



HOW TO WRITE A WINNING BUSINESS PLAN

INCLUDES

A Sample Business Plan For A Microfinance Business

A Sample Business Plan For A Salt Mining Business



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ABOUT THE AUTHOR



The author was born in Tema on the 3rd day of May 1988 and attended PRESEC-LEGON where he studied business completing in 2006. He continued his education at the University of Ghana, Legon from 2007 to 2011 during which time he served as the President of the University of Ghana Economics Students' Society (UGESS) and graduated with a major in Economics. Currently, he works as the Import Supervisor for Consolidated Shipping Agencies Limited in Tema.

With a very keen interest in entrepreneurship, the author noticed a very peculiar problem about how new businesses are started in their thousands annually with only a handful surviving after the first few years. This problem he has recognized is fundamentally because many would-be entrepreneurs venture into business without sitting down to develop their ideas into a Business Plan. They just ride on the wave of enthusiasm to start their businesses which inevitably collapse due to the lack of planning. The old adage that “failing to plan is planning to fail” definitely holds true in this case.

Admittedly, it takes a lot of time and thinking to develop a business plan that investors will be willing to read and invest in. It usually takes professionals who charge large amounts of money to write Business Plans. In an effort to make writing Business Plans less complicated and easier for would-be entrepreneurs, the author has taken his time to produce this special book which is a positive deviation from the other books on Business Plans which only answer the question “what is a Business Plan?” without teaching readers in a very straightforward manner, “how to write a Business Plan”.

It is hoped that in using this book, with the required level of dedication and commitment, you will avoid being a part of the many that start businesses without planning and succeed where many others have failed because they did not plan.

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Learn How to Write a Business Plan That Investors
Will Want to Read & Invest In

Emmanuel Ofue Portuphy

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FOREWORD

Thank you for making time to read this book, as you will realize at the end how much of a blessing it would be to your future in business when you wholeheartedly commit to it.

This book has come because of the need to equip the youth with the tools and knowledge to properly plan as they strive to put their business ideas and dreams together on paper. In Ghana, about 250,000 youth join the labour force annually; over 30% of this population has tertiary education. This makes over 70,000 graduates per annum join the labour force. Out of this figure, only 5,000 or fewer are employed by the formal sector if fortunate, whilst the rest try to survive in the informal sector or remain unemployed.

This continuous trend has led to swelling levels of unemployment in Ghana. The youth in the various educational institutions must be equipped with the tools and resources to prepare themselves for a life of entrepreneurship, developing their innate talents and interests to create jobs for themselves and many others.

With this book, you will see all the areas of your prospective business that you should think about and research before you even venture into it. Several companies fail within a few years after establishment because the owners did not take the time to carefully consider their ideas, considering the possible threats and risks that may hamper their success. They plunge headlong into business and other ventures based on a simple idea without comprehensive preparation, only to wind up a couple of years down the line because they could not handle the challenges and difficulties that come with it.

To get the most out of this book, provide well thought out answers to the relevant questions as per the nature of your business. Once you can do this, you will have a collection of small notes that you can then organize these notes into a flowing narrative on a chapter-by-chapter basis to get your business plan.

You are advised to use Microsoft Excel with the financial projections. With your basic skills in manoeuvring your way around it, you should be able to properly make the financial projections when you read the comprehensive notes and follow the examples given.

I hope that, as expected, this book will be of immense help to you as you strive to succeed in entrepreneurship by dedicating yourself to developing your business idea into a business plan and succeeding in life. I wish you all the best and hope that you will be able to contribute in your way to help Ghana overcome the canker of unemployment.

Dr M.C VASNANI

Chief Executive Officer

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INTRODUCTION

Consider this situation for a minute; you want to start a new business or expand your existing business. You have a brilliant business idea about a new product, a fantastic attitude, and an entrepreneurial spirit, so you walk to your banker. You start a discussion based on your new idea. She listens attentively to you for a long while and seems interested in asking you very inquisitive questions and encouraging you to go on.

Suddenly she interrupts you and says, "This is a great business idea, but where is your business plan?" You sit there stunned and ask her, "Why do I need a business plan when you already understand everything I have said". Then she says, "I understand all you have said about your product. But I still need the business plan to convince myself thoroughly of your business idea, to know if you have researched the market extensively to know your target market, how you will communicate with them, how much funding you will need, and how you will use the funds and pay us back among a host of other details". Then you sit there silently bewildered by the task ahead of you and wonder if you will be able to come up with a business plan to satisfy all her curiosities about your business.

Many people who wish to be entrepreneurs face this problem constantly. People with brilliant ideas want to plunge into business without developing a business plan. It is to help people like this that the painstaking process of creating this book was undertaken. This book will help you understand the concept of a business plan in straightforward terms and show you how by yourself, you can put your plan together.

This book is to help entrepreneurs stem the tide of the large numbers of newly established businesses that collapse within the first few years of establishment. This occurs because entrepreneurs cannot foresee challenges that their companies come up against, leading to their collapse. Having undergone the process of anticipating the occurrence of these phenomena, a business plan provides the opportunities to strategize to mitigate their consequences or avoid them altogether. It is to provide these benefits of writing a business plan that this book exists.

This book has three parts, narrative, samples, and financial projections. The narrative is the body of the business plan and contains different questions divided into several sections. Work through the chapters in any order you like, except for the Executive Summary, which you should do last. Skip any questions that do not apply to your business. After answering the relevant questions, you will have a collection of small essays on the various sections. Put them into a flowing narrative of several paragraphs to form your business plan.

The part on financial forecasting teaches you how to develop your financial projections. With your basic knowledge of accounting and Excel, follow the explanatory notes, and you will end up with very comprehensive financial projections that you can present to any prospective investor.

The real value of doing a business plan is not in having the finished plan but in the process of researching and thinking about your business systematically. The act of planning helps you think through your business idea thoroughly, study and research when you are not sure of the facts and look at your idea critically. It takes time but avoids costly mistakes later. It typically takes several weeks to complete a good plan, and most of that time is spent researching and rethinking your ideas and assumptions.

I understand that your business may be service-oriented. However, "product" has been used to refer to "service" just for convenience. Additionally, I assume that you will be dealing with just a single product or service in your business; thus, do not be confused if your business involves more than one product or service amidst the constant references to "product" in this book. Understanding the concept is most important.

ACKNOWLEDGEMENTS

Our Almighty Father, God in heaven, deserves tremendous gratitude for blessing me with the passion for the cause for which this book is intended. For helping me nurture my hobby from PRESEC-LEGON to a book of this kind today. One afternoon at work, I generated the idea for channelling my thoughts into this book during a discussion with my national service colleague at the Ghana Ports and Harbours Authority, Carol Makafui Junior. I thank him profoundly for being the medium through which God delivered this idea to me.

I thank my dad, Mr Alex Portuphy, for his determination to put me through school to the highest level possible. For squeezing water out of stones on some occasions to ensure my comfort; my mum, Mrs Joyce Portuphy, for her constant prayers to God to provide the successes of my siblings and me, as well as her dedication to ensuring that I did what I needed to do all the time to earn the favour of God. Furthermore, I thank my big sister, Paulina, for being a source of encouragement and inspiration, providing me with a target to exceed with her exemplary lifestyle and sense of achievement; as well as my junior brother Christian for giving me the sense of responsibility as a big brother, to live a life of success for him to follow. Finally, my sweet little sister Matilda for showing interest and appreciation for every bit of this book she saw during its preparation.

My Uncle, Aunt Justice, and Felicia Djokoto are appreciated for their counsel, for showing me different perspectives of life and for providing diverse support to me throughout my life so far. I also thank Mr Wisdom Klaye, my boss, during my first work experience at Trusty Foods Limited, now Expom Ghana Limited, for the reading habit he encouraged me to inculcate, which has gone a long way reshape my thinking. I am also very grateful to Mr Emmanuel Dotse for the keen interest he showed in this book and for encouraging me to forge ahead with it at times when I had doubts, and to my friends Ebenezer Anim and Joycelyn Nortey for making constructive remarks about the book when submitted to them for review.

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Finally, my profound gratitude goes to Dr M.C Vasanani, Chief Executive Officer and his wife, Linda Vasanani, Director/Branch Manager of Consolidated Shipping Agencies Limited, for allowing me to work with them in their company. I have read a lot about entrepreneurs and have observed successful entrepreneurs from afar but have never really experienced in proximity what entrepreneurship is all about. The exposure I have had working for your company has enlightened me much more to the realities of life as an entrepreneur. I will strive to continue to learn as much as I can from you two as I work hard to help grow your company to the levels you dream about.

Since everything in its present state can be improved upon, my door is open for recommendations and constructive criticisms for a future revision.

WHAT IS A BUSINESS PLAN?

A Business Plan is a document used to organize a business idea into clear and simplified terms which can be easily communicated to others. It is also described as a sales tool used to convince of the value and feasibility of the business. If the business plan cannot achieve this, then either your business idea is not worth pursuing, or your business plan needs rewriting. Therefore, your business plan should be clear, simple, and persuasive. If you can manage this, then you will achieve a lot.

The business plan must also be factual, concise, well written and organized in a very logical sequence. It should contain no complex words that your readers will not understand. In case you, however, use them, do explain them. Your reader should develop a feeling of excitement and optimism about your business; hence, use words that will reflect this feeling.

The readers of your business plan will mostly be your prospective investors or lenders, key employees, board of directors, shareholders, and business partners. Which parts of your business plan should be distributed to who depends on its confidentiality and the responsibility of the persons concerned?

If you include confidential strategic plans in your business plan, you should be restrictive in distributing copies. Give it only to confident persons who will not pass on the information without your consent.

You may request the recipient to sign a confidentiality agreement in some cases. If you are looking for outside financing, there are many sources such as:

Banks

Banks provide loans to viable businesses on standard market terms and conditions. They usually are high risk-conscious and require adequate collateral such as buildings, vehicles, precious metals, tradable securities, and accounts receivable.

The interest rate depends on the prevailing economic conditions and the risk the bank attributes to a project. Experience has shown that interest rates demanded can often be too high to support the development of a business.

Venture Capital Funds

Recent years have seen a rapid increase in venture capital funds. The objective of these funds is to make a profit, and they will scrutinize your business plan until they are convinced they can get a substantial return on their equity at a calculable risk. A particular advantage of such funds, as compared to loans, is that they can finance your business by placing equity without collateral. Alternatively, they will expect a good share of the profit and demand a control function in your business, for example, by appointing one of their staff to your board.

Private Investors

These are wealthy individuals seeking opportunities to put money into promising businesses. Their incentive is to get a higher return on their investment than on securities. They often allocate a percentage of their fortunes for start-up or expansion projects. Placing money in diverse businesses reduces the overall risk in their investment portfolio.

Credits

Depending on the type and location of your business, there may be some possibilities to access government funds that provide soft loans or grants. Donors wish their grants to be given only to well-planned and viable ventures. They rightly believe that these are the ones that can have a substantial social, microeconomic, and macroeconomic impact.

A business plan serves many purposes. Key among them are the following:

Guiding Business Establishment

With a business plan, you will be able to guide your business towards a central goal by following the objectives and processes described. All you need to do with your plan is follow it assiduously and make the necessary adjustments as and when conditions in the business environment change relative to the plan's contents.

Determining Financial Needs

The business plan is vital in the acquisition of funds. Investors or lenders want to be informed about the entire scope of a business before they commit funds to it.

The business plan makes this easy as it explains the entire business clearly, thus making business financing very easy. It affords the benefit of knowing exactly how much money you need for your business, describing how you will use it, and your plans for repaying it within a certain period.

Getting an Integrated View of the Business

By preparing a business plan, you can better identify your target market, outline your marketing plan, shape your pricing strategy, and define the competitive conditions you must operate to succeed. The business plan ensures that all of these are consistent and adequately harmonised.

Chapter 1 EXECUTIVE SUMMARY

This is the most critical part of a business plan and is intended for people outside the business.

Venture capital fund managers, equity investors, bankers and corporate investment officials receive several business plans daily that are more than they can read from beginning to end.

To determine if your business plan is worthy of review, they will read the Executive Summary. If it suggests that your business is promising, they will read further. If not, they will reject your plan. Its goal is to entice readers to delve deeper into your business plan hence every piece of information in a later chapter is useless if they have never read that far.

The Executive Summary describes the key points of your plan in a page or two. It must include a synopsis of your product, the market, your strategy for success, a description of your management team, key historical and forecasted financial data, the amount of the funds you need, a statement of how you will use the funds and how the investors or lenders will get their money back.

This is a lot to explain clearly in one or two pages. In truth, composing an effective Executive Summary is one of the most challenging writing tasks you will ever face. Following is an outline of an Executive Summary.

The questions here are summaries of the questions in the rest of this book, so do not write your executive summary if you have not answered the questions in all the other chapters. Provide very brief and concise answers to the questions that follow.

Business Description

What will be the name of the business?

What will be its legal form?

What problem(s) in society will the business solve?

State the vision of the business.

State the mission of the business.

What will be the core values of the business?

Product

What is your product?

How different is it from what is already on the market?

Is there a patent or copyright for the product?

Target Market

Briefly state what your target market is.

How will you convince the target market to buy the product?

Competition

List the major competitors.

What observations have you made about these competitors?

Operational Plan

Briefly list your operational procedures or steps.

Management

List the members of your management team stating their positions.

Why do you think they can successfully run the business?

Ownership

List the owners of the business and their percentages of ownership.

Risk/Opportunity

List the real dangers the business faces.

What contingency plans are in place to curtail these risks?

What are the unique opportunities for the business in the market?

Financials

How much funding does the business need, and for what purposes?

Exit Strategy

How will investors get their money back, and when will it be?

Chapter 2 BUSINESS DESCRIPTION

This chapter should consist of a bit of background information about the business. The reader should be given an overview of the business, how it will start, how you plan to grow it and where it is heading. This will be a helpful preparation before more details.

Name

What is the name of your business?

The name you give your business is a very critical issue. You should choose a name that reflects your product, is capable enough, reflects your business values and appeals to your target market.

How will the name benefit the business?

Such benefits could be easy recognition due to its uniqueness and easy recognition of the nature of the business. For example, names like Best Wallets Limited and Special Product Limited for two companies that produce wallets afford more advantages to the former than the latter about easy recognition of the nature of business.

Location

Where will you situate the business?

Describe the exact geographical location of the business in as much detail as possible to make it easy for anyone to find the place.

What benefits will the business enjoy from such a location?

Is the location close to the target market, is it easily accessible to customers, is it near needed raw materials, is labour readily available, and does it enhance the prestige of the business?

Nature

What type of business will you be doing?

Is it manufacturing, retail, services, agriculture, or mining business?

Vision

What is your vision for the business?

Your vision is what you dream of the business becoming in future. Comparing your business to the standards in the market, how do you want to measure it? How do you want the company to rank against your competitors now and in the future?

Mission

What is the mission of the business?

An example is "To Alleviate the Difficulties Ghanaians Face in Acquiring Quality Healthcare". This could be the mission of a private clinic. Formulate your mission along the lines of a cause you are committed to.

Business Ethics

What ethics will your business be committed to practising?

These are values adopted to create an image. They become business trademarks. Examples include anti-bribery, excellence, timeliness, honesty, and integrity. Your business's dedication to these ethics reflected in your daily operations will significantly increase your success chances. You should be very uncompromising in your commitment to them.

Key Performance Indicators (KPIs)

How will you measure the progress of the business?

Key Performance Indicators are short-term determinants of how well your business is moving towards fulfilling its vision. They are also

called objectives and, when achieved, show that your business is healthy and on the right track.

Examples include specific percentage increases in sales, profits and market shares or growth in clientele over particular periods, 10% increase in weekly production volumes, 20% increase in quarterly sales volumes, 5% reduction in quarterly cost and 15% monthly increase in clientele.

Your ability to achieve these figures will mark your progress toward fulfilling your vision. The critical thing is that these indicators should be short-term and measurable.

Stage Of the Business

At what stage is the business?

Is it just an idea in your head, something you have just started, have been operating for some time, or an existing business you want to buy?

If your business is at the idea stage, describe how you came up with the idea. This stage is where the company does not exist physically but does only as an idea in your head.

If it is at the start-up stage, describe the start-up process stating any challenges. You have taken the initial steps, such as registration, getting premises for your operations, getting your first few clients, etc.

If so, how long it has been in existence, the successes or failures experienced so far and any other significant history.

Target Market

Briefly describe your target market.

State your target market, where it is located, why it needs your product and how it has satisfied this need. Be brief as there is a chapter dedicated to this subject later.

Nature Of Your Industry

Briefly describe your industry.

An industry is a group of businesses dealing with similar products. Businesses manufacturing cars form a car industry, a group of companies providing flight services form the aviation industry, etc.

Describe your industry, stating the significant characteristics, players, strengths and weaknesses, and how your business will cope.

Competition

Briefly describe the competition.

Who are your competitors? How long have they been in business? How big are they, and how you will cope with them?

Legal Form

What legal form will the business take?

Sole Proprietorship, Partnership, Limited Liability Company, NGO.

Why is the reason for choosing this legal form?

They could be unique tax benefits, personal access to profits, more personal control, and access to varied expertise, among several others.

Business Owner(s)

Describe the ownership structure of the business.

Here, describe the individuals who own the business providing their names, occupations, and percentage ownership of shares (for a

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company). Be brief in your description here, as there is a chapter on this.

Management Team

Who are the members of your management team?

This is the team of individuals who undertake the daily task of guiding the activities of your business towards success.

They may be part of the owners of the business.

Specify the functional management structure you will have and what everyone will be responsible for.

List the various individuals, the positions they will each occupy, and a brief outline of their traditional roles in the business.

Exit Strategy

How will investors get their money back?

An exit strategy is how an investor gets out of an investment. In other words, it is a way of “cashing out” of an investment. Some of these ways are Initial Public Offerings or being bought out by a more significant business.

For investors, they need information on how exactly you intend to pay them back their principal plus any interest after the expiration of the investment period. Clearly show your prospective investors or lenders how you will pay them back their money. If it is a loan, describe how you will meet your loan repayment obligations.

Chapter 3 PRODUCT DESCRIPTION

Describe your product and what problem it solves, giving the reader an obvious idea of how it differs from your competitors. The reader must be convinced that you are offering a better product. Describe it in terms understandable to persons not experts in the industry.

Describe what it looks like, what it does, how it works, how long it lasts, what variations and options are available, etc. Where appropriate, include photographs, diagrams, sketches, general product specifications, engineering studies, and sales brochures. Go into as much detail as possible for the reader to have the clearest understanding of the nature of your product.

The challenge is not so much about describing your product in favourable terms as truly analysing it in terms of features, the cost of those features, and the benefits. This means developing a list of the key features and making some judgments about their benefits.

Describe what you are selling and what makes it unique. By focusing on the Unique Selling Proposition (USP) of your product, you should be able to differentiate yourself from your competition to secure a competitive advantage.

Market Needs

What is the market need?

A market need is a compelling reason why people will want your product, and it is a problem that people have because they need your product to solve. For example, residents in an area who must travel long distances to get groceries to buy face the problem of not having a market close to them.

In this case, their market needs to become close to them to save their travels. You should be able to identify why people will want it. What is the need your product will solve for your target market? This is where you must be very clear as an investor will not be ready to invest in your business if he cannot see an apparent reason why people will want to buy your product.

Ideally, you should have already identified this need in the market before developing a product or starting a business. You do not start a business or develop a product before looking around for the people you believe will need your product, which will cost you a lot of time and money. It is thus advisable to do all your market research before starting your business.

List Of Products

List each of your products.

Name your products and specify precisely what market need each solves. Do not be too detailed here, and you will provide more details later.

Features Of Your Product

What are the unique features of your product?

A feature is the physical property of your product. It is something about it or inherent in its design that is beneficial but is not particularly the benefit. Examples of features are the type of fabric of a shirt, the size of the memory of a phone, the colour of a bag or shoe, the number of gears of a car, the recipe used for meals at a local restaurant etc.

Benefits Of Your Product

What unique benefits does your product have?

Benefits come from the product features. Benefits answer the question, "what's in it for the consumer?" A saucepan could have a feature of the inner surface lining. This feature benefits from non-sticking of food to the saucepan surface for easier washing. Large memory size for a phone provides the benefit of more storage space.

Product Differentiation

How different is it from all the other products on the market?

Describe how unique your product is from those of your competitors. Products of the same type have common features; however, producers include certain unique features in their designs to make their products stand out. Describe how your product features/benefits are different and how that will be beneficial.

Product Usage

How does your product work?

Describe how a consumer will use it. If a consumer buys your product, how will they use it? Briefly describe how your product works.

Legal Rights

What legal rights do you have over your product?

These are rights that go with the ownership of a property. They are rights that owners of inventions are allowed to exercise by law because of their ownership of the subject, idea, process, or property. Examples include patents, copyrights, and trade secrets. These rights prevent others from using the product or idea without your permission, giving you a monopoly in the market.

Pricing

What are your Sales Price, Cost Price, and Mark-Up?

Sales price refers to how much customers must pay to buy your product. Your cost price is how much money you spend in producing/acquiring the product and making it available for sale to clients. A mark-up is how much you add to your cost price as your profit, the sum of which is your sales price. Differentiate between each of these terms for easy understanding by your readers.

After-Sales Service

What after-sales services do you offer your clients?

After buying your product, these are free services you can offer your clients to ensure their comfort or security in its use. It includes free delivery, warranty, support, and refund policies.

Future Products

Do you have plans for new introducing products in the future?

Apart from your current product, do you have plans for new ones in the future? What are your reasons for this? When do you plan on introducing them? Under what conditions do you envisage it will be ideal to do so?

Chapter 4 INDUSTRY ANALYSIS

Begin with a description of the entire industry, an analysis of the trends, and assessing the various risks and opportunities. The research you do here will support your financial projections, so it should be well documented.

There are several businesses across the diverse sectors of the economy (primary, dealing with the extraction of raw materials directly from the earth such as farming, mining and logging; secondary, dealing with processing products from primary sources and is made up of production through factories which convert the raw materials to finished goods; tertiary which deals with the provision of services) providing services or products for the satisfaction of one need or the other of consumers.

However, some of these businesses are engaged in the same kind of business, serving the needs of the same group of consumers. Different businesses providing the same product or service are collectively called an industry. Hotel owners form the hospitality industry, businesses in publishing from the publishing industry, others in designing clothing from the fashion industry and those engaged in the transformation of raw materials to finished goods form the manufacturing industry.

Type Of Industry

What industry are you involved in?

Deducing from your understanding of what an industry is, what name will you give your industry? What name is given to businesses engaged in the same business as you?

Market Groups

What are the various market groups in the industry?

List the different people or institutions to whom you could sell your products. Market groups are the categories of individuals or institutions to whom you can sell your products. For example, a calculator retailer will have three market groups of students, scientists, and businesspeople. Your product may not be needed by only one group of people, and you should identify all possible users.

Drivers Of Demand

What are the drivers of demand in the industry?

Demand is the quantity of the product that consumers are willing and able to buy. It is driven by income, population size changes & changing weather conditions etc. Which of these factors affects demand for your product? Do people buy when the weather changes like umbrella sellers who get more demand in the rainy season?

Major Industry Players

Which businesses are the giants in the industry?

In every industry, some businesses are most dominant. In Ghana, the telecom industry is dominated by MTN, Vodafone and Airtel, and the banking industry by giants like Ecobank, Barclays and Standard Chartered Bank. These two examples should give you an idea of who the largest businesses in your industry are.

Industry Forecasts

What are the growth potentials of the industry?

Considering recent developments, what do you see as the industry's future? Is the industry likely to grow or shrink?

What are the sales levels of the industry over the last few years?

What have been the sales levels in the industry over the last few years? Have the sales levels been increasing or decreasing? State the estimated sales volumes over the years.

Quality Standards

What are the general standards of quality in the industry?

Your industry has standards that you need to keep up with or performance levels that you need to meet to survive. These standards include timelines for deliveries, product features etc. Products are expected to be of weight, taste, or size in some industries.

Also, services are supposed to be completed after a certain period. For example, in the mobile telecommunication industry, a standard is for consumers to be prompted about their account balance after loading credit.

Industry Regulations

Which laws regulate the industry?

There are laws regulating the activities of every industry. These laws are intended to ensure compliance with industry standards to ensure the safety of the environment, economy, and society. What are some of these laws that exist in your industry?

Which government agencies regulate the industry?

There are government agencies which regulate the operations of every industry. Examples are the Ghana Standards Authority, Food and Drugs Authority, and Environmental Protection Agency. These agencies and more ensure that operations in the related industries follow legislations put in place by the government.

Industry Challenges

What internal problems is the industry currently facing?

Describe the challenges in the industry. They could be unfavourable government policies, lack of regular electricity or water supply, or even the importation of cheaper foreign substitutes. List them and explain how they could affect your business.

What external problems is the industry currently facing?

Some industries are affected by a national ban on the importation of the product and bilateral trade disputes among countries that affect the supply of raw materials, among others. Are any of these happening in the industry?

Influences Of Change

Changes have enormous impacts on businesses in different ways.

Describe how the following changes will possibly affect your business and how you will handle their effects to ensure your business's survival?

Social changes

These are modifications in the behavioural patterns of society. When behavioural patterns alter significantly and are visible and sustained, they result in a social change. Changes in society can impact the demand for your product. For example, if society is ageing, it will cause an increased demand for walking sticks and not for your bicycles.

Economic changes

There are often changes in the various macroeconomic indicators like interest rate, exchange rate and the inflationary rate, which significantly impact the demand for goods and services.

For example, Higher interest rates deter investment because it costs more to borrow; a weak local currency makes importing difficult because it raises the cost of duties and taxes, inflation provokes

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higher wage demands from employees and raises business costs; a growth in per capita income boosts demand as the disposable income of consumers rises hence increasing their purchasing power for your product.

Demographic changes

These are changes in demographic variables like age ranges, marital statuses, educational levels, employment statuses, incomes, race, religion, and health. This helps you decide what modifications to make to your product and pricing, packaging, and promotion changes. Different groups are attracted to different things; hence, you need to identify each group's features and how demographic changes will affect demand for your product.

Environmental changes

Environmental factors can impact your business internally and externally. The internal environment is made up of factors within your business and under management control like the nature of your product, organizational culture, leadership, and the quality of your processes. The external environment is not under your control, such as the social and political environments, suppliers' attitudes, competitors' activities, effects of government policies, economic resources, and customer demography.

Technological changes

New technology creates new products and processes. Computer games and High-Definition TVs are all new markets created by technological changes. Online shopping, barcoding and computer-aided design are all improvements to how we do business because of better technology. Technology can reduce costs, improve quality and lead to innovation, and these developments can benefit consumers and businesses. What changes in technology can affect your business, and what will these effects be? Is there any way to handle their adverse effects? Are there advancements in technology you can adopt to improve your business?

Political changes

Changes in government policies like the level of intervention in the market can impact many areas of your business. What policies does the government want to initiate? How will these policies affect your business? To what extent does it subsidize firms? What are its policies with regards to supporting private businesses?

Operational Costs

High capital costs

These are fixed expenses incurred at the business start. This is incurred in acquiring fixed assets like land, buildings, vehicles, equipment, and any other asset which spans several years. The costs of such assets are very high; thus, there is a need to ensure adequate financial preparation. How will you raise the needed funds to finance these costs? How will you replace any of these fixed assets when the need arises?

High operational costs

Operational cost is the total cost of materials, labour, and other resources you will use in operations. It is referred to as variable cost in other circles and varies with your output volume; hence, you

should budget for this relative to your output. If your operational cost is high, you need to ensure enough cash flows through your coffers so you will not halt operations because of the lack of cash. How will you finance this cost?

High marketing costs

This is the cost of making products known to your target market and making them available. Without marketing, there is no way to make sales to grow your business; hence, you need to ensure money is always available to pay for this cost. Different businesses require different approaches to marketing, so you should know the approach needed for your business to estimate how much funds you will need and how you will sustainably generate those funds.

Consumer acceptance and brand recognition

If your product competes against well-known brands, it is arduous to gain recognition. If your product is a substitute for a well-acclaimed brand like Coca-Cola, you can imagine the work you will have to do to usurp them as market leaders.

You should be able to plan how you will increase your brand's awareness despite this immense competition. Your marketing team should have the creative nous to develop strategies to keep your business succeeding. How will you finance this?

Training and skills

You may need some specialized training for your staff. Once you identify what training is required, you should make it a policy to have all your staff undergo them as and when due. This training will show greater staff productivity with the attendant increase in profits, eventually offset this cost in the long run.

Unique technology

You may need new technology to help you serve your clients. Technology is always evolving, so there is a serious need to ensure that your technology systems are contemporary.

There should be constant monitoring of trends in the business environment and IT space to ensure this. What technology is needed in your business? How much will its acquisition, installation, and training-to-use cost you?

Unions

Industries have unions to protect the interests of groups like employees. Prepare for the possible challenges you may face from such groups and how you will handle them. As and when these pressures come from such unions, you should be in the position to meet them if necessary. There may also be a need for welfare funds for your employees to cushion them further financially. Failure to address the demands of these unions may have dire consequences on your business.

High Shipping Costs

The constant variations in the exchange rates between the local currency and its foreign counterparts regularly cause shipping costs to change favourably or adversely. Design a financing system in your business for this cost, as the lack of funding for it could seriously hamper your operations and profitability.

Chapter 5 TARGET MARKET ANALYSIS

A target market is a homogeneous group with a need for your product and a willingness to pay for it. You may have more than one target market, and it is common to have a primary target market and various secondary target markets. Each market has characteristics that determine customer location, purchasing patterns and payment preferences.

These should be described as they pertain to your product. Although you may be tempted to define your market very broadly, it is best to be as specific as possible. If you are selling a pesticide designed for use on cocoa trees, you need to determine the number of farmers cultivating cocoa and the number of trees to estimate the size of the market for the pesticide. Understanding the size of your target market will help you forecast sales for your financial projections.

You need to determine if there are enough people who want to buy your product to know the chances of your business making profits. Knowing your target market profile helps in making critical and focused marketing decisions. How large is the market? You need to provide data about how many individuals or businesses make up the market you are targeting.

Getting the information may require extrapolating from various sources like newspaper reports, articles, research reports by individuals or research institutions like the Ghana Statistical Service, Institute of Statistical, Social and Economic Research of the University of Ghana, and the Institute of Economic Affairs, among others.

The sample business plans provided contain information cited from research works of others, as shown in the references. Secondary research is Extrapolating from such sources, as the information was not gathered directly from the source. Primary research gathers information from a source or directly from the actual happenings on the ground by actively using surveys and interviews. Whichever method is appropriate for the information you want to gather is advisable.

You should, however, cite your sources of the information as has been done at the end of this book.

Demographic Segmentation

This divides the market into groups based on age, gender, and family size. This analysis helps assess the size of your market and ensure that your products reach your most important clients. Changes in

Target Market Size

How big is your target market?

Estimating the size of your target market will inform you of how many potential clients there are. It will also assist you in setting your sales targets, establishing your marketing strategies, and implementing your tactics. When determining your potential target market size, it is important to note that you factor in the percentage of people who need your product and not just everyone. For example, if you provide internet service for small businesses, you will only be interested in small businesses that own computers and use the internet.

Growth Rate

How fast is it growing?

The growth of your target market shows in increased demand. The growth can be slow if consumers do not adopt a high demand or can be rapid if they find the product useful for the price level. New technology might be marketable to a small set of consumers, but as the price falls and its usefulness in everyday life increases, more consumers would increase their demand for it.

What factors influence the growth of the target market?

List the economic factors that can influence the growth of your target market. The economic factors may include income levels, and market prices of raw materials and the social factors may include population size changes and weather conditions. Identify what these variables are and prepare for their effects on your business.

Geographic Segmentation

What is the geographical location of the target market?

Geographic segmentation divides the market into different geographical units, such as neighbourhoods, cities, countries, or continents. Where are the customers located? Please indicate the town, region, and country giving as much detail as possible. What is the approximate size of the target market in the geographic location? State the Town, Region, Country, Continent, and Estimated Size.

these variables affect the demand for your product as the size of the target market will increase or decrease. Explain why individuals with some of the demographic characteristics will patronize your products.

Question	Variables	Why will they buy the product?
What is the gender of the target market?	<input type="checkbox"/> Male	
	<input type="checkbox"/> Female	
What is the average age of the target market?	<input type="checkbox"/> 0 – 4 years	
	<input type="checkbox"/> 5 – 9 years	
	<input type="checkbox"/> 10 – 12 years	
	<input type="checkbox"/> 13 – 19 years	
	<input type="checkbox"/> 20 – 24 years	
	<input type="checkbox"/> 25 – 29 years	
	<input type="checkbox"/> 30 – 34 years	
	<input type="checkbox"/> 35 – 44 years	
	<input type="checkbox"/> 45 – 54 years	
	<input type="checkbox"/> 55 – 64 years	
	<input type="checkbox"/> 65 – 74 years	
	<input type="checkbox"/> 75 years and beyond	
What is their marital status?	<input type="checkbox"/> Married and living together	
	<input type="checkbox"/> Married but separated	
	<input type="checkbox"/> Divorced	
	<input type="checkbox"/> Widowed	
	<input type="checkbox"/> Bachelor	

	<input type="checkbox"/>	Spinster	
	<input type="checkbox"/>	Never Married	
What is their level of education?	<input type="checkbox"/>	PHD	
	<input type="checkbox"/>	Postgraduate	
	<input type="checkbox"/>	Undergraduate	
	<input type="checkbox"/>	Senior High School	
	<input type="checkbox"/>	Junior High School	
	<input type="checkbox"/>	Primary School	
	<input type="checkbox"/>	Kindergarten	
What is their nuclear family size?	<input type="checkbox"/>	2 – 5 members	
	<input type="checkbox"/>	6 – 10 members	
	<input type="checkbox"/>	11 and over	
What type of employment do they have?	<input type="checkbox"/>	Full-time	
	<input type="checkbox"/>	Part-time	
	<input type="checkbox"/>	Unemployed	
	<input type="checkbox"/>	Stay at home parent	
What is their occupation?	<input type="checkbox"/>	Clerical/Administration	
	<input type="checkbox"/>	Community Worker	
	<input type="checkbox"/>	Labourer	
	<input type="checkbox"/>	Machinery Operator	
	<input type="checkbox"/>	Manager	
	<input type="checkbox"/>	Professional	
	<input type="checkbox"/>	Salesperson	
	<input type="checkbox"/>	Farmer	
What is their monthly income level?	<input type="checkbox"/>	GH¢ 200 - GH¢ 499	
	<input type="checkbox"/>	GH¢ 500 - GH¢ 999	
	<input type="checkbox"/>	GH¢ 1,000 - GH¢ 1,499	
	<input type="checkbox"/>	GH¢ 1,500 - GH¢ 1,999	
	<input type="checkbox"/>	GH¢ 2,000 - GH¢ 2,999	
	<input type="checkbox"/>	GH¢ 3,000 and beyond	
Nationality			
Religion			
What type of housing do they occupy?	<input type="checkbox"/>	Storey building	
	<input type="checkbox"/>	Semi-detached house	
	<input type="checkbox"/>	Detached house	
	<input type="checkbox"/>	Compound house	
Do they rent or own the houses?	<input type="checkbox"/>	Fully owned	
	<input type="checkbox"/>	Under mortgage	
	<input type="checkbox"/>	Government housing	
	<input type="checkbox"/>	Corporate housing	
	<input type="checkbox"/>	Rented	
Where do they live?	<input type="checkbox"/>	Urban	
	<input type="checkbox"/>	Rural	
How many vehicles are in the household? Please specify	<input type="checkbox"/>	1 motor vehicle	
	<input type="checkbox"/>	2 motor vehicles	
	<input type="checkbox"/>	3 and above	
Do they consider the product a necessity or luxury?	<input type="checkbox"/>	Necessity	
	<input type="checkbox"/>	Nice to have	
How often do they use the product?	<input type="checkbox"/>	Daily	
	<input type="checkbox"/>	Weekly	
	<input type="checkbox"/>	Monthly	
	<input type="checkbox"/>	Quarterly	
	<input type="checkbox"/>	Bi-annually	
	<input type="checkbox"/>	Annually	
	<input type="checkbox"/>	Internet	
	<input type="checkbox"/>	Yellow Pages	

Where do they search for information about the product? State how you will reach them through these sources.	<input type="checkbox"/>	Ask friends/family	
	<input type="checkbox"/>	Newspapers/classifieds	
	<input type="checkbox"/>	Magazines	
	<input type="checkbox"/>	Radio	
	<input type="checkbox"/>	Television	
	<input type="checkbox"/>	Shops/Stores/Malls/Boutiques	
Where does the target customer live relative to the location of the business?	<input type="checkbox"/>	Within a 5 km radius	
	<input type="checkbox"/>	Within a 10 – 25 km radius	
	<input type="checkbox"/>	Within the region	
	<input type="checkbox"/>	National	
	<input type="checkbox"/>	Overseas	
How do they purchase the product?	<input type="checkbox"/>	Retail Store	
	<input type="checkbox"/>	Online	
	<input type="checkbox"/>	Through a distributor	

Chapter 6 COMPETITIVE ANALYSIS

What is the competition? Entrepreneurs often neglect this question. They tend to feel that their product is so superior that competition will not be significant. Underestimating the competition can be fatal. Competitors that are well established and prospering are doing so for very good reasons. You must identify how they do what they do to be successful and strategize your operations to match them.

Readers are likely to be concerned about the competition, so this issue must be addressed directly by listing all the businesses that will be competitors and assessing their respective strengths and weaknesses.

Multiple companies pursue new ideas simultaneously, vying for first-to-market advantage, and many may also boast strong financial backing. Be sure to elucidate why you believe you will claim the edge. You should also address future competition, particularly if you believe there are relatively low barriers to entry for potential new competitors. A concise and honest appraisal of your competition will add credibility to your business plan.

Identifying Your Competitors

Who are your direct competitors?

Who are your direct competitors? A direct competitor deals in an identical product like yours. For example, GOIL and SHELL are direct competitors as they provide the same fuel vending service, while game and Shoprite are directly competing for retail outlets.

Who are your indirect competitors?

These are competitors that sell similar products or products that fulfil similar needs. For example, two car rental companies in a town would directly compete, but both companies would be in indirect competition with a bus line or a taxi service. Who are your potential competitors? These businesses are likely to venture into the market and compete with you. Sometimes, there are high barriers to entry which make it difficult for new businesses to enter a market. What barriers can you put in place to protect your market share?

Who are the substitute products on the market?

A substitute is a product different from yours but can satisfy the same need. Email is a substitute for fax, and a consumer might consider Pepsi a perfect substitute for Coke. What products can be substitutes for yours?

General Strengths of Your Competitors

What are their competitive advantages?

Competitive advantage is one business's strategic strength over another, giving it a larger market share and higher profits. Do your competitors have any of these advantages which will make life difficult for your business?

How will you counter their unique areas of expertise?

If your competitors have a unique area of expertise, how are you planning to counter this to gain a competitive edge? What will you do differently to gain a sustained advantage in the market?

What are your competitors' main target markets?

They may be targeting different customer groups from yours; hence, they need to know all the market groups they are targeting and prepare adequately for them. For instance, while you may be targeting students with your calculator, your competitors may be targeting accountants, and this can afford you the advantage of a larger share of the student market.

What are their promotion strategies?

Promotion is targeted at informing and persuading consumers to buy your product, and it creates awareness of its existence among potential or existing clients. Promotional strategies include advertising, media planning, sales promotion, and public relations.

What do their customers like about them?

Identify what your competitors do, especially for their customers, that makes them remain loyal to them. This special treatment gives them a competitive advantage; hence you need to know it.

What new products are they developing?

Just as you may be planning to introduce new products in the future, your competitors may already be developing new ones as well. Find out what these products are so you make plans to handle their effects on your business.

If possible, you could also develop similar products in the future to compete effectively with them.

Weaknesses Of Your Competitors

What target markets are they missing or underserving?

There are different target market groups for every product. Your competitors may be focused on some groups forgetting others which could be an advantage for you. If you notice that your competitors are focused on workers, they may be missing out on students, which you can exploit.

What do their customers dislike about their products?

Competitors may be poorly satisfying their customers. Find out what their customers dislike and use it to your benefit. You can do this by interviewing consumers to ascertain their impressions of the competing products on the market. You can equally use surveys to do this.

You must gather this information to compete more effectively.

Is their marketing message adequate for the target market?

Are the marketing efforts of your competitors good enough? Is the market being impacted by their efforts? Are customers complaining about not knowing enough or understanding your competitors' marketing messages?

Are your competitors promoting only the features or benefits of their products? If they are, it is an advantage you can exploit. Do you remember the difference between features and benefits?

Are they using the right marketing strategy to reach their target market?

Considering the market groups your competitors have targeted, do you think the medium of communication they are using is the best? Do their messages get to their target markets, understandably? Can you do better communication considering this?

Opportunities Emerging

What market segments are emerging?

Identify new trends in the market your competitors are not pursuing. Are there opportunities for the growth of your business in the market? These opportunities may be new areas of need you may not have known about before venturing into the market.

Are there any newly emerging groups to which you could sell? These opportunities have the potential to expand your business in proportions you never imagined. Constantly be on the lookout for such opportunities and do well to exploit them fully.

What are the future areas of growth in the market?

What areas do you perceive will grow to become a part of your market? For example, if your business is a restaurant in a small town,

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a future growth area could be the office buildings built with the workers becoming clients of your restaurants for their lunch.

Can you develop technology that your clients will need?

Suppose you operate in an industry where everybody uses the same basic technology. Is there any way you can develop a special technology to enhance your operations and make you different? For example, if you were a carpenter with all your competitors using a hammer as the basic technology, can you introduce a nailing machine as a difference or some specialized data management software for your operations.

Can you shorten the delivery time or reduce costs?

Your market may have standards in delivery time, but is there any way you can go beyond these standards, like shortening delivery time and lowering your fees? Your ability to do this will greatly endear you to your clients, as they will see you as being able to go beyond the status quo to do what no other business bothers to do for them. Can you imagine the look on the face of your clients if they expect you to finish a project in a month and you finish in a fortnight without compromising on quality?

Threats To Be Faced

Can competitors drive you out by reducing their prices?

Can your competitors reduce their prices to affect you? If they do, are you in the position to respond without affecting your business adversely? Your competitors can do this when they have the financial resources.

They will seek to attract more clients through the lure of lower prices. If you cannot reduce your price to match theirs, you are in trouble. Is there any way you can handle this move of theirs if it happens?

Are there any detrimental government policies to your business?

Are there any government policies that can affect your business negatively? For example, if you are an importer of secondhand fridges, will a government policy banning the importation of used

fridges affect your business? These policies can cripple your business, and you need to always be on the lookout for them to protect your business.

Is the size of the market declining?

Is the size of the market shrinking? This could be due to a new and better substitute on the market. For example, if you are a trader in fax machines, with the introduction of email, many more people will prefer to use the latter hence reducing your market size.

Is there room for another business in the market?

Is it likely another business can join the market? This is most possible in a perfectly competitive market but is virtually impossible in a monopolistic market and a duopoly or oligopoly to a smaller extent.

Is the market saturated?

A saturated market is where almost every prospective client has your product, so no new client is available. At this point, further growth can only be achieved through product improvement, market size expansion or an increase in demand.

Niche

Can you identify a market niche for your business?

Now that you have analyzed the industry, your product, your customers, and your competition, you have a clear picture of where your business best fits in the market. A niche is a small, specific, well-defined segment of the market to which products are targeted.

That is a unique group of people who special need your product and to whom you can exclusively sell. A restaurant in a multi-storey office complex may have its niche as the employees of the businesses operating in the building.

Competitive Comparative Analysis

This analysis allows you to compare your business with your competitors. Several comparison areas are listed, but the key areas can impact revenue.

Area	Competitor 1	Competitor 2	Competitor 3	Competitor 4	Competitor 5
Name					
List their products					
What is their pricing strategy?					
Where do they distribute their products?					
Where are they located?					
What is their market share?					
How many employees do they have?					
How many branches do they have?					
How many hours do they work daily?					
What is their annual revenue?					
Who are their key clients?					
List their current marketing activities					
What is their brand positioning?					
What is their marketing budget?					
What do they do well?					
What do they do poorly?					
What are their credit policies?					
What is their product differentiation?					
What are their marketing strategies?					
How many staff do they have?					
How old is the business?					
What is their competitive advantage?					
What do customers like about them?					
What new products are they developing?					
What target markets are they missing?					
Why do customers dislike their products?					

Chapter 7 SWOT ANALYSIS

This is a useful tool to help you understand and make decisions about your business. SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. It is a useful technique for understanding Strengths and Weaknesses and identifying both the Opportunities open to you and the Threats you face. What makes it particularly powerful is that, with a little thought, it can help you uncover opportunities to exploit. Once you can analyze your business using the SWOT analysis, you will be able to devise a strategy that will help you distinguish yourself from your competitors to compete in the market successfully.

Conducting a SWOT analysis on your business is more fun than it sounds. It won't take much time, and it will help you develop a strong business strategy by making sure you've considered all your business's strengths and weaknesses and the opportunities and threats it faces in the marketplace. Strengths and weaknesses are internal to the company, and you can change them over time, but not without some work. Opportunities and threats are external, and they are out there in the market, whether you like it or not, and you can't change them.

A SWOT analysis focuses entirely on the four elements included in the acronym, allowing you to identify the forces influencing a strategy, action, or initiative. Knowing these positive and negative impacting elements can help you communicate what elements of your plan need to be recognized more effectively. When conducting a SWOT analysis, you should create a table split into four columns to list each impacting element side-by-side for comparison.

Strengths and weaknesses won't typically match listed opportunities and threats, though some correlation should exist since they are tied together somehow. Pairing external threats with internal weaknesses can highlight your business's most serious issues. Once you've identified your threats, you can then decide whether it is most appropriate to eliminate the internal threats by assigning resources or reducing the external threat by abandoning the threatened area of business and meeting it after strengthening your business.

Internal Factors

The first two letters in the acronym, S and W (Strengths and Weaknesses), refer to internal factors under your control. Examples of possible strengths and weaknesses are financial, such as funding, sources of income and investment opportunities; physical resources, such as your business location, facilities, and equipment; human resources, such as employees and volunteers; operational processes, such as employee programmes, organizational structure, and software systems. You should try not to sugarcoat or overlook inherent weaknesses or strengths. Identifying good and bad factors is important in conducting a thorough SWOT analysis. You cannot hope to take advantage of or control the external factors until you have objectively assessed the internal factors.

External Factors

Every organization or individual is influenced and affected by external factors. Whether connected directly or indirectly to an opportunity or threat, these factors are important. External factors typically refer to things you do not control, such as market trends, new products and technology or changes in target market needs, economic trends like national and international financial activities and demographic trends like target market age ranges, race, gender, and culture.

Strengths

If you're having any difficulty identifying strengths, try writing down a list of your business's characteristics. Some of these will hopefully be strengths. When looking at your strengths, think about them in relation to your competitors. If all your competitors provide high-quality products, then a high-quality production process is not a strength; it's a necessity. Identifying your strengths will give you a

good idea of where to channel your resources toward growing your customer base.

- a) What low-cost resources can you alone access?
- b) What is your unique selling proposition?
- c) What experience do you have to be different?
- d) What special expertise do you have?
- e) How do you uniquely benefit from your location?
- f) What special marketing strategy do you have?
- g) What specialized technology will you use?

Weaknesses

Explain how you will curtail these weaknesses.

- a) Do you lack a reputation in the market?
- b) Do you lack financial resources to fund costs?
- c) Do you lack any specialized technology?
- d) Do you lack the required level of experience?
- e) Do you have any negative historical occurrences?
- f) Do you lack the required quality of staff?
- g) Do you lack legal qualifications for any licensing?

Opportunities

A useful approach is to look at your strengths and ask yourself if these open any opportunities. Look at your weaknesses and ask whether you could open any opportunities by eliminating them.

- a) Have you identified any target market competitors that are missing or underserving?
- b) Have you identified any possible changes in the market which can increase the client's demand?
- c) Have you identified businesses you can strike strategic or mutually beneficial partnerships with?
- d) Have you identified weaknesses in your competitors you can exploit?
- e) Have you identified the possibilities of developing some new technology which can attract clients?
- f) Have you identified a way of reducing the delivery time your competitors do not know about?
- g) Have you developed a unique marketing strategy that only you can implement?

Threats

Threats can be internal or external and adversely affect your business. External threats could be inflation, new legislation, or a new competitor in your market. Internal threats could include a skill or staff shortage due to competitive wages within your organisation.

- a) What obstacles does your business face?
- b) What are competitors doing that could lose you customers?
- c) Can your weaknesses affect your business?
- d) Is the availability of quality staff dwindling?
- e) Does the changing technology pose a danger to you?
- f) Are the specifications or standards of quality for your product changing?
- g) Do you have debt or problems with Cashflow?

Chapter 8 MARKETING & SALES PLAN

Marketing and sales are distinct but related. Marketing involves increasing customer awareness, delivering a message about your product, and identifying customers. Selling involves the activities you undertake to convince those potential customers to buy. Your marketing plan should be built on the results of your market research and the specific value proposition of your product. Armed with the research, you can then devise a plan to reach your target market and deliver a customized message to them. A clear understanding of how your product is positioned will help keep all your messages strategically focused on your unique value proposition.

The costliest marketing vehicle is often advertising. It is the primary method businesses use to create an image for themselves in the market. For most new businesses, it is a challenge because the traditional means of advertising are expensive, especially when new businesses are competing with major businesses with multimillion-*cedi* budgets. Certain products, such as cars, must be advertised. If yours is one of these, the business plan should explain your advertising approach.

The advertising philosophy or programme should reflect your market positioning. Your advertising plan should also consider the availability of your product. Some companies mistake advertising their products long before they become available, and customers may then become disappointed when they cannot get the product right away. Premature advertising also serves to notify your competitors of your intentions and gives them more time to react to your entry into the market.

Without sales, there is no business, no matter how well production, marketing research, and other functions are handled. Your business plan must explain in detail how you will sell your product. The description of the selling process should cover two aspects: selling methods and serving the sellers. You must address how your product will be sold and the distribution channels with selling methods.

For example, will you sell through independent distributors? If so, what kind? How many salespeople will it take to achieve your sales goals if you plan to use your own sales force? What is your expected sales efficiency? How many sales calls will it take to get one order? How large will the average order be? How will the customer pay, on receipt or sometime after delivery? In a market with an expensive, high-quality product, this should be clearly expressed in your advertising budget.

However, in serving the sellers, you sell your product, and those doing the selling need help. An in-house sales force needs training, descriptive materials, and other selling materials. Manufacturer's representatives need these plus demonstration models. Telemarketers need training and approved answers to commonly asked questions. Perhaps most importantly, everyone involved in selling needs incentives.

The incentives must be properly structured and clearly explained if they are effective. They can consist of both monetary awards and non-monetary inducements. If the incentive packages are not clearly defined or are weighted too heavily toward the business, your sellers will not be at their effective best.

Selling is one of the most difficult tasks in business, and the work can be very demoralizing without the proper incentives. The business plan must spell out the nature of the support programme in convincing detail and exactly what will make it succeed.

Promotion

How will you promote your business?

Promotion is how information is carried to target clients. There are relatively expensive strategies as well as cheaper ones. You should

specify the promotional method you will use, how you will use it and how much it will cost you.

Following are some of these promotional methods: billboards, business cards, flyers, internet advertising, magazines, newspapers, personal selling, radio, sponsorships, and television. Which of these will you use, and how do you expect your business to benefit from their use?

What image do you want to project about your business?

How do you want customers to see the business? What should be the first thing that comes to mind when they hear your business's name or see your logo? If you want to create an image of quality, you should ensure that the first thing that comes to mind when clients come across your business is quality.

How will you identify and motivate regular customers?

Repeat clients are your regular ones. Do you have any way of building a database to monitor the buying frequency and encourage them to buy more through any special packages or offers?

Pricing

How will you price your product?

Here, you should give a more detailed description of your pricing method. Specify the costs like labour and overheads. All these costs added to the mark-up you want as profit will help you determine your price, giving a clearer understanding to your readers. For most businesses, having the lowest price is not a good policy. It robs you of needed profit margin, and customers may not care as much about price as you might think, and large competitors can underprice you, so it will be better to compete on the quality of the product.

Does your pricing strategy fit your competitive analysis?

Does your pricing reflect your plans for beating the competition? A higher price than your competitors will cost you market share. Compare your prices with those of the competition. Have you priced your product above or below or the same as the market price? What is your consideration for doing this, and how will it impact your business's success?

How important is the price as a competitive factor?

Do your consumers consider price when deciding whether to buy? The product's quality and elasticity or necessity is sometimes a more determining factor than price. The scarcity of the product usually causes consumers to overlook price in making buying decisions.

What margin/mark-up can you accommodate?

Margin is the percentage of the selling price, profit, and markup is the percentage of the cost price you add to get the selling price. How much margin/mark-up can you accommodate not to increase your price?

Credit Policies

What are your credit policies?

These show how to decide which customers are deserving of credit, the payment terms, the limits set on outstanding balances and how to deal with defaulting clients. You will elaborate more on this later.

Distribution

This is the process of making your product available for consumption by your consumers directly or indirectly through intermediaries like wholesalers and retailers. This distribution takes place through channels which are interdependent organizations involved in making the product available for consumption by the end-user.

What channels will you use to distribute your product?

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A distribution channel is how goods move from the manufacturer to the final outlet customers purchase them. In some markets, it is very complex, including distributors, wholesalers, and retailers. Describe the distribution processes you will use from production to final delivery to the consumer for your product.

What agreements do you have with these distribution agents?

If you don't sell the product directly, you do so through distribution agents like retailers and wholesalers. Under what conditions will you work with them? How much will you pay them? Will you pay them a commission? If so, how much?

How will you maintain the freshness of your product?

If you deal in perishables like fruits, vegetables, meat, or fish, will they always be in good condition when they reach the consumer? What packaging, delivery time, and measures will you have to ensure your product's freshness upon delivery?

Are the distribution channels suitable for your business image?

Relative to the image you wish for your business, do you feel the distribution channel you have chosen is representative of this ambition? If you crave an image of timeliness, you should work with distributors who have a pedigree in this attribute.

Are the distribution channels cost-effective for your product?

Ensure the resources you expend in distributing your products do not reduce your profits and cause avoidable losses. Stick with financial prudence in this regard. If you are a new business without the resources to airlift your products to different parts of the country, choose a simpler distribution channel like road transport.

Are they cost-effective for the nature of your product?

Ensure the resources you expend in distributing your products do not reduce your profits and cause avoidable losses. Stick with financial prudence in this regard. If you are a new business without

the resources to airlift your products to different parts of the country, choose a simpler distribution channel like road transport.

Is the packaging favourable for your product?

Will the product reach consumers in perfect condition looking at the nature of packaging relative to the distribution channel? The packaging is the container for your product. Match sticks are packed in a box as a package, and Fan Yogurt is packaged in a sachet.

Order Processing & Inventory Control

How will you record client orders?

Order processing is the term used to identify the collective tasks associated with fulfilling an order. The processing procedure begins with accepting the order from the customer. It is not considered complete until the customer has received the products and determined that the order has been delivered accurately and completely.

On the other hand, inventory control refers to the supervision of the supply, storage, and accessibility of products to ensure that the supply of the product is optimum at all times. Who will take responsibility for delivering the product according to the mutually agreed terms with your clients? What procedures are in place to check if clients are satisfied with the product? Customer satisfaction is a measure of how well the product meets the needs and expectations of consumers, and increased customer satisfaction is a certainty for increased profits. As a result, it is essential to ensure that consumer satisfaction is highly prioritized, thus the need to monitor it appropriately.

How will you ensure the optimum level of inventory?

Inventory is your list of raw materials, work-in-progress, and finished goods. Possessing large inventory for long periods is usually not good for a business because of inventory storage, obsolescence, and spoilage costs. However, too little inventory isn't good either because the business risks losing out on potential sales and market share. There is thus the need to monitor the inventory level to ensure that it is optimum.

Chapter 9 BUSINESS INFRASTRUCTURE

Suppose you do not have a well-functioning infrastructure in a suitable location. In that case, it is unlikely that your business will remain profitable for long, despite the superiority of your product and interest in buying it. The same applies if you do not have an appropriate Management Information System or if the responsibilities of your personnel are not well defined.

How your business is organized is an important determinant of your success, and your operations can be run effectively only if you have the appropriate facilities. You are advised to describe your premises and their suitability for your business.

Location

Describe the market in your geographical location?

How much of your target market exists in the location? What advantages can accrue to your business by looking at the proximity of your business to them? What benefits does this proximity bring?

Are there workers you can recruit for the business in the location?

Can you easily get people of the needed competence to work for you from the area? What are the possibilities of this happening?

Are there appropriate social amenities in the area?

To ensure your staff enjoy a comfortable life with their families, are there social amenities like markets and hospitals in the area? The presence of these will boost the livelihood of your employees hence reducing stress so you can get the best performances from them.

Are business support services easily available in the area?

These services are focused on aiding businesses. Professionals like banks, accounting firms, auditing firms, researchers, technicians, etc. Is there easy access to these services in the location?

Are the materials you need available in the location?

Are resources available? If you need resources like office stationery or raw materials, can you get them from around the location of the business, or you will have to travel long distances to get them?

What is the cost of the facility if rented or leased?

What agreements cover your usage of the place? Is it possible to get a similar facility at a different place under the same or better conditions? Consider if it will be easy for a customer to reach your premises. Is the direction to your premises complex? Difficulty reaching your office usually discourages prospective customers from coming over. How will you make directing your office easy if the routes are complicated?

What transport systems are available?

In trying to get to your place of business, does a client have to travel by foot, vehicle, train, air, or water? How safe is the transportation system, and how economical is it?

Are there detrimental plans for changes in the locality?

Are the local authorities considering making changes to the area that may affect your business? If your business is located at the roadside, a road expansion programme by the local authorities is most likely to affect you; hence you will have to relocate your business.

Are competitors geographically situated in the area?

Are there any businesses in the area that compete with you? How keen is the competition? Is there any reason for new competitors to move into the area?

Is your business image compatible with the location?

Does the location enhance the image of your business you wish to create in the minds of your clients?

For instance, if you want to create an image of serenity and a stress-free or peaceful working environment, it will not be advisable to locate your business in a market environment.

Is the area showing major signs of economic growth?

Indicators of such growth are the rising number of new buildings, increased use of luxuries like cars by residents, and improvements in properties. A growth indicates increased income of the prospective customers in the area hence a possible increased demand for your product.

Do the authorities support such a business in the area?

Does the government support businesses like yours in the locality? The government encourages the establishment of factories in rural communities which employ the youth. A token afforded to oblige investors include tax holidays. The more such privileges offered by the government, the more such businesses are set up to create more employment.

Premises

Can the premises be used for the kind of business you want?

The premises is the building in which operations will be carried out. How appropriate is it for your business? It will be inconvenient to house your business with 20 staff in a single-unit office with little space to work comfortably.

Is the architectural design adequate?

Make sure the design of the premises affords enough room for comfort. For example, a supermarket should be large enough for customers to move around to view your merchandise, and there should be enough space for the front desk at least.

Does the appearance of the building match the image you want?

Appearance refers to the physical outlook of your building like the colour of the walls, the nature of the floor, the physical look of the building, the facilities available etc. If you want to have an image of cleanliness, make sure the appearance of your premises reflects that. Make sure the walls are not dirty and the floor is clean.

Can you expand the premises if necessary?

If the growth of your business requires that you create more space by expanding the premises, will it be possible to do this? Can you break parts of the building? If not, then you should look for long term alternatives.

Are you planning to buy the premises if you have rented them?

If the premises are rented, you may have to consider buying it outright if that will save you money in the long term, especially if you plan to use the facility for several years.

How will you comply with Health and Safety regulations?

Make sure the facility provides enough safety. It will be most unfortunate if your customers are trapped in your premises in the event of a fire outbreak with no way to escape. What measures will be in place to ensure the safety of everybody?

Chapter 10 OPERATIONAL PLAN

This section provides the reader with a comprehensive description of your operating procedures, giving the relevant details in terms easily understandable by readers who are not experts in the industry. Preferably, you should back your narrative with a flowchart for a pictorial appreciation by your reader. Mention each stage, describe what happens there and what changes the product undergoes after going through that stage. Mention the significance of each stage to the entire production process.

Start from the point where an order is placed for your product through the various processes to deliver to your customer. For a manufacturing business, describe the manufacturing procedure. Begin with preparing raw materials and continue to finish and package the product.

For a service business, describe all the steps you will undertake when an order is made for your services. You should also list and budget for all the resources you will use.

The reader will want to know which processes you will undertake yourself and which parts you outsource. If your product is complicated, you need to describe the key processes, technology's impact on those processes or other investment needs to support operations.

Address how you will package and ship your products and what inventory level you will need to carry to meet customer needs and expectations. Discuss the operational costs, including any plans you must reduce.

Process Description

Which parts of the product do you make yourself?

Will you make all the parts for the product or buy them from outside? For instance, a water bottling company will have to state whether it will produce the plastic bottles or buy them from outside, whether they will buy the parts or manufacture them internally.

Do you make the final assembling of the product yourself?

The final assembly refers to putting all the parts of your product together to complete it. There are instances where this assembling is outsourced. A typical example of product assembling is where the various parts of a computer are imported to assemble by experts in Ghana.

What equipment will you need for your operations?

List all the machinery you will use with their specifications and models and the job each will do. Mention how delicate each machine is, its value and the kind of expertise needed to operate it.

What resources do you require to keep the business running?

To ensure that the operational process flows without interruption, there are contingency plans to forestall any delays. These measures include maintenance service teams, engineering support teams, spare parts for all the machinery, and alternative power and water sources.

What are the quality requirements of the final product?

Several requirements should be met to ensure that the final product is of the highest quality. These include quality machinery, good control of the operating systems, and the tests that should be conducted on the final product to ensure conformity to standards. Mention the factors that ensure that your final product is of the highest quality.

How long will the interruptions normally last?

There are interruptions in every operating system, and the nature and cause of these interruptions vary. List the types of interruptions you could face and describe how long these interruptions will last before they are addressed.

What are the quality requirements of the final product?

There are interruptions in every operating system, and the nature and cause of these interruptions vary. List the types of interruptions you could face and describe how long these interruptions will last before they are addressed.

What measures will be taken to resume operations?

Describe the measures you will take to resume normal operations. Mention the specific nature of each interruption before describing how you will address it. One common problem leading to a long interruption of operation is the unavailability of appropriate spare parts on site.

Draw a flowchart detailing your operational procedures.

For readers to understand your business and have a very good idea of how your business operates. Describe each step in the chart in the most concise yet understandable manner.

Chapter 11 LEGAL ENVIRONMENT

State the licensing requirements and approvals necessary for your business. You certainly need these in starting your business. Before starting your business, a typical checklist of items needing approvals or licenses includes business registration, construction permits, environmental permits, health and sanitary related permits, and work permits for foreign employees. Demonstrate that you know what permits and licenses are required for your business, know the challenges in obtaining them, have taken appropriate steps to obtain them, have already obtained some or all of them, and respect important issues of social compliance related to safety.

You should state in your business plan all the efforts you have made to obtain the relevant permits, their present statuses, and how much longer it will take you to acquire them. The prospective lender or investor is aware that a failure or major delay in obtaining important approvals can have severe financial impacts on your business. Be cautious when estimating the time required, as experience has shown that entrepreneurs often underestimate the time required to obtain a license.

Also, demonstrate that you will provide development and benefits to the local community, that the risks of image and financial damage to your company from any possible environmental problems are well understood and that you will comply with the laws applicable to safety. If and where applicable, you should show further that your business contributes substantially to protecting the environment. Governments have developed standards for ensuring the safety and well-being of employees.

Many businesses apply their practices, going even further to ensure the well-being of the people in their community. They often cover moral and ethical matters. Many will not invest in a business or even outsource to it unless it is confirmed that it does not discriminate between the sexes, that no children are employed, and that the business provides a healthy working environment for its employees. Investors or lenders also like to see that the businesses they are financing are not only complying with regulations but are also bringing social and economic benefits. Therefore, if your business

contributes to the development of the community, it is certainly an advantage to mention this in your business plan.

Legal Requirements

What are the registration requirements for your business?

Every country has legislation governing the running of specific types of businesses. For your business, relative to the country you seek to operate, what legal requirements are you expected to meet before acquiring the license/permit to operate? What types of registrations are you supposed to undertake, and what bodies/authorities? For example, a manufacturing company needs a manufacturing license, and a clinic needs to have the resident doctor(s) having a medical licence. A law firm must have all the partners possessing the license to operate as lawyers in the country.

How will you abide by workplace safety regulations?

Every operation poses hazards to humans, and there is thus the need to protect the health of all your employees and visitors to your facility. What are the legal requirements for ensuring safety in your facility for your business? To guard against fires, you are legally required to make fire extinguishers available and provide emergency exits.

What are the building requirements for your business?

Your building is another crucial factor. Describe an ideal building in terms of size, ventilation, strength, durability, etc.

What type of insurance cover do you need for your business?

Accidents are a mainstay in business, and there is thus the need to protect against losses that could occur through these accidents by taking appropriate insurance covers.

What trademarks, patents, or copyrights do you need?

Trademarks, patents, and copyrights are legal protections that give exclusivity to producing or using some product or concept. These rights are given to the originators or inventors of ideas. What protections do you need if you have the right to one?

Chapter 12 HUMAN RESOURCE

This section of the business plan describes the workforce you will need. Whether you are starting a new business or expanding an existing one, you need to indicate the number of people you will need to work with and the skills they need to possess.

Suppose you are continuing an existing business without any anticipated staffing changes, expected growth, no restructuring etc. In that case, you still need to answer some of the following questions in your business plan.

Investors will want to know if your existing employees and staff policies are adequate to ensure the success of your business.

Important questions must be answered: are there sufficient local workers available? If not, from where and how will you recruit them? Are the workers trained? If not, how will you train them? What are your plans for ongoing training? What are the labour costs, current and prospective? Which benefits, incentive plans, and other schemes will you have to motivate people to work harder for you? In other words, what is particularly attractive to prospective employees in working for your business?

Unfortunately, good personnel do not grow on trees, and you certainly would not want to work with the ones that do grow on trees. Since the decisions of your personnel can make or break your business, you will want to work with the best available.

Once you've found the right employees you want to work with, you must entice them to join your team.

You should be able to design a remuneration system that will incorporate education and experience and align them with performance on the job.

You will want to have a system that significantly rewards performance so that they will benefit as their efforts increase the growth of the business, so they do not feel exploited.

EMPLOYEE REQUIREMENTS

How many employees do you need for your business?

They should be of the required quality in terms of training, experience, and number to be successfully functional for your business.

What qualities do you require in these employees?

Describe your employees' skills or abilities that qualify them to do the job. Mention how long they have been working with these skills and their accumulated experience.

Where and how do you find the right employees?

How will you find people with the skills that you need? Even if you do find them, how will you recruit them in terms of how you will publicize your need for them and how you are going to assess them to determine their suitability for the job? Classifieds, newspapers will attract a large market, people who have no other job prospects. A skilful former executive will rarely list himself in such places as looking for a job or will go to such places to look for a job. They will register with executive search firms. Hence you need to source quality employees through such firms since they take their prospective employees through rigorous training before sending them to work for their clients.

What will be your structure for remuneration?

Employees will not work for you for free, and the reward for their work is remuneration. It is thus imperative that you design a comprehensive system to determine which employee will be paid for work done. How much an employee is paid is a combination of several factors, including the level of education, experience, training, risks, and significance of the job, among several others.

Will you use contract/temporary employees too?

These workers do specific jobs for which they are paid, after which the working relationship between you and them ends. The natural jobs are usually menial and do not require much technical expertise. Here, determine if there are jobs for which you need such contract workers and describe how you will pay them.

What will be your staff training plan?

Employee training is crucial irrespective of the training and experience levels of the employees. This is because every business has its own unique culture that every employee is supposed to live by. Additionally, there are continued changes in industry trends that employees are supposed to be aware of to deliver successfully. Assess the training needs and how you will provide them to your employees.

Chapter 13 SUPPLIERS

Suppliers are essential to every business in every sphere of the economy. You will have difficulty growing your business without the required raw materials to make what you sell or the manufacturers to provide what you resell. There are also many supplies and services that your business consumes as part of its general overheads, like stationery to internet service. Since suppliers are a key aspect of your business, you should have a dedicated fool-proof system for assessing suppliers you depend on for your business's needs.

You need to acquire your raw materials from credible suppliers to provide volumes and quality. You need to describe which suppliers will supply at what times and under what conditions. The costs must be factored into your pricing strategy and financial projections.

Suppliers will contact you through their sales representatives, but often, particularly when you are starting your business, you will need to locate them yourself. Your suppliers' reliability is a key factor; hence, you should look for good suppliers to steer you towards good materials to increase your sales. Furthermore, if you build a good relationship with them, they may be willing to help you out when customers make very difficult demands.

DESCRIPTION OF SUPPLIERS

List the name and addresses of your key suppliers.

List each raw material supplier with their contact information and a website address. The prospective investor could verify their credibility to supply to your business successfully. Indicate the number of materials they provide and how frequent their supply will be. You can use the table below to provide this information.

Material	Supplier(s)	Location	Contact

What credit arrangements do you have with them?

Will they supply on credit? If they will, when will you pay them? Is there any discount you will enjoy for upfront or prompt payments? How will the materials be delivered to you?

Will your suppliers transport them to your premises themselves, or you will take care of the transportation? What are their arrangements in case you default on your payments?

Describe the history of reliability of these suppliers.

There must be very good reasons you have chosen to work with these suppliers.

Here, describe how long your suppliers have been in business and how dependable they are in promptly delivering quality at very good prices.

If they have a history of supplying other businesses in the industry, it is a fact worth mentioning here.

How will you handle shortages?

Will there be instances where shortages of materials will occur, or you experience delivery problems? How and why will these situations occur, and what measures will you use to mitigate their adverse effects on your business and avoid their reoccurrence?

Are supply costs steady or fluctuating?

You should indicate whether the supply costs are steady or change from time to time. What are the predominant reasons for these changes, and how do you modify your operations and finances to avoid the negative effects of these fluctuations?

Do you have multiple suppliers for more critical materials?

There are times when they may not be forthcoming with supply despite your suppliers' reliability. At such times, alternatives are imperative. It is necessary to identify back-up suppliers for each critical material. Do you have such back-up suppliers in place? How will you arrange for them, and what terms will you have?

Chapter 14 CREDIT POLICIES

These should be guidelines about whether you should sell on credit, which customers you should sell to on credit, the exact payment terms, limits you set on outstanding balances and how to deal with non-paying debtors. You need to create a credit policy to keep your customers and get paid on time to stay in business. This policy should include clearly outlined procedures when a customer cannot pay, so you take immediate steps to protect your business. You need cash to operate.

You also need customers who make large purchases. If you offer too much credit to too many customers to get them to buy, you could experience cash-flow problems. If you don't provide enough credit, you may lose sales to customers who can get credit from your competition. You need to find the right mix between credit and cash flow for your business.

Debtors are customers who buy from you on credit. You can significantly enhance your revenue by allowing this. However, offering too much credit is one way your businesses can get into trouble. If you consistently experience a negative cash flow, you may be carrying too much credit. You can either reduce the number of people you give credit to or shorten the time you will carry that credit. You may cut the amount of time a customer has to pay from 90 days to 60 days.

Credit separates the pleasure of buying from the pain of paying. In other words, customers tend to buy more when they don't have to pay on the spot. This is the main reason for offering credit. You can build revenues much more quickly by providing credit than you would if you allowed no credit.

However, don't get greedy and offer every customer credit. You need some cash customers to keep the cash coming in every month. If you must turn an account over to a collection agency due to lack of payment, you will not get the total amount, which counters why you offered the credit in the first place.

You wanted to increase revenues, but the collection costs eat away at revenues. This will only become a serious matter if you have several customers in collections. If that is the case, tighten your credit requirements.

You will have to track customer payments and due dates. This can be done but remain aware that you will have to allow time for this. If you hire a bookkeeper or accountant to keep track of customers' outstanding balances, evaluate whether your revenues' gains pay for the extra accounting and leave some profit. Offering credit can give

you a competitive edge over businesses that don't offer credit. Customers may feel that you treat them with trust and respect by providing them credit. They will be more likely to return to you as they pay their outstanding balances because you have established a relationship with them.

Will you sell on credit?

Selling on credit is when you sell to a customer for payment in future.

Is it customary in the industry thus expected by clients?

You may not have any choice but to sell on credit. This may be because that is what prevails in the industry or gives you an edge over your competitors. If customers expect that you will give them credit because that is what they are used to in the industry, you are obliged to follow suit if that will keep them as your customers.

What policies do you have about who qualifies for the credit?

If you sell on credit, what arrangements will there be? How do you determine who is qualified for credit and who is not? How will you check the creditworthiness of new applicants? It is safe to sell on credit only if there is the surety that you will get your money back. How do you determine if the clients you sell to on credit will payback? What is their credit history?

What credit terms will you offer your customers?

How much credit will you give your clients? When will they be required to pay back? What do you do when they default in payment?

What prompt payment discounts will you offer?

To encourage your clients to pay their debts on time to save you the cost of chasing after them to pay, you need to motivate them. A motivational tool for this is payment discounts. Is there any such discount for your clients?

How have you built credit costs into your prices?

Selling on credit is most likely to affect your cash flow. You may receive payments in time to support cash flow or liquidity. This is a cost to you, and other costs include discounts for prompt payments. You should identify these costs and devise ways of handling them through your prices.

MANAGING YOUR ACCOUNTS RECEIVABLE

If you extend credit, you should do an ageing monthly to track how much money is tied up in credit and alert you to slow payment.

Accounts Receivable Aging					
Total	Current	30 Days	60 Days	90 Days	X > 90 Days

When will you make a phone call to follow up on the debt?

When will you call these slow-paying customers to settle their debts?

When will you send a letter?

When the phone call does not get the customer to pay his debt, you need to go a step further.

You need to get your lawyer to send a letter. Describe what time exactly you will have your lawyer do this.

MANAGING YOUR ACCOUNTS PAYABLE

You should also age your accounts payable and what you owe your suppliers, and this helps you plan whom to pay and when. Paying too early depletes your cash but paying late can cost you valuable discounts and damage your credit.

If you know you will be late in making a payment, call the creditor before the due date.

A payables ageing looks like this:

Accounts Payable Aging					
Total	Current	30 Days	60 Days	90 Days	X > 90 Days

Will your creditors offer your prompt payment discounts?

Visit our website at: www.myastuteconsulting.com

When you pay back your creditors promptly, will they give you any discounts? If they will, by how much?

It is necessary to know if you will enjoy discounts because if you pay your creditors too early, you may let go of valuable money you may have used to earn profit.

Are supply costs steady or fluctuating?

The costs of the materials could fluctuate or be steady, and fluctuating costs make it difficult for you to plan your business operations well. Thus, determine whether costs are fluctuating or constant and what you could do to handle any adverse effects of fluctuations?

Chapter 15 MANAGEMENT TEAM

In the early days after starting the business, it is normal to do as much as possible yourself as the entrepreneur since it is the most cost-effective way to do things initially. However, as the business grows, you will find that the stress of handling all the operations will overwhelm you. Eventually, you will not be able to successfully oversee the business's operations in a manner that will enable you to grow as much as you want to. At this point, you need to think and plan about bringing in other people to help you out.

You need to have individuals who have the requisite capabilities to help you manage your business's key areas. These demands match the jobs available to be done to the people you look to bring on board and not because they are your friends or family members. The truth is that innovative entrepreneurs will hire people to be their bosses when they realize that their skills lie elsewhere in the business.

Despite a well-written business plan, an investor may not have the technical knowledge to judge a business's viability confidently. Issues such as projections of future market potential, product competitiveness or technological trends can often be difficult for persons not directly involved in the industry to understand.

The decisions investors make about your business will significantly be based on the strength of your management team. There is a common belief that one of the most important criteria for deciding to invest in a business is the quality of the management team. If there is the belief that the management has the necessary experience, track record, competence and reputation, there will be a greater inclination to finance the business.

On the other hand, no serious investor will ever finance a business before properly examining the management team, regardless of how great the business opportunity appears to be. They will not finance it if the management team does not have the required experience, competence, and ethics to manage the business. This section of your business plan should, among other things, show that the members of your management team have the required talents, skills, and experience to achieve the objectives and goals, that the individual abilities of the management team members complement each other and that they can jointly cover all the functions and disciplines necessary for running the business.

Who are the shareholders or owners of the business?

Your plan should describe the individuals who have ownership rights in the business. State their names, professions and equity participation and their involvement in the decision-making processes. Depending on the structure of your company and the role of the shareholders, lenders or investors may require detailed information about their background. If you are starting a new business as a sole proprietor or with other individuals as a partnership and all of you will be actively involved in managing the business, the lender or investor will be interested in having more information about you and your partners' backgrounds.

Who will be the members of your board of directors?

Describe the members of your board, stating their names, business activities, education, expertise etc. You should mention if they have connections in industries, a good reputation, and exceptional knowledge relevant to the business. It adds a lot of credibility to your business since a strong board of directors is an asset.

Describe the make-up of the Executive Management Team

Describe the management team structure, highlighting the expertise, responsibilities, and competencies of everyone. Demonstrate that the team possesses the complementary skills will help convince investors that your business has a promising future.

They will be interested in particularly knowing who will oversee the following: General Management (Chief Executive Officer - CEO); Financial Management (Chief Financial Officer); Marketing and Sales Management; Production Management etc.

In describing the management team, provide information related to their education, professional history (which company, what type of business, how many years, which functions), unique experiences, talents and areas of high competence, and any exceptional achievements (examples: as a sales manager of company X, doubled the sales volume within three years; developed and implemented a programme which resulted in reducing the costs of production by 20% within one year).

It is advantageous to include the Curriculum Vitae of the critical persons as an appendix to the business plan. Discuss their previous work experiences, the nature of their experience, and how those levels of experience are expected to transform into good fortunes for your business. Management is the most critical element that determines the business's success, and it is thus imperative that you ensure the right people are in the right management positions.

What unique skills and qualifications do they possess?

Apart from the management team's experiences, what special abilities do they possess that would afford special benefits to the businesses. For example, a team member may have been some software developer.

What is the succession plan for the business?

Perpetuity is a value that should be ingrained into the business. Your business should not collapse because members of your management team are no longer with the business. Hence, you should devise a means for replacing any members of your management irrespective of the importance of the role played by such a person.

Draw your organizational structure.

Draw the structure of your business. Show the various positions and the lines of authority and relationships among the departments indicating how the information will flow from one department to another.

Chapter 16 SAMPLE BUSINESS PLAN - 1

EXECUTIVE SUMMARY

Most of the populace of Adum in the Ashanti region of Ghana are Small and Medium Scale Enterprise owners whose need for credit is obvious, considering the difficulty they face in accessing it from the commercial banks considering their need for funds to grow their businesses. To solve this need, Deep Credit Limited has been set up as a Microfinance company to provide loans and collect deposits to enhance their financial well-being.

The company is driven by the vision of becoming a unique financial service provider in the industry, providing tailor-made financial solutions. The mission is to offer convenient financial services for client satisfaction and corporate growth by providing innovative, attractive, and competitive benefits with a highly skilled and motivated staff.

The products on offer include deposit collections like our Savings Account and SAV and loan products like our Personal Loans, Emergency Loans, Salary Loans, Group Loans, Auto Loans and Business Loans. We also offer investment services through our fixed deposit account, whose interest rate is always at a margin higher than the Treasury bill rates.

The market for microfinance businesses in Ghana is highly competitive; hence price elasticity is very high. Due to the large number of companies involved in this industry, we are faced with intense competition, particularly from Universal Credit Limited and Glory Microfinance Limited there at Adum. We also face indirect competition from the commercial banks whose target over the years has been the formal sector but are now delving into the informal sector where we operate.

To ensure that we are successful, the board of directors has assembled a management team rich with academic intellect in business and vast working experience, having worked in many areas of commerce. They are competent in Banking and Finance, Marketing, Accounting, Auditing, Human Resources, etc. They are backed by an external team of auditors and lawyers whose job is to support the internal management activities of the company through their external services.

To achieve its corporate vision, mission, and objectives, the company needs financing amounting to GH¢500,000 as per the recapitalization requirements from the industry regulator, the Bank of Ghana. The funding, when acquired, will be used to expand infrastructure by opening ten additional branches across the country in all the ten regions in catchment areas that fit the nature of the Adum locality where the need for our services is significant and almost palpable.

Additionally, the funds will be used to support programmes intended for acquiring and developing staff through training to contemporize them with modern trends in the industry. Further research shall also be conducted into the industry, studying trends to keep the company updated on all emerging trends to derive maximum benefits.

The company is owned by Mr Dawson Portuphy, who owns 86% of the shares, Mr Archibald Tetteh with a stake of 2%, Mr Glenn Christian with 2% ownership rights and Miss Monica Apetorgbor with 10%.

MARKET PROBLEM

Problem Statement

Access to funds to start up or expand businesses has been a bane for Ghanaians. Individuals who also seek financial support to meet their short-term economic challenges are often left distraught in their attempts. Attempts to access funds from the traditional source, the commercial banks, are met with many different challenges, chief among them being the demand for collateral, which is often beyond the might of these prospective borrowers. Even clients of these banks face these challenges how much fewer non-clients.

Additionally, many Ghanaians are unbanked because they feel intimidated by going to a bank to open an account to deposit money. The situation exists mainly among the largely illiterate, who make up most of the population. This difficulty is curtailed by mobile bankers who avert people's trouble visiting banks to make deposits by going to them personally to collect their pledges. This is known in local parlance as Susu.

To address the challenge posed by these Susu collectors, there has been a proliferation of Microfinance companies as a legal non-bank industry to replace them. However, they have also been riddled with the same challenges in recent years, albeit in a different form. These companies collect deposits from clients through their savings accounts and investment products and then give out loans at higher interest rates to clients.

However, many of these businesses in recent times have collapsed due to the deficient liquidity levels that they maintain and their relatively poor loan policies allowing borrowers to bolt with the loans and not pay them back. The companies, in effect, are unable to make the client deposits available when they need them, leading to arrests and prosecution of these business owners.

Our Solution

Considering these problems, Deep Credit Limited has been set up to provide sustainable solutions through very innovative and affordable products and services. We strive to make loans affordable to our clients to help them start new businesses or expand their already existing ones.

Additionally, we will help individuals access short-term financing to meet their short-term financial obligations. We will not demand collaterals as the banks do, making it easier for our clients. However, we will have our interest rates higher than what the banks usually charge to compensate for the increased risk of bad debt we work with.

The physical structures from which we operate as offices cover the risk clients face with Susu collectors who have no recognized offices and, as a result, cannot be traced when they bolt with funds. This also forms part of the legal requirements of the Bank of Ghana, the industry regulator, before licensing the operations of such Microfinance institutions. To avoid the problem of clients not paying back loans leading to us going out of business with the attendant lawsuits as has been happening in the industry, we will dedicate a large chunk of our budget to employing a very competent staff whose job will be to ensure that we maintain the proper liquidity levels as well as initiate and implement policies that will enhance our dealings with clients and have them pay back loans when they should. This is to ensure that client deposits and investments are safe with us.

Our Capacity to Solve the Problem

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Deep Credit Limited can provide solutions to the problem enumerated above primarily because of the systems that we have in place to facilitate this. The highest level of employee expertise, technology and passion will be critical to our operations for sustainable business success.

Expertise

The functional management positions of Marketing, Finance, Human resources, Customer Care etc., will be managed by very experienced, result-oriented, and innovative individuals who will work to the highest levels of excellence to ensure that we consistently deliver solutions to all the challenges our clients have.

Technology

We will employ the right technology to run our operations, and the right computer systems will be critical to our processes through hardware and software. We will use specialized microfinance & banking software to monitor the levels of deposits, loans, and investments to ensure we align with the requirements for business success and the sustainability we seek to provide.

BUSINESS DESCRIPTION

Name

The business is Deep Credit Limited, with the name seeking to highlight our intention to be a very vibrant and solid financial institution rendering deeply planned financial services.

Location

The company is in Adum, a suburb of Kumasi in the Ashanti Region of Ghana, where the company is afforded numerous business advantages. First, the Adum residents are deprived of easy access to credit facilities. However, despite this obvious need, there aren't many such institutions. Hence, our location in such a vicinity grants us easy access to all the possible clientele we can afford to serve.

Furthermore, the lack of intense competition makes it easy for us to sell our services to the people. This emanates from the fact that they are not very used to the benefits of microfinance institutions; hence, they have very few sources of comparison with the services that we provide them.

Nature of Business

Our company is in the business of Microfinance, providing loans, savings, investments, and fixed deposits to our clients.

Vision

Deep Credit Limited is driven by the vision of being a unique financial service provider in the industry, providing tailor-made financial solutions to all our clients.

Mission

To achieve our vision, we are dedicated to the mission of offering affordability to achieve client satisfaction and corporate growth through innovative, attractive, and competitive financial products with a highly skilled and motivated staff.

Keys to Success

The keys to the success of our company are:

Building Volumes

Our success will depend on the number of clients we get and the volume of deposits we make. Additionally, since the volume of loans that we give out, the amount charged as interest and the rate of repayment of these loans will all be key to our success, we will dedicate ourselves to encouraging our clients to do business with us. We will make it easy for them to make their deposits through our mobile bankers and access loans under very flexible terms by speeding up the approval processes.

Minimizing The Scope for Fraud in Branches

We will reduce the scope for fraud in our branches to the barest minimum. We will do this by ensuring that precise internal audit mechanisms are put in place to safeguard the integrity of our operations. We will have our internal auditor vet and approve every business transaction to ensure that they are well within our operational parameters.

Retaining Customers

Our business will only grow if we retain our existing customers and introduce new ones. The company will strive to maintain our active savers and borrowers by fulfilling our promise of providing convenient financial solutions. Moving from us will be something that the quality of our services will discourage clients from doing.

Staff Hiring

Having the best staff working in our company will go a long way to enhance our service quality. Quality staff will ensure that every aspect of our business is of the highest quality. As reflected by the staff's nature, interactions with clients and operational and administrative processes will be excellent and above the industry standards. Staff turnover is something we will cater to with caution. The cost of the turnover is high for us; hence, we will make conditions conducive for our staff to discourage them from quitting.

Research

The changing dynamics of the Ghanaian economy require that every business is deeply abreast with the most current trends in the economy. Hence, we will commit to consistent research to know the changing trends of our clients to make sure that we consistently serve them with all the products they require at each changing time. We will set up a research team of highly educated and experienced individuals who will always seek to feed management with very technical information to guide all the decision-making processes.

Business Values

Integrity

Our services are available and fair to all. We will communicate honestly and accurately to establish credibility and respect. We will be truthful in all our dealings, working according to prevailing laws and procedures.

Quality

Our services will reflect our commitment to only the highest quality. We intend to build quality and excellence in each job and the products we develop.

Innovation

Innovation is the basis of our growth. We will constantly evaluate our reports and methods to determine if we can apply more efficiency. All our employees will seek to promote fresh ideas and eliminate redundancy.

Business Objectives

To track our activities to ensure we are constantly working in line with our vision, we will work with the following objectives:

Staff

- a. We will develop a partnership approach in our dealings as we set development objectives to contribute to the management and implementation of projects and programmes to ensure the dignity of all our staff.
- b. We will attract, motivate, and retain high-performing people in all areas of our business.
- c. We will commit to equal opportunities based on performance-based compensation, benefits, training, and personal growth.
- d. We expect integrity and commitment to the highest standards of achievement. We will value innovation, employee involvement, change and organizational flexibility.
- e. We recognize the value and are committed to the benefits of the diversity of people, ideas, and Culture.

Our clients

- a. We will operate according to well-defined, time-tested principles designed to ensure fairness and access to credit to address our clients' social and economic needs.
- b. We will also adopt a flexible model adaptable to a wide range of needs in the society we operate.
- c. We will invest and master the key issues vital to attaining all our clients' objectives.
- d. We will provide quality services to our customers by treating them as partners by listening, understanding their needs, responding fairly, and living up to our commitments.
- e. Ensure understandable communication between clients and us.
- f. Provide products relevant to the clients at the right price and time.
- g. Remove structures against easily accessing financial services.

Society

- a. We will comply with laws and regulations at all government levels.
- b. We will contribute to the community in which we operate.
- c. The company will conserve natural resources and continue to invest in developing the environment better.

Strategic Alliances and Partnerships

The company will embark on sustainable partnerships and symbiotic strategic alliances to achieve coordinated results. The main alliances expected are with:

- a. Banks and other financial institutions in our operational areas to ensure the availability and security of funds required for branches, staff, and clients.
- b. The Ghana Association of Microfinance Companies for staff capacity building and exchanges with other Ghanaian Microfinance Institutions.
- c. Local authorities in our operating areas for support in setting up activities in these areas and case of problems with clients.

Stage of the Business

The company is at its start-up stage and has been in existence since April 2010. Since its establishment over the last few years, the directors have been working hard to facilitate an easy transition from this infant stage, where there have been challenges to the growth stage, where the company is expected to make massive inroads into the market.

Over the period since its establishment, we have been working to establish the company as a player in the industry, militating against the impacts of errors and facing up to challenges by employing the best quality staff, continuing market research to explore other unsolved needs of the target market populace.

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Having busied ourselves with these activities, it is expected that as we transition into the next stage in the company's life, our success will be unprecedented.

Nature of Industry

The microfinance industry has increased in Ghana over the last few years. It is now commonplace in Ghana to find streets lined with institutions with inscriptions presupposing that these institutions are into the provision of microfinance services. These firms mainly provide loans and or mobile banking services and are known in local parlance as Susu. The increasing number of Microfinance institutions, whether registered Susu agents or lending Microfinance institutions, is an encouraging phenomenon for the Ghanaian microfinance industry.

Competition

Our competitors include Savings and Loans Companies, Commercial Banks, Credit Unions & other Micro Finance Companies providing loan schemes for their clients. Due to this, we will continuously pursue unique client-friendly services to gain more ground in the market. The competition is high, but we are making enough efforts to lead our competitors in future.

Legal Form

Deep credit limited has been registered with the Registrar General's department as a private limited liability company since April of 2010 and has been awarded the certificates of incorporation to start business and tax clearance.

Lawyers

To ensure our operations are within statutory requirements, we have engaged the services of the law firms Markonil Chambers and Jamert Law Consult, based in Kumasi and Accra, respectively. Apart from the supervisory function over our statutory activities, it is the primary responsibility as well of our lawyers to draft contracts, agreements, et al. We have as well chosen to work with these law firms because over our past engagements with them, they have proven very capable at what they do and have developed a cordial working relationship with the company and are as well, very supportive and highly interested in all our business endeavours.

Auditor

Lamson Consultancy and Associates have been the auditors of Deep Credit Limited since its inception. Throughout our existence, our auditors have been monitoring our operations to ensure that we follow industry guidelines and adhere to all measures that deter fraud in our operations. They establish and follow a schedule to check the appropriateness of all our business activities regularly. In an industry nationally considered to be highly competitive, our auditors continually review the general and specific aspects of our operations to guarantee we remain competitive and maintain the integrity expected by our customers.

Owners/Shareholders

The following individuals own Deep Credit Company:

Shareholder	% Shareholding
Mr Dawson Portuphy	86%
Ms Monica Apetorgbor	10%
Mr Archibald Tetteh	2%
Mr Glenn Christian	2%
TOTAL	100%

Management Team

To ensure that the corporate vision with its attendant mission and objectives are fulfilled, there is the need to engage the services of a very competent and passionate team of individuals whose output will rapidly drive the company forward. With this ideology, the following vital individuals with varying levels of rich business experience and training have been engaged to facilitate the company's growth and survival by managing the attached functional positions.

Officer	Role
Dawson Portuphy	Chief Executive Officer
Monica Apetorgbor Lawson	Customer Service Manager
Oscar Ocansey	Branch Manager
Derrick Amankwah	Operations Manager
Harry Agyemang	Internal Auditor
Mr Archibald Tetteh	Operations Director

Financial Highlights

To expand the business, the company needs funding amounting to GH¢ 5,000,000, which will be used to finance the minimum paid-up capital of GH¢ 500,000 for tier 2 companies as per the regulations of the industry regulator, Bank of Ghana, till June 2016. The rest of the funds will be used to expand our infrastructure by opening ten more branches in the ten regions of Ghana. This will enable us to reach our clients in all the country's regions before our continued expansion has us reach everybody everywhere in Ghana over the coming years.

OUR PRODUCTS

To satisfy the various needs of our clientele, our company will be providing the following financial products:

Savings Account

We have an interest-bearing savings account product specifically targeted at clients with fixed or regular income from their business or employment. The nature of this account is known in local parlance as Susu, which means savings. For the businessmen and women who run their own small

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and medium scale enterprises, this account is intended to provide them with the platform to save regular amounts as may be convenient for them. To give them the ease in making deposits, we have mobile bankers whose job is to visit such clients' premises under frequencies as determined. Furthermore, with employees of institutions that may want to run such an account with us, we provide them with the ease of making their deposits through monthly standing orders from their bank accounts after they take their salaries. To reduce the cost involved in this to our clients, we have opened accounts with the most patronized banks as per our market research.

The features of this product are that clients can withdraw any amount from their accounts as and when they require; the account earns high levels of interest, which is calculated daily and paid monthly with a quarterly interest bonus also paid. This account is popularly safe and very secure. There are several benefits that our clients enjoy from holding the account. For example, they get to develop the habit of regular savings from their business and job earnings earning extra income from the interest that we pay on their deposits monthly. Finally, the account affords an easy opportunity for our clients to access our loan facilities, among other benefits.

SAV

This is a savings account held in trust for minors, intended to encourage both minors to save for future needs. SAV, the acronym for Susu Scholarship Account, is a specialized account dedicated to students whose behalf parents/guardians can open the account. The idea behind such an account is to give the platform for parents to secure the educational future of their wards. It is believed that once parents commit to funding this account, they will have funds available to fall on to pay the fees of their wards. Additionally, an account holder can apply for loans or overdrafts for the strict purpose of paying fees. The company will provide scholarship opportunities for holders of this account who are very bright in school. All one must do to access this scholarship opportunity is to apply with the essential requirement of an academic report. Some features of this account are that a client can open it without any initial deposit. We will send SMS notifications for each transaction and send statements of account monthly to ensure transparency and easy access to loans or overdrafts to finance educational expenses, among several others.

Investments

To secure our clients' future, we will allow them to maximize the growth of their savings by investing in our fixed deposit accounts. This investment product allows them to grow their money towards buying their dream house, stress-free retirement, or other investments. The Fixed deposit account is an investment account opened with a fixed amount repayable with interest. With a fixed deposit account, money is deposited for a fixed period, say six months, one year, five years or even ten years. The money deposited cannot be withdrawn before the end of the period. To ensure that clients get the maximum benefit from this investment, our interests paid are always higher than treasury bills. Our fixed deposit account is simple to open and 100% safe giving our clients complete peace of mind to move on with their lives.

The features of this product are interest rates strategically at a level higher than the going Treasury Bill rate; clients can open the account with an opening balance of GH¢10.00 and deposits of any amount subsequently; flexible deposit tenors of 90, 180 and 360 days. Withdrawals from the account are not allowed; in case of emergency, we close the account before the maturity date and charge 1% of the interest payable to the client as of that date; we give our clients a fixed deposit receipt which must be presented at the time of maturity, and there is the option of renewing the deposit for a further period. Apart from the features described, several benefits afforded our clients through this product are afforded. Chief among these is that the account encourages long-term saving in our clients; our clients get to earn higher interest rates; they can also easily get loans from us. Also, on maturity, we can use the amount to purchase assets for the client. The benefits that we enjoy from this account are keeping clients' funds for a more extended period; we can lend them on short-term loans to other clients and invest them in other profitable ventures.

Loans

As much as we collect deposits from our clients, we also make credit available to them to undertake their various businesses. This is done through loans of different types for different purposes. Following is an assessment of our loan products:

Personal Loans

This is a short-term facility to meet short-term financial needs like rent, assets, equipment acquisition etc. Borrowers make monthly payments based on the specific amount of interest and tenor as agreed.

Salary Loans

There is always a need for salaried workers to get extra funding beyond their monthly salaries, especially when they need to care for urgent issues. This type of loan is straightforward and safe to give out because the security is pretty much assured as for as long as the borrower remains an employee, they will be paid at the end of the month.

Group Loans

This facility is for members of groups like youth clubs, women's associations, and artisan groups, among several others. For example, we provide loans to market women associations for them to be able to expand their businesses through the purchase of more goods to stock their shelves. It is relatively easy for us to give this type of loan as the borrowers are recognized members of such groups, and the guarantee for such a loan comes from the group itself. If there is any liability through default, the group bears it. Members also do not need to be account holders of ours before accessing the loan, and all they need to show is a proven ability to pay back.

Emergency Loans

In our daily lives as human beings, some things occur for which there is little financial preparation. Such emergencies and the need to mitigate the adverse challenges that they come with have necessitated such a product from us. To access this loan, a prospective borrower must provide evidence of the emergency as this loan is different from all the others by way of the tenor and the amount of interest that we charge. Such emergency loans are expected to be paid back as quickly as possible hence the tenor for these loans is relatively very short and is usually for two (2) full weeks.

Auto Loans

This facility enables clients to buy a car, motorcycle, or any other automobile for their purposes. It is traditionally challenging to raise all the money needed to buy an automobile. Hence, it is very welcome news for prospective buyers of automobiles to have a facility that allows them to acquire such assets under very flexible payment terms. The product provides the flexibility of purchasing from selected automobile companies in Ghana. There are no limitations to the type of automobile that one can buy for business or personal use. There are saloon cars, minibuses, large buses and so on, and our focus is always on the capacity of our clients to pay back the loan and not on the preference for an automobile. We have also decided with most car companies and showrooms in Ghana for preferential supply and pricing and to provide life insurance for the drivers of these automobiles. The regular maintenance and tracking services that we provide make this product unique.

Business Loans

sometimes are regarded as the commercial backbone of the Ghanaian economy as close to 70% of Ghanaians are engaged in this business category. It is thus imperative to satisfy the financial needs of this category as this provides an exciting business opportunity for businesses willing to take the risk. We provide loans to businesses under flexible terms that they will not usually get from our competitors. For example, apart from the very competitive interest rates that we provide on our business loans, recognizing that most of our clients are SMEs that need extra support beyond financing, we provide business advisory services. We link up our clients with our team of consultants to advise how they should correctly manage their businesses to make good returns on our loans. Also, we will organize periodic workshops to train them on the many different aspects of business management and keep them abreast with contemporary business practices.

All our loan products have fixed interest rates, so borrowers know exactly how much they need to pay each month. Also, applying for the loan is very quick and easy as there is no loan interview; all we do is to review the application and, from the transactions that have occurred on the client's account over the period, determine how much exactly will be most convenient to borrow looking critically at the ability to pay back.

Clients do not need to provide any collateral to back the loans they apply for, which is a deviation from the norm for the traditional commercial banks operating in Ghana. A discount is calculated and given to the client when the client can pay back the loan earlier than the end of the loan period. There are meagre commission and processing fees charged when we process the loans, and we process the loans quickly.

Product Differentiation

We differentiate ourselves from our competitors in every aspect of our business. We step back to thoroughly analyze the market trends and seek to provide a very affordable yet quality alternative to what exists in the market. Since the market in which we operate is very competitive, we aim to take advantage of the highly elastic nature of prices to win more customers.

Legal Rights

With the help of our lawyers, we will develop non-disclosure agreements and legal exclusivity to our methods and trade secrets. It is a crime for our competitors to pry into and copy our work methods.

Pricing

In the table below are our various loan products and the related prices by way of interest charged on each of them over their respective tenors.

Product	Price
Investment-Fixed Deposit	26% per annum for 5 years
Personal Loans	26% per annum for 5 years
Salary Loans	26% per annum for 5 years
Group Loans	26% per annum for 5 years
Emergency Loans	4.5% per two weeks
Business Loans	26% per annum for 5 years

Apart from loans, we have account types through which we take deposits from our clients. We incur the liability of paying interest on the volume of deposits made into the account for these accounts. Following are the average rates of interest that we pay over the periods.

Account Type	Interest Paid
Savings Account	18% per annum
SAV	18% per annum

Future Services

To expand our business operations, we are laying plans to introduce the system where we buy and lease cars to clients who will use them for commercial purposes and pay regular amounts at the end of each month towards defraying the cost. At the end of payments, the cars become their personal properties. Additionally, we shall delve into the market of home loans and provide loans for individuals to purchase houses under flexible repayment terms in this arena.

TARGET MARKET ANALYSIS

We have grouped our target market segments into two broad categories the informal and the formal sectors of the economy.

The Formal Sector

This includes the Police, Teachers, Students, Retirees, and other salaried workers who sometimes do not get access to finance from the banks for lack of collateral.

The Informal Sector

To meet the demand for financial services, Deep Credit Limited was set up to focus on savings and loans for many of its clients engaged in agriculture, petty trading, hairdressing, vulcanizing etc., to acquire credit facilities to expand their business through innovative saving vehicles.

COMPETITOR ANALYSIS

Due to the proliferation of Microfinance companies in the country, we are faced with immense competition. There in the locality of Adum, we face direct competition from Good Credit Company Limited, Glory Microfinance Limited and the commercial banks. It has been observed that the traditional banks serve only 10% of the entire Ghanaian population, with the remaining 90% unbanked.

Relating these percentages to our target market, the 90% unbanked populace is what the microfinance institutions are serving. So far, Good Credit boasts ownership of 15% of the market, with Glory owning 7%, and as a start-up, Deep Credit has 3% of the market so far.

Direct competitors are those companies involved in the same Microfinance business like us, and we battle every day for the same clients with them. Our financial products are the same, with the only difference emanating from the product names.

Some of these companies have larger market shares due to their superior operational strategies and relatively longer existence. As a start-up company, we face an enormous challenge to usurp them as market leaders in Adum and beyond. There are several direct competitors that we are faced with in the area; however, we have singled Good Credit Company Limited for analysis because they are the market leaders. The others are Glory Microfinance Limited and MKMK Bank, which is named as such but is engaged in Savings & Loans.

Our indirect competitors are those companies engaged in the finance industry but not specialized in Microfinance, and they offer substitute products to what we offer. In the Adum area, there are several such indirect competitors, namely Major Commercial Bank, Xcel Bank, and MKMK Bank, among others. These banks provide financial services as we do in an earlier state, offering a current account, savings account, and fixed deposit accounts.

However, their requirements for such accounts, coupled with their high initial deposits and high charges, make for an uneconomical operation by the target market. We focus on people of the lower-middle-income class who are generally Small and Medium Scale Traders.

The services of these banks are instead targeted at the elite who have the money to manage such accounts with these banks. Furthermore, we have a competitive advantage over these banks as a financial service company because we have mobile bankers who dedicate themselves to roaming to collect deposits from clients.

It is, however, worthy to note that Xcel has made strides to reach the market that we focus on as well. They have a product named Xcel Uniq intended to bring the otherwise unbanked populace on board. They have mobile bankers who roam the streets collecting deposits as we do.

The threat that comes with this is that, with their relatively enormous financial backing, such a bank can capture a larger market share to offer smaller charges on the accounts and pay more attractive interest rates.

Furthermore, if all the other banks follow this trend and delve into the Microfinance sector, it poses a grave danger to the long-term stability of the industry.

INDUSTRY ANALYSIS

Introduction

Microfinance encompasses financial services and the management of small amounts of money through a range of products and a system of intermediary functions targeted at low-income clients. It also refers to small loans and facilities like savings and transfers services to poor, low-income households and microenterprises.

The industry has been growing expansively in Ghana over the last few years. In Accra and the other regional capitals, there are streets lined with the offices of many such institutions that mainly provide loans and mobile banking services. The increasing number of such institutions is an encouraging phenomenon for Ghana. At least the growing number of these institutions will give the end-users (low-income earners and the poor) alternatives to choose from for their financial needs. The increasing number of such institutions also breaks the monopoly enjoyed by traditional banks contributing to a more competitive financial services industry in Ghana, which provides products and services that will meet the financial needs of the poor and low-income earners. This growth is also expected to improve the accessibility of financial services to the sizeable non-banked population in Ghana and, thereby, improve the informal sector's services and products.

The proven fact that the low-income earners and the productive poor can improve their livelihood through the provision of credit is influencing many more entrepreneurs to invest in microfinance. For some, it is purely for commercial purposes and for others; it is a mixture of the two. This is to say that incentives and rewards play a vital role in attracting financial service providers to consider serving the poor and the low-income earners. Like any other, the microfinance industry in Ghana is dominated by a few companies. These companies enjoy their dominance due to their relative long existence, large capital bases, and experienced and skilful staff. A few of the dominant forces in the industry include well-acclaimed brands such as Ghanaian Trust, Black Gold Capital, First Savings and loans, Trust Savings & Loans, and African Savings & Loans.

There are significant challenges facing the industry. For example, many unscrupulous microfinance institutions have caused clients in parts of the country to lose their savings in recent times. Some of these institutions have either been shut down by the Central Bank or the industry regulator or collapsed because of poor risk management practices. While some managers of these institutions have been arrested and prosecuted, others have absconded.

The Central Bank has developed a new set of rules and regulations to ensure that the industry is stabilised and sanitised, effective in January of 2012. As a result of this move by the Central Bank, regulated activities under the Non-bank Financial Institutions Act 2008 increased from a single tier to four tiers, including Susu companies, Susu collectors, money lenders and Financial NGOs.

A regulation under the first tier, including rural and community banks, savings and loans companies and other financial intermediaries regulated under the Banking Act, remained unchanged. Susu companies taking deposits and making profits are now operating under the second tier of the regulated regime. Such companies hold an initial minimum paid-up capital of not less than GH¢100,000 for a one-unit office. Operators under this

category must amend their company names to take on the word 'Microfinance' as a distinctive identification from other Susu operators. Credit unions also fall under the second tier, but the Bank of Ghana has yet to pass a Legislative Instrument to regulate activities in the sector. The third tier of money lenders and non-deposit taking financial NGOs to maintain a minimum paid-up capital of GH¢60,000, whilst activities under the fourth tier include the operations of Susu collectors, Susu enterprises, individual money lenders and money lending enterprises.

Additionally, the central bank recognizes the Ghana Association of Microfinance Companies as a professional association under whose umbrella it is sought to promote the industry's best practices. The association, through its work, has been engaged in building the capacity of members to successfully go through the operational processes under the Central Bank's new regulations.

Ghana's major cities continue to experience an upsurge in the number of microfinance companies. Today, over 3,000 firms are estimated to be operating in the country. By the end of 2012, the Bank of Ghana had issued 77 full licenses and about 400 provisional licenses, with 500 new applications still in the process. Under the new regulations by the Central Bank, the processes involved in licensing microfinance companies have been a worry to the association as it has been observed that several firms are venturing into the industry without due consideration to the regulation. There is, therefore, the need for the regulator to tighten the entrance for new businesses in the industry until the licensing and regularization of the already existing enterprises are completed.

As it is now, the Central Bank is processing those already in operation. Others are coming in, so the number gradually becomes overwhelming, making it difficult for the regulator. Ghana's microfinance industry is said to be on a path of reformation. Still, industry watchers believe that sustaining sanity to instil public confidence would depend on the regulator's policy direction, the Bank of Ghana.

Evolution Of Microfinance in Ghana

The concept of microfinance is not new in Ghana. Traditionally, people have saved and taken small loans from individuals and groups within self-help to start businesses. Available evidence also suggests that the first Credit Union in Africa was established in Northern Ghana in 1955 by Canadian Catholic Missionaries. Susu, one of the current microfinance methodologies, is thought to have originated in Nigeria and spread to Ghana in the early 1990s. Microfinance has gone through four (4) distinct phases worldwide:

Phase One

Governments' provision of subsidized credit started in the 1950s when they assumed that the lack of money was the ultimate hindrance to eliminating poverty.

Phase Two

It involved the provision of microcredit through NGOs to the poor in the 1960s & 1970s. During this period, sustainability and financial self-sufficiency were still not considered necessary.

Phase Three

The formalization of Microfinance Institutions began in the 1990s.

Phase Four

Since the mid-1990, the commercialization of Microfinance Institutions has gained importance with the mainstreaming of microfinance and its institutions into the financial sector. Microfinance is a sub-sector of the financial sector, comprising different financial institutions that use financial methods to reach the poor. The microfinance industry in Ghana comprises:

- a) Formal players like Savings & Loans companies, Rural and Community Banks, and some Development and Commercial Banks.
- b) Semi-formal players like Credit Unions, Financial Non-Governmental Organizations, and cooperatives.
- c) Informal players like Susu Collectors and Clubs, Rotating and Accumulating Savings and Credit Associations, traders, and moneylenders.
- d) Public sector programmes that have developed financial and non-financial services for their clients.

The Need for Microfinance in Ghana

The main goal of Ghana's Growth and Poverty Reduction Strategy (GPRS II) is to ensure "sustainable, equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment". The intention is to eliminate widespread poverty and growing income inequality, especially among the productive poor, who constitute most of the working population.

According to the 2000 Population and Housing Census, 80% of the working population is found in the private and informal sectors. This group is characterized by a lack of access to credit, which constrains the development and growth of that sector of the economy.

It stressed the observation in the International Monetary Fund Country report on Ghana of May 2003 that "weaknesses in the financial sector that restrict financing opportunities for productive private investment are a particular impediment to business expansion in Ghana."

Microfinance is perceived as a financially sustainable instrument to reach many poor people. Most of them cannot access financial services because of the lack of strong retailing financial intermediaries.

Access to financial services is imperative for developing the informal sector and helps to mop up excess liquidity through savings made available as investment capital for national development (World Bank-Africa Region, 1999).

Microfinance as a sector has the potential to reduce poverty by bringing improvement in the lives of the active poor, who are predominantly women.

Environmental Analysis

Political Environment

A stable political system is one of the critical requirements for attracting private capital. In this respect, Ghana has established a democratic political system, which seeks to promote trade and investments. The country hopes to consolidate and strengthen its democratic system. This will invariably

project a positive image for the country for potential investors and lending agencies to take advantage of the prevailing economic and political stability to invest in Ghana. There is no indication that the political stability in Ghana will change markedly over the next decade. It is believed that the political environment will continue to be stable even after the impending 2016 elections to consolidate the democratic gains of Ghana to stimulate investment.

Macroeconomic Environment

Economic growth has remained strong, with real GDP growth reaching an estimated 5.9% in 2010 compared to 4.7% in 2009. Growth prospects are even brighter as real GDP growth of 12.0%, and about 11.0% are projected for 2011 and 2012, respectively, mainly on oil production in commercial quantities in December 2010. In addition, the country's increasingly democratic settlement and social stability have boosted investors' confidence, leading to rising investment. The country's substantial growth has been achieved within a sound macroeconomic environment. Prudence has contributed to easing inflationary pressures with declining interest rates in fiscal and monetary management. The private sector has responded positively to the government's development programmes and the improved business environment. The rise in bank lending and capital inflows suggests increasing investor confidence.

Nevertheless, challenges remain, such as a weak fiscal stance and fragile external balances. Growing fiscal challenges include significant domestic payment arrears. Also, the government's public sector pay policy, the Single Spine salary policy, requires a substantial budgetary outlay, which could threaten macroeconomic stability unless renewed efforts are made to enhance domestic resource mobilization.

Ghana should also adopt a sustainable debt management strategy to avoid post-HIPC (Highly Indebted Poor Countries) debt overhang. In addition, robust and sustainable growth over the next decade will require continued high levels of investment; this will be conditional on prudence in managing the oil revenues. Besides, unemployment and underemployment are vital challenges that require the government to enhance the job-relevant skills of the workforce, especially in the large informal sector of the economy.

Ghana has a population of about 24.1 million (2010 Ghana Statistical Survey), growing at about 2% per year. Statistics (2010) indicate that 63% of the population lives in rural areas and 37% in urban areas. Inflation and high interest rates have been a persistent problem; the end-of-period inflation rate rose from 13.8% in 1999 to 40.5% in 2000 before falling to 8.5% in 2011. Treasury Bill (T-bill) rates have also steadily declined, with 91-day T-bill rates reaching 42% in 2001 before dropping to 26.63% in 2002 and falling further to 12% by the close of 2011 but suffered from a significant depreciation in 2012. The exchange rate is approximately USD 1= GH¢2.28 for 2013.

Ghana has focused on poverty reduction as the core of its development strategy. This approach was galvanized in 1995 with the launching of the first version of the Ghana-Vision 2020 initiative of institutional arrangements to analyze and promote poverty reduction. The government prepared a Development Strategy for Poverty Reduction in 2000 and has since composed the Ghana Poverty Reduction Strategy 2003-2005: An Agenda for Growth and Prosperity.

Poverty in Ghana has decreased from 51% of the population in 1991-1992 to about 43% of the population living below the poverty line in 1999. However, the average consumption level of the poor in Ghana is about 30% below this level. The poverty reduction tends to be concentrated in Accra and the rural forest areas. Poverty remains substantially higher in rural areas (52%) than in urban areas (23%), and more than half of the population living in the rural savannah zones continues to be extremely poor. Poverty is highest among the three northern regions (Upper East, Upper West, and Northern Regions), Central and Eastern regions. More than 40% of their population lived in poverty in 1999.

Nine out of ten persons in the Upper East, eight out of ten in Upper West, seven out of ten in the Northern Region, and five out of ten in the Central and Eastern regions were classified as poor in 1999. Also, poverty is highest among the self-employed households cultivating crops. It has decreased only slightly compared to the self-employed households engaged in export-crop agriculture and the wage employees in the public and private sectors.

The lack of good infrastructure and the weakness of the legal system are real challenges face by the poor in society. As contained in the 2013 budget, the government's policies and programmes focus on major growth-oriented projects to improve and sustain Ghana's middle-income status. To this end, the government has placed significant investments in energy, road, and rail transport to facilitate private sector expansion for employment generation. These growth-driven investments will be complemented by social intervention programmes to provide equal opportunities and improvements in the social development of our people.

Over the past five years, the government's economic policies have reduced poverty by increasing the economic growth trajectory of all economic fundamentals. This aims to achieve financial stability, strengthen public sector financial management, and lay the foundation for sustained growth. Some key economic targets set for 2014 are:

- a) Real GDP growth of at least 8 % in 2014
- b) Gross International Reserves of 3.6 months import cover
- c) To reduce to between 9% by the end of December 2014
- d) Build strong macro-economic fundamentals in Ghana
- e) Pursuit of favourable interest rate policy by the Bank of Ghana
- f) The industry is projected to grow at 7.7% in 2014, with 5% growth in the mining sector and 4.8% and 6 % growth in manufacturing and 8.2% in the construction sector.
- g) The services sector is expected to grow at 6.7% in 2014.
- h) To develop a vibrant, technology-driven, competitive financial sector that contributes to economic growth and employment creation.
- i) Embark on a monetary policy that will flexibly enhance the mobilization of savings and investments and make credit affordable to the private sector.

The general economic outlook is positive as the government stresses its commitment to implement policies for sustained economic growth to reduce poverty.

THE LEGAL AND REGULATORY FRAMEWORK

During the last two decades, microfinance has demonstrated its potential to assist the poor in making significant strides toward reducing their vulnerability, improving their livelihoods, paying for primary health care, and financing their children's education. Moreover, in recent years many Microfinance Institutions have demonstrated an ability to provide financial services to poor people on a sustainable, profitable basis.

Contrary to traditional money lenders, Microfinance Institutions tend to offer many clients the opportunity to enter a virtuous cycle of growth and capital accumulation thanks to their scale of operations and cost-efficiency. Although the industry is developing both in size and quality, the demand in the industry is much higher than the supply, with many micro-entrepreneurs still longing for such primary financial resources as working capital.

Although there is still variety in this sector, there is an international trend toward these Institutions becoming for-profit, regulated, audited, evaluated, and rated full-scale financial intermediaries. Microfinance institutions are not confined to social development but instead represent the latest expression of the ongoing globalization of the world financial system, of which they form an integral part. They offer access to capital to a portion of the world population that was formerly excluded.

The legal framework for regulating the microfinance sector is the Non-bank Financial Institutions Act, 2008 (Act 774) and the Banking Act, 2004 (Act 673), as amended by Act 738, which set out the Rules and Guidelines for the information of the general public and compliance by all individuals and entities operating in the microfinance sub-sector, namely Rural and Community Banks, Savings and Loans Companies and other financial intermediaries including Susu collectors, money lenders and other financial service providers. The observations on Microfinance Institutions' development in Ghana show how market conditions have led to changes in the development of Microfinance:

- a) Typically, Microfinance Institutions in Ghana are part of the non-bank financial institutions.
- b) Another growth pressure is the decision about the type of business to engage. In Ghana, for instance, the credit cooperatives had to decide to stay as savings and loans institutions with only membership trading and limited services or as financial institutions providing complete financial services. This has come about because of stiff competition from other financial institutions.
- c) Microfinance Institutions have adjusted themselves to the new economic climate engendered by economic liberalization and the financial sector regulation.
- d) The Micro-Finance Sector consists of a diverse group of Non-Bank Financial Institutions and agents who have adopted innovative credit retailing approaches. This has translated to specialized character services for low-income households, micro-enterprises, small farms, and others who lack access to the formal banking system.
- e) Microfinance Institutions are moving towards a new model that is financially independent and competitive and entails introducing new institutional policies, financial management discipline, credit administration improvements in management information systems, and considerable dependence on professionals.
- f) There is also a growing trend to renew the operational strategies of Microfinance Institutions and devise strategies to diversify products and services and risk management schemes. This approach looks critically at ways and means of making Microfinance Institutions independent and a shift from shares to deposit mobilization to be self-sufficient.
- g) Microfinance Institutions in Ghana are expected to share business models, products, and best practices in resource generation and financial performance.

MARKETING PLAN

Promotional Strategies

Although Ghanaians need microfinance services, our existence does not guarantee us clientele in volumes that we need to make profits. There is a need to promote our services to increase the awareness of the target market of our existence, the services we have to offer, and the features and benefits there are. To ensure the success of our efforts to market our business, we have adopted a promotion mix which consists of four main tools. These tools are Advertising, Sales Promotion, Public Relations, and Personal Selling.

Advertising

Here, we work to present non-personal, visual, oral, or written information about the existence of our products with the view to convincing, persuading and influencing our target clients to patronize them. We spend money advertising because of our desire to increase patronage of our products, to inform, persuade, encourage, and convince people about the need to access our products. We use a lot of advertising media to reach our target clients. These media include the following:

- a) **Press:** The print media is the most popular form of advertising. The Ghanaian media comprises newspapers like the Daily Graphic, The Enquirer and Ghanaian Times, among several others. This form of advertising is more flexible for us as changes can be affected in our adverts when desirable. The message through the print media reaches many more people, particularly Daily Graphic, which has been determined to have the most readership in Ghana. We will adopt this advertising media to reach our target market in the formal sector and are more likely to read newspapers. We communicate the benefits of our products to them, so they don't hesitate to decide about patronizing our products.
- b) **Radio:** In Ghana, radio is a prevalent advertising medium and has the advantages of broader coverage, voice appeal, relative affordability, and the use of indigenous language. We use this media to reach our target market, particularly those in the informal sector who are more receptive to the indigenous language in Ghana. Hence, we can get many of this populace.
- c) **Television:** In Ghana, this has become a prevalent advertising medium because of its visual appeal. The number of people who have access to television sets has increased exponentially over the past decade because of the proliferation of secondhand television sets, which are relatively cheaper. Many more television stations are closing in on the number 15 across the country. As a result of these developments, many Ghanaians watch television for at least an hour daily, and this is enough time to reach them with visual communication about our products. Due to the relatively expensive nature of this medium, we have hesitated to use it. However, with increased funding, we shall exploit this avenue for the most benefit to the company.

- d) Sales Promotion: To rapidly boost the demand for our products, we will undertake sales promotion exercises that serve as a bridge between our advertising and personal selling activities. Here, we adopt displays, discounts, and several exhibitions.
- e) Furthermore, under this method, we will use tools like consumer promotions to organize contests and offer prizes to our existing customers and potential customers to encourage them to make more deposits in their accounts or apply for more loans from us. We also offer discounts of 10% off the cumulative interest payable if borrowers exhaust less than 80% of the tenors of loans to pay up their loans fully. Furthermore, to enhance more deposits from our account holders, we increase the interest rate that we pay to our clients belonging to a certain threshold if they make a particular volume of deposits over a specific period.
- f) Additionally, we embark on salesforce promotion programmes intended to motivate our sales officers to get more customers and get our existing customers to make more deposits and apply for more loans. We do this by awarding them attractive bonuses, commissions, salaries, and other allowances determinable by the number of new clients they can get and the volume of deposits that clients make through their efforts.

Public Relations

We use public relations to create the conditions conducive to enabling us to promote the image, reputation, and goodwill of our company to the public. From the adage, a good name is better than riches, and we strive to build an enviable reputation or image; hence we spend vast sums of money on promoting our relations with the public. Our public relations management is with the Chief Executive Officer, who works hard to create and maintain a good relationship between the company and the public. We realize that it is not easy to win the public's confidence, especially considering the mistrust clients have towards the microfinance industry in recent times. Still, we believe that we will work hard to maintain and not destroy that confidence once we win that confidence. To succeed in public relations, we make use of several tools described as follows:

- a) Press Releases and Publications: We do this through business articles that staff members submit for publication in newspapers, journals, magazines, and other bulletins. This is an unexploited tool that we hope to use in the years to come.
- b) Gifts to Charity: To win goodwill, we shall donate cash and other items to a charity like orphanages, hospitals, and other institutions that need them. Several schools in Ghana have extremely dilapidated conditions and need renovation. We shall exploit all these avenues to create goodwill for the company by looking for and responding to such needs.
- c) Personal Contacts: Through direct personal contact with our clients, the public relations team find out the image people have formed about our company. We shall then work to enhance the positive opinions people have and work to correct the negative ones that have been created about us.
- d) Customer Services: Lastly, there are several customer services that we are seeking to provide. These include business advisory services that aim to improve our clients' businesses by teaching them better management practices.

Personal Selling

Under this tool, we employ field officers, otherwise known as mobile bankers, whose primary job is to prospect for customers, get them to make deposits, collect these deposits, and encourage these customers to take loans from us.

Their job is essential because it saves clients from travelling to our office to undertake these transactions themselves. We make it very easy for them to enjoy our services and still make enormous time concentrating fully on their business. This is not a feature associated with commercial banks that are our indirect competitors in this market.

LICENSING REQUIREMENTS

Tier 2 and Tier 3 Institutions

Restrictions of Eligibility to Corporate Entities

- a) No person other than a body corporate incorporated in Ghana shall be eligible to apply for a licence to carry on Tier 2 or Tier 3 microfinance business.
- b) No person shall carry on Microfinance business unless he has obtained from the Bank of Ghana a license for that purpose.
- c) Restrictions on shareholding
 - ✓ Shareholding of microfinance institutions such as Susu companies, Deposit-taking financial NGOs and Money lending companies shall be restricted to only Ghanaians.
 - ✓ Shareholding in non-deposit taking microfinance institutions may be exclusively Ghanaian, exclusively foreign, or jointly Ghanaian and foreign.
- a) Application procedures

Application for a licence

Every application for a licence shall be made in writing to the Director, Banking Supervision Department, Bank of Ghana, Accra, and shall be accompanied by:

- a) A valid certified copy of the Certificate of Incorporation and Regulations of the company.
- b) Names, addresses, and occupations of persons who would hold significant shares directly or indirectly in the proposed venture and the respective values of such holdings and their corporate affiliations.
- c) Completed Personal Questionnaire on the particulars of the directors and senior persons to oversee the management of the business, including their background, financial position, business interests and details of other business concerns under their control or management.

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- d) A feasibility report includes a business plan and the company's financial projections for the first five years of operation.
- e) Information on capital and sources of funds; and
- f) Such other particulars as the Bank of Ghana may require.

Interview

The Banking Supervision Department shall interview the applicant concerning the application.

Minimum Paid-Up Capital

Tier 2 Activities

All Tier 2 entities shall require not less than GH¢100,000.00 [One hundred thousand Ghana Cedis only] as minimum paid-up capital.

Tier 3 Activities

All Tier 3 entities shall require not less than GH¢60,000.00 [Sixty Thousand Ghana Cedis only] as minimum paid-up capital.

Approval in principle

The Bank of Ghana may issue an 'approval-in-principle' to the applicant on such terms and conditions as it may consider necessary and appropriate if it is satisfied that:

- a) The applicant would carry on the business with integrity, prudence, and the required professional competence; and
- b) The applicant can raise the initial paid-up capital required to hold a licence.

Pre-operating Conditions

The Central Bank may issue the final approval and licence to the applicant after satisfying itself that the ff pre-licensing conditions have been met.

- a) Minimum paid-up capital – the company has raised the minimum paid-up capital
- b) Premises: The company
 - has provided evidence of title deeds/lease agreements
 - has approvals by relevant authorities
 - have adequate business premises, staff operating area, ventilation, lighting, etc.
- c) Has demonstrated security of the premises, including the adequacy of alarm systems, fire extinguishers, vaults, safes, etc.
- d) Up to date insurance covers – fire, burglary, fidelity guarantee, etc.
- e) Possesses operational plans and policies approved by the board.
- f) Has accounting procedure manuals, computers, appropriate software, etc.
- g) Has adequately trained and sufficiently experienced staff and competent key personnel in place.
- h) Has submitted its first-year pre-operating financial statement of affairs.
- i) Has met any other conditions imposed by the Bank of Ghana.

Fees

Tier 2 and 3 microfinance institutions shall pay these fees:

- a) Processing Fee: Gh¢500.00
- b) Licence Fee: Gh¢1,000.00
- c) Annual Licence Renewal Fee: Gh¢500.00

Tier 4 Operators

Application and Licensing Procedure

Tier 4 operators shall:

- a) Obtain and complete a preliminary registration form for licensing as a Susu collector or money lender.
- b) Register as a member or affiliate with the umbrella association for Susu collectors or money lenders.
- c) Submit the completed preliminary form, together with a personality profile form endorsed by the executives of the umbrella association, to the bank of Ghana.
- d) Be licensed after obtaining satisfactory reports on background checks undertaken.

Fees

- a) Application processing fee: gh¢100.00
- b) Licensing fee: gh¢500.00

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c) Licence renewal fee: gh¢250

Source - www.bog.gov.gh

MANAGEMENT TEAM

To ensure that our corporate vision, mission, and objectives are continually achieved, there is the need to engage the services of very competent and experienced staff with the right level of motivation. These individuals who manage the susceptible functional positions in the business have extensive academic training in the industry spanning the areas of Banking and Finance, Economics, and Marketing, among several others. They are also richly experienced from their long years of service working in similar fields in other companies.

This rich experience that they will bear on the company will enable them to anticipate phenomena be they positive or negative, and take preparatory steps to derive the maximum benefit from these situations or, in the worst-case scenario, mitigate the effects that come with negative challenges. Following is a description of our key management staff:

Mr Michael Apalbilah

Management Position – Board Chairman

Mr Michael Apalbilah is chairman of the company. He has several years' experience in Financial Management, Marketing, Insurance, Banking, Corporate Management and Advertisement. He possesses a Bachelor of Science in Accounting degree from the Central University College in Ghana. He has had banking experience from his time working with National Investment Bank through to Agricultural Development Bank and United Bank for Africa, all in Ghana since the year 2009 to date. He also doubles as the Chief Executive Officer of Customer Direct, an advertising and marketing firm in Accra.

Mr Dawson Portuphy

Management Position - Chief Executive Officer

Mr Dawson Portuphy is the Chief Executive Officer of the company. He has several years of working experience in financial management, fund management, Marketing, Insurance, Banking, Corporate governance, advertising, and Aviation Services.

In his quest to climb high on the academic ladder, Dawson pursued a Diploma in Marketing at the Chartered Institute of Marketing (CIM CIM) in the United Kingdom. He proceeded to the University of Wales in the United Kingdom to pursue BABA (Hons) in Business Finance. He has also attended several business conferences and workshops in Ghana and outside Ghana.

Mrs. Monica Apetorgbor

Management Position - Customer Service Manager

Monica has experience in Banking with a continual supervisory role in office administration. Before joining the company, she worked in several companies at the managerial level.

Monica has carried out several responsibilities for AGAG Microfinance, including debt recovery and loan administration. She has a Bachelor of Commerce Degree from the University of Cape Coast here in Ghana.

Miss Grace Osei

Management Position - Branch Manager

Millicent is a seasoned loan administrator with ten (10) years of corporate experience in marketing, Microfinance, research, and general loan portfolio management. He has attended several conferences and workshops on microfinance, and he has also pursued several educational courses.

Mr Evans Asamoah

Management Position - Administrative Director

Mr Evans Asamoah is currently the administrative director of the company; before joining the team, he worked with several institutions.

He possesses the requisite experience in computing, networking, software development and analysis. In line with their zeal for education, he graduated from the University of Development Studies (UDS) with a bachelor's degree in computer science.

Mr Stephen Addo

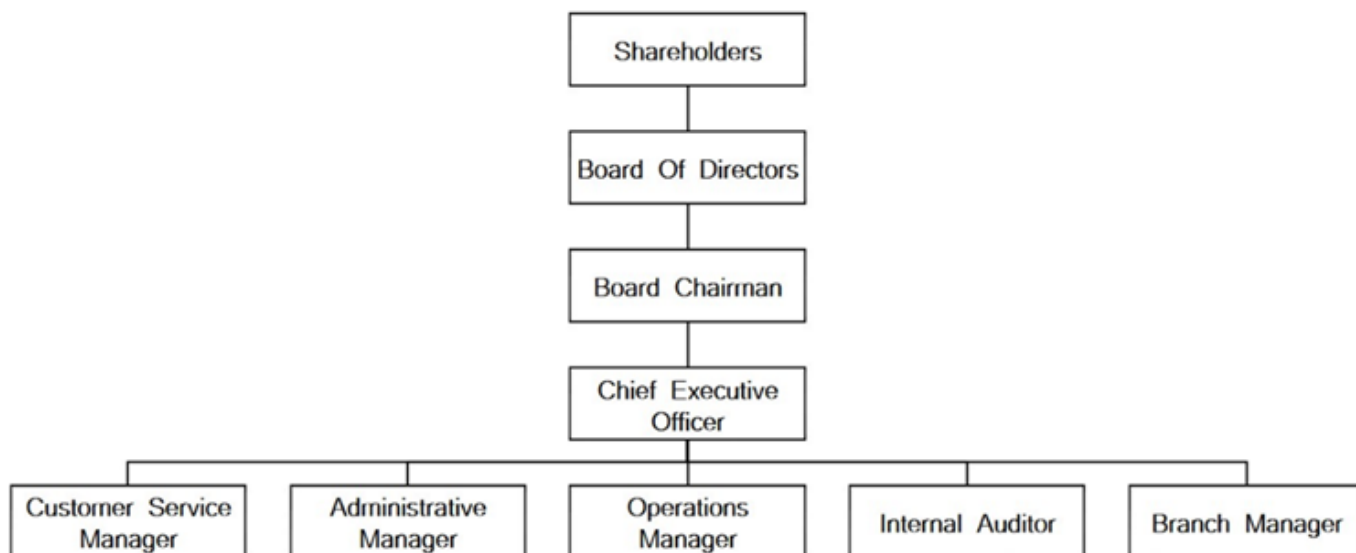
Management Position - Internal Auditor

Mr Stephen Addo is currently the company's internal auditor; before joining the team, he worked with several Financial Institutions. He possesses requisite experience in accounting and customer care duties. Philip holds a bachelor's degree and MBA in Banking and Finance from the University of Ghana.

Mr Archibald Tetteh

Management Position - Operations Director

Mr Archibald Tetteh is currently working as a director for operations to recover debt and financial budgeting. He possesses MBA in Finance and has the requisite experience in loan administration and customer care management skills.



Chapter 17 SAMPLE BUSINESS PLAN - 2

EXECUTIVE SUMMARY

Current salt production in Ghana is averagely between 250,000 and 300,000 metric tons per year, and this is about 10% of the industry's potential, estimated at 2-3 million metric tons per annum. It is also estimated that the current total capacity of solar evaporated salt production in Ghana is about 1.2 million metric tons per year, but the industry doesn't reach the target. Actual production has consistently been below the installed capacity over the years. To explore the vast target market and help Ghana reach its salt production capacity, we seek to venture into this business using the most modern salt production technology available.

Our company Ghana Salt Investment is a limited liability company operating in Ghana since 1986. The company was registered as Salt Investment Limited in 1986 but underwent a name change in 2011 to Ghana Salt Investment Limited. The company, since its establishment, has specialized in the business of providing building and civil engineering services, transportation services, farming, and import and export services. Having realized the market potential in the salt mining industry, the company now seeks funding to delve into this arena as well.

Our target market is the entire West African sub-region as there is almost no salt production in the whole region except for Ghana and Senegal. These two countries meet the requirements of most of the region, with countries like Nigeria preferring to import their requirement of salt from outside the region, principally Namibia and South Africa, but also from Australia, India, and Brazil. South Africa, Namibia and Botswana are the primary sources of salt in southern Africa.

To start operations, the company needs funding amounting to GH¢ 695,000. We need GH¢ 25,000 to purchase ten water pumps, GH¢ 100,000 to buy two KIA trucks, GH¢ 100,000 to develop the building infrastructure on-site, GH¢ 120,000 to purchase three pick-ups, GH¢150,000 to pay for the cost of the land and GH¢ 150,000 to create the site for production.

BUSINESS DESCRIPTION

Name

Ghana Salt Investment Ltd is the name of our business coined to reflect our desire to bring Ghana to the forefront of salt production in Africa.

Location

Over the years, the company has been operating from an office space off the Tabava Junction with a postal address as Box AF 5566, Accra. Relative to this salt business, the company will carry out the operations from the mining site located at Elmina in the central region of Ghana.

Vision

Our vision is to become the ultimate salt producing company in Ghana, helping to meet the demand of the West African market to end the reliance on imports from all other regions.

Mission

We will work to fulfil our vision by committing to the mission of producing at optimum capacity quality salt at very affordable prices for the market.

Keys To Success

The success of Ghana Salt Investment Limited in its salt production subsidiary will hinge on the following key factors.

Quality Of Salt

We will ensure that our salt is of the highest quality irrespective of the market conditions. We will do this by keeping in line with the industry standards and benchmarks regarding the quality of salt.

Volume Of Production

To help bridge the gap between demand and supply, where demand currently outstrips supply with Ghana producing around 10% of its capacity, we will strive to ensure we produce at optimum capacity all the time, using the resources that we have and looking forward to expanding.

Funding

One of the challenges of salt producers in Ghana is the lack of funding which has inhibited them from expanding. To ensure that we don't fall into the same problem, we will provide prudent management of our finances to ensure adequate cash flow to meet all our expenses.

Improved Technology

The low level of technology used in production in the industry also accounts mainly for the nation producing way below its capacity. To help us produce at an optimum level, we will mechanize all our operations, encouraging the use of.

Business Objectives

Volume Of Production

To increase production by 35% every year in the first five years.

Volume Of Exports

To export all our products within the same year of production

Cost Management

To decrease our levels of cost each over the first five-year period

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Net Profit Margins

To increase our net profit margin by at least 5% each year within the first five years of operations.

Stage Of the Business

Ghana Salt Investment Limited has been in operation since 1986, when it was registered with the Registrar General's Department of Ghana.

Legal Form

The business is a registered Limited Liability Company in the books of the Registrar General's Department. The company's registration documents are attached to this business plan as appendices.

Shareholders

The company's shareholding details are provided below.

Shareholder	Percentage Shareholding
Emmanuel Portuphy	80%
Christian Portuphy	10%
Matilda Portuphy	10%
Total	100%

However, the following shall be the shareholding details regarding the salt production subsidiary for which this business plan is prepared.

Shareholder	Percentage Shareholding
Emmanuel Portuphy	80%
Edwin Acquah	10%
Samuel Aidoo	10%
Total	100%

Management Team

The company will be managed by a capable and experienced team of individuals sourced from similar work areas with the lure of better working conditions and better learning opportunities, among other exciting and exciting packages. The positions they will occupy to perform their functional roles will be that of the board of Directors, Chief Executive Officer, Production and Marketing Manager, Finance Manager and Administrative Manager, and Engineering and Quality Assurance Manager.

PRODUCT DESCRIPTION

Salt is a necessity of life, and it imparts improvement in the flavour and taste of food. Salt is no less essential for livestock and valuable for agriculture and as a preservative. The use of salt in modern industry is equally important.

The chemical industry is the largest user consuming about 60%; the food industry consumes about 30% and the rest 10%. There are no economic substitutes or alternatives for salt. Calcium chloride and calcium magnesium acetate, hydrochloric acid, and potassium chloride can be substituted for salt, specific chemical processes, and food flavouring, but at a higher cost.

The primary requirement for the existing chemical and allied industries is the intermediate product caustic soda. The largest consumers of caustic soda are soaps and detergents factories, plastics, paints, and pharmaceutical industries. Large quantities of caustic soda are used in the textiles, paper, and metallurgical industries and the production of synthetic fibres. In the oil industry, salt is used to increase the density of mud and soil, which creates a more safe and efficient drilling rig. Although drilling companies may not use salt extensively in offshore drilling, enormous amounts of salt are required to facilitate drilling on land.

Pharmaceutical companies also use salt to make capsules and produce saline solutions with widespread secondary uses. Saline solutions are not only useful for contact solutions but also intravenous formulas. Salt used by the medical and pharmaceutical companies accounts for a large percentage of the total national industrial salt usage.

TARGET MARKET ANALYSIS

Overview

The world market for salt is growing, and production estimated in 2007 was 256,000,000 metric tons. Demand is inextricably linked to both population and industrial growth. The output of China alone has accelerated to an estimated 50,000,000 metric tons, primarily to support the rapidly growing Chlor-alkali market. Senegal and Ghana are the major salt producers in West Africa, where a large proportion of salt produced is for human consumption.

Ghana has the potential to rapidly increase salt production as demand is excellent in the West African regional market. However, the country can only achieve this if the industry is supported to become capable of consistently supplying good quality salt at competitive rates in the region. It is estimated that Ghana has about a 500km coastal front with a total production potential of 2.2 million metric tons per year. Actual production is estimated at 250,000 metric tons per year, of which about 62,000 metric tons are exported annually, yielding US\$ 3,043,000 in 2007.

It is believed that actual exports are higher. Available records indicate that generally, exports have shown no real growth over the last eight years. The main export markets are Niger, Burkina Faso, and Cote D'Ivoire, which account for about 90% of Ghana's total salt exports. Currently, around 5,000,000 metric tons are produced in Africa. Salt production techniques in many Sub-Saharan African countries are conventional and, in some areas, primitive.

There are two primary government-owned sea salt operations in Eritrea on the Red Sea coast and several privately-owned small and medium-sized operations. In Ethiopia, a cluster of small producers has grown around Afdera and Dobi in the Afar region, which is the source for the entire country. Kenya and Tanzania produce sea salt, inland lake, and subsoil brine salt. Mozambique and Angola's production is slowly gaining momentum.

There is almost no salt production in the Central and West African regions except in Ghana and Senegal. These two countries meet the requirements of most of the region. Countries like Nigeria prefer to import their salt requirement from outside the region, principally Namibia and South Africa and Australia, India, and Brazil. South Africa, Namibia and Botswana are the primary sources of salt in southern Africa. This prompts the development of a regional strategy to ensure that salt is iodized at the production sources.

Market Analysis

Current salt production in Ghana is averagely between 250,000 and 300,000 metric tons per year, and this is about 10% of the industry's potential, estimated at 2-3 million metric tons per annum. It is estimated that the current total installed capacity of solar evaporated salt production in Ghana is about 1.2 million metric tons per year, but the industry doesn't reach the target. Actual production has consistently been below the installed capacity due to rainwater dilution, salt pan leakage, refining losses and salt transfer handling losses.

Ghana's export potential in the ECOWAS sub-region, the amount of salt being exported into or traded between the 16 member countries is estimated to be 300,000 metric tons per year. The major importing nations are Nigeria, Cameroon, La Cote D'Ivoire, Burkina Faso, Togo, Mali, Benin, and Niger. Typically, Ghana's salt export sequence, especially between 2000 and 2005, is nothing to write home. The year 2003 was among the worst-performing years. Unfortunately, things have not changed much to date. The market has been dwindling as other competitors improve.

Ghana needs to install modern, low-cost, high production facilities that meet the available demand to penetrate an import market of 700,000-900,000 metric tons per year. The initial phase of this entry would largely be achieved by the displacement of marginal and inefficient production schedules and obsolete equipment.

Salt Demand in The ECOWAS Sub-Region

Salt production in the ECOWAS sub-region is in Senegal and Ghana. Due to the wide uses of salt and its production being limited to a few areas and subject to weather fluctuations, the demand for salt has always been very high.

For instance, in the ECOWAS sub-region, the demand for industrial salt is estimated at over 3 million metric tons per year for industrial use and over 1.5 million metric tons for human and animal consumption (Anonymous, 2004b).

The two countries (Ghana and Senegal), which have the natural facilities for producing salt commercially, can produce barely 350,000 metric tons per year, leaving a vast gap to be filled by imports from Brazil, Australia, and Europe.

Ghana can therefore develop her salt industry capabilities to satisfy a more significant part of the salt demands of her neighbouring countries. The markets of Nigeria, Togo, Benin, Burkina Faso, and La Cote D'Ivoire are natural export potential for the Ghanaian salt industry.

Target Market Challenges

To harmonize cross border trade in iodized salt, there is a need for governments across the sub-region to agree on uniform standards, remove trade barriers, build capacity, and monitor programs. International agencies should continue advocacy at the highest political level and capacity building of national and regional bodies. All salt-producing countries must adequately iodize salt produced in their country with pre-shipment certification and entry port authentication. Salt producers should organize themselves as associations to effectively coordinate their efforts.

In salt-importing countries, legislation backed with adequate border control is essential. Importing countries should apply pressure on salt-producing countries to supply iodized salt. Where there is local production, competition in the market through an abundant supply of lower grade salt results in lower prices of salt for producers, which creates pressure to cut costs even by small fractions, and iodization is usually the first cost-cutting step. The cost of transportation often overshadows iodization costs, and therefore small producers can compete only in local markets with non-iodized salt. Weak transport infrastructure also favours informal distribution networks, and this creates opportunities for unscrupulous traders to collect salt from small producers and reach markets which are not accessible by producers.

There are regional barriers to trade which sometimes prevent growth in the salt industry. This is seen in West Africa, where the trade between Anglophone and francophone countries is restricted through economic policies, limiting the marketability of salt produced in Senegal and Ghana.

Iodization technology is not a standalone step, and it should match the production setup and be integrated into the production process. Producer ownership must be created through a contribution by the producers for the units or technical services. When paid for, it will be maintained and used with responsibility. Small producers should form collectives and make their businesses more profitable, leading to growth. Cooperatives need a horizontal support model that includes training and business development services like microfinance, branding and marketing of salt, improved resource utilization and reduced wastage.

An assured and consistent supply of potassium iodate is key to the success of an iodized salt programme. Every country has its unique salt production, distribution, and consumption system. Angola, Botswana, Ethiopia, Ghana, Mozambique, Namibia, Senegal, South Africa, Sudan, and Tanzania are the ten critical salt-producing countries in Sub-Sahara. The salt produced in these countries has a broad reach and potential to make the most significant impact on iodized salt coverage in the region.

COMPETITOR ANALYSIS

Profile Of Major Producer

Basic Details

Panbros Salt Industries is a Limited Liability Company established in 1956. Located at Mendskrom in the west of the Greater Accra region, about 10km from the city centre, it is the biggest salt work in Ghana, with a total area of 936 hectares and a production capacity of 75,000 Metric Tons per annum. The company employs about 120 permanent staff and 200 casual staff. Also, the company has engaged contractors for the harvesting of salt that employs about 800 people in total. The turnover of the company was about US\$3,300,000 million in 2010.

History

Two Greek brothers founded it, the Panayiotopoulos brothers, who came to Ghana before independence and established two salt works here: Panbros Salt Industries in Accra and another smaller salt works in Elmina in the Central region.

The Panayiotopoulos brothers managed Panbros Salt Industries until 1970, when they sold their interest to a Ghanaian entrepreneur, Samuel Christian Appenteng, then a trader in several products. The company has remained a family business with private shareholders, and the company's new owners have traded under the original name to this day.

Current Activities and Products

The company produces three main types of salt:

- The coarse raw salt is harvested salt that has been iodated and bagged.
- Washed salt is coarse raw salt that has been washed to remove shells, sand, etc.
- Refined salt, locally, 'refined' salt refers to raw coarse salt that has been thoroughly washed, ground into smaller granules and dried.

Production Method

The company produces solar salt using a production method that depends entirely on the weather. It involves the channelling of seawater into solar ponds that are allowed to evaporate and eventually crystallize in the sun.

Southern Ghana has an annual rainy season of four to five months, during which the company is unable to produce salt. Consequently, it operates at 53% of its total notional capacity.

Organization and Management

The company comprises a board and a management team supported by heads in Production, Quality Assurance, Engineering, Finance, Administration and Marketing. Although the company is a family business, the current managing director, Michael Odartey-Wellington, is not a family member.

Firm Capabilities

Being the oldest saltworks in Ghana, Panbros Salt Industries has developed many solar salt productions and harvesting expertise. The company has become synonymous with salt production in Ghana.

Competition

The main competitor of Panbros Salt Industries is the Ada Songhor Salt Company. This is in the Ada Songhor area to the east of Accra, the largest salt basin in West Africa, producing over 1.2 million metric tons per annum.

However, due to ownership problems with the land, the Ada Songhor Salt Company has not realized its full potential and produces about 65,000 Metric Tons of salt annually. Other smaller competitors such as Ningo Salt Limited and Eldin Salt Limited have production volumes below 20,000 Metric Tons per annum. Many small salt producers in the Central region produce minimal quantities.

Supply and Marketing Chain

Potassium iodate, anticaking agent and pumps are imported from Germany, India, and Austria.

Most output is sold at the factory to distributors, traders, and wholesalers, who transport the product to Ghana's various markets and other countries in West Africa. The company sells directly to clients.

Exports

The company's raw salt is exported to Burkina Faso, Niger, and Togo for use in leather tanning, textiles, and animal feed. Salt is also processed in these countries for human consumption. Washed salt goes to the local market, though some are exported to Ivory Coast.

Challenges

The company's main issue is the trend that has been evident in recent years toward a longer rainy season, which has shortened the annual production period. Increased rainfall has caused flooding of the crystallization ponds and disruption of production.

Other issues include environmental degradation because of sand winning on the beaches and pollution of the sea by waste from surrounding communities that dump waste into the Densu River (which flows into the sea close to the facility). Panbros Salt Industries is also concerned about encroachment on land reserved for its expansion.

Development Agenda

The company aims to acquire new plants and technology and increase its production capacity utilization from the current 53% to 87%.

The company has been considering a vacuum salt production technology that would enable it to produce salt all year round and produce top-quality refined salt for use in the pharmaceutical sector.

Other Salt Producers

The table below lists 23 producers of salt as of 2009 with the various annual production capacities and potential production levels in Metric Tons. Annual and potential salt production capacity in Ghana.

Annual and potential salt production capacity in Ghana.		
Company	Annual Production	Potential Production

Ada Songhor Salt Project	65,000	200,000
Panbros Salt Industries Limited	60,000	140,000
Eldin Salt	20,000	135,000
No Salt Works	15,000	40,000
Tradevco	10,000	20,000
U2 Salt	5,000	30,000
Modern Salt	5,000	220,000
John Harris	1,500	42,000
Trans Volta	1,000	4,000
Caba	1,000	2,500
Paket	1,000	2,000
Petra	1,000	13,000
Savannah	1,000	28,000
Adjust salt	1,000	5,000
Nartey Salt	1,000	10,000
Ada Salt Producers Association (250 Members)	50,000	150,000
Elmina Salt Producers Association (7 Members)	5,000	8,000
Nanyang Salt Producers Association (200 Members)	2,500	30,000
Adam Salt Producers Association (16 Members)	750	10,000
Keta Salt Winners Cooperation (85 Members)	750	5,000
Anomaly Salt Producers Association (14 Members)	500	2,000
Anlo-Afiadenyigba Salt Winners Cooperation (120 Members)	300	7,500
Adina Salt Winners Cooperative (112 Members)	100	2,000
TOTAL	248,400	1,106,000
Source: Ministry of Trade and Industry (2009).		

Threat Of New Entrants

Once a licence has been secured, establishing a salt unit requires very little capital. However, the barriers grow in proportion to the scale and complexity of the operation, and the threat of new entrants is high.

Threat Of Substitutes

As salt is a natural resource that most Ghanaians use for animal and human consumption, the threat of substitutes is not significant.

INDUSTRY ANALYSIS

Industry Profile

Background and Overview

Ghana is a major salt producer, with annual production fluctuating between 250,000 metric tons and 350,000 metric tons. Almost all production is of sea salt, produced in four regions: Greater Accra, Central, Volta and Western regions. Rock salt is produced in Daboya in the Northern region on an artisanal scale. There are about 85 companies licensed by the Minerals Commission to produce salt. The total salt concession is 30,363 hectares. Salt production in Ghana is a pyramid structure with many artisanal salt winners, some micro and small-scale producers, and a few media to large-scale producers. It is believed that the key to the transformation of the sector lies with the latter two categories.

An industry examination shows that this potential arises from a relatively secure base, existing market opportunity, low entry barriers and lack of substitutes. In the short term, buyers consist of individual retailers and traders, with industrial clients making up only a small proportion. As the industry continues to grow and especially the new oil and gas finds, the characteristics of buyers are likely to change significantly, and the sector must be in the position to adapt accordingly.

Structure Of the Industry

There are four categories of producers (Large Scale, Medium Scale, Small and Micro-Scale and Artisanal). Large-scale producers comprise firms and establishments with 30,000 - 100,000 annual production capacities annually. Panbros Salt Industries is the largest firm, with production ranging between 60,000 - 70,000 metric tons, representing 26% of national salt production. Ada Songhor Salt Company, the second-largest salt producer in Ghana, produces 40,000 metric tons of salt per year, or 16% of the total output.

Five medium-scale companies produce between 5,000 and 29,000 metric tons per annum: Ningo Salt Limited, Edinaman Salt Limited, Dangbe Salt Industries, U2 Company Limited and Eldin Salt Limited. The remaining firms are small and micro-scale entities that produce between 50 metric tons and 1,500 metric tons per annum. The Presidential Special Initiative (PSI) estimates 1,000 micro-scale salt producers on Salt.

Bargaining Power of Suppliers

The most crucial supply of Ghana's salt is the sea and subsoil brine. Although access to sea brine is free, there are regulations governing the ownership of salt units where production is done. Ghana's complex land tenure systems have been obstacles to socio-economic growth for many years. In many parts of the country, private land is communally owned and held in trust on behalf of the community by stool chiefs or skins. They hold allodial, absolute ownership as a symbol of traditional authority.

This approach to land ownership is characteristic of a pre-market economy where the limited exchange that took place was still restricted to specific clans or ethnic groups. Consultations and reforms to bring the land tenure system in line with economic and commercial realities have been ongoing since pre-colonial times. However, a satisfactory solution is yet to be reached. The land surrounding the Songhor Lagoon within the Dangme East district differs from most areas in that the district has no stool lands. Clans own the land through families, and the clan heads have jurisdiction over

the land owned by their clans. The head or chief undertakes the administration of the lands in consultation with the land-owning families and elders. Of the ten clans within this area, only six are land-owning, and of these, only three own the lands of the Ada Songhor Lagoon. These clans are the Tekperbiawe, Adibiawe and the Lomobiawe. To encourage private investment in mining, the government enacted the Minerals and Mining Law, 1986 (PNDCL 153) and the Small-Scale Mining Law (PNDCL 218) in 1989.

Salt is a mineral and therefore subject to these legal provisions. Under the GIPC Act, 1994 (Act 478), foreign investment in all sectors of the economy, other than mining, petroleum, free zones, and portfolio investments, can be established without prior approval by GIPC. However, mining and petroleum sector projects must be approved or licensed by the Minerals Commission and the Ministry of Mines and Energy. Despite this, the regulatory framework for investment in salt remains complicated due to land tenure issues. The list below indicates that there are close to 20 agencies involved in land for salt production:

Formal Agencies

- | | |
|--|---|
| a) Ministry Of Lands and Forestry | i) Land Administration Project Unit |
| b) Ministry Of Mines and Energy | j) Regional Coordinating Councils |
| c) Lands Commission | k) District Assemblies |
| d) Survey Department | l) Regional Lands Commission |
| e) Land Title Registry | m) Stool Lands Boundary Settlement Commission |
| f) Department Of Town and Country Planning | n) Joint Border Commissions and Minerals Commission |
| g) Stool Lands Administrator | o) Ghana Investment Promotion Centre |
| h) Land Valuation Board | |

Informal Agencies

- National house of chiefs/regional house of chiefs/traditional councils/individual chiefs
- Ghana institute of surveyors
- Environmental protection agency

Problems of a dispute over territorial jurisdiction between different clans and independent groups of investors who had leased land in the early seventies became so severe that the government was forced to acquire the Songhor Lagoon and adjoining lands. While this allowed the investors to continue the business, it denied the clans the right to their land. The government terminated the leases in 1992, and the land was vested to the government under PNDC Law 287 in trust for the owners.

Someone million individual producers, referred to as salt winners, are organized into cooperatives found in Elmina, Anomabu, Nyanyano and Apam in the Central region and Ada Songhor in the Greater Accra region.

Distribution Of Salt Mining Leases to Large & Medium-Size Companies			
Region	Number Of Companies	Total Salt Concession (Hectares)	Percentage Of Total Concession
Greater Accra	27	18,782	61.86%
Central	49	6,504	21.42%
Volta	6	5,032	16.57%
Western	3	46	0.15%
Total	85	30,364	100%

Supply and Marketing Chain

About 20% of the salt produced is consumed locally. Small producers sell either to intermediaries or large buyers such as Unilever. 80% of production is exported to Burkina Faso, Mali, Niger, Togo, and Benin. Some companies, such as Ningo Salt Limited, U2 Salt Limited, and Eldin Salt Limited, produce iodated salt under contract for Unilever.

Policy Context

Since 2002 there have been initiatives by the government to:

- Develop links from the salt industry to the petrochemical,
- Enhance land-use policies and operating technologies to harness the potential of the Keta and Songhor basins, which could produce an estimated one million metric tons annually,
- Establish land banks along the coast for sea salt production.
- Over the past decade, the government has focused on addressing the sector's constraints. The psi on salt was established to
- Facilitate the identification and application of state-of-the-art technology,
- Facilitate the establishment or expansion of 30 companies to produce 50,000–100,000 metric tons per annum based on the corporate village enterprise model,
- Facilitate the establishment of companies with annual capacities ranging between 250,000 metric tons and 450,000 metric tons, which are expected to serve as the main driving force for the development of the salt industry in Ghana,
- Develop unencumbered land banks suitable for salt production by the district assemblies in salt producing areas,

- i) Find a lasting solution to the problems inhibiting industrial-scale salt production in the Ada Songhor basin (the biggest basin in Ghana).

Industry Challenges

Despite the many benefits that the industry affords to the national economy, it is also riddled with severe challenges which have rendered the under-capacity production levels that have been recorded over the years. Some of these challenges facing the industry are as follows:

- a) The production of sea salt using solar drying is highly seasonal. Production ceases during the rainy season, which lasts for four to five months. (None of Ghana's facilities uses vacuum technology), and this raises the overall cost of production.
- b) The cost of transporting salt to markets in the West African sub-region by road is sometimes twice the commodity's price.
- c) Poor infrastructure and a lack of financing for firms are also continuing concerns.
- d) Low quality of salt: this appears to be a direct result of demand outstripping supply. A high percentage of the salt produced does not adhere to any given standards. Nevertheless, it is all sold on-site.
- e) Lack of access to finance: several schemes have been introduced. However, the financial support appears to have been misjudged as funds have been misdirected, resulting in late or non-payment of loans. This has, in turn, led to reluctance by financial institutions to lend to the sector, although there are a few exceptions.
- f) Access to land: land ownership is an issue due to the stool system of control of land in most salt-producing areas. Productivity depends on the attitude and approach to the administration of landowners.
- g) Low technology: unscientific methods of production are used. Lack of development has not encouraged the appreciation of technology either in chemical or output methodology. Management, technological know-how, and marketing expertise would be crucial in raising capital from any commercial institution.

Competitiveness

Only processed salt is produced in Ghana, and no company produces refined salt. This makes it difficult to compete internationally with Brazil, Chile, and Australian producers.

Export Status, Strength & Potential

Ghana currently exports up to 80% of its salt to other Economic Community of West African States (ECOWAS) countries. Ghana's proximity to West Africa and Europe offers a substantial opportunity if high-quality refined salt can be produced using modern technology and equipment. Current demand in West Africa (1.5 metric tons) is three times the supply currently produced by Ghana and Senegal, the shortfall being met by countries such as Brazil. Four main categories of salt are exported from or imported into Ghana. Salt for human consumption (including table salt), denatured salt, compressed salt, and other salts.

PRODUCTION PROCESS

Generally, there are four different types of salt production, namely: rock salt mining, solution mining, solar salt, and processing of rock salt (Weller and Dumitroaia, 2005). Of these, the solar salt method is the most widely used in Ghana because of the high evaporation rates and low precipitation that exist along the coast. We will adopt the solar salt production method, which in other words, is known as the solar evaporation method. The process involved in the method is described as follows:

Solar Evaporation Method

This is the oldest method of salt production, and it has been used since salt crystals were first noticed in trapped pools of seawater. Its use is practical only in warm climates where the evaporation rate exceeds the precipitation rate, either annually or for extended periods, and ideally, where there are steady prevailing winds.

- a) In this modern solar salt method, seawater is pumped into ponds with dykes to prevent the water from escaping.
- b) It is continuously evaporated by solar heating and wind flow. As the water evaporates, its concentration rises, and the constituent salt crystallizes.
- c) The crystallized salt is then washed to remove the insoluble matter like sand and other impurities.
- d) It is then allowed to drain and dry in the sun.
- e) The water's salinity range in each pond is regulated and graded with the lower salinities in the evaporators and concentrators.
- f) Usually, two types of ponds are used. First is the concentrating pond, where the salty water from the ocean or Salt Lake is concentrated.
- g) The second is called the crystallizing pond, where the salt is produced. Ponds range from 40 to 200 acres with a foot-thick salt floor resulting from years of depositions.
- h) During the salt-making season of four to five months, brine flows continuously through these ponds.
- i) The ponds contain a saturated brine solution, containing as much salt as they can hold, so pure salt crystallizes out of the solution as the water evaporates.
- j) Natural chemical impurities are returned to the saltwater source.

MARKETING PLAN

The company will export most of its output to its target market, the West African sub-region. Additionally, it will satisfy the local market's demand by selling at the factory to distributors, traders, and wholesalers who transport the salt to the various markets in Ghana and the other countries in West Africa. The company will also sell directly to its clients.

Key Marketing Messages

Our consumers need to be provided with the highest quality salt to satisfy their needs fully. Quality is defined by the extent of ionization of the salt using modern salt iodization technology. Another measure of the quality of the salt is the extent of impurities in the product, defined by how clean and whitish the salt is.

The key message we will propagate to our target clients as part of our marketing strategy is that our salt is fully iodized and free from all the impurities that there may be as we employ the most modern technology in our operations. This will form the basis of our marketing activities.

Promotional Strategies

To get the message about our products, highlighting the huge benefits that it affords to consumers, we will embark on promotional strategies poised to help us achieve tremendous results in breaking into the market in a big way and fulfilling our business vision.

We will create awareness about the company and our quality of salt if we promote them. The following will be some of the promotional strategies that we will adopt.

Billboards

We will use the many billboards that line up the streets of the principal cities of Ghana. We will advertise our salt on these boards to create awareness of our salt in the minds of potential clients. This strategy is dedicated mainly to the prospective industrial clients we are targeting. In the long term, we will also implement this strategy in the West African countries that we are targeting to export our salt. Here again, we will focus this strategy on winning industrial clients who can import huge volumes of salt for their industrial use.

Wholesalers

These are individuals or institutions whose business is to buy the salt in large volumes to supply to the retailers in the market who further supply to the final consumers. We will target these wholesalers seeking to attract them to procure our salt by defining the high qualities of our salt and differentiating ours succinctly from those of the other producers using the pricing strategy that will have us offer the lowest prices on the market. Additionally, we shall offer them after-sales services such as transporting the salt that they buy from us to their warehouses at a much-discounted transport cost using our trucks that we seek to procure.

Internet Advertising

Since its advent worldwide in the last decade or two, the internet has become a crucial trade tool. E-commerce has become a phenomenon that is impossible to ignore if a business is to grow to fulfil its vision. As a result, the company will not turn a blind eye but would instead seek to exploit the benefits afforded by the internet fully.

We will have a website that will comprehensively provide information about the company, our salt production processes, a comprehensive description of our salt, and other information on how to contact us to do business. The website will be the platform on which prospective clients can get relevant information about our company without coming over to our offices.

To drive traffic to our website, we will use Search Engine Optimizers to seek to rank the sites on search engines like Google highly. Furthermore, we will embark on an online advertising campaign that will see us post adverts on major websites with many huge volumes of traffic who are likely to be prospective clients.

Newspapers

To further advance our promotional campaign, we will again run adverts in some of the print media, such as Daily Graphic and the Business & Financial Times, which have a large readership across the nation across all sectors of the economy.

Personal Selling

Our marketing team will embark on personal selling. Their mandate will increase our clientele by approaching prospective clients such as industries, wholesalers, and retailers. They will also consider exporters of salt and salt related products to get them to patronize our salt. They will do this by sending proposals to all these earmarked parties and making presentations to them as may be required.

They will all be given targets by way of several clients and sales volume that they are each expected to meet at the end of specific periods.

Television

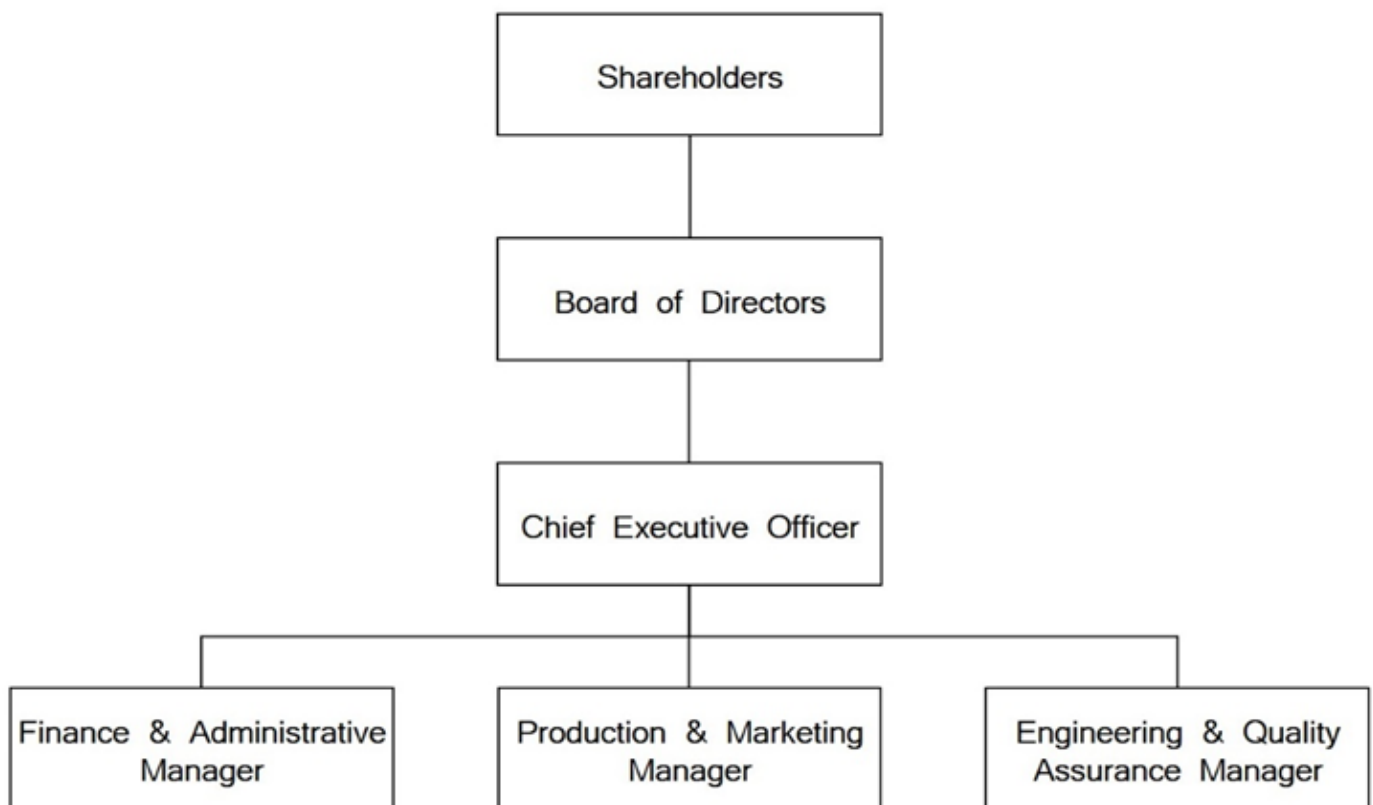
Television has become a prevalent advertising medium because of its visual appeal. The number of people who have access to television has increased exponentially over the past decade. This is because of the proliferation of secondhand television sets in the country, relatively cheaper than brand-new ones. Many more television stations are closing in on the number 20 across the country.

As a result of these developments, many Ghanaians watch television for at least an hour daily, and this is enough time to reach them with visual communication on our products. Due to the relatively expensive nature of this medium, we shall take our time in using it at the early stages of the business.

However, with increased funding, we shall exploit this avenue for the most benefit to the company. Apart from advertising our salt, we will run documentaries from time to time on some of the stations on our production processes.

MANAGEMENT TEAM

Ghana Salt Investment Limited comprises a management team that handles the company's day-to-day operational activities to ensure that things are constantly in line with the corporate vision. However, with its subsidiary concentrated on salt production, a separate structure will be established to run its affairs. The organizational structure will comprise the board of directors, and the management team includes the functional management heads of production, engineering, finance, quality assurance, administration, and marketing. The company's organizational structure is represented in the chart below:



Board Of Directors

The board of directors, including the CEO (Chief Executive Officer), will have very defined roles and responsibilities within the company. Essentially it will be the role of the board of directors to hire the CEO and assess the overall direction and strategy of the company. The board of directors selects officers for the board.

The highest office will be the chair of the board. Next, there will be the vice-chair who will serve in the chair's absence. The board members will fill these positions. Next, we will have a secretary and treasurer or combined secretary/treasurer. These positions will focus on specific activities and will be filled by electing someone serving on the board of directors or appointing someone not a member of the board of directors. The selection process will be based on who is willing and the most qualified, although seniority may play.

The points below outline the primary responsibilities of the board of directors.

- a) Recruit, supervise, evaluate & compensate the chief executive officer.
- b) Provide direction for the company. The board will have a strategic function in providing the company's vision, mission, and goals.
- c) Establish a policy-based governance system. The board will be responsible for developing a governance system for the business. In other words, the board sets policies to guide its actions and the actions of the CEO. The policies will be broad and not rigidly defined to allow the board and CEO leeway in achieving the business's goals.
- d) Govern the organization and the relationship with the CEO. Another responsibility of the board will be to develop a governance system. The governance system will involve how the board interacts with the CEO. Periodically, the board will interact with the CEO during the board of directors' meetings.
- e) Fiduciary duty to protect the organization's assets and members' investment. The board will have a fiduciary responsibility to represent and protect the investor's interest in the company. So, the board will make sure the company's assets are kept in good order. This will include the company's plant, equipment, and facilities, including the human capital.
- f) Monitor and control function. The board of directors will have a monitoring and control function. The board will oversee the auditing process and hire the auditor, and it will overlook making sure the audit is done on time each year.

Chief Executive Officer (CEO)

The Chief Executive Officer will be the highest-ranking member of the management team. The following will be the management functions that he will be expected to perform in the company.

- a) He will be responsible for creating an annual operational plan that will support the board of directors' strategic direction and correlate with the company's annual operating budget and submit these plans to the board for approval.
- b) The chief executive officer will also collaborate with the board to define and articulate the company's vision and develop strategies for achieving that vision.
- c) Additionally, he will be responsible for monitoring and developing strategies for ensuring the company's long-term financial viability.

- d) The CEO will be required to promote a culture that reflects the company's values, encourages good performance and rewards productivity.
- e) Additionally, he will be responsible for hiring, managing, and firing the human resources according to the authorized personnel policies and procedures that fully conform to current laws and regulations.
- f) The CEO will also oversee its operations and compliance with legal and regulatory requirements.
- g) He will also be responsible for creating and maintaining procedures for implementing plans approved by the board of directors.
- h) The evaluation of the company's staff performance regularly will also be the responsibility of the CEO.
- i) The CEO will be responsible for developing annual budgets that support its operating plans and submitting them to the board of directors for approval.
- j) Additionally, he will prudently manage the company's resources within the budget guidelines according to the company's regulations.
- k) Another responsibility of his will be to ensure that all staff practices are appropriate and according to accounting procedures in compliance with generally accepted accounting principles (GAAP).
- l) He will be responsible for providing prompt, thorough and accurate information to keep the board of directors appropriately informed of the company's financial position.
- m) Will recruit and contract human resources for the company in conjunction with the chief executive officer.
- n) Will be responsible for human resource development and training
- o) Take responsibility for staff policy development and documentation
- p) Will you monitor staff performances and enhance improvement systems?
- q) Will work with the marketing manager to manage advertising opportunities in all forms for the company
- r) Will work to oversee the content, production and distribution of all marketing and publicity materials

Finance & Administrative Manager

Financial Management Duties

- a) Providing and interpreting financial statements
- b) Monitor and interpret cash flows and predict future trends
- c) Analyzing changes in financial positions and advising accordingly
- d) Formulating strategic and long-term business plans
- e) Researching and reporting on factors influencing the performance
- f) Develop financial management mechanisms that minimize risk
- g) Conduct reviews and evaluations for cost reduction opportunities
- h) Managing the company's financial accounting systems.
- i) Liaising with auditors to ensure the annual auditing is carried out
- j) Managing the company's budgets
- k) Keeping abreast with changes in financial regulations

Administrative Management Duties

- a) Communicating job expectations, planning, monitoring and appraising job results through coaching, counselling, and disciplining employees. He will also initiate, coordinate, and enforce the company's systems, policies, and procedures.
- b) Provide supplies for the company, such as stationery, while ensuring that all equipment is in the best shape for use
- c) Provide systems for communication by identifying needs, evaluating options, maintaining equipment, and approving invoices in conjunction with the finance manager.
- d) Maintaining continuity among workers in the company by documenting and communicating actions, irregularities, and continuing needs.
- e) Recruit human resources for the company in conjunction with the chief executive officer
- f) Will be responsible for human resource development and training
- g) Be responsible for staff policy development and documentation
- h) Monitor staff performances and enhance improvement systems

Production & Marketing Manager

Production Management Duties

- a) Overseeing production by drawing up a production schedule
- b) Ensuring that the production is cost-effective

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- c) Make sure that the product is produced on time and is of good quality
- d) Working out the human and material resources needed
- e) Drafting a timescale for the job
- f) Estimating costs and setting the quality standards
- g) Monitor the production processes and adjust schedules
- h) Being responsible for the selection and maintenance of equipment
- i) Monitor product standards and implement quality-control
- j) Liaising among different departments
- k) Working with managers to implement the company's policies
- l) Ensuring that health and safety guidelines are followed
- m) Supervising and motivating the team of workers
- n) Reviewing worker performance
- o) Identifying training needs

Marketing Management Duties

- a) Monitoring and analyzing market trends
- b) Studying competitors' products and suggesting changes
- c) Exploring ways of improving our products to increase profitability
- d) Identify target markets, develop communication strategies
- e) Preparing and managing marketing plans and budgets
- f) Managing the production of promotional materials
- g) Presenting findings and suggestions to the board of directors
- h) Setting up, supporting, and managing the marketing team

Engineering & Quality Assurance Manager

Engineering Management Duties

- a) Supervise and lead engineers, scientists and technicians who design machinery, plan and develop projects, and oversee production and quality control.
- b) Direct and coordinate production, operations, quality assurance, testing, or maintenance in the production plants.
- c) Oversee the research and development of products and procedures.
- d) Hire, train, and mentor other engineers and supporting staff.
- e) Write performance reviews and solve internal issues.
- f) Discuss and layout production specifications.
- g) Develop cost estimates.
- h) Improve manufacturing processes and advance scientific research.
- i) Develop overall concepts for a new product.
- j) Check the technical accuracy of work.
- k) Coordinate activities of the department with other departments.

Quality Assurance Management Duties

- a) Devising and establishing the company's quality procedures, standards, and specifications
- b) Reviewing customer requirements and ensuring that they are met
- c) Working with purchasing staff to establish quality requirements from external suppliers
- d) Setting standards for quality as well as health and safety
- e) Make sure that manufacturing or production processes meet international and national standards
- f) Defining quality procedures in conjunction with operating staff
- g) Setting up and maintaining controls and documentation steps
- h) Monitoring performance by gathering relevant data and producing statistical reports

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- i) Investigating and setting standards for quality/health and safety
- j) Acting as a catalyst for improvement in performance/quality
- k) Recording, analyzing, and distributing statistical information
- l) Supervising technical or laboratory staff

To find the right quality employees, we will run adverts in the various media, particularly online, where many individuals go to search for employment opportunities. Upon receipt of applications, we will constitute a team to assess each application and then invite the substantially seemingly qualified applicants for a series of interviews. They will be expected to perform roles to determine their levels of intellect on a practical level. At the end of the entire process, the most successful candidates will be given the jobs as per the agreed conditions that will be in place.

PROFILE OF MANAGEMENT TEAM

Chief Executive Officer

The company's Chief Executive Officer will be the founding entrepreneur, Mr Emmanuel Portuphy. He is a professional auto-mechanic who completed an HND in quantities from the Kwame Nkrumah University of Science and Technology in 1995. He started the company in 1995 after completion, but it didn't begin operations until 1997, when it had its first contract. He has been at the helm of affairs of the company from its establishment to date. Hence, the company's immense growth can be attributed to his commitment and technical and management skill.

Production and Marketing Manager

Mr Maxwell Nartey will be the production and marketing manager. He has had extensive experience in the clearing and forwarding industry, studying at the Regional Maritime University. He has been in the industry for close to 10 years, and we believe that his nous in the import and export processes will facilitate our trade operations. Additionally, to further equip him for the position, we will ensure that he takes courses in marketing and management to increase his efficiency and productivity.

Finance & Administrative Manager

The company will have Mr Stephen Lamprey as its Finance and Administrative Manager. He has had extensive experience in the corporate industry, having served as a banker for so many years in the banking industry here in Ghana. With his expertise in finance and administration, we believe that he will be able to substantially facilitate the company's growth to help us achieve all our objectives.

Engineering & Quality Assurance Manager

The Manager will be Mr Sampson Dogbe, whose extensive education in the field will be brought to bear on the company's fortunes. We believe that with his education in these fields coupled with his dynamism, we will meet all the quality standards expected of us.

Chapter 18 FINANCIAL FORECASTING

Your business plan is all conceptual until you start filling in the numbers. The sections about your marketing plan are all interesting to read, but they don't mean anything if you can't justify your business with good figures. Financial forecasting is one of the essential components of your business plan, as you will need it to have any hope of winning over investors. Even if you don't need financing, you should compile a financial forecast to run your business successfully. You must realize that economic forecasting is very different from accounting. Many people get confused because financial forecasting includes statements of profit and loss, balance sheet and cash flow, which look like accounting statements that every business generates. Accounting looks back in time from today, while financial forecasting takes a futuristic view. You don't do financial forecasting in a business plan the same way you prepare your accounting reports meaning that you summarize and aggregate more than you might with accounting, which is more detailed. You don't have to imagine all future asset purchases with hypothetical dates and depreciation schedules to estimate future depreciation. You can just guess based on past results. The purpose of financial forecasting in a business plan is two-fold. If you seek investment from venture capitalists, angel investors, or family members, you will need it. They will want to see the numbers that say your business will increase and that there is an exit strategy for them in the future during which they can make a profit. Any bank or lender will also ask to see these numbers to make sure you can repay your loan. Still, the most important reason to compile this financial forecast is for your benefit to understand how you project your business will do.

We will take you through the preparation of several budgets, which form the Master Budget. You will realize that the data that will go into preparing the Master Budget focuses heavily on the future rather than the past. A budget is a detailed plan which outlines the acquisition and use of resources over a period, and it is a representation of a business's plans. Preparing a budget is called budgeting, and the use of budgets to control a business's activities is called budgetary control. The Master Budget summarises all phases of a business's financial plans and goals for the future. It sets specific targets for sales, production, distribution, and financing and generally culminates in a very comprehensive expression of a business's plans and how you will accomplish them. By preparing your master budget, you will gain more knowledge and confidence in your proposed business and save time.

There are different types of businesses (*Trading, Manufacturing & Services*). The financial projections for the trading and service businesses are very similar. However, the steps for preparing financial forecasts for a manufacturing business are quite different. You will thus be taken through these steps separately with hypothetical examples in both cases.

Kindly note that the primary currency for all the amounts hereinafter is the Ghanaian currency, the cedi, represented with GH¢. As part of the explanations, illustrations with hypothetical businesses will also be provided to aid your understanding from a practical perspective.

TRADING/SERVICE BUSINESS

The financial projections for a trading business are very similar to those of a service business. Hence, it is hoped that you will be able to apply the concepts discussed here for either of the two types of businesses. We will use Unique Rice Depot, a hypothetical business dealing in the retail of locally produced rice.

The business will be an incorporated Limited Liability Company and will source a loan of GH¢20,000 to start up. We will do the business forecasting for three years. To prepare the forecasted Cash Flow Statement, Income Statement and Balance Sheet, which are traditional financial statements investors like to see, we have to prepare a few budgets which will form the basis so let's get started.

SELLING PRICE AND PRODUCT COST PER UNIT

The first thing we need to do is determine the selling price and price per kilo of the rice. The selling price is defined as the amount charged for each kilo. There are three popular methods for setting prices discussed as follows:

Break-Even Pricing

Break-even is the point in a business where costs equal revenue. This method of pricing uses business costs as its primary variable. The business costs are the product cost (*Cost of Purchasing the Product*) and the operating costs (*Cost of Running the Business*). Break-even pricing attempts to calculate the price chargeable for the product to cover both costs. We can mark the break-even price for the desired profit when the break-even price is determined. To illustrate how break-even pricing works, let's assume your company sells computers. Each computer is purchased from the supplier for GH¢800. It is estimated to cost GH¢35 to transport each computer from the supplier's location to yours. Aftermarket research, you estimate to sell 600 computers in the first year. In addition, your company projects its marketing expenses for the year at GH¢12,000, while administrative costs are projected to be GH¢ 65,000.

Let's organize the above information as follows:

Product Costs	Amount
Purchase Cost of Computer	800
Transportation Cost Per Computer	35
Unit Cost Per Computer	835
× Forecasted Units to Be Sold	600
Total Product Cost	501,000
Operating Costs	Amount
Forecasted Marketing Expenses	12,000
Forecasted Administrative Expenses	65,000
Total Operating Expenses	77,000
Total Business Costs	578,000

What price must be charged for each computer to cover business costs for the upcoming year (*i.e., To Break-Even*)? The process is simple. If you know your forecasted product and operating costs (GH¢578,000) and estimate the number of computers you plan to sell over the year (600), you can determine the price you must charge for each computer.

$$\frac{\text{Total Business Costs}}{\text{Forecasted Units To Be Sold}} = \frac{578,000}{600} = \text{GH¢ } 963.33$$

This means that you must charge GH¢963.33 per computer to break even. However, if you want to make a profit of GH¢200,000 on all the computers, this is how you go about it.

$$\frac{\text{Total Business Costs} + \text{Desired Profit}}{\text{Total Number Of Computers To Be Sold}} = \frac{578,000 + 200,000}{600} = \text{GH¢ } 1,296.67$$

Therefore, if you want to profit GH¢200,000 for the year, you need to price each computer at GH¢1,296.67.

Competitor Pricing

With this method, your prices will be based on what your competitors charge, paying little attention to your costs. Once competitor prices have been determined, you may set a higher or lower price depending on your market positioning and objectives.

Pricing based on what the competition charges are widespread. This approach, however, does not consider the supply and demand factors; instead, it just focuses on the industry standard of pricing.

Mark-Up Pricing

This method is prevalent among manufacturers, wholesalers, retailers, and service providers because of its simplicity. It involves calculating the cost of purchasing the product and then adding the desired mark-up. This is the method of setting prices that our hypothetical business, Unique Rice Depot, will use. For Unique Rice Depot, it will cost GH¢50 to buy each kilo of rice from suppliers; hence, for the first year, the cost price per kilo will be GH¢50. Due to changes in economic conditions, it is projected that prices will rise annually; hence, a forecast of the cost prices for the three years is as below:

Year	Year 1	Year 2	Year 3
Cost Price (GH¢)	50.00	51.50	53.05

Using the mark-up pricing method, the business decides on the desired mark-up of 75% of the cost. This means that for the first year, it will make a mark-up of GH¢25 on each kilo of rice sold.

The selling price for the first year will be GH¢75 (GH¢50 cost + GH¢25 mark-up = GH¢75). Assuming it forecasts a 3% increase in the cost of each kilo over the three years, then the indicated selling prices will be:

Year	Year 1	Year 2	Year 3
Selling Price (GH¢)	75.00	77.25	79.57

SALES BUDGET

Having determined the selling and cost prices, the next thing is to develop the sales budget where the financial forecasting begins. Purchases by retailers, production by manufacturers, and inventory hugely depend on the sales expected to be made.

If you anticipate making sales of 1,000 units within the first year, then you must purchase at least 1,000 units of the product. The sales budget is prepared as follows:

Forecasting Units of Sales

A unit of your product is one of them. For example, for Unique Rice Depot, each kilo of rice is considered a unit. You must determine how many units you plan to sell each year. You should view economic conditions, market studies, pricing policies, promotion strategies, quality of the sales force, competition, seasonality of the product, production capacity, past sales (if any), market size, planned opening date, etc., forecasting your sales.

Period	Year 1	Year 2	Year 3
Forecasted Sales in Units	2,000.00	2,200.00	2,420.00

The table shows that the business is forecast to sell 2,000 units in the first year, 2,200 in the second year and 2,420 in the third year.

Forecasting The Monetary Value of Sales

The next step of the sales budget is to determine how much money you expect to receive from sales. To do this, multiply your forecasted sales units by the indicated selling prices for each year. From the projections on the units of sales and sales prices, we can make the following forecast about the monetary value of the sales over the three years.

Period	Year 1	Year 2	Year 3
Forecasted Sales in Units	2,000.00	2,200.00	2,420.00
Selling Price per Unit	75.00	77.25	79.57
Forecasted Sales Revenue	150,000.00	169,950.00	192,553.35

Forecasting Monthly Sales Percentage

Month	Year 1	Year 2	Year 3
Jan	7%	8%	8%
Feb	3%	3%	4%
Mar	6%	7%	6%
Apr	9%	11%	9%
May	4%	5%	5%
Jun	7%	6%	6%

Jul	7%	7%	7%
Aug	8%	7%	9%
Sep	10%	8%	10%
Oct	11%	10%	11%
Nov	13%	12%	10%
Dec	15%	16%	15%
Total	100%	100%	100%

The third part of the sales budget deals with projecting the sales pattern. This involves projecting the percentage of sales for each month. After extensive market research, it is determined that we will make the percentages of sales shown in the table above each month over the three years.

Forecasting Monthly Sales in Units and Value

Monthly Sales Forecast - Year 1					
Month	Sales %	Year's Sales	Month's Sales	Selling Price (GH¢)	Value Of Sales (GH¢)
Jan	7%	2,000	140	75.00	10,500.00
Feb	3%	2,000	60	75.00	4,500.00
Mar	6%	2,000	120	75.00	9,000.00
Apr	9%	2,000	180	75.00	13,500.00
May	4%	2,000	80	75.00	6,000.00
Jun	7%	2,000	140	75.00	10,500.00
Jul	7%	2,000	140	75.00	10,500.00
Aug	8%	2,000	160	75.00	12,000.00
Sep	10%	2,000	200	75.00	15,000.00
Oct	11%	2,000	220	75.00	16,500.00
Nov	13%	2,000	260	75.00	19,500.00
Dec	15%	2,000	300	75.00	22,500.00
Totals	100%		2,000		150,000.00

Monthly Sales Forecast - Year 2					
Month	Sales %	Year's Sales	Month's Sales	Selling Price (GH¢)	Value Of Sales (GH¢)
Jan	8%	2,200	176	77.25	13,596.00
Feb	3%	2,200	66	77.25	5,098.50
Mar	7%	2,200	154	77.25	11,896.50
Apr	11%	2,200	242	77.25	18,694.50
May	5%	2,200	110	77.25	8,497.50
Jun	6%	2,200	132	77.25	10,197.00
Jul	7%	2,200	154	77.25	11,896.50
Aug	7%	2,200	154	77.25	11,896.50
Sep	8%	2,200	176	77.25	13,596.00
Oct	10%	2,200	220	77.25	16,995.00
Nov	12%	2,200	264	77.25	20,394.00
Dec	16%	2,200	352	77.25	27,192.00
Totals	100%		2,200		169,950.00

To calculate the number of units, you will sell monthly, multiply the sales percentage by the total sales projected for the year. Multiplying the monthly sales value by the selling price for the monthly sales value. In January of the year, 1,140 units are expected to be sold, determined by multiplying the sales percentage of the month by 7% by the total quantity of the product expected to be sold throughout the year, which is 2,000 units.

Monthly Sales Forecast - Year 3					
Month	Sales %	Year's Sales	Month's Sales	Selling Price (GH¢)	Value Of Sales (GH¢)
Jan	8%	2,420	194	79.57	15,404.27
Feb	4%	2,420	97	79.57	7,702.13
Mar	6%	2,420	145	79.57	11,553.20
Apr	9%	2,420	218	79.57	17,329.80
May	5%	2,420	121	79.57	9,627.67
Jun	6%	2,420	145	79.57	11,553.20
Jul	7%	2,420	169	79.57	13,478.73
Aug	9%	2,420	218	79.57	17,329.80
Sep	10%	2,420	242	79.57	19,255.34
Oct	11%	2,420	266	79.57	21,180.87
Nov	10%	2,420	242	79.57	19,255.34
Dec	15%	2,420	363	79.57	28,883.00
Totals	100%		2,420		192,553.35

Forecasting When Customers Will Pay for Purchases

If your policy is to give 30 days' credit, you will not collect cash from sales each month until the next month.

Revenue from sales of GH¢10,500 for January in Year 1 is not received from customers until February because of the 30-day credit policy.

Monthly Sales Forecast - Year 1		
Month	Monthly Sales in Units	Monthly Cash Collected (GH¢)
Jan	10,500.00	-
Feb	4,500.00	10,500.00
Mar	9,000.00	4,500.00
Apr	13,500.00	9,000.00
May	6,000.00	13,500.00
Jun	10,500.00	6,000.00
Jul	10,500.00	10,500.00
Aug	12,000.00	10,500.00
Sep	15,000.00	12,000.00
Oct	16,500.00	15,000.00
Nov	19,500.00	16,500.00
Dec	22,500.00	19,500.00
Totals	150,000.00	127,500.00

Due to the 30-day credit policy, the cash from each month is received in the next month rather than the actual month of sales. For year 1, because this is the first year of business, money is not expected to be received in January because we made no sales in the previous month for which we should collect cash.

Monthly Sales Forecast - Year 2		
Month	Monthly Sales in Units	Monthly Cash Collected (GH¢)
Jan	13,596.00	22,500.00
Feb	5,098.50	13,596.00
Mar	11,896.50	5,098.50
Apr	18,694.50	11,896.50
May	8,497.50	18,694.50
Jun	10,197.00	8,497.50
Jul	11,896.50	10,197.00
Aug	11,896.50	11,896.50
Sep	13,596.00	11,896.50
Oct	16,995.00	13,596.00
Nov	20,394.00	16,995.00
Dec	27,192.00	20,394.00
Totals	169,950.00	165,258.00

Furthermore, cash for the sales in December is received in January of the following year.

The amounts of cash collected for each year are significant as they appear in the forecasted cash flow statement.

Monthly Sales Forecast - Year 3		
Month	Monthly Sales in Units	Monthly Cash Collected (GH¢)
Jan	15,404.27	27,192.00
Feb	7,702.13	15,404.27
Mar	11,553.20	7,702.13
Apr	17,329.80	11,553.20
May	9,627.67	17,329.80
Jun	11,553.20	9,627.67
Jul	13,478.73	11,553.20
Aug	17,329.80	13,478.73
Sep	19,255.34	17,329.80
Oct	21,180.87	19,255.34
Nov	19,255.34	21,180.87
Dec	28,883.00	19,255.34
Totals	192,553.35	190,862.35

Forecasting Accounts Receivable

Accounts receivable is money owed by customers to the business in exchange for goods that have been sold to these customers but for which they have not yet paid. Many companies offer credit to their customers as an added incentive to encourage them to buy. The accounts receivable is recorded as an asset on a balance sheet because it represents a legal obligation for the customers to pay. At the end of each of the three years in the tables below, the accounts receivable will be transferred to the balance sheet as current assets. At the end of year 1, the accounts receivable amounted to GH¢22,500. Years 2 and 3 summed up to GH¢27,192 and GH¢28,883, respectively. These will be transferred to the balance sheet as assets.

Year 1	
Forecasted Sales Made During the Current Year	150,000.00
Less: Cash Collected from Customers During the Current Year	127,500.00
Add: Accounts Receivable before Current Year	0.00

Accounts Receivable as Of December 31st	22,500.00
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Year 2	
Forecasted Sales Made During the Current Year	169,950.00
Less: Cash Collected from Customers During the Current Year	165,258.00
Add: Accounts Receivable before Current Year	22,500.00
Accounts Receivable as Of December 31st	27,192.00

Year 3	
Forecasted Sales Made During the Current Year	192,553.35
Less: Cash Collected from Customers During the Current Year	190,862.35
Add: Accounts Receivable before Current Year	27,192.00
Accounts Receivable as Of December 31st	28,883.00

PURCHASES BUDGET

It is essential to recognize the crucial role that the sales budget plays in financial forecasting as the basis on which all the other budgets are prepared, a typical example being the purchases budget. The purchase budget determines the number of units to be purchased, how much they will cost when they will be paid for and how much will be owed to suppliers. This budget helps the business to meet the inventory levels required as determined by the sales budget. Hence it is heavily dependent on the sales budget.

Determining The Number of Units to Be Purchased

To do this, forecast how many units you expect to sell (*From the Sales Budget*) and how many units you want to keep as closing Stock. The sum of the two will show you how many units you should purchase monthly. Expected sales for the month plus planned closing stock equals units to be purchased for the month.

Forecasting Closing Stock

This helps you determine the number of units you need to have in stock at the end of each period. The timing and volume of your closing stock depend on your business's stock control policies. While some companies may want their closing Stock to be 20% of the following month's projected sales, others may opt for another percentage depending on the nature of the business and how fast sales move. Here, it is decided that closing stock will be 40% of the following month's sales. This means that the closing Stock for September will be 40% of the sales volume expected in October. From the tables below, the 2nd column titled This Month's Sales shows the sales projections for each month of the three years, and the data there is extracted from the Sales Budget earlier prepared.

The 3rd column is the number of sales for each following month. You will notice that the number of sales for each month in this column is the same as the number of sales for the next month in the previous column. For example, in January of year 1, the next month's sales of 60 kilos are expected to be made in February, as shown in the previous column. The Depot decided to keep closing Stock amounting to 40% of the expected sales for the next month.

In the 4th column, we record each month's closing stock. The figures here are 40% of the sales units of each month in the previous column. For example, in June of year 1, 40% of 140 kilos gives us the closing Stock of 56 kilos.

The Required Stock is a sum of this month's sales and closing stock, and required stock shows the level of Stock that The Depot should have for each month to meet its sales projections. For example, in March of Year 1, the required stock of 192 kilos is calculated as a sum of the closing Stock of 72 kilos and this month's sales of 120 kilos.

The next column is Opening Stock which is the closing Stock from the previous month. For instance, in year 3, the opening Stock for March of 58.08 units is the closing Stock for February in column 4.

The Cost Price per Unit was earlier determined and is shown in the next column. It is multiplied by the number of units purchased to determine the total cost of purchases each month. The cost of each month's purchases is shown in the labelled column.

Units to Be Purchased shows the number of units purchased from suppliers monthly, and it is deduced by subtracting each month's Opening Stock from the Required Stock. The reason is that, even though we know each month's required stock, in making the purchase, since the opening Stock is already units of the product we already have, we need to take that out of the required stock for the month to determine the actual purchase to be made.

The last column shows the payment The Depot makes to the suppliers. The cost of purchases for each month in the 9th column is shown in the next month in the payment on purchases column as payment made. As earlier mentioned, Unique Rice Depot has a 30-day credit from its suppliers and hence pays after 30 days for purchases made.

Purchase Budget for Year 1									
Month	This Month's Sales	Next Month's Unit Sales	Closing stock - 40% Of Next Month's Sales	Required Stock	Opening Stock	Cost Price Per Unit	Units To Be Purchased	Total Cost of Purchases	Payment On Purchases
Jan	140.00	60.00	24.00	164.00	0.00	50.00	164.00	8,200.00	0.00
Feb	60.00	120.00	48.00	108.00	24.00	50.00	84.00	4,200.00	8,200.00
Mar	120.00	180.00	72.00	192.00	48.00	50.00	144.00	7,200.00	4,200.00
Apr	180.00	80.00	32.00	212.00	72.00	50.00	140.00	7,000.00	7,200.00
May	80.00	140.00	56.00	136.00	32.00	50.00	104.00	5,200.00	7,000.00
Jun	140.00	140.00	56.00	196.00	56.00	50.00	140.00	7,000.00	5,200.00
Jul	140.00	160.00	64.00	204.00	56.00	50.00	148.00	7,400.00	7,000.00

Aug	160.00	200.00	80.00	240.00	64.00	50.00	176.00	8,800.00	7,400.00
Sep	200.00	220.00	88.00	288.00	80.00	50.00	208.00	10,400.00	8,800.00
Oct	220.00	260.00	104.00	324.00	88.00	50.00	236.00	11,800.00	10,400.00
Nov	260.00	300.00	120.00	380.00	104.00	50.00	276.00	13,800.00	11,800.00
Dec	300.00	176.00	70.40	370.40	120.00	50.00	250.40	12,520.00	13,800.00
Totals	2,000						2,070	103,520.00	91,000.00

Purchase Budget for Year 2									
Month	This Month's Sales	Next Month's Unit Sales	Closing stock - 40% Of Next Month's Sales	Required Stock	Opening Stock	Cost Price Per Unit	Units To Be Purchased	Total Cost of Purchases	Payment On Purchases
Jan	176.00	66.00	26.40	202.40	70.40	51.50	132.00	6,798.00	12,520.00
Feb	66.00	154.00	61.60	127.60	26.40	51.50	101.20	5,211.80	6,798.00
Mar	154.00	242.00	96.80	250.80	61.60	51.50	189.20	9,743.80	5,211.80
Apr	242.00	110.00	44.00	286.00	96.80	51.50	189.20	9,743.80	9,743.80
May	110.00	132.00	52.80	162.80	44.00	51.50	118.80	6,118.20	9,743.80
Jun	132.00	154.00	61.60	193.60	52.80	51.50	140.80	7,251.20	6,118.20
Jul	154.00	154.00	61.60	215.60	61.60	51.50	154.00	7,931.00	7,251.20
Aug	154.00	176.00	70.40	224.40	61.60	51.50	162.80	8,384.20	7,931.00
Sep	176.00	220.00	88.00	264.00	70.40	51.50	193.60	9,970.40	8,384.20
Oct	220.00	264.00	105.60	325.60	88.00	51.50	237.60	12,236.40	9,970.40
Nov	264.00	352.00	140.80	404.80	105.60	51.50	299.20	15,408.80	12,236.40
Dec	352.00	193.60	77.44	429.44	140.80	51.50	288.64	14,864.96	15,408.80
Totals	2,200.00						2,207.04	113,662.56	111,317.60

Purchase Budget for Year 3									
Month	This Month's Sales	Next Month's Unit Sales	Closing stock - 40% Of Next Month's Sales	Required Stock	Opening Stock	Cost Price Per Unit	Units To Be Purchased	Total Cost of Purchases	Payment On Purchases
Jan	193.60	96.80	38.72	232.32	77.44	53.05	154.88	8,215.61	14,864.96
Feb	96.80	145.20	58.08	154.88	38.72	53.05	116.16	6,161.71	8,215.61
Mar	145.20	217.80	87.12	232.32	58.08	53.05	174.24	9,242.56	6,161.71
Apr	217.80	121.00	48.40	266.20	87.12	53.05	179.08	9,499.30	9,242.56
May	121.00	145.20	58.08	179.08	48.40	53.05	130.68	6,931.92	9,499.30
Jun	145.20	169.40	67.76	212.96	58.08	53.05	154.88	8,215.61	6,931.92
Jul	169.40	217.80	87.12	256.52	67.76	53.05	188.76	10,012.77	8,215.61
Aug	217.80	242.00	96.80	314.60	87.12	53.05	227.48	12,066.68	10,012.77
Sep	242.00	266.20	106.48	348.48	96.80	53.05	251.68	13,350.37	12,066.68
Oct	266.20	242.00	96.80	363.00	106.48	53.05	256.52	13,607.10	13,350.37
Nov	242.00	363.00	145.20	387.20	96.80	53.05	290.40	15,404.27	13,607.10
Dec	363.00	231.92	92.77	455.77	145.20	53.05	310.57	16,474.01	15,404.27
Totals	2,420.00						2,435.33	129,181.90	127,572.85

Forecasting Accounts Payable On Purchases

When a business orders and receives goods in advance of paying for them, it purchases them on credit, with the supplier or vendor being the creditor. The business will record the vendors' invoices as an account payable.

Accounts Payable on Purchases - Year 1	
Purchases to be made during the year	103,520.00
Less: Payments made during the Year	91,000.00
Add: Accounts Payable before Current Year	0.00
Accounts Payable on Purchases as of December 31st	12,520.00

Accounts Payable on Purchases - Year 2	
Purchases to be made during the year	113,662.56
Less: Payments made during the Year	111,317.60
Add: Accounts Payable before Current Year	12,520.00
Accounts Payable on Purchases as of December 31st	14,864.96

Accounts Payable on Purchases - Year 3	
Purchases to be made during the year	129,181.90
Less: Payments made during the Year	127,572.85
Add: Accounts Payable before Current Year	14,864.96
Accounts Payable on Purchases as of December 31st	16,474.01

The accounts payable of (GH¢12,520, GH¢ 14,864.96 and GH¢ 16,474.01) for the three years will be sent to the balance sheet as Current Liabilities.

CLOSING STOCK BUDGET

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After successfully developing your Sales and Purchases budgets, the next budget to look at is the Closing Stock Budget. At the beginning of the accounting year, the unsold goods are called opening Stock, whereas closing Stock is the value of unsold goods at the end of an accounting period. Since accounting periods follow one another, the closing Stock of one period will be the Opening Stock of the next period. For example, the closing Stock as of October 31st will be the opening Stock for November 1st of the same accounting year.

A business having a year-end of December 31st would calculate its closing Stock as of December 31st. This closing Stock on December 31st would become the opening Stock on January 1st of the next accounting year. Most businesses simply count the number of unsold products multiplied by the unit cost of each to determine their closing Stock. For a new business, there are no actual units to count but to forecast the value of the closing Stock using the approach below:

Year 1	
Opening Stock	0.00
Add: Forecasted Units to be Purchased During the Year	2,070.40
Less: Forecasted Units to be Sold During the Year	2,000.00
Equals: The Number of Units in Closing Stock	70.40
Multiply: The Cost to Purchase each Unit	50.00
Equals: Closing Stock	3,520.00
Year 2	
Opening Stock	70.40
Add: Forecasted Units to be Purchased During the Year	2,207.04
Less: Forecasted Units to be Sold During the Year	2,200.00
Equals: The Number of Units in Closing Stock	77.44
Multiply: The Cost to Purchase each Unit	51.50
Equals: Closing Stock	3,988.16

Year 3	
Opening Stock	77.44
Add: Forecasted Units to be Purchased During the Year	2,435.33
Less: Forecasted Units to be Sold During the Year	2,420.00
Equals: The Number of Units in Closing Stock	92.77
Multiply: The Cost to Purchase each Unit	53.05
Equals: Closing Stock	4,920.81

From above, the closing Stock in year 1 of 70.40 units is the opening Stock in year 2. The value of the closing stock, which is transferred to the balance sheet as a current asset, is calculated by multiplying the number of units in closing stock by 70.40 in year 1, for example, by the value of each unit of 50 amounting to GH¢ 3,520.

COST OF GOODS SOLD BUDGET

The Cost of Goods sold budget is next in line. This budget is only for businesses that transfer ownership of goods from the business to the customer. This budget seeks to determine the actual value of all products sold within a business year. It is very useful in the income statement as it helps determine the gross margin, as you will later see. The value of the cost of goods sold each year is transferred to the income statement.

Year 1	
Opening Stock	0.00
Add: Cost of Purchases Made During the Year	103,520.00
Equals: Cost of Goods Available for Sale	103,520.00
Less: Closing Stock	3,520.00
Cost of Goods Sold	100,000.00
Year 2	
Opening Stock	3,520.00
Add: Cost of Purchases Made During the Year	113,662.56
Equals: Cost of Goods Available for Sale	117,182.56
Less: Closing Stock	3,988.16
Cost of Goods Sold	113,194.40
Year 3	
Opening Stock	3,988.16
Add: Cost of Purchases Made During the Year	129,181.90
Equals: Cost of Goods Available for Sale	133,170.06
Less: Closing Stock	4,920.81
Cost of Goods Sold	128,249.26

FIXED ASSET BUDGET

A business's fixed assets are those resources whose lives span more than a year, unlike current assets whose lives span less than a year. Examples of such fixed assets are land, building, office equipment and vehicles. The fixed assets budget consists of several parts, which are treated as follows:

Fixed Assets That the Owner Invests into The Business

Entrepreneurs invest personal assets (*Cars, Computers, buildings Etc.*) into the business. Once such assets are recorded in the books of the business, they are no longer the assets of the owner but of the business. Each asset that the owner invests must be appraised to determine its current value.

Determining All the Fixed Assets Required

Apart from the Fixed Assets that the owner invests in, the business will have to acquire some more. These fixed assets may be bought at different times depending on the business's capacity and need when bought. Purchases of fixed assets directly impact the cash flow statement; hence, a business must make sure such purchases do not unduly affect the business's level of cash.

Fixed Asset	Market Value
Computers	4,400.00
Printer	400.00
Photocopier	1,500.00
Furniture and Fittings	7,500.00
Total Fixed Assets Purchased	13,800.00

The fixed assets acquired for the Depot were computers, printers, photocopiers and furniture and fittings. It is assumed that we purchased these assets within the first year, and hence, their total value will appear in the first year of the Cash Flow Statement as cash leaving the business.

Additionally, for subsequent years, the value of the fixed assets will appear in the balance sheet less the value of depreciation that occurred on them, giving us the net asset value as explained in the next section.

Determining The Annual Depreciation for Each Asset

As the fixed assets are used, their values decrease. Thus, we need to determine the value of each fixed asset at the end of each year. The method of depreciation we will use is the straight-line method, as it is very straightforward. With this, we simply determine the difference between the cost of the fixed asset at the time of its purchase and its salvage value and then divide the result by its estimated useful life. The salvage value is the asset's value at the end of its useful life (*In Our Case, We Will Use Zero*), and the useful life is the number of years that the asset is expected to be used in the business.

Fixed Asset	Market Value	Useful Life (In Years)	Annual Depreciation
Computers	4,400.00	5	880.00
Printer	400.00	5	80.00
Photocopier	1,500.00	5	300.00
Furniture & Fittings	7,500.00	12	625.00

The table above shows the market values for each fixed asset when we acquired them, the estimated useful life, and the amount of depreciation every year to determine each year-end market value.

Determining Accumulated Depreciation

Accumulated depreciation is the sum of a fixed asset's depreciation expense for a specific period. The second year is the sum of the first- and second-year depreciation. Also, the accumulated depreciation for the third year is the sum of the depreciation values of the first, second and third years.

To determine the market value of a fixed asset for each year, you subtract the accumulated depreciation from that year from the market value. We can see from the tables that the market values for each asset remain the same over the three years; however, the accumulated depreciation figures rise year after year, with the net market values also falling year after year. The accumulated depreciation, as previously described, is the addition of a current year's depreciation to the sum of all the past years' depreciation figures hence, the annual rise. The net market values decrease each year since the difference between the constant market values and the rising Accumulated Depreciation.

Year 1			
Fixed Asset	Market Value	Accumulated Depreciation	Net Market Value
Computers	4,400.00	880.00	3,520.00
Printer	400.00	80.00	320.00
Photocopier	1,500.00	300.00	1,200.00
Furniture & Fittings	7,500.00	625.00	6,875.00

Year 2			
Fixed Asset	Market Value	Accumulated Depreciation	Net Market Value
Computers	4,400.00	1,760.00	2,640.00
Printer	400.00	160.00	240.00
Photocopier	1,500.00	600.00	900.00
Furniture & Fittings	7,500.00	1,250.00	6,250.00

Year 3			
Fixed Asset	Market Value	Accumulated Depreciation	Net Market Value
Computers	4,400.00	2,640.00	1,760.00
Printer	400.00	240.00	160.00
Photocopier	1,500.00	900.00	600.00
Furniture & Fittings	7,500.00	1,875.00	5,625.00

OPERATING EXPENSES BUDGET

A business's operating expenses comprise the everyday expenses incurred to keep it running. The operating expenses are classified into two groups (*Marketing Expenses & Administrative Expenses*). Marketing expenses directly relate to selling, such as advertising, sales commissions, sales displays, brochures, flyers, etc.

On the other hand, Administrative Expenses are the day-to-day overheads of a business, including office salaries, office supplies, office rent, insurance, utilities, maintenance, etc.

The total value of Operating Expenses for each year is transferred to the Cash Flow statement as cash leaving the business and to the Income Statement as an expense. The table below shows the operating expense incurred by the Depot over the three years.

Operating Expenses			
Marketing Expenses	Year 1	Year 2	Year 3
Sales Commissions	4,000.00	4,400.00	4,840.00
Newspaper Advertising	700.00	770.00	847.00
Radio Advertising	1,160.00	1,276.00	1,403.60
Magazine Advertising	600.00	660.00	726.00
Television Advertising	1,600.00	1,760.00	1,936.00
Billboard Advertising	1,000.00	1,100.00	1,210.00
Printing of Business Cards	300.00	330.00	363.00
Brochure Printing	640.00	704.00	774.40
Total Marketing Expenses	10,000.00	11,000.00	12,100.00
Administrative Expenses			
Administrative Expenses	Year 1	Year 2	Year 3
Office Salaries	5,000.00	5,500.00	6,050.00
Office Supplies	1,000.00	1,100.00	1,210.00
General Maintenance	300.00	330.00	363.00
Electricity	600.00	660.00	726.00
Fuel For Office Vehicles	1,100.00	1,210.00	1,331.00
Depreciation	1,885.00	1,885.00	1,885.00
Total Administrative Expenses	9,885.00	10,685.00	11,565.00
Total Operating Expenses	19,885.00	21,685.00	23,665.00
Cash Disbursement	18,000.00	19,800.00	21,780.00

The total depreciation is deducted from the total operating expenses to get the cash disbursement to be transferred to the cash flow statement since depreciation is not paid for by cash leaving the business.

DRAWINGS AND DIVIDENDS

Drawings are withdrawals that Sole Proprietorships or Partnerships make from the coffers of a business. Owners of these business types consider the drawings to be their salaries. This is because, since owners of unincorporated businesses cannot enter legally binding contracts with themselves, they cannot hire themselves and pay themselves salaries at the same time.

Hence, if owners of such unincorporated businesses want to receive money from their businesses, they do so through cash drawings and not through salaries. Salary is an expense and reduces income. On the other hand, a drawing is not considered an expense and is recorded in the balance sheet to reduce the owner's capital.

Incorporated businesses (*Companies*) whose owners are known as shareholders do not take drawings from the business but rather receive dividends. A dividend is a share of the company's profit paid to the shareholders according to the number of shares owned. Dividends, like drawings, are not expenses and are recorded in the Cash Flow Statement when they are paid out.

If your business is a sole proprietorship or partnership, you are to forecast how much you will pay out as drawings for each year and if your business is a company, forecast how much you will pay out as dividends.

For Unique Rice Depot, we will pay out 60% of annual profits to shareholders as dividends. Hence, we will show a forecast of dividends payable based on this 60% in the forecasted income statement we will look at next.

FORECASTED INCOME STATEMENT

The income statement determines whether the business made profits or incurred losses, as shown in the table after the following explanations. The Forecasted Income Statement is prepared by subtracting the cost of goods sold (*Deducted from the Cost of Goods Sold Budget*) from the total sales value (*Including Credit Sales*).

The difference is the **Gross Margin**. We subtract the Total Operating Expenses (*Including depreciation, unlike It Is with the Cash Flow Statement*) from the gross margin to arrive at the **Income Before Interest & Taxes**. When then interest on loans and taxes are eventually paid, the amounts paid are subtracted from the Income Before Interest & Taxes to get the **Net Income After Interest & Taxes**. We subtract dividends paid to get **Retained Earnings**. The retained earnings are sent to the Balance sheet to add up to the capital to get the business's net worth.

Items	Year 1	Year 2	Year 3
Total Sales	150,000	169,950	192,553.3
Less: Cost of Goods Sold	100,000.	113,194.4	128,249.26
Gross Margin	50,000.00	56,755.60	64,304.09

Operating Expenses	19,885.00	21,685.00	23,665.00
Income Before Interest & Taxes	30,115.00	35,070.60	40,639.09
Interest Paid	1,666.67	1,666.67	1,666.67
Less: Income Taxes (25%)	7,528.75	8,767.65	10,159.77
Net Income After Interest & Taxes	20,919.58	24,636.28	28,812.65
Dividends Paid (60% of Net Income)	12,551.75	14,781.77	17,287.59
Retained Earnings	8,367.83	9,854.51	11,525.06

FORECASTED CASH FLOW

Having successfully prepared all these above budgets, the next step is to prepare your Forecasted Cash Flow Statement. The cash flow statement aims to plan and control your expected cash inflows and outflows to avoid the unnecessary problems of idle cash or avoidable cash shortages. However, the most significant purpose of the cash flow statement is to help you determine how much financing you will need for your business. Below is Unique Rice Depot's forecasted Cash Flow Statement for the three-year period we have been looking at.

Cash Inflows:	Year 1	Year 2	Year 3
Opening Cash Balance	20,000.00	3,814.92	7,311.46
Cash From Sales	127,500.00	165,258.00	190,862.35
Total Cash Available	147,500.00	169,072.92	198,173.81
Cash Outflows:	Year 1	Year 2	Year 3
Stock Purchases	91,000.00	111,317.60	127,572.85
Operating Expenses	18,000.00	19,800.00	21,780.00
Fixed Assets	13,800.00	0.00	0.00
Loan Repayment	6,666.67	6,666.67	6,666.67
Interest Paid	1,666.67	1,666.67	1,666.67
Income Taxes	0.00	7,528.75	8,767.65
Dividends Paid	12,551.75	14,781.77	17,287.59
Total Disbursements	143,685.08	161,761.45	183,741.43
Closing Cash Balance	3,814.92	7,311.46	14,432.38

The company started operations with the loan amount of GH¢ 20,000, entered in Year 1 as the opening cash balance.

The next item, cash from sales, is the summation of the column, Monthly Cash Collected in the sales budget. Please note that credit sales occur; hence, we record only the **cash received** from sales for each year for the cash flow statement. If you record the total sales value, including credit sales, your balance sheet will not balance.

The sum of the opening cash balances and cash received from sales equal the Total Cash Inflows for the business. There may be other sources of cash inflows which you will have to record as part of the total inflows.

The total cash outflows consist of the various disbursements made over the year. If any cash is taken out of the business, it is considered a cash disbursement recorded here.

From the tables, the first cash outflow item is Stock Purchases which is a record of the total stock of goods **paid for** in the year and not just the total value of purchases, as we are mindful of the 30-day credit available, which means that not all the items bought are paid for within the year.

A crucial point of note here is that the value of the operating expenses recorded in the Cash Flow Statement is less than the total value of depreciation. Although depreciation is a business expense, money is not taken out of the business to pay for it, and the values are only recorded to note the phenomenon.

Unique Rice Depot purchased all its fixed assets within the first year apart from the personal assets brought in at the start by the owner. After the business started, we assumed we paid the owner the car's market value and building fully. The sum of all these is recorded in the first year of the cash flow statement as money taken out. Since there were no other purchases of fixed assets in the 2nd and 3rd years, the record of assets bought in each of those years is zero.

The tax rate paid on income is 25% per annum, and this tax rate differs depending on a host of factors. The Depot's taxes are not paid in the current year as payment is deferred to the next year. That is why we took no money out of business to pay for tax in the first year. The second year records the payment of taxes on the first year's income and continues for each subsequent year.

The next item is dividends paid. As we earlier mentioned, Unique Rice Depot operates with the policy of paying 60% of its profits to shareholders as dividends, with the remaining 40% kept as retained earnings. Dividends, unlike taxes, are paid on each year's income and are not deferred; hence, the current year's dividends paid are recorded as money leaving the business in the same year.

The sum of all these disbursements is called Cash Outflows and is subtracted from the total cash available to determine the Closing Cash Balance. This closing cash balance for each year becomes the Opening Cash Balance for the next year. The closing cash balance is also transferred to the Balance Sheet as a current asset.

FORECASTED BALANCE SHEET

After completing the forecasted cash flow statement and the forecasted income statement, the next financial forecast you must make is the balance sheet. The balance sheet is a report on the financial position, and it is a statement of the business's assets, liabilities, and capital at the end of the business year. The assets are of economic value to the business. They are grouped into current assets and fixed assets. The current assets are those whose life span is less than a year, whereas the fixed assets last for more than one year in a business.

Liabilities are those items that put an economic burden on the business, that is, amounts owed by the business to others. They are also grouped into current liabilities and long-term liabilities. The business pays for the current liabilities before the end of the next business year; hence, they do not last for more than a year. The business pays for the long-term liabilities over several years.

Equity refers to the number of funds the shareholders or owners contribute plus the business's retained earnings or losses.

Cash's first item is the closing cash balances every three years. It is a current asset since its life span is less than a year.

Current Assets	Year 1	Year 2	Year 3
Cash	3,815	7,311	14,432
Accounts Receivable	22,500	27,192	28,883
Closing Stock	3,520	3,988	4,921
Total Current Assets	29,835	38,492	48,236
Fixed Assets	Year 1	Year 2	Year 3
Computers	4,400	4,400	4,400
Less: Accumulated Depreciation	880	1,760	2,640
Net Market Value	3,520	2,640	1,760
Printer	400	400	400
Less: Accumulated Depreciation	80	160	240
Net Market Value	320	240	160
Photocopier	1,500	1,500	1,500
Less: Accumulated Depreciation	300	600	900
Net Market Value	1,200	900	600
Furniture And Fittings	7,500	7,500	7,500
Less: Accumulated Depreciation	625	1,250	1,875
Net Market Value	6,875	6,250	5,625
Total Fixed Assets	11,915	10,030	8,145
Total Assets	41,750	48,522	56,381
Current Liabilities:	Year 1	Year 2	Year 3
Amounts Payable on Purchases	12,520	14,865	16,474
Income Taxes Payable	7,529	8,768	10,160
Total Current Liabilities	20,049	23,633	26,634
Long Term Liability:	Year 1	Year 2	Year 3
Loan Payable	13,333	6,667	0
Total Liabilities	33,382	30,299	26,634
Equity:	Year 1	Year 2	Year 3
Capital	0	8,368	18,222
Retained Earnings	8,368	9,855	11,525
Total Equity	8,368	18,222	29,747
Total Liabilities & Equity	41,750	48,522	56,381
Net Worth	8,368	18,222	29,747

Accounts receivable is the amount of money expected to be collected from customers to whom sales were made on credit for 30 days. The accounts receivable is from the accounts receivable budget we earlier prepared. This is also a current asset since its life span is not more than a year, as it is expected to be paid by debtors in the next business year.

From the closing stock budget, we determined the value of rice that was in stock at the end of the business year (*December*). Since the Depot has it as a policy to keep 40% of the volume of rice expected to be sold in the next month (*January In This Case*) as closing stock in the current month, it is expected to be completely sold out within that month hence, the life span is less than a year so is recorded as a current asset.

The fixed assets, whose life span exceeds a year, are the second batch of assets recorded on the balance sheet. They are depreciated year-on-year; hence, their market values are reduced by the accumulated depreciation for each year to determine their market value. We get the depreciation value for each asset each year from the fixed assets budget we prepared earlier.

The liabilities section of the balance sheet comprises both current liabilities and long-term liabilities. Again, current liabilities are those whose lives span less than a year and are settled in the next business year. The long-term liabilities are those whose payment obligation is fulfilled within a longer time frame, basically, more than a year.

The balance sheet shows that the current liabilities are the accounts payable on purchases. This is what Unique Rice Depot must pay to its suppliers within 30 days as per the credit granted by the suppliers. The figures are from the accounts payable budget.

When preparing the Cash Flow Statement, we stated that taxes for the current year are paid in the next year. This means that the business will owe some income tax to the tax authorities at the end of each year. Since this will be immediately paid next year, it is considered a current liability. The sum of all these current liabilities is added to the long-term liability to get the total liabilities.

Long-term liability is the business's financial burden and is discharged over several years. The business contracted a long-term loan of GH¢ 20,000 payables over three years. Hence, at the end of each year, there will be some amount of the loan's value payable after each annual instalment payment, as shown in the Cash Flow Statement. The value of the loan amount payable at the end of each year is what is shown on the balance sheet as a loan payable. Since this is a 3-year loan, payment is expected to be completed within the 3rd year, so at the end of the 3rd year, the balance sheet will show zero as the amount of loan payable.

Capital is the amount of money invested in the business. The amount of capital for The Depot was the GH¢ 20,000 loans recorded in the first year. Retained earnings are added to capital each year to increase it. The retained earnings from the income statement, added to capital, give us the total equity, which in other words, is the total value of ownership. The total equity for one year becomes the opening capital for the next year.

To determine the accuracy of the balance sheet, the value of Total Assets must equal the sum of Total Liabilities & Capital. When this happens, the balance sheet is said to be balanced. The net worth is the difference between the total assets and liabilities, and it simply shows the value of the owners' stake in the business.

BREAK-EVEN ANALYSIS

Break-even analysis is conducted to determine the number of units of a product that we must sell for the total cost to equal total revenue such that profit and loss will both equal zero. This number of units is called the break-even point, and break-even is said to have occurred when the business sells this number of units of the product.

The benefit of doing a break-even analysis is that it helps management determine the number of units of the product that we must sell to make a profit. The formula for calculating the break-even point is given:

$$\text{Break - even point} = \frac{\text{Total Fixed Cost}}{(\text{Selling Price Per Unit} - \text{Variable Cost Per Unit})}$$

The total fixed cost refers to those costs that are not directly related to sales. In other words, even if the business has zero sales, these fixed costs will be incurred by the business. Examples of fixed costs are rent, insurance premiums, loan repayment and property taxes.

The second component is the sales price per unit, which is the amount expected to be paid by a buyer for each unit of the product. The selling price per unit is projected to change over the period.

The variable cost per unit is incurred on each unit purchased by the Depot. Earlier in our analysis, we determined the unit cost of each kilo of rice to be GH¢ 50 in the first year, GH¢ 51.50 in the second and GH¢ 53.05 in the third year.

The Contribution Margin is the difference between the selling price per unit and the variable cost per unit. The total fixed cost is divided by the contribution margin to get the Break-even point, the number of units of sale where the net operating income is zero.

From the break-even schedule below. It is seen that the Depot breaks even in the first year when it sells 795.40 kilos of rice, in the second year when it sells 842.14 kilos and in the third year, 892.26 kilos.

To prove that the break-even points you have calculated are all correct, the **contribution margins of all the units sold at the break-even point should equal the total fixed cost**; as italicized in the table, the difference should be zero. The contribution margin at the break-even point is calculated by subtracting the product of the cost per unit and the Break-Even point from the product of the selling price per unit and the break-even point. That is $(\text{Cost Price Per Unit} \times \text{Break-Even Point}) - (\text{Selling price} \times \text{Break-Even Point})$.

In the first year of the Depot, the contribution margin at the break-even point is GH¢ 19,885, which is the same as the Fixed cost for the year, the difference of which is zero to prove that our break-even point is correct.

Item	Year 1	Year 2	Year 3
Total Fixed Cost	19,885.00	21,685.00	23,665.00
Selling Price Per Unit	75.00	77.25	79.57
Cost Price Per Unit	50.00	51.50	53.05
Contribution Margin	25.00	25.75	26.52
Break-Even Point	795.40	842.14	892.26
Sales (Break-Even Value)	59,655.00	65,055.00	70,995.00
Less Variable Expenses	39,770.00	43,370.00	47,330.00
Contribution Margin	19,885.00	21,685.00	23,665.00
Fixed Cost	19,885.00	21,685.00	23,665.00
Net Operating Income	0.00	0.00	0.00

RATIO ANALYSIS

In very basic terms, financial ratios are the vital signs of the health of your business. When you go to the hospital for a check-up, the doctor will run various tests on your body to determine whether you're healthy. Financial ratios are also used to assess your business's overall strength. Most business owners are afraid to use financial ratios because they find them to be too complex or too mathematical. Financial ratios are financial data about your business analyzed in different ways to get information that will provide a basis for comparing your business with your competitors or your business's performances over the years.

When it comes to investing, analyzing financial statements is one of, if not the most important element in the fundamental analysis process. At the same time, the massive number of numbers in a company's financial statements can be bewildering and intimidating to many investors. However, through financial ratios, you will be able to work with these numbers in an organized way.

You can use financial ratios to determine whether your business is profitable, has enough money to pay bills, could be paying employees higher salaries, has a gearing problem, uses its assets efficiently and is attractive enough to entice investors and many more. Once you decide what you want to know about your business, you can decide which ratios you need to use. There are many different types of ratios used to analyze different aspects of your business. The typical groups of ratios which we shall look at in this chapter are Liquidity Ratios, Profitability Ratios and Debt Ratios.

Following is an analysis of these three different groups:

Liquidity Ratios

Liquidity ratios are the most used of all financial ratios. Your creditors will often be particularly interested in them because they show the ability of your business to generate the needed cash to pay your debts or meet your current liabilities. This information should be highly interesting to you as the inability to meet your short-term debts is a big problem that deserves immediate attention. Liquidity ratios are sometimes called Working Capital Ratios.

The greater current assets are over current liabilities, the better, as it is a clear signal that a business can pay its debts and still fund its operations. On the other hand, a company with a low coverage rate where current assets are less than current liabilities is a red flag for investors. It is a sign that the company will have difficulty running its operations and meeting its financial obligations.

Lenders commonly examine liquidity ratios when they are assessing loan applications. Once a loan is allocated to you, your lender may request that you continue to maintain a certain minimum liquidity ratio as part of the credit arrangements. Hence, steps to improve your liquidity ratios are very necessary. We'll look at the liquidity ratios are the Current, Quick and Cash Ratios.

Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio is the standard measure of any business's financial health. It will tell you whether your business can meet its current debt obligations by measuring if it has enough assets to cover its liabilities. The current standard ratio for a healthy business is 2:1, meaning that the business has twice as many current assets as current liabilities. In simple terms, for every GH¢ 1.00 that the business owes, it has GH¢ 2.00 to cover that debt.

Higher levels of current ratio are good for the business. The business will not need to sell long-term revenue-generating assets to pay off the current liabilities. If a business must sell fixed assets to pay for its current liabilities, it isn't making enough money from operations. In other words, the business is losing money. Sometimes this is the result of poor collections of accounts receivable.

A current ratio below 1 shows critical liquidity problems as it means that the current liabilities exceed current assets. The general rule is that the higher the current ratio, the better it is, but there is a limit to this. High values of the current ratio indicate the existence of idle or underutilized resources. You should track the current ratio regularly to help management recognize quickly when it begins to get out of line. This will allow management to make quick decisions to prevent the business from going into difficult financial situations.

Current Ratio	Year 1	Year 2	Year 3
Total Current Assets	29,834.92	38,491.62	48,236.19
Total Current Liabilities	20,048.75	23,632.61	26,633.78
Ratio	1.49	1.63	1.81

From above, The Depot had GH¢ 1.49 in current assets to pay for every GH¢ 1.00 worth of debt that it owed, which rose to GH¢ 1.63 in the second year and then to GH¢ 1.81 in the third year. This increasing trend is a good sign for the business.

Quick Ratio/Acid Test Ratio

$$\text{Quick Ratio} = \frac{(\text{Current Assets} - \text{Inventory})}{\text{Current Liabilities}}$$

The quick ratio measures the ability of a business to pay its current liabilities with only its quick assets. Quick assets are those assets that we can convert to cash within 90 days. Cash accounts receivable and short-term investments are considered quick assets. Suppose a business has enough quick assets to cover its total current liabilities. In that case, it will be able to pay off its current liabilities without selling any of its long-term assets. Since most businesses use these long-term assets to generate revenue, selling these assets will negatively affect the business. What it will mean to investors, too, is that the current operations of the business are not making enough profits to pay off its current liabilities. This ratio is considered a more accurate measure than the current ratio because it excludes inventory. For the current ratio, if you completely liquidate your inventory and have cash available to settle your debts, you will not be able to operate your business since you don't have any inventory. However, for the quick ratio, current assets that are necessary for the daily running of the business-like inventory are subtracted from the total current assets so that you are left with only the other current assets to settle your current liabilities so that you can operate your business with the inventory you have left.

This ratio is most important for businesses that tie up a lot of current assets in inventory. You will see negative trends that could hamper your business's ability to meet its financial obligations by tracking it regularly.

Quick/Acid Test Ratio	Year 1	Year 2	Year 3
Total Current Assets - Inventory	26,314.92	34,503.46	43,315.38
Total Current Liabilities	20,048.75	23,632.61	26,633.78
Ratio	1.31	1.46	1.63

Higher quick ratios are more favourable because they show more quick assets than current liabilities. A business with a quick ratio of 1 indicates that quick assets equal current assets. This also shows that the company could pay off its current liabilities without selling any long-term assets.

An acid ratio of 2 shows that the company has twice as many quick assets as current liabilities. Obviously, as the ratio increases, so does the company's liquidity, and we will easily convert more assets into cash if need be. This is a good sign for investors but an even better sign for creditors because creditors want to know they will be paid back on time.

The quick ratio was GH¢ 1.31 in the first year, meaning that for every GH¢ 1.00 owed in current liabilities, it had GH¢ 1.31 in quick assets to pay for it. In the second year, the ratio rose to GH¢ 1.46 and then to GH¢ 1.63 in the third year.

Cash Ratio

$$\text{Cash Ratio} = \frac{\text{Cash}}{\text{Current Liabilities}}$$

The cash ratio measures the ability of a business to pay its current liabilities with only cash. It is more restrictive than the current or quick ratio because you can use no other assets to pay current liabilities except for cash.

Creditors use the cash ratio to determine if the business maintains enough cash balances to pay all the current liabilities when they are due. Like those accounts receivable and inventory, creditors are left out of the equation since both assets are not guaranteed to be available for debt servicing. It could take a long time to months to sell inventory and weeks to collect accounts receivables, but cash is always guaranteed to be available for creditors.

The ratio shows cash as a percentage of current liabilities. A cash ratio of 100% shows that the business has the same amount of cash as it has current liabilities, meaning that the business will have to use all its cash to pay its current liabilities.

A cash ratio above 100% means that the business can pay all its current liabilities with only cash and still have some more cash remaining in its coffers. However, a cash ratio of below 100% means that the business cannot pay all its current liabilities with only cash, so it will need to raise money from other sources.

A more than 100% cash ratio means that the business is liquid and could easily fund its debt. This is most attractive to creditors because you will have little problems paying your debt as and when due.

Cash Ratio	Year 1	Year 2	Year 3
Cash	3,814.92	7,311.46	14,432.38
Current Liabilities	20,048.75	23,632.61	26,633.78
Ratio	19.03%	30.94%	54.19%

The business can pay only 19.03% of its current liabilities in the first year with cash. In the second year, this rises to 30.94%, and then in the third year, it rises again to 54.19%. These rates are not so attractive for funding, but it is understandable for a new business looking to establish itself in the industry firmly.

Profitability Ratios

These ratios measure the profitability and financial performance of a business. They give a very good understanding of how well the business utilizes its resources in generating profits for the owners. The long-term profitability of the business is vital for both its survivability and the benefit received by the owners.

There are three different ratios that we will consider in this section the Profit Margin Ratio, Return on Assets and Return on Equity. The Return on Assets and Return on Equity show how effective a business generates income from its resources.

Profit Margin Ratio

$$\text{Profit Margin Ratio} = \frac{\text{Net Income After Tax}}{\text{Net Sales}}$$

This ratio measures how much of a business's total sales is kept as net income and is normally expressed as a percentage of sales. It measures how much sales are left over as net profit after all expenses have been paid for. Creditors and investors use this ratio to measure how effectively a company converts sales into net income. Investors want to make sure profits are high enough to pay dividends, while creditors want to ensure the company has enough profits to pay back loans. An extremely low-profit margin would indicate the expenses are too high, and the management needs to budget and cut expenses.

The ratio directly measures what percentage of sales is made up of net income. In other words, it measures how much profits are produced at a certain level of sales. It also indirectly measures how well a company manages its expenses relative to its net sales. That is why companies strive to achieve higher ratios. They can do this by either generating more revenues while keeping expenses constant or keeping revenues constant and lower expenses.

Since generating additional revenues is much more difficult than cutting expenses most of the time, managers generally tend to reduce spending to improve their profit ratio. Like most profitability ratios, this ratio is best used to compare like-sized companies in the same industry. This ratio is also effective for measuring a company's past performance and is often used by management to set performance goals for the future.

Profit Margin Ratio	Year 1	Year 2	Year 3
Net Income After Interest & Tax	20,919.58	24,636.28	28,812.65
Total Sales	150,000.00	169,950.00	192,553.35
Ratio	13.95%	14.50%	14.96%

In the first year, 13.95% of the Depot's total sales is kept as net profit. This rises to 14.5% in the second year and 14.96% in the third.

Return On Assets

$$\text{Return On Assets} = \frac{\text{Net Income After Tax}}{\text{Total Assets}}$$

This is a profitability ratio that measures the net income generated by the business's total assets. This is done by comparing the net income to the business's total assets. This ratio measures how efficiently the business can manage its assets to produce profits during a period or how well it converts the money used to purchase the assets into profits.

The benefit of this ratio is that it helps both management and investors see how well the business can convert its investments in assets into profits. Since assets are the biggest investment businesses make, this ratio shows the return on the investments made. In short, it measures how profitable a business's assets are.

A higher return on assets ratio is more favourable to investors because it shows that the business is more effectively managing its assets to produce higher net income. The ratio is most useful for comparing businesses in the same industry as different industries use assets differently.

The reason is that businesses in manufacturing are highly capital intensive as they need expensive plants and equipment to generate income compared to others. Their return on assets will naturally be lower than the return on assets of the business, which are not capital intensive like service businesses. An increasing trend of return on assets shows that the profitability of the assets is improving.

Return on Total Assets	Year 1	Year 2	Year 3
Net Income After Tax	20,919.58	24,636.28	28,812.65
Total Assets	41,749.92	48,521.62	56,381.19
Ratio	50.11%	50.77%	51.10%

The total assets generated 50.11% of net income in the first year. This means that every GH¢ 1.00 spent on assets produced GH¢ 0.50 in net income. We can give this same interpretation to the second and third years.

Return On Equity

$$\text{Return On Equity} = \frac{\text{Net Income After Tax}}{\text{Owner's Equity}}$$

This ratio measures the ability of a business to generate profits from the shareholder's investments. It shows how much profit is generated by each GH¢1.00 that the owners invest in the business. A return on equity of 100% means that every GH¢1.00 that the owners invest generates GH¢1.00 of net income. This ratio is very important to investors because they want to know how efficiently a company will use their money to generate profits.

This ratio looks at the business from the investor's point of view and not that of management. Investors want to see a high return on equity because it tells them that management is using the funds invested very profitably.

Return on Equity	Year 1	Year 2	Year 3
Net Income after Tax	20,919.58	24,636.28	28,812.65
Owners' Equity	8,367.83	18,222.35	29,747.41
Ratio	250%	135%	97%

In year 1, each GH¢ 1.00 invested by the owners yields 250% returns net income, and this falls to 135% in the second year and then to 97% in the third. This decreasing trend in return on equity will not be pleasing to the investors as it doesn't look like their investments are yielding enough returns.

Return On Capital Employed

$$\text{Return On Capital Employed} = \frac{\text{Income Before Interest \& Taxes}}{\text{Capital Employed}}$$

This ratio measures how well a business generates profits from all the capital available by comparing the income before interest and taxes to the total capital employed. In other words, it shows investors how much profit every GH¢ 1.00 employed as capital makes.

This is a long-term profitability ratio since it shows how effectively capital is performing while considering long-term financing, making it a more useful ratio than a return on equity in evaluating its longevity.

This ratio complements the return on equity ratio in that total liabilities are added to the owner's equity to show the total amount of capital employed. It gives a better understanding of how a business can generate profit from its available capital and gives a better view of a management's ability to generate earnings from the business's total pool of capital.

A higher value of Return on Capital Employed is favourable, indicating that the business generates more earnings per cedi of capital employed. A lower value indicates lower profitability.

Return On Capital Employed	Year 1	Year 2	Year 3
Net Income Before Interest & Taxes	30,115.00	35,070.60	40,639.09
Total Equity + Total Liabilities	41,749.92	48,521.62	56,381.19
Ratio	0.72	0.72	0.72

The business generates GH¢0.72 on every cedi employed as capital in the first year, and this remains the same in the two subsequent years. This may not be ideal as investors will want to see growth projections in the use of the capital in running the business.

Debt Ratios

Debt ratios measure the business's ability to sustain operations indefinitely by comparing the debt levels with equity, assets, and earnings. They identify a business's ability to pay its debts in the long term. The difference between debt ratios and liquidity ratios, even though both ratios measure a business's ability to pay its debts, is that debt ratios focus more on the long-term sustainability of the business. In contrast, liquidity ratios focus more on short-term debt payments.

Debt Ratio

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

This measures a business's liabilities as a percentage of its total assets. It shows the ability to pay off liabilities with assets. The ratio shows the percentage of assets the business must sell to pay off liabilities. Businesses with higher liabilities are riskier for investors than those that are not. The ratio helps investors analyze the overall debt burden of the business and measure its ability to pay off its debt in the future with its assets.

Total Debt Ratio	Year 1	Year 2	Year 3
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Total Liabilities	33,382.08	30,299.28	26,633.78
Total Assets	41,749.92	48,521.62	56,381.19
Ratio	79.96%	62.44%	47.24%

79.96% of the total assets were financed by debt in the first year, meaning shareholders only owned 20.04% of the assets. This reduces to 62.44% in the second year and 47.24% in the third year. This downward trend in the ratio is welcome news for investors as the business shows the continuous capacity to wean itself of debts.

The lower the percentage, the stronger the debt position of the business and the lesser risk the business is said to have taken on.

The debt ratio is a fundamental solvency ratio because creditors are always concerned about being repaid. When businesses borrow more money, their debt ratio increases, and creditors will no longer loan them money. Businesses with higher debt ratios are better off looking to equity financing to grow their operations.

Equity Ratio

$$\text{Equity Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

This ratio compares total equity to total assets to measure the percentage of assets financed by the owner's funds and not credit or debit. The ratio throws more light on the overall financial strength of the business. A higher ratio means that the business will pay less interest on loans as most of its assets are financed by funds from the owners; hence, it will have more free funds for future growth and expansion. Furthermore, the business will also be attractive to investors as it shows potential investors that the business is worth investing in since so many investors are willing to finance it.

On the other hand, a business with a low equity ratio means that there will be more losses as it will spend more money in paying interest on loans from creditors as a large proportion of the assets of the business is financed by debts and less of the assets, financed by the funds from the owners. It is also a huge disincentive for potential investors as the business will have much debt to pay.

Equity Ratio	Year 1	Year 2	Year 3
Total Equity	8,367.83	18,222.35	29,747.41
Total Assets	41,749.92	48,521.62	56,381.19
Ratio	20.04%	37.56%	52.76%

From above, in the first year, only 20.04% of the assets of the Depot are financed by equity or the owners' funds, meaning that the business is heavily reliant on debt financing, meaning it will have more interest to pay, henceforth making low profits. The situation improves in the second year to 37.56%, which is bettered to 52.76% in the third year.

Debt To Equity Ratio

$$\text{Debt To Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Owner's Equity}}$$

This ratio measures the degree to which debts and owner's equity finances the assets of a business. A lower debt to equity ratio implies a more financially stable business. Businesses with a higher debt to equity ratio are considered riskier to creditors and investors than companies with a lower ratio.

Unlike equity financing, we must repay a debt to the lender. Since debt financing also requires debt servicing or regular interest payments, debt can be far more expensive than equity financing. Businesses leveraging large amounts of debt might not be able to make the payments.

Creditors view a higher debt to equity ratio as risky because it shows that the investors haven't funded the operations as much as creditors have. In other words, investors don't have as much invested in the business as the creditors do. This could mean that investors don't want to fund the business operations because the business isn't performing well. Lack of performance might also be why the company seeks out extra debt financing.

A debt-to-equity ratio of 1.00 means that half of the assets of a business are financed by debts and the other half by investors. A value higher than 1.00 means that more assets are financed by debt than those financed by owner's equity and vice versa. An increasing debt-to-equity ratio is alarming because the percentage of assets financed by debts increases.

Creditors usually like a low debt to equity ratio because a low ratio (ratio<1) indicates greater protection of their money. But owners like to get benefits from the funds provided by the creditors; therefore, they would like a high debt to equity ratio.

Debt to Equity Ratio	Year 1	Year 2	Year 3
Total Liabilities	33,382.08	30,299.28	26,633.78
Total Owner's Equity	8,367.83	18,222.35	29,747.41
Ratio	3.99	1.66	0.90

In the first year, the asset of the business is financed by 3.99 times liabilities as assets. In other words, the liabilities used to finance the business are 3.99 times the amount of equity used. This is a discouraging sign in year 1 for investors as it shows that the business is financially unstable and hugely reliant on debt financing. The situation improves drastically in the second year to 1.66 times the equity used and improves in the third year to 0.90 times. Hence, the business is financed by more equity than liabilities in the third year as the ratio is less than 1.

MANUFACTURING BUSINESS

This section will teach you how to make financial projections for a manufacturing business. There are aspects of financial forecasting for this type of business that are not in the forecasting processes for a trading business, as you will soon find out. There are, however, many similarities between the two. Hence, there will be no detailed explanations for the areas previously treated. For this chapter, Best Wallets will be our hypothetical manufacturing company.

COST PRICE AND SELLING PRICE PER UNIT

Just as we did previously, we need to determine the cost and selling prices for each unit of wallet produced. Doing this for a manufacturing business is more complicated than for a trading business. For the trading business, the items that made up the cost per unit were the selling price and the transportation cost.

Having deduced the cost per unit, we used mark-up pricing to determine the selling price per unit. However, there are many more components of the cost per unit for a manufacturing business. We must know the direct materials cost per unit, direct labour cost per unit and manufacturing overheads cost per unit, which will be the cost price per unit. Until we can do that, we will not be able to determine the selling price per unit.

SALES BUDGET

The other budgets will also be wrong if the sales budget is wrong. The sales budget determines how many units to produce. Hence, the production budget is prepared only after the sales budget is ready. The sales budget also helps prepare all the other budgets like the direct materials, direct Labour, and manufacturing overheads budgets.

The operating expenses budget is determined and dependent on the sales budget. This is because in as much as the number of funds to be committed to operating expenses is dependent on the number of sales made, the number of sales made is also dependent on the effects of the amount of funds committed to marketing and promotion.

Monthly Sales Forecast - Year 1						
Month	Sales % Per month	Unit Sales for The Year	Unit Sales Per Month	Selling Price Per Unit	Sales Revenue	Monthly Cash Collected
Jan	7.00%	30,000	2,100	28.00	58,800.00	-
Feb	3.00%	30,000	900	28.00	25,200.00	58,800.00
Mar	6.00%	30,000	1,800	28.00	50,400.00	25,200.00
Apr	9.00%	30,000	2,700	28.00	75,600.00	50,400.00
May	4.00%	30,000	1,200	28.00	33,600.00	75,600.00
Jun	7.00%	30,000	2,100	28.00	58,800.00	33,600.00
Jul	7.00%	30,000	2,100	28.00	58,800.00	58,800.00
Aug	8.00%	30,000	2,400	28.00	67,200.00	58,800.00
Sep	10.00%	30,000	3,000	28.00	84,000.00	67,200.00
Oct	11.00%	30,000	3,300	28.00	92,400.00	84,000.00
Nov	13.00%	30,000	3,900	28.00	109,200.00	92,400.00
Dec	15.00%	30,000	4,500	28.00	126,000.00	109,200.00
Totals	100.00%		30,000		840,000.00	714,000.00

Monthly Sales Forecast - Year 2						
Month	Sales % Per month	Unit Sales for The Year	Unit Sales Per Month	Selling Price Per Unit	Sales Revenue	Monthly Cash Collected
Jan	8.00%	45,000	3,600	30.80	110,880.00	126,000.00
Feb	3.00%	45,000	1,350	30.80	41,580.00	110,880.00
Mar	7.00%	45,000	3,150	30.80	97,020.00	41,580.00
Apr	11.00%	45,000	4,950	30.80	152,460.00	97,020.00
May	5.00%	45,000	2,250	30.80	69,300.00	152,460.00
Jun	6.00%	45,000	2,700	30.80	83,160.00	69,300.00
Jul	7.00%	45,000	3,150	30.80	97,020.00	83,160.00
Aug	7.00%	45,000	3,150	30.80	97,020.00	97,020.00
Sep	8.00%	45,000	3,600	30.80	110,880.00	97,020.00
Oct	10.00%	45,000	4,500	30.80	138,600.00	110,880.00
Nov	12.00%	45,000	5,400	30.80	166,320.00	138,600.00
Dec	16.00%	45,000	7,200	30.80	221,760.00	166,320.00
Totals	100.00%		45,000		1,386,000.00	1,290,240.00

Monthly Sales Forecast - Year 3						
Month	Sales % Per month	Unit Sales for The Year	Unit Sales Per Month	Selling Price Per Unit	Sales Revenue	Monthly Cash Collected
Jan	8.00%	53,100	4,248	33.88	143,922.24	221,760.00
Feb	4.00%	53,100	2,124	33.88	71,961.12	143,922.24
Mar	6.00%	53,100	3,186	33.88	107,941.68	71,961.12
Apr	9.00%	53,100	4,779	33.88	161,912.52	107,941.68
May	5.00%	53,100	2,655	33.88	89,951.40	161,912.52
Jun	6.00%	53,100	3,186	33.88	107,941.68	89,951.40

Jul	7.00%	53,100	3,717	33.88	125,931.96	107,941.68
Aug	9.00%	53,100	4,779	33.88	161,912.52	125,931.96
Sep	10.00%	53,100	5,310	33.88	179,902.80	161,912.52
Oct	11.00%	53,100	5,841	33.88	197,893.08	179,902.80
Nov	10.00%	53,100	5,310	33.88	179,902.80	197,893.08
Dec	15.00%	53,100	7,965	33.88	269,854.20	179,902.80
Totals	100.00%		53,100		1,799,028.00	1,750,933.80

The first column lists the various months in the calendar year from the tables above. It is projected that the business will start operations in January, so its accounting year starts in December.

Based on research, it is projected that the various sales percentages in the second column will hold. It is projected that the various percentages in the second column will be the various percentages of the total sales forecast for the year shown in the third column.

So, for each month, the exact units projected to be sold are the percentage sales forecast for the month multiplied by the total sales forecast for the year, recorded in the fourth column as unit sales for the month.

The selling price for each month is shown in the fifth column and is multiplied by the unit sales for each month to get the sales revenues for the month, recorded in the next column. Best wallets have a policy of granting a 30-day credit period to its clients; hence the sales for each month are not expected to be paid for until the next month.

Hence, the column, monthly cash collected, is a record of the sales revenue for each preceding month. From a cursory look at the tables, you will realize that the annual sales and the selling prices per unit keep rising year after year, reflecting the anticipated growth that the business is expected to experience over the period.

The forecasted sales figures for each month will be transferred to the production budget, based on which the units of production for each month will be determined, as I will show you later.

The total sales revenue for each year will be transferred to the Forecasted Income Statement. At the same time, we will also send the total cash collected for each year to the Forecasted Cash Flow Statement, all of which will be looked at later in this chapter.

ACCOUNTS RECEIVABLE BUDGET

Best Wallets will operate a 30-day credit, so at the end of each year, there will be some money owed to the business by its customers who made purchases in the last month of December, which they are supposed to pay back in January the next year.

It is important to determine the total value of accounts receivable from customers to know the total worth of the business determined by the balance sheet. Hence, we will transfer the business's total value of accounts receivable for each year to the balance sheet for that particular year. In the schedules below are the accounts receivable for each year.

Year 1	
Forecasted Sales made during the current year	840,000.00
Less: Cash collected from customers during the current year	714,000.00
Add Accounts Receivable before the current year.	0.00
Accounts Receivable as of December 31	126,000.00

Year 2	
Forecasted Sales made during the current year	1,386,000.00
Less: Cash collected from customers during the current year	1,290,240.00
Add: Accounts Receivable before the current year	126,000.00
Accounts Receivable as of December 31	221,760.00

Year 3	
Forecasted Sales made during the current year	1,799,028.00
Less: Cash collected from customers during the current year	1,750,933.80
Add: Accounts Receivable before the current year	221,760.00
Accounts Receivable as of December 31	269,854.20

The first item is the Forecasted Sales made in the year. This is just the total sales revenue for that year and is determined from the sales budget. The second item is the cash collected from customers during the current year, and it is also picked from the sales budget. This is another example of how the sales budget is the basis of the entire master budget.

The last item is the Accounts Receivable before the current year. As I mentioned earlier, since the business operates a 30-day credit policy, the sales in a month are not expected to be collected until the next month, which accounts for the accounts receivable.

In the tables, the accounts receivable before the current year is equal to the accounts receivable as of December 31 of the previous year.

From the three items described so far, we deduct the total cash collected from customers from the total sales value for that year to determine the accounts receivable for each year. The difference is then added to the accounts receivable from the previous year to determine the accounts receivable at the end of the current year.

PRODUCTION BUDGET

After the sales budget has been prepared, the production requirements are determined and organized into the production budget. Sufficient units will have to be produced to meet the sales demand and satisfy the closing stock requirements. Some product units already exist in closing stock from the previous year, which will become the current year's opening stock. To determine how many units to produce in each period, you need to

know how many units you project to sell and how many units you already have available for that period which we call opening stock. The closing Stock is determined based on forecasts the business makes about sales. For instance, your business can decide that the closing Stock for each period should be 30% of the forecasted sales for the next period. Hence, if your business forecasts to sell 1,000 units in February and has the policy of keeping closing Stock worth 30% of the next month's sales, then your closing stock for January will be 1000 units \times 30% = 300 units.

Production Budget for Year 1							
Month	Forecasted Sales	Next Month's Sales	Closing stock - 40% Of Next Month's Sales	Required Stock	Less: Opening Stock	Number Of Units to Be Produced	Production Percentage
Jan	2,100	900	360	2,460	0	2,460	7.82%
Feb	900	1,800	720	1,620	360	1,260	4.01%
Mar	1,800	2,700	1,080	2,880	720	2,160	6.87%
Apr	2,700	1,200	480	3,180	1,080	2,100	6.68%
May	1,200	2,100	840	2,040	480	1,560	4.96%
Jun	2,100	2,100	840	2,940	840	2,100	6.68%
Jul	2,100	2,400	960	3,060	840	2,220	7.06%
Aug	2,400	3,000	1,200	3,600	960	2,640	8.40%
Sep	3,000	3,300	1,320	4,320	1,200	3,120	9.92%
Oct	3,300	3,900	1,560	4,860	1,320	3,540	11.26%
Nov	3,900	4,500	1,800	5,700	1,560	4,140	13.17%
Dec	4,500	3,600	1,440	5,940	1,800	4,140	13.17%
Totals	30,000		12,600	42,600		31,440	100.00%

Production Budget for Year 2							
Month	Forecasted Sales	Next Month's Sales	Closing stock - 40% Of Next Month's Sales	Required Stock	Less: Opening Stock	Number Of Units to Be Produced	Production Percentage
Jan	3,600	1,350	540	4,140	1,440	2,700	5.97%
Feb	1,350	3,150	1,260	2,610	540	2,070	4.57%
Mar	3,150	4,950	1,980	5,130	1,260	3,870	8.55%
Apr	4,950	2,250	900	5,850	1,980	3,870	8.55%
May	2,250	2,700	1,080	3,330	900	2,430	5.37%
Jun	2,700	3,150	1,260	3,960	1,080	2,880	6.36%
Jul	3,150	3,150	1,260	4,410	1,260	3,150	6.96%
Aug	3,150	3,600	1,440	4,590	1,260	3,330	7.36%
Sep	3,600	4,500	1,800	5,400	1,440	3,960	8.75%
Oct	4,500	5,400	2,160	6,660	1,800	4,860	10.74%
Nov	5,400	7,200	2,880	8,280	2,160	6,120	13.52%
Dec	7,200	4,248	1,699	8,899	2,880	6,019	13.30%
Total	45,000		18,259	63,259		45,259	100.00%

Production Budget for Year 3							
Month	Forecasted Sales	Next Month's Sales	Closing stock - 40% Of Next Month's Sales	Required Stock	Less: Opening Stock	Number Of Units to Be Produced	Production Percentage
Jan	4,248	2,124	850	5,098	1,699	3,398	6.39%
Feb	2,124	3,186	1,274	3,398	850	2,549	4.80%
Mar	3,186	4,779	1,912	5,098	1,274	3,823	7.19%
Apr	4,779	2,655	1,062	5,841	1,912	3,929	7.39%
May	2,655	3,186	1,274	3,929	1,062	2,867	5.39%
Jun	3,186	3,717	1,487	4,673	1,274	3,398	6.39%
Jul	3,717	4,779	1,912	5,629	1,487	4,142	7.79%
Aug	4,779	5,310	2,124	6,903	1,912	4,991	9.39%
Sep	5,310	5,841	2,336	7,646	2,124	5,522	10.39%
Oct	5,841	5,310	2,124	7,965	2,336	5,629	10.59%
Nov	5,310	7,965	3,186	8,496	2,124	6,372	11.99%
Dec	7,965	4,386	1,754	9,719	3,186	6,533	12.29%
Total	53,100		21,295	74,395		53,155	100.00%

The first column lists the months for each year from the tables above. The forecasted sales for each month are in the second column as in the sales budget. In the third column is data about the next month's sales. Here, the forecasted sales for the next month are recorded to aid in calculating closing stock. The next column is the opening Stock. The opening Stock for each month is the closing Stock for the previous month. We looked at how to determine the closing Stock in the previous paragraph, so I hope you understand the concept.

It is simple as the closing Stock for the previous month is 40% of the forecasted sales for the current month. For example, the opening Stock for March will be the closing Stock for February.

To determine the units to be produced in a month, all you need to do is simply subtract the opening Stock for each month from the required stock for that month. We need to know how the number of units that need to be produced, so we must subtract all the units already available in stock from the total required stock for each month. The data for the units to be produced is labelled as such in the columns in the tables.

The last column, the percentage of production, seeks to show the percentage of the total output for the year produced each month. This information will help us determine the usage patterns of raw materials each month, as we will see later.

RAW MATERIALS BUDGET

This section will analyze how much raw materials are used in the production process. Raw materials are transformed from their original states through the production process into another state to form the product. Raw materials can be wholly transformed into another state or partially transformed or can even maintain their original state except that they will form part of the final product.

The raw materials that Best Wallets use in the production of its wallets are leather, thread, zipper, and button. The details of how much of these raw materials are used together with their costs are discussed as follows:

Raw Materials Usage Budget

It is very important to determine how many units of each raw material you will use in production, and this will help you sufficiently in your calculations.

Year 1										
Months	Direct Materials Per Unit				Number Of Units to Be Produced	Quantity Of Raw Materials to Be Used				
	Leather (Sq. Units)	Thread (cm)	Zipper	Button		Leather (Sq. Units)	Thread (cm)	Zipper	Button	
Jan	20	45	1	1	2,460	49,200	110,700	2,460	2,460	
Feb	20	45	1	1	1,260	25,200	56,700	1,260	1,260	
Mar	20	45	1	1	2,160	43,200	97,200	2,160	2,160	
Apr	20	45	1	1	2,100	42,000	94,500	2,100	2,100	
May	20	45	1	1	1,560	31,200	70,200	1,560	1,560	
Jun	20	45	1	1	2,100	42,000	94,500	2,100	2,100	
Jul	20	45	1	1	2,220	44,400	99,900	2,220	2,220	
Aug	20	45	1	1	2,640	52,800	118,800	2,640	2,640	
Sep	20	45	1	1	3,120	62,400	140,400	3,120	3,120	
Oct	20	45	1	1	3,540	70,800	159,300	3,540	3,540	
Nov	20	45	1	1	4,140	82,800	186,300	4,140	4,140	
Dec	20	45	1	1	4,140	82,800	186,300	4,140	4,140	
Total Quantities of Raw Materials to Be Used					31,440	628,800	1,414,800	31,440	31,440	

Year 2										
Months	Direct Materials Per Unit				Number Of Units to Be Produced	Quantity Of Raw Materials to Be Used				
	Leather (Sq. Units)	Thread (cm)	Zipper	Button		Leather (Sq. Units)	Thread (cm)	Zipper	Button	
Jan	20	45	1	1	2,700	54,000	121,500	2,700	2,700	
Feb	20	45	1	1	2,070	41,400	93,150	2,070	2,070	
Mar	20	45	1	1	3,870	77,400	174,150	3,870	3,870	
Apr	20	45	1	1	3,870	77,400	174,150	3,870	3,870	
May	20	45	1	1	2,430	48,600	109,350	2,430	2,430	
Jun	20	45	1	1	2,880	57,600	129,600	2,880	2,880	
Jul	20	45	1	1	3,150	63,000	141,750	3,150	3,150	
Aug	20	45	1	1	3,330	66,600	149,850	3,330	3,330	
Sep	20	45	1	1	3,960	79,200	178,200	3,960	3,960	
Oct	20	45	1	1	4,860	97,200	218,700	4,860	4,860	
Nov	20	45	1	1	6,120	122,400	275,400	6,120	6,120	
Dec	20	45	1	1	6,019	120,384	270,864	6,019	6,019	
Total Quantities of Raw Materials to Be Used					45,259	905,184	2,036,664	45,259	45,259	

Year 3										
Months	Direct Materials Per Unit				Number Of Units to Be Produced	Quantity Of Raw Materials to Be Used				
	Leather (Sq. Units)	Thread (cm)	Zipper	Button		Leather (Sq. Units)	Thread (cm)	Zipper	Button	
Jan	20	45	1	1	3,398	67,968	152,928	3,398	3,398.40	
Feb	20	45	1	1	2,549	50,976	114,696	2,549	2,548.80	
Mar	20	45	1	1	3,823	76,464	172,044	3,823	3,823.20	
Apr	20	45	1	1	3,929	78,588	176,823	3,929	3,929.40	
May	20	45	1	1	2,867	57,348	129,033	2,867	2,867.40	
Jun	20	45	1	1	3,398	67,968	152,928	3,398	3,398.40	
Jul	20	45	1	1	4,142	82,836	186,381	4,142	4,141.80	
Aug	20	45	1	1	4,991	99,828	224,613	4,991	4,991.40	
Sep	20	45	1	1	5,522	110,448	248,508	5,522	5,522.40	
Oct	20	45	1	1	5,629	112,572	253,287	5,629	5,628.60	
Nov	20	45	1	1	6,372	127,440	286,740	6,372	6,372.00	
Dec	20	45	1	1	6,533	130,668	294,004	6,533	6,533.42	
Total Quantities of Raw Materials to Be Used					53,155	1,063,104	2,391,985	53,155	53,155.22	

We can see from the tables that, for each wallet, Best Wallets uses 20 square units of leather, 45cm of thread, one zipper and one button. These are shown in the second, third, fourth, and fifth columns under the direct materials per unit heading. Please note that Direct Materials are the same as Raw Materials; hence we can use the two interchangeably. The quantity of raw materials to be used for each unit is then multiplied by the number of units of wallet to be produced in each month to determine the total quantity of each raw material to be used.

To determine the quantity of leather used in production in December in the third year, we will multiply the quantity of leather per unit by the number of units produced. Hence, we have 20 square units \times 6,533 = 130,668. This means that, for that month, Best Wallets will use 130,668 square units of leather. We can do the same to determine the various quantities of all the other raw materials used.

Cost Of Raw Materials Budget

Having determined the various quantities of raw materials used each year, we must know the total cost to help us estimate our cash flow properly. There is a unique approach used to determine the total cost of raw materials for each year, as shown in the tables below:

Year 1					
Item	Leather	Thread	Zipper	Button	Total
Units Of Raw Materials Needed for Production	628,800	1,414,800	31,440	31,440	
Add - Closing Stock of Raw Materials in Units	362,074	814,666	18,104	18,104	
Total Quantity of Raw Materials Needed	990,874	2,229,466	49,544	49,544	
Less - Opening Stock of Raw Materials	0	0	0	0	
Raw Materials to Be Purchased	990,874	2,229,466	49,544	49,544	
Per Unit Cost of Raw Materials	0.40	0.08	0.25	0.15	
Cost Of Raw Materials to Be Purchased	396,349	178,357	12,386	7,432	594,524
Year 2					
Item	Leather	Thread	Zipper	Button	Total
Units Of Raw Materials Needed for Production	905,184	2,036,664	45,259	45,259	
Add - Closing Stock of Raw Materials in Units	425,242	956,794	21,262	21,262	
Total Quantity of Raw Materials Needed	1,330,426	2,993,458	66,521	66,521	
Less - Opening Stock of Raw Materials	362,074	814,666	18,104	18,104	
Raw Materials to Be Purchased	968,352	2,178,792	48,418	48,418	
Per Unit Cost of Raw Materials	0.41	0.08	0.26	0.15	
Cost Of Raw Materials to Be Purchased	397,024	178,661	12,407	7,444	595,537
Year 3					
Item	Leather	Thread	Zipper	Button	Total
Units Of Raw Materials Needed for Production	1,063,104	2,391,985	53,155	53,155	
Add - Closing Stock of Raw Materials in Units	506,156	1,138,852	25,308	25,308	
Total Quantity of Raw Materials Needed	1,569,261	3,530,837	78,463	78,463	
Less - Opening Stock of Raw Materials	425,242	956,794	21,262	21,262	
Raw Materials to Be Purchased	1,144,019	2,574,043	57,201	57,201	
Per Unit Cost of Raw Materials	0.42	0.08	0.26	0.16	
Cost Of Raw Materials to Be Purchased	480,774	216,348	15,024	9,015	721,161

We need the raw materials usage budget prepared in the previous section. We also need to know the market price of each unit of raw material. Having determined the number of units of raw material to be used throughout the year, we need to know the unit cost of each, which we can get from the supplier. With the information about the quantity of raw materials we need for production from the raw materials usage budget in the previous section, we add the closing Stock of raw materials in units to determine the total quantity of raw materials needed. Like in the production budget, the closing Stock of raw materials here will be the desired percentage of the raw materials requirements for the next period. For Best Wallets, it is company policy that the closing Stock of raw materials for each year should be 40% of the total quantity of raw materials needed for the next year's estimated production.

We deduct the opening Stock of raw materials from the total quantity needed for that year's production, and the opening Stock for the current year is the closing stock of the previous year. The logic behind this is that we need to determine the actual units of raw materials that we need to buy for production from our suppliers each year. Having determined the units of raw materials that we need in the current year and since the year began with a stock of raw materials, we need to take that stock out to determine the new stock of raw materials that we need to buy.

Having been able to determine the stock of raw materials that we need in the current year, we multiply that by the unit cost to know the total cost of each raw material.

Through the above steps, we will know the total cost of leather, thread, zippers, and buttons that we will buy each year, the sum of which is the total cost of raw materials for the year. The total cost of raw materials will enable us to determine the cost of goods sold and the value of the closing stock of finished goods.

Determining Cash Paid for Raw Materials

Year 1							
Month	Production Percentage	Cost Of Leather	Cost Of Thread	Cost Of Zipper	Cost Of Buttons	Cost Of Raw Materials	Cash Paid for Raw Materials
Jan	8%	31,012	13,955	969	581	46,518	0
Feb	4%	15,884	7,148	496	298	23,826	46,518
Mar	7%	27,230	12,254	851	511	40,845	23,826
Apr	7%	26,474	11,913	827	496	39,711	40,845
May	5%	19,666	8,850	615	369	29,499	39,711

Jun	7%	26,474	11,913	827	496	39,711	29,499
Jul	7%	27,987	12,594	875	525	41,980	39,711
Aug	8%	33,281	14,977	1,040	624	49,922	41,980
Sep	10%	39,332	17,700	1,229	737	58,999	49,922
Oct	11%	44,627	20,082	1,395	837	66,941	58,999
Nov	13%	52,191	23,486	1,631	979	78,287	66,941
Dec	13%	52,191	23,486	1,631	979	78,287	78,287
Total	100%	396,349	178,357	12,386	7,432	594,524	516,238

It enjoys a 30-day credit from its supplier. Thus, payments for raw materials bought in a particular month are made next month. We must determine the amount payable for raw materials at the end of each year. The payment pattern for the raw materials that Best Wallets buy from its suppliers based on the 30-day credit period is shown in the tables for each of the three years.

The first column in the tables shows the various months in each of the three years and is followed in the next column by the Production percentages. This is just a determinant of the percentage of annual production each month, and these percentages are gotten from the production budget.

Year 2							
Month	Production Percentage	Cost Of Leather	Cost Of Thread	Cost Of Zipper	Cost Of Buttons	Cost Of Raw Materials	Cash Paid for Raw Materials
Jan	6%	23,685	10,658	740	444	35,528	78,287
Feb	5%	18,159	8,171	567	340	27,238	35,528
Mar	9%	33,949	15,277	1,061	637	50,923	27,238
Apr	9%	33,949	15,277	1,061	637	50,923	50,923
May	5%	21,317	9,592	666	400	31,975	50,923
Jun	6%	25,264	11,369	790	474	37,896	31,975
Jul	7%	27,633	12,435	864	518	41,449	37,896
Aug	7%	29,212	13,145	913	548	43,817	41,449
Sep	9%	34,738	15,632	1,086	651	52,107	43,817
Oct	11%	42,633	19,185	1,332	799	63,950	52,107
Nov	14%	53,686	24,159	1,678	1,007	80,529	63,950
Dec	13%	52,802	23,761	1,650	990	79,203	80,529
Total	100%	397,024	178,661	12,407	7,444	595,537	594,620

The percentage for each month is multiplied by the total cost of each raw material for each year as was determined in the cost of raw materials budget. To determine the costs of the raw materials used in each month, we will multiply the percentage of production for that month by the total cost of each raw material, shown in the third, fourth and fifth columns in the tables above. Let us take an example. From the cost of raw materials budget for the third year, the total costs of the raw materials are as follows: leather = GH¢480,774, thread = GH¢216,348, zippers = GH¢15,024 and buttons = GH¢9,015. In year 2, for June, it is estimated that 6% of the annual production takes place. This means that 6% of the total cost of leather, thread, zippers, and buttons is borne in June. Hence, we multiply 6% by each of the costs of raw materials we have listed for that month to determine the amounts paid for the raw materials. The sum of these individual costs of raw materials makes up the total cost of raw materials for June GH¢37,896, which Best Wallets pays for in the next month, July, because of its 30-day credit policy.

Year 3							
Month	Production Percentage	Cost Of Leather	Cost Of Thread	Cost Of Zipper	Cost Of Buttons	Cost Of Raw Materials	Cash Paid for Raw Materials
Jan	6%	30,738	13,832	961	576	46,106	79,203
Feb	5%	23,053	10,374	720	432	34,580	46,106
Mar	7%	34,580	15,561	1,081	648	51,870	34,580
Apr	7%	35,540	15,993	1,111	666	53,310	51,870
May	5%	25,935	11,671	810	486	38,902	53,310
Jun	6%	30,738	13,832	961	576	46,106	38,902
Jul	8%	37,461	16,858	1,171	702	56,192	46,106
Aug	9%	45,146	20,316	1,411	846	67,719	56,192
Sep	10%	49,949	22,477	1,561	937	74,923	67,719
Oct	11%	50,909	22,909	1,591	955	76,364	74,923
Nov	12%	57,633	25,935	1,801	1,081	86,449	76,364
Dec	12%	59,093	26,592	1,847	1,108	88,639	86,449
Total	100%	480,774	216,348	15,024	9,015	721,161	711,724

ACCOUNTS PAYABLE BUDGET

The accounts payable budget is necessary because of the 30-day credit policy in place by the suppliers. At the end of each year, Best Wallets will owe some amounts to its suppliers, and it is thus imperative for proper accounting purposes to estimate these amounts. If your business does not enjoy this credit policy from your suppliers, you don't need to prepare this because your results will be zero each year.

Accounts Payable on Purchases - Year 1	
Purchases to be made during the year	594,524
Less: Payments made during the year	516,238
Add: Accounts payable before the current year	0
Accounts Payable on Purchases as Of December 31	78,287

Accounts Payable on Purchases - Year 2	
Purchases to be made during the year	595,537
Less: Payments made during the year	594,620
Add: Accounts payable before the current year	78,287
Accounts Payable on Purchases as Of December 31	79,203

Accounts Payable on Purchases - Year 3	
Purchases to be made during the year	721,161
Less: Payments made during the year	711,724
Add: Accounts payable before the current year	79,203
Accounts Payable on Purchases as Of December 31	88,639

The first item is the cost of raw materials for the year from the Cost of Raw materials budget. We then deduct from this cost the total payments made in the year for raw materials, which we also get from our previous budget, cash Paid for Raw Materials. The difference is added to the accounts payable before the current year and the accounts payable as of December 31 of the previous year. The Accounts Payable is recorded as a current liability on the Balance Sheet.

DIRECT LABOUR BUDGET

Labour is categorized into direct and indirect. Direct Labour refers to those employees whose activities directly contribute to transforming the raw materials into finished goods and are commonly referred to as "factory hands". Indirect Labour is those whose activities are not involved in production but indirect activities like administration, marketing, and selling of the final products.

Item	Year 1	Year 2	Year 3
Units Produced	31,440	45,259	53,155
Direct labour hours per unit	0.30	0.30	0.30
Direct Labour Hours Needed	9,432	13,578	15,947
Labour Cost Per Hour	0.95	1.00	1.05
Annual Direct Labour Cost	8,960	13,544	16,702

The budget begins with the units produced for each year from the production budget. This is multiplied by the direct labour hours per unit to get the Direct Labour hours needed to produce that quantity of units for the year. *The Direct Labour hours per unit refers to the number of hours it takes Labour to produce a product unit. The company has determined that it takes direct Labour 0.17 hours, 10 minutes, and 20 seconds to produce each wallet. Multiplying the direct labour hours per unit with the number of units produced in the year, we get the total direct labour hours needed for each year.* Multiply the total direct labour hours needed in the whole year by the labour cost per hour to determine the year's labour cost. To also determine the cost of Labour per unit, just multiply the direct labour hour per unit by the labour cost per hour. This will come in handy when preparing the closing Stock.

MANUFACTURING OVERHEAD BUDGET

The next budget is the overhead manufacturing budget. Manufacturing overheads are those costs incurred in the direct production process. It is of two different types: variable and fixed manufacturing overheads. Variable Overheads are the indirect costs of manufacturing that fluctuate with the level of production, such as indirect Labour, indirect materials, fuel for production, maintenance of equipment and electricity. The fixed manufacturing overheads do not fluctuate with the production level and include rent, salaries, insurance and depreciation. How much variable overheads are incurred is dependent on the number of hours spent working in the factory. Hence, we multiply the overhead rate, *the total cost incurred per hour for each variable overhead*, by the total number of labour hours worked to determine the total overhead cost in each instance. The sum for each variable factory overhead makes up the total variable manufacturing overhead. The fixed manufacturing overheads are constant irrespective of the number of labour hours; hence, they have nothing to do with direct labour hours worked. The figures in the rate column for the fixed factory overheads are the monthly cost per hour for each variable overhead and the fixed monthly cost for the fixed overheads.

The total cash disbursements are the cost of overheads which we will pay for in the current year. It is the sum of the variable and fixed overheads less the depreciation amounts. As we send the sum to the cash flow statement, we need to know the total amount paid. Depreciation, although an expense is not paid for by cash leaving the business; hence for a very accurate cash flow statement, we need to take it out.

Manufacturing Overheads Budget						
Item	Rates 1	Year 1	Rates 2	Year 2	Rates 3	Year 3
Total Estimated Labour Hours	9,432		13,578		15,947	
Variable Factory Overheads:						
Indirect Labour	0.01	66	0.01	100	0.01	123
Indirect Materials	0.01	85	0.01	128	0.01	158
Fuel For Production	0.01	66	0.01	100	0.01	123
Maintenance Of Equipment	0.01	75	0.01	114	0.01	141
Electricity	0.2	1,886	0.21	2,851	0.22	3,516
Total Variable Overheads	0.23	2,179	0.24	3,293	0.25	4,061
Fixed Factory Overheads:						
Production Supervisors' Salaries	2,000	24,000	2,100	25,200	2,205	26,460
Property Tax - Factory Building	4	50	4	53	5	55
Insurance Of Factory Building	8	100	9	105	9	110
Insurance Of Factory Machinery	13	2,000	13	158	14	166
Insurance Of Factory Labour	833	10,000	875	10,500	919	11,025
Depreciation Of Factory Building	0	512	0	512	0	512
Depreciation Of Machinery	0	233	0	233	0	233

Total Fixed Overheads	36,895	36,761	38,562
Total Factory Overheads	39,074	40,055	42,623
Cash Disbursements	38,329	39,309	41,878

CLOSING STOCK BUDGET

Closing stock refers to the units of the finished goods available at the end of each year. This budget seeks to determine the cost of closing stock of Wallets at the end of each of the three years. It is all about determining the unit cost per wallet and multiplying it by the number of wallets available at the end of the year to determine the total cost of the closing budget. This is shown in the tables below for the three years.

The computation of this budget is quite complicated as it involves using some other budgets we earlier prepared. We will use budgets like the raw materials usage budget, cost of raw materials budget, the direct labour budget and the manufacturing overheads budget. Different costs are incurred in producing each unit, and we will need to assess the contribution of each cost element to the unit cost. We will assess the various cost elements: raw materials cost per unit, direct labour cost per unit, and overheads cost per unit.

Raw Materials Cost Per Unit

We need to determine the cost of raw materials per unit. To do this, we find the contribution of each raw material to the cost of the product. To determine the unit cost of leather for each year, we multiply the number of square units of leather used for each wallet from the raw materials usage budget, which is 20 square units, by the cost of each square unit of GH¢0.41 to get GH¢8.00 as the cost of leather per unit. This will follow suit for each year regarding the raw material, leather.

For thread, zipper and buttons, the same approach of determining the cost per unit is used. We multiply the number of units of thread, zipper and buttons used from the raw materials usage budget by the cost of each unit of raw materials in the cost of raw materials budget to get the cost of each raw material per unit.

Direct Labour Cost Per Unit

To determine the Direct Labour cost per unit, we go to the Direct Labour Budget, where we multiply the number of direct labour hours per unit by the labour cost per hour. Hence, for year one, for the direct labour cost per unit, we have 0.30 hours as the number of labour hours per unit multiplied by labour cost per hour of GH¢0.95 to get GH¢0.29. We will use this same method for each of the three years.

Overheads Cost Per Unit

We need to determine the variable overhead cost per unit for the overhead cost per unit and the fixed overhead cost per unit.

For the variable overheads cost per unit, multiply the direct labour hours per unit from the direct labour budget by the total variable overheads rate in the manufacturing overheads budget. For year one, the variable overheads cost per unit is determined by multiplying the direct labour hours per unit of 0.30 hours by the total variable overheads rate of 0.23 to get GH¢0.07. We should do the same for the remaining years.

The fixed overhead cost per unit is determined using the Direct Labour Budget. This is done by dividing each year's fixed manufacturing overheads by the total direct labour hours needed, including depreciation. For year one, from the manufacturing overheads budget, we have GH¢ 36,895 as the cost of fixed manufacturing overheads which we divide by the total direct labour hours for the year of 9,432 hours. The result of GH¢3.91 is the fixed overhead cost per unit.

The sum of the cost of the raw material per unit, direct labour cost per unit, variable overheads cost per unit, and the fixed overheads cost per unit will give us the total cost per unit of each wallet. We multiply the total cost per unit by the number of units remaining in closing stock from the production budget to determine the total value of the closing stock, which is sent to the Balance Sheet as a current asset.

Items	Year 1	Year 2	Year 3
Direct Materials			
Leather	8.00	8.20	8.41
Thread	3.60	3.69	3.78
Zipper	0.25	0.26	0.26
Button	0.15	0.15	0.16
Total Direct Materials Cost Per Unit	12.00	12.30	12.61
Direct Labour	0.29	0.30	0.31
Overheads			
Variable Overhead Per Unit	0.07	0.07	0.08
Fixed Overhead Per Unit	3.91	2.71	2.42
Total Overheads Cost Per Unit	3.98	2.78	2.49
Total Unit Cost	16.27	15.38	15.42
Units Of Closing Stock	12,600	18,259	21,295
Value Of Closing Stock	204,952	280,817	328,294

COST OF GOODS SOLD BUDGET

This budget determines the cost of raw materials, direct labour and manufacturing overheads incurred in production. Hence, we need information from the cost of raw materials budget, direct labour budget and manufacturing overheads budget, and the opening and closing stocks or inventory. Inventory consists of finished goods, raw materials, and goods in progress.

In our example, Best Wallets never has unfinished goods or goods-in-progress at the end of any business year. To determine the cost of goods sold, we sum the costs of raw materials, direct Labour and overheads to get the cost of goods manufactured. We then add the opening stocks of both finished goods and raw materials to get the Cost of Goods available for sale. The next is to deduct the closing stocks of finished goods and raw materials to get the cost of goods available for sale.

Item	Year 1	Year 2	Year 3
Raw Materials Cost	594,524	595,537	721,161
Direct Labor Cost	8,960	13,544	16,702
Factory Overheads	39,074	40,055	42,623
Cost Of Goods Manufactured	642,559	649,135	780,486
Add - Opening Stock of Finished Goods	0	204,952	280,817
Add - Opening Stock of Raw Materials	0	217,244	261,524
Cost Of Goods Available for Sale	642,559	1,071,331	1,322,827
Less - Closing Stock of Finished Goods	204,952	280,817	328,294
Less - Closing Stock of Raw Materials	217,244	261,524	319,068
Cost Of Goods Sold	220,363	528,990	675,465

The opening Stock of finished goods and raw materials equals the closing stocks of the previous year's finished goods and raw materials. From the closing stock budget in the last section, we determined the value of the closing stock of finished goods for each year which we transfer to the cost of goods sold budget as we have done in the table above.

Next, in determining the closing Stock of raw materials for each year, we go to the closing Stock of raw materials budget for the information. The cost of goods sold each year is sent to the income statement.

FIXED ASSETS BUDGET

To accurately determine the value of total assets in the business at the end of each year, we need to prepare the fixed assets budget, which will enable us to incorporate depreciation into the value of each fixed asset properly. Depreciation is the loss in value of fixed assets because of wear and tear emanating from continuous use. The budget, as shown below, is made up of different columns.

The first column lists the business's fixed assets, where fixed assets are those whose life span is more than a year. The market values of the assets, that is, the price at which they were bought, are listed in the next column and are the same throughout the three years.

The salvage value is how much we think the asset will be worth at the end of its useful life when it is disposed of. In the case of Best Wallets, all assets have zero salvage values. The useful life is the number of years that we will use the asset in the business, and the years are listed in the relevant columns below.

The annual depreciation is the value of each fixed asset lost at the end of each year. It is calculated by subtracting the asset's salvage value from the market value and dividing the difference by the useful life.

The accumulated depreciation is simply the total value of depreciation that has occurred on each asset as of that particular year. The accumulated depreciation for the second year is the sum of the depreciation for the first and second years, and it continues as such.

The difference between the accumulated depreciation and the market values of each fixed asset is the net market value. The net asset value is how much the asset is worth at the end of each year. In the balance sheet, we subtract the total accumulated depreciation for all the years from the total market values of all the fixed assets to get the net market values for all fixed assets for each year. You can also list the fixed assets individually with their respective market values and subtract their individual accumulated depreciation values to get the net market values of each asset on the balance sheet. This is, however, a longer process.

Year 1						
Fixed Asset	Market Value	Salvage Value	Useful Life	Annual Depreciation	Accumulated Depreciation	Net Market Value
Building	51,200	0	100	512	512	50,688
Factory Machinery	3,500	0	15	233	233	3,267
Office Equipment	400	0	8	50	50	350
Furniture And Fittings	1,500	0	12	125	125	1,375
Vehicles	8,750	0	10	875	875	7,875
Total	65,350			1,795	1,795	63,555

Year 2						
Fixed Asset	Market Value	Salvage Value	Useful Life	Annual Depreciation	Accumulated Depreciation	Net Market Value
Building	51,200	0	100	512	1,024	50,176
Factory Machinery	3,500	0	15	233	467	3,033
Office Equipment	400	0	8	50	100	300
Furniture And Fittings	1,500	0	12	125	250	1,250
Vehicles	8,750	0	10	875	1,750	7,000
Total	65,350			1,795	3,591	61,759

Year 3						
Fixed Asset	Market Value	Salvage Value	Useful Life	Annual Depreciation	Accumulated Depreciation	Net Market Value
Building	51,200	0	100	512	1,536	49,664
Factory Machinery	3,500	0	15	233	700	2,800
Office Equipment	400	0	8	50	150	250
Furniture And Fittings	1,500	0	12	125	375	1,125
Vehicles	8,750	0	10	875	2,625	6,125
Total	65,350			1,795	5,386	59,964

SELLING & ADMINISTRATIVE EXPENSES BUDGET

The Selling and Administrative expenses budget consist of all the budgets for the non-manufacturing aspects of the business, such as the sales, marketing, accounting and human resource. The budget can rival the size of the manufacturing overheads budget hence is worthy of much attention. Both selling and administrative expenses may be fixed or variable, just like the manufacturing overheads budget. Some of the variable expenses are sales commission which is paid per unit sold, and another is freight cost. Different selling and administrative expenses vary with different types of activities. Sales commissions vary with the number of units sold; wages vary with the number of employees and hours worked etc. It is essential to determine which expenses are variable and what they vary on.

Most of the selling expenses vary on the level of sales. For example, advertising expenses could be a percentage of annual sales, meaning that expenses on advertising will vary with the level of sales the business makes. There are some of these expenses that are fixed. Typical examples are bank charges, accounting fees and website expenses. Others like salaries vary according to the number of staff on the payroll. There are many interesting things to look out for in the selling and administrative budget. The first is that the quantity of sales for each year appears. Remember we mentioned that some of the variable expenses depend on the level of sales. In our case, all the selling expenses depend directly on the level of sales each year.

Variable amounts are charged on each unit sold to pay for the specific expense in the column. For instance, for sales commissions, in year one, GH¢ 0.0150 is charged on each unit sold. Thus, the total amount of money spent on sales commissions in that year is the number of units sold multiplied by the per-unit charge for that expense. The same thing happens in each subsequent year and for each selling expense dependent on the sales units. All the other expenses are fixed as they do not depend on other variables and are payable according to the suppliers' charges. They include fire insurance, product insurance, website expense, bank charges, and various depreciation charges. These are independent of the number of sales. Depreciation for the fixed assets is fixed year after year, as was shown in the fixed assets budget.

Unit Sales		30,000	45,000	53,100
Selling Expenses	Variable	Year 1	Year 2	Year 3
Sales Commissions	0.0150	450	675	797
Marketing Services	0.0100	300	450	531
Newspaper Advertising	0.0300	900	1,350	1,593
Radio Advertising	0.0600	1,800	2,700	3,186
Magazine Advertising	0.0080	240	360	425
Television Advertising	0.1000	3,000	4,500	5,310
Billboard Advertising	0.0200	600	900	1,062
Printing of Business Cards	0.0050	150	225	266
Brochure Printing	0.0120	360	540	637
Sponsorships	0.0350	1,050	1,575	1,859
Total Marketing Expenses	29.50%	8,850	13,275	15,665
Administrative Expenses	Variable	Year 1	Year 2	Year 3
Office Salaries	0.5500	16,500	24,750	29,205
Mandatory Employer Costs	0.0045	135	203	239
Office Supplies	0.0075	225	338	398
General Maintenance	0.0070	1,600	315	372
Electricity	0.0700	2,100	3,150	3,717
Fuel For Office Vehicles	0.1100	3,300	4,950	5,841
Telephone Expense	0.0200	600	900	1,062
Accounting Fees	0.0320	960	1,440	1,699
Internet Accounts Expense	0.0015	1,000	68	80
Miscellaneous Expenses	0.1000	3,000	4,500	5,310
Fire Insurance		210	214	218
Product Insurance		1,823	1,859	1,897
Web-site Expense		1,000	1,020	1,040
Bank Charges		500	510	520
Depreciation Of Office Equipment		50	50	50
Depreciation Of Furniture and Fittings		125	125	125
Depreciation Of Vehicles		875	875	875
Total Administrative Expenses	90.25%	34,003	45,266	52,648
Total Operating Expenses		42,853	58,541	68,313
Cash Disbursement		41,803	57,491	67,263

FORECASTED INCOME STATEMENT

The income statement shows the profits/losses of the business. It starts with the total sales from the sales budget. Unlike the cash flow budget, where only the actual amount of cash received is recorded, we record the total sales, including credit sales, from which we subtract the cost of goods sold (from the cost of goods sold budget) gross margin.

Operating expenses from the selling and administrative expenses budget are subtracted from the gross margin to get the income before interest and taxes. The tax rate for each year is 25%, and hence, tax expense for the year is subtracted. Additionally, the interest paid on loans each year is subtracted to get the net income after interest and taxes, from which dividends of 50% are paid to shareholders to leave us with retained earnings which are transferred to the balance sheet.

Items	Year 1	Year 2	Year 3
Total Sales	840,000	1,386,000	1,799,028
Less: Cost of Goods Sold	220,363	528,990	675,465
Gross Margin	619,637	857,010	1,123,563
Operating Expenses	42,853	58,541	68,313
Income Before Interest & Taxes	576,784	798,469	1,055,250
Less: Income Taxes (25%)	144,196	199,617	263,813
Interest Paid	52,500	52,500	52,500
Net Income After Interest & Taxes	380,088	546,351	738,938
Dividends Paid (50% Of Net Income)	190,044	273,176	369,469
Retained Earnings	190,044	273,176	369,469

FORECASTED CASH FLOW

The cash flow budget determines the amount of cash that comes into the business and the amount that leaves the business to determine the amount of cash available at the end of each year.

The cash inflows are the various sources of cash into the business and are made up of the opening cash balance (Loan) and cash from sales. In the first year, the opening cash balance is the cash that the business started with, and the opening cash balance for the subsequent years is the closing cash balance for each previous year. Cash from sales is from the sales budget and is a record of *the actual cash payments* made to the business by the customers over the year. Since the business operates a 30-day credit policy, the cash received will differ from the total sales recorded. The cash outflows are the various channels by which money leaves the business for various payments. In the first year, we took money out of business to buy fixed assets that we did not buy in subsequent years. We also bought raw materials for production, and this information is picked from the cash paid for raw materials budget. Since Best Wallets enjoys a 30-day credit from its suppliers, the actual payments made for raw materials will not be the same as the total value of raw materials bought.

Money is also expended on direct Labour, as was shown in the direct labour budget; hence we refer to that budget for information on these amounts. There is a record of the spent amounts in the manufacturing overheads budget. The amounts recorded here are without depreciation, as we explained earlier, because money is not taken out of the business to pay for it.

The cash flow budget also records operating (selling and administrative expenses). Like the overheads, we deduct depreciation from the total operating expenses to get the actual cash taken out of the business to pay for it.

Money is also spent on taxes paid to the tax authorities. However, the tax for each year is paid in the next year; hence, for the first year, the tax liability is paid in the second year, which accounts for the zero shown in the table. Information on the income tax payable is obtained from the income statement.

Dividends are money paid to the business's shareholders as their share of profits for the year. The number of dividends paid is also acquired from the Forecasted Income Statement.

Cash Inflows	Year 1	Year 2	Year 3
Opening Cash Balance	450,000	100,776	66,180
Cash From Sales	714,000	1,290,240	1,750,934
Total Cash Available	1,164,000	1,391,016	1,817,114
Cash Outflows:			
Fixed Assets	65,350	0	0
Payments For Raw Materials	516,238	594,620	711,724
Direct Labour Cost	8,960	13,544	16,702
Factory Overheads	38,329	39,309	41,878
Operating Expenses	41,803	57,491	67,263
Principal Paid	150,000	150,000	150,000
Interest Paid	52,500	52,500	52,500
Income Taxes	0	144,196	199,617
Dividends Paid	190,044	273,176	369,469
Total Disbursements	1,063,224	1,324,836	1,609,153
Closing Cash Balance	100,776	66,180	207,960

The sum of all cash outflows is the total cash disbursements. This is deducted from the total cash inflows to get the closing cash balance for each year which will also be the opening cash balance for the next year. The closing cash balance is sent to the balance sheet as a current asset.

FORECASTED BALANCE SHEET

The balance sheet is a statement of the business's financial position, and it shows the total value of assets and liabilities of the business and the amount of capital. The various budgets we have prepared for our manufacturing company, Best Wallets, culminate in this balance sheet. Hence, to know whether all the budgets you have prepared are 100% correct, your balance sheet should certainly balance.

A balance sheet is said to have balanced when the total value of assets equals the total liabilities and equity.

The first item is cash from the cash flow budget. The accounts receivable on sales is also from the accounts receivable budget, which we earlier prepared considering the 30-day credit. The amounts for closing stock of finished goods are also acquired from the closing stock budget. Added to the closing Stock of raw materials from the cost of raw materials budget, we have the total value of current assets for the three years.

The fixed assets are those assets whose lives span more than a year. From the fixed assets budget, we determined the market value of our fixed assets to be GH¢ 65,350. Because of depreciation, the actual value of our fixed assets diminishes year after year. Hence, we need to determine the actual value of our fixed assets at the end of each year by deducting the accumulated depreciation to get the Net Market Value of our fixed assets each year. The sum of current assets and the net market value of our fixed assets gives us the total value of assets in the business.

The first current liability item is the Accounts Payable, which the business owes its suppliers or creditors. The data for this item is from the accounts payable budget.

The next item is income taxes payable. Remember that in our cash flow budget, we stated that income taxes for a current year is deferred to the next year for payment, meaning that at the end of each current year, income taxes are a liability to the business, which we must record as such. The accounts payable and income taxes payable sum gives us the total current liabilities.

Long term liabilities are those debts of the business which span more than a year. A typical example is a long-term loan of GH¢450,000 contracted to be paid over three years.

The sum of the current and long-term liabilities will be the business's total liabilities value.

Capital refers to the resources invested into the business by the owners. The owners invested GH¢0.00 worth of capital in the first year but started the business with a loan from a bank. The value of capital changes every year through the profits or losses that the business makes. Profits increase the capital, whereas losses reduce it. The profits or losses are transferred from the income statement as retained earnings, which gives us equity or net worth when added to capital.

Items	Year 1	Year 2	Year 3
Current Assets			
Cash	100,776	66,180	207,960
Accounts Receivable on Sales	126,000	221,760	269,854
Closing Stock of Finished Goods	204,952	280,817	328,294
Closing Stock of Raw Materials	217,244	261,524	319,068
Total Current Assets	648,972	830,280	1,125,177
Total Fixed Assets	65,350	65,350	65,350
Less: Accumulated Depreciation	1,795	3,591	5,386
Net Market Value	63,555	61,759	59,964
Total Assets	712,527	892,040	1,185,141
Current Liabilities			
Accounts Payable	78,287	79,203	88,639
Income Taxes Payable	144,196	199,617	263,813
Total Current Liabilities	222,483	278,820	352,452
Long Term Liabilities	300,000	150,000	0
Total Liabilities	522,483	428,820	352,452
Capital	0	190,044	463,220
Retained Earnings	190,044	273,176	369,469
Total Equity/Net Worth	190,044	463,220	832,689
Total Liabilities & Equity	712,527	892,040	1,185,141

To know if your balance sheet is correct, the sum of total liabilities and equity or net worth must equal total assets for each year, as seen in the balance sheet below.

BREAK-EVEN ANALYSIS

Item	Year 1	Year 2	Year 3
Total Fixed Cost	42,853	58,541	68,313
Selling Price Per Unit	28	31	34
Cost Price Per Unit	16	15	15
Contribution Margin	12	15	18
Break Even Point	3,652	3,796	3,700
Sales (Break-Even Value)	102,257	116,927	125,351
Less Variable Expenses	59,404	58,385	57,038
Contribution Margin	42,853	58,541	68,313
Fixed Cost	42,853	58,541	68,313
Net Operating Income	0	0	0

RATIO ANALYSIS

Liquidity Ratios

Current Ratio	Year 1	Year 2	Year 3
Total Current Assets	648,972	830,280	1,125,177
Total Current Liabilities	222,483	278,820	352,452
Ratio	2.92	2.98	3.19

Quick/Acid Test Ratio	Year 1	Year 2	Year 3
Total Current Assets-Inventory	444,020	549,463	796,883
Total Current Liabilities	222,483	278,820	352,452
Ratio	2.00	1.97	2.26

Cash Ratio	Year 1	Year 2	Year 3
Cash	100,776	66,180	207,960
Current Liabilities	222,483	278,820	352,452
Ratio	0.45	0.24	0.59

Profitability Ratios

Profit Margin Ratio	Year 1	Year 2	Year 3
Net Income After Tax	380,088	546,351	738,938
Total Sales	840,000	1,386,000	1,799,028
Ratio	45.25%	39.42%	41.07%

Return on Total Assets	Year 1	Year 2	Year 3
Net Income After Tax	380,088	546,351	738,938
Total Assets	712,527	892,040	1,185,141
Ratio	53.34%	61.25%	62.35%

Return on Equity	Year 1	Year 2	Year 3
Net Income after Tax	380,088	546,351	738,938
Owners' Equity	190,044	463,220	832,689
Ratio	200.00%	117.95%	88.74%

Return On Capital Employed	Year 1	Year 2	Year 3
Net Income Before Taxes	576,784	798,469	1,055,250
Total Equity + Total Liabilities	712,527	892,040	1,185,141
Ratio	80.95%	89.51%	89.04%

Debt Ratios

Debt Ratio	Year 1	Year 2	Year 3
Total Liabilities	522,483	428,820	352,452
Total Assets	712,527	892,040	1,185,141
Ratio	73.33%	48.07%	29.74%

Equity Ratio	Year 1	Year 2	Year 3
Total Equity	190,044	463,220	832,689
Total Assets	712,527	892,040	1,185,141
Ratio	26.67%	51.93%	70.26%

Debt to Equity Ratio	Year 1	Year 2	Year 3
Total Liabilities	522,483	428,820	352,452
Total Owner's Equity	190,044	463,220	832,689
Ratio	2.75	0.93	0.42

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