no need to expose stocks to customers' view. They may say that customers will ask for what they want and can then find out if it is available or not.

There are two types of purchases:

- 'Planned purchases', the customer has decided what to buy *before* entering the market.
- 'Impulse purchases', the customer decides to buy something as a *result* of seeing it on display.

Almost every customer goes shopping with a *plan*, she *needs* to buy some items.

Most shoppers actually buy *more* than, or *different* from their plans.

Neat, attractive display is therefore essential:

- It assists good stock control
- It makes the whole shop attractive
- It encourages 'impulse purchases'.

### Labelling

When displaying an item there are certain points to remember:

- Always place a price tag on the item or on the shelf so that customers will know exactly what it costs.
- Labels should always face the customer.
- Damaged and soiled goods should not be mixed with fresh goods. Damaged goods should be placed in a 'discount box' and their prices reduced.

Why is a good layout important?  
Refer to trainees' exercises in previous session.

Discuss with trainees the arrangement of goods in 'their' shops. Does the layout contribute to better display and better stock management?

Write these items in random order on the board and ask trainees how they would arrange them in a shop. Ask trainees to illustrate their layout on the board.

Ask trainees where they would place each of these classes of goods in their shop layout exercise from the previous session.

Ask trainees what problems may arise from this type of 'open' display.

How can theft and damage be prevented without reducing sales by discouraging customers?

Discuss the display of valuable goods in local shops. Is it secure and attractive?

Ask trainees how they would answer this argument.

Ask trainees to identify typical 'planned purchases' (rice, flour, baby food) and 'impulse' purchases (sweets, pencils, scarves).

Ask trainees if prices are generally concealed from customers. Why? Are shops which set prices by bargaining more or less successful than those with fixed prices?

Ask trainees for examples of 'shop soiled' articles.

## Special Offers

In addition to regular cut-price sales there may be occasional special offers that feature new items, slow moving or obsolete items. These special offers should be made when customers have money to spend.

A massed effect will make the items more noticeable. They should be piled up neatly where the customers will notice them, and goods should be properly packaged and clearly priced.

## Window Display

A shop should have a window in the front looking out on to the road in which clean and neat displays are visible from outside the shop to passers-by. The window display should be dusted every day and the windows should be kept clean. The window displays are usually the first things a potential customer sees when passing by the shop. The window display should show what type of products are in the shop, at what price and what quality.

The display should never be crowded, it should be as simple as possible. Use only fresh undamaged products and packages. Change the display often to new and fresh ones.

A good window display will give the shopkeeper real benefits:

- Catch the customer's attention
- Make the customer interested enough to come in
- Convince the customer that buying in the shop is a good idea and economical.

## Signs

There are two types of signs.

1) Signs that are outside and tell people about the business, who owns it, its name and its main products. These signs are as valuable as window displays — they catch a person's attention and arouse curiosity. If they are attractive people will be interested.

2) Signs that promote particular products or services:

- The business itself
  - Suppliers
- The shopkeeper will make up signs:
- To advertise special price reductions
  - To announce the arrival of new products
  - To inform customers about new services such as delivery, opening hours, credit etc.

Suppliers may provide posters, signs and display material with their products. This material can be used:

- Outside the shop (metal posters, and paper ones under cover)
- In the window display
- On shelves and elsewhere in the shop
- Actually to stock and sell from (racks, shelves etc.)

Suppliers may also be willing to decorate a building and to provide illuminated signs, at little or no expense to the shopkeeper.

Suppliers' material is usually in colour and better produced than the shopkeeper's own efforts.

*But* — Every shopkeeper has the chance to use it so it may not help one shop to stand out

- The supplier is advertising his product first, and the shopkeeper's main interest must be *his* shop.

## Let the Shop Speak

The shop should 'speak' to the customer in a friendly way and lead him or her to the goods which will give the most benefits. The signs, the layout, the display — all these must tell the customer something interesting about the products and not just the trade names and price. The more colourful packages and products there are the more colour and life the shop will have. Display the most colourful items in a prominent place.

A shopkeeper should try to extend the coverage of his promotion by 'reaching out' to high potential customers at the right time.

A shopkeeper can educate and promote. He should be ready to talk to farmers about fertilisers and to mothers about child care.

What types of items might be suitable for this type of promotion?

When is pay day? When do customers usually shop?

What other techniques may be used to promote a special offer? (posters, loudspeakers, window display etc.)

Ask trainees how local businesses make use of their windows. What impression does a passer-by obtain?

Ask trainees what the window display should tell a customer about the shop.

Sketch a crowded and untidy display on board. Ask trainees how it may be improved.

Discuss the way in which small manufacturing businesses present themselves to the public. How can a shopkeeper provide a 'living display' like a workshop? (Frequent changes, a through view into the shop, tailor or watch repair tenants at front of shop).

Ask trainees what other ideas would help make a good window display.

What is the value of signs; How can they attract illiterate people as well as those who can read? (By use of pictures).

Discuss how businesses use their standard 'name board' signs. Are they informative? Do they attract attention?

Ask trainees to suggest and draw on the board a sign announcing new extended opening hours.

Obtain examples of suppliers' material, discuss how it can best be used by shopkeepers.

Ask trainees to suggest pros and cons of using suppliers' material.

Ask trainees to think of ways of neatly displaying sacks of sugar, flour etc.

## **SESSION 27: LAYOUT AND DISPLAY EXERCISES**

A business depends on its customers and we have seen that the appearance of a shop must be such as to attract customers when they see it.

Improvements in book-keeping and accounts in themselves make no difference to a business, and customers never see them. It is important that consultants should also make suggestions for improving the visual appearance of each business, as well as improving the management ability of the owner.

Improvements in appearance are in many ways easier to suggest than book-keeping or management changes:

- 1) The consultant himself can carry out at least a part of the suggestion, by re-arranging goods, putting up a poster etc.
- 2) Many management changes take a long time before they make any difference to a business. Improvements in the appearance of a business should start to attract more customers as soon as they are carried out.
- 3) Doubtful clients need to have early proof that their consultant knows what he is talking about; a simple and successful 'good house-keeping' improvement can demonstrate the value of following the consultant's advice.
- 4) Some clients may be illiterate or for some other reason unable to carry out the more complicated types of improvement. Any shopkeeper can sweep the floor or dust the shelves.

Consultants should therefore aim at a 'mix' of suggestions which is right for each client, and which should contain various different types of change, including appearance improvements.

It is important therefore that trainees should have some experience in actually carrying out appearance improvements. When they do this for clients they must be confident and able not only to do what is necessary but also to teach the client how to do it for himself in the future.

### **Arrangements of Goods**

A consultant must be ready to rearrange a shelf which is heaped with an untidy assortment of goods, or to arrange a display of one particular product. This should improve the sales of the products involved and most importantly, show the shopkeeper how to do the same for the rest of the shelves and stocks.

Shelves must be arranged so that:

- 1) All the goods can easily be seen by the customers.
- 2) All the goods can easily be counted by the shopkeeper.
- 3) When items are sold the display must not fall down, or require to be reconstructed.
- 4) They are easy to keep clean.

Manufacturers design their products to be attractive, shopkeepers should take advantage of this and should not hide their stocks.

By using some imagination, very attractive displays can be 'built' out of stocks, and this is particularly valuable for shops where there is no storage space, and when the shopkeeper cannot afford attractive display cases etc. of his own.

Displays of this sort must:

- 1) Be strong and not easily knocked down.
- 2) Allow removal and addition of stocks.
- 3) Be easy to clean.
- 4) Be easy to count.
- 5) Be attractive and show the customer what the products are and how they are used.
- 6) Make use of any available display material provided by the manufacturer.
- 7) Avoid taking more space than the likely sales of the item will justify.

Ask trainees what the immediate result of new accounts will be. (More work for the business owner).

Ask trainees why this might be true.

Stress that this must only be done with the complete agreement and, if possible, at the suggestion of, the business owner.

Provide an assortment of typical stocks. If possible, use a small bookshelf or table to represent the shop shelf; scatter the goods untidily on the shelf and ask individual trainees to reorganise them. Include some old 'shop soiled goods if possible. Discuss the various ways in which the goods can be arranged.

Bring a case of a well-known tinned or packaged item, and ask trainees to build a display from the tins or packages.

It may be possible to invite a representative from the manufacturer to demonstrate the best arrangement of his company's goods.

## Shop Layout

A shopkeeper who is just starting a business, or who is moving to a new location, must decide how the shop is to be arranged.

Every shopkeeper must be sure that the arrangement of his shop is the most effective possible. What was correct for a business two years ago may be wrong today when the emphasis is on different products, there may be more staff, lighting been introduced, or security arrangements may have been changed.

Many shops are arranged purely for the convenience of the owner, or because the arrangement was there when the building was first occupied and a change may be good for its own sake.

Any arrangement should:

- 1) Welcome customers into the shop rather than barring their approach.
- 2) Lead customers' eyes to the goods on display.
- 3) Allow room for customers and staff to move freely to inspect goods etc.
- 4) Protect any valuable goods, and the cash, from immediate access.
- 5) Make full use of all available space, including any area outside the building if this is permitted.
- 6) Display prominently goods which may be new to customers, or which they may be persuaded to buy 'on impulse' merely by seeing them attractively displayed.
- 7) Be easy to clean, and change when necessary.

Shopkeepers may be less willing to rearrange a complete shop than to tidy up individual shelves or display particular products; it may be possible to 'lead' them to a complete rearrangement after initial experience with smaller changes.

Ask trainees to suggest changes in a business that might lead to the need for a new layout.

Divide trainees into groups of two or three; give each group a piece of paper to represent the floor area of a shop, and smaller pieces cut to scale and shape to represent a typical assortment of shelves, cupboards, a chair, scales, counter, cash box etc. Ask each group to make the best arrangement they can, and to draw it on the board and describe it to the rest of the trainees.

Repeat the exercise with different sizes/shapes of shop and different assortment of equipment, furniture etc. Ask trainees to suggest furniture they would buy, and to locate lights, signs, different types of goods etc.

Discuss with trainees the layout of the shop where they have worked. Draw these on board and invite suggestions for improvements.

## SESSION 28: FINANCIAL MANAGEMENT

Most small business people, in most countries of the world, say that they need more *capital*.

If you press them and ask where they expect to get it from, they will answer 'a loan'.

Some business people use loans to buy things that have nothing to do with their businesses, such as cars, more lands, cattle, more wives, or gold jewellery. If they are borrowing money allegedly for their business, and spending it in this way, they are being dishonest.

Most business people are not dishonest in this way; they really want the money for their business. Money in itself as we have seen, is of no value, it has to be spent on something which will earn more profit.

Therefore we must ask anyone who wants a loan 'What will you do with the money if you get it?'

They may answer:

'Buy more equipment.'

'Put more goods in stock.'

'Allow my customers to have more credit.'

'Improve my premises.'

All these are, or may be, good uses for money which will increase profits.

The earlier session on 'business decisions' dealt with how to decide what to do in a business.

Having decided on a course of action, it may cost money. Most business people immediately say:

'I need a loan.'

Loans have to be repaid, the borrower has to pay interest so that he may in the end pay back twice as much as he borrowed, and the lender may demand 'security' so that if the loan is not repaid, the borrower loses everything he owns, even his house and land.

In addition, loans cannot always be obtained. How else can a business person raise money when it is needed?

People at once think of other sources *outside* the business. In many cases, this is like a man with fifty dollars in an inside pocket begging for ten cents to buy a plate of rice.

If the people know that he has fifty dollars they will be very annoyed and will refuse to give him anything. In the same way, a business person must make the best use of all the resources *inside* a business before trying to get more resources from *outside*.

### Can money be raised inside the business?

How can a business owner know what resources there are *inside* a business?

If he has accounts, he can look at the – Balance Sheet

Which side of the balance sheet says what is *inside* the business?

The Assets side

Look at the typical asset side of a balance sheet:

<i>Assets</i>	
Building	\$ 500
Equipment	\$ 200
Stocks	\$ 300
Debtors; money owed to the business	\$ 200
Bank Balance	\$ 50
Cash	\$ 50
	\$1300

This business may have grown up over a number of years, and the way the total of \$1300 is distributed among the six different types of assets may never have been the subject of a conscious decision.

The money may be distributed differently, and good financial management consists of making and carrying out the right decisions about how to distribute resources in a business.

Ask trainees what the business people they have met say they need.

Give examples of this sort of misuse of loans.

Ask trainees how 'their' business people would answer this question.

Refer to Ibrahim's Service Station and other examples.

Ask trainees for examples of people who have borrowed money and in the end lost far more than they borrowed.

Are loans available for every business person who wants one?

Ask trainees how they would react to such a request.

Ask trainees.

Ask trainees.

Obtain the asset headings from trainees.

Write this on the board.

Ensure that every trainee is familiar with the balance sheet presentation and understands what it means.

How could this business person change the distribution of his money or capital?

- 1) He could spend all his cash, and the money in the bank, on improvements to his building, on new equipment, or on new stocks.
- 2) He could allow his customers more time in which to pay their bills, or could extend credit to more customers, so that the 'debtors' item would increase and cash decrease.
- 3) He could stop buying new stocks and put the money into the bank, the cash box or some other asset.
- 4) He might be able to sell some item of equipment and use the money to buy more stocks, or some other asset.
- 5) He might be able to sell the building, or a part of it, and operate from a smaller place, or rent a building. He could use the money to buy an asset such as new stocks or equipment, or leave it in the bank.

None of these changes are necessarily the right thing to do. What is important is that they are all *possible*. Business people tend to regard their assets as unchangeable, whereas in fact they are largely within the short term control of the owner, and are all within his long term control.

### How should money be employed?

It is not enough to know that resources *can* be moved from one asset to another; the business person has to know what is the *best way* to distribute resources between the various assets.

Consider the following example:

- 1) A business sells \$100 worth of goods per month, largely staple items such as sugar, flour and rice, and there are \$300 worth of goods in stock.

This means that the stocks will last for 3 months. Is this too long?

Unless the goods are in short supply, are likely to increase in price, or can only be bought at certain times of the year, there is no need to have more than a few days worth in stock.

How will lower stocks help the business?

More money will be available for credit or other uses, storage costs will be less, there will be less waste or deterioration.

- 2) A business sells \$100 worth of goods a month, and the debtors figure is \$500.

This means that customers are taking 5 months on average to pay their bills.

Is this too long?

Unless the customers need this credit because they only have money when a crop is harvested, it is likely to be too much. An average of 5 months may conceal some cash customers, and a few who have owed money for a year or more.

These may never pay, and closer credit control is obviously needed.

- 3) A business sells \$100 worth per month, and has \$500 in cash.

This money should obviously be in the bank, unless it is to be spent on a new asset within a few days.

- 4) A business makes and sells \$100 worth a month of metal tools. There is \$500 worth of raw material in stock.

Is this too much?

Unless the metal was acquired very cheaply and the whole quantity had to be bought, or unless occasions for buying supplies are very rare, this is far too much.

Apparently attractive discounts, or transport savings which arise from large purchases, are deceptive. It is not worth saving \$10 on \$500 or even \$100 worth of material, if the cash tied up in this large purchase could have been used to buy much needed equipment, other materials, or even to extend credit which would lead to higher sales.

Many businesses have large stocks of one item of material, but cannot operate at all because they cannot afford to buy the other things they need.

Capital can also be obtained over a time, by saving the profits instead of spending them or allowing the money to 'disappear' into various assets without any proper control.

Ask trainees.

Ask trainees to suggest what might be done.

It is vital that the trainees grasp the idea that resources can be transferred from one asset to another. Show the principle by using a number of different boxes with chalk, beans, stones or a similar common item in them. By moving the items from one labelled box to another, you can show that some assets can be increased without any new resources from outside the business.

Discuss each of these situations. Add names and types of business if possible. There are various answers, and none is right or wrong.

Ensure that trainees understand how to calculate the average stock turn, or credit period from balance sheet figures. Use more examples if necessary.

Stress the point that average stock return, or credit duration figures, can conceal extreme individual items or debtors.

Substitute locally relevant products.

Give examples of bulk purchases which may be good decisions.

Consider the following situation:

A business is making a regular profit of \$100 a month, and the owner says she needs a loan of \$1000 to buy more stocks.

What would you recommend?

Providing she is also being paid wages and does not need to use the profit to live on, she should save it, probably in a bank account, and in less than a year will have accumulated what she needs without borrowing it from any one.

It often takes more than 10 months, and may also cost money to travel and so on, to get a loan. This business person can obtain the same money, and avoid the expense and the obligation to repay with interest just by planned saving.

### External Sources

If the money in the business is properly distributed between the various assets, and the profits are being saved for reinvestment, there may still be a need for more capital.

Is a loan the only source of capital? Which side of the balance sheet shows the *outside* resources of the business?

The liabilities side of the balance sheet.

Look at the typical list of liabilities:

Owner's investment	\$200
Reinvested profits	\$100
Total	\$300

If the owner needs more money and has no more of her own, where can she get it from?

How does she help her customers if they want to buy something from her and have no money at the time?

By extending credit, so that they can buy now and pay later.

This is really lending money to the customers.

If someone buys something today and pays for it tomorrow, he is really borrowing the price for one day.

Can our business owner obtain a 'loan' of this sort, in the same way as she gives these 'loans' to her credit customers?

She can, if her suppliers are willing to allow her credit. If she has bought goods from them for some time, and is well known and trusted this may be possible.

It is important not to allow 'trade credit' of this sort to tie the business to a high price supplier. Some businesses are very willing to extend credit to inexperienced business people for this reason.

Suppliers will not give credit to businesses they do not know. Accurate and up-to-date accounts can help a business person if he is asking a supplier for credit.

Most suppliers will want to know how much money a business owes to other suppliers. As a rough guide, a business should have at least as much money in the form of cash, bank balance and money owed to it by customers as it owes to suppliers.

This is called the 'acid test' –

The total debts of a business must be *less* than the total of its cash, bank balances and debtors.

The balance sheet shows the position of the business at one moment in time, some people call it a 'statement of position'.

The profit and loss account shows what has happened over a period of time; some people call it a 'statement of operations'.

They may be compared to a cinema; the balance sheet is a 'still' and the profit and loss account is a 'movie', together they show the business person all he needs to know about the financial condition of a business.

Financial management is not carried out as easily as it may sound; the business is moving all the time, with money coming in and going out.

Ask trainees what 'their' businesses do with their profits. Do the business people know what their profits are? Would it help them to save more money if they did have this information?

Ask trainees how long it takes to get a loan. What expenses are involved?

Ensure that trainees understand the liabilities side of the balance sheet; ask them to list the items.

Ask trainees.

Ensure that trainees realise that giving credit is the same as giving a loan. Show this by acting out a cash and credit sale in front of the trainees, and pointing out that the effect is the same as that of a straight loan from the seller to the buyer.

Discuss the pros and cons of trade credit. Do local suppliers extend credit to retailers; If not, are they wise?

Write this formula on the board. Work a number of examples and ask the trainees if the businesses satisfy the 'acid test'.



## **SESSION 29: EXERCISES IN FINANCIAL PLANNING**

These exercises describe businesses which are in trouble because their owners did not plan and manage their resources correctly. Trainees should not be given the impression that good planning can eliminate all business problems, but every business is likely to perform better if its owner makes a conscious effort to identify its objectives and plan its affairs in a way which is deliberately designed to achieve these objectives. This includes above all financial planning, and it is well known that the most frequent reason for failure of small businesses is shortage of working capital, due to inadequate planning more than to forces beyond the control of the owner.

### **Exercise 1 – G. K. Razak**

This describes the situation of a businessman who has failed to plan his use of the money in his business, and has as a result accumulated large stocks of slow moving items and cannot afford to buy what people really need. The trainees should be asked to analyse the situation and to come to their own conclusions as to what G. K. Razak should do.

### **Exercise 2 – Abdul's Taxi Service**

This is another example of financial planning; it concerns a taxi service rather than a shop but the same techniques of analysis are applicable. Trainees should work out the basic costs of the enterprise, and should if necessary be reminded about the necessity to allow for 'depreciation' of investments that wear out. The exercise also involves some marketing judgement; prices have to be set with due regard both for competition and for the cost of the product or service, and there is clearly an argument in favour of an increase. Trainees may also discuss the problems of partnerships, particularly when some partners are 'sleeping', and not working in the business.

## EXERCISE 1: G. K. RAZAK

G. K. Razak was very disappointed. The Government had promised to give loans to help citizen businessmen, but his own application had been turned down without any explanation. How could they expect citizens to succeed if they did not provide capital?

Razak owned and managed a large shop; he sold food stuffs, general provisions, clothes and footwear. His customers were nearly all prosperous farmers and his need for more capital arose from this fact. The co-operatives paid farmers for their crop twice a year. Inevitably the farmers were short of cash between payout times, and nearly every trader in the area gave them credit. Razak knew all his customers personally, and he always made sure that they had, in fact, got sufficient money coming to them from the co-operative before he gave them credit.

For the last month or so before each payout, Razak found that he had not got enough money to pay for supplies to restock his shop. His customers could not pay cash because they did not have any, and his supplies of staple items like salt, sugar, soap, tea and rice were almost finished. All his suppliers were willing to deliver goods at least once a week and insisted on cash payment for all deliveries.

Razak realised that he had adequate stocks of clothing and footwear. Unfortunately, these were not the things that he sold in the weeks leading up to the farm payout, as farmers at this time were buying only the bare necessities. Razak's competitors had far smaller businesses than his own; but one or two of them seemed able to stock staple items throughout the year, and Razak was losing some of his customers.

Razak had been in business for five years, since 1971. He had very carefully limited his own drawings to \$10 a month, and he had paid for whatever he used for himself. He had devised a very effective way of guarding himself against the temptation of taking more money out of the shop. He knew roughly how much cash he would need for each month for day to day purchases and for giving change. He would deduct this amount and his own wages from the cash that he collected at the end of each month and spend all the balance on buying new stocks. He could only buy a fairly small quantity of fast selling staple goods like salt, sugar, tea and rice, and the balance was spent on clothing and shoes. He had thus accumulated a large stock of these latter items. They sold slowly but steadily, and on average Razak sold them for about 20% more than he paid. This was a considerably higher profit than he made on staple foods, where he was fortunate if he could sell for 10% more than the cost price. The higher profit margin was one of the reasons why Razak bought large quantities of shoes and clothing during the months when cash was plentiful. Later on he would only have enough money to buy staple goods and pay his salary, and for the last month or two before the farm payout he would be unable to buy anything at all, and only be able to pay himself about \$5.

Razak had applied for a loan of \$500 in order to be able to buy staple goods as well as clothing and shoes. He submitted his accounts with his application. These are shown in Exhibit 1 and, as it happened, they showed the situation when the business was suffering from a shortage of cash, and thus of stocks of staple items. He was naturally proud that his original \$600 had grown so much because he had successfully resisted the temptation to use the profits to improve his own standard of living. This made him all the more aggrieved at the Government's refusal to give him a loan.

### EXHIBIT 1

#### A. Balance Sheet for G. K. Razak's Shop in 31/1/76

<i>Liabilities</i>		<i>Assets</i>	
Razak's Original Investment	\$ 600	Building	\$ 450
Profits left in the business from earlier years	\$2000	Equipment	\$ 45
		Stocks	\$1600
		Debtors	\$ 500
		Cash	\$ 5
	<u>\$2600</u>		<u>\$2600</u>

#### B. Profit and Loss Account for G. K. Razak's shop for the twelve months ended 31/12/76

Sales		\$2700
Opening Stocks	\$1400	
Purchases	<u>\$2600</u>	
	\$4000	
Less closing stocks	\$1600	
Cost of goods sold	<u>\$2400</u>	
Gross profit		\$ 300
Expenses: Wages	\$ 100	
Licence fees	\$ 20	
Total	<u>\$ 120</u>	
Net Profit		<u>\$ 180</u>

## EXERCISE 2: ABDUL'S TAXI SERVICE

Abdul looked at the car with disgust. It was standing in front of his house, and he thought that probably it would have to be towed away for scrap. He had worked hard for two years driving it to the capital city and back over the rough roads that led to his village, and he wondered whether it had been worth the effort. He thought that he had probably lost two friends, and he seemed to have lost the car, his money, and his job all at the same time. He had made the return trip about 600 times, and had carried thousands of passengers. Presumably they had got their money's worth, but Abdul wondered what he had really got to show for it.

Two years before, Abdul had persuaded two friends who were successful traders in the village to invest \$600 each in a taxi service. Abdul borrowed \$600 himself from the bank, using part of his family's land as security, and with the total of \$1800, they had bought a car. The car was one year old then, and had been driven about 100,000 kilometres by its previous owners, who ran a large number of taxis to the capital city from the nearby town. As it seemed to be in good running order, and would have cost \$2700 new, the price had seemed reasonable enough. Abdul was to be the driver, and they all agreed that he should have a \$1 a day for every day he drove the car. Anything over this amount that was left after paying for the petrol was to be divided up three ways among the three partners each evening. This had seemed a reasonable enough arrangement at first, but as time went on it had caused more and more disagreement. In the end, Abdul's partners were accusing him of keeping back more than his \$1 before the share out, and they refused to believe that he sometimes had to pay for oil and small spare items as well as petrol.

They knew that he almost always carried four passengers each way, and that they paid \$1.20 each for the one-way trip. The car used about 40 litres of petrol at 11 cents a litre for the 360-kilometre round trip, so the only cost they would accept without protest was \$4.40 for the petrol. The total fares were \$9.60, and after the \$4.40 for petrol and \$1 for Abdul had been taken out, this left \$1.40 for each partner. They got used to this, but as the car got older it needed more oil and minor repairs, and occasionally Abdul had to pay for such expenses out of his own \$1, rather than risk the break-up of the partnership. Things were even worse when the car needed major repairs. The brakes and clutch had had to be replaced for \$90, two new sets of tyres had cost \$60 a set, and after a small accident the car had to have a new headlight and a radiator repair for \$50. The engine had had to be completely stripped down twice, and this had cost \$120 each time.

Abdul's partners had blamed him for these costs, saying that if he had been a good driver the costs would not have been necessary. Abdul had at last persuaded them to pay two thirds of the bills for the clutch, the brakes, the tyres and the engine overhauls, but he had paid for the accident repair himself.

During the two years, the car had covered 200,000 kilometres, and Abdul had worked about six days a week, making up for the times that the car was being repaired by working on Sundays. His routine never varied. He would leave the village early in the morning, and drive the 180 kilometres to the capital city in time for lunch. He would have lunch in the city with friends, and then bring the car home in the afternoon and early evening. The car was never used for any other journey, since Abdul was tired of driving when he got home, and wanted to rest, and his partners could not drive. Abdul never had any difficulty filling the car with four passengers, as the price seemed very attractive. The bus cost \$1 for the journey, and took twice as long as well as being very uncomfortable. The train cost 50cents, but the station was five Km away and the trip took all day. One or two other taxi operators sometimes used to collect passengers from Abdul's village, but they used to charge about \$1.50 or more, and Abdul was not afraid of competition.

In spite of all the problems and disagreements, Abdul had enjoyed the job and had liked to bring home \$2.40, or a little less, every night. Now it all seemed to be finished. The car had been running badly for some weeks, and it would not start at all that morning. The mechanic from the service station in the market came to have a look at it and he said that the 'big ends' had gone and that it would cost at least \$100 to get it running again. He could not guarantee that he would not find more things wrong when he got to work on the car, and he said that it might not run for many more weeks, even when he had carried out the urgent repairs. The car was worn out after running for 300,000 kilometres on bad roads, and that was all there was to it.

Abdul's partners were quite sure that they would not put any more money into the car, and Abdul did not want to take the risk on his own. They were all sorry to lose their daily payment, however, and Abdul was particularly worried because he would lose his job with the car.

Abdul's partners never really liked the arrangement, and seemed quite relieved to be finished with it. On the other hand, Abdul had enjoyed the job, and he needed employment as his family's land was looked after by his father and brother and they had all become used to his regular cash earnings. Abdul was still paying \$5 a month interest on the loan he had got for the original purchase of the car, and he thought that he could borrow up to about \$1000

more on the security of the land. He knew that Salim, the richest man in the village, was trying to sell his three year old car for \$800. Although this car was the same age and model as Abdul's taxi, which was now completely worn out, it had been used very little. Salim had bought it to impress his friends, and he had now bought a big American car to show everybody how well he was doing. His other car had only done about 60,000 kilometres and the service station mechanic said that it was in at least as good running order as Abdul's car had been two years before when he had bought it for \$1800.

Abdul knew that it would cost about \$100 a year to pay the minimum legal insurance, the licence fee and other official charges. This cost had been divided between the three partners on the other car. He thought that it would cost about the same to run as the old car, as it was exactly the same model. He was quite sure that he could always fill the car at \$1.20 a trip per passenger, but he did not want to borrow the money unless he was sure that he was making a good investment. If he borrowed \$900 to pay for the car and the insurance and so on, he would have to pay \$90 a year interest on top of the \$60 he was still paying on the first loan, and he did not want to have to pay out such a lot of money to the bank unless he was sure of the profit. He liked the idea of owning his own car, without the worry and disagreement that had arisen between himself and his friends. He also knew that many traders and other regular visitors to the capital enjoyed going with him, but they would soon find another way to travel if he was not available. He therefore thought that he would have to make up his mind quickly whether or not to buy Salim's car, and carry on the taxi business on his own.

Questions:

1. What return did Abdul's two partners get for their original investment of \$600 each? Was it a satisfactory investment from their point of view?
2. What was the full cost of running the car per round trip including Abdul's wage and all other expenses?
3. Was \$1.20 the right fare to charge for a one-way journey? If not, what should have been the fare?
4. Should the three partners have set up the original partnership?
5. What should Abdul do now?

## SESSION 30: SOCIAL FACTORS

How do small businesses differ from large ones?

Look at the relationship of a small business to the family and the community.

A *large business* is usually *separate* from the family; the managers and all the staff are employed by the business, and when they go home they leave it behind them. If it fails or they are dismissed, they are unemployed but they have only lost their jobs, nothing else.

A *small business* is intimately tied up with the *family* and the *home*; it is often located in the home, and the employers are often members of the same family.

Many people in a village may be engaged in the same type of business, or in doing different parts of the same task. Each individual business is legally independent, but in fact, depends on *co-operation* with many others, which may also be linked through family or other traditional ties.

If a small business *fails*, the owner may lose not only his job, but he may also lose his home and be in danger of *starvation*. His family as a whole, and the community, will suffer as much or more than the owner.

### Working with local customs

Some people think that businesses can only succeed if their owners adopt a foreign set of values, and cut themselves off from the traditions and links of their community.

Traditions differ; in one country people still support their family, including cousins and other distant relatives, while elsewhere people may be willing to let even their own parents suffer hardship.

A business person may to some extent cut himself off from the community by being in business, but he should try to *work with*, and *take advantage of* local traditions in order to help himself and the community in general. If he tries to break traditional ties and feels that he must oppose traditional ways of behaviour, he will probably not succeed and will certainly fail to obtain personal satisfaction and happiness from his work.

It is not possible to give examples of traditional behaviour or customs which appear to conflict with good business practice, which will apply to every country; the following brief dialogues are intended as an example of the types of apparent conflict that may arise, and the suggested 'answers' are merely one possible approach.

The purpose is not so much to suggest particular solutions, but to show that conflicts of this type will occur, and to encourage thought about how they may be overcome.

1) Consultant: 'You complain that you need more money to buy faster selling stocks, but you have told me that these blankets have sat here unsold for months. Why don't you cut the price, sell them quickly with a small profit, and then buy more rice, sugar and kerosene?'

Trader: 'If I have money, my family will ask for it, and I cannot refuse. If my money is 'sleeping' in these slow moving goods, it is safe from family claims.'

Possible answers to this problem might be to advise the trader to open a deposit account at the bank, or to show his family that it will be to their long term advantage to allow him to reinvest money in the business.

2) Consultant: 'Why don't you go into partnership with Mrs. Y? She has capital and the experience you lack. Together you can succeed whereas on your own you are both struggling.'

Shopkeeper: 'Mrs. Y is not in my family. I cannot go outside the family for a partner.'

The consultant might try to show that a successful business, even if it is half owned by someone else not in the family, will ultimately benefit the family more than a failure. Good record keeping will ensure

Ask trainees to describe the results of business failure on the owner of a small business versus the manager of a large one.

Give local examples of 'community industries' of this sort, such as leather tanners and shoe makers, sawmills and furniture makers.

Discuss this point of view with trainees.

Discuss the family system in your country.

Select, adapt and add examples which are relevant. The dialogues may be read out, acted by two trainees or pre-recorded on tape before the session.

Ask the trainees how the consultant should reply.

Ask how the consultant should reply.

that both partners know what their responsibilities and benefits are.

3) Consultant: 'Spend that money on a new sign for the shop.'

Shopkeeper: 'No, I need that to pay for my second cousin's school fees.'

Will the family benefit more in the long run if the shop sells more goods? Could the second cousin work part-time in the shop and *earn* his fees?

4) Consultant: 'You say that your assistant is incompetent and takes money from the cash box. Don't you think you should dismiss him?'

Tailor: 'Oh no, he is my brother's third son, I could never fire him.'

Here again, the long term interest of the family as a whole conflicts with the short term interest of one member of it. The tailor should explain to his family what the assistant will do to the business if he is allowed to remain.

5) Consultant: 'You have not sold all those tins of medicine since we last met have you? Where are they?'

Storekeeper: 'Oh no, many people in my family needed medicine, so I gave them the tins.'

Yet again a conflict of long term with short term benefit. The family must realise that the business is separate from any individuals. The storekeeper herself must not take goods from her own shelves, nor must her family, without paying for them.

6) Consultant: 'Now let me show you how to record everything you take out of the business for your own use, goods or money.'

Trader: 'Why should I write it down, the business and everything in it are mine aren't they?'

The idea of the separate existence of the business must be explained. The business does of course belong to the owner, but unless he, and the rest of his family, limit and record their withdrawals, the business will ultimately fail and all will lose.

7) Consultant: 'That is good, now you have enough money to buy the pickup you need so much.'

Contractor: 'That would be useful, but I am going to take another wife, and this money will just cover the bride price.'

A second wife may be a business asset, in that she can help with the business. The contractor might be advised to arrange to pay the bride price in instalments, out of the profits earned from the pickup.

8) Consultant: 'Why did you close your business for three days last week? You missed many orders.'

Carpenter: 'My wife's sister's cousin died, and I had to go to the funeral.'

Family piety is more important than profits; it may be possible to fulfil the obligation by spending less than 3 days at the funeral, and family occasions of this sort can also be useful for making business contacts, reminding farmers to buy fertiliser and so on.

9) Consultant: 'Now we have worked out your monthly profit, let us see how you can work this out for yourself every month.'

Blacksmith: 'It is interesting, and encouraging, but I daren't keep any records like that here in the workshop. The Government Revenue Inspector might see them and levy a tax on my profits.'

Governments are increasingly concerned to levy taxes on small businesses which can afford to pay. If there are no records, they often make an arbitrary and excessive assessment.

10) Consultant: 'You say you need more money to buy a new machine. Why not sell these cattle, I can see they do not produce much milk?'

Carpenter: 'My wives would never let me sell the cattle; they know that if I should die they can share the herd, but how could they share the machine?'

A successful business should be able to be sold if the founder dies, or carried on for the benefit of his heirs. A successful carpentry business will benefit the wives more than a herd of useless cattle.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

11) Consultant: 'Why are you giving all these ideas to your neighbour? She will compete with your shop and you will sell less.'

Shopkeeper: 'We have a tradition of helping each other in this community, we stand or fall together.'

The shopkeeper is right. A community benefits from successful businesses, and increased sales may be at the expense of other shops in the city or elsewhere, not in the neighbour's shop.

12) Consultant: 'Can I advise you how to be a more successful mechanic?'

Mechanic: 'Don't talk nonsense. You are half my age, and you have never taken a car's engine to pieces like I do every day. What can you tell me?'

The consultant should stress his management and general skill, and his training. He should not pretend to know more than he really does, and should be proud to say that the main way he helps is by asking questions, not saying what should be done. In most communities, age is respected, but so is education and specialised training.

13) Consultant: 'You have always run this business very well, why are you letting it run down now?'

Wholesaler: 'When my husband was alive all was well, but since he died, my three sons say I should hand the business over to them, since women have no business skill.'

The consultant should emphasise her success in the past, and refer to other successful women. He should try to persuade the sons that one successful business run by their mother is better than splitting it up and putting it into the hands of three inexperienced people.

14) Consultant: 'Why not sell your land to raise the money you need for stocks? You live down here in the village all the time now, and the land is just lying idle and uninhabited.'

Shopkeeper: 'I could never do that. My ancestors have been buried on that piece of land for hundreds of years, and I hope I shall be buried there too, one day.'

Some things are more important than profit. The consultant should try to help the shopkeeper find another way of raising money, but it is important that the shopkeeper should realise that his wish to keep the land is costing him money. There is nothing against this, but the decision should be made in the knowledge of its consequences.

15) Consultant: 'Put your money in the bank. You will earn interest, it will be quite safe, and you will always be able to get it out when you want.'

Tailor: 'I have always bought gold ornaments for my children with my spare cash; they expect this, and gold is the oldest, safest way of keeping money.'

Many countries have suffered from very high rates of inflation. Gold protects against this loss of value, it is attractive and pleasurable to own, and in many places it is easier to buy and sell gold than it is to withdraw or deposit money in a bank.

16) Consultant: 'Why did you invest your savings in a new food shop? Your tailoring business is going to be in trouble unless you get a new sewing machine, and that is what you were saving for.'

Tailor: 'I do not want to put all my eggs in one basket. Businesses fail all the time around here, and I want to be sure I have something left if one business fails.'

Businesses often fail because their owners try to do too many things at once. Their money, and time, are spread too thinly. One well managed business is more likely to succeed than two or three part-time enterprises. The large oil companies, or car makers, only do one type of thing; a small-scale business person cannot expect to do two or more quite different things at the same time.

17) Consultant: 'Why don't you put some fruit flavours into this confectionery to sell more? People want sweet coloured things these days.'

Sweet Maker: 'My family has always made pure unadulterated foods. We are not going to start making things with artificial flavours and so on.'

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

The sweet maker is probably right. Large-scale manufacturers can succeed with modern flavours, and the traditional small-scale manufacturer might be advised to try to increase sales by promoting his product and telling people about its purity.

18) Consultant: 'Why don't you try to find another customer for your pottery? The Headman does not give the best prices and you now have enough capital to buy your own clay and not rely on advances from him to get your raw material.'

Potter: 'I have always dealt with him. If I try to sell to someone else, I might get a higher price, but if the Headman found out he might refuse to buy any more, and I doubt if I could always be sure of selling everything I make to other customers.'

The potter may well be right. The chances of earning more profit may not be worth the risk of earning nothing, particularly if he has no other support, and by selling to the Headman, the potter may be cementing the community system which keeps the industry going. There may be an opportunity for co-operative action to break the Headman's monopoly, if he is exploiting the potters.

19) Consultant: 'You want to increase your sales. Why do you close your business on Fridays?'

Shopkeeper: 'I would never do business on the Sabbath.'

Convictions of this sort are more important than profit but the shopkeeper should realise the cost of her behaviour. It is right for her to do this if she believes that she should.

20) Consultant: 'If you cannot rely on regular supplies of bamboo, why don't you organise a group to go out and cut bamboo from the hills yourself?'

Hat Maker: 'People in our village only split and weave bamboo, we have never cut it, that is the job of the people from the village over there.'

It probably helps employment if tasks are broken up in this traditional way, and systems which have evolved over a long period are often the most economical. The Consultant should advise the hat maker to meet with the people from the other village, to discuss supply problems and perhaps to suggest a joint effort if necessary. The threat of direct action might be applied in order to ensure that a satisfactory solution is agreed.

21) Consultant: 'We have discovered that you have got to release some of this money tied up in slow moving stocks if your business is to prosper. Why not start by selling off some of those shirts at a reduced price? You can still make a little profit.'

Shopkeeper: 'If I do that, the other shopkeepers will not sell any shirts at all; I do not want to hurt their sales.'

Reduced prices will help the customers, and sales may be made at the expense of shops in other places, not the shopkeeper's neighbours. Competition is good for everyone in the end, and the overall level of business is improved.

22) Consultant: 'Why not clean up your shop, and try to sell a few different things as well as the staples that everyone else sells?'

Shopkeeper: 'I do not want to improve. I earn enough to stay alive and feed my family. Our village is very poor and if I sell any more goods my friends will sell less. I do not want to disturb anyone.'

People have to go to other communities to buy many things. If the business is kept in the community, everyone will benefit. Many improvements enable business people to do the same amount of business, but with less capital. They can invest the capital freed from one business in some other activity, which may employ more people.

23) Consultant: 'You have bought this new range of fertilisers; now you must tell the farmers about them. Why don't you use all these posters and display material that the manufacturers have given you?'

Stockist: 'If a thing has to be advertised, there is something wrong with it. That is what people think around here anyway. A good product speaks for itself.'

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.

Ask how the consultant should reply.



New ideas and new products are no use if people do not know about them; advertising should not conceal the truth, or make false claims. It should tell the people the facts, and if a business person does not tell his customers what is available, he is doing them a disservice.

24) Consultant: 'Last week I made all kinds of suggestions. You said you would follow them, but nothing has changed. Didn't you understand?'

Business Person: 'Yes, I know what you want me to do, but I thought about it for a long time. I decided that my people had run their businesses like this for many generations, and at least we have survived. Why should I change?'

This is a very basic sort of objection to change, which lies at the root of many consultants' failures, even if it is rarely clearly expressed like this. Uncertain improvement is not as attractive as certain survival, and the consultant must be sure that what is recommended is safe as well as possibly profitable.

Most countries are changing, whatever people may wish. If businesses do not change and take advantage of new opportunities, techniques, markets and so on, they may not be able to stay as they are.

Often the choice is not between change and remaining the same, but between change for the better or the worse. The business person who thinks that he is choosing not to change may be choosing to do worse than he is at the moment.

Ask how the consultant should reply.

## SESSION 31: SALESMANSHIP

Salesmen are often considered to be dishonest, and many business people may suggest that they do not need to *sell*; their products are good enough to be bought without any 'high-pressure salesmanship.'

There are dishonest salespeople, who trick people into buying bad products.

*Good* selling is not dishonest, it is an essential part of a business.

Selling means *satisfying customers*.

A good seller is one who:

- finds out what customers need
- ensures that the product is *right* for the customer
- *shows* the customer how the product can satisfy his needs.

Small business consultants have to know how to sell for two reasons:

- 1) They have to show their business clients how to sell.
- 2) They themselves are selling better management.

### Product Knowledge

There are many aspects of good selling. A very important aspect is product knowledge. Anybody who is trying to sell something should know everything a customer is likely to ask about it.

The customer wants to know:

- What is it? (the product)
- What does it do? (use)
- What does it mean to me? (benefits)
- Who says so? (friends)
- Can you prove it? (all the benefits)

A good product does not need argument; it only needs demonstrations. No product is good enough to sell itself.

A good seller must know the product well, from the point of view of the customer.

- You do not sell fertiliser; you sell better crop yields and higher farm profits.
- You do not sell food products; you sell better taste and nourishment.

Customers' knowledge and agreement should be checked at every stage by *questions*. A good seller *asks* more than he *tells*.

### The Customers

Knowing the product is not enough. It is even more important to know the customer and to be able to satisfy his individual needs. A good seller must be able to show how the product will benefit each customer, as an individual.

This demands:

- A pleasing manner
- Simple courtesy
- A helpful attitude
- Common sense
- Understanding of other peoples' problems.

Sometimes a customer will object or ask difficult questions. There is a reason:

- The customer may not understand what the seller is talking about - he is not communicating.
- The seller may have failed to prove his point to the customer.
- The customer is showing interest but is not quite convinced. The customer wants to discuss the product more.

A seller should never disagree; he should agree with the customer and try to find out the real reason for the objection. Objections and questions are valuable and welcome, and they show what the customer is really thinking.

Ask trainees what sort of a person they think of as a 'salesman'.

Ask for examples of dishonest selling; did the businesses succeed in the long term?

Ask trainees what they will be selling when they are consultants.

Ask one of the trainees verbally to *describe* a cow without using his hands. Ask another to do the same using his hands.

Discuss the difficulties of verbal communication. Ask a trainee to describe the *benefits* of owning a cow. Discuss the difference between a physical description and the benefits.

Ask trainees what a customer should know about a product before he can decide to buy it.

Ask trainees what customers are *really* buying when they purchase soap, toothpaste, blankets, furniture or fountain pens.

Discuss the reasons for each and show how a good product will *not* be sold if the sales person neglects any of these rules.

Ask trainees what reasons there are for a customer to raise objections.

Ask trainees how a salesperson can change these negative reactions into positive ones.

If the customer says the price is too high:

- Find out what the customer really means — ask more questions.
- Prove the real benefits to the customer.
- Demonstrate the benefits — time saving, labour saving, money saving.
- Compare the benefits and price and show how the cost is justified.

**Rules for successful selling**

- Listens carefully to what the customer says
- Greets the customer courteously
- Ask questions rather than recites facts
- Shows the product, handling it with respect
- Helps the customers to come to a decision at their own speed.
- Allows the customer to say 'no' without disagreement if this is in the customer's best interest.
- Expects and welcomes objections
- Answers questions and objections carefully and truthfully
- Avoids a standard 'salespitch', since every customer's needs are different
- 'Closes' the sale by asking a positive question which suggests agreement.

A successful seller *never*:

- *Argues*; the argument may be won but the sale will be lost.
- *Forces* a product on a customer; even if she buys, she will not come again, nor will her friends.
- Loses his *temper*; this will always lose the sale.
- *Despises* the customer, his aim is to satisfy the customer.
- *Makes exaggerated claims*; the truth always comes out in the end.
- *Interrupts* the customer; what the customer says is what matters to the salesperson; it shows how to make a sale.
- Shows *disrespect* to the customer; this may be through dress, personal appearance, smoking or drinking.  
Local tastes should be respected.
- Allows the customer to buy more than he/she needs to and can afford.
- Allows *credit* beyond the customer's ability to pay.

**Good selling protects the interest of buyer and seller** at the same time.

- The business opening hours are displayed and observed.
- Appointments are kept
- Goods are not sold at a loss
- Goods are carefully selected based on customers' needs rather than copying competitors or being pressured by suppliers.
- Prices are reasonable
- Temporary monopolies are not exploited

A good business *seller*, like a good small business consultant, is a source of information and advice.

Particularly in a small community, the honest *seller* becomes a trusted and respected source of advice and contact with the world.

This leads to personal and business success, and contributes to community and national progress.

Ask trainees what a seller should say if the customer says: 'the price is too high.'

Discuss and demonstrate by role playing or preparing suitable taped dialogues, examples of sales interviews where these points have or have not been observed.

Ask trainees for examples of good 'closing questions'.

Discuss and demonstrate as before sales interviews which fail because the seller makes these mistakes.

Identify points of behaviour and dress that should be observed by trainees in the field.

Ask trainees how regular business opening hours are observed locally.

Identify local business people who are successful and are willing to *help* with *advice* as well as to sell *goods* to their neighbours.

## SESSION 32: MARKETING EXERCISES

These three cases need not all be included if there is not enough time; they deal with the problems of bargaining versus fixed prices, customer credit policy and low price competition. In every case, the trainees should try to analyse the present situation from the figures provided, as a basis for making recommendations for ways of improving sales and profits. It is of course impossible for a case study to deal only with one aspect of business, since every problem concerns marketing, financial planning, accounts, selling and so on. Trainees should not be discouraged from commenting and making recommendations about aspects other than those mentioned in the questions, since their task as consultants will be to examine every aspect of their clients' businesses.

### Exercise 1: The New Age General Stores.

Trainees should examine the average profit on sales; this will enable them to estimate the likely profits if sales drop, but it will also indicate whether there may be scope for general price reductions. Price cutting is a dangerous weapon, but if the business person controls the situation, and plans his business on the basis of the reduced profit percentage, it is often possible to make a larger profit at lower prices because of the higher sales that result. The instructor should illustrate this point by referring back to Sessions 17 and 18. It is easy to calculate the minimum sales increase necessary to maintain profits for any given price reduction, either on one product, or on sales as a whole.

Trainees may discuss:

- a) The reasons why customers prefer one shop to another.
- b) The practical difficulties of controlling bargaining, particularly in a larger business.
- c) The advantages of publicised, limited period price reductions versus individual bargaining.

### Exercise 2: The Friendly Grocery Shop

This case describes a businessman who is in difficulties because of inadequate credit control. Many shopkeepers give more credit than they should, because customers ask for it and it is an easy way of attracting and retaining business. It is like bargaining in that it may be possible to manage credit more or less by memory, without any limits or methodical methods, when a business is very small, but it soon becomes impossible to control. The shopkeeper must decide how to control credit sales in such a way that even when he is not present the system can be administered by someone else, and he should also consider other ways of attracting customers which may require more imagination but will cost less. Trainees may consider the advantages of:

- a) Advertising and promotion of new products or services.
- b) Limited period low price offers.
- c) Free gifts for loyal customers or those who buy more than a certain value of goods at a time.
- d) Lower prices for cash customers.
- e) The use of a radio or other means of making the shop a more pleasant place to visit.

All these, and other methods, can be used in conjunction with or instead of credit. Experience shows that the most successful businesses are often those which offer no credit, even when they are in direct competition with shops which do allow credit to their customers.

### Exercise 3: The Modern Drapers

This case study introduces trainees to the idea of selling goods at no profit, or even at a loss, in order to achieve some limited purpose.

This may be, as in this case, to retain customers until it is possible to make a profit at the lower price because of lower buying costs, or it may be to attract customers who will also buy other goods on which the business can make a profit.

The figures show that \$100 has been spent on lawyers' fees for debt collection. This suggests that the credit policy is in need of examination, and that some money should be recovered from customers. This may prevent further bad debts and will also provide the resources necessary to order the Japanese cloth direct from Japan. The bank balance may also be used for this purpose. It is wise to have a 'reserve for a rainy day', but the business person who does not use this when it does 'rain' might as well not have had the reserve in the first place.

Trainees may also discuss the problems of direct importing, if business people whom they will be advising are, or might be, importing goods from abroad.

## EXERCISE 1: THE NEW AGE GENERAL STORE

'What is the use of a consultant telling me to stop looking over my shoulder at my competitors? I just do not know what to do about Patel's prices and in the meantime my business is being ruined.' Sembi Singh, owner of the New Age General Store, felt his consultant's advice was no good to him. His whole business seemed to be ruled by what his competitors in the market did, and there seemed to be no point in trying to do things his own way.

The New Age Store and Patel's were the only two important shops of their kind in a small market. There was also a butcher, a shoemaker, and some small, part-time shopkeepers trying to sell a few items for very high prices. Sembi had started his business in 1973 when Patel had been the only general shopkeeper. Sembi's business had grown satisfactorily, but recently Patel had seemed to become aware of the threat to his own trade. He was now trying to get back his business by a new way of setting prices.

Patel had always bargained with his customers, but this had been almost a formality. If the marked price on a lamp was \$1.20, he would offer it to any customer for \$1.00 almost at once, and a similar proportion was knocked off most things except food. Price-controlled goods such as flour, sugar and rice were sold at the correct prices, and other foods were sold at prices similar to the New Age Store without bargaining. Patel had recently changed all this, however. While he still kept to the correct prices when they were controlled, it was impossible to say what he would charge for anything else. He had changed the makes and styles of the clothes which he sold and kept on changing them, and everybody talked of the enormous savings they had obtained by hard bargaining. His prices seemed to change daily on well known standard items such as hoes or lamps, and in the same way the prices for non-controlled foods seemed to change almost according to how Patel was feeling. Everybody was sure that he had got at least one bargain if he bought a number of things, and it had become something of a local game to see what was the latest 'deal' at Patel's. As a result, Sembi was losing his customers to the other shop. They were so anxious to get a bargain that usually they bought everything they needed there, so that Sembi's sales were dropping sharply.

Many of the customers who had bought from the New Age ever since it started had told Sembi that they did not like bargaining and were happier to know what the prices were, but they did not seem able to resist the attraction of the unexpected bargains at Patel's.

Sembi had been quite satisfied with the results of the New Age in the two years of its existence (his latest figures are shown in Exhibit 1), and while he had not made a lot of money, he had put back most of the profits into the shop and had \$250 in the bank. He was sure that only very few of Patel's customers actually saved money on the total of their purchases from him. The excitement of the one or two bargain items which Patel did his best to encourage by never making the same concession twice, was enough to make most people think that they had done very well on all their purchases. Patel's shop was not much bigger than the New Age, and Sembi knew that Patel paid similar prices for his supplies.

Sembi's wholesaler had often tried to sell him large quantities of certain items in return for a lower price. Hoes, for instance, usually cost 40 cents from the wholesaler, and were sold to the public for 50 cents. The wholesaler had offered 35 cents if Sembi bought 100 hoes at a time. Sembi had insisted that his records showed that it would take him six months to sell so many. If he had learnt nothing else, he did know that it was wrong to use money for stocks which took a long time to sell.

Sembi usually sold the more expensive things which had to be held in stock for some time for about a quarter more than the price he paid. For example, he paid 80 cents for lamps and sold them for \$1. This price was marked on the article, and Sembi was not used to bargaining. He had always believed he should be open in his dealings, and bargaining seemed to be rather dishonest, as well as commercially dangerous, and difficult to control. He put a smaller profit margin on to faster selling goods such as salt and soap, and sold price-controlled articles at the official maximum prices, which allowed him about a 25 per cent increase over their cost. For example, he would sell a piece of soap for 13 cents when it had cost him 10 cents, while flour which cost 16 cents from the wholesaler could be sold for 20 cents. All this had seemed reasonable and simple enough for his customers and himself, but Patel had upset everything by his new method of bargaining. Sembi did not want to copy his competitor, partly because he respected his consultant's advice, and partly because he doubted whether he could regain his customers in this way. However, he could not think of any other alternative.

## Exhibit 1

### A. Balance Sheet for the New Age Store on 31/13/74

Liabilities		Assets	
Owed to suppliers	\$100	Equipment	\$200
Government loan	\$200	Stocks of unsold goods	\$400
Profit kept in the business from earlier years	\$300	Owed by customers	\$100
Original investment	\$400	Bank Balance	\$250
		Cash	\$ 50
<b>Total</b>	<b><u>\$1000</u></b>	<b>Total</b>	<b><u>\$1000</u></b>

### B. Profit and Loss Account for the New Age Store for 1974

Sales		\$4900
Less Cost of goods sold		<u>\$4000</u>
Gross Profit		\$ 900
Less Expenses:		
Rent	\$200	
Salary	\$400	
Repairs, licences etc	<u>\$100</u>	
Total expenses	<u>\$700</u>	
Net Profit		<u>\$200</u>

#### Questions:

1. If Sembi was unable to get back his customers, and his total sales for 1973 were only \$4000, what would be the likely results of the New Age General Store for 1975?
2. Why did Sembi's customers prefer to buy from Patel's shop, even though they only saved only on a small proportion of the things they bought?
3. Is there any way in which Sembi can use the low price he has been offered if he buys 100 hoes, for the benefit of his customers and thus of his business?
4. Is bargaining dishonest?
5. What should Sembi do now in order to save the New Age General Store?

## EXERCISE 2: THE FRIENDLY GROCERY SHOP

'I sometimes think that my customers use me as a cheap bank,' complained Mustafa, owner of The Friendly Grocery Shop. He was talking about the trouble he had with slow-paying customers. 'More and more of my time seems to be spent trying to make people pay. I worry about how much I'm owed, and I have to decide whether or not to give credit to various people and if so, for how long. The trouble is that everybody expects credit. Yet if I had only my cash customers, that is, my occasional purchasers, or those who are generally known not to be trustworthy, I would lose about three quarters of my business.'

Mustafa had started The Friendly Grocery Shop early in 1973, by taking over a foreigner's business. He had done fairly well, (his results for 1974 are shown in Exhibit 1), but he had not managed to keep the business at its original level. This was because two other traders had started up on their own at about the same time, and both of them had built up quite successful shops. These two shops were smaller than The Friendly Grocers but they were well managed and quite able to compete with Mustafa. If The Friendly Grocers did not offer such good service as the other shops, Mustafa was sure that his competitors, though they were also his friends, would soon take his customers away. Mustafa sold a full range of the usual groceries, including price-controlled goods such as flour and sugar. Most of his customers were local farmers who usually bought all their groceries from one shop. These farmers were all known personally to Mustafa, and he thought that they depended very much on the credit which they could get from him. Many of them were trying to start growing cotton, usually as members of co-operatives. This meant that eventually they would be prosperous and able to buy more goods from his shop, but at first they needed more credit. They had to spend their time and their money in planting and cultivating cotton, and then they had to wait before they could sell their crop.

Mustafa found that his personal friendship with most of his customers made his credit control problem even more difficult. It was embarrassing to refuse credit to a friend. It was even more difficult to press him for payment or to use stronger methods such as refusing further supplies, or threatening to hand the debt over to a lawyer. Mustafa was fairly sure that none of his customers were likely to go bankrupt or to leave the area without paying their bills. The few who might do such a thing were well known to him and to his competitors and had to pay cash. It was different estimating who would pay on the agreed date and who would pay only when forced to. Some people used every excuse of friendship, every story of domestic difficulty and every trick of pretended forgetfulness in order to delay payment.

Mustafa had no idea how much money, as well as worry and time, he spent on this problem. He kept a separate page in a book for each customer and noted down the value of their purchases and the payments they made. (A portion of such a page is shown in Exhibit 2). He found it necessary to accept part payments, which were not for any particular purchase, and it was not easy to see whether any particular customer had paid up to a certain date. When people came into the shop near the end of the month or at any other time when they tended to have more ready cash, Mustafa would quickly add up how much they owed. He would then persuade them to pay as much cash as they could, and this was really the only way he used the figures in the book. He could not see how else it would help him to find out more about the problem, or more importantly, to do something about it. He controlled his credit mainly by deciding whether to demand immediate payment or not. It was almost impossible to reverse this decision if the customer's affairs went badly, since Mustafa felt that he would be most unpopular if he appeared to be adding to their difficulties. At first Mustafa had tried to make people pay in one month, and then he extended credit to two months if they paid up promptly. Now, however, since he was well established, nearly all his new customers were relatives of the older ones, and he felt that he had to offer them the same time to pay as their relatives. Most customers acted as if two months' credit meant they could pay up as slowly as they wanted, so long as they could keep making promises and excuses, and small payments from time to time. They would not pay up to date until Mustafa's patience was exhausted, and he threatened to hand the debt over to a lawyer.

Mustafa was earning a reasonable wage, but he was anxious to expand his business and improve his standard of living. He had a large family, and their school fees and uniforms had to be paid for. He knew that he had to work out some way of controlling his credit customers before he could try to expand his business. He found he was spending far too much time trying to collect his money without results. He had also learned from other traders that it was almost impossible to get a loan from the Government unless you could show that you knew how to control and limit the credit you granted. The Government did not want to give out loans that would be used up in increased credit to slow-paying customers. Mustafa was not sure what would happen if he could successfully reduce the amount of money that was owed to him, since his customers seemed to rely on it. Mustafa did know that he could easily use the money to buy stock, improve his premises, and carry out many other changes.



## Exhibit 1

### A. Balance Sheet for The Friendly Grocery Shop on 31/12/74

Liabilities		Assets	
Original investment	\$600	Equipment	\$200
Profits kept in the business		Stocks	\$250
from earlier years	\$200	Owed by customers	\$1100
Loan from family	\$600	Bank Balance	\$100
Owed to suppliers	\$300	Cash	\$50
<b>Total</b>	<b><u>\$1700</u></b>	<b>Total</b>	<b><u>\$1700</u></b>

### B. Profit and Loss Account for The Friendly Grocery Shop for 1974

Sales		\$3000
Less cost of goods sold		<u>\$2200</u>
Gross Profit		\$800
Less Expenses:		
Wages	\$500	
Interest	\$70	
Supplies	\$100	
<b>Total Expenses</b>	<b><u>\$670</u></b>	
		<b><u>\$130</u></b>
	Net Profit	

## Exhibit 2

### A. Page from Account Book 1974, for Haji.

Carried forward from 1973	Owing \$22.00	
Bought 6/1/74	\$ 3.50	
Bought 28/1/74	\$ .12	
Paid 28/1/74		\$15
Bought 13/2/74	£ .50	
Bought 26/2/74	\$11.50	
Bought 13/3/74	\$ 8.30	
Paid 28/3/74		\$12
Paid 28/3/74		\$25
Bought etc. etc.		

#### Questions:

1. How could Mustafa make better use of his records to control the amounts owed by his customers?
2. How long on average are the customers of The Friendly Grocers taking to pay their bills?
3. What other services could Mustafa offer to his customers, apart from allowing them a long time to pay for their purchases?
4. If the other two shops in the market are also allowing their customers a long time to pay their bills, does this mean that Mustafa has to do the same?
5. If Mustafa was able to reduce the amount owed by his customers from \$1100 to \$500, are there other ways in which he might use the money to increase the profits of The Friendly Grocers?

## EXERCISE 3: THE MODERN DRAPERS

Ali, owner of The Modern Drapers in a flourishing centre, wondered how to meet the competition from a neighbouring shop. Although this competitor had been established for many years more than The Modern Drapers and was a trader of far greater financial strength, Ali was sure that he himself was personally far more popular with his customers, as his family had always lived in the area. He was convinced that if he could only equal the services offered by his competitor, he would get most of the business.

His present difficulty arose because he did not see how he could equal the prices offered by his neighbour for certain imported Japanese fabrics. These fabrics were very popular because of their beautiful colours and good quality, but The Modern Drapers was trying to sell them for \$2.50 a metre while Ali's competitor was selling the same goods for \$2 a metre. Ali knew perfectly well how it was that his neighbour could do this. The travelling salesman from the firm in the City representing the Japanese textile mill had called on him not long before and offered to supply him material, direct from Japan, for \$1.10 a metre, shipped to Port City. In addition, Ali would have to pay another \$.40 a metre for the total of import duties and transport from the port to his shop. But the mill would only accept orders for 200 metres or more to be shipped direct from Japan in this way. Smaller lots had to be bought from the importer's own stock in the City at \$2 a metre, delivered to the shop, in any quantity. In order to import direct from Japan, the price of the cloth itself, \$1.10 a metre, would have to be paid before shipment was made, by opening a 'letter of credit' with the bank. The cloth would probably be delivered to his shop about three months after the money had been deposited with the bank, and the duty and delivery charges would be payable when the cloth was delivered. Ali was not sure how long it would take him to sell 200 metres, but the travelling salesman had recently assured him that his competitor was buying that amount every two months. Ali had so far bought only one lot of fifty metres of the cloth from the City importer, and had paid \$100 for it. He had sold very little of it, because his neighbour had received his first direct delivery at almost the same time that the Modern Drapers first offered the cloth. Ali had fixed the price of \$2.50 a metre in the same way that he fixed all his prices, by adding 25 cents in the dollar to whatever the goods cost him. He now wished that he had never bought the cloth in the first place, because he could not see how he could make any money at all on it and \$100 had been tied up in the cloth for some months without earning him anything.

He was disappointed that he was unable to solve the problem of the competitor's price, as the Japanese cloth seemed to be becoming very popular. Ali was already aware that some of his most loyal and regular customers were now buying all their requirements from his neighbour, because they found it convenient to buy everything from the shop where they felt they must buy the Japanese cloth. The people in the area, including the customers of The Modern Drapers, were becoming more prosperous because they were successfully growing more tea. Ali was afraid that if he did not establish a reputation for quality goods by selling this Japanese cloth, he might fall behind his neighbour and never enjoy the increased sales which were bound to be made in the market as people became able to buy better goods. His shop had done quite well up to now, but Ali felt that the matter of the Japanese cloth was very important for his confidence in his own skill as a trader, and for his customers' confidence in The Modern Drapers as the best place to shop. He studied his latest figures which are shown below, but he could not see how they could help him to solve his problem.

### *Balance Sheet for The Modern Draper, at 31/12/75*

Liabilities		Assets	
Original Investment (see note 1)	\$ 1000	Building	\$1800
Profits left in the business		Equipment (see note 3)	\$ 500
from earlier years	\$ 500	Stocks of unsold goods	\$ 400
Loan from the Government		Owed by customers	\$1600
Bank (see note 2)	\$1500	Bank Balance (see note 4)	\$ 150
Owed to suppliers	\$1500	Cash	\$ 50
Total	<u>\$4500</u>	Total	<u>\$4500</u>

Note 1. The original investment had been collected together with some difficulty in 1972. The investors had recently made it clear to Ali that they were not interested in putting any more money into the business. After three years of waiting they expected to receive something in return for their investment.

Note 2. The Loans Officer had told Ali that he was unlikely to get any more help from the Government for some years, as requests from new traders used up all the money that was available.

Note 3. The equipment consisted of a bicycle, some simple shop furniture and shelves, and an old van which was rarely used and was worth about \$80.

Note 4. The cash was needed in the shop for day to day purchases. Ali thought that the bank account was a comforting protection against unforeseen needs for money.

*Profit and Loss Account for The Modern Drapers for the year 1975*

Sales		\$9600
Cost of goods sold		\$7500
Gross profit		\$2100
Expenses:		
Salary for Ali	\$1000	
2 labourers wages	\$ 200	
Delivery costs	\$ 50	
Interest on loan	\$ 150	
Lawyers' fees for debt collection	\$ 100	
Building repairs	\$ 200	
Taxes	\$ 150	
Equipment repairs	\$ 50	
Total expenses	\$1900	
Net Profit		\$ 200

Questions:

1. How much money would Ali need if he decided to import the Japanese cloth himself, and when would he need it?
2. How could Ali obtain the necessary money for importing the Japanese cloth, without going to people outside the business for new funds?
3. If Ali did order the Japanese cloth direct from Japan, what can he do to maintain or recover his sales during the three months before it arrives?
4. At what price should Ali sell the Japanese cloth which he already has in stock?
5. Is there any way in which Ali can try to find out whether or not he would really improve his business by ordering the Japanese cloth, before he takes the risk of actually ordering it?

## SESSION 33: ROLE PLAYING IN SELLING

The trainees should be divided into pairs in order to practice selling to one another, each taking the part of the seller and the customer in turn.

The instructor should bring various commonly traded articles to be 'sold' by each trainee acting as a seller, and the 'customer' should be told to be doubtful, sceptical, hesitant and generally reluctant to buy. They should agree to 'buy' only when they feel that their objections have been adequately overcome.

Each pair should be given fifteen to twenty minutes and the group should then be divided into different pairs. The instructor should walk from pair to pair with a tape recorder, and should record particularly interesting interchanges. After every trainee has had the opportunity to 'sell' to about five or six 'customers' the group should reassemble for discussion. Selected tape sequences should be played back for comment, and individual trainees may be asked to 'replay' their selling role with a 'customer' in front of the group, applying the lessons that they have learned.

When commenting on the trainees' efforts, the instructor should stress the following points:

- a) The importance of *questions*; the 'seller' should ask more than he should tell.
- b) The importance of *checking back*; the seller should continually check that his customer has understood what has been said.
- c) The importance of *benefits*; the seller should promote what the product will *do* for the customer, not what it *is*.
- d) The importance of *closing*; there comes a point when the customer must make up his mind, and the seller should avoid this until the decision will be favourable.

## SESSION 34: GIVING ADVICE IN A SHOP

Previous sessions spent in shops should have shown the trainees some of the problems involved in keeping simple records, in stock control and in obtaining the information necessary to complete the First Consulting Form.

This sessions allows a whole day to be spent in one business, and the trainees are asked to carry out the complete consultancy procedure, including all the necessary stages:

- 1) Obtaining the owner's full co-operation.
- 2) Filling in as much as possible of the information on the First Consulting Form.
- 3) Analysing the situation of the business, using the information, or lack of it, on the Form, and what they can observe in the shop itself.
- 4) Deciding what the shopkeeper should be advised to do as a first step towards remedying whatever problems have been identified.
- 5) Persuading and teaching the shopkeeper to implement the suggestions for improvement.

The shops should if possible be different from those in which the trainees have already worked, so that they have to carry out the complete task. If there are not enough suitable shops available, it would be better to use the same shops already used in Sessions 5 and/or 14, rather than Session 22 where the First Consulting Form should already have been completed.

The business owners should be identified well in advance and should be willing and able to spend a fairly long time with their trainee during the day.

They should not be very efficient or very poorly managed shops as it may be difficult for a trainee to make any useful suggestions in a shop which is already very well managed. The poorest shops are often owned by people who are apathetic and have little interest in improvement.

This session is deliberately placed before Sessions 35 and 36 devoted to the techniques of 'selling' suggestions, because trainees are unlikely to understand the techniques until they have personally experienced the type of problem which the techniques are designed to overcome.

The trainees should not however be discouraged by this session since their discouragement might carry over into their field work after the course. The shops should therefore be carefully selected, with owners who are apparently very willing to co-operate and to learn. It may be possible to 'place' the less confident trainees in shops where the owners are particularly anxious to help.

Sessions 35 and 36 should provide an opportunity for trainees to share many of their experiences with the group, but a period should be allocated, preferably at the end of the day spent in the shop, for trainees each to give a brief account of what they have achieved and what they found to be the major difficulties.

The instructor should carefully study their First Consulting Forms in order to check that they are clearly filled in, and that they are consistent with what the trainees say has taken place during the day.

## EXERCISE 1: SHOP ASSIGNMENT

You will be assigned to a shop where you are to spend a whole day. This is to enable you to carry out the complete consultancy procedure, building on the experience you have gained in earlier sessions in shops and in the classroom.

You will have to carry out the following stages:

1. Ensure that the shopkeeper understands what you are trying to do and is willing to co-operate.
2. Fill in the First Consulting Form as far as possible, in the same way as you did in Session 22.
3. Analyse the business situation, using the lists of assets and liabilities, and the profit and loss account, and also your own observations.
4. Decide what changes the shopkeeper can be expected to carry out as a first stage towards remedying whatever problems you identified.
5. Persuade and teach the shopkeeper to implement the suggestions.

You must be sure to record all your findings, and your recommendations, on the First Consulting Form, and you should be ready to describe your experience to the rest of the group.

You should bear the following points in mind:

1. The figures for assets, liabilities etc., can only give general indications of where to look further, even if all the necessary information is available. Individual slow moving or 'dead' stocks, layout and display problems etc., can only be identified by careful observation.
2. The suggestions you make will depend on what you find out about the business *and* your assessment of what the shopkeeper will be willing and able to do.
3. You must not rush through the questions on the form in order to start making suggestions, even if you think you know already what to suggest. The shopkeeper must realise that you have diagnosed the situation carefully, and he will not be impressed by an apparently quick and easy diagnosis, any more than a patient would be with a doctor.
4. You must not make too many recommendations, even if they are all necessary in the end. It is better to make three which are followed than ten which are not.
5. You should try to make a 'mix' of suggestions, which require different kinds of skills and effort, rather than making all bookkeeping or all stock control or all housekeeping suggestions.
6. You should try to make at least one suggestion which the shopkeeper, or possibly you yourself, can implement right away, and will bring some results very soon. This will help to persuade the shopkeeper to follow your other suggestions whose results are less easy to understand.
7. You should try to lead the shopkeeper to make his own suggestions as to how he can improve the problems you have identified together. It is not difficult to ask questions which lead to the suggestions you had in mind from the beginning, but it is worth the extra time since the shopkeeper is far more likely to implement a suggestion which, he believes, he thought of himself.
8. You should demonstrate, and where practical actually carry out some part of your suggestions, but it is vital that you use your demonstration as a lesson, and that the shopkeeper understands, and fully agrees with, everything you are doing.
9. You should ask the shopkeeper to tell you in his own words what he is going to do, in order to check his understanding of your suggestions.
10. You should, as instructed by your instructor, thank the shopkeeper for his help and tell him how the consultancy service will carry on helping him in the future.

## SESSION 35: SELLING BETTER MANAGEMENT

Consultants have to be salesmen as well as knowing what to recommend.

Commercial salesmen sell soap, cigarettes, cars or insurance.

Business consultants sell better management.

What are the major differences?

- 1) The salesman benefits directly when he makes a sale and his employer makes more money.

A consultant only benefits through the satisfaction of doing his job well. The advisory service will only grow if its advice is successfully 'sold'.

- 2) A salesman is usually selling a product or service which is more or less standard; his job is to show the customers how the product can satisfy his needs. A consultant has to decide what his 'product', that is his recommendation, will be before he actually sells it; each 'product' is tailor-made according to the needs of his client.

- 3) A salesman, and his employer, can benefit, in the short term at any rate, even if the product is wrong for the customer.

A consultant *must* 'sell' the right product, because a wrong recommendation will inevitably damage the client and the consultant.

- 4) A salesman sells something for a *price* which is usually known in advance, and his job is to persuade the customers that the benefits of the product justify paying the price.

A consultant appears to be giving information and suggestions for nothing (or possibly a small fee which is *not* related to the number or type of recommendations). The client 'pays' by sacrificing old habits and ideas and by putting an effort into learning new techniques. This sort of 'payment' is hard to assess, on both sides.

These differences do not alter the fact that consulting is still a selling job. It may be more difficult, it is certainly more satisfying in the long run, but it is still selling. The basic principles still apply.

### What must the consultant do?

The consultant must:

- Know what he is selling (i.e. know how to diagnose problems, make recommendations and actually be able to *do* himself the techniques he is 'selling' to clients).
- Attract and retain the *interest* of the client (this may involve working outside hours, to avoid distractions).
- Discover the personal and business *needs* of the client and be able to assess basic strengths and weaknesses. (This requires particular powers of observation, to supplement the clients' spoken answers with visual evidence).
- *Explain* what he is suggesting clearly to the client stressing the *benefits* to the client but not concealing the *costs* (the costs are increased effort, sacrifice of old ideas and perceived security).
- Ensure that the client *learns* how to use the product (this is where a consultant is a *teacher* rather than a *salesman*, but teaching and selling have much in common).
- *Close* the sale by obtaining the client's verbal commitment to apply the suggested changes, (this involves more than a signature on an order, since a 'yes' may conceal uncertainty or confusion while a firm decision to purchase is clear and binding).
- *Follow-up* the sale, to ensure that the client is satisfied, and to make more sales. (This is of course central to the idea of continuous consultancy, but it is vital to be as concerned with the success of past recommendations as with attempts to 'sell' new ones).

Before the actual sale, when the client has to be persuaded to adopt the suggested changes, the consultant has to obtain a great deal of information. It may take several hours, and more than one call, before the 'product' is identified. The whole visit, however, and not just the stage when the recommendation is communicated to the client, is a sales call.

Ask trainees what consultants are 'selling'.

Ask any trainee who has had selling experience to describe the differences as he sees them.

Discuss each of these points.

Ask for examples of possible wrong suggestions, and how they might damage a business.

Ask trainees what clients are 'paying' for advice.

Stress that this knowledge is being given during the course, but must be built up by experience and on-going training.

Ask trainees how salesmen and advertisers can attract attention. What can consultants learn from them.

Refer back to Session.30.

Ask trainees with teaching experience to discuss the advantages of individual tuition and the difference between 'teaching' and 'learning'.

Ask ex-salesmen to discuss 'closing' techniques (the offer of a pen, a question to which either answer means an order etc.) Can consultants learn from these?

The consultant must from the beginning establish and maintain an atmosphere of trust and confidence; if the information gathering part of the job is not dealt with tactfully, the wrong information will be obtained and the client will not trust his consultant.

After the end of the course, consultants will be going out to make their first calls on their clients; from the first contact onwards, what are the stages in the relationship between client and consultant, and how must each stage be handled?

**1) Initial Contact** When the consultant is still not well known in the area, the supervisor should introduce the consultant to each new client. The objective must be to overcome *suspicion* ('Are these people spies, Government inspectors, thieves or what?') and to obtain *co-operation* ('Why should I spend my scarce time and give my private information to these people?')

It is important to work through local authorities, the headman, one prominent business person, the police, the school teacher, the doctor. These and similar people carry enormous weight in the community and their approval and help should be sought.

*Appearance* and *behaviour* are particularly vital at the first stage; the client must make up her mind quickly, and has to rely on visual impressions. *Smart appearance* but not clothes that set the consultant apart from the client; polite but confident *behaviour*, waiting for customers to be served but not 'cringing'; simple *indicators* of the sponsoring institution, such as labelled brief cases, specially painted bicycles, can all improve the initial impression formed by the client.

**2) What does the client need?** The first question aims to identify the client's major problem, in his own mind. This is partly to find out, but also to show from the beginning that the consultant is concerned with the client's problems. It is also vital to make it clear at once what the consultant is *not* doing; the client must realise that loans, goods, taxes or inspection of premises are *not* involved.

Most business people will say that they need more *capital* or more *sales*.

Their initial answers may mention credit, more stocks, transportation problems or other items. In most cases they can usually be 'translated' back to a need for capital or sales. They may also mention supply shortages, bad debts, shortage of skilled or reliable staff, buildings, weather, problems which lead to credit difficulties or shortages of goods and other items.

A common feature is that all these refer to problems which arise from *outside* the business. The clients all say they need more, or less, of something which is in the control of others, not themselves. Suppliers are unreliable, bankers are unco-operative, customers do not pay, crops do not grow.

The consultant must stress from the beginning that he is *not* going to provide remedies for any of these problems.

Management consists of making the *best use of resources* so the consultants will help their clients to cope more successfully with external problems - they will not remove the problems themselves.

Everyone blames the environment *outside* for difficulties and the consultants will try to change the way in which the client operates *within* the environment.

**3) Obtaining information** When initial trust and agreement has been obtained, the consultant will go on to try to fill in the questions on the First Consulting Form. This information, or the lack of certain information, leads to the first recommendations.

In some places, small business people have been approached many times by researchers and others in need of information. Although the results might in the end benefit the business, there is no direct return for the time and effort involved, and the business person may therefore be reluctant to answer still more questions unless he can see some immediate return.

Even if the client has not already been discouraged by researchers, giving information involves *cost*. There is a *risk* that it will be misused,

Ask trainees to describe their relationship with 'their' shops.

Ensure that all the trainees have copies of the first consulting form to refer to during this session. (Handout 4.1).

Ask trainees to describe the first contacts they had with their shops.

What did the shopkeeper *really* think? What questions was he asking himself?

Who influences and leads opinion in the trainees' areas?

Comment tactfully on trainees' present dress and bearing. Ask them how they would react to each other as consultants.

Ask trainees what most business people say they need. Do they really need it?

How can they get what they really need?

Ask trainees what has prevented them from achieving all they wanted in the past. Do they refer to their own failings, or to uncontrollable aspects of their environment? How could they deal with these problems?

Discuss academic or market research surveys that have taken place locally. Have small business people been contacted in these surveys? What are their reactions?

Ask trainees whether they would be willing to disclose their personal financial position to an outsider.



it takes *time* to answer questions, and the answers may sometimes be *embarrassing* because they indicate lack of business skill.

How can the consultant overcome reluctance to answer questions?

- By establishing trust from the beginning
- By showing from the beginning that there will be fast direct benefits to the client as a result of co-operation.
- By helping the client, expressing the questions so that they can easily be understood, and approaching the subject from a different point of view if one question fails.

By not pursuing a particular question if the client is reluctant to answer. The only result will be a flat refusal, which damages the whole relationship, or misinformation, which is even worse.

- By mixing simple advice, and encouragement with the questions.
- By stopping asking questions, and changing to some simple suggestions arising from visual information (cleanliness, signs, etc.) when the client becomes tired or reluctant.
- By terminating the call when it appears that the client is restless or anxious to do something else.
- By explaining *why* each bit of information is needed, and relating it to the client's original statement of his greatest need in the business.

**4) Analysing the information** The information obtained, and the gaps, will lead to all kinds of recommendations. It must be carefully analysed, and checked to ensure that any recommendations are correct.

The analysis may be best carried out after the call, in preparation for the next session, and possibly at first with guidance from the supervisor. The client will however be encouraged by some quick return from the consultant for his co-operation, in terms of immediate suggestions for improvement. These may be the result of visual observation, or the identification of gaps where records must be started to obtain information, or simple analysis, combined with visual observation.

**5) Deciding on recommendations** The client knows the situation better than the consultant. The best recommendations therefore are those suggested by the client, as a result of careful questioning from the consultant. In addition, these will be the suggestions that are followed and understood because the client feels responsible for them. How can this type of recommendation be drawn out from the client?

The best way to teach is to ask.

It may be obvious to the consultant that posters, better debtors' records, stock reductions or new products are what is needed.

Consider two different ways of suggesting posters to advertise a price reduction:

#### **Example 1:**

Consultant A: It is obvious to anyone that your shop looks bare and uninteresting. Put a poster up to tell the people about this price reduction and you will sell everything you have. Look, I have drawn it up, now I shall stick it up for you outside, like this.

#### **Example 2:**

Consultant B: Now you have decided to reduce that price, who knows about it?

Shopkeeper: I do of course.

Consultant B: And how will anyone else find out about it?

Shopkeeper: I shall tell them.

Consultant B: Who will you tell?

Shopkeeper: People who ask me.

Consultant B: And who will ask you?

Shopkeeper: People who want to buy the product.

Consultant B: The idea of the price reduction was to increase your sales, not just lower the price to those who are going to buy it anyway. How can we tell people who will only be interested in the product when they know its price is reduced?

Ask for suggestions.

What will the effect be of refusal or misleading information on the consultant/client relationship?

Ask trainees for examples of quick obvious recommendations.

Ask trainees how long they think it takes to analyse the information obtained. Refer back to previous exercises.

Ask trainees who knows most about the situation of any small business. (The owner).

Dramatise, tape, or present these two examples in some way that stresses contrast. Interrupt for discussion and comment.

Shopkeeper: I could put a price ticket on it.

Consultant B: Who could see that?

Shopkeeper: Anyone who comes in.

Consultant B: You told me earlier that you wanted *more* customers.

Don't you think that this price reduction could bring you some new customers?

Shopkeeper: Yes, it is attractive, but I suppose we have to tell them about it even when they are walking by. I might put up a poster.

Consultant B: How do you think it should look, so they could see it from a distance?

Shopkeeper: Well, maybe I could write the old price and the new price, in big letters, with a big picture of the product.

Consultant B: Where will you put it?

Shopkeeper: Well, I could stick it up like this.

Which of these two consultants has taught the client something?

How will the client react to the attitude expressed by the first consultant?

Which client will be more likely to understand the purpose of sales promotion, and use posters without guidance next time?

The second method is slower, but far more effective. The suggestion has been identified and 'sold' in one step, and the client feels that he is responsible, it is his idea.

The consultant never *told* the client anything; he just asked *questions*.

**6) Persuading the client to change** The previous dialogue showed how the 'sale' can take place automatically, since the client thought of the suggestion himself. This cannot always be done, particularly with more technical changes such as bookkeeping. How can these be 'sold' to the client?

If the recommendation is right for the client, and the client does not accept, it will probably be because:

- a) He does not understand it — the consultant must explain again, dramatise the technique or the benefits, probe by questions to find out just what is not understood.
- b) The client believes that the recommendation is not right, but is too polite to say so. The consultant must re-examine the analysis and probe for the client's true feelings.
- c) The client cannot do what is asked of him, but is ashamed to admit it. Here the consultant must tactfully check that the client can do what is necessary, and avoid exposing ignorance, illiteracy etc.
- d) The client is not in a position to agree, because he or she lacks the complete authority. The consultant must try to arrange to meet the other people involved and press for a trial.

All these reasons arise from the consultant's failure to put across the recommendations correctly; failure to sell changes *must* be the fault of the consultant, never of the client.

The client must not be pressed too hard; there are always many improvements that can be made in a business, and the consultant must not allow the whole success of the consultancy to depend on one suggestion.

**7) Follow-up** There must always be a regular programme of visits; in time there will be a number of different recommendations at various stages from initial analysis to final adoption. The first call after the client has agreed to a change is vital; how should it be handled?

If this client has successfully adopted the change, he should be congratulated, and the benefits should be discussed. One recommendation often leads to another; maximum benefits may depend on a sequence of changes and the consultant must work towards a goal of complete improvement.

If the client has failed to change, he must not be blamed. Failure is the fault of the consultant, not the client. How can the consultant identify where he has gone wrong?

Again, the key is *questions*. The consultant must *ask*, trying to find out:

Ask trainees when Consultant B 'sold' the idea of a poster to the client.

Ask trainees to suggest reasons for failure.

Ask trainees if they like to admit their inability to understand.

Ask trainees if all their shop owners were wholly responsible for all decisions in the business.

Refer to after-sales service for a car.

Ask trainees to identify possible sequences of recommendation. (Book-keeping leading to complete accounts, cleaning leading to new layout etc.)

What should the consultant try to find out? What mistakes might he have made?

- Was the change fully understood?
- Did he use too much technical language?
- Was the change right for the client at all?
- What modifications might be made?
- Does the client appreciate the benefits?
- Can the client be shown an actual example nearby?
- How can the change be dramatically demonstrated?
- Were too many changes recommended at once?

When these questions have been answered, by careful and tactful enquiry, the consultant can start again, drop the suggestion, or replace it by another which may lead to the original one by another route.

## SESSION 36: CONSULTANCY ROLE PLAYING

This session closely resembles Session 33, except that the roles of 'seller' and 'customer' are replaced by 'consultant' and 'shopkeeper'.

Trainees should be paired off as in Session 33, and the 'consultant' should be given two different types of 'product' to sell:

- a) The idea of the service itself: the setting should be the first meeting between client and consultant. The clients should be doubtful whether or not to agree to co-operate. The consultants should introduce themselves and the services; though they will in the field usually be introduced to clients, at first at any rate, by their supervisors. This will only be a brief introduction and the main initial 'selling' task still rests with the consultants themselves.
- b) A specific improvement: the consultants may work from one of the examples provided in Session 21, choosing a recommendation that appears appropriate, or they may be assigned improvements such as 'keep a cash book' or 'sell off excess stocks of an item at a low price' by the instructor. In this case, the selling role obviously involves *teaching*, and the 'clients' should be told to be doubtful at first, then to accept the advice but to be confused about how to apply it. The consultants will then have to change from selling to teaching, without making the barely accepted recommendation appear too difficult.

The instructor should use the tape recorder as in Session 33; the pairs will probably need half an hour or more together before they are re-grouped, and it may only be possible for each trainee to have three or four attempts in the time available.

The instructor should allow adequate time for final comments and discussion, supported by the tape recordings, and should stress the following points:

- a) The fact that the service is free does *not* mean that it does not have to be *sold*.
- b) Consultants must try to find out the *reasons* for clients' reluctance.
- c) Clients should be brought to state the suggestions *themselves*, by careful questioning, since they will be more likely to agree to something they believe they have thought of themselves.
- d) The similarity between consulting and selling; the need for *questions*, the importance of *checking*, the need to sell *benefits* and not *techniques*.
- e) The difference between consulting and selling; the client has not bought until he has understood *and* applied, the suggestions must be *right*, the main objective is to enable clients to *choose*, in the knowledge of what *can* be done.

## SESSION 37: OBJECTIVES AND BUDGETS

It is impossible to achieve anything unless you know what you are trying to achieve.

This applies to someone walking from A to B, or to a farmer sowing crops or to a mother preparing a meal.

- The walker must know where he is trying to go.
- The farmer must know what he is trying to grow.
- The mother must know what she wants to prepare.

Every human activity must have an *objective* if it is to be successful.

The activity will be more successful if the objective is *precisely* stated.

Compare these sets of answers to the question 'What are you trying to do?'

*The Walker*

- a) 'To get to the village'
- b) 'To get to my brother's house in the village before nine o'clock.'

*The Farmer*

- a) 'To grow some maize'
- b) 'To produce at least twenty bags of maize in six months.'

*The Mother*

- a) 'To cook a meal'
- b) 'To cook a meat stew which will satisfy my four children and be ready for them in two hours.'

**Objectives are more important for a business.**

Compare the following answers to the question: 'What do you hope for your business in the coming year?'

- a) 'I hope to stay in business and do well.'
- b) 'I hope to make more profits.'
- c) 'I hope to increase my profits by fifty per cent, to open a new shop, in the next market, and to employ more people.'

Many people *start* a business with no clear idea of what they are trying to do, or how.

Even more people are already *operating* a business but never have any idea of their *objectives*.

Most business people want to *make money*.

This objective alone is not enough. A business person must also be able to answer such question as:

- How much money?
- By what time?
- What will you do with the money?

Are you also hoping to achieve other objectives, such as:

- to occupy yourself?
- to employ your family?
- to gain prestige?

A reasonable statement of personal objectives by a new business person might be:

'I intend within two years to be earning at least one hundred dollars a month. I intend to reinvest at least half of this in my business, and I wish to devote myself full time to the business. I intend to be able to employ at least two other people within two years and I hope that by that time, I have attained a position of leadership in the area which will enable me to contribute to improvement of our community activities.'

Once personal objectives have been satisfied, the business person must set business objectives which will answer such questions as:

- 'What *type* of business do you intend to operate?' (This question applies just as much to existing businesses as to new ones, since every business is changing all the time; if the owner has *objectives* he will control and direct the change).
- 'Where will your business be *located*?' (Again, an existing business may have to move, or to expand by opening branches).

Ask trainees what these people must have decided before they start to work.

What will happen if they have no pre-determined objectives?

Ask trainees which answers will be more likely to lead to successful accomplishment.

Use a suitable local farming example.

Ask trainees which answer suggests careful planning and good chances of success. Which type of answer is typical of local business people?

Ask trainees what is the main objective of most business people.

Ask trainees how they themselves, and local business people, would answer.

Ask trainees what sort of business objectives should be set by *new* or *continuing* business owners.

- 'What volume of *sales, purchases* and production will the business attain, by what *time*?'
- 'How many *employees* will the business have?' (This may include the objective of employing particular people, such as family members).

### Targets

When basic objectives of this sort have been set, the business person must start to *plan*, and to set specific limited *targets*, which must be achieved by specific *dates* if the overall business and personal objectives are to be achieved.

Such targets might include:

- 'By the end of March, monthly sales will reach \$1000.'
- 'My average gross profit on sales for the year should be 20%.'
- 'By the end of June I should have opened a bank account and be depositing at least \$20 a month.'
- 'By the end of the year, my son will have completed his training and be ready to join the business as a book-keeper.'
- 'By the end of the month I shall have reduced my stocks of blankets from 50 to 10, and have reinvested the money in sugar, rice and flour.'
- 'By the end of July, none of my customers must owe me more than \$10.'

These targets in turn may only be achieved by the adoption of new techniques and procedures.

The role of the consultant is to show business people how to 'translate' personal objectives into short term targets, and *how* to achieve them.

The targets, and where possible the techniques, should be suggested by the business people themselves.

The consultants' task is to ask questions which *guide* business people to the right solutions to their problems.

Business people will only *learn*, and *improve* their businesses if they realise the *purpose* of the new techniques they are being taught.

Cash books, Debtors Records, fast stock-turn, posters or cut price sales are of no value for *their own sake*.

Business people must be shown how these *techniques* will help them achieve their *business*, and their *personal, objectives*,

Only then will they 'buy' the recommendations of their consultants.

### Budgets

It is not enough to set objectives; there is also a need to *check* whether they have been achieved, and to identify reasons for failure.

*Accounts* such as the cash book, and the profit and loss account and balance sheet, show where the business is and how it has progressed.

If targets are to be *consistent*, it is necessary to have a way of combining them to ensure that they do not conflict with one another.

Consider for instance the following targets:

- To save \$200 for a new sewing machine
- To employ and train 2 new assistants
- To increase profits to \$150 per month
- To start to stock and sell fabrics as well as groceries

Problems of this sort can be avoided by constructing a budget, or forecast of the accounts as they will look at the end of each month, quarter or year.

This will show that targets may be unrealistic or will show what other targets, such as increased *sales*, must be achieved if the original ones are to be reached.

For example — *Profit and Loss Account for May*

Sales	\$300
Cost of goods sold	\$200
Gross Profit	\$100
Wages	\$ 60
Rent	\$ 20
	<u>\$ 80</u>
Net Profit	<u>\$ 20</u>

Ask trainees for examples of short-term targets which local business people known to them should set for themselves.

Ask trainees *how* a business person might achieve each of these targets. What book-keeping or other techniques might be useful?

Ask trainees if people are more likely to achieve goals set by others or set by themselves.

Ask trainees how a business owner can check whether target figures of sales, profit, or stock-turn have been achieved.

Ask what problem might arise if *all* these targets were aimed at together. (Insufficient capital, or cash flow, to finance everything).

Show by example how such a forecast will indicate inconsistencies or unrealistic targets.

**Targets:**

- 1) To increase profits to \$30 a month by the end of July.
- 2) To employ my son when he leaves school at the end of June at a wage of \$30 a month.

**Budget Profit and Loss Account for July**

Sales	\$ ?
Cost of goods sold	\$ ?
Gross Profit	\$140
Wages (including extra \$30)	\$ 90
Rent	\$ 20
	\$110
Net profit (as target)	\$ 30

The business owner can now see by how much sales will have to be increased if he is to achieve his other targets.

- If it is realistic, he can now decide *how* to increase sales from \$300 to \$420 a month.
- If it appears impossible, he can:
  - a) investigate other ways, such as increasing the mark-up percentage;
  - b) revise the targets.

**Control**

Once a consistent and attainable *budget* has been set, for sales, expenses, profits and assets and liabilities, they should then be *compared* with the actual figures to check on how well targets have been achieved.

For example:

<i>Balance Sheet</i>					
<i>Liabilities</i>	<i>Budget</i>	<i>Actual</i>	<i>Assets</i>	<i>Budget</i>	<i>Actual</i>
Owner's investment	\$2000	\$2000	Building	\$2500	\$2000
Reinvested profits	1700	1600	Equipment	500	400
Owing to suppliers	800	600	Stocks	800	1000
			Owed by customers	500	700
			Cash	200	100
	\$4500	\$4200		\$4500	\$4200

The targets included:

- 1) Increased profit by \$100
- 2) Persuade suppliers to give \$300 more credit
- 3) Build a \$500 addition to the storeroom
- 4) Spend \$100 on shelving for the new storeroom
- 5) Reduce stocks and debtors by a total of \$400 to help pay for new storeroom

Regular budgeting, and assessment of achievement by comparing budgets with actuals, will ensure that the business is progressing towards its objectives.

*Or* will show that remedial action is necessary if the objectives are to be achieved.

The same type of planning and budgeting should be applied to day-to-day details.

- Credit limits for every customer
- Target stock levels for every item sold
- Maximum cash to be kept in business, balance to be banked.

As a business grows, regular targets and budgets are essential so that *employees* will be guided as to what to do.

The owner can then concentrate on long-term planning and objectives.

Write the budget figures on the board, and ask trainees what figures for sales and cost of goods will be necessary to achieve the target, assuming that the mark-up percentage remains unchanged. (\$420 and \$280).

Ask trainees what the business owner might do if \$420 monthly sales appears unattainable.

*First:* Write the 'budget' figures on board. Explain the targets.  
*Second:* Write the 'actual' figures beside the 'budget'. Ask trainees to identify differences and suggest possible explanations and future remedies.

Make up a similar example to compare a budgeted and actual profit and loss account.

Ask trainees for examples of day-to-day detailed targets.

Ask trainees how local business employees are guided in giving credit, buying new stocks, controlling cash. Do problems occur? Could they be avoided?

## SESSION 38: LOANS

Most small business people *think* they need loans, and many of them do not need them at all.

Most attempts to *help* small business start by offering loans; this is usually expensive, ineffective and actually damaging to the business people who get the loans; it also tends to increase inequity.

Why is it expensive?

Small business people who are not good managers are unable to repay the loans since they do not appreciate their obligations at the beginning and mis-manage the money they receive.

This means that the default rate is very high, and the loan service is expensive for the country as a whole.

Why is it ineffective?

Small business people who do not know how to manage the money they have already cannot benefit from having *more* money to mis-manage. The effect will be to create *more* inefficiency and waste, and thus the loans do not help small businesses but increase their problems.

Why is it damaging to loan recipients?

Lenders, whether they are bankers or government staff, usually demand a security, or collateral, which the borrower will have to sacrifice if the loan is not repaid.

When a borrower mismanages a loan, and cannot repay it, he is likely to lose his home and land, as well as his business. He would have been better off without the loan at all.

How do loans increase inequities?

A banker usually thinks first of security; unless he can make sure that he will get the loan back, it is best not made at all. Bankers are not always successful as we have seen, but what is the effect of their first insistence on *security*?

Loans tend to go to the business people who have the most resources to pledge as security, or can show that they are well-established. These tend to be the *older, richer* business people, not necessarily those with the most original ideas. They may or may not repay, but the smallest businesses rarely get any money at all.

A consultant's first task when confronted with a request for help in obtaining a loan is to make it perfectly clear that he cannot influence the lending institution at all; all he can do is to check that a loan really would help the business, and then make some suggestions as to how the business owner might get a loan.

What happens if clients think that consultants can influence lenders in their favour?

Clients follow advice and co-operate with the consultant, not because they believe that he is right, but because they believe that by pleasing the consultant, they can get a loan.

Is this a good way of encouraging business people to follow consultants' advice?

What happens when the client who has followed the advice fails after all to get a loan, as most will since there are never enough loans to satisfy every applicant?

The client will be disappointed, and will discontinue the improvements because they have failed to achieve the result he wanted. Such a client usually follows advice without really understanding what is to be done and why, so the improvements rarely produce results.

**Does he need a loan?**

Once the client realises that the consultant is not personally involved in the granting of loans, the consultant must find out if the client really needs a loan.

How can this be determined?

All the techniques of analysis which have been covered so far are designed to find out what is happening in a business now, and what should be done in the future.

The consultant must find out:

Give examples and ask trainees if they know of instances of this.

Find out the default rate of any local small business loan scheme.

Give examples.

Is this the local experience? Ask for examples of larger undynamic businesses that have received loans.

If the service *is* attached to a lending institution, make the necessary amendments, but stress that loans should never be seen as a rescue.

Do small business people regard training as a passport to a loan?



Is the business person who wants a loan making the best use of her money *now*?

- Is there too much money tied up in stocks of unsold goods?
- Are there too many stocks of raw materials?
- Is too much money tied up in partly completed products?
- Do the customers of the business owe too much money?
- Are there tools or machines which are not used and could be sold?
- Does the business person already have spare cash, in cash or the bank, which could be used?
- Does the business person own other unprofitable things, such as cattle, unused land, unnecessary vehicles, which could be sold to raise the needed money?

#### Other sources of money

Could the business person who wants a loan obtain the money she wants from other sources?

- Could the business obtain more credit from its suppliers?
- Could and should the owner(s) invest more money?
- Could customers be persuaded to make deposits on products ordered but not yet delivered?
- Could more people be interested in investing in the business, for instance existing employees?

Are the existing profits of the business being reinvested as they should be?

- Is there any system of recording owner's withdrawals and are they moderate?
- Are profits put into a bank account, or are they spent on new stocks or other assets in an unplanned way?
- Is the owner in control of the movement of cash in the business?

All these questions can be answered from the data on the first consulting form, and by observation.

Is it enough to be sure that the money that is already in the business, or at the disposal of the owner, is all being used efficiently?

#### Why do business people want loans?

They say they need more money, but the money must be needed to buy something, or to use for credit.

Anyone who wants a loan *must* know exactly what she will *do* with the money if the loan is granted.

Consider these answers to the question, 'What will you do with the money if you get a loan?'

- 1) 'I need more working capital.'
- 2) 'My shelves need filling up with new stocks.'
- 3) 'My customers want more credit.'
- 4) 'I should like to have my own vehicle.'
- 5) 'I want to buy the premises, not to be a tenant.'
- 6) 'My business is not making enough profit.'

There is no statement of *why* it is necessary to have more money, stocks, credit etc.

There is no statement about what will be the *result* if a loan is received and spent in this way.

There is no evidence that the loan will be repaid.

Before a business person applies for a loan, he should be able to state:

- 1) The problem, or opportunity, which will be solved or exploited if the loan is granted, e.g.

Evidence of new demand for a specific product which is to be stocked with the loan. This might be a new factory being built which will lead to more customers, new crops which will mean more fertiliser and seed sales etc.

Evidence of a competitive disadvantage such as a process that cannot be carried out by present machinery but is provided by suppliers in the city.

- 2) Exactly *how* the money will be spent, on what, from which supplier. This information should be supported by balance sheets showing the present situation and a forecast of the balance sheet when the loan has been received and spent.

Refer to earlier sessions, review financial management, and debtors and stock control. Ensure that trainees know how to assess what is too much in each case.

Why is it better to use trade credit, or existing idle resources?

How do business people deal with their profits?

Refer to form.

Ask each of these questions.

Discuss each of these questions with the trainees.

Ask trainees for examples.

Now:	<i>Liabilities</i>	<i>Assets</i>	
Owner's investment	\$ 500	Equipment	\$ 300
Reinvested profits	300	Stocks	500
Suppliers' credit	200	Debtors	100
		Cash	100
	<u>\$1000</u>		<u>\$1000</u>

With the loan:	<i>Liabilities</i>	<i>Assets</i>	
Owner's investment	\$ 500	Equipment	\$600
Reinvested profits	300	Stocks	500
Loan	300	Debtors	100
Creditors	200	Cash	100
	<u>\$1300</u>		<u>\$1300</u>

3) Exactly how the new investment, financed by the loan, will affect the *results* of the business. This may be increased sales, reduced costs, but the vital point is that the increased *profit* from the investment of the loan *must* pay for the repayment and the interest.

There is no point in borrowing money if it cannot 'earn its keep'.

The banker may be interested in the total profit to be sure of repayment, but the borrower must be sure that the investment will in the end pay for itself. If it does not, it is better not to borrow the money at all.

The consultant must ensure that a client who wants to apply for a loan has made all the necessary calculations and can satisfy himself, and the consultant, that the loan is necessary and can pay for itself.

Only then should the consultant consider advising the client on how to *get* the loan.

#### How to get the loan?

Bankers are careful not to grant loans to business people who will not make good use of them; banks are in business to make profits, like any other business. If they lose their loans through unwise lending, the depositors or current account holders will lose their money.

The bank will therefore examine the application and the business very carefully; rejection of an application is usually in the interest of the applicant, because the banker judges that the loan would not be repaid and this would actually hurt the borrower more than the bank.

How does the Banker examine the application?

He examines the written application and any supporting figures the applicant has submitted.

What is he looking for?

If the applicant does not *know* the answers, he should find out. The control techniques covered by the consultants may well show the clients how to do without a loan, by making better use of existing resources, but they will also help to make a good loan application.

Then the Banker visits the business itself and examines the business, and its owner, carefully.

What is he looking for?

The business will not 'get through' the examination by making a special effort on one occasion only. Bankers are trained to see through quick pretences, and can in fact be useful consultants themselves.

Once the loan has been granted, the business person must use it as agreed and planned, and must ensure that the results are as planned. If it appears that there may be difficulties, he should inform the Banker before the Banker chases him for payment.

A small business extension service is often introduced when loans have failed.

The first task may be to show business people that loans are *not* the solution to every problem; they are actually not a solution at all, but a way of building upon success and taking advantage of opportunities.

The stages of client reaction to loans, when advised by a consultant, may be:

- 1) Belief that loans are the answer to every difficulty.

Work through this and other examples. Review the balance sheet.

Draw up similar 'before' and 'after' profit and loss accounts.

Obtain copies of local loan application forms. Give these to the trainees.

Go through the points in the handout.

Check if the trainees' businesses, where they have worked in the course, could satisfy the conditions.

Go through the points in the handout. These are for a shop. Suggest other points for a manufacturing enterprise.

- 2) Realisation that better management can solve many problems, and that a mismanaged loan increases difficulties.
- 3) Successful improvement of the business from its own resources.
- 4) In some cases, improvement reaches the stage where a loan *can* be well used; the training received over many months or even years from the consultant can help the business person decide whether or not to apply for a loan, and apply successfully if it is the right thing to do.

# WHAT YOUR BANKER LOOKS FOR WHEN YOU ASK FOR A LOAN

Question	Check List
From the outside, does the shop look attractive, clean and business-like?	<hr/>
Are the goods on display fresh, and are they the type of goods that people want to buy at this time of year?	<hr/>
Inside the shop, is the interior clean, are the counters well organised, are the goods on display fresh and clean?	<hr/>
Are all the goods on display clearly priced?	<hr/>
Does the arrangement of the goods suggest that the stocks are well controlled?	<hr/>
Are any goods obviously over-stocked? If so, is there any evidence that the owner is trying to remedy the situation?	<hr/> <hr/>
Does the shop appear to be busy and popular with its customers?	<hr/>
Are the customers served promptly, and courteously?	<hr/>
Is the cash, and the shop itself, secure from theft?	<hr/>
Is there a neat record of amounts owing by customers?	<hr/>
Are the movements of cash properly recorded?	<hr/>
Is the owner well-informed about the financial condition of the business?	<hr/>
Are the stocks too high in relation to sales?	<hr/>
Does the amount owing by customers exceed one month's sales?	<hr/>
Does the owner control the amount withdrawn from the business for personal use?	<hr/>
Has the business maintained a bank account properly in the past?	<hr/>
Has the owner invested all his own available resources in the business before asking for a loan?	<hr/>
Is the business expanding, and can the loan be repaid from profits?	<hr/>
Is the owner fully committed to the business and its success?	<hr/>

## SESSION 39: EXERCISES IN LONG TERM PLANNING AND 'LOAN HUNGER'

These four exercises will allow the trainees to analyse the situations of a number of businesses, all of whose owners believe that they need a loan. In every case it can be shown that what is really needed is a careful analysis of the business, which will show that the objectives which the owner believes can only be achieved with a loan are in fact far more likely to be achieved by sensible planning and control of the business.

The exercises are fairly long, and it may be possible to allow trainees to prepare written answers to some or all of them on their own, possibly in the evenings or during a break in the course. These can then be marked and discussed by the instructor both with individual trainees and with the group. As with all these exercises, they should be modified to include local currencies, commodities, names and so on, and if possible they should be replaced with genuine local material.

### Exercise 1: Are Loans Really the Solution?

These five sets of outline accounts (there is no need to go through all of them and new sets can easily be put together if required) show various situations where loans are thought to be needed. The figures alone, without distraction of details of the people involved, show that more finances can be obtained from the businesses themselves; trainees should be encouraged to ask themselves the following questions:

- a) How does the stock figure relate to monthly sales?
- b) How much credit is being given?
- c) How much profit is being made every month? What is happening to the profit at the moment?
- d) What is the profit margin on sales?
- e) Are sales too low in relation to costs? How could sales be increased?
- f) Are prices too high, is credit being offered?

### Exercise 2: Saleh's Loan

This exercise requires careful calculations, in order to answer the specific questions which are given. In addition to working out the amount of money tied up in slow moving stocks, trainees may also discuss ways in which such money can be released. The dialogue between Saleh and the Loans Officer is a good example of the way in which consultants should ultimately be able to approach their clients who are in this type of position.

### Exercise 3: Ali and the Sewing Machine Money

This is a simple account of a businessman who is wisely resisting the claims of his relatives, and the temptation of withdrawing excessive money for his own use. He is however investing all his money in stocks so that his position will soon be like that of Saleh in the previous exercise.

Trainees should appreciate that this is an ideal case for opening a savings bank account, which will keep the money secure and pay some interest on the balance.

### Exercise 4: Ahmed Patni

This is a far more involved case than any which have been dealt with so far, and includes many problems of financial management, estimation of risks, cultural and social barriers to change and the conflict between desire for status and successful business. A detailed analysis of the case is included as an example of how this type of situation may be approached in exercises and in the field. The instructor should allow trainees time to study the case on their own, to discuss it in small groups of two or three and then to present their conclusions to the rest of the group. The suggested analysis should not be distributed to trainees at first; it is only one possible approach and if trainees are provided with a copy at the end of the session it should be stressed that their solutions may have been quite as valid as this.

## EXERCISE 1: ARE LOANS REALLY THE SOLUTION?

Each of the following shopkeepers says that he or she needs a loan more than anything else. How would you advise each of them to obtain money from their business themselves, since loans are difficult to get, and expensive even if they are granted?

### a. Ibrahim

#### Balance Sheet, 1 February 1975

Assets		Liabilities	
Cash	\$ 10	Creditors	\$ 50
Debtors	50	Loan from family	100
Stocks	400	Investment	100
Equipment	100	Reinvested Profits	310
	<u>\$560</u>		<u>\$560</u>

#### Profit and Loss Account, January 1975

Sales		\$ 100
Opening Stocks	\$390	
Goods bought	95	
Total	<u>485</u>	
LESS Closing Stocks	400	
Cost of Goods sold	<u>85</u>	
Gross Margin		\$ 15
Rent	5	
Wages	6	
Licences	1	
Transport etc.	2	
Total Expenses	<u>\$ 14</u>	
Net Profit		<u>\$ 1</u>

### b. Shariff

#### Balance Sheet, 1 February 1973

Assets		Liabilities	
Cash	\$100	Creditors	—
Debtors	90	Loans	—
Stocks	300	Investment	\$500
Equipment	60	Reinvested Profits	50
	<u>\$550</u>		<u>\$550</u>

#### Profit and Loss Account, January 1973

Sales		\$500
Opening Stocks	\$310	
Goods Bought	470	
	<u>780</u>	
LESS Closing Stocks	300	
Cost of Goods Sold	<u>480</u>	
Gross Margin		\$ 20
Rent	10	
Wages	10	
Licences	1	
Transport	6	
Total Expenses	<u>27</u>	
Net Loss		<u>\$ 7</u>

## c. Mohammed

*Balance Sheet February 1st. 1973*

Assets		Liabilities	
Cash	\$ 5	Creditors	\$ 50
Debtors	450	Loan	—
Stocks	150	Investment	980
Equipment	45	Reinvested Profits	570
Building	<u>950</u>		
	\$1600		<u>\$1600</u>

*Profit and Loss Account, January 1973*

Sales		\$150
Opening Stocks	\$180	
Goods Bought	<u>95</u>	
	275	
LESS Closing Stocks	<u>150</u>	
Cost of Goods Sold	125	
Gross Margin		\$ 25
Wages	10	
Transport	5	
Licences	<u>1</u>	
Total expenses	16	
Net Profit		<u>\$ 9</u>

## d. Mrs. Azim

*Balance Sheet February 1st. 1973*

Assets		Liabilities	
Cash	\$ 3	Creditors	\$ 10
Debtors	57	Loan	—
Stocks	250	Investment	500
Equipment	100	Reinvested Profits	900
Building	<u>1000</u>		
	\$1410		<u>\$1410</u>

*Profit and Loss Account, February 1973*

Sales		\$200
Opening Stocks	\$280	
Goods Bought	<u>130</u>	
	410	
LESS Closing Stocks	<u>250</u>	
Cost of goods sold	160	
Gross Margin		\$ 40
Expenses: Rent	5	
Wages	40	(owner/manager sole employee)
Licences	1	
Transport, wrapping etc.	<u>4</u>	
Total expenses	\$50	
Net LOSS		<u>\$ 10</u>

e. Mrs. Abdullah

*Balance Sheet, February 1st. 1973*

Assets		Liabilities	
Cash	\$ 30	Creditors	\$ 30
Bank Account	80	Loan	—
Debtors	—	Investment	200
Stocks	120	Reinvested Profits	50
Equipment	50		
Building	—		
	<u>\$280</u>		<u>\$280</u>

*Profit and Loss Account, January 1973*

Sales		\$75
Opening Stocks	\$140	
Goods bought	40	
	<u>180</u>	
LESS Closing Stocks	120	
Cost of goods sold	<u>60</u>	
Gross Margin		\$ 15
Expenses: Wages	5	
Rent	10	
Licences	1	
Transport etc.	4	
Total expenses	<u>20</u>	
Net LOSS		<u>\$ 5</u>



## EXERCISE 2: SALEH'S LOAN

Saleh started his general shop in 1959. He was quite satisfied with the results; he had been able to get all his family's provisions without charge out of the stocks, and he had also withdrawn money from time to time for school fees, uniforms, funerals, and other emergency requirements. He had started with only \$60 in 1959, and by 1973 the business was worth several hundred dollars. He took stock at the end of 1972, and found out that the value of the stocks alone was \$600.

Saleh had heard a lot about the loans that the Government was giving to traders, and in 1973 he applied for a loan of \$250 from the local branch of the National Bank. He was sure that he would get a loan, as a reward for so many years of successful trading.

Saleh decided that he would spend the loan on stocks of sugar, salt and maize flour, since he usually ran out of these staple items towards the end of each month. Many of his customers were paid monthly, and Saleh allowed them credit for this period. He had himself to pay cash for goods of this sort, so that when he had spent the cash he received he was unable to buy more supplies. Most of the shops in his market had the same problem, but recently one or two younger men had started shops and seemed able to avoid running out of stocks. Saleh was therefore anxious to compete with them, and he expected that the loan would enable him to do so.

The Bank's Small Business Loans Officer visited Saleh's shop before the meeting which was to decide which applicants would receive loans. Saleh gave him the information he asked for, and he was particularly proud to tell him that the stocks were worth \$600. Saleh thought that the increase from \$60 to \$600 was proof of his business skill and personal economy, and he was sure that this would guarantee him a loan. He sold about \$200 worth of goods per month, although this figure was dropping a little because customers were put off by the shortage of staples.

Saleh was therefore completely astonished when he was told some three weeks after the meeting of the Board that his application had been refused and he was not going to get a loan. He at once went to see the Loans Officer and their conversation went as follows:

Saleh: 'Why didn't I get a loan? Did anybody deserve one more than me? Is this all I get for so many years of hard work?'

Loans Officer: 'Loans are not given to those who deserve them, but to those who need them. According to your application form you wanted the loan to buy more stocks. We felt that your existing \$600 worth of goods in stock is more than enough to maintain monthly sales of \$200.'

Saleh: 'I *know* that I haven't got enough stocks. Why, only this morning I had to turn away customers who wanted sugar.'

Loans Officer: 'How often do you buy more goods?'

Saleh: 'I go to my wholesaler at least once a week, and sometimes more often than that.'

Loans Officer: 'Look at your stocks more closely. It appears that while you have more than enough stocks in total value, maybe you have not got the *right* stocks. On average you have enough goods to keep you going for three months without buying any more, since your stocks are worth three times your monthly sales. But you yourself say that you have not got any stocks at all of some things. In a way, you and the Board are both right. Since you are out of stock of some things, you must have far more than three months worth of some others. Go and have a look. If you find large stocks of some things, in relation to your sales of them in a month, try to decide how you can get rid of them. Maybe you can "wake up" the money that is "sleeping" on your shelves now, and put it to better use by buying things that will sell quickly. You may even "wake up" more than \$250 you asked for from the Bank; and it will be yours, without any obligation to repay it, or to pay interest.'

Saleh was not sure he understood what he had been told, and he went thoughtfully home. Next morning his shop was quiet, since it was near the end of the month and he was out of stock of sugar and salt. Everybody wanted those two things, so they bought them, and their other requirements, from the few shops which had stocks. He decided to try to follow the Loans Officer's advice. He found a piece of chalk, and wrote under each item on his shelves his estimate of the number he sold in a month. He then counted the stock, and he listed on a piece of paper all the important items where the quantity in stock exceeded three times his estimate of monthly sales.

His list looked like this:

Item	Cost Price	Selling Price	Est. Monthly Sales	Stock
Bottles of Ink	10c.	12c.	6	60
Hair Oil	27c.	35c.	10	50
Cotton Reels	7c.	10c.	20	120
Plastic bangles	10c. for 15	1c. each	30	500
Blankets	\$1.00	\$1.50	4	56
Plough Points	\$1.20	\$1.50	3	36
Ladies dresses (Various sizes and patterns)	\$4.00	\$5.00	3	30
Cattle medicine	70c.	90c.	8	70
Washing Bowls	30c.	35c.	5	55
Pens	8c.	15c.	12	150
Sandals	25c.	35c.	15	120
Cooking Pots	30c.	40c.	10	90
Umbrellas	\$2.00	\$3.00	6	45

Questions:

1. What was the total value, at the cost price to Saleh, of the items on his list?
2. Saleh said that he was able to buy new stocks at least once a week. What quantities of the listed items would have been sufficient to ensure that he did not run out of stock of them?
3. What would have been the total value, at the cost price to Saleh of the stocks of the listed items if Saleh had the minimum necessary stocks, which you have listed in question 2. What would be the difference between the total value as it was according to Saleh's list and the value if the quantities had been as you have suggested?
4. Could Saleh raise the \$250 he wanted by 'waking up' some of the excess money as the Loans Officer suggested? Exactly what would you recommend he should do to raise the money? Say exactly what he should attempt with each item.

### EXERCISE 3: ALI AND THE SEWING MACHINE MONEY

Ali wanted to improve his business. He decided to buy a sewing machine, because it would help him to sell more cloth and it would attract more customers to his brother Juma, who was unemployed but was a very good tailor.

The only problem was that the sewing machine which Juma recommended cost \$200 and the dealer would not offer any credit or hire purchase terms. Ali applied for a loan from the Government Lending Authority, but he knew that it would take up to a year before the application was even considered, and his business acquaintances all told him that only a third of the applications were granted. So Ali wondered whether there was any other way he could obtain the necessary money. He had no security to offer a bank in exchange for a loan, and he knew that nobody in his family, and none of his friends, had any spare money at all because they had recently built a self-help cattle dip, and anything that was left after that had been subscribed to the new hospital.

Ali's monthly sales from his shop were about \$150 at the moment. He estimated that the goods he sold for this amount cost him about \$120 to buy, so that he had a 'gross profit' of about \$30 a month. He was anxious to avoid taking money out of the business for his own use, so he did not withdraw any salary at all. He was able to keep his wife and their one child on the income from their farm. His other relations were not so fortunate or hardworking as he was, and Juma knew that if he tried to accumulate money at home, he would be unable to deny their continuous requests for help. He therefore made sure that he spent all his spare cash on new stocks, and he was now spending about \$140 each month on goods for his shop. He was pleased to see that this rate of spending meant that the level of stocks was rising each month. At the time of his sewing machine problem his stocks were worth about \$200 in total. He managed to keep the cash in the shop down to under \$5 by buying more goods whenever it rose above this figure. In this way he felt that he was avoiding the danger of robbery and was able to say 'no' if his relatives came and asked him for 'a loan' as they called it during his business hours.

#### Questions:

How would you recommend that Ali Bumba should obtain the \$200 necessary for the sewing machine. How long would it take him if he follows your advice?

## EXERCISE 4: AHMED PATNI

Everybody respected Ahmed Patni for his success as a trader, and he reflected somewhat bitterly that he was admired, and even envied, by most of the other traders in his area. But only he knew how difficult he found the day-to-day management of his three businesses and even of his own household expenses. Although his bus service, his farm and his shop were all reasonably profitable, they seemed to use up all their own profits. Patni sometimes could not even find a few dollars for his wife to go shopping. Any important investment in any of the businesses seemed to be quite impossible. He had asked an accountant to have a look at his rather sketchy accounts, and had been told that his affairs were making a reasonable profit. He knew that other traders in the area were improving their methods and learning more about their trades all the time, so that it was necessary that he should improve his own business in the same way to maintain his position. It seemed to be impossible to do this, because there was never time to think enough about it and the money just did not seem to be available.

Patni had a five acre farm in the hills above the village on the road where he had his shop and from where his bus service operated. He had about 500 coffee bushes and two cows, and grew corn and bananas for his own use and for sale. Patni was not sure how successful his farm was as a business, as it was also his home and a source of food, but he had tried with the accountant's help to produce some figures for his last year's work. These are shown in Exhibit 1. He had omitted from the 'balance sheet' the value of the house and of the one hectare of land around it, and he presumed that the apparent loss was caused by the large proportion of the farm's output which was used by his wife and which did not appear in the figure for sales. Patni knew that coffee was considered a secure and profitable crop, and his neighbours were planting more bushes and had even suggested buying some of his land. He had tried to increase his production of coffee, but the purchase and cultivation of the young bushes for four years before there was any return tied up a lot of money, so that he had only managed to plant a small number of bushes in the last few years. One of his neighbours had spent \$240 on a pulper and was getting far higher prices as a result. Patni's coffee crop was far too small to justify such an investment, however, and with land at \$600 or more a hectare he could not possibly increase his acreage and buy a pulper.

Patni's shop occupied rather more of his time than the farm, because he was able to leave his wife to look after the farm. It appeared impossible to hire an honest and reliable assistant for the shop at the wages he could afford. He sold a range of groceries and general goods, and had been appointed one of the three distributors for sugar in the area, as there had formerly been no wholesalers to do the job. Although it was officially frowned upon, Patni found that the main advantage of this distributorship lay in selling direct to the public. He had to pay cash for the sugar, and he could not manage to offer credit to other retailers, as the two other distributors in the village did, so he was not operating as a genuine wholesaler. Although a retailer would obviously buy far greater quantities than individual members of the public, it was also necessary to contact the other retailers in order to persuade them to buy from him rather than from somebody else, and Patni could not find time for this work. The traders knew that he competed with them as a retailer, and preferred to buy their sugar elsewhere. Patni's shop was in one of the best positions by the entrance to the market, and he had been one of the first traders in the area. He had done good business for about five years, but lately sales had fallen off. Other traders had started shops elsewhere around the market, and they had prospered by offering a larger selection of goods, of offering generous credit to carefully selected customers. Some also seemed able to buy in larger quantities, in spite of their recent start in business, and by passing on the lower costs as lower prices they had begun to tempt away even Patni's most reliable customers. He noticed that few young people patronised his shop regularly, but put this down to youth's infatuation with everything new. He was aware that his loyal customers admired him for his business skill and success, and enjoyed being served by somebody who owned three businesses, each as big as the one new shop next door, which seemed to be doing so well.

Patni had tried, rather half-heartedly, he admitted, to get a loan on the security of his shop premises so that he could properly exploit the sugar distributorship, offer more credit and hold larger and more varied stocks. The form he had filled in and, still more, his conversation with the Loans Officer showed that he was not really sure how his business stood or what he wanted to do with the money. The Loans Officer had told Patni that one of the main reasons that he was not approved for a loan was because he kept no proper accounts for his shop. Patni had prepared some rough figures as a result of this criticism, and these are shown in Exhibit 2. He had not reapplied for a loan, however, as he was not quite sure how he would find time to put the money to proper use if he did get it. In any case his shop seemed to be getting along well enough at the moment. Patni enjoyed working there as he met everybody in the village, even if they only came in to talk, and he could find out everything that was going on. He was careful not to take any goods out of the shop for his own use without paying, and he never drew cash from the shop.

It was in fact through a conversation in his shop that Patni heard of the threat to his third business. He had two buses which ran between the village and Capital City, each one doing the return journey once a day. There were two other bus operators in the village, each serving the same route with one bus. The number of people wishing to make the trip each day was such that on most days all four buses were full both ways, and often a number of people had to wait for a bus passing from a larger town in the hope of a vacant seat. Patni was proud to be the

biggest bus operator in the village, and often wished that he could afford another bus, perhaps a newer one which needed less maintenance, so that he could accommodate more passengers.

Patni now discovered that the Giant Bus Company, which operated a large number of buses to Capital City, was trying to buy out the other two operators in his village. Both these men were in need of money, and Patni thought that they would sell, much as they would have preferred to have the transport operated and owned in the village. Patni had heard of other instances where the Giant Bus Company had bought out small operators along the route to Capital City. They only bought such buses when they were being sold cheaply, and they could combine the services with all the other buses they were operating along the same route. Thus they were able to afford better buses and had their own maintenance garage. Patni had heard that they had received a Government loan to pay for the garage, but this was obviously way beyond his reach, and in any case, it was not worth carrying out the maintenance on two buses himself, and it had to be done by a garage in the village. Patni was sure that if his two local competitors sold out to the Giant Bus Company, fewer people would use his buses, and he was very worried at this threat. He enjoyed running his buses and had made a reasonable profit for the last two years. His results are shown in Exhibit 3. He wished that he could prevent the Giant Bus Company from obtaining a foothold in his village, and even talked to some of his friends about forming a co-operative group to buy out the two bus operators.

The two other operators each had one bus of about the same age and value as Patni's buses. They were keen to co-operate with Patni, as they were unhappy about the village losing control of its transport service. None of Patni's friends were interested in joining a group to prevent the Giant Bus Company from taking them over. They all said that they were very short of money and they needed their money for their own businesses. One or two of them suggested that Patni buy out the other two operators himself, but he had no need to look at his figures to know that a large cash payment of that sort was quite impossible. There was no money to spare after paying for the wages, repairs, spares and fuel for his own buses.

### Exhibit 1.

#### Balance Sheet for Patni's farm, on 31/12/75

Liabilities		Assets	
Value of original investment	\$1,100	Land	\$1,000
Owed to suppliers	300	Equipment	100
		Cattle	100
		Growing Coffee Plants	100
		Due from Coffee co-operative	50
		Cash, including personal money	50
	<u>\$1,400</u>		<u>\$1,400</u>

#### Profit and Loss Account for Patni's Farm for 1975

Sales		\$200
Seeds, Fertilizer etc.	\$150	
Casual Labour	<u>150</u>	
Total expenses	300	
Loss		<u>\$100</u>

### Exhibit 2.

#### Balance Sheet for Patni's shop on 31/12/75

Liabilities		Assets	
Original investment	\$600	Building	\$1,200
Profits left in the business from earlier years	1,700	Stocks of unsold goods	1,000
Owed to suppliers	<u>100</u>	Owed by customers	100
Total	<u>\$2,400</u>	Cash	<u>100</u>
			<u>\$2,400</u>

#### Profit and Loss Account for Patni's shop for 1975

Sales		\$1,900
Expenses: Cost of goods sold	\$1,500	
Labourer's wage	<u>150</u>	
Total expenses	\$1,650	
Profit		<u>\$ 250</u>

**Exhibit 3.***Balance Sheet for Patni's bus services on 31/12/75*

Liabilities		Assets	
Original investment	\$ 300	Buses	\$1,650
Profits left in the business		Spares, fuel in tanks, etc.	100
from earlier years	500	Bank account	100
Outstanding loan for purchase of buses	1,000	Cash	50
Owed to other suppliers	100		
Total	<u>\$1,900</u>		<u>\$1,900</u>

*Profit and Loss Account for Patni's bus service for 1969*

Received from passengers		\$6,650	
Expenses:			
Fuel	\$3,000		
Drivers' wages	800		
New tyres	500		
Maintenance	900		
Allowed for wear and tear on buses	400		
Rent for parking garage	200		
Interest on bus loan	100		
Licence and insurance	400		
Total expenses	<u>\$6,300</u>	Profit	<u>\$ 350</u>

**Suggested Analysis of Patni's Situation**

The case of Ahmed Patni is particularly difficult, and typical of real business life, because Patni himself does not really know what his problems are. It is no good trying to find answers until the difficulties themselves are known.

Patni, like most business people, would probably say that his main difficulty was lack of money. If he had more money he could extend his farm, stock enough sugar to become a real wholesaler, and also buy the two buses which were for sale. If we look at the balance sheet for each of Patni's businesses, we can see that he only has a total of \$200 in the form of ready cash. Much of this must be needed for daily transactions, and in any case the sum is insufficient for any one of the major improvements he wishes to make, let alone all three of them. Before agreeing with Patni that his problem is how to obtain more money, we should try to forecast what might actually happen if he did obtain it. He admits himself that he does not have enough time to manage his three businesses properly even now. If any or all of these were to be expanded, even more time would have to be devoted to management, and this time is not available. We can see from the profit and loss accounts of the three businesses that none of them is making sufficient profits to allow for the salary of a full time manager. In fact Patni has omitted any salary for himself from his list of expenses, and by this omission he has overstated the profits. It is therefore likely that if Patni can obtain enough money from loans or any other source, he will not be able to make good use of it because he cannot manage three businesses properly. His problem therefore may be management rather than money.

Bad management reveals itself in low profits in relation to the money being used, and the time being spent in a business. We can find out how much of Patni's own money is being used in his three businesses by studying the balance sheets:

1.	The Farm	Total value of business	\$1,400
		LESS Money owed to suppliers	<u>\$ 300</u>
			\$1,100
		Annual Loss	\$ 100
2.	The Shop	Total value of business	\$2,400
		LESS money owed to suppliers	<u>\$ 100</u>
			\$2,300
		Annual Profit	\$ 250

3. The Bus Service	Total value of business	\$1,900
	LESS money owed to suppliers and for buses	<u>\$1,100</u>
		<u>\$ 800</u>
	Annual profit	<u>\$ 350</u>

It therefore appears that Patni has invested a total of:

\$1,100	Farm
\$2,300	Shop
<u>\$ 800</u>	Bus Service
<u>\$4,200</u>	

His annual profit which includes his own salary since he has not recorded anything for this in his costs is:

	\$250	Shop
	<u>\$350</u>	Bus Service
	\$600	
Less Loss	<u>\$100</u>	Farm
	<u>\$500</u>	

This is not a very good reward for the use of so much time and money. It is the same as a monthly salary of just over \$40, which a man of Patni's experience ought to be able to earn without investing \$4,200.

We can also see that the three businesses are very different in terms of their profit in relation to the money and time being used. It is difficult to evaluate the farm, since Patni has no record of the value of the crops used by his wife for home consumption. The shop, however, occupies most of his time and \$2,300 is invested in it. The profit of \$250 is \$100 less than the profit obtained from the buses, where only \$800 of Patni's own money is invested. The bus service seems therefore to be a more successful venture than the shop or the farm. What can we conclude from this, both about Patni's general problems of management and his particular problem of the threat from the Giant Bus Company?

His basic problem is that he is trying to do too many different things at the same time. Most large companies specialise in one business; they make cars, operate aeroplanes, brew beer, grow tea or engage in any other sort of business which satisfies people's needs. It is very rare even for large international companies employing thousands of people to try to engage in three such different types of business as farming, shopkeeping and transportation. It is therefore all the less likely that Patni on his own will be able to manage his three businesses successfully. He might argue that specialisation in one business is too risky, and that by spreading his money and his time over three different enterprises he is protecting himself against the loss of all his money if one should fail. He may think that this argument is proved by the frequent failures of small businesses such as his. Very often, however, such failures are themselves caused by bad management which could have been avoided if the owner had specialised.

Patni is not short of money, since he has a total of \$4,200 invested in his three businesses; he needs to manage his money more efficiently, and he can do this by concentrating his money and his time in one business so that he can do it properly. How can he do this?

The money and time employed in the shop is at the moment not making good profit. There is at the same time an opportunity to expand the bus service by buying the two buses which are for sale. Patni should therefore consider selling the shop and buying the buses with the proceeds. If we assume that they will cost about the same amount to run as his present buses, his profit and loss account with four buses might be as follows:

Received from passengers		\$13,300 (Double 1975 figures)
Expenses:	Fuel	\$6,000 (Double 1975 figure)
	Driver's wages	1,600 "
	New tyres	1,000 "
	Maintenance	1,800 "
	Allowed for wear and tear of buses	800 "
	Rent of garage	400 "
	Licence and insurance	800 "
	Interest on loan	100 (No change, as no additional loan required)
	Total expenses	<u>12,500</u>
Profit		<u>\$ 800</u>

The present garage space might be enough for four buses, so that it would probably be unnecessary to double the rent payment. In addition, Patni could probably carry out his own maintenance so that the cost of maintaining each bus might be reduced. His profit might therefore be as much as \$1,000 or more per year.

We should therefore advise Patni to sell his shop, even if he has to accept rather less than the value shown in his balance sheet. He should invest the proceeds in the two buses which are presently for sale, and devote his management time and ability to his bus service. He might later consider selling some of his land, and reducing his commercial farming activity, so that he could further expand and improve the transportation business.



## **SESSION 40: INTRODUCTION TO MANUFACTURING**

If the consultants are not to be concerned with manufacturers, Sessions 40 to 45 can be omitted. If time allows, however, they should be retained, since many small-scale shops also involve tailoring, simple food processing or other manufacturing activities.

This session, like Session 23, consists of a 'guided tour' during which trainees are asked to note and discuss certain features of the businesses they see. In this case the trainees should be taken to a place where they can conveniently see a number of small-scale manufacturing enterprises. These may if necessary all be engaged in the same industry, but it is better if the trainees can see a number of different types of industry.

When possible the trainees should be briefly shown the processes and stages involved in each industry, and the business owners may be asked to explain their crafts.

The trainees may already be familiar with many of the industries, or with their products, but they will probably think that they are very different from the shops in which they have been working so far. They should come to realise as a result of this and subsequent sessions that manufacturing does involve different problems, and more stages and ways in which capital can be used and profits made; they should also realise that a business is a business whatever its activity, and that all the things they have been learning about shops apply equally to manufacturers.

As before, trainees and their instructor(s) should discuss what they see on the spot, rather than waiting for a formal session back in the classroom.

## EXERCISE 1: MANUFACTURING ASSIGNMENT

In this session you will be taken to see a number of different manufacturing businesses. In a single morning you cannot learn all about them but you should answer the following questions:

A retail shopkeeper carries out the following tasks:

1. Buying goods from suppliers.
2. Stocking the goods.
3. Promoting and displaying the goods.
4. Sub-dividing and re-packaging some of the goods.
5. Selling the goods to customers.

For each type of industry which you see during the session, answer the following questions:

1. What type of supplies does this business buy, and from whom?
2. In what ways does this business hold stocks?
3. How does this business promote and display its goods?
4. Are the products of this business all the same, or are they made especially for each individual customer?
5. Who are the customers of this business, why do they buy from this particular business and what do they do with its products after they have bought them?

Make a note of the answers for each type of business, and be ready to discuss them with the group.

## **SESSION 41: ALL DAY IN A FACTORY**

There is not enough time in this course for the trainees to have more than a brief introduction to manufacturing businesses. If they are to advise manufacturers they should be trained how to do this by their field supervisors on the job. Nevertheless they can benefit from some brief experience, which will improve their ability as shop consultants as well as start to prepare them for advising manufacturers.

Each trainee should be assigned to a manufacturer and should spend the whole day observing, helping and enquiring. There is no reason why trainees should not do this in pairs, particularly if there are not enough suitable manufacturers in the area.

The trainees should between them work in a number of different types of manufacturing business, so that they will be able to learn themselves or from their colleagues about a variety of industries.

Sessions 43, 44 and 45 will provide an opportunity for trainees to discuss what they have learned, but as in the previous field sessions there should be a period at the end of the day if possible for trainees to report their findings and their answers to the particular questions they were set.

## EXERCISE 1: MANUFACTURING ASSIGNMENT

You will be assigned to a manufacturing business where you will spend a whole day. Your aim should be to find out as much as possible about the business and in particular to answer the following questions:

1. Why is the business located where it is?
2. What types of stocks are held in the business, at what stages in the manufacturing process?
3. Why is each type of stock held?
4. Do there appear to be excess or too little stocks at any stage?
5. Make a rough plan of the business, showing how the materials move through each process until the product is completed. Are any of the movements of people or materials unnecessary? How could they be eliminated?
6. How were the products first designed? Are they well suited for the needs of the customers, or could they be improved? How? Would this make them too expensive?
7. Are there competitive products made in big modern factories? How does this business manage to compete?
8. How are the products promoted? Is there any advertising?
9. Are the products standard, or made especially for each customer?
10. Could the quality of the products be improved without making them cost more? How?

Write down answers to each of these questions, and discuss your ideas with the owner.

Be ready to present your findings to your colleagues on the course.

## SESSION 42: CONSULTANCY FOR MANUFACTURERS

Manufacturing businesses *look* very different from shops.

The people who work in factories *do* very different things from shopkeepers.

Manufacturers have very different *skills* from shopkeepers.

It is easy to conclude that manufacturing is quite different from shopkeeping, and that consulting for manufacturers requires completely different skills and training.

The technical skills needed for most manufacturing businesses can only be acquired after years of training and experience; they often appear quite mysterious to an observer, and the manufacturer himself may encourage people to think he possesses almost magical skills.

Factories are less *familiar*, since in most places there are many shops, and everyone has bought something from a shop at one time or another.

There are not so many factories, and many of them do not sell direct to the public at all, so people know less about them.

Before discussing the ways in which small-scale factories differ from, or are the same as shops, it is important to be clear what is meant by a manufacturer.

**Which are the following?**

A general shop with two tailors working in the shop.

A shoemaker who sells his shoes to the general public.

A restaurant.

A beer hall where they brew and sell beer.

A vehicle mechanic and garage.

Clearly all these are manufacturers – they are making something.

They are also shops – they are selling things.

Consider any business:

A shop selling food.

A barber.

A rice mill.

A chemist's shop.

A bicycle repair shop.

They are all providing very different services; the technical skills required are very different. This course could never qualify a consultant to advise a barber how to shave someone, or a shoemaker how to repair a pair of shoes.

They are all *businesses* and they all need *management*. A consultant does not need to be an expert in the craft to make useful suggestions as to the management.

**Consider what all businesses do:**

– They *buy* things

– They *do* something to them

– They *sell* the result

A shopkeeper may only open a box of 24 tablets of soap and display and sell them singly; the soap itself has not changed *physically*, but *value* has been added.

– The shopkeeper may sell it for credit.

– The bulk has been reduced

– The soap has been displayed, informing people of its availability

– The shopkeeper may wrap it up

– The shopkeeper may have stored it for some time to be sure of supplies when his customers needed them.

These are all added values, even though they do not affect the soap physically.

What does a carpenter do?

He buys wood, and with the aid of tools he changes it completely into a chair or a table.

There is a far greater difference between the cost of the wood, nails, paint and so on used in the chair than there was between the buying and selling price of the soap, because the carpenter has put more *labour* into the chair in proportion to the value of what he bought.

Ask trainees to compare the shops they saw earlier with the manufacturing businesses they have just worked in.

Ask trainees to state the most obvious differences.

Ask trainees to define the terms. Ask them to say which of these examples are shops or factories.

Count the number of different crafts covered by the businesses visited by trainees. How were the business people trained in the crafts?

Ask trainees what difference has been made to the soap by the shopkeeper.

Use a more suitable local example if necessary.

Choose an example where the final product is totally different from the raw material.

**What sort of advice** do consultants give to shopkeepers?

- 1) About *buying*?
  - To buy what people need
  - To buy from the best source
  - To buy in reasonable quantities
  - To avoid overstocking
  - To store goods properly
- 2) About *selling*?
  - To display goods attractively
  - To sell what people want to buy, when they want to buy it
  - To promote the sales
- 3) About *control*?
  - To keep records of cash, debtors, expenses, withdrawals, creditors.
  - To prepare regular accounts
  - To value stocks regularly
  - To ensure that all resources are profitably employed.

All these are equally applicable to manufacturers; the same techniques, forms and methods of 'selling' suggestions can be applied.

There are, however, some essential *differences*; these do not mean that any of what a consultant says will be *wrong*; there are some *additional* aspects of management that are involved in manufacturing businesses.

It is helpful to identify these by considering some of the decisions that small-scale manufacturers have to make that do not generally concern shopkeepers:

**They have to decide what to make.** Shopkeepers have to decide what to *buy*, and both decisions really depend on finding out what the customers *need*, but the *making* decision is rather different from the *buying* decision.

A manufacturer cannot *choose* from an assortment of ready made products, he has to decide what to make and to design it entirely.

Many manufacturers do not use this freedom but merely make what their fathers used to make, or what their neighbours make. The freedom still exists, even if it is not exercised.

A manufacturer *cannot* change his complete business as quickly as a shopkeeper; he cannot change from carpentry to metalwork in the same way as a shopkeeper can change from grocery to textiles.

A manufacturer *can* change the details of his products more or less as he wishes; colours, sizes, shapes can be adjusted to customers' needs, and the products can be improved or adapted to local circumstances in a way that ready-manufactured goods bought from a wholesaler cannot.

A manufacturer must decide whether to *make* or to *buy* every part of his products:

- timber can be bought ready dried or the carpenter can build a kiln
- nails can be bought or forged by the blacksmith himself
- food may be wrapped in locally available traditional protection (banana leaves) or in bought cartons
- raw steel, paper, paint and other items cannot usually be made by most small-scale manufacturers.

A manufacturer must decide what *stage* in the manufacturing process he should carry out, and what stages should be left to other manufacturers.

- should a shoemaker tan leather?
- should a weaver make clothes?
- should a carpenter cut lumber?
- should a brewer grow maize or barley?
- should a mechanic make spare parts?

Small-scale manufacturers often expand by moving forwards or backwards in the manufacturing chain; they must *decide* what stages to carry out, and must be prepared to expand into other stages, or to concentrate on fewer stages.

**They have to decide how to make it.** When a shopkeeper has decided what to sell, and how much of it to buy, the main decisions have

Review the material on advising shops.

Show by example that these recommendations are applicable to manufacturers.

Ask trainees what additional decisions manufacturers have to make.

Ask for examples of shopkeepers who have changed their products in this way, and compare them with manufacturers who still make what their ancestors always made.

Discuss the implications of each course of action. Ask the trainees what information they would need to decide.

Ask trainees these questions. If they answer 'yes' or 'no', show them that the answers must depend on individual circumstances. This is the purpose of individual consultancy such as they will be offering.

been made. A manufacturer has to decide on the way he will make his products, and his decision on *what* to make will often depend on the availability of *skills, equipment* and *materials*.

Manufacturers must decide what *materials* to use.

- They can use scrap material or new material; scrap is cheaper, new material is easier to work and may be more regularly available.
- They can use material of varying quality, of different thicknesses, or with different finishes.

Cheaper material makes the final product less expensive so that more people will be able to buy it. More expensive material will last longer, look better, and may be safer.

These decisions must be made carefully, with as much information as possible.

Manufacturers, even more than shopkeepers, have to cope with *change*.

This is a common reaction:

Consultant: 'Why do you use this material which is so scarce and expensive nowadays?'

Manufacturer: 'We have always used this material.'

There may be, and often are, good reasons in favour of *not* changing, but whenever a manufacturer explains present practice by saying that it has always been done this way, the situation should be carefully investigated.

**They have to decide how to sell it.**

Shopkeepers' business is to sell things to the final user; they may decide to move backwards in the process by becoming *wholesalers* or even manufacturers, but they then cease to be shopkeepers.

Manufacturers have to make decisions about the *channels* through which their products will pass to reach the final user.

Consider the options open to a manufacturer of clothes:

- 1) He can sell the clothes direct to the public from the same place where they are made.
- 2) He can sell the clothes to neighbouring shops for them to resell to the public.
- 3) He can sell the clothes to one or more wholesalers who will sell to retailers for resale to the public.
- 4) He can sell the clothes to travelling market traders who will resell them at various markets.
- 5) He can employ his own salesmen to take the clothes around the market places.
- 6) He can sell his clothes to schools, hospitals or Government offices for their staff.
- 7) He can sell the clothes to foreigners for export.
- 8) He can open his own shop or shops to sell the clothes, and possibly other products as well.

There are other alternatives; the choice must be made on the basis of estimates of the demand and the prices to be obtained through each method.

**The selling decision also involves pricing decisions;** prices depend on costs, and the next session will deal with how to find out what it costs to make things.

Prices also depend on judgement.

Estimates have to be made of the probable demand at various different prices.

Is it better to sell 100 shirts a month at \$5 or 50 shirts a month at \$6?

These decisions again must be made on the basis of *information* and careful *estimates* of what may happen.

The consultant should always, with all types of business, *ask* rather than *tell*.

Manufacturers are often so bound up in their crafts that they have not considered these kinds of decisions. Consultants do not need to know anything about the techniques to be able to ask intelligent *questions*.

The objective of consultancy is to make the business person *think*. Questions stimulate thought more than answers.

Discuss local examples of the use of scrap materials.

Ask for examples of cheap good products, and cheap bad ones.

Ask trainees to suggest answers.

Discuss the pros and cons of each possibility. How will each affect demand, and price.

Ask what information is needed to answer this question.

Ask trainees a simple arithmetic question. *Tell* them the answer to a similar problem. Discuss their behaviour; did the question or the answer stimulate more thought?

## The First Consulting Form

The first consulting form for retailers can be used for manufacturers as well, but there is not enough space for some of the answers, and some information is omitted. The consultant should therefore use the manufacturers' version of the form.

Decisions on *how* to make products are among the most difficult, and the most important, in terms of a job as well as profits.

- Should a shoemaker buy a sewing machine or employ three people to sew the soles and uppers?
- Should a blacksmith buy an electric powered forging hammer or should he continue to work with four men swinging hammers?
- Should a sweets manufacturer buy an electric mixer or employ two labourers to stir the boiling sugar?
- Should a baker buy an electric oven or continue to buy wood from another village where several families live on firewood earnings?

### *Machinery costs money to buy:*

If it is bought on hire purchase terms, there is a long term obligation to continue paying.

If machinery breaks down, it may be expensive to repair, or there may be no parts available or skilled mechanics.

It can often only be used for one process or product.

### *People have to have wages:*

They may refuse to work at certain times of the year.

They may leave for better jobs.

They may strike for better wages.

They have to be 'managed' more tactfully than a machine.

They may be relatives and believe that they have a right to a job whatever they do.

They may steal products or money, or learn the craft and set up in competition.

Decisions on how to make things must be made on the basis of *information*, like any other business decisions.

- Information about the past and present way of making the product.
- Estimates about possible future ways of making the product.

The decisions must be based on figures, but must take into account social, family and other factors that cannot easily be put into figures.

These questions enable the consultant to construct a balance sheet and profit and loss account for any manufacturing business, just like the form for shopkeepers.

In some cases, there may not be enough space, or the questions may need adaptation, but the basic order and subjects are suitable for any business.

Distribute copies of the manufacturers' first consulting form. (Handout 42.1).

Ask trainees to discuss the social and financial implications of these decisions. Ask for examples of local changes in production methods. How did they affect employment?

Ask trainees what are the disadvantages of machinery.

What are the disadvantages of employees?

Ask trainees what sort of information is needed. How can it be obtained?

Go through the questions on the form asking the trainees if they believe that 'their' manufacturer could have answered them.

Ensure that every trainee understands the purpose of every question. Ask the trainees to re-word the questions as they would for a manufacturer who did not understand.



# FIRST CONSULTING FORM

Manufacturer

Date \_\_\_\_\_

Consultant \_\_\_\_\_

Name of Business \_\_\_\_\_

Type of Business \_\_\_\_\_

Address \_\_\_\_\_

Date Business Started \_\_\_\_\_

Name of Owner of Business \_\_\_\_\_

I am trying to help the country's small businesses to make more money, by giving them advice. Before I can do this, I must know something about your business. I am sure you want it to expand; what is the most important thing that prevents you from being more successful than you already are?

Not enough customers ( ) Cannot afford the necessary machines ( ) Skilled labour scarce ( ) Material Problems (Specify) ( ) Poor Buildings ( ) Need for electricity ( ) Slow Payers ( ) Other Difficulties (specify)

I may not be able to help you get what you need, but there may be other ways of solving your problems, using what you already have. If my advice is to be any use, it must be based on your situation; I must therefore know something about your business;

Do you own the building? What is it worth, if so? \_\_\_\_\_

What is the value of your benches, and other furniture? \_\_\_\_\_

Do you own a vehicle? \_\_\_\_\_ Value \_\_\_\_\_

What small tools do you have? \_\_\_\_\_ Value \_\_\_\_\_

What machinery do you have?

Machine	Value
---------	-------

Total \_\_\_\_\_

What value of unsold finished products do you have?

Product	Number	Selling Price	Value
---------	--------	---------------	-------

Total (Use separate sheet if necessary) \_\_\_\_\_

What value of work-in-progress do you have?

Product	Number	Selling Price	1/4/1/2/3/4 finished	Value
---------	--------	---------------	----------------------	-------

Total (Use separate sheet if necessary) \_\_\_\_\_

What stocks of raw materials do you have?

Material	Quantity	Cost	Total	Value
----------	----------	------	-------	-------

Total (Use separate sheet if necessary) \_\_\_\_\_

Do you give credit to your customers? How much do they all owe to you today, whether overdue or not (Try to check from records) \_\_\_\_\_

Do you have a bank account. How much is in it? \_\_\_\_\_

How much cash have you got which belongs to the business? \_\_\_\_\_

The total value of everything in your business is therefore \_\_\_\_\_

Let us see where you got this money from; \_\_\_\_\_

Do you buy any goods on credit? How much do you owe now? \_\_\_\_\_

Do your customers ever make advance deposits? How much have you got from them now, for goods not yet collected? \_\_\_\_\_

Have you had any loans? How much do you owe now? \_\_\_\_\_

How much did you invest at the beginning, and since then? \_\_\_\_\_

You, and your suppliers etc., have put in . . . . . total \_\_\_\_\_

The difference between this total, and the value of what is in your business today, must have come from your profits \_\_\_\_\_

The total value of everything in your business is, as we worked out before \_\_\_\_\_

Now let us try to work out how much profit or loss you are making every month;

Do you sell your products direct to their users ( ) through other shopkeepers ( ), other means (specify)

What are your sales in a month?

Item	Number Sold	Selling Price	Value of Sales
------	-------------	---------------	----------------

Total (Use separate sheet if necessary) \_\_\_\_\_

What value of materials do you use in a month?

Material	Quantity	Cost	Value
----------	----------	------	-------

Total (Use separate sheet if necessary) \_\_\_\_\_

What do you spend on consumable tools each month? \_\_\_\_\_

How many staff do you employ? \_\_\_\_\_ What are their total wages? \_\_\_\_\_

What do you pay yourself, and how much do you withdraw from the business during the month? \_\_\_\_\_

What do you pay in hire purchase charges each month? \_\_\_\_\_

What are your transport costs each month? \_\_\_\_\_

What do you pay for electricity, fuel, water etc. per month? \_\_\_\_\_

What rent do you pay? \_\_\_\_\_

What is the *monthly* cost of your licences? \_\_\_\_\_

If you have a loan, how much do you have to pay each month in interests and repayment? \_\_\_\_\_

The total value of your monthly costs is therefore \_\_\_\_\_

If we subtract this from your total monthly sales above we arrive at your monthly profit or loss \_\_\_\_\_

How many hours of direct labour of manufacturing do you average each month? \_\_\_\_\_

What are the total wages paid for manufacturing labour only? \_\_\_\_\_

Wages divided by the total hours of direct labour is your average cost per man hour \_\_\_\_\_

The total of all manufacturing overhead expense is the total of all monthly costs less the materials purchased and the manufacturing labour. This amount is \_\_\_\_\_

Divide this amount by the total hours of direct manufacturing labour. This is your cost per hour for manufacturing overhead expense \_\_\_\_\_

Your business is more difficult than a shopkeeper's, because you have to decide for yourself what prices to charge.

Let us try to calculate the cost of one of your best selling items.

Item \_\_\_\_\_

How much material is used in this item?

Material	Quantity	Cost	Value
----------	----------	------	-------

Total (Use separate sheet if necessary) \_\_\_\_\_

What cost of labour goes into this item?

Work	Wages	Time Taken	Value of Work
------	-------	------------	---------------

Total \_\_\_\_\_

Based on the value of the sales of this item, compared with your total monthly sales, it should pay for . . . . .% of all your other costs apart from materials and wages which we have worked out above. The total of your other costs is . . . . . This item should carry . . . . . of this amount; this share, divided by your monthly sales of this item, gives . . . . . as the share of general expenses which should be carried by one unit of this item *or* your overhead cost per hour worked out above multiplied by the number of hours and/or part hours to produce this item \_\_\_\_\_

Total Cost of Production per unit is \_\_\_\_\_

Selling Price per unit is \_\_\_\_\_

Profit or loss per unit is therefore \_\_\_\_\_

Is there any way in which you could reduce this cost, without reducing the quality? Let us examine every part of the item.

Can you use a different, or less, or thinner, material?

Can you simplify any part of the manufacturing process?

Can you do without any part altogether?



## SESSION 43: MANUFACTURING MANAGEMENT

All small businesses are faced with *change*.

Shopkeepers are in many ways forced to *change*. They only buy what their suppliers have to sell, and since large-scale manufacturers are often the leaders of change, the shopkeepers who sell their products are forced to buy and sell new things even if they do not really agree with them; the manufacturers can advertise direct to the public and the shopkeepers have to provide what people want.

Manufacturers are not so lucky; the easiest thing for them to do is carry on making the same things they have always made, in the same ways. It is difficult to learn to make new things; far more difficult than it is to buy and stock new products when the manufacturer suggests it and advertises them to the public.

In many countries, small-scale local manufacturers have developed their products, and their crafts, over many generations; whole communities are devoted to a particular product, and it is impossible to change without the whole village changing since the production job is divided up between large numbers of families.

Small-scale manufacturers *must* adapt to change, and change themselves, since so many changes are occurring all the time. The choice is often not between changing and staying the same, but between changing and the death of the business.

### A — Change in Supplies

- Raw materials which were available free of charge as a by-product of another process disappear as a result of other changes.
- Prices of raw materials increase beyond the means of the business, so that alternatives have to be found.
- Other small businesses which were supplying material or parts go out of business.

### B — Changes in Competition

- New competitive products appear on the market made and marketed by large modern companies.
- New developments make the product useless; (e.g. piped water means that less water carriers will be sold).
- New processes allow the same product to be made more cheaply by other businesses which can afford the equipment.
- Competitive manufacturers adopt new methods of promotion and distribution.

### C — Changes in Regulations

- The Government makes new laws about working conditions, minimum wages, maximum hours of work and so on, that greatly increase costs.
- Public opinion, or regulations, mean that traditional processes can no longer be carried on because they pollute the air or the water, or they make too much noise.
- The Government make rules about the specifications and contents of products so that it becomes impossible to make things in the traditional ways.

### D — Changes in Workers

- New industries 'poach' skilled workers from traditional businesses with higher wages which the small businesses cannot pay.
- Workers demand higher wages and better conditions, and may refuse altogether to work in primitive conditions.
- As family loyalties break down, it becomes harder to secure the services of unpaid assistants.

Ask trainees how large manufacturers persuade people to ask shopkeepers for new products.

Discuss local examples of village industries; are they ready to change?

Ask trainees to suggest changes in supplies, competition, and markets which have affected local manufacturers. How have they responded?

Ask trainees for examples of each change. Did the affected business find a solution?

Find out about how Government regulations affect local small businesses.

Ask trainees how wages in modern factories compare with small business wages.

## E – Changes in Markets

- People's taste changes and they want to buy new things instead of the traditional product with which they are familiar.
- People move to new areas to follow new industries, which themselves create new demands for new products.
- The cities grow and attract wealth and talent; the rural areas no longer provide a market and rural manufacturers must find ways of selling to the cities.
- All these changes are part of development and progress; they are opportunities as well as problems, but they all involve change.

Small-scale manufacturers sometimes look upon all changes as a disaster; the consultant must help them realise that there are many advantages that go with being a small business, and all the changes that are taking place can enable a capable businessman to be far more successful than he could have been in the old unchanging situation; the unenergetic businessman may fail.

Consultants can show small-scale business people how to take advantage of their strengths:

- 1) They are flexible and can change materials, design, markets and products far more quickly and cheaply than large businesses with expensive tools and machines.
- 2) They usually have an ample supply of labour, and if the craft is traditional in the area, there will be skilled people ready to work. Larger modern businesses need new skills, which are unlikely to be available.
- 3) They are close to their customers, and can make exactly what is needed; the tailor can make a suit of clothes for each customer, and a blacksmith can make agricultural tools which are exactly right for local soils and crops.

A consultant does not need to be a craftsman to be able to give useful advice to a small-scale manufacturer; *asking questions* is even more important than for shopkeepers; the right questions can help a manufacturer to take advantage of the opportunities provided by new circumstances.

## Product Selection and Design

Existing skills may have to be used to make new products. Existing products may have to be redesigned.

The consultant can help by asking:

- 'Is this product what you can *make*, or is it also what people here *need*?'
- 'How can you change this product to make it more suitable for people nowadays?'
- 'The new mass-produced products are hurting your sales. We know their advantages. In what ways are they unsuitable for people here? How can you make your products better than theirs, because you know exactly what these people here want, while the larger business has to make the same product for everyone?'
- 'Do people here all like the same colour? Are they all the same size? How can you offer a more individual product?'

## Manufacturing Methods

The precise details of the craft cannot be known to a consultant. The consultant should ask the business person to explain the process stage by stage; this is necessary in order for the consulting form to be filled in, but it also gives opportunities for useful questions.

- 'Would it not be possible for the benches at which work is done to be laid out so that the products move smoothly along in a line rather than having to back track and become mixed up with other products at different stages?'
- 'Cannot that piece of metal be combined with the other piece instead of being joined to it with an expensive bolt and screw?'
- 'Need that part be so thick?'

Ask trainees to suggest how each of these changes might be viewed as an opportunity.

Ask trainees to suggest advantages of small size.

Ask trainees for examples of locally designed products.

Ask trainees to suggest answers as if they were local manufacturers.

Ask trainees how long it takes to become fully skilled in local crafts.

- 'This material is, as you say, more expensive and hard to get. Is there no other material which would do the same job?'
- 'We have seen that you have a lot of money tied up in work in progress. Why is it necessary to store part-finished products at this stage?'
- 'You say you need a skilled man to do this job. Could you not think of some way in which the parts could be held in position while they were being worked, so that the job would be easier?'

All these questions arise from taking a fresh look; there may be good reasons why most of them are of no value, but some will lead the manufacturer to improvements he would never have thought of himself.

### Quality Control

Many people complain that the products of small-scale manufacturers are shoddy, badly finished and will not last in service.

As incomes and standards increase, it is often possible to upgrade product quality at little expense, and the small-scale manufacturer can usually inspect every product.

Consultants can help with questions:

- 'How would you feel if you had just spent a month's wages on this product?'
- 'How long would it take to smooth out that rough edge on each product you make?'
- 'The mass produced products are cheap and poorly made. How can you do better, *and* tell your customers that yours are better?'
- 'You say this is the highest quality. What qualities does the customer really need? Are they the sorts of things you have been telling me about? How can you satisfy their real needs?'

### Who Does What?

In many places 'community industries' have developed over generations; changes in products, methods or the types of other jobs which are available may mean that these tend to break down. Some small-scale manufacturers may feel that they cannot continue without the support of the traditional community; the consultant should ask:

- 'Who else could carry out those tasks that your neighbours used to do?'
- 'You say you cannot make or sell more than you are doing at the moment. Could you undertake more of the processes involved in your own business, rather than buying part finished goods from others?'
- 'Could you not finish this product yourself instead of selling it unfinished?'
- 'The old crafts are dying out, but there are many unemployed young men here. How can you interest them in this business?'
- 'How were you trained? Are you doing the same for someone else to succeed you, or to help your business get bigger?'
- 'You are very skilled, and this restricts the number of products you can make; could you not train young people for a fee, so long as they do not come from the immediate neighbourhood, and thus get help and income at the same time?'
- 'The people who used to buy these things have gone. How can you reach them? Would it be possible for you to move your factory to them, and possibly find other customers as well?'
- 'All these management ideas would be useful you agree, but they take a lot of time. Could you hire someone to help you with the book-keeping?'

### The Way Things Are Sold

The traditional ways of selling things are often subject to change; it may be possible to make and sell things in the same place, the new markets may be far away, or traditional relationships between suppliers and distributors may break down.

Consultants can draw on their experience in shops:

Take examples from the manufacturing businesses the trainees have seen.

Ask trainees to suggest other similar questions they might ask the small-scale manufacturers they have seen.

If possible bring examples of poorly finished products and discuss what would be involved in improving them.

Ask trainees for suggestions.

Ask trainees how local manufacturers sell their goods; do most sell direct to the public, or through other shops?

- 'You say this is better than the mass produced product, and it is certainly cheaper. How can you make sure that your customers *know* this?'
- 'You have too much to do; would it be possible to allow someone else to do the selling so that you can concentrate on the manufacturing?'
- 'The village elder is no longer interested in buying everything you make. Might there not be other customers, who would perhaps pay a higher price?'
- 'The people here all seem to want mass-produced things from the city. What about the people in the city, what do they want, and how can you find out?'

### Doing Things Together

Small-scale businesses are at a disadvantage compared with their larger competitors in some ways.

- They cannot buy such large quantities of raw materials, thus they pay more and wait till the end of the queue.
- They cannot on their own make economic use of modern machinery which they may need to compete in quality or price.
- They cannot afford to promote their goods effectively, because the costs of printing posters, advertisements and so on are beyond the scope of one manufacturer.
- They cannot afford to train people as thoroughly as they should.
- They cannot afford to find out about the more distant markets on their own.
- Larger customers may play them off against their competitors and thus obtain cripplingly low prices.

The obvious solution may be to *combine*; it is possible for small businesses to combine to carry out one or more of these types of tasks, but still to keep their independence in other ways.

Small business people may be very independent, and mistrustful of one another. It is therefore difficult for one individual to start any joint activity even if it only involves two businesses, because the other suspects him of trying to take over the whole business.

An independent consultant can:

- 1) Identify the need and opportunity for joint activity of this sort.
- 2) Suggest the idea to possible participants without being suspected of bias.
- 3) Suggest ways in which the activity might be run.
- 4) Eventually act as an arbitrator in case of disputes.

Only an experienced consultant can contribute a great deal to the actual organisation of any such group, but every consultant should be alive to the possibilities and should not hesitate to suggest joint activities to business people and to supervisors.

All these types of advice can be provided by consultants with only the barest knowledge of technical processes; in many ways, deep knowledge of a craft prevents a business owner from taking a clear view of the activity as a *business*; the consultant can lead the craftsman to become a businessman.

Ask trainees for examples of local industries which might benefit from these things, but cannot afford them. What can they do? How can the consultants help?

Ask trainees to suggest why this form of combination rarely succeeds.

Ask trainees to suggest industries where this type of joint activity might be appropriate.

Could local shopkeepers benefit from joint activities in buying, security, promotion, transportation?;



## SESSION 44: COST ACCOUNTING

Ali has a thriving one year old business making chairs. He sells 35 per month at \$6.00 and employs one assistant, Mohammed Shah, to help him. Ali is very proud because the other carpenter in the village sells chairs of a similar quality for \$7.00. So, most people come to Ali for their chairs. But Ali has a problem. He seems to be running out of money and he has to get money from friends to buy materials. He had hoped to make \$50.00 per month for himself, but has not always been able to draw a full salary because he is always short of money for materials.

The last few months he has been keeping all receipts and knows that his material purchases (wood, glue, nails, etc.) are \$3.20 per chair or \$112 per month and he pays Mohammed \$50 per month in wages. He is making more money in sales than he is spending on materials and wages.

He also kept receipts for other expenses which he thinks may be causing the problem. He pays \$10 a month for transport and \$15 per month for rent. He is also concerned because he has \$120 worth of tools, and half are worn out and need replacing.

Cost of materials	= \$112
Cost of wages	= \$ 50
Cost of owner's wages	= \$ 50
	<u>\$212</u>

At 35 chairs per month this equals approx: (1) \$6.06 per chair

He has two other items of expense:

Transport	= \$ 10
Rent	= \$ 15
Total	= \$ 25

At 35 chairs per month this equals approx: (2) \$0.70 per chair

He needs to replace half his tools or \$60.00 worth after one year.

This equals about \$5 worth of tools per month which equals about:

(3) \$0.15 per chair

If (1), (2) and (3) are added together, the cost to Ali of making each chair equals:

$$\$6.06 + 70c. + 15c. = \$6.91 \text{ per chair}$$

So, Ali is selling each chair for 91c. less than it is costing him to make. His monthly profit and loss account looks like this:

Sales 35 chairs @ \$6.00	\$210
Materials 35 x \$3.20	\$112
Wages for Mohammed	\$ 50
Ali's wage	\$ 50
Transport	\$ 10
Rent	\$ 15
Depreciation	<u>\$ 5</u>
	\$242 Loss \$ 32

While Ali is wondering what do do, he receives an order from the local school for 15 extra chairs per month.

This will mean monthly sales of 50 chairs, and although Ali had been considering increasing the prices to cover his costs, he accepts the order at \$6.00 per chair.

Ali and Mohammed Shah are quite able to produce the extra 15 chairs per month and Ali finds that after a few months the situation has improved.

The profit and loss account for a month now looks like this:

Sales 50 chairs @ \$6.00	\$300
Materials 50 x \$3.20	\$160
Mohammed's wages	\$ 50
Ali's Wages	\$ 50
Transport	\$ 10
Rent	\$ 15
Depreciation	<u>\$ 5</u>
	\$290 Profit \$ 10

Total cost per chair  $\$2.90 \div 50 = \$5.80$

Describe the following situation or a more relevant local situation. Go through it.

Describe the situation slowly, and ask trainees to note the important facts. Try to put them in the position of consultants listening to a business person talking about his problems.

This example may be dramatised or recorded on tape.

Ask trainees what Ali is forgetting. What is he doing wrong?

Ask trainees what Ali's real situation is. What is it costing him to make each chair?

Ask trainees how the other expenses should be covered.

Refer to 'depreciation' discussed in Session 16.

Ask trainees what Ali should do. Should he raise his prices? Should he try to sell more chairs?

Ask trainees what might happen if Ali increases the price. What affect might this have on the *cost* of the chairs?

Ask trainees to draw up a profit and loss account for the changed situation.

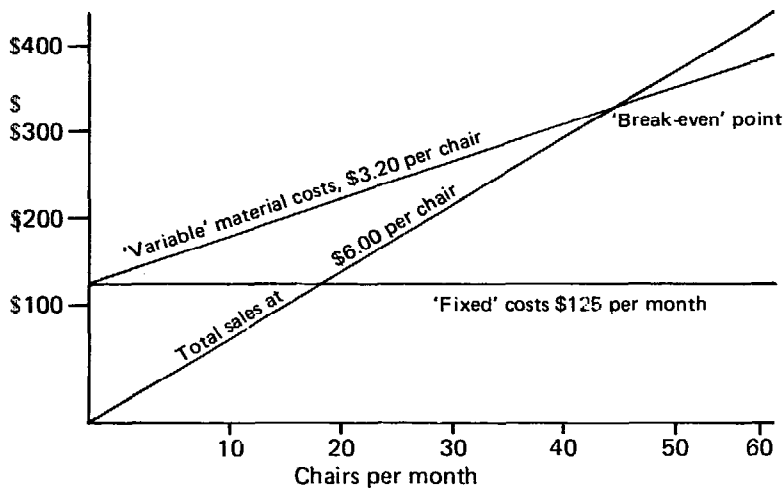
Ask trainees to explain the change from a \$32 loss to a \$10 profit. What has happened to the cost of each chair?

Why do the same chairs cost \$1.11 less?

The cost of each chair has gone down because some costs have remained the same, or *fixed* at the higher rate of production.

Other costs have increased; these are *variable* costs. In this case, only the material costs are variable.

The situation can be illustrated by a 'break-even chart'.



At different rates of sales, the 'fixed' costs might no longer be fixed.

- Lower sales might mean that Mohammed would no longer be required.
- Higher sales would mean more employees, more wear on tools, and possibly more rent and transport expenses.

There are a number of important conclusions to be drawn from the account of Ali's chair business.

- 1) In setting prices, business people must take account of all costs, and not just those *directly* related to the products themselves.
- 2) Some costs *vary* according to what is produced, while others are *fixed*, at least within a certain range of production rates.
- 3) If production can be increased, without increasing all the 'fixed' costs, the *cost per item* will be lowered. This can lead to lower prices and higher wages and profits.
- 4) Beyond a certain point, 'fixed' costs cease to be 'fixed'. Costs must therefore be carefully calculated for every likely rate of production.

Small-scale manufacturers often make two errors:

- 1) They fail to cover 'overheads', when quoting for contracts or setting prices.

(e.g. a tailor forgot rent and maintenance of sewing machines when quoting for school uniforms; a miller forgot that he had to replace the main drive belt of his mill every year.)

- 2) They fail to appreciate that higher production can lead to *lower* costs.

(e.g. a tanner refused to quote lower prices for a large enquiry from a shoemaker's co-operative, although the extra demand could have been met with no extra labour or equipment, just more skins and more chemicals.)

When dealing with manufacturers, a consultant must ensure that:

- 1) The business owner knows what *all* his costs are, and that they are all covered in selling prices.
- 2) That the business person is able to estimate costs of *new* products, or different production rates of *existing* products.

The consulting procedure for manufacturers is similar to that for shopkeepers.

Additional information is needed on:

- a) Each of the 3 different types of 'stock'; raw materials, work-in-progress and finished products ready for sale.
- b) Cost of manufacture of major items.
- c) Possibilities for economies.

A consultant can obtain the necessary information and identify gaps and possibilities for improvement without detailed knowledge of the particular industry.

Ask trainees to identify the fixed costs.

Ask trainees to draw a 'break-even chart' to find out the minimum number of chairs to be sold at \$6.00 for the business to 'break-even'. Refer to Session 18.

Draw the chart on the board. Read the 'break-even' point (between 44 and 45 chairs per month) from the chart, and show trainees how to calculate the figure.

Ask trainees to suggest cost changes which might arise from higher or lower sales rates.

Ask trainees to suggest easily forgotten 'overhead' costs of this sort in local industries.

Ask trainees to identify 'fixed' and 'variable' costs in local industries.

Ask trainees to suggest 'fixed' costs which would have to be increased to cover increased production in local industries.

Ask trainees for examples of both mistakes.

Ask trainees if local manufacturers know all their costs.

Refer to 'first consulting session' form for shops and for manufacturers and ask trainees to compare them. What extra information is sought from a manufacturer? Why?

Go through the manufacturer's form line by line with trainees, ensuring that each item is understood. Ask trainees to say what they would look for when asking each question in the industries they have seen.

## **SESSION 45: EXERCISES IN MANUFACTURING MANAGEMENT**

These exercises involve woodworking, tank manufacture and mining, but the problems are basically no different from those experienced by shopkeepers. There is no need for the trainees to know anything about these particular industries in order to be able to analyse the situations and answer the questions.

### **Exercise 1 – Juma's Carpentry Shop**

This introduces the problem of accounting for the value of work in progress as well as stocks of raw materials and finished chairs, but this should not pose any problems if the trainees are guided in their analysis.

Discussion may focus on the following points:

- 1) The need to account for work in progress and raw materials as well as finished products ready for sale.
- 2) How to allow for the 'depreciation' in the value of tools.
- 3) The calculation of costs and setting selling prices.
- 4) The need to delay withdrawals of cash until a business is properly established.

### **Exercise 2 – The Sandhu Metal Works**

This exercise concerns a metal works, but the problem of site selection faces every business when it is started; business people often have to move, or should move for the sake of better trade, and the decision should attempt to estimate the effects of different alternatives.

Discussion may focus on the following points:

- 1) Fixed and variable costs.
- 2) The need to estimate the future effects of possible changes.
- 3) The importance of choosing the right position depending on the nature of the business and of its customers.
- 4) The difference between 'planned' purchases such as tanks, and 'impulse' purchases such as troughs or bowls.

### **Exercise 3 – Pedro's Mica Mine**

Mining may appear to be a rather unusual kind of business, but there are many small mining enterprises, and many other opportunities which are ignored or allowed to fall into the hands of foreign companies because local people fail to organise the extraction, collection and marketing of the mineral.

Discussion may focus on these points:

- 1) The problems and advantages of one man businesses, partnerships and a limited company.
- 2) The problems of part-time business.
- 3) The combination of technical skills and better management.
- 4) The problems of parents and children in the same business.

## EXERCISE 1: JUMA'S CARPENTRY SHOP

'Well, it is June 30th, and you have been on your own for a year now, Juma,' said his uncle Mohamed, 'How are you going, and how do we stand today?'

Juma had worked in a carpenter's shop in the city for five years after leaving school. In early 1975 he had come home when his father died to take over the family land and to help bring up and educate his younger brothers. He soon found that the land was not enough either to keep him busy or to earn the money they needed, so he decided to use his wood-working skill and start a business.

He had \$100 of his own saved from when he had worked in the city and his uncle Mohamed had given him another \$100. 'You needn't pay me any interest, Juma,' he had said at the time, 'and don't worry about paying me back, at the moment at any rate. Just let me have half the profits when you can afford it.' Mohamed believed that Juma was a clever young man, and he knew that he was a good carpenter. He thought that in the end he would do more good to Juma's family by supporting his business in this way than by helping them from time to time with school fees and buying them clothes and food.

Juma had rented a plot in the market for \$5 a month. He bought a set of tools from his previous employer in the city for \$70, and as he had only used these tools himself, he thought that they would last for about five years. He had not been quite sure what sort of things to make and sell, but since he had the money he had thought that he should buy a reasonable supply of wood and other materials before he started work. Juma had therefore bought 400 metres of good quality 5cm x 5cm timber for 6 cents a metre, 100 metres of 6cm x 4cm timber for 7 cents a metre and 10 2-metre square sheets of plywood for \$1.50 a sheet. With such a large order he managed to persuade the timber supplier to deliver it free, and to make no charge for delivery from then on. He also bought \$2.00 worth of screws and other hardware, and some varnish. Mohamed had been rather surprised to see how quickly he spent the money, but Juma had told him that in the city such a supply would have lasted only a few days.

Juma had started business on July 1st. the previous year, and at first had been very disappointed at the lack of interest shown by people particularly as his plot was so full of materials. In order to stop himself from worrying he had started to make some chairs. These were standard, hard-seated wooden varnished chairs, made as Juma had learnt in the city. They were good for schools, hotels, shops or homes, and Juma made a few and put them in front of his plot. He put a price of \$2.50 each on them, since this was what his old employer had charged for the same design. Juma soon found that he could sell these chairs as fast as he could make them. He therefore gave up any idea of making anything else, but made as many chairs as he could.

Juma had worked hard, and he was always careful to separate his own money from that belonging to the business. He withdrew only \$10 a month for himself, but early in the year he had to take an extra \$15 for school fees and uniforms. He kept very few records, as he was so busy making chairs, but he did note down exactly how many chairs he had sold, and he kept the bills from the timber and hardware suppliers. When Mohamed asked him how he was doing, he realised that he ought to be able to tell him how his \$100 had been used.

He really had no idea what to tell his uncle. He counted the number of chairs he had sold during the year, and found he had sold 208. He had always asked for cash whenever he sold a chair, and he had always charged \$2.50 each. He had noted that the school had bought 12 more chairs on June 15th this year, which they had promised to pay for in the middle of July. Juma himself always had to pay cash for his timber and hardware, and when he added up the bills, he found that he had bought \$268 worth of timber in addition to his starting order, and \$40 worth from the hardware dealer, again not including the starting lot. Juma thought that he had all the information he needed, but he remembered that his uncle had asked, 'How do we stand?' Juma thought that this might mean, what did he have at the moment, although this seemed little enough when he thought of all the work and materials that had passed through his hands over the year. Juma saw that he still had the original 100 metres of 6cm x 4cm timber, since he had bought this thinking of other products he might make besides chairs. He also had 300 metres of 5cm x 5cm timber and 15 two-metre square sheets of plywood. He had more or less finished his hardware and varnish, except for one 50 cent tin of glue. There were twelve other completed chairs waiting to be sold.

Juma felt quite pleased with his first year's work. He still had some cash in the business, he had paid the rent for July, August and September in advance and he had been very busy all the year. However, he did not see how to tell his uncle how well he had made use of his \$100 and what were his future expectations.

### Questions for Juma's Carpentry Shop

1. Make out a balance sheet for Juma's business on 30.6.75. when he had bought his tools and his first lot of materials, but he had not paid any rent and had not made or sold anything.
2. Make out a cash account for Juma's business for its first 12 months, showing how much cash has come into and gone out of the business during the year. How much cash should there be in the business on June 30. 1976?
3. Make out a profit and loss account for the business for its first 12 months. How should Juma record the fact that he will probably have only four more years' use out of his tools after the first year?
4. Make out a balance sheet for the business on June 30th. 1976.
5. How much profit is Juma making on each chair that he sells? Should he pay himself or his uncle Mohamed anything out of the business after the first twelve months?

## EXERCISE 2: THE SANDHU METAL WORKS

The redevelopment of the business area in Sandhu posed a difficult problem for Noor, proprietor of the Sandhu Metal Works. He had been offered different sites, and had to decide within two days which he should take. A plan of the market area appears as Exhibit 1. Site A was about 100 square metres, and the rental was \$100 a year. Site B was about 200 square metres, and the rental was \$200 a year.

The metal works had until then been carried on in one of the thirty poorly constructed traders' buildings which had surrounded the old open market place. Each of these buildings had been about 100 square metres in area, although it had always been possible to overflow onto the roads in front and behind the building itself. A group of local investors, supported by Government loans, had completely reconstructed the market area and the traders' buildings. Tenants would not be allowed to use any space beyond the boundaries of their plots. The new market had purposely been designed to suit different traders' needs, and Noor had to take Site A or Site B if he was going to stay in business at all.

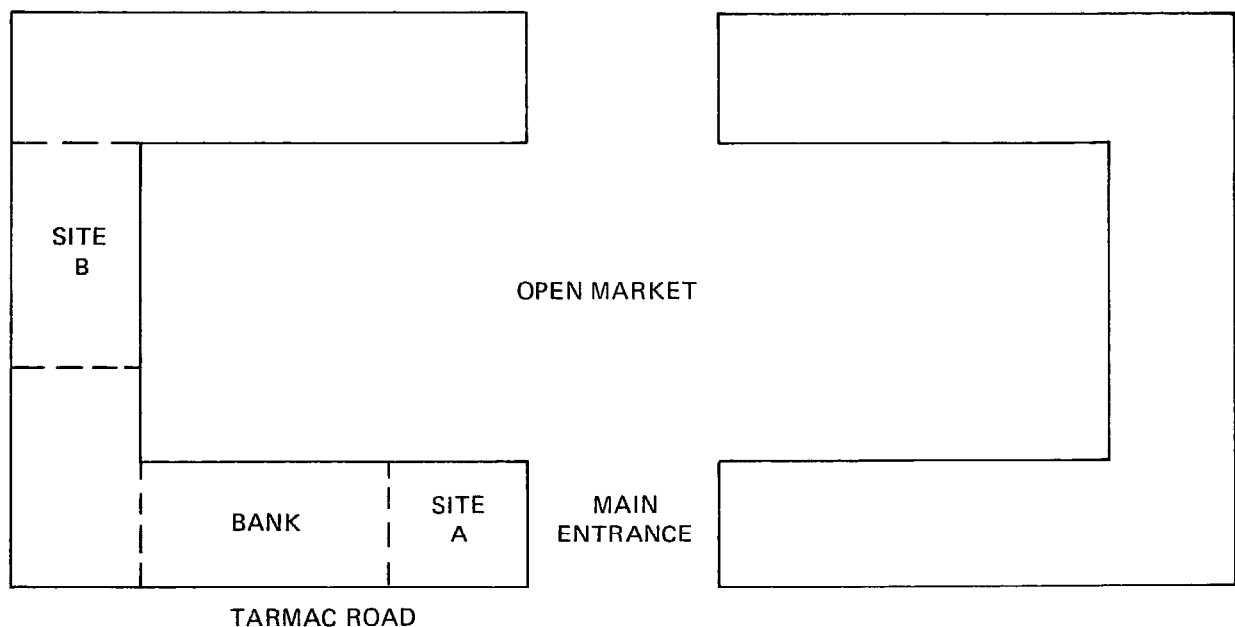
Noor manufactured a wide variety of metal articles but about four fifths of his business consisted of constructing large water tanks, which were made to order, of different sizes and shapes for each customer. The tanks were sold for about \$35 each and Noor made about four in a month. In addition, when there were no orders for tanks he kept himself and his assistant busy making standard sized drinking troughs and bowls. He sold these to passing customers at a slightly higher price than was charged for similar goods which could be bought from the nearby town. Noor hoped that the Government's efforts to encourage rural development and the construction of piped water schemes in his district would lead to a steady increase in his business over the next few years. His most recent balance sheet and profit and loss account are shown in Exhibit 2.

Noor's main competition was from metal works in the town, which had better equipment than the Sandhu Metal Works and could afford to buy a large quantity of materials each time for lower prices. The prices which they charged were therefore lower than the Sandhu Metal Works, but the travelling time and cost of delivery of bulky tanks were factors in Noor's favour. The only competitor in Sandhu itself was Sultan, who made up small items such as drinking troughs as a side line to his carpentry business.

Noor made a rough note of the advantages of Site A and B, which is shown as Exhibit 3. He was still unable to make his decision, however, and he realised that if he did not decide quickly, he would not get a place in the market at all.

### Exhibit 1.

*Plan of the new Market at Sandhu*



## Exhibit 2.

### Balance Sheet for the Sandhu Metal Works on 31/12/75

Liabilities		Assets	
Owed to Suppliers	\$ 50	Equipment	\$350
Loan for equipment	\$250	Stocks of raw materials	\$100
Profits left in the business from earlier years	\$150	Owed by customers	\$150
Original investment	\$350	Value of completed work not yet sold	\$150
Total	<u>\$800</u>	Cash	<u>\$ 50</u>
			<u>\$800</u>

### Profit and Loss Account of the Sandhu Metal Works for 1975

Sales		\$2000
Expenses: Materials	\$1000	
Wages	700	
Rent	50	
Interest	20	
Equipment and Maintenance	100	
Total	<u>\$1870</u>	
Net Profit		<u>\$ 130</u>

## Exhibit 3.

### Site A:

- Large numbers of passers-by
- Near to bank and other high prestige firms
- Easily visible from the main road
- Three open sides for the display of work
- Lower rent

### Site B:

- More room
- Better road access for deliveries
- Less distraction from passers-by
- Less risk of pilferage

### Questions for the Sandhu Metal Works:

1. Which of the expenses of the Sandhu Metal Works would be likely to change if the sales increased, and which would be likely to stay the same?
2. Would the sales of the Sandhu Metal Works be likely to remain the same whether Noor chooses Site A or Site B? How would Site A be likely to affect his sales of large tanks? Would it affect the sales of bowls in the same way?
3. Make estimates of the likely sales of the Sandhu Metal Works and of its expenses and profit or loss, in Site A and in Site B.
4. Can Noor afford to take a big loss for a year or so in order to make big profits later on?
5. Which site should Noor choose and why?

## EXERCISE 3: PEDRO'S MICA MINE

Pedro had worked in mines around his home at various times over the last fifty years, and anybody who wanted advice on where to find a particular mineral would always go to him. In 1969 he decided to go into business for himself instead of working for other people. He decided to start by mining mica, a transparent paper-like mineral that is used in electrical machinery where there is a need for a heat-resisting substance which will not conduct electricity. He chose mica because he knew where to find it and how to split and cut it for sale. All he needed was a crowbar to get it out of the ground and some strong scissors to trim it, and he also knew that there was a steady demand for mica in Europe at prices up to \$6 per kilo.

In order to start his mining, Pedro had to pay \$100 deposit to the Government, and he had to register each place where he dug the mica at a fee of \$1. He managed to buy a few tools he needed with \$10 of his own, and his son Paco paid the \$100 deposit and the registration fees for ten sites at \$1 each. Pedro then worked for about three weeks to dig up a supply of raw mica and transport it to his home. He worked on this for a further three weeks until he had prepared 50 kilos of high grade mica.

An official in the Government geology department told him that the Hamburg Mineral Company had written from Germany asking about supplies of mica. Pedro's son Paco wrote to this firm, and they agreed to take a trial delivery of 50 kilos. Pedro sent the mica off by air according to their instructions, and two weeks later he received a cheque for \$100. This was the value of the mica after deducting \$70 for the cost of air transport. Pedro gave his son \$10 and he spent the remaining \$90 in less than three months on school fees, uniforms and other necessities for his family. Pedro sent six 50-kilo lots of mica to Germany during 1969 and 1970 and received a total of \$600 for them. He gave Paco back the \$100 he had spent on the Government deposit, and the rest of the money soon disappeared, because all his relations heard about his successful business and asked for his help.

At the beginning of 1971 Pedro felt rather disappointed with his business. He seemed to have nothing to show for all his hard work, and his family still needed money. In January he had a letter from the German firm saying that they could not accept these small air deliveries of mica any more because it cost too much to sort them out and value each piece. Pedro thought that this was the end of his business, because the geology department had warned him that most mica importers like to buy only from large producers.

In February he had another letter from the Hamburg Mineral Company asking about scrap mica. Pedro knew that there were thousands of tons of scrap mica in various places around his village, left behind by the company he had worked for as a young man. The German firm said that they would pay \$20 a ton for this material, packed carefully in sacks and delivered to the railway station near the village. They would not accept less than 50 tons at a time, and they would not be able to pay for it until they had received and inspected it. This would be about three months after it was delivered to the station, because the sea journey to Europe took so long. It would be far too expensive to transport such heavy material by air. Pedro thought that this was too big a job for him to take on, but Paco persuaded him to work out what it might cost. They got the following figures:

1,000 sacks at 30 cents each	\$300	
Labour: 10 men for 20 days @ 50 cents a day	\$100	
Payment to landowners	\$100	
Hire of lorry to transport to railway station	\$100	
Total cost for 50 tons	\$600	or \$12 per ton

Pedro would have to control the workmen and make sure the scrap was quite clean. The profit of \$8 per ton which meant a total of \$400 looked very attractive; however, Pedro and his son soon realised that they could not possibly pay out the necessary \$600 and then wait three months to receive the \$1000 payment from Germany.

Paco had about \$150 savings and he was willing to invest this if he could receive a share of the profit. Pedro had no cash at all, and since his land was not registered, he did not have any title deeds and could not use his property as security for a loan either from the bank or from the Government. Pedro was going to forget the whole idea, but Paco was still interested. The German firm had said that they would buy any amount of scrap mica, and they were also interested in more sheet mica if they could buy in lots of not less than 500 kilos, sent by sea. They would still have to inspect the mica before paying for it, however, and this meant that there would be three months delay before payment was made.

None of Pedro's friends had any money to spare for this venture but Paco spoke to one or two friends of his at the Government office where he worked, and they suggested that he might form a 'limited company'. The necessary forms and registration would cost about \$50. Paco soon found ten people who would be willing to invest \$50 each, as long as their risk was limited to this amount. With Paco's \$150, there would be enough money to prepare the 50 tons of scrap. When the payment of \$1000 arrived they could prepare an even bigger shipment.

Paco was worried about who should manage this company if it was formed. He himself had a good job in the Government, and did not want to resign. He knew that his father Pedro would be willing to work full time in the business, but he was not sure how he would like working for a company where the profits and the management had to be shared with the other investors.

Questions for Pedro's Mica Mine:

1. How much profit did Pedro and Paco really make on the first 50 kilo shipment they sent to Germany?
2. Why was Pedro dissatisfied with his business after three years, and what could he have done to make it more successful?
3. If they formed a 'limited company', what share of it should be owned by Pedro, what should be owned by Paco and what share should be owned by each of the men who were going to put \$50 in, but were not going to do anything else?
4. How should the new 'limited company' be managed?
5. How should Paco try to persuade his father that they should form a limited company? If there was no limit to the supply and the demand for scrap, but Pedro still had to supervise each labourer as he filled the sacks, how much money might the new company make in the next year?



## SESSION 46: ORGANISATION AND REGULATIONS

A small business consultant has to work alone most of the time and the field supervisor is always available to guide and check what each consultant is doing, but while a consultant is with a client he must make his own decisions.

It is therefore not possible, or right, to try to control what consultants do with rules and regulations. The whole point of individual consultancy is that each client obtains the advice that is right for him, and consultants must decide for themselves not only what to recommend to each client but many aspects of the ways in which they carry out their jobs.

There are nevertheless certain standards which must be maintained by all consultants if the consultancy organisation is to function correctly. These include:

- 1) Days and hours of work.
- 2) Terms of employment, notice required for dismissal and prospects for promotion.
- 3) The payment of wages.
- 4) Reimbursement of expenses.
- 5) Transportation arrangements.
- 6) Personal appearance and behaviour.
- 7) The treatment of confidential information about clients' businesses.
- 8) Consultants' responsibilities and the authority of field supervisors.
- 9) Reporting and form-filling procedures.
- 10) Responsibility for continuing on-the-job training.

These may seem to be a very complicated and all-embracing set of rules when they are introduced all together in this way; consultants will find that they are in fact very free to make a success of their jobs as they can; the rules are only there to prevent abuse, to preserve and enhance the reputation of the whole service and to allow the organisation to function correctly.

Distribute the list of rules.

Go through the rules governing each item. Explain to trainees why each rule is necessary, using examples of what might happen if there was no rules.

Check trainees' understanding by asking them questions about each rule, probably in the form 'What would you do if . . . ?'

Forms and reports are dealt with in detail in the next session.

Ask trainees how one consultant's disregard of some regulations might affect his colleagues

## SESSION 47: INTERNAL FORMS

The content of this session will depend on the actual forms which are to be used; in this case, we have used the samples which are described in Chapter 10 of the first volume.

Every organisation needs some records; we have seen that even a one-man business needs some forms to record what is happening.

A consultancy service for small businesses needs three different kinds of forms:

1) Forms which are used by clients to help them manage their businesses more efficiently. Consultants must know how to use these forms, how to help others to use them, and how to obtain supplies for distribution to their clients.

2) Forms which consultants use to record their progress with individual clients.

### a) The First Consulting Form

These forms have already been dealt with in detail, and trainees should be familiar with them. The record of assets, liabilities and monthly profit or loss is essential for successful consulting, and it is most important that the forms for each client should be *neatly* filled out, and they must not be lost. Consultants should probably fill in a rough version when actually with the client, and then transfer the information to a spare copy at the end of the day.

### b) The Client Appointment Form

Consultants should plan their routine, and should avoid wasting time by calling on clients without notice, small-scale business owners often have to be away from their businesses, and leave employees in charge or close the business altogether. If a consultant tries to follow a session with the owner by attempting to advise an employee he may give away confidential information, and in any case the employee is not likely to be able to decide on changes without reference to the owner.

The owner may ask a consultant to instruct an employee, or the owner may be an absentee businessman who leaves all the day-to-day decisions to a trusted employee; in these cases it is obviously correct to advise the employee.

Before leaving a client at the end of a consulting session, the consultant must complete and leave with the client an Appointment Form; he should also note down the time and date for his own reference.

This form will achieve two objectives:

- 1) It will remind the client to be present for the next session.
- 2) It will remind the client that he has agreed to follow certain suggestions. If he knows the date when the consultant is going to return he will be more likely to make an effort to carry out the recommendations.

### c) Report to the Client

This form summarises the consultant's progress with each client. It should be filled in every three months, for each client. Three copies are necessary:

One copy each for the client, consultant and supervisor.

The report achieves these objectives:

- 1) It allows the consultant and the client to 'take stock' of their achievement at the end of three months, which would have been long enough for some measurable results; both sides can decide what should be done next.
- 2) It points out cases where the client may be ready to go on to more advanced consultancy, possibly from the supervisor or a specialist.
- 3) It shows up clients who should possibly be dropped because nothing is being achieved.
- 4) It acts as a check on consultants, by preventing them from saying one thing to their clients and another to the supervisor.

This can arise through innocent misunderstandings or through the consultant's wish to exaggerate his achievement. In either case the form will prevent it.

Stress throughout this session that forms and reports must have a *purpose*; after dealing with each form, ask trainees *why* it is useful. This may be illustrated by asking them what would happen if the form was *not* used.

Ask the trainees to list the business forms which have been described in the course. Ensure that all the trainees know how and when to obtain supplies, and the basis for giving them to clients.

Every consultant should have plentiful supplies of the First Consulting Form (Handout 4.1)

Ensure that they know how to obtain more, and that supplies of scrap pads, pencils, etc. are available.

Give trainees copies of the Appointment Form, Handout 47.5.

Ask trainees for examples from their course experience when they have dealt with employees.

Ask trainees what effect the form is likely to have on clients.

Give the trainees copies of the Report to the Client, Handout 47.1.

Describe the arrangements that exist for dealing with clients who cannot learn any more from their consultants, but who still want advice.

Stress that no client should be 'dropped' without the supervisor's permission.

The report should be filled out in consultation with the client. The percentage figures should indicate the consultant's assessment of how far the client has achieved what he is *capable* of achieving. The standard of accounts records will obviously be different for a semi-literate shop-keeper than for a well educated business person.

The 'before and after' figures may not be available for the first three months of consultancy, because figures of profits, sales, stocks and so on may not be known at the beginning.

Whatever information is available should be filled in, and after six or nine months all five indicators should be available for most businesses.

This helps the client, the consultant and the supervisor to monitor and measure progress. The information is also invaluable to the service as a whole; increases in jobs, in profits or in sales are valuable indicators of progress. If the service can show successes of this sort, it is more likely to be allowed to expand.

The List of Accomplishments on the reverse of the Report can be used to record specific improvements or needs for further improvement.

The Report to the Client summarises the whole progress of each client/consultant relationship; the First Consulting Form is a Working Document. This Report is a more permanent record.

3) Forms used by consultants to monitor their own performance and to report to their supervisors.

**a) Business Census Form**

Trainees will be asked to survey their area in order to find out exactly what businesses there are and where they are. This information is essential before the consultants can be assigned to areas, or the coverage of the service can be finally settled.

**b) Record of Work**

This record is a 'time sheet' on which each consultant must account for how he spends each working day. The form must be filled in at the end of each day; it achieves the following objectives:

1) Consultants can make sure that they are working the right amount of hours each week.

2) Consultants can use the form to plan their days to make the best use of time.

3) Consultants can see whether they are allocating their time more or less evenly between their clients. It is very easy to spend too much time on the most receptive clients.

4) Consultants can see whether they are spending too much time in travel, in the office, or in other 'non-productive' tasks.

5) Supervisors can examine the way their consultants are spending their time, and can make suggestions for improvements; the time spent with each client can be compared with what is achieved, as shown by the First Consulting Form, the Report to the Clients and by visits to the client where necessary.

**c) Record of Recommendations**

This form enables consultants, and their supervisors, to monitor the numbers of each type of recommendations they are making, and the numbers that clients are accepting. Consultants often tend to have 'favourite' suggestions, which they over-use because of early success or for some other reason. Their recommendations are thus based on their own preferences rather than the needs of the client.

Consultants often fail to put across a particular recommendation, because of some error in their method of teaching it, but they fail to realise that there is a pattern in their failure.

This Record enables the consultant, and his supervisor, to identify this type of problem, and to take action to correct it.

The total of recommendations accepted can also be used to evaluate the service as a whole.

**d) Summary of Work Accomplished**

This Form summarises the consultant's performance over a month; the necessary information can all be obtained from other forms which have been described. The form can provide the basis of a monthly meeting between each consultant and his supervisor, in the same way that the Report to Client Form summarised the achievement of each client.

Discuss situations where consultants and their supervisors may misunderstand what has been done. How else can misunderstandings be avoided?

Show the trainees how to use the percentage chart as a 'bar graph' giving a 'profile' for each client. Ask trainees to assess the percentage achievement in the six areas by clients known to them.

Put sample 'achievement profiles' on the board. Ask trainees to suggest future consultancy emphasis for each.

Ask trainees how they think the service as a whole can be evaluated.

Distribute Handout 47.3. Omit the form if it has already been used by trainees, or if they are not required to carry out a survey.

Give trainees copies of Record of Work forms, Handout 47.4.

Ask trainees to examine the form and suggest reasons for using it.

Remind trainees of the regulations about minimum working hours.

Ask trainees for examples of poorly planned travel schedules which can waste time. How can the same places be visited with less travelling time?

Give trainees copies of the form, Handout 47.6.

Ask trainees to suggest why such a record might be valuable.

Ask trainees which types of recommendations they found easiest to put over in Session 34.

Ask trainees what recommendations might appear to be easy to make but might rarely be followed by clients.

Give trainees copies of the form, Handout 47.2.

Ask trainees to identify the forms from which each item in the summary might be obtained.

# REPORT TO THE CLIENT

DATE: \_\_\_\_\_

M \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Dear M \_\_\_\_\_

We have been meeting regularly with you for \_\_\_\_\_ months and we believe that we should summarise the recommendations and progress for you.

The following is a record of what we believe has been accomplished:—

	0	20%	40%	60%	80%	100%
Accounts Records	_____	_____	_____	_____	_____	_____
Security Measures	_____	_____	_____	_____	_____	_____
Good Housekeeping	_____	_____	_____	_____	_____	_____
Stock Control	_____	_____	_____	_____	_____	_____
Sales Management	_____	_____	_____	_____	_____	_____
Setting Goals, Planning and Budgetting	_____	_____	_____	_____	_____	_____

	<i>Beginning</i>	<i>End of Period</i>	<i>Increase</i>
Net Income	_____	_____	_____
Stock Turn Rate	_____	_____	_____
Capital	_____	_____	_____
Sales	_____	_____	_____
Numbers Employed	_____	_____	_____

## CONSULTANT NOTES AND COMMENTS

*Beginning Recommendations*

*Results of our Recommendations*

*Further Developments*

Consultant \_\_\_\_\_

**Key to Accomplishments:**

**Accounts Records**

- Sales Record
- Stock Purchase Record
- Expense Record
- Stock Record
- Debtors Record
- Creditors Record
- Profit/Loss Statement
- Balance Sheet

} Can be in Cash Book

**Security Measures**

- External (locks, doors, etc.)
- Internal (to prevent shoplifting)

**Good Housekeeping**

- Premises Neat
- Painting
- Hours of Business posted
- Stocks properly grouped
- Prices marked

**Stock Control**

- Increase (according to set goals)
- Decrease (according to set goals)

**Sales Management**

- Promotion posters
- Signs
- Displays of items
- Challenge people to buy
- Promote one item a week
- Handbills
- Contacts Outside Shop
- Contests
- Other

**Goals, Planning, Budget**

- Goals set for year
- Plans to Achieve Goals
- Cash Budget to achieve plan
- Other Improvements

# SUMMARY OF WORK ACCOMPLISHED

CONSULTANT: \_\_\_\_\_ MONTH: \_\_\_\_\_

Total clients worked since beginning of project	_____	
Total clients working at end of this month	_____	
New clients this month	_____	
Number clients showing some improvement since beginning of project (R Change to C)	_____	
Total improvements since beginning (All improvements whether client is active this month or not, taken from your Records of Recommendations)	_____	
Employment added this month	_____	
Employment added since beginning of project	_____	
Clients dropped this month	_____	
Total calls this month	_____	
Total calls since beginning of project	_____	
<i>Summary of use of time</i>		
Total working hours in the month		_____
Time spent in office	_____	
Time travelling	_____	
Time spent with clients	_____	
Time spent with visitors	_____	
Time spent training	_____	
Time absent during working hours (Less)	_____	
	TOTAL TIME ACCOUNTED FOR	=====
	EXCESS OR (DEFICIT)	=====

# BUSINESS CENSUS

Location/Village/Market	Street/Address/Plot Number	Type of Business	Name of Business

# RECORD OF WORK

Date	Hours Spent	Activity (Office, Travel, Client Name, or other)



# CLIENT APPOINTMENT FORM

Date: \_\_\_\_\_

M \_\_\_\_\_

\_\_\_\_\_ Market/Street,

\_\_\_\_\_

\_\_\_\_\_

Your business consultant, M \_\_\_\_\_ will be visiting your business on the \_\_\_\_\_  
from \_\_\_\_\_ in the morning/afternoon.

It is hoped you will be present. Should you, however, find the date inconvenient, please let me know and suggest  
another date and time convenient to you.

Yours sincerely,

\_\_\_\_\_

*Consultant*

# RECORD OF RECOMMENDATIONS

MONTH

CONSULTANT

	Times Recommended	Times Followed
Employees Added	_____	_____
Expenses Ledger	_____	_____
Out of Stock Book	_____	_____
Increase Sales	_____	_____
Space Increase	_____	_____
Quality Control	_____	_____
Stock Control	_____	_____
Plan for Goals	_____	_____
Goals for 12 months	_____	_____
Budget of Expenses	_____	_____
Increased/Reduced Prices	_____	_____
Start New Product	_____	_____
Stop Making Product	_____	_____
Modify Project	_____	_____
Costing of Items	_____	_____
New Sales Method	_____	_____
Reduction of Owner's Drawings	_____	_____
Advertising	_____	_____
Decreased Stocks	_____	_____
Increased Stocks	_____	_____
Prices Marked	_____	_____
Stocks Grouped	_____	_____
Hours Posted	_____	_____
Premises Neat/Well-Kept	_____	_____
Security Measures	_____	_____
Open Bank Account	_____	_____
Debtor's Ledger	_____	_____
Record of Sales	_____	_____
Record of Purchases	_____	_____
Cash Book	_____	_____
Expense Record	_____	_____
Creditors' Record	_____	_____
Calculate Profit or Loss	_____	_____
Take Stocks	_____	_____

## **SESSION 48: EXERCISES WITH FORMS**

This session is intended to familiarise the trainees with each of the forms described in the previous session, so that they will have no difficulty in filling them in when they are working in the field.

The specific exercises should be devised according to the training needs of the trainees, the forms that are to be used and the time available.

It may be possible to give each trainee a set of completed First Consulting Forms, such as those used in Session 21, with dates of visits and recommendations made and followed filled in on the last sheet.

Trainees should also be given blank copies of the Report to the Client (one for each client for whom a First Consulting Form is provided), a Record of Work, a Record of Recommendations and a Summary of Work accomplished. They should then be asked to fill in all the blank forms from the First Consulting Forms, using their imagination where necessary, but ensuring that all the information is consistent.

This session may also be used for revision, by including discussion on the appropriateness of the recommendations, and the reasons for the failures and success, that have been included on the First Consulting Forms.

## SESSION 49: HOW TO BE A SMALL BUSINESS CONSULTANT

During this course we have covered three aspects of small business consultancy:

- 1) The management techniques which will help business to be more successful.
- 2) Ways in which it may be possible to persuade and teach business people to adopt these techniques.
- 3) Practice sessions in actually observing businesses and attempting to persuade business people to change.

The practice sessions have been carried out in selected businesses, whose owners have agreed to co-operate because they want to help with the training and development of consultants.

Trainees have therefore not had to carry out for themselves what is often the most difficult and the most important stage of consultants; the *introduction*.

No business person will give information, or accept advice, unless he trusts the consultant; clients may be able to hide their mistrust, out of good manners or suspicion, so that their consultants believe that they are achieving good results when in fact they are using *incorrect* information to make *inappropriate* suggestions which will *never be followed*. This is a waste of the consultant's and the client's time, and may lead to the whole service being ridiculed.

It is therefore vital that a frank, trusting relationship should be established from the beginning.

The subsequent stages of consultancy include:

- Obtaining information
- Analysing the situation
- Making and promoting recommendations

It is *not* necessary that all these stages should be completed during the *first* consulting session; *some* information may be requested; this may be combined with simple visual observation, so that the consultant can possibly make one or two very simple 'fast pay-off' suggestions; these should obviously help the business, but their major purpose may be to help establish a relationship so that the client will in the future be willing to give *more* information, and to follow more significant suggestions.

### The Initial Contact

A consultant cannot *start* by making suggestions; he must *introduce* himself and his service to the client first of all. Field Supervisors will be present at the first meeting with every client, but they will not stay for more than a few minutes.

- they are busy
- the relationship is between the client and the consultant, and the supervisor should not interfere.

Think about the immediate reaction of the client; what is he thinking when you enter the shop?

- 1) 'Are these people from the Government investigating licences, standards, prices or something?'
- 2) 'Are these disguised tax inspectors?'
- 3) 'Are these people thieves who will find out what I have and return tonight to steal it?'
- 4) 'Are these people just interfering busybodies, who want to know about other peoples' business affairs?'

What is the client going to have to *spend* if he is going to co-operate with a consultant?

Not money, but:

- 1) Time which is scarce
- 2) Security, in that he thinks they *may* be spies from government, etc.
- 3) Privacy, in that nobody likes to share his personal secrets.

The consultancy must therefore be *sold* like any other product.

Ask trainees whether they would have succeeded in trial sessions if they had had to find their own shops.

Ask trainees how a client might be able to pretend that he is co-operating when in fact he is not. Why might a client want to do this?

Ask trainees for examples of simple suggestions which can easily be made and which will 'pay off' quickly so that the client will recognise the value of following advice.

Adapt if field supervisors do not attend every first meeting.

Ask trainees for suggestions.

List these and trainees' suggestions on the board.

How can the consultant overcome these very natural suspicions, particularly when the idea of small business consultancy is quite new to the client?

- 1) Show that you are interested in the *problems* of the client, and not in information for its own sake.
- 2) Explain the nature, origin and status of the consultancy service carefully.
- 3) If the idea is new to the client, describe the service by reference to similar services which *are* known to the client:
  - Farmers' extension services.
  - Travelling salesmen.
  - Courses for business people, etc.
- 4) Reassure the client about points which he may fear, even if he does not state his fears:
  - Business will not be interrupted.
  - Confidence will be maintained.
  - Little time will be taken.
  - Other businesses have benefited.
  - His business can benefit.
  - No payment is required.
- 5) Demonstrate as soon as possible that you know what you are talking about, and can make useful suggestions.
- 6) Give practical examples of the kinds of benefit that *this* business may expect.

You can only be sure that the initial relationship has been established when you move on to the next stage:

### Obtaining Information

Trainees have already had some experience of obtaining information.

Clients must appreciate that every piece of information is needed in order for the consultant to be able to *help*.

They should not take this on trust, you must explain *why* each question is necessary, and *how* the information will help give a picture of the business on which improvements can be based.

Clients may hesitate, or appear reluctant to answer a particular question:

They may not understand the question.

They may not know the answer.

They may not be willing to answer.

In any case, good manners may prevent clients from saying 'No', or from explaining why they will not answer. They may change the subject, turn their attention to some other task, lose interest or delay in some other way.

How can the reasons for reluctance be:

Identified?

Overcome?

The consultant should recognise the reluctance, and:

Reword the question (*never* use technical terms).

Explain the *use* of the information.

Withdraw the question and go on to an easier subject, intending to come back to it later.

Clients should not be put in the position of having to say 'No'; this will damage the new relationship.

Clients may answer a question *wrongly*. They may do this because:

They do not know the right answer.

They want to impress the consultant with their success.

They may still mistrust the consultant.

How can *wrong* information be identified and corrected?

- 1) The questions should *never* suggest the type of answer that is required; they should be entirely 'open'.
- 2) The *use* of the information should be stressed and explained.
- 3) The information should be *checked*, by asking for the same figures in a different way.

Ask trainees to show how they could relate their work to these services.

Remind trainees of problems and successes experienced in Sessions 5, 14, 22, 34.

Ask trainees for examples of each reason for hesitation.

Ask trainees how they would find out *why* a client will not answer.

Ask trainees for examples of 'leading' and 'open' questions, seeking the same information. (e.g. *Not* 'Are your sales about \$10 a day?' *but* 'About how much are your sales every day?')

Clients should not be accused of giving misleading information; the correct figures should be used in the analysis, and agreed with the client, without further reference to the faulty figures.

Incorrect figures may only become evident when inconsistencies appear later on in the consulting session, or at a later visit. They should be tactfully corrected, without embarrassing the client.

It does not matter in what *order* the essential information is obtained; if the client appears reluctant, or unable, to answer one type of question, the consultant should change to another.

It is not necessary that *all* the information should be obtained at one visit; business may prevent a client from working with a consultant for long enough, or the client may tire of the unusual effort of working on figures for a long period.

Intelligent observation can be combined with very little information to produce some simple suggestions for improvement.

Questions should be interspersed with *comments, compliments, and simple assistance.*

A consultant may compliment a client on:

A good simple recording system which is in use.

The growth of a business which appears to have been financed from profits left in the business.

Good customer relations as indicated by dealings with customers who come in during the session.

The quality or originality of some items in stock.

A consultant may assist a client with:

Serving customers.

Recording transactions.

Moving stocks.

Compliments and assistance will encourage a good relationship, and may lead to further insights into the nature and needs of the business.

Remember that the ultimate goal is to enable clients to be their own consultants; they should therefore understand what the consultant is doing at each stage, and in the end each client should in effect have had a repeat of this course, in his own premises and related to his own business.

The consultant is successful when there is no longer any need for his services.

## Analysis

The most obvious need may be for more *information.*

The client should not be expected to start all the necessary book-keeping techniques at once, so the client must decide:

What information is needed most urgently?

What information can be used to improve results quickly?

What information can the client start to provide most easily?

Even if there is very little, or even no information in money terms, observation can always be used to diagnose problems, and if observation can be combined with simple data a great deal can be decided:

Very few figures are needed to show that there is a need for:

- Higher sales.
- Better stock control.
- Higher profit on sales.
- Better debt control.

Observation can show the need for:

- Cleanliness.
- Promotion.
- Stock clearances.

You should *ask* the client to suggest what can be concluded from the available information; you can then go on to develop, with his help, suggestions for *improvement.*

## Change

As discussed earlier, the best suggestions come from the clients themselves, who know more about their businesses than the consultant ever

Ask trainees how they would check a statement about profit margin on total sales. (Ask for profit margins on single fast selling items).

Ask trainees how incorrect statements about debtors, stock-turn, buying prices, daily sales etc. might be identified and corrected at a later visit.

Ask trainees for examples of simple conclusions from limited data.

Ask trainees for examples of points on which even a very simple and rather badly managed business might be complimented.

Ask trainees how they have helped business owners during their training sessions.

Ask trainees for examples of information that might be easy or difficult to provide.

Ask trainees what figures are needed to show these needs.

Ask trainees to describe symptoms of these methods.

will. The role of the consultant is to provide a framework for thinking about the business and putting various items of information together. This is not done by *telling* clients what to do, but by *asking* them for their suggestions.

Recommendations should be carefully explained; the client may suggest that a better recording system is needed, but the consultant will have to show him *what* to do, *how* to do it, and above all *why* it is worth the effort.

The consultant must *check* clients' understanding and ability to carry out recommendations.

You must *record* what has been agreed should be done and agree on the date and time for the next visit. Leave the appointment form to confirm this.

### **Subsequent Calls**

Every call, except brief reminders, is in a way a repeat of the first major call; the consultant finds out more information, analyses the business more deeply, and makes further recommendations.

The client's ability to do this for himself should develop from one call to another.

Subsequent calls should *not* be an occasion for blame or criticism.

If a client fails to follow a suggestion, the fault is the consultant's:  
The client did not understand.

The suggestion was not correct.

The client was not really convinced.

The consultant should therefore approach the client again:

Find out *why* the suggestion was not followed.

Represent the suggestion more effectively than before.

Try another suggestion which may be more successful.

Do not discourage the client.

Remind trainees of the questioning technique dealt with in Session 36.

Ask trainees to suggest reasons why clients might fail to follow suggestions.

Ask trainees what a consultant should do when he finds that a suggestion has not been followed.

## SESSION 50: REVIEW

The objective of the training course has been to enable the trainees to *do* a number of things, not to know facts and figures in such a way that they can recite them or put them down on paper in an examination. It is likely that the trainees' previous education has been more devoted to memorising facts without any reference to their use, and trainees must be discouraged from trying to learn definitions, lists and procedures by heart. This point should be stressed throughout the course, and particularly at this final session, when the trainees will naturally be nervous and concerned to pass the examination. Nobody will fail because he cannot remember exactly how to lay out a balance sheet, or what to call the sum of money owed to a business by a customer who has bought goods on credit. The trainees should have learned how to approach business people, how to analyse their position and how to help them to improve, and the examination attempts to test this ability as well as a written examination can possibly test something that has to be done in the field.

The instructor should have ensured that trainees have understood the content of every session, and the frequent practical exercises should have warned the trainees themselves, and their instructor, when any aspects of the material were not properly understood. The review session merely provides a final opportunity for trainees to go over any parts of the course that they feel uncertain about.

The trainees themselves should therefore be asked to suggest what topics should be covered, but it may be useful to use a further example of the completed 'First Consulting Form', similar to those used in Session 21, in order to identify topics where some revision is necessary. It is unlikely that all the trainees will be uncertain about the same subjects, but it is also probable that all the trainees will gain from revision of any topic that one of their number is uncertain about.

Trainees should be reminded at this stage, and throughout, that the foolish person is the one who does not admit to confusion or ignorance; the exercises and questions in the various sessions should identify many difficulties, but in the last resort it is up to the trainees to ask for help when they need it.



## SESSION 51: FINAL EXAMINATION

This examination must be adapted to local currency, products, names and so on. Each question should carry equal marks; if a maximum of ten marks is used, the total maximum will be 80 marks.

The questions are not easy, but trainees who have followed and understood the complete course should have no difficulty in completing them satisfactorily in the time allowed.

The instructor should probably test the examination himself, in advance, both in order to be sure that he has the correct answers, and to assess the time needed.

Trainees are more likely to make mistakes because of errors in calculations than because they do not know *how* to carry out the necessary analysis. The need for accuracy in calculations should have been stressed throughout the course, but trainees should be reminded before the examination that mathematical errors can lead to totally misleading and incorrect advice to clients and thus cannot be tolerated.

Trainees should be allowed to use any calculators, slide rules or other aids they can be expected to have when working in the field, and they should be supplied with spare copies of the forms which they have to use.

The examination should be marked as quickly as possible, so that the final selection of consultants can be made within a week of the end of the training programme. If there is a longer delay, trainees may find alternative jobs, or will forget what they have learned.

# SMALL BUSINESS CONSULTANCY TRAINING

## FINAL EXAMINATION

*Time: Three Hours*

Attempt all questions, all questions carry equal marks.

1. Write down what you hope to achieve as a small business consultant.
2. For the following shop answer these questions:
  - a) How many months worth of goods are there in stock?
  - b) How long are customers taking on the average, to pay their amounts owed to the business?
  - c) How would you advise the owner to try to assemble \$200 in cash, if all outside sources such as loans or investment were closed?
  - d) What other advice would you give to the owner?

Liabilities		Balance Sheet		Assets	
Owed to suppliers		None	Cash		\$ 20
Loan		\$100	Debtors	Debtors	\$ 50
Personal investment		\$ 50	Stocks on hand (cost)		\$400
Reinvested profit		\$350	Equipment		\$ 30
		\$500			\$500

Profit and Loss Account for a Month	
Sales	\$100
Cost of goods sold	<u>\$ 80</u>
Gross profit	\$ 20
Expenses:	
Drawings	\$10
Rent	\$ 5
Licence	\$ 1
Transport	\$ 1
Wrapping materials etc.	<u>\$ 1</u>
Total expenses	\$18
Net profit	<u>\$ 2</u>

3. Mohamed had the following information about cash in his business during the first three days of January, 1975. Using the Cash Record Form, properly record the cash on the form as you would do if you were showing him how to keep a cash record correctly.
  - a) On each of the three days he started the day with \$5 in the cash box in his shop.
  - b) On December 31st. he had finished the day with \$8.  
On January 2nd. he had finished the day with \$12.  
On January 3rd. he had finished the day with \$5.  
On January 4th. he had finished the day with \$4.
  - c) As he counted his cash on December 31st. and January 2nd he withdrew the excess over the \$5 for school fees for his family.
  - d) On January 2nd. he spent \$4 on new stocks.  
On January 3rd. he spent \$5 on new stocks.  
On January 4th. he spent \$7 on new stocks.
  - e) On January 4th. he spent \$4 on rent.

How much cash was received in the shop on each of the three days? Be sure that this is recorded in the proper place on the cash record forms.
4. Juma had noted the following information about Mrs. Salim, a customer to whom he had granted credit. Show Juma how to keep a simple record of what debtors owe him by using the following information and demonstrating how to record it on the Debtor Record Form.
 

January 2nd. 1974	Mrs. Salim purchases sugar for	20c.
January 3rd. 1974	Mrs. Salim purchased flour for	50c.
January 8th. 1974	Mrs. Salim purchased blanket for	\$4.00
January 10th. 1974	Mrs. Salim purchased cloth for	\$1.00
January 15th. 1974	Mrs. Salim paid on her account	\$5.00
January 20th. 1974	Mrs Salim purchased tea for	20c.
January 23rd. 1974	Mrs Salim purchased groceries	\$1.50
January 30th. 1974	Mrs. Salim paid on her account	\$2.00

5. Below are listed 6 items in Abdul's shop. From the information given, list these items on a stock taking form and explain which items Abdul should discontinue or at least reduce stocks, and for which items you would recommend increased stocks.

Item	Stocks	Min. Buying Quantity	Selling Price	Sales per Month
Sugar	1 bag	\$16.50 per 100 kg.	\$1.80 per bag	5 bags
Soft drinks	4 cases	\$3.75 per case of 25 bottles	20c. per bottle	4 cases
Blankets	36 blankets	\$110 for 10	\$15 each	3 blankets
Perfume	100 bottles	\$2.40 per dozen bottles	15c. per bottle	2 bottles
Flour	24 kg.	\$1.68 per 12 kg.	15c. per kg.	100 kgs.
Biscuits	10 cartons	\$20 per carton of 48 packets	50c. per packet	12 packets

6. You have just made up the following balance sheet and profit/loss statement with a client. What do you see that needs the client's immediate attention?

What is her percentage of net profit on sales for the month?

What is her percentage on net profit on the investment in stocks on hand for the month?

How would you recommend that she correct the situation?

Would you recommend the client for a loan and why?

Balance Sheet, 1st. February, 1975

Liabilities		Assets	
Loan from family	\$100	Cash	\$ 10
Owed to suppliers	\$ 50	Debtors	\$ 50
Personal investment in the business	\$100	Stock on hand	\$400
Reinvested profits	\$310	Equipment	\$100
	<u>\$560</u>		<u>\$560</u>

Profit and Loss Account, January 1975

Sales		\$100
Opening Stocks	\$390	
Stocks purchased	\$ 95	
Total	\$485	
Less closing stocks	\$400	
Cost of goods sold	\$ 85	
Rent	\$ 5	
Wages	\$ 6	
Licences	\$ 1	
Transport	\$ 2	
Total Expenses	\$ 99	\$ 99
Net Profit		\$ 1

7. Your client thinks that the only way to improve his business is with a loan. Explain other ways of building working capital.

When *can* loans be used to an advantage?

A client is doing \$400 sales a month with \$200 worth of stocks.

He is making 10% net profit on his sales.

What is the percentage of profit on his investment in stocks?

He believes if he had a loan for \$100 he could buy more stocks and increase his sales to \$500 per month. Would you recommend him for a loan if the loan would cost him 12% interest per year, and if the loan had to be completely repaid in 5 months. Why?

8. You are a consultant and you are calling on a business for the first time.

Write down five questions that the business owner is likely to have in his mind about your service, and suggest how you would put his fears at rest.