

IMPROVE YOUR BUSINESSES

Planning For Your Business



**IMPROVE
YOUR BUSINESS**

PLANNING FOR YOUR BUSINESS

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About the Start and Improve Your Business (SIYB) Programme

The Start and Improve Your Business (SIYB) programme is a management-training programme developed by the International Labour Organization (ILO) with a focus on starting and improving small businesses as a strategy for creating more and better employment for women and men, particularly in emerging economies. With an estimated outreach in over 100 countries, it is one of the world's largest programmes in this field.

The programme has four inter-related packages - Generate Your Business Idea (GYB), Start Your Business (SYB), Improve Your Business (IYB) and Expand Your Business (EYB).

The ILO implements the programme using a three-tier structure comprising Master Trainers, Trainers and the end beneficiaries – potential and existing entrepreneurs. The Master Trainers licensed by the ILO are responsible for developing the capacity of the Trainers to effectively conduct SIYB training. Thereafter, the Trainers train entrepreneurs in SIYB packages. The ILO plays a critical role in identifying and disseminating best practices, carrying out trainings, monitoring activities, performing quality control and providing technical advice on the implementation of the SIYB programme.

About Improve Your Business (IYB)

Improve Your Business (IYB) is a management training programme for owners and managers of small enterprises who want to sustain their businesses, increase sales and reduce costs. It addresses the core question of how to improve the performance of your business.

IYB originates from a programme developed by the Swedish Employer's Confederation for local small and medium entrepreneurs. Later, the methods and materials were adapted by the ILO to meet the needs of people running small businesses in developing countries.

The IYB training programme is supported by a set of six manuals (marketing, costing, buying and stock control, record keeping, planning for your business, and people and productivity). These manuals can be taught individually or all combined in a full course. If the full course using all the manuals is delivered, the duration is approximately seven days. The IYB training uses an active, problem-centred learning approach to small business management through, for example, short cases and graphic illustrations.

The IYB Planning For Your Business manual explains how entrepreneurs can run their business more efficiently if they prepare plans for the different areas of operation.

Authors and acknowledgements

The IYB Planning For Your Business manual is a result of a collective effort and reflects the experience and knowledge gathered by implementing the programme for nearly three decades. In particular, the contributions of SIYB Master Trainers and Trainers who have tested, designed and implemented the programme in different countries over the years have been invaluable. There are many colleagues from the network of SIYB practitioners, consulting firms and in the ILO, whose experience, support and constructive suggestions made the publication of this training manual possible.

This manual is based on the materials originally developed in 1994 by the ILO SIYB Regional Project Office in Harare, Zimbabwe, where it was written and edited by Hakan Jarskog, Barbara Murray and Mats Borgenvall.

The author team of the 2015 version, which revised the existing text and wrote new chapters to include recent thinking in enterprise development and related fields comprises Duong Thi Kim Chung and Pranati Mehtha. Stylistic and language editing were carried out by Steve Raymond.

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INTRODUCTION

1. What is this manual about?

When you are running a business, it is easy to be overwhelmed by day-to-day problems and lose track of the bigger picture. However, successful businesses invest time in planning for the future. They prepare and then review plans and regularly monitor business performance. This manual will guide you through the process of making the right plans for your business.

2. Who should read this manual?

Planning For Your Business is one of the manuals in the Improve Your Business (IYB) series. It is useful for entrepreneurs who are running small enterprises and who wish to develop their businesses, increase sales and reduce costs.

3. Objectives of this manual

When you have completed this manual, you should be able to:

- Explain the benefits of business planning
- Describe the steps of making business plans
- Develop plans for your business
- Use the plans to improve your business

4. How to use this manual?

In this manual you will find:

- **Stories of businesses:** Compare these examples with your own business and use them to improve the performance and profitability of your business.
- **Activities:** Practical exercises in the middle of each part that help you to proactively think about the concepts and how to apply them to your own business.
- **Summary:** This is provided at the end of each part. Use it to review the key points.

- **Assessment:** This is provided at the end of each part. Answering the questions will help you to assess how well you understand the content presented in that part.
- **“Can You Help?”:** These are exercises at the end of the manual which will give you an opportunity to apply your new knowledge and skills in specific situations. By doing these exercises, you will find out how much you have learned from the whole manual.
- **Action Plan:** Fill in and use the Action Plan near the end of the manual. This will help you to put your new knowledge into practice.
- **Answers:** Answers to Assessments and “Can You Help?” exercises are given at the end of the manual. Finish each exercise before you look at the answer.
- **Useful Business Words:** You can look up the meaning of business words that you do not understand. This part is at the end of the manual.
- **Important notes:** Each of these notes has important information. Use this information to the best of your ability. You can find these notes in the middle of different parts of the manual.

Several icons are used within the manual to help guide your study. Examples of the icons and their meanings are listed below:



When you see this icon, you have activities to do or questions to answer.



When you see this icon, you find an answer for your activities and assessments here.



When you see this icon, it signifies that the information in this part is extremely important.



When you see this icon, you have to complete assessments that help you measure what you have learned.



When you see this icon, you will know you have just completed one part and the important ideas that were presented are being summarized here.



When you see this icon, it tells you where to find more information or what to do.

PLANNING FOR THE FUTURE

1. What is planning?

Planning means thinking about and organizing the activities required to achieve a desired goal. For your business, planning means thinking about and working out what to do in the future to improve your business. For example, before you buy goods or raw materials, you think about:

- What goods or materials do you need?
- How much do you need?
- Where to buy the goods or materials?
- How much will the goods or materials cost?
- When do you need the goods or materials?

Before you start preparing plans for your business, you need to know how well your business has been performing; for example, what have your sales, marketing, costs, business capacity and profit been in the past. This is called **Business Analysis**. You can analyse your business by using the information in your Basic Record Book. You will learn how to do a Business Analysis on page 15. You also need to forecast changes in the external environment that may impact your business and identify risks to which your business is exposed.



2. Is planning necessary?

Some business people do not make plans. They do not think ahead to prevent problems. They do not know how well their business will perform in the future. Look at what happened to their businesses:



What went wrong at *Danda Music and Video Shop*?

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.....
.....

How could planning have helped Danda?

.....
.....
.....

Did *Convenient Grocery* get a loan from the bank?

.....
.....
.....

How could planning have helped Fatuma?

.....
.....
.....

Your answers may be similar to the answers below:

Danda Music and Video Shop did not make a profit because costs were too high. If Danda had made a plan, she would have thought about the future and would have known that her costs would be high. She could have done something about it before her business started to lose money.

Convenient Grocery did not get a loan from the bank. A plan would have helped Fatuma to show the bank manager what sales, costs and profit *Convenient Grocery* expects next year. The bank must know what profit a business is likely to have in the future before it can think about giving a loan.

Here are two more businesses which did not plan ahead. Look what happened to these businesses:



What went wrong at *Tasty Bread*?

.....

.....

.....

How could planning have helped Murray at *Tasty Bread*?

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What went wrong at *Plastic Solutions*?

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How could planning have helped Juma at *Plastic Solutions*?

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.....

You may agree that:

Many people do not want to buy large loaves of bread. They want to buy buns, rolls and other types of bread. So sales of loaves are low at *Tasty Bread*. If Murray at *Tasty Bread* had been aware of the changing need of customers and had made a plan to satisfy the need, he could have made buns too and *Tasty Bread* would have had more sales.

Plastic Solutions did not have enough cash to buy raw materials after purchasing the laptop. Planning would have helped Juma to know if she absolutely needed to make that purchase and whether she had enough cash to make the purchase.

3. How can planning improve your business?

Plans provide your business with quality information that helps you to make good business decisions and to monitor the performance of the business.

- If your business is performing well, planning can help you to do even better in the future.
- If your business is not performing well and has some problems, planning can help you to solve problems. Planning can help you to predict problems before they arise, so that you can act to prevent them.

These are four important reasons why you should make a business plan:

1. A plan shows you if your business can expect to make a profit in the future.



Make a plan to see whether the projected sales are sufficient and the costs are low enough so that you can make a profit.

2. A plan shows you which part of your business you can improve.



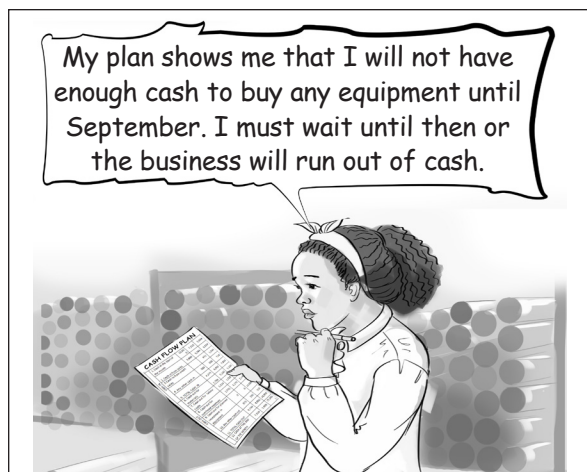
To work out an effective plan, you have to think carefully about everything that affects your business.

3. A plan shows others how well your business can expect to do in the future.



Make a plan to show the bank when you apply for a loan.

4. A proper plan shows you how much money will come into and go out of your business.



Make a plan so that your business does not run out of cash.



What is your business?

.....

.....

.....

Does your business have any problems?

.....

.....

.....

How could proper planning help to solve the problems at your business?

.....

.....

.....

4. Useful plans

This manual shows you how to make five kinds of plans that are useful for your business:

4.1 Sales and Marketing Plan

Sales and marketing are closely related. Your marketing activities definitely influence the sales of your business. Therefore, small businesses often pair up their Sales and Marketing Plan. In a Sales and Marketing Plan you make a forecast of activities your business will do next year with its seven “P”s: **Product, Price, Place, Promotion, People, Process, Physical Evidence**. You also make a forecast of the amount of sales you expect to have for each month of the following year. This plan helps your business to meet customers’ needs by providing the right goods or services at a price that customers will pay.

4.2 Production and Cost Plan

A major part of most business costs are incurred in the production process. How many items your business will produce and what raw materials your business will use both affect your costs. Therefore, the Production Plan and Cost Plan are often combined. In a Production and Cost Plan, you propose improvements in production and forecast your costs for each month of the following year. This plan helps your business to work out cost-effective ways of making goods or providing services.

4.3 Profit Plan

In a Profit Plan, you make a forecast of your Gross and Net Profits for each month of the following year. This helps you plan how your business will make a profit.

4.4 Cash Flow Plan

The Cash Flow Plan is a forecast of how much cash you expect to come into your business and how much cash you expect to go out of your business each month. This plan helps you to make sure your business does not run out of cash at any given time.

4.5 Loan Access Plan

In a Loan Access Plan, you make a forecast of how much your business may need to borrow, when it is needed and who you can approach for the loan. This plan enables your business to access good sources of funding.

5. Tips for making a plan

When you make plans for your business, remember:

- **Make your plans as simple as possible.** Then they are easy to understand and use.



- **Choose the most suitable period for your plans.** You can make your plans for three months, one year, five years or for whatever period is best for your business.



- **Divide your plans into months.** Except for the Loan Access Plan, the plans should be divided into months. In your Basic Record Book you divided your records into months. When you divide your plans into months, you can compare your records with your plans each month. Then you can see if your business is proceeding according to your plan.



- **Make your plans before you need to use them.** Do not wait until one plan is finished before you begin preparing the next plan.



- **Make inquiries and use the information gathered to make your plans.** For example, when you forecast the cost of materials or goods, ask your supplier about next year's prices. Do not guess!



- **Keep your plans updated.** Things may change that could make your plans no longer valid. For example, costs of raw materials may increase, while customers' demand may decrease, affecting your sales, costs and profit plans. Review your plans regularly and update them when there is a change that affects them.



SUMMARY



Planning means thinking about and organizing the activities required to achieve a desired goal. For your business, planning means thinking about and working out what to do in the future to improve your business.

Before you start preparing plans for your business, you need to know how well your business has performed previously. What have your sales, marketing, production, costs and profit been in the past? This is called a **Business Analysis**. You will also need to forecast changes in the external environment and then you can take steps to improve your business by managing risks, increasing sales, cutting costs and improving profit.

Four important reasons to make a plan for your business:

- It tells you if your business can expect to make a profit in the future.
- It shows you which part of your business you can improve.
- It shows the bank how well your business can expect to perform in the future.
- It shows you how much money you can expect to come into and go out of your business.

Planning will provide your business with quality information that helps you to make good business decisions and to monitor the performance of the business. The following five plans are useful for your business:

- Sales and Marketing Plan
- Production and Cost Plan
- Profit Plan
- Cash Flow Plan
- Loan Access Plan

A **Sales and Marketing Plan** helps your business understand and meet customers' demand. A **Production and Cost Plan** helps your business devise cost-effective ways of making goods or services. A **Profit Plan** helps your business plan how to make a profit. A **Cash Flow Plan** helps your business to make sure that you do not run out of cash at any time. A **Loan Access Plan** enables your business get access to good funding sources.

When you make plans:

- Make them simple
- Choose the most suitable period
- Divide them into months
- Make them before you need to use them
- Make inquiries and use the information gathered
- Keep them updated



ASSESSMENT 1

You have just completed Part I of this manual. Do the two exercises below to check your understanding. Finish the exercises before comparing your answers with those on page 97.

1. Practise your business language

Complete each sentence by choosing the right word or words from the list below:

Planning	Sales and Marketing Plan	Production and Cost Plan
Cash Flow Plan	Profit Plan	Loan Access Plan

1. Thinking and working out what to do about something before it happens is called
2. When you make a forecast of how much money your business will need to borrow, when it is needed and who you will approach for it, you are making a
3. A helps your business to work out cost-effective ways of making goods or services.

-
4. In a you make a forecast of your Gross and Net Profit for each month.
 5. A helps you to make sure your business does not run out of cash at any time.
 6. When you make a forecast of the price your customers will accept to pay and the new product feature your customers will want, you are making a

2. Which one is correct?

Circle the correct or best ending for each sentence.

1. Planning is necessary...
 - a. for very large businesses only.
 - b. for large and small businesses.
 - c. for retailers only.
2. Making a plan will...
 - a. force you to think about every part of your business.
 - b. help you work out how much your business is worth.
 - c. enable you to calculate the exact profit your business is going to make next year.
3. The most suitable period for your plans is...
 - a. three months.
 - b. one year.
 - c. whatever period that suits your business.
4. Your plans should be divided into...
 - a. months.
 - b. quarters.
 - c. a whole year.
5. When you have worked out your plans...
 - a. strictly follow the plans.
 - b. keep them in a safe place.
 - c. review and update them regularly.

DOING A BUSINESS ANALYSIS



Before you can make plans for your business, you must know how your business did in the past. You do this by using your business records. This is called a **Business Analysis**. Without past data, entrepreneurs have to make plans based on their intuition.

Juma is a manufacturer who runs *Plastic Solutions*, which produces plastic poles out of recycled plastic. Chris runs a retail shop. They are discussing the process of planning.



The purpose of a Business Analysis is to identify areas in which your business was not doing well, the areas where it was doing well and how it can further improve.

Your Basic Record Book is the most important source of records for analysing your business. There are three important analyses:

- Sales and Marketing analysis
- Production and Cost analysis
- Profit analysis



Learn more about the Basic Record Book and how to keep records in the IYB RECORD KEEPING MANUAL.

To analyse your business, you should follow these three steps:

Step 1

Get past data

Step 2

Compare your records

Step 3

Find reasons

1. Analyse your sales and marketing

Analyse your sales by comparing monthly and yearly sales to see if sales were rising or falling. Analyse your marketing activities to find the reason behind the fluctuations. Accordingly, you can plan to increase your sales and improve your business.

1.1 Get past data

Use your Basic Record Book to find out how much sales your business made each month last year and each month this year. If the data for this December is not available yet, make your best estimation.

Juma looked at her Basic Record Book and found the information on monthly sales. She made her best estimation for December sales figure. She, then, added up all the monthly sales to get the total yearly sales. Below is the sales data for her poles:

	<i>November this year</i>	<i>December this year</i>	<i>December last year</i>	<i>Total this year</i>	<i>Total last year</i>
Sales value (\$)	8,650	9,200	10,971	80,950	66,815

1.2 Compare your records

Compare your monthly and yearly sales to find out if there is a change. Are your sales rising or falling?

Chris, I see that this year my sales for December are higher than those for November. But compared with December last year, my sales for the month are much lower, even though the total sales this year are higher. I wonder why?



1.3 Find reasons

It is important to understand the reasons for changes.

Juma and Chris discussed the issue and decided that the reason her December sales were higher was that many people want to renovate their homes in December so they buy poles for their construction projects. That was the reason that, every year, her December sales were higher than November sales. But she is still not clear why sales for December this year were lower than for December last year, even though her overall sales were better this year.

Some changes are more difficult to understand. You may need to think carefully about your marketing activities this year. Remember the seven “P”s of marketing: Product, Price, Place, Promotion, People, Process and Physical Evidence.

Look at each ‘P’ one by one and try to think of reasons why sales may be falling.

Here are some questions to ask yourself when you analyse your amounts:

Product

- Did we sell the goods or services our customers wanted?
- Which products sold well? Why?
- Which products did not sell? Why?

Price

- How were our prices this year compared to last year?
- Were our customers willing to pay the prices we set?

Place

- Is my business in a good place?
- Did we sell our goods or services directly to our customers?
- Did we sell to retailers or wholesalers? Did this increase our sales?

Promotion

- How did we promote our goods or services this year?
- Did we use advertising and sales promotion?
- Did we get any publicity?
- Did I improve my skills as a salesperson?
- Which type of promotion produced the highest sales and best profit for my business?

People

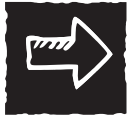
- Are my employees adequately trained and motivated?
- Did I deploy my employees in the best way?
- Are my employees adequately remunerated?
- Did we have enough sales staff?

Physical Evidence

- Does our good or service have good appeal?
- Are our services or goods giving our customers the best possible experience?
- Are our offices/distribution points appealing and clean?
- What other visual elements do we need?

Process

- Is it easy for our customers to access our goods and services?
- Are our processes efficient and timely?



The IYB MARKETING MANUAL tells you more about how to understand and satisfy your customers and how to increase your sales.



Now Juma understands some of the reasons for the changes in her sales:

- We raised our price by 10% this year due to the increase in the price of raw materials.
- Sometimes we did not have enough goods to sell due to machine breakdowns. We could have sold more if we always had goods available for sale.
- We had no promotion in December this year; therefore our sales this December were lower than last December.



If your business sells different goods or services, you may need to analyse the sales and marketing activities of each product separately.





ACTIVITY 2

Are sales in your business rising or falling? Why?

.....

.....

.....

.....

2. Analyse your production and costs

A change in your costs can be an important indicator of the efficiency of your production or operation. Analyse your costs by comparing monthly and yearly costs to see if they were lower or higher. Then analyse your production to find out the reasons for the variations.

In addition to the cost analysis, an investigation of quality issues, an analysis of variations in production quantity or an analysis of sales can also reveal whether your business has been performing well and what needs to be improved.

To analyse production and costs, Chris and Juma used the same steps as they did for analysing sales and marketing.

2.1 Get past data

Get information about all your business costs each month this year and last year from your Basic Record Book. Again, make your best estimation if some information is not yet available. If you are a multiple products manufacturer or service operator, you may need to get data about the costs for each product from your Detailed Cost Record.

You can work out the number of items produced each month using data in your Basic Record Book. However, data relating to product quality may be harder to find. You can measure defection rates by maintaining a production log book which includes important details of your daily production and operation or you can collect customers' feedback on product quality.



Learn more about the Detailed Cost Record and how to keep records in the IYB RECORD KEEPING MANUAL.

Juma got the monthly cost data from her Basic Record Book. She added up all the monthly figures to determine the yearly cost.

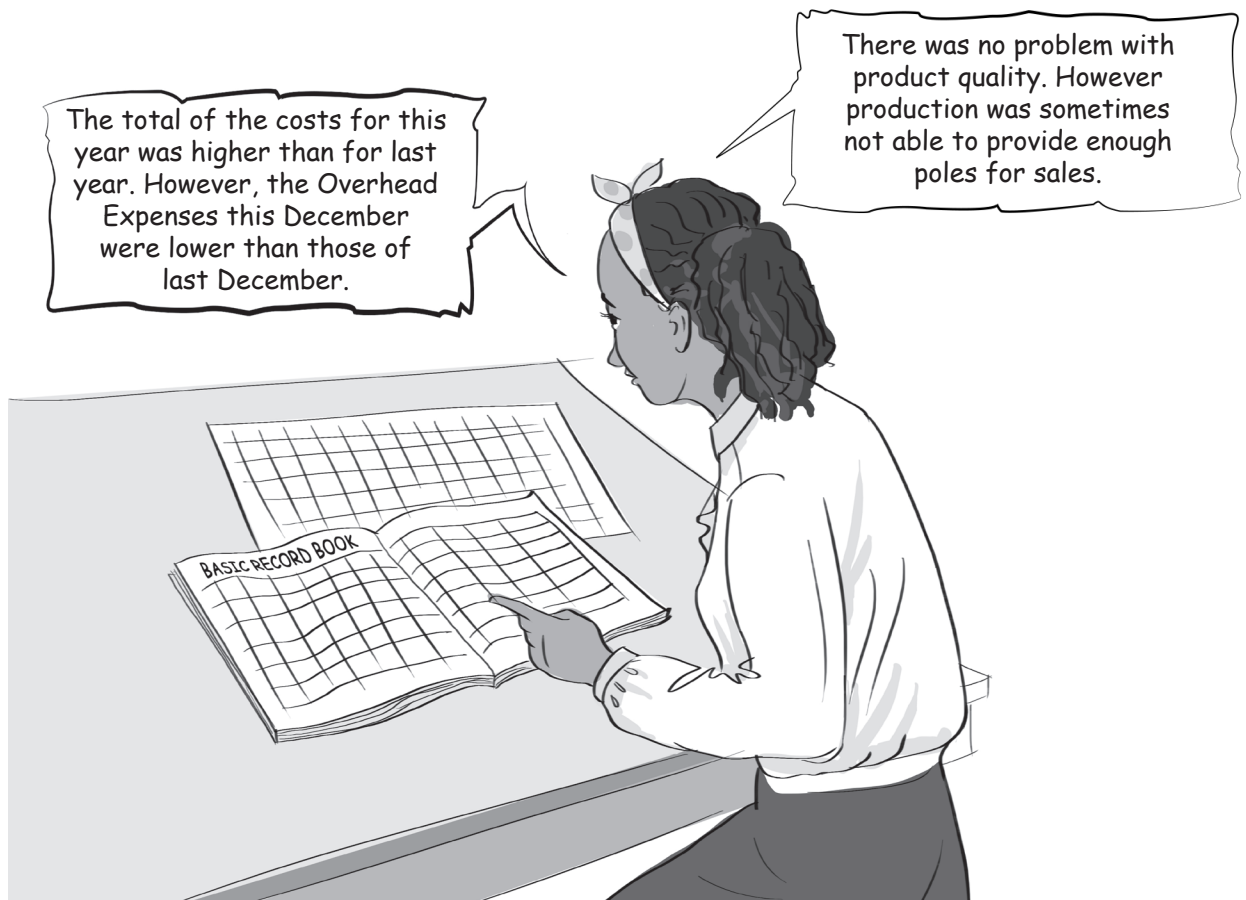
COSTS	November this year	December this year	December last year	Total this year	Total last year
Material Costs (\$)	4,800	5,400	4,640	48,615	33,698
Labour Costs (\$)	900	900	850	10,800	10,200
Overhead Expenses (\$)	2,150	2,170	2,410	25,440	17,560

The number of items she produced was as follows:

	November this year	December this year	December last year	Total this year	Total last year
Production quantity	300	360	400	3,240	2,900

2.2 Compare your records

Compare your figures to find out if there is a change of costs, production quantity or product quality.



2.3 Find reasons

An increase in the total cost is not necessarily bad and a reduction in total costs might not always be good. You must analyse each type of cost as well as the whole production process and find out why the cost was higher or lower.

Similarly, a reduction in monthly production quantity is not necessarily a production problem. You must examine the situation carefully to find the root cause.

Here are some examples of questions to ask yourself:

- How much did my business produce?
- Is the production capacity of my business appropriate?
- Did I make good use of all the space I rented?
- Did I waste or save material?
- Did material prices increase or decrease? Were my employees fully occupied?
- Was my production process effective?
- Were my employees adequately skilled and motivated?

Juma and Chris analysed the Basic Record Book closely to find out the reasons for the changes in *Plastic Solutions'* costs. Here are some examples of what they found:

Material Costs were much higher this year than last year. That seems bad. But Juma knew that production this year were higher than last year. The more products you produce, the more raw materials you need. So there may be a good reason for the increase in Material Costs. To check this, Juma compared the **Material Cost per item** for the two years:

	<i>This year</i>	<i>Last year</i>
Material Cost per item (\$)	15	11.6

The Material Cost per item this year was much higher than last year. Juma found that the reasons for the increase were twofold. The price of the raw materials had increased and more material was consumed when the machines broke down.

Labour Costs were rising as compared to last year. Juma did not recruit more workers, but she decided to increase the workers' salary because their productivity had improved. Juma compared the **Labour Cost per item** to see if the increase in the Labour Costs negatively influenced her profit margin.

	<i>This year</i>	<i>Last year</i>
Labour Cost per item (\$)	3.3	3.5

Labour Cost per item had fallen this year. Juma knows that her workers were more skilful, so their productivity was higher. However, Juma knows that there were still a lot of downtimes in production as a result of machine breakdowns that made Labour Cost per item higher.

Overhead Expenses had increased significantly this year. Juma recruited two sales staff and their wages were the reason for the higher Overhead Expenses.

However, Overhead Expenses last December were higher than this December. Juma paid for promotional activities last December, but she did not do promotions this year. The very high sales in December last year as a result of the promotional activities were worth the higher Overhead Expenses.



Learn more about the way to work out cost per item in the IYB COSTING MANUAL.

Production quantity this year was higher than last year. However, due to machine breakdown, there were not enough poles for sales in August and December. *Plastic Solutions* did not want to keep a stock of finished goods. But in September and October, sales were lower than expected and Juma had to stock finished goods. This stock enabled her to partly meet high sales demands for November and December where production was low.



ACTIVITY 3

Are costs in your business rising or falling? Which costs are rising or falling? Why?

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3. Analyse your profit

Your business needs to cover its costs and make a profit for it to survive and grow. Your Gross Profit is the amount of money left after you have subtracted your Material and Labour Costs from the money received from sales. The Net Profit is the amount of money left after you have subtracted Overhead Expenses from the Gross Profit. The Net Profit shows you the total result of your business. It tells you how well or how badly your business is performing.



Learn more about calculating your Gross Profit and Net Profit in the IYB RECORD KEEPING MANUAL.

Analyse your profit by using the same steps you used for analysing sales and costs.

3.1 Get past data

Get the profit data of recent years from your business' Profit and Loss Statements. Use the information from your Basic Record Book to make Profit and Loss Statements if you have not created them.



Learn how to create a Profit and Loss Statement in the IYB RECORD KEEPING MANUAL.

These are Juma's Profit and Loss Statements for the previous three years.

Profit and Loss Statement		Profit and Loss Statement		Profit and Loss Statement	
1/1/13 - 31/12/13		1/1/12		1/1/11	
Sales.....	\$80,950	.....\$66,815	.....\$57,500	.....\$29,168	
Material Costs.....	\$48,615	.....\$33,698	.....\$9,720		
Labour Costs.....	\$10,800	.....\$10,200	.....\$18,612		
Gross Profit.....	\$21,535	.....\$22,917	.....\$16,520		
Overhead Expenses.....	\$25,440	.....\$17,560	.....\$ 2,092		
Net Profit.....	(\$ 3,905)	.....\$ 5,357			

3.2 Compare your records

Compare your Gross Profit to examine the effectiveness of your production process. Your Gross Profit can be very low even if your sales are high because of your high Material and Labour Costs.

Compare your Net Profit to find out if the Net Profit is higher or lower than before. You may have a very high Gross Profit, but if your Overhead Expenses are also high, you can end up with a very low Net Profit or even a loss!

Juma's profit trend was:

	<i>This year</i>	<i>Last year</i>	<i>The year before last year</i>
Gross Profit (\$)	21,535	22,917	18,612
Net Profit (\$)	(3,905)	5,357	2,092

From the Profit and Loss Statements, Chris and Juma can see that the Net Profit was negative this year. This is shown by writing the figures within brackets. It means that *Plastic Solutions* made a loss, even though its Gross Profit was just a little bit lower than for the previous year. They also found out that sales for this year were much higher than for last year. So the Gross Profit and Net Profit this year should be higher than for last year, but they are not. Juma must find out why.

3.3 Find reasons

Why is *Plastic Solutions'* Gross Profit for this year lower than that of last year when the sales for this year were much higher than for last year?

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Why is *Plastic Solutions'* Net Profit this year negative although its Gross Profit this year is higher than that of two years prior when the business made a profit?

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You may have noticed from *Plastic Solutions'* Profit and Loss Statements over the last three years that the Material Costs this year were very high. Though sales have risen this year, the increase in sales was not as great as the increase in costs. This was the reason for the lower Gross Profit.

Negative Net Profit means that the Gross Profit is not enough to cover Overhead Expenses. At *Plastic Solutions*, Overhead Expenses were much higher this year as compared to the previous two years. This was the reason for a negative Net Profit.

Once you have done your Business Analysis you need to forecast changes in the external environment and develop plans for the following year.



SUMMARY

Before you can make plans for your business, you must know how your business did in the past. Use your records to analyse:

- Your sales and marketing
- Your production and costs
- Your profit

When you do a Business Analysis, you can follow these steps:

Step 1

Get past data

Step 2

Compare your records

Step 3

Find reasons

Get past data from your Basic Record Book. Compare and analyse your sales and costs. Find out:

- If sales are rising or falling and why?
- Which costs were higher and why?
- Which costs were lower and why?

Study your Profit and Loss Statements. Compare and analyse your profit. Find your profit trend and analyse why it is rising or falling.



ASSESSMENT 2

You have just completed Part II of this manual. Try the exercise below to check your understanding. Finish the exercise before comparing your answers with those on page 97.

Which one is correct?

Circle the correct or best ending for each sentence.

1. To do a Business Analysis, you need...
 - a. lots of cash.
 - b. credit sales.
 - c. information from your records.

2. To find out the reasons for changes in your sales, you should...

- a. carefully study your past sales figures.
- b. analyse the effect of your marketing this year.
- c. ask your customers.

3. To find out if a change in your cost is good or bad, you should...

- a. compare the cost per item.
- b. look at your sales as the cost is always proportional to sales.
- c. cost increases are always bad.

4. The purpose of a Business Analysis is...

- a. to make plans for improvement.
- b. to understand how your business performed in the past.
- c. both of the above are correct.

5. When doing a Business Analysis, you use...

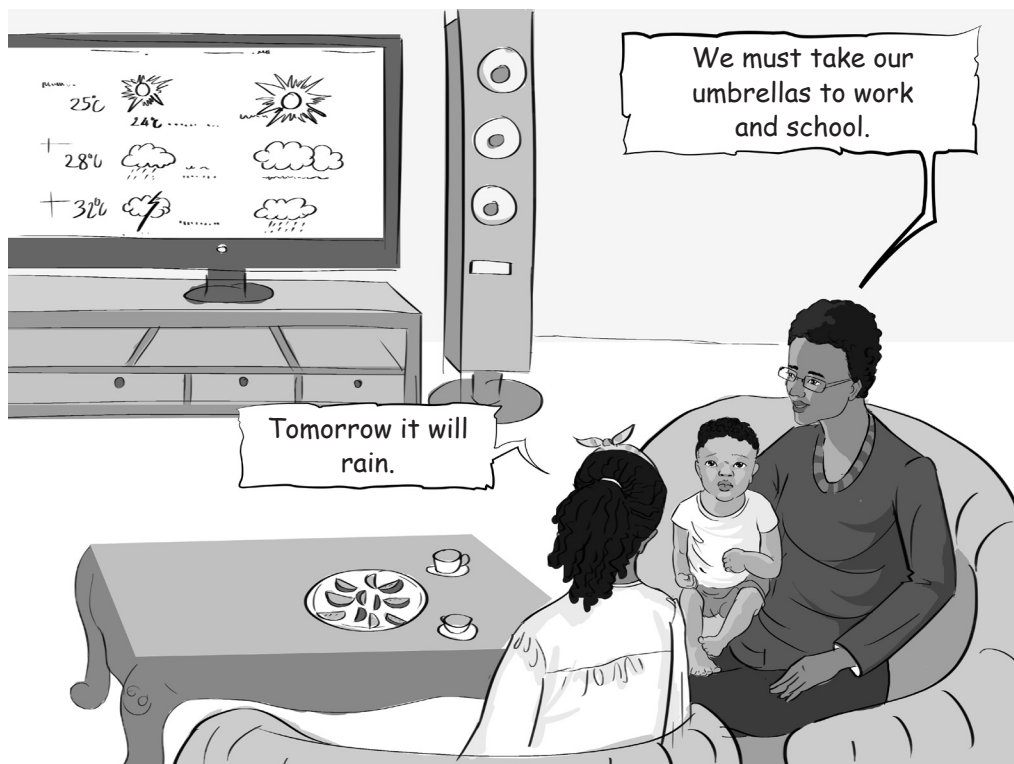
- a. your business records from last year.
- b. your business records from this year.
- c. your past records.

FORECASTING CHANGES IN THE EXTERNAL ENVIRONMENT

Your business does not stand alone. It is operating in a market. Therefore, to ensure that your improvement plans are feasible, you must understand external factors as well. For entrepreneurs, it is important to know not only what happened but also what is likely to happen in the market. It means you need to forecast changes in the external environment that may affect your business.

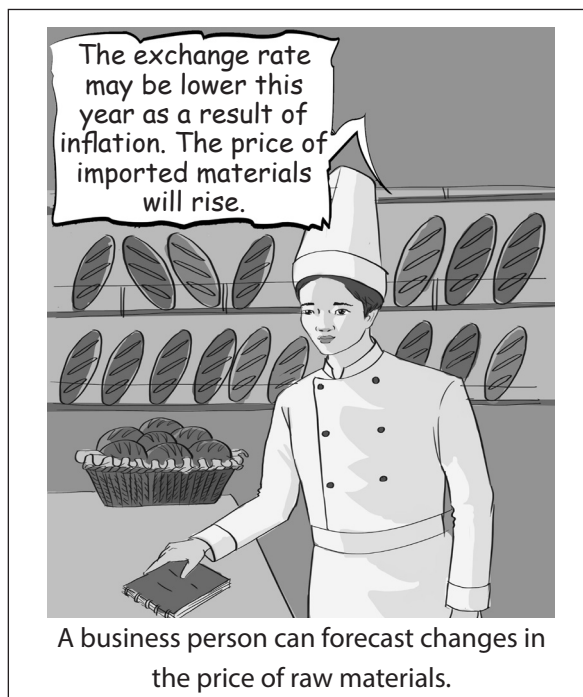
1. What is a forecast?

A **forecast** is your prediction of what will happen to your business in the future. When you know what is likely to happen you can plan ahead. For example, a weather forecast on the radio or television tells you what the weather is likely to be on the next day so that you can get ready.



When you make plans for your business you should anticipate the changes that are likely to occur in the external environment and how they will affect your business. You may want to estimate how the changes will impact your marketing, sales, production process, costs, profit and cash flow in the future. Or you may even want to reassess your business' strengths and weaknesses and identify new opportunities and threats.

Look at how these business people think ahead and make forecasts.



2. Changes that may impact your sales and marketing

Think about the environment in which your business is operating and consider anything that will affect your sales and marketing.

What changes in the external environment may affect the sales and marketing of businesses?

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There are many changes in the external environment that may affect the sales and marketing of a business. Below are some examples:

- **Customers:** Changes in demand of customers. The behaviour of the consumers will definitely have an impact on the number of products a business can sell. Changes in customers' demand require appropriate marketing responses, such as improving or renewing current products, changing distribution channels, etc.
- **Competitors:** If competition becomes fiercer, a business may have to reduce the price of its products or run more promotions.
- **Alternative products:** If there is a new alternative product in the market, customers will have more options and it is possible that a business that sells only the old product will lose a certain number of customers.
- **Economy:** When the economy is expanding, customers are willing to spend more money; and when the economy is in a recession, customers will spend less.
- **Regulations and policies:** New regulations and policies that impact customers' buying behaviours, such as import taxes or value added taxes will increase the cost, which will then affect the demand for that good or service.

You will learn from experience about changes that affect the sales and marketing of your business. The more experience you accumulate, the better forecast you will make. To be able to forecast the above changes, constantly ask yourself these questions:



Here are some of Juma's forecasts about changes in the external environment that may affect *Plastic Solutions'* sales and marketing:

- Customers are more concerned about the environment. They prefer environmentally friendly products and will be willing to pay a little bit more for those products.
- The economy is doing well and stable.
- There are plenty of alternative products with a lower price.



ACTIVITY 4

Have you foreseen any changes in the external environment that may affect the sales and marketing of your business next year? What are they?

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3. Changes that may impact your production and costs

Think about the environment in which your business is operating, plus think of anything that will affect your future production and costs.

What changes in the external environment may affect the production and costs of a business?

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You may have listed many changes based on your personal experience. Below are some examples of changes in the external environment that affect the production and costs of a business that you may not have considered:

- **Supply of raw materials:** If something such as bad weather leads to a shortage of the raw material that a business uses, it will possibly lead to an interruption in the production of the product and the price of that material will increase.
- **New technologies:** Things such as new materials, advanced production processes and new waste management methods often help businesses reduce the costs of production, improve productivity and increase product quality.

- **Skills supply issues for product ranges:** If workers with the skills needed for a business become scarce, the business may find it difficult to recruit enough people and may have to pay more to get the people who have the proper skills.
- **Economy:** Inflation, fluctuation in exchange rates or an economic crisis will impact all business costs.
- **Regulations and policies:** New government policies, such as environmental protection laws, waste management requirements or regulations concerning employee benefits and insurance may affect the production and operation of businesses and increase costs.

If these changes occur, forecast how the changes will impact your production as well as each of your business costs and then ask yourself the following questions:



“

When answering these questions, remember to be realistic. Make sure you base your answer on facts, not on wishes and dreams.

”



Juma forecasted changes that may affect *Plastic Solutions'* production and costs as follows:

- The price of raw materials increased significantly this year. However, the prices will not fluctuate next year, as the forecast for the economy is stable.
- The government is offering incentives for industrial complexes in order to encourage entrepreneurship. I will take advantage of this scheme and negotiate lower rates with my estate agent.



ACTIVITY 5

Have you foreseen any changes in the external environment that may affect the production and costs in your business next year? What are they?

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Your business depends on opportunities in the economic environment, the political environment, the social environment and the technological environment. However, these environments also present threats that bring the element of risk to the business. In the next part we will examine how to identify and manage risks.



A **forecast** tells you what is likely to happen in the future.

Changes in the external environment do impact your business. To plan for the future you have to forecast changes in the external environment, watch for likely changes that may affect your business and estimate their impact on your business.

Some examples of change that may affect the sales and marketing of your business are:

- Customers' demand
- Competitors' actions
- Alternative products
- Changes in the economy
- New regulations and policies

Some examples of changes that may affect the production and costs process of your business are:

- Supply of raw materials and skilled labour
- New technologies
- Changes in the economy
- New regulations and policies



ASSESSMENT 3

You have just completed Part III of this manual. Try the exercise below to check your understanding. Finish the exercise before comparing your answers with those on page 97.

Which one is correct?

Circle the correct or best ending for each sentence.

1. A forecast tells you...
 - a. what is likely to happen in the future.
 - b. what profit you made last year.
 - c. about the past.

2. When you forecast changes in the external environment...
 - a. focus on big changes.
 - b. focus on changes that may affect your business.
 - c. try to identify all possible changes.

3. You should base your forecast on...
 - a. your wish.
 - b. your past records.
 - c. facts.

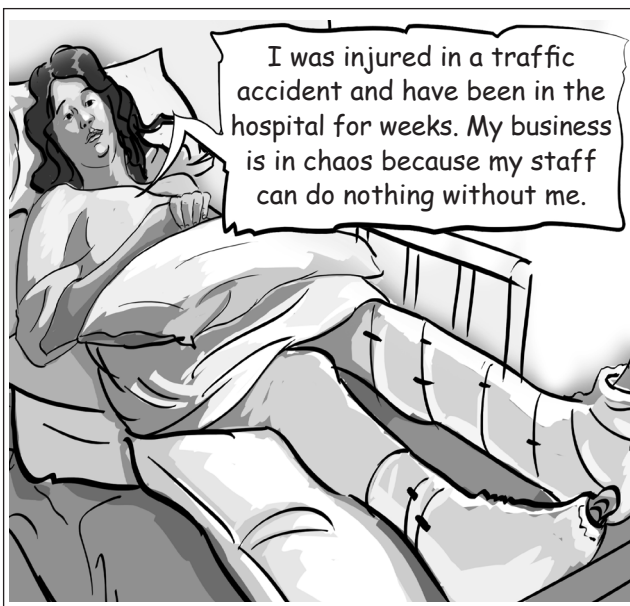
MANAGING RISK

Every business operates under a lot of uncertainties. When you understand your business and the external environment within which it operates, you are better equipped to identify uncertainties.

Uncertainties may occur in the overall business operation processes, from input supplies, to processing and marketing. Therefore, owners and managers of businesses should be aware of the possible uncertainties and be prepared to manage them before making specific plans for the future.

1. What is risk?

Risk is the possibility of your business suffering a loss due to unexpected events. Following are some examples of unexpected incidents that affected the businesses:





Risk can arise from within the business or from the external environment. Risks that arise from within the business are called **internal risks**. Some examples of internal risks are property damage, fraud, accidents and employee turnover. Risks that arise from the external environment are called **external risks**. Some examples of external risks are supply shortages, exchange rate fluctuation, bad debts, new regulations and natural disasters.

2. What is Risk Management?

Risk Management is the process of identifying risks to which your business is exposed and developing strategies for reducing the impact of the risk on your business. Risk Management safeguards should be a strategic driver of the business and be embedded in the overall day-to-day management.

The objective of Risk Management is not to prevent or prohibit risk taking. It is to ensure that risks are consciously taken with a complete knowledge and clear understanding of the consequences so that appropriate responses can be made.

3. Stages in the Risk Management process

Risk Management process includes the following four steps:

Step 1: Identify the risks to which your business is exposed now and in the future



Step 2: Assessing the possibility of the risk occurring



Step 3: Prioritizing the risk



Step 4: Develop strategies for responding to the risk



To identify internal risks, refer to your Business Analysis. The areas in which your business is not doing well may carry an element of risk. For example, your business is possibly at risk of losing its reputation if you are unable to control the quality of the raw materials used in production.

To identify external risks, refer to your forecast of changes in the external environment. Think carefully about possible threats that are caused by external changes and the possibility of your business suffering loss due to those threats.

Some risks are common to many businesses. So, you can also look at other businesses of the same type and size and learn from their experiences identifying common risks. Here are some of the questions you may ask yourself:

- What is critical for the survival of my business?
- How much is my business relying on others to produce goods or provide services?
- Is my business depending too much on a particular customer or person?
- Are the internal processes of my business adequate?
- Did any customer or supplier default on payments?

4. Risk Management strategies

Decide what to do with each risk facing your business. There are four common ways to respond to risk.



- **Accepting the risk**

You may decide that certain risks are inevitable. The risk that certain products are not popular with your customers is part of doing business. However, in order to minimize such risks, you could do market research so that you have a better understanding of your customers' needs and preferences. Credit risk is often the cost of doing business. But giving credit may be important for your business in order to increase sales.

- **Transferring the risk**

Your business can take out insurance against certain risks to reduce the impact on the business. Insurance premiums can cover risks such as fire, theft and crop failure. When a loss occurs, the insurance company compensates your business.

- **Reducing the likelihood or impact of the risk**

Your business can come up with ways to reduce the likelihood of the risk occurring or the damage that is caused by a risk event. For example, you can control credit risk through careful record keeping and monitoring. You might set aside some funds in a savings account so that you have resources available to react to an unexpected event as soon as it occurs. Contingency planning is important for natural disaster risks. Your business needs to plan how it will handle natural disaster related risks to which your business is exposed.

- **Avoid the risk**

Your business may wish to avoid risks that have a significant impact and a high probability. For example, you should not give credit to customers you do not yet know or those who have a bad credit history. This can protect you from the cost of default, as well as the costs associated with trying to recover a late payment.

ACTIVITY 6



1. List the risks to which your business is exposed now and in the future.
2. Which risks should your business prioritize?
3. How will your business deal with those prioritized risks?

Answer the above questions and fill in the form below:

Risk	Likelihood	Frequency	Impact	Priority	Actions

It is important to consider a wide range of risks to which your business is exposed. Assess the current and possible future exposure to specific risks. Take the four Risk Management steps to develop Risk Management strategies for your business.



SUMMARY

Risk is the possibility of your business suffering loss due to unexpected events. It is important to be aware of and plan for the possible occurrence of events that would have a negative impact on your business.

Risk Management is the process of identifying risks to which your business is exposed and developing strategies for reducing the effects of the risk to your business.

There are four stages in the Risk Management process:

- Identifying risks
- Assessing the risks
- Prioritizing the risks
- Responding to the risks

There are four common ways to respond to risk.

- Accept
- Transfer
- Reduce
- Avoid



ASSESSMENT 4

You have just completed Part IV of this manual. Do the exercise below to check your understanding. Finish the exercise before comparing your answers with those on page 97.

True or False

Tick the sentence that is true.

- 1. If your business is performing well, it is less likely that events will occur that have a negative impact and therefore, it is not necessary for your business to manage risks.
- 2. Risk Management helps your business identify all the risks to which it is exposed now and in the future so that it can avoid or mitigate all the risks.
- 3. Risks with the greatest impact and the highest likelihood should get the highest priority.
- 4. Businesses should accept risks that are less likely to occur.
- 5. To determine the appropriate response to a risk, one must assess its likelihood and impact.

MAKING PLANS

When you understand your business and the market in which it is operating, you are ready to plan for the following year.



1. Set business objectives

The first thing you must do when making plans is to determine the objectives that your business wants to achieve. Your business objectives should be financial as well as non-financial.

Different businesses have different objectives. You may want to increase your sales, reduce your costs, increase profits, penetrate a new market, introduce a new product, reduce air pollution, etc. Whatever your objectives, make sure that they are based on your business capacity and the market conditions. Be realistic!

After a careful review of the Business Analysis, the changes that are likely to happen in the external environment and the Risk Management strategies of her business, Juma set the objective for *Plastics Solutions* next year to achieve a Net Profit of \$5,000 without polluting the environment.

Now Juma is armed with an objective in mind, it is time to get down to the nitty-gritty of making plans.

2. Incorporate Risk Management strategies in planning

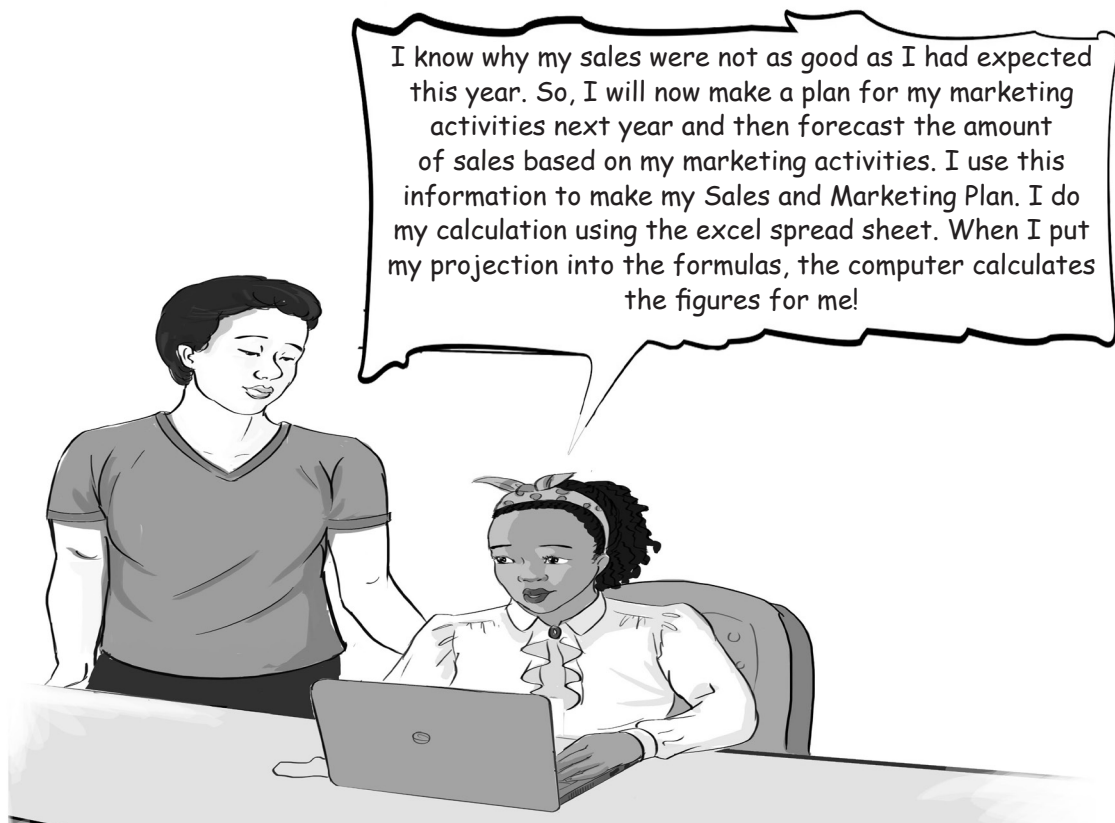
All plans of a business should have built in Risk Management strategies. You have identified the risks to which your business is exposed, assessed them and decided on strategies to deal with them. Now remember to incorporate those strategies into each of your plans.

Two of the risks to which *Plastic Solutions* is exposed are fire and the potential for explosions. Their strategies to deal with these risks are reducing the impact of a loss and transferring the risk. Juma needs to incorporate these into her plans where appropriate.

3. Make a Sales and Marketing Plan

A **Sales and Marketing Plan** describes the marketing activities and projects the amount of sales your business is likely to have next year. The plan helps your business to achieve its objectives, allocate its resources in the best way and meet customers' demand. The Sales and Marketing Plan is the most important plan for your business. All of your other plans will be made based on your Sales and Marketing Plan.

3.1 How to make a Sales and Marketing Plan?



To make your Sales and Marketing Plan, follow a two-step process:



FORECAST OF SALES			
	JAN	FEB
Sales quantity			
Sales price			
Sales			

Step 1: Make the plan for next year

In this step, you need to make decisions about what your business will do to improve sales and marketing. Remember to base your decisions on your understanding of your business and the market, not on wishes or dreams.

Here are some questions to ask yourself:

- Product**
 - What goods or services do our customers want?
 - Can we sell some new services or goods?
 - How can we improve the quality, the design of the goods and the customer service?

Price

- Do we need to increase our prices?
- How can I change our prices to increase sales next year?
- Can we give discounts or special offers to make our prices more attractive?

Place

- Can we find a better place to sell our goods or services?
- What is the best kind of distribution for our business?

Promotion

- What is the best way to promote our goods or services next year? Is it through advertising, by making a sales promotion or should we do something else?
- What can we do to make people praise our products and our business?

People

- How can I improve the productivity of my sales staff?
- Do I need people with special skills in my sales team?
- Can I improve my skills as a salesperson?

Physical Evidence

- How can I make it more appealing to customers to do business with us?
- What are the customers looking for: prestige, budget, efficiency, recognition?
- Can we improve the premises and the staff appearance?

Process

- How can I improve our sales procedures?



Do not forget to refer to your forecast of changes in the external environment when answering the above questions.





Juma looked at her sales and marketing analysis, her forecast for changes in the external environment and the Risk Management strategies. She then decided to improve her sales and marketing programme as follows:

- Make sure that we always have goods available to sell.
- Give credit to some regular customers.
- Label each product with information about our green business and use recycled plastics.
- Implement campaigns for our environmentally friendly products in November and December.
- Given the competitive prices of alternative products, we decided to keep the price of our product unchanged for the next year (\$25). However, we will reconsider this decision when I am able to forecast our costs.
- Improve the productivity of the two sales staff by training them about our green business.

ACTIVITY 7



What would you do to improve the sales and marketing of your business next year?

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Step 2: Make a forecast for next year

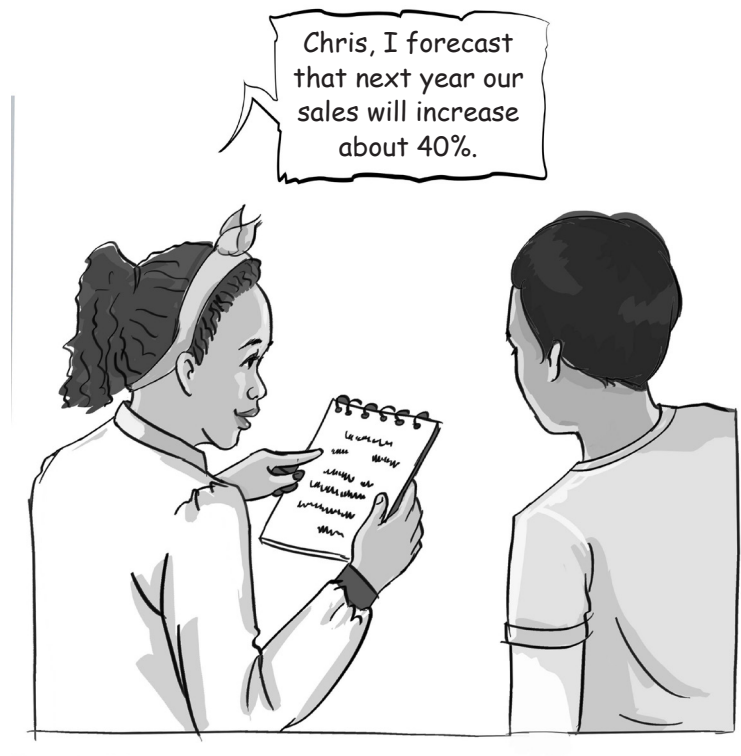
Good marketing improves your sales. When you have decided on a plan to improve your sales and marketing, forecast the sales your business will achieve as a result of the improvements. Use the information from step one and past sales data to make a forecast of sales for each month of next year.

Use your Basic Record Book to get the monthly sales for this year. As the data for December maybe not available yet, make your best estimation. If you are a multiple product manufacturer or service operator, you may need to work out how many of each good or service you sold each month this year.

Below are *Plastic Solutions'* monthly sales this year, the figure for December is Juma's best estimation.

MONTH	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Sales quantity	150	203	240	254	265	270	275	280	287	300	346	368	3,238

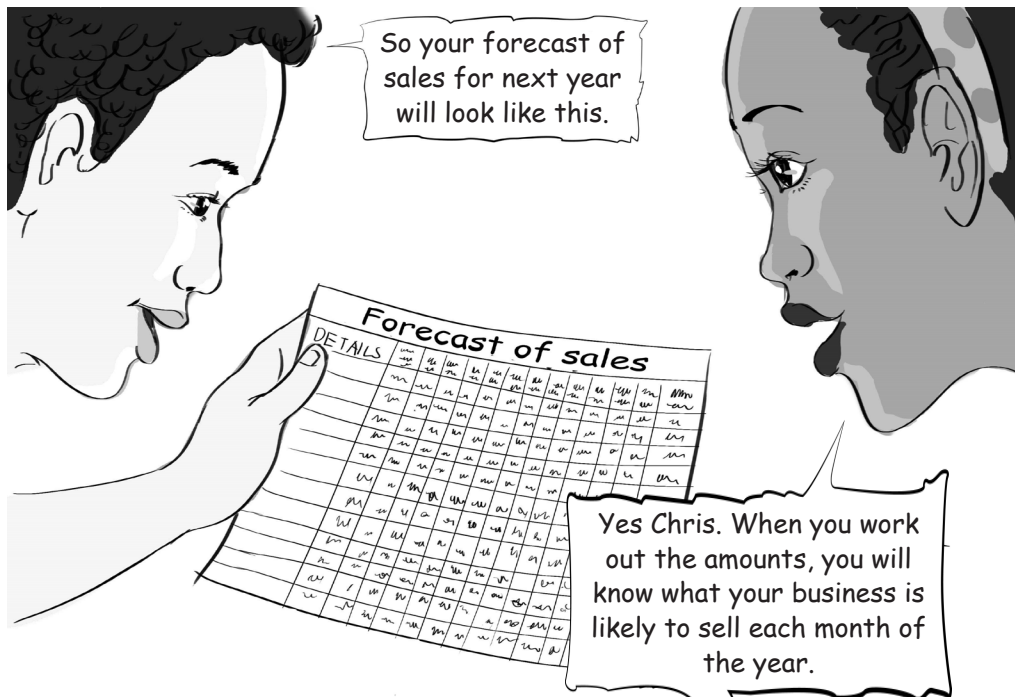
If the sales price is unchanged and the sales improvement plan is implemented, Juma estimated that the sales at *Plastic Solutions* will increase about 40%.



Juma made a sales forecast for next year as follows:

DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Sale quantity	210	284	336	356	371	378	385	392	402	420	484	515	4,533
Sale price (\$)	25	25	25	25	25	25	25	25	25	25	25	25	25
Sales (\$)	5,250	7,100	8,400	8,900	9,275	9,450	9,625	9,800	10,050	10,500	12,100	12,875	113,325

If you are a multiple product manufacturer or service operator, you will need to make a sales forecast for each of your goods or services.



ACTIVITY 8

Get this year's sales data from your Basic Record Book. Review your answers in Activities 2 (on page 20) and 7 (on page 47). Make a sales forecast for your business next year by filling in the table below. If you need more space to accommodate more products that your business produces, you can use the table below as a template and make your forecast of sales on a separate sheet of paper and add as many lines as you need.

FORECAST OF SALES														
	DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
PRODUCT A	Sale quantity													
	Sale price (\$)													
	Sales (\$)													
PRODUCT B	Sale quantity													
	Sale price (\$)													
	Sales (\$)													

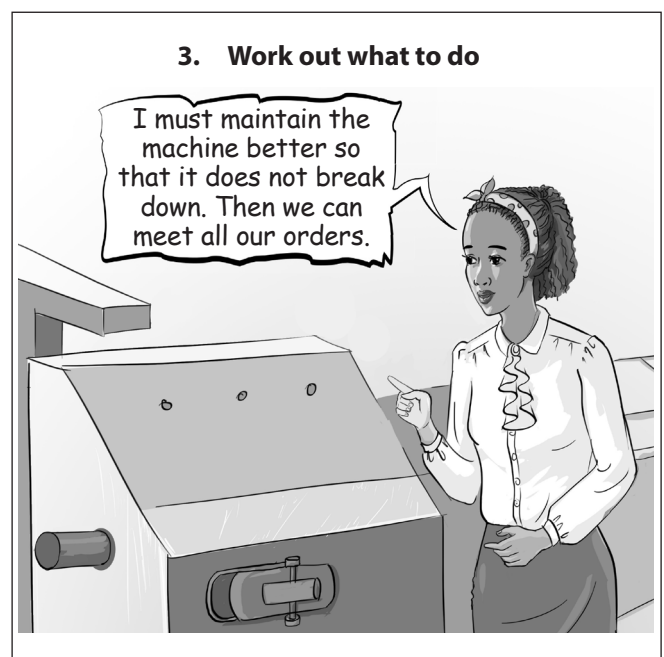
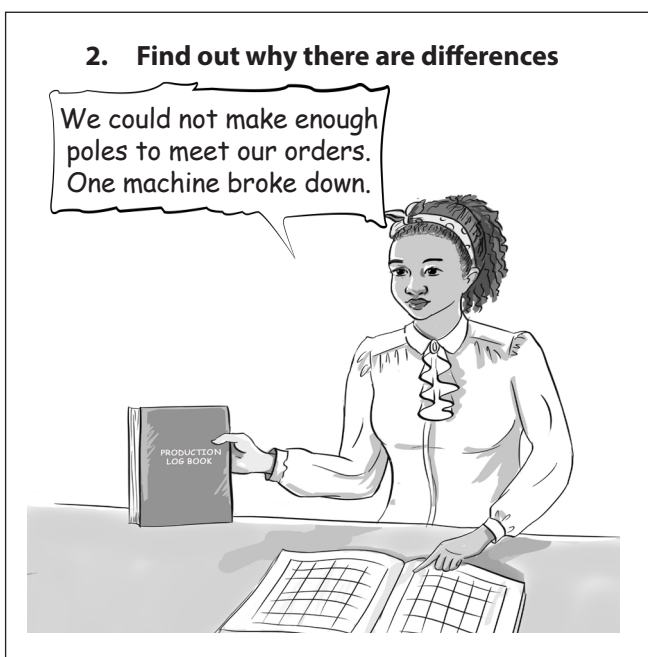
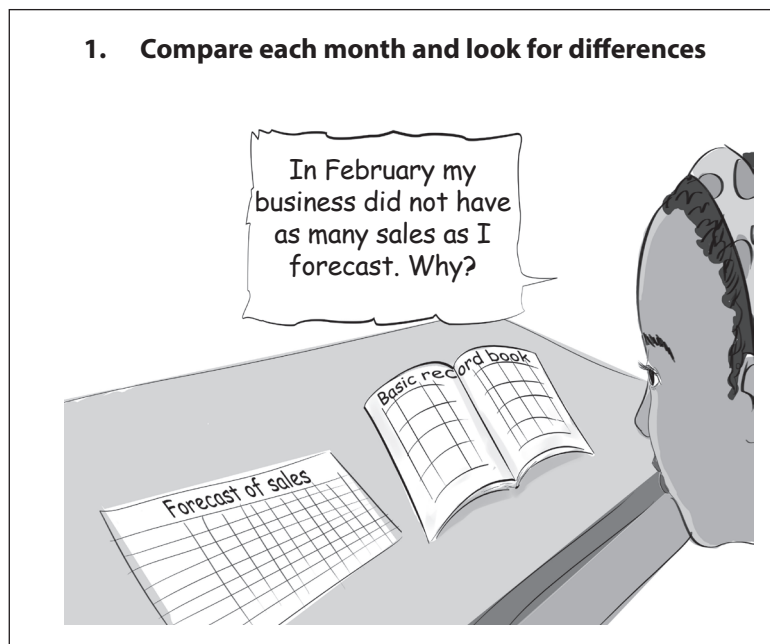
3.2 How to use the sales forecast?

To use your Sales and Marketing Plan effectively, you will need to review and revise it frequently. At the end of each month, compare your actual sales with the amounts you forecast in your plan, by:

- Analysing the reasons for any shortfall, for example lower sales volumes, flat markets, underperforming products, ineffective marketing activities, etc.
- Considering the reasons for a particularly high sales volume. Was your forecast too low, for example?

Analysing these variations will help you to set future plans more accurately and will also allow you to make timely adjustments where needed.

Look at how Juma uses her Sales Forecast:



4. Make a Production and Cost Plan

A **Production and Cost Plan** shows proposed improvements for your production and the costs your business is likely to have each month next year. It tells you how many products can be made and at what cost.

4.1 How to make a Production and Cost Plan?

To make a Production and Cost Plan, you will follow the same two steps that you followed when making your Sales and Marketing Plan.

Step 1: Make the plan for next year

In this step, you will decide what to do to improve your production and operation process in order to achieve your business objectives. Again, remember to base your decisions on your understanding of the business, the market and your Risk Management strategies; not on wishes or dreams.

Review your Business Analysis; see the reasons for production and operation issues or cost fluctuation. Think of any way your business can increase productivity, reduce costs or improve good or service quality. Here are some questions to ask yourself:

Improve productivity and quality

- Can I improve the way I control the production process?
- Were my production workers adequately trained?
- Should I replace old equipment?
- Can I use higher quality raw materials?
- How can I improve the productivity of my staff?
- What motivates my employees?
- Can process improvement increase the productivity of my production employees?

Reduce Material Costs

- Which materials can be reused?
- Which materials can be recycled?
- Can I reduce the consumption of materials?
- Can the production process be improved?

Reduce Overhead Expenses

- Can I improve the way I use the space?
- Are there any ways to reduce electricity consumption?

Reducing business costs by reducing Material Costs is a very popular way to improve profitability. If you are a manufacturer or a service operator, Material Costs are what your business pays for the inputs that become part of or are directly related to your goods or services. Manufacturers or service operators plan to reduce the Material Cost per item for each good or service.

If you are a retailer or a wholesaler, Material Costs are the costs of the products you buy to resell. For a retailer to reduce Material Costs, he must negotiate a better price per item for each good the business sells.

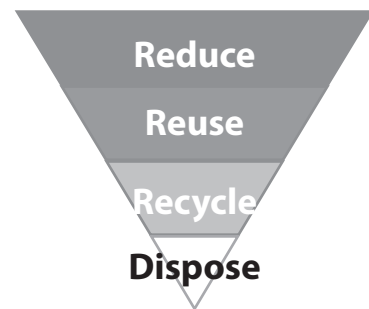
Reducing material consumption

Materials are often major costs. The following three efficiency strategies can significantly bring down their costs.

- Housekeeping and behavioural change is the most basic approach for reducing material consumption as it focuses on a change in mindset that involves very little to no investment.
- Process improvement or minor change is an approach that enhances existing equipment through adjustments or modifications.
- Machine change or major change is an approach that improves efficiency through equipment replacement. This approach will involve capital investment.

Reducing waste

The three “Rs”; **Reduce**, **Reuse** and **Recycle** is one crucial way in which a green business can manage waste production, improve efficiency and ultimately maximize profits.



Reducing is the most important step; it includes altering your businesses’ consumption. Most businesses provide excess product packaging that a large majority of customers will throw away. If you choose to create a green product or position your company as a green industry, you should try to avoid or minimize disposable packaging. There are many ways to achieve this:

- Reduce the size and the weight of any packaging you provide. This also reduces unnecessary expense.
- Try to produce naked products. If you wish to produce an eco-friendly soap, design it in such a way that it is attractive without packaging.

Reusing also increases efficiency, recycles waste and ultimately increases profits. It includes reusing old or excess assets and still ensuring that a profit is made. Some ideas for reusing in a green business include:

- Reusing containers: You may wish to create incentives for customers to return used packaging, offer discounts on any purchase that refills previously purchased containers or cash back for returned packaging.
- You may wish to use the unwanted packaging for another purpose. This may involve turning the packaging into an entirely different product, reselling it and creating another form of income for the business.

Recycling is the third priority in the three ‘Rs’ efficiency strategy. Recycling might be done when reduction and reuse are not possible. Recycling can provide new raw materials from waste materials. Therefore, recycling prevents waste disposal and reduces the amount of raw materials that need to be extracted from the environment. The benefits of recycling to your business are:

- It is a good way to handle the waste your business produces.
- It can provide cheaper raw materials, which reduces costs and the environmental impact.



Now think of your green business and the waste it is likely to produce.

Materials	Reduce	Reuse	Recycle	Repurpose

Your Production and Cost Plan for the next year should also take into account possible changes in the external environment, the Risk Management strategies of your business, as well as the Sales and Marketing Plan you have just developed. Therefore, according to the information you have gathered, estimate what will happen to your production and operation next year. Here are examples of questions you may want to ask:

- Is there any model of production that suits my business type and size?
- Can I use higher quality raw materials?
- Will the price of materials increase?
- Can I use cheaper materials?
- Can I get discounts for materials?
- How much may it cost to give credit to customers?
- Will my rent change next year?
- Is there a better place or a cheaper place for my business?
- Will I need more space?
- Will I need more staff?
- Should I increase wages? When and how much?

Make sure your answers to these questions are based on facts. Search for different models of production, ask your suppliers about available raw materials in the market, work out the demand for labour in your business next year and so on.

Juma's Production and Cost Plan for *Plastic Solutions* next year took into account necessary improvements, possible changes in the external market, Risk Management strategies, as well as the Sales and Marketing Plan:

- We will maintain our machine more frequently so that it will not break down so often. This can reduce the down time by 50% and therefore the productivity of the workers will increase 5%.
- To ensure that we will not run out of goods, we will maintain a stable production level and keep a stock of finished goods. We will produce at an average level for the whole year.
- This year we used a part-time mechanic to do all the repair and maintenance work. We want to improve

performance of our machines this year, so we will have one mechanic work full time.

- We will increase the wages for the owner, our production workers, the sales staff and the mechanic by 10% to encourage them to maintain productivity as high as this year.
- We had three workers in production. Our sales next year will increase 40%, but our productivity will increase 5%, so we will recruit one more worker.
- We will implement a waste reduction programme that can help us lower the consumption of crushed plastic by 10%.
- We will buy crushed plastic from another supplier who sells it 2% cheaper than the first supplier and he will give us one month credit.
- We will buy chemicals in bulk which will cost 7% less than the current price.
- Sales will increase significantly next year, but I estimate that the two sales staff will be able to manage all the sales tasks.
- My space is big enough for my business; I will not need more space next year. However, I know that my rent will go down because of the government scheme. I have negotiated with my landlord and he agreed to reduce my rent to \$370 beginning in March next year.
- I will run a promotional campaign in November and December next year. This will cost us \$1,300 per month.
- I will buy fire insurance. This will cost us \$480 per year.
- The cost of stationery, transport, electricity and water will increase 30% as a result of the increase in production and sales.



ACTIVITY 10

What will you do to improve the production and lower the cost of your business next year?

.....

.....

.....

Step 2: Make the forecast for next year

To complete your Production and Cost Plan, you need to make:

- A forecast of the production quantity
- A forecast of Overhead Expenses
- A forecast of Material Costs
- A forecast of Labour Costs

Forecast of Production Quantity

Businesses make decisions on how many items to produce based on their sales forecast. For service operators and manufacturers who always produce just enough for sales and do not keep a stock of finished goods, the forecast of the production quantity is the same number as that of the sales projection. For other manufacturers, who want to stock finished goods, the forecast of monthly production quantity for the following year should be made based on the Production and Cost Plan for next year (step one) and the forecast of sales.

Plastic Solutions wants to keep stock, so, its sales and production quantity are different. This is how Juma makes her forecast of production quantity for the following year:

The forecast of sales for *Plastic Solutions* (page 48) projects that the total number of poles they will sell next year is 4,533. They want to maintain a stable production level. Therefore, by dividing the year's total sales by 12, Juma forecasts that the company will produce an average of 380 poles per month.

1. FORECAST OF PRODUCTION QUANTITY												
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
380	380	380	380	380	380	380	380	380	380	380	380	4,560

ACTIVITY 11



Review your forecast of sales quantity (Activity 8 on page 49) and your plan for production and cost (Activity 10 on page 54). Make a forecast of the production quantity of your business for the following year by filling in the table below. If you need more space to accommodate more products that your business produces, you can use the table below as a template and make your forecast of production quantity on a separate sheet of paper and add as many lines as you need.

1. FORECAST OF PRODUCTION QUANTITY													
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
PRODUCT A													
PRODUCT B													

Forecast of Overhead Expenses

Businesses have many different kinds of Overhead Expenses. Here are some examples:

- Rent
- Transport
- Stationery
- Electricity and water
- Non-Production Labour
- Licences
- Insurance
- Maintenance of equipment
- Depreciation
- Advertising and promotion



Read more about Overhead Expenses in the IYB COSTING MANUAL.

Make a list of the different kinds of Overhead Expenses you have in your business. For your Cost Forecast, **make a forecast for each different Overhead Expense**. Make sure that you include all the Overhead Expenses of your business. Some Overhead Expenses, such as licence fees and insurance, will not be paid each month. You often pay for your business licence once a year. Therefore, remember to allocate these costs to each month in order to accurately estimate the business costs and profit for each month.

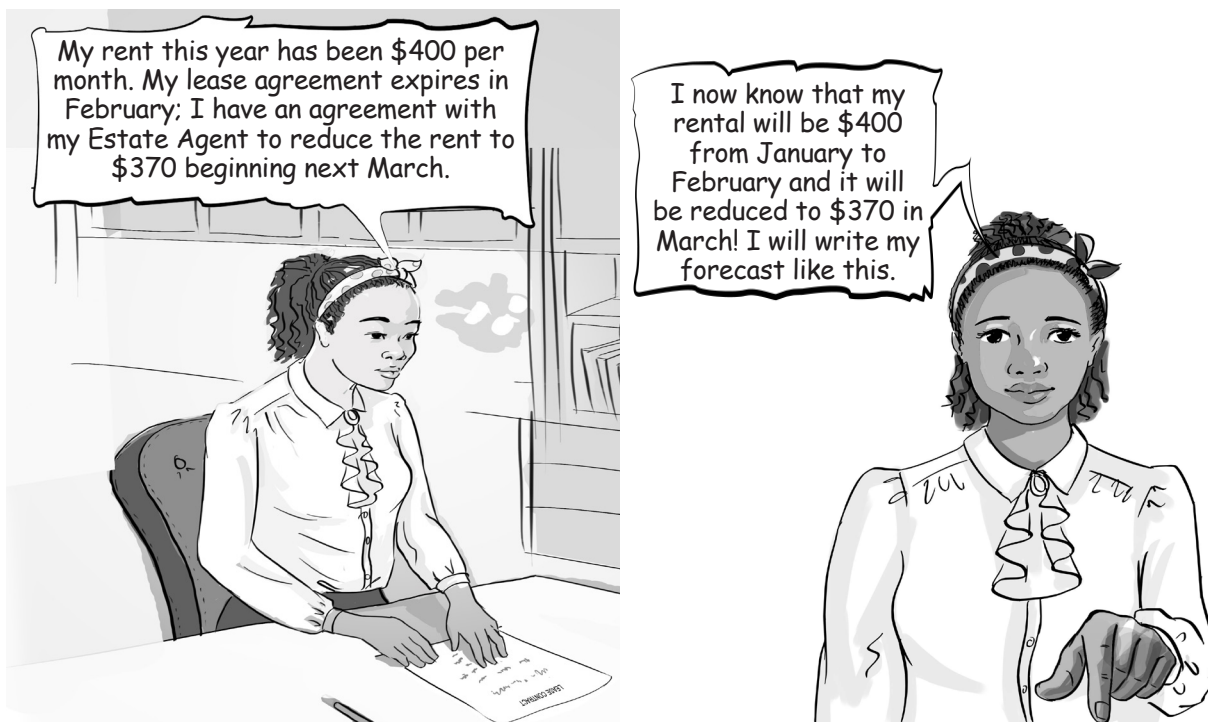
Use all the information you have from step one and previous cost data. Make a forecast of how much each Overhead Expense is likely to be each month next year.

Use your records to find out how much your business paid for each type of Overhead Expense each month this year.

Here are *Plastic Solutions'* Overhead Expenses this year:

OVERHEAD EXPENSES													(Unit: US\$)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Rent	360	360	400	400	400	400	400	400	400	400	400	400	4,720
Electricity	90	90	90	90	90	90	90	90	100	100	110	110	1,140
Water	20	20	20	20	20	20	20	20	20	20	20	20	240
Labour	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Depreciation	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Transport	140	140	150	150	150	150	150	150	150	150	160	180	1,820
Stationery	50	50	50	50	50	50	50	50	50	50	50	50	600
Licence	10	10	10	10	10	10	10	10	10	10	10	10	120

Look at how Juma makes her forecast for next year's rent:



2. FORECAST OF OVERHEAD EXPENSES													(Unit: US\$)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Rent	400	400	370	370	370	370	370	370	370	370	370	370	4,500
Electricity	117	117	117	117	117	117	117	117	130	130	143	143	1,482
Water	26	26	26	26	26	26	26	26	26	26	26	26	312
Labour	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	15,840
Depreciation	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Transport	182	182	195	195	195	195	195	195	195	195	208	234	2,366
Stationery	65	65	65	65	65	65	65	65	65	65	65	65	780
Licence	10	10	10	10	10	10	10	10	10	10	10	10	120
Insurance	40	40	40	40	40	40	40	40	40	40	40	40	480
Marketing	-	-	-	-	-	-	-	-	-	-	-	1,300	2,600
Total	2,360	2,360	2,343	2,343	2,343	2,343	2,343	2,343	2,356	2,356	3,682	3,708	30,880

Juma adds up all the monthly forecasts to get a total forecast of Overhead Expenses for the following year. *Plastic Solutions'* forecast of total Overhead Expenses for next year is \$30,880.



ACTIVITY 12

Here are the records and information of Chris' business. Make a forecast of his company's Overhead Expenses for the first six months of next year on the blank form below.

- Rent this year was \$300 per month.
- Electricity this year was \$100 per month.
- Stationery this year was \$20 per month.
- Water this year was \$18 per month.
- Depreciation was \$30 per month this year.
- Electricity charges will go up by \$20 in May next year.
- Rent will go up by \$15 in April next year.
- Stationery and water costs will be the same next year.
- In January, Chris will buy a new shelf. This will increase his depreciation by \$5 per month next year.

2. FORECAST OF OVERHEAD EXPENSES						(Unit: US\$)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN
Total						

You can compare your result with the answer on page 86.



ACTIVITY 13

Get this year's Overhead Expense data from your Basic Record Book. Review your plan for production and costs from Activity 10 (on page 54). Make a forecast of Overhead Expenses for your business next year by filling in the table below. If you need more space to accommodate more Overhead Expense items that your business has, you can use the table below as a template and make your forecast of Overhead Expenses on a separate sheet of paper and add as many lines as you need.

2. FORECAST OF OVERHEAD EXPENSES						
						(Unit:)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN
Total						

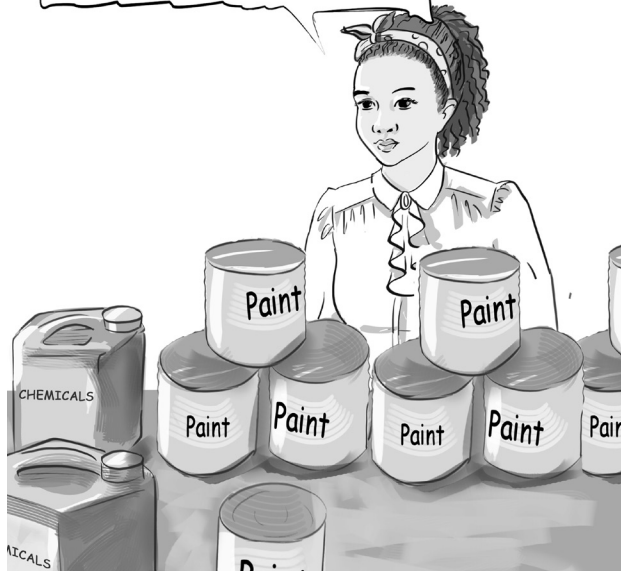
Forecast of Material Costs

Use the information in step one (the Production and Cost Plan for next year) and the data of previous Material Costs. Make a forecast of the Material Cost per item for next year. You must forecast the Material Cost for every product you sell in your business.

Use your records to get the amount your business spent on materials this year. Look at how Juma works out the Material Cost per item for her business:



This year the cost of paint and chemicals for one pole was \$1.1 and \$3.9 respectively.



This year the Material Cost to make one pole was \$15.



So, Juma my Material Costs are the amount I pay to buy goods to sell in my store.



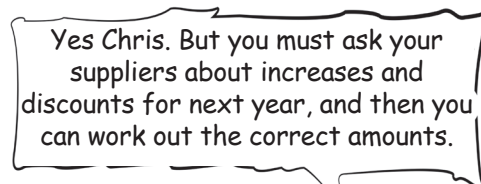
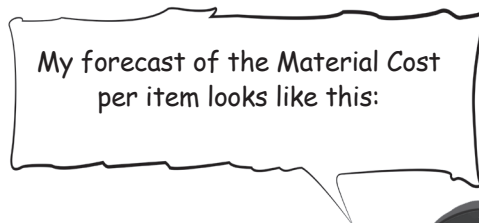
Yes. Look Chris, you can find your Material Cost per item in your suppliers' invoices.



Look at how Juma makes her forecast of the Material Cost per item:



Retailers and wholesalers sell many products. Their forecast of cost per item may be very long, but it is important that they know the Material Cost of all their goods if they expect to project how well the business will do in the future.



When you have the forecasted the Material Cost per item, calculate the total Material Cost for each month next year for each of the goods or services your business sells.

Multiply the amount you have calculated in your forecast of the Material Cost per item by the total amount of each product you forecast your business is likely to produce each month next year.

Get the total Material Cost for each month by adding the total of all your products.

$$\begin{array}{|c|} \hline \text{Forecast of the} \\ \text{Material Cost} \\ \text{per item} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Forecast of the quantity} \\ \text{of each product} \\ \text{produced each month} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Forecast of the total} \\ \text{Material Cost per} \\ \text{product per month} \\ \hline \end{array}$$

Here is the forecast of the total Material Cost for *Plastic Solutions* next year:

3. FORECAST OF THE TOTAL MATERIAL COST													
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Production quantity	380	380	380	380	380	380	380	380	380	380	380	380	4,560
Material Cost per item (\$)	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Total Material Cost (\$)	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	61,560



Get the Material Cost data for this year from your Basic Record Book. Review your plan for production and costs in Activity 10 (on page 54) and your forecast of the production quantity for next year in Activity 11 (on page 55). Make a forecast of the total Material Cost for your business next year by filling in the table below. If you need more space to accommodate more products that your business produces, you can use the table below as a template and make your forecast of total material cost on a separate sheet of paper and add as many lines as you need.

3. FORECAST OF THE TOTAL MATERIAL COST														
	DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
PRODUCT A	Production quantity													
	Material Cost per item (\$)													
	Material Cost (1)													
PRODUCT B	Production quantity													
	Material Cost per item (\$)													
	Material Cost (2)													
	Total Material Cost (\$) (3) = (1) + (2)													

Forecast of Labour Costs

If you are a manufacturer or a service operator, Labour Costs are all the money your business spends on wages, salaries and benefits for the employees or owners who are directly involved in the production or provision of your goods or services.

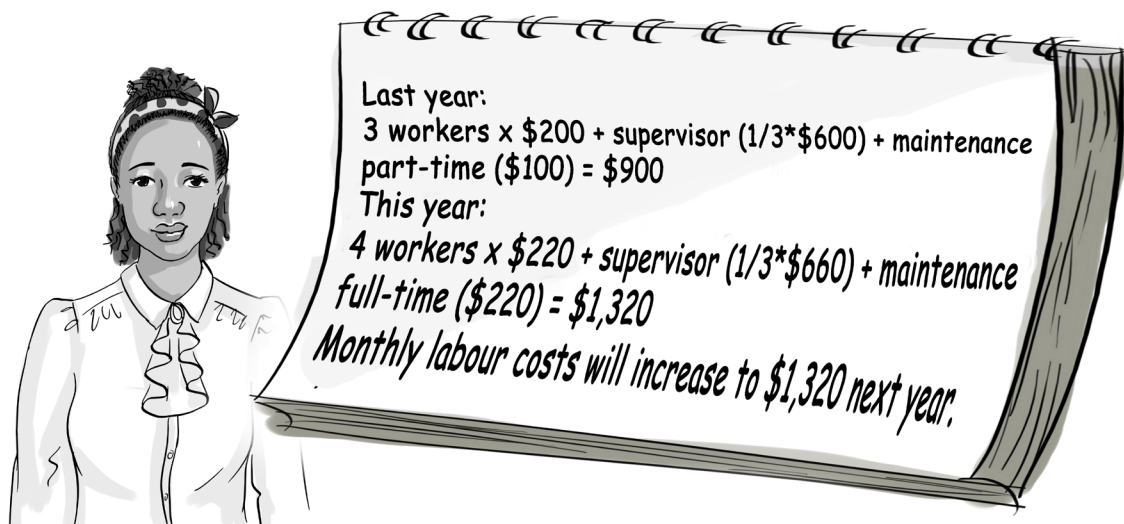
If you are a retailer or wholesaler, you do not record Labour Costs because you record your wages and salaries as an Overhead Expense.



Read more about Labour Costs in the IYB COSTING MANUAL.

Use the information in your Production and Cost Plan for next year (see step one) and this year's data to make a forecast of your total Labour Cost for each month of the following year.

This is how Juma makes her forecast of Labour Cost for next year:



Here is the forecast of the total Labour Costs for *Plastic Solutions* next year:

4. FORECAST OF THE TOTAL LABOUR COST													
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Total Labour Cost (\$)	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	15,840



ACTIVITY 15

Get this year's Labour Cost data from your Basic Record Book or Salary Register. Review your plan for production and costs in Activity 10 (on page 54) and your forecast of production quantity next year in Activity 11 (on page 55). Make a forecast of the total Labour Cost for your business next year by filling in the table below.

4. FORECAST OF THE TOTAL LABOUR COST													
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Total Labour Cost (\$)													

Complete the costs forecast

Now that you have made all the cost forecasts you can fill in your Forecast of Costs.

Plastic Solutions' Forecast of Costs shows all the costs the business is likely to have each month next year.

FORECAST OF COSTS													(Unit: US\$)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Material Costs	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	61,560
Labour Costs	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	15,840
Overhead Expenses	2,360	2,360	2,343	2,343	2,343	2,343	2,343	2,343	2,356	2,356	3,682	3,708	30,880

“

Remember, if you are a retailer or wholesaler you calculate the wages and salaries as an Overhead Expense. Therefore, leave the line on Labour Costs in your Forecast of Costs blank.



”

ACTIVITY 16



Review your answer for Activities 13 (on page 59), 14 (on page 63) and 15 (on page 64). Complete the forecast of costs for your business next year by filling in the blank form next page.

FORECAST OF COSTS													(Unit:)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Material Costs													
Labour Costs													
Overhead Expenses													

4.2 How to use the cost forecast?

Your costs represent the outflow of cash from your business. If your costs are too high, your business will lose money. Your cost forecast is a vital tool to ensure that you are in control of your expenditures.

At the end of each month, compare the amount in your Cost Forecast with your actual expenditures. Use your Cost Forecast to check whether or not your business has too many expenditures:

- Look at how your Overhead Expenses and Labour Costs differed from your plan.
- Check to see if your Material Cost was the same as in your plan. Normally this cost fluctuates according to your production volume.
- Analyse any reason for changes in the relationship between Material Costs and production.
- If there is a change in that relationship, take appropriate action to bring your costs back in line.

5. Make a Profit Plan

Use your forecast of sales and costs to calculate what the Gross Profit and Net Profit are likely to be for your business next year.



See the *IYB RECORD KEEPING MANUAL* to learn how to calculate profit.

PROFIT PLAN													(Unit: US\$)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Sales	5,250	7,100	8,400	8,900	9,275	9,450	9,625	9,800	10,050	10,500	12,100	12,875	113,325
Material Costs	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	5,130	61,560
Labour Costs	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	15,840
Gross Profit	(1,200)	650	1,950	2,450	2,825	3,000	3,175	3,350	3,600	4,050	5,650	6,425	35,925
Overhead Expenses	2,360	2,360	2,343	2,343	2,343	2,343	2,343	2,343	2,356	2,356	3,682	3,708	30,880
Net Profit	(3,560)	(1,710)	(393)	107	482	657	832	1,007	1,244	1,694	1,968	2,717	5,045

Juma's Profit Plan shows her that her business can expect to make a Net Profit next year and her total Net Profit meets the objectives of the business. If not, Juma should consider the following:

- Is there any way to lower costs?
- Is there any way to increase sales?
- Is the objective realistic?

When you have done your forecast of Net Profit or loss, you have completed your Profit Plan for next year. The plan must show that your business can expect to make a profit. The forecasted profit must be high enough to allow for unpredictable internal or external problems or accidents. For example:

- Your sales might be lower than you expect.
- A machine might break down.
- You might run out of materials.
- You might have a fire or natural disaster.
- Your business must have enough money to cope with problems that might arise.

Just as you would do with your Forecast of Sales and Costs, use your Profit Plan to check if your monthly profit is in accordance with your forecast, or if it is lower than the profit you forecast. Once you have compared your actual monthly or quarterly profit with the forecasted amount, try to find out why there are any differences.



ACTIVITY 17

Use your forecast of sales and costs from Activities 8 (on page 49) and 16 (on page 66) to calculate the projected profit of your business next year by filling in the blank form below.

PROFIT PLAN													(Unit:)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Sales													
Material Costs													
Labour Costs													
Gross Profit													
Overhead Expenses													
Net Profit													

6. Make a Cash Flow Plan

A Cash Flow Plan is a forecast of how much cash you expect to come into your business and how much cash you expect to go out of your business each month. A Cash Flow Plan helps you to make sure that your business does not run out of cash at any time.

Look at what happened to these businesses:



6.1 Does your business run out of cash?

Use your Cash Flow Plan to make sure that your business always has enough cash. There are many reasons why your business may run out of cash. For example:

- You have to buy goods or raw materials before you sell anything. This means that cash goes out before cash comes in.



- If you give credit to your customers you do not get paid immediately. You often have to buy more goods or materials before these credit customers pay you.



- You need cash to buy equipment. The equipment will help the business to make a profit in the future. But you usually have to pay cash for the equipment before you have earned that profit.



When you plan your cash flow:

- You know in advance about possible cash shortages.
- You have more control over the flow of cash.
- You can solve problems before they occur.
- You can have cash ready when you need it.

6.2 How to make a Cash Flow Plan?

To make a Cash Flow Plan, you forecast:

- How much cash will come into your business each month?
- How much cash will go out of your business each month?

To be able to make these forecasts, you need to review your Sales and Marketing Plan and Production and Cost Plan to see how they will affect the cash that will come in or go out of your business.

You should forecast your cash flow for a quarter, six months or a year, depending upon how quickly things change in your type of business.

Juma reviewed her plans and found that the following decisions will definitely impact the amount of cash that is available:

- We will give credit to regular customers.
- We will make sure that we always have products to sell to customers.
- We will buy crushed plastic from a new supplier who will give us one month credit.
- We will buy fire insurance.

Juma estimated the impact of the above changes on her business cash flow as follows:

- Our sales to regular customers account for 20% of the total sales, so each month the money we receive from cash sales will be only 80% of our total sales. From the second month, we will start receiving cash from credit sales, which is 20% of the previous month's sales.
- The supplier of crushed plastic will give us one month credit, so we will not have to pay for crushed plastic in January.
- We have to pay the \$480 annual fee for fire insurance in January.

Here is the Cash Flow Plan for *Plastic Solutions* for the first three months of next year:

Chris, this is how we forecast how much cash we expect to receive and how much cash we expect to spend each month.



CASH FLOW PLAN (US\$)		JAN	FEB	MAR
	1. Cash at the start of the month	10,000	7,884	6,202
CASH IN	2. Cash in from sales	4,200	5,680	6,720
	3. Cash in from credit sales		1,050	1,420
	4. Any other cash in	420	568	672
	5. TOTAL CASH IN	4,620	7,298	8,812
CASH OUT	6. Cash out for Material Costs	1,786	5,130	5,130
	7. Cash out for Labour Costs	1,320	1,320	1,320
	8. Cash out for Overhead Expenses	2,710	2,110	2,093
	9. Cash out for planned investment in equipment	0	0	10,000
	10. Any other cash out	920	420	568
	11. TOTAL CASH OUT	6,736	8,980	19,111
	12. CASH AT THE END OF THE MONTH	7,884	6,202	(4,097)

To make your Cash Flow Plan, follow the 12 steps in the plan. Steps 2 to 5 are for “CASH IN”. Steps 6 to 11 are for “CASH OUT”. Look at each step for January.

Step 1

Cash at the start of the month: This is the amount of cash you expect to have in the cash box plus the amount of cash in your bank account at the beginning of January. Write this total amount next to number one in your Cash Flow Plan. This year *Plastic Solutions* expect to have \$10,000 left at the end of December.

Step 2

Cash in from sales: Look at your forecast of sales in January. Write this amount next to number two on your Cash Flow Plan. If your business sells on credit, you must estimate the amount of cash you will actually get from sales. Juma’s sales forecast for January is \$5,250, but she will receive only \$4,200 (80%).

Step 3

Cash in from credit sales: Estimate how much your credit customers will pay in January and write this amount next to number three on your Cash Flow Plan. If your business does not sell on credit, leave this line blank. Juma did not sell on credit this year, so she will not expect to receive any cash from credit sales in January.

Step 4

Any other cash in: This is the amount of cash you forecast your business will receive during January from any source other than sales, such as a loan from a bank, interest from your bank account or the amount of Value Added Tax (VAT) associated with each sale you make. If your business is required to collect VAT, estimate the VAT you will pay by multiplying the VAT percentage by your cash sales for the month. You may also get cash from a donation or grant to help run your business. Write the total amount next to number four on your Cash Flow Plan. *Plastic Solutions* is a VAT registered business. They have to collect 10% of VAT from their sales. For January, Juma forecasted that her business will receive \$420 VAT as other cash in.

Step 5

TOTAL CASH IN: Add up all the cash in amounts from steps 2, 3 and 4. This is the total cash amount you expect to come into your business in January.

Step 6

Cash out for Material Costs: This is the amount of cash you forecast your business will pay out in January to buy goods and materials. Using your Forecast of Costs, estimate the cash you will actually need to pay for materials and write the amount next to number six.

From her Forecast of Costs, Juma noted that the amount of Material Costs she forecasted for January is \$5,130. However, this is not the amount that her business will pay out because the money for the crushed plastic that she will purchase in January (\$3,344) will be paid in February. So, the money her business will actually pay for Material Costs in January is \$1,786 ($\$3.6 \times 380 + \1.1×380). From February, Juma will pay \$5,130 of Material Costs each month.

Step 7

Cash out for Labour Costs: This is the amount of cash you forecast your business can expect to pay out in January for the wages of the employees working in production. Use your Forecast of Costs. Write the amount you forecast for Labour Costs for January next to number seven on your Cash Flow Plan. Remember that retailers and wholesalers record their Labour Costs as an Overhead Expense. They leave line seven blank.

Step 8

Cash out for Overhead Expenses: Overhead Expenses are things like rent, electricity, transport, salaries for sales and administration, stationery, etc. Find the amount you forecasted for Overhead Expenses in January in your Forecast of Costs. Some of these costs, such as its licence fees and insurance, will not be paid each month. You often pay for your business licence once a year. Therefore, you need to identify these expenses, remove them from your monthly Overhead Expense section and add the annual amount to the month you will make the payment. Forecast the amount of cash you will pay for Overhead Expenses in January and write this amount next to number eight on your Cash Flow Plan. Juma will need to pay \$2,710 for Overhead Expenses in January next year. This amount includes the \$120 licence fee and \$480 for fire insurance for the whole year. Here is the calculation: Cash payment for Overhead Expenses in January (\$2,710) = Overhead Expenses in January (\$2,360) – monthly licence fee, insurance and depreciation (\$10 + \$40 + 200) + yearly licence fee and insurance (\$120 + \$480).

Step 9

Cash out for planned investment in equipment: Will you buy any equipment during January? Write the amount next to number nine.

Step 10

Any other cash out: This is any other amount of cash you forecast your business will pay out during January, such as a loan repayment, income tax payment or VAT payment. If your business is required to collect VAT, subtract the VAT percentage from your monthly sales amount and add that amount to the cash out in whichever month you make the payment to the government. Forecast all the other cash out and write the amount next to number ten on your Cash Flow Plan. In January, Juma must pay \$920 VAT collected in December this year.

Step 11

TOTAL CASH OUT: Add up all the cash out amounts from steps 6, 7, 8, 9 and 10. This is the total cash amount that you expect to go out of your business during January.

Step 12

CASH AT THE END OF THE MONTH: Calculate the **net amount of cash** by subtracting the "TOTAL CASH OUT" amount in number eleven from the "TOTAL CASH IN" amount in number five. This is the net amount of cash that your business will use during the month of January. Subtract the net amount of cash from the cash at the start of the month on line number one. This is the amount that will be left in your cash box and bank account at the end of January. The entry amount of cash at the end of the month will be the same as the cash entry amount at the beginning of the next month.

Plastic Solutions' Cash Flow Plan on page 72 shows that at the end of January next year they expect to have:

Cash at the start	+	Total cash in	-	Total cash out	=	Cash remaining
\$10,000		\$4,620		\$6,736		\$7,884

Make a Cash Flow Plan for your business in the same way as *Plastic Solutions*. Do the same twelve steps for each month.

When you have filled in the amounts for each month, your Cash Flow Plan shows how much cash your business expects to have at the end of each month. A negative amount (shown by writing the figures within brackets) means your business will be short of cash.

ACTIVITY 18



Make a Cash Flow Plan for your business during the first three months of next year using all the forecasts you have made for your business next year. Below is the form to fill in.

CASH FLOW PLAN (Unit:)		JAN	FEB	MAR
CASH IN	1. Cash at the start of the month			
	2. Cash in from sales			
	3. Cash in from credit sales			
	4. Any other cash in			
	5. TOTAL CASH IN			
CASH OUT	6. Cash out for Material Costs			
	7. Cash out for Labour Costs			
	8. Cash out for Overhead Expenses			
	9. Cash out for planned investment in equipment			
	10. Any other cash out			
	11. TOTAL CASH OUT			
	12. CASH AT THE END OF THE MONTH			

6.3 Use your Cash Flow Plan to improve your business



Use your Cash Flow Plan to make sure that your business has enough cash all the time. If the plan shows that there is no cash in your business at the end of a month, you are likely to run out of cash that month. Look at the amounts you expect to get in and pay out during that month and think how you can solve the problem.

Look what happened at *Plastic Solutions*:





Use information from *Plastic Solutions'* Cash Flow Plan on page 72 and answer the questions below.

Which amount of cash out is larger in March than in February for *Plastic Solutions*? Why?

.....

.....

.....

What advice can you give *Plastic Solutions* to help them improve their cash flow in March?

.....

.....

.....

How does the Cash Flow Plan help *Plastic Solutions*?

.....

.....

.....

See page 86 for the answers.

If your Cash Flow Plan shows that your business is likely to run out of cash during one month, think about these questions:

- Can you increase cash in from sales during that month? For example, are you giving too much credit?
- If you sell on credit, do your credit customers pay on time? Can you give less credit or give credit for a shorter period? Do you have to give credit at all?
- Can you reduce your Material Costs for the month by reducing your level of production?
- If you buy on credit, can your supplier give you more time to pay?
- Can you postpone the payment of any of your expenses, for example the payment of telephone or electricity bills or the payment of your own salary?
- Can the bank extend your loan period or reduce the amount you have to pay each month?
- Is it necessary to buy the new equipment immediately? Can you buy equipment on credit or get a loan?

6.4 How often should you make a Cash Flow Plan?

You can make your Cash Flow Plan for three months or for a longer or shorter period if it suits your business.

Make a new Cash Flow Plan before the old one runs out. Then your business can always see how much cash is likely to come in and go out and you can make decisions about spending or reducing the outflow.

I will make the next Cash Flow Plan before the end of March.

Yes I see. Your next Cash Flow Plan will be for April, May and June.

CASH FLOW PLAN(US\$)			
	Jan	Feb	Mar
1. Cash at the start of the month	10,000	7,884	6,202
2. Cash in from sales	4,200	5,680	6,720
3. Cash in from credit sales		1050	1,420
4. Any other cash in	420	568	672
5. TOTAL CASH IN	4,620	7,298	8,812
6. Cash out for materials	1,786	5,130	5,130
7. Cash out for labour costs	1,320	1,320	1,320
8. Cash out for overhead expenses	2,710	2,110	2,098
9. Cash out for planned investment in equipment	0	0	10,000
10. Any other cash out	920	420	568
11. TOTAL CASH OUT	6,736	8,980	19,118
12. CASH AT THE END OF THE MONTH	7,884	6,202	(4,097)

7. Make a Loan Access Plan

7.1 Is a loan necessary for business?

Chris, the new equipment is necessary for my business. It will help us improve product quality. I need to find funding for it.

There are many places that issue business loans. You need to take your records to show the bank how well your business is performing. You also need to work out how much money will come into your business.

If your Cash Flow Plan shows that your business will run out of cash and you think that you will not be able to postpone or reduce any expenditure, you will need to consider getting a loan.

Your Cash Flow Plan will help you determine how much money your business will need, why the money is needed and when it can be paid back. Look at *Plastic Solutions'* Cash Flow Plan for the first three months of next year, cash at the end of March is -\$4,097. So, Juma will need at least \$4,097 more to purchase new equipment.

7.2 Choosing a financial institution

Different financial institutions provide loans but attach various conditions to the loans, such as:

- When the amount should be paid
- Interest you should pay on the loan
- The type of security or collateral
- Penalties for failure to repay the loan

Choose a financial institution that offers conditions that your business is able to fulfil. Also consider the amount of interest your business will pay.

7.3 Calculating interest on your loan

Juma needs to know how the interest is calculated on her loan. Interest rates change every time and financial institutions use different methods of calculating the interest rate. They use a **flat rate method** and a **reduced balance method**. For instance, if Juma borrows \$4,000 at an interest of 12% per annum and pays back the same amount within eight months, her total interest using a **flat rate method** will be \$320 as shown in the table below:

Month	Interest Calculation (\$)	Interest Payment (\$)	Principal Payment (\$)	Total Payment (\$)	Loan Balance (\$)
0					4,000
1	$4,000 \times 0.12 \times 1/12$	40	500	540	3,500
2	$4,000 \times 0.12 \times 1/12$	40	500	540	3,000
3	$4,000 \times 0.12 \times 1/12$	40	500	540	2,500
4	$4,000 \times 0.12 \times 1/12$	40	500	540	2,000
5	$4,000 \times 0.12 \times 1/12$	40	500	540	1,500
6	$4,000 \times 0.12 \times 1/12$	40	500	540	1,000
7	$4,000 \times 0.12 \times 1/12$	40	500	540	500
8	$4,000 \times 0.12 \times 1/12$	40	500	540	0
	TOTAL	320	4,000	4,320	

On the other hand if Juma's interest is calculated using the reduced balance method, she will pay a total interest of \$180. In this instance, the amount of interest is based on the balance due at the end of each month and not on the initial amount of the loan. See the example in the following table:

Month	Interest Calculation (\$)	Interest Payment (\$)	Principal Payment (\$)	Total Payment (\$)	Loan Balance (\$)
0					4,000
1	$4,000 \times 0.12 \times 1/12$	40	500	540	3,500
2	$3,500 \times 0.12 \times 1/12$	35	500	535	3,000
3	$3,000 \times 0.12 \times 1/12$	30	500	530	2,500
4	$2,500 \times 0.12 \times 1/12$	25	500	525	2,000
5	$2,000 \times 0.12 \times 1/12$	20	500	520	1,500
6	$1,500 \times 0.12 \times 1/12$	15	500	515	1,000
7	$1,000 \times 0.12 \times 1/12$	10	500	510	500
8	$500 \times 0.12 \times 1/12$	5	500	505	-
	TOTAL	180	4,000	4,180	

“

It is very important to find out whether the interest will be charged based on a flat rate or a reduced balance rate when applying for a loan. Your business pays less interest on a reduced balance method of interest calculation. Make sure you borrow at the lowest interest possible. Find out what method your financing institution is using.



”

7.4 Preparing to qualify for the loan

To qualify for a loan from a financial institution, you have to first show the loan officers that your current business is performing well. You can do this by showing them the records of your previous sales, costs and profits.

Then, you have to show the loan officers the purpose of the loan. Your plans for the following year should make it clear why your business will need to borrow the money.

Finally, they will want to see how the business will be able to make enough profit to pay back the loan. Your plans will provide them with that information as well.

Some financial institutions may require collateral in addition to seeing your plans and records. Collateral is the asset or item that acts as a guarantee to the lenders that they will be able to recover the amount they are loaning. If you are unable or unwilling to repay the amount of the loan, the financial institution will sell the asset to recover the loan amount and interest. The loan officers at the financial institution will require that the value of the collateral is greater than the amount you owe.

7.5 Planning for loan management

It is important to repay your loan when instalments are due. Late payments will hurt your company's credit rating, which may make it difficult to borrow in the future. Default on the repayment would result in additional charges for the default and a bad credit rating. The company assets which are used for collateral could also be sold. This could seriously disrupt the business and may even cause it to fail.



“

Make sure that you fully understand the financial institution's terms and conditions for the loan.

”

The cash to make the monthly loan payments should be generated from the business itself. If repayment of the loan would be sought from another source, the business gets deeper in debt, which would be a major concern.

To ensure that your business can repay the loan when instalments are due, remember to include the instalment amount in your Cash Flow Plan, under “any other cash out”. The timely loan repayment is possible if your business has a positive cash balance at the end of every month. Before you request a loan, it is important to determine whether your business will generate enough Gross Profit to make the monthly payments. Remember that the repayment of the loan is a priority.



ACTIVITY 20

When should you consider taking out a loan from a financial Institution?

.....
.....
.....

What are the important questions a business owner must answer before he decides to borrow money?

.....
.....
.....

What is the difference between loan repayment calculated on a flat interest and a loan repayment calculated on a reduced monthly balance?

.....
.....
.....

How do you determine that you can repay the loan plus the interest?

.....
.....
.....

What is collateral on the loan and what is the purpose of collateral?

.....
.....
.....

See page 87 for the answers



The first thing you must do when making your business plans is to determine your goal. You must be clear about the objectives that you want your business to achieve.

Every business operates under a lot of uncertainty, so businesses should have strategies incorporated in their business plans describing how to cope with unexpected events. All business plans should have a built-in Risk Management plan. Therefore, you should make your Risk Management plan first, then incorporate it into the other plans.

To make a plan, you should follow a two-step process:

- Make the plan for the next year
- Make the forecast for the next year

To make a Sales and Marketing Plan for your business:

- Propose marketing activities
- Forecast the amount of sales you expect your business to make
- Calculate your sales forecast by multiplying the forecasted sales price by the quantity of items you think you will sell

To make a Production and Cost Plan for your business:

- Propose actions to improve your production and operation process in order to achieve your business objectives
- Forecast the production quantity
- Forecast the Overhead Expenses
- Forecast the Material Costs
- Forecast the Labour Costs

Use your forecast of sales and costs to calculate what the Gross Profit and the Net Profit are likely to be for your business next year.

To make a Cash Flow Plan, forecast:

- How much cash will come into your business each month
- How much cash will go out of your business each month

If your Cash Flow Plan shows a shortage of cash next year, you may need to consider taking out a loan. To make a Loan Access Plan for financing your business, you should:

- Choose a financial institution
- Calculate the interest on your loan
- Prepare to qualify for the loan
- Plan to manage repayment of the loan



ASSESSMENT 5

You have just completed Part V of this manual. Do the exercise below to check your understanding. Finish the exercise before comparing your answers with those on page 97.

Which one is correct?

Circle the correct or best ending for each sentence.

1. When making plans for your business, you should start with...
 - a. past business records.
 - b. the objectives your business wants to achieve.
 - c. forecasts for the next year.

2. All plans for a business should have built-in...
 - a. Sales and Marketing Plan.
 - b. Cash Flow Plan.
 - c. Risk Management strategies.

3. When you make a Sales and Marketing Plan for your business, you think about...
 - a. improving your marketing activities.
 - b. reducing your Overhead Expenses.
 - c. increasing wages for your employees.

4. When you forecast your monthly Overhead Expenses,...
 - a. you guess the amount for next year.
 - b. you use the same amounts as this year.
 - c. you make the forecast based on changes that may affect the costs next year.

5. To forecast your monthly Material Costs for the next year, you...
 - a. forecast the Material Cost per item and the amount of monthly production.
 - b. forecast the total Material Cost for next year and divide it by 12 months.
 - c. make an estimation based on your sales forecast because your costs are directly proportional to the amount of sales you will make.

-
6. To make a cost plan, retailers and wholesalers forecast...
 - a. Material Costs and Overhead Expenses.
 - b. the cost of labour and material.
 - c. the cost of labour and the Overhead Expenses.

 7. A Cash Flow Plan will help you to...
 - a. increase sales.
 - b. know how much cash will come into and go out of your business in the future.
 - c. know how much cash you owe your suppliers.

 8. A Loan Access Plan shows you...
 - a. the different ways to get additional money for your business.
 - b. how financial institutions calculate interest.
 - c. the amount of interest your business will have to pay for the loan.



ANSWERS TO ACTIVITIES

Activity 12

2. FORECAST OF OVERHEAD EXPENSES						
						(Unit: US\$)
DETAILS	JAN	FEB	MAR	APR	MAY	JUN
Rent	300	300	300	315	315	315
Electricity	100	100	100	100	120	120
Stationery	20	20	20	20	20	20
Water	18	18	18	18	18	18
Depreciation	35	35	35	35	35	35
Total	473	473	473	488	508	508

Activity 19

1. Cash out for the planned investment in equipment is larger for *Plastic Solutions* in March. Juma at *Plastic Solutions* is going to buy some new equipment.
2. Juma should not think about buying the new equipment in March. She should buy the equipment when the business will have enough cash. If the purchase of the new equipment is necessary in March, Juma should find a way to get additional funding to make the purchase. She can also find if she can purchase a second hand equipment at a cheaper rate.
3. The Cash Flow Plan helps Juma at *Plastic Solutions* by showing her that the company will have no cash left at the end of March if she buys the equipment. She can then plan to either buy the new equipment at a later date or to get enough cash to make the investment in March.

Activity 20

1. If your Cash Flow Plan shows that your business will run out of cash and you cannot increase sales and reduce expenditures sufficiently to close the gap, you will need to find an additional source of capital to finance the investments you wish to make or postpone the investments until you accumulate enough profit from your business to finance them yourself.
2. The important questions necessary to answer before applying for a loan are:
 - How much do I really need and for what specific purpose?
 - Will the business generate sufficient income every month to pay the business expenses and also make the loan payments?
 - Will the added cost of taking a loan for the business bring an equivalent or higher increase in profits for my business?
 - How long do I need to extend the loan repayments and will I have sufficient cash from sales after I have paid for my other expenses?
3. Interest charged on a flat rate means that the interest rate is calculated based on the original amount of the loan and does not change as the loan is repaid. Interest charged on a reduced monthly balance means that the amount of interest that you must pay is recalculated each month, based on the actual outstanding balance; this method is less expensive than the flat rate method.
4. The way to calculate whether you can repay the loan plus interest on time is to make a Cash Flow Plan to determine whether your business will have enough cash every month.
5. Collateral is the asset or item that acts as a guarantee to the lenders that they will be able to recover the amount they are loaning. If you are unwilling or unable to repay the amount of the loan, the financial institution will sell the asset to recover the loan amount and interest. The loan officers at the financial institution will require that the value of the collateral is greater than the amount that you owe.

WHAT DID YOU LEARN IN THIS MANUAL?

Now that you have studied this manual, try these practical exercises. The exercises will reinforce what you have learnt and will help you to improve your business by using financial plans.

The exercises will help you to:

- **Use** what you have learnt to solve practical problems (Can You Help?).
- **Take action** to improve your business by using what you have learned (Action Plan).

Compare your answers with the Answers at the end of the exercises on pages 97 - 100. If it is difficult for you to work out an answer, read that part of the manual again. The best way to learn is to finish each exercise before you look at the answers.

Check the list of Useful Business Words on page 101 to quickly find the meaning of a terminology.

“

You have learned about planning in this manual. But what you have learnt does not help until you use this new knowledge in your business. Remember to do the Action Plan on page 96 to improve your business planning.

”



1. Can You Help?

1.1 Cash flow problems at *Reliable Tailors*

The owners of *Reliable Tailors* have decided to make a Cash Flow Plan to help control the cash in their business. Here are their Forecasts of Sales and Costs for the first three months of next year, which shows how much cash in they forecast from sales and how much cash out they forecast to pay expenses each month:

FORECAST OF SALES			
DETAILS	JAN	FEB	MAR
Sales (\$)	5,000	6,000	7,000

FORECAST OF COSTS			
DETAILS	JAN	FEB	MAR
Material Costs (\$)	2,200	2,720	3,230
Labour Costs (\$)	800	1,080	1,220
Overhead Expenses (\$)	1,100	1,200	1,200

- *Reliable Tailors* must collect 5% VAT on its sales.
- *Reliable Tailors* must pay the tax authority the VAT they collect one month after they collect it. In December, *Reliable Tailors* collected \$350 VAT on sales.
- 50% of *Reliable Tailors'* sales are on credit. They allow their credit customers to pay the following month.
- Their sales in December were \$8,000.

Reliable Tailors have also forecasted that:

- They will get a loan of \$500 from the bank on 1st January to buy a new cutting machine. Loan payments will be \$50 per month starting on 15th January.
- Cash in the cash box at the beginning of January will be \$600.
- Their bank account will have \$2,000 in it at the beginning of January.
- They will buy the new cutting machine for \$500 in January.

Here is a blank form for you to fill in to make a Cash Flow Plan for *Reliable Tailors* for three months.

CASH FLOW PLAN				
	DETAILS (US\$)	JAN	FEB	MAR
	1. Cash at the start of the month			
CASH IN	2. Cash in from sales			
	3. Cash in from credit sales			
	4. Any other cash in			
	5. TOTAL CASH IN			
	CASH OUT	6. Cash out for Material Costs		
7. Cash out for Labour Costs				
8. Cash out for Overhead Expenses				
9. Cash out for planned investment in equipment				
10. Any other cash out				
11. TOTAL CASH OUT				
	12. CASH AT THE END OF THE MONTH			

1.2 Planning at *Chimba Carpentry*

Chimba works alone at his carpentry shop, where he makes tables and chairs. He is now planning for next year. He has all the information he needs. Use the information below to help Chimba complete his Forecast of Sales and his Cost and Profit Plans for January next year.

- This year Chimba sold an average of twenty chairs and ten tables per month. He forecasts that he will sell the same amount next year.
- A chair sold for \$40 this year. After checking his competitors' prices, Chimba has decided to keep this price next year too.
- Chimba sold each table for \$60 this year. But from doing market research he found that customers are willing to pay \$80. He will sell tables at \$80 each next year.



Here is the blank Sales Forecast for *Chimba Carpentry*. Help Chimba to work out the total sales he is likely to make in January.

FORECAST OF SALES				
	DETAILS	JAN	FEB	MAR
CHAIR	Sales quantity			
	Sales price (\$)			
	Sales (\$)			
TABLE	Sales quantity			
	Sales price (\$)			
	Sales (\$)			
	TOTAL SALES (\$)			

- This year, Chimba paid \$140 per month for rent. His landlord says that the rent will go up by \$10 per month at the beginning of next year.
- Chimba paid \$50 per month for electricity this year. There will be no increase in the cost of electricity next year. Chimba thinks he will use the same amount of electricity next year.
- Transport cost \$40 per month this year. Chimba thinks he can reduce this cost through better planning to \$32 per month next year.
- Chimba will pay himself \$500 per month next year. 70% of his time will be spent on making tables and chairs, while 30% of his time will be used for talking to customers and keeping records.
- Chimba spent \$25 per month to maintain his machines this year. Some machines are old and will need more maintenance next year. Chimba thinks that the cost of maintaining his machines next year will be \$40.

Make the forecast of Overhead Expenses and Labour Costs for *Chimba Carpentry* by filling in the blank forms below:

1. FORECAST OF OVERHEAD EXPENSE PER MONTH	
(Unit: US\$)	
DETAILS	AMOUNT
Rent	
Electricity	
Transport	
Wages	
Machinery maintenance	
Total	

2. FORECAST OF THE TOTAL LABOUR COST (Unit: US\$)			
DETAILS	JAN	FEB	MAR
Wages - Chimba			
Total			

- *Chimba Carpentry* does not want to stock finished goods, so Chimba decides that the production quantity will be the same as the sales quantity. He will produce twenty chairs and ten tables each month.
- The cost of materials to make one chair was \$9 this year. The supplier tells Chimba that next year, the cost of timber will increase about 20%, while other Material Costs are unchanged. Chimba estimates that the Material Cost to make one chair will go up to \$10.
- The cost of materials to make one table was \$20 this year. If timber price increase 20% and other Material Costs are unchanged, the Material Cost to make one table will go up to \$22.

Make a forecast of the total Material Cost for *Chimba Carpentry* in January.

3. FORECAST OF TOTAL MATERIAL COST			
DETAILS	JAN	FEB	MAR
Material Cost per item - chair (\$)			
Number of chairs produced			
Material Cost for making chairs (\$)			
Material Cost per item –table (\$)			
Number of tables produced			
Material Cost for making tables (\$)			
Total (\$)			

Use your forecasts from one to three and help Chimba fill in the Forecast of Costs in January.

FORECAST OF COSTS (Unit: US\$)			
DETAILS	JAN	FEB	MAR
Material Costs			
Labour Costs			
Overhead Expenses			
Total			

Finally, work out the Gross Profit and Net Profit *Chimba Carpentry* is likely to have in January.

PROFIT PLAN			
(Unit: US\$)			
DETAILS	JAN	FEB	MAR
Total Sales			
Total Material Costs			
Total Labour Costs			
Gross Profit			
Overhead Expenses			
Net Profit			

In January, *Chimba Carpentry's*

- Gross Profit is likely to be \$.
- Net Profit is likely to be \$.

2. Action plan

This is my Action Plan to improve the planning in my business.



WHAT is the problem?	HOW do you solve the problem?	WHO will solve the problem?	WHEN will the problem be solved?
I need to buy a new extruding machine. But I do not know when my business will have enough cash to pay for the machine.	When I make my next Cash Flow Plan I can see when my business is likely to have enough cash.	I must do the Cash Flow Plan myself.	It is March now. The Cash Flow Plan I have ends in March. I must do the new Cash Flow Plan for April, May and June now.

How can your business get better at planning? Start by making an Action Plan like Juma did. In your plan, write down:

1. What problems does your business have in terms of planning?
2. How will you solve each problem?
3. Who will solve each problem (you or someone else)?
4. When do you plan to solve each problem?

Write down your Action Plan on the next page. Remember these suggestions:

- Make a plan for a three or six month period
- Be realistic. Only write down what you think is possible to do
- Try to solve the most urgent problem first
- Keep this manual at your business so that you and others in your business can use it when you need it
- Check regularly to make sure that you are following your action plan. It is a good idea to check every week
- Consider putting your action plan on the wall so it is easy to see and check

Plan to improve your business planning

Use this page to write down your own plan to improve the way you develop and use plans in your business.

WHAT is the problem?	HOW do you solve the problem?	WHO will solve the problem?	WHEN will the problem be solved?

**Assessment 1**

1.
 1. Planning
 2. Loan Access Plan
 3. Production and Cost Plan
 4. Profit Plan
 5. Cash Flow Plan
 6. Sales and Marketing Plan

2.

1b; 2a; 3c; 4a; 5c

Assessment 2

1c; 2b; 3a; 4c; 5c

Assessment 3

1a; 2b; 3c

Assessment 4

1. False: Managing risk is always necessary because unfavourable events can occur at any time in any business.
2. False: The purpose of Risk Management is not to avoid all risks but to ensure that risks are consciously taken with a complete knowledge and clear understanding of the appropriate responses to take.
3. True: You should prioritize the risks that are most dangerous to your business.
4. False: It is not a good idea to accept risks which have a significant impact on your business even if the possibility of occurrence is low. Reducing or transferring will be a more appropriate response.
5. True: Remember to follow the four steps of the Risk Management process and do not rush to respond to a risk before making an assessment.

Assessment 5

1b; 2c; 3a; 4c; 5a; 6a; 7b; 8c

Can you help?

Cash flow problems at *Reliable Tailors*

CASH FLOW PLAN				
	DETAILS (US\$)	JAN	FEB	MAR
	1. Cash at the start of the month	2,600	4,925	5,325
CASH IN	2. Cash in from sales	2,500	3,000	3,500
	3. Cash in from credit sales	4,000	2,500	3,000
	4. Any other cash in	825	275	325
	5. TOTAL CASH IN	7,325	5,775	6,825
CASH OUT	6. Cash out for Material Costs	2,200	2,720	3,230
	7. Cash out for Labour Costs	800	1,080	1,220
	8. Cash out for Overhead Expenses	1,100	1,200	1,200
	9. Cash out for planned investment in equipment	500	-	
	10. Any other cash out	400	375	325
	11. TOTAL CASH OUT	5,000	5,375	5,975
	12. CASH AT THE END OF THE MONTH	4,925	5,325	6,175

Please note:

- **“Any other cash in”** includes VAT collected and loans received during the month. VAT collected is 5% of sales (Including cash sales for the month and cash received from credit sales from the previous month.) For example, in January, the VAT collected will be \$325 ($5\% \times (2,500 + 4,000)$) and the amount received from the loan will be \$500.
- **“Any other cash out”** includes the payment of the VAT amount collected during the previous month and the monthly loan payment. For example, *Reliable Tailors* collected \$350 in VAT during December and will make a \$50 loan payment in January. In February, VAT collected during January will be \$325 so “Any other cash out” for February will be $\$325 + \$50 = \$375$.

Planning at Chimba Carpentry

Here are the forecasts for *Chimba Carpentry* for January:

FORECAST OF SALES				
	DETAILS	JAN	FEB	MAR
CHAIR	Sales quantity	20		
	Sales price (\$)	40		
	Sales (\$)	800		
TABLE	Sales quantity	10		
	Sales price (\$)	80		
	Sales (\$)	800		
	TOTAL SALES (\$)	1,600		

1. FORECAST OF OVERHEAD EXPENSE PER MONTH (Unit: US\$)	
DETAILS	AMOUNT
Rent	150
Electricity	50
Transport	32
Wages	150
Machinery maintenance	40
Total	422

2. FORECAST OF THE TOTAL LABOUR COST (Unit: US\$)			
DETAILS	JAN	FEB	MAR
Wages - Chimba	350		
Total	350		

3. FORECAST OF TOTAL MATERIAL COST			
DETAILS	JAN	FEB	MAR
Material Cost per item - chair (\$)	10		
Number of chairs produced	20		
Material Cost for making chairs (\$)	200		
Material Cost per item –table (\$)	22		
Number of tables produced	10		
Material Cost for making tables (\$)	220		
Total (\$)	420		

FORECAST OF COSTS			
(Unit: US\$)			
DETAILS	JAN	FEB	MAR
Material Costs	420		
Labour Costs	350		
Overhead Expenses	422		
Total	1,192		

PROFIT PLAN			
(Unit: US\$)			
DETAILS	JAN	FEB	MAR
Total Sales	1,600		
Total Material Costs	420		
Total Labour Costs	350		
Gross Profit	830		
Overhead Expenses	422		
Net Profit	408		

USEFUL BUSINESS WORDS

WORD	THE WORD MEANS	MORE ON PAGE
Business Analysis	Study how your business has been performing in the past to find out if there was a change. For example, by analysing your Profit and Loss Statement, you can find out if your profit is decreasing.	15-25
Cash Flow Plan	A plan which shows what money is likely to come into and go out of a business during a specific period of time in the future; for example the next three months.	8, 68-78
Forecast	When you forecast something, you are predicting what you think is likely to happen in the future.	29
Loan Access Plan	A plan which shows the amount of money a business is likely to borrow, where it will get the money, how much it will cost to borrow the money and the source of money to repay the loan.	8, 78-82
Planning	Thinking about and then deciding what to do about things that are likely to occur in the future.	1, 8-11
Production and Cost Plan	A plan which shows proposed improvements in your production and a forecast of costs your business is likely to have in a future period; for example a month.	8, 51-66
Profit Plan	A plan which shows what Gross and Net Profit a business is likely to earn in a future period; for example a year.	8, 66-68
Risk	Risk is the possibility of your business suffering loss due to unexpected events.	37
Risk Management	A process of identifying risks to which your business is exposed and developing strategies for reducing the effects of the risk to your business if it occurs.	38-41, 44
Sales and Marketing Plan	A plan which describes the marketing activities in which your business is going to participate and a forecast of the sales your business is likely to make in a future period; for example a year.	7, 44-50

IMPROVE YOUR BUSINESS

Planning For Your Business

Started your business already, but have troubles in some aspects of business management?

Improve Your Business (IYB) is the existing entrepreneurs' guide to good principles of business management. The **IYB Planning For Your Business** manual will guide small businesses through the process of making the right plans for their business to boost business performance.

IYB is part of the 'Start and Improve Your Business' family of management training courses for start-ups and small entrepreneurs. The programme builds on 25 years of experience working in 100 countries, partnering with 2500 local institutions, 200 certified Master Trainers and a network of over 17,000 Trainers. It has reached 6 million clients to date and these numbers are only increasing!

The IYB training is supported by a set of six manuals:

IYB Costing

IYB Marketing

IYB Record Keeping

IYB Buying and Stock Control

IYB Planning For Your Business

IYB People and Productivity

