



# FARMERS TRAINING ENTREPRENEURSHIP MANUAL





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## PREFACE

The unique initiative of identifying, motivating, training and facilitating farmers to take up Conservation Agriculture With Trees (CAWT) as a sustainable economic activity has been yielding good results. Continuous experimentation has enabled CAWT to evolve as a versatile training module by combining the result oriented practices of CAWT and the best aspects of entrepreneurship development modules practised in other fields in the backdrop of researches made by social scientists and entrepreneurship experts.

Entrepreneurship among farmers is considered one of the key means of attaining the overall objective of the Evergreen Agriculture Project which is: to improve the livelihoods of smallholder farmers through promotion of evergreen agriculture practices while sustaining the resource base. Evergreen agriculture involves the promotion of conservation agriculture (CA) and Agroforestry (AF) practices.

The entrepreneurship training presented in this manual is aimed at building the capacity of smallholder farmers in CA and AF thereby enhancing CGIAR's Systems priority 3 (Reducing rural poverty through agricultural diversification and emerging opportunities for high-value commodities and products) Priority 4 (Reducing extreme poverty and hunger) MDG 7 (Environmental sustainability and MDG 3 (Reducing the gender disparity).

The development of this training manual is based on our experience and the extensive feedback received from different segments of entrepreneurs and trainers. The methodologies suggested here are being practised successfully in many fields. Efforts have been made to provide some significant information on the contents of each session. However, in the ever-changing economic scenario and information explosion, it is inevitable for the trainee to build upon the skills, update, give value addition and use the information here-in effectively to achieve the objectives.

Success lies not only in effective training but also in a combination of pre-training orientation and post-training facilitation. The training should definitely make a permanent impact on the participants so that the participants should consciously try to change their thoughts and behaviour patterns. The case studies of successful entrepreneurs has revealed that making small changes in their behaviour pattern/ activities/practices like punctuality, courtesy to customers, honesty, innovation, communication etc. after training, have made a big positive difference in their life and enterprise.

The success rate and results of the committed work in the other aspects of the Evergreen Agriculture project has encouraged us to prepare the present module to cover various aspects within the time frame provided. The dedicated implementation and the results that follow will give us the real satisfaction.

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## LIST OF ACRONYMS

AF	Agroforestry
EC	European Commission
CA	Conservation Agriculture
CAWT	Conservation Agriculture With Trees
ICRAF	World Agroforestry Centre
IFAD	International Fund for Agricultural Development
MDG	Millennium Development Goals
NGOs	Non-governmental organizations
SWOT	Strength, Weaknesses, Opportunities and Threats

## ACKNOWLEDGMENTS

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## INTRODUCTION

Aspiring farmer entrepreneurs face different challenges, which affect their decision to start or continue in businesses. Some of these are unique to smallholder farmers. Entrepreneurs need to plan well for their business. They need to be aware of the implication of their good planning or lack of it, decisions and actions they make to their well being, their family, their society, the environment and global community at large. Their business, family and personal well being and the environment form a tripod. All the three must be in a good balance. Entrepreneurs, especially farmers, need to learn how to keep their ventures consistently competitive and sustainably operating, for their well being and that of the environment; a value highly upheld by CAWT and is consistently emphasized in this training.

This training is for farmers building businesses. The focus of the training is on the skills to build successful and sustainable entrepreneurial ventures related to conservation Agriculture With Trees (CAWT). The training will present basic business skills to start and maintain a business, it is aimed at helping you to manage business and approach your enterprise with confidence and enthusiasm. Training themes include general introduction to entrepreneurship, planning a business, identifying business opportunities, basic record keeping, marketing products and services, planning, financing and managing a business.

Entrepreneurial skills and a well-written business plan provide a strong foundation for the business you hope to run. The business plan guides you to consider in advance all the elements of running a profitable business and helps you to monitor your progress. The entrepreneurial skills on the other hand will be a great asset in implementation of your plan. This training will address the skills you need as well as provide a business plan template for your planning.

A major component of the training will be **tasks** to be undertaken in and outside of the training sessions. These will be a link for transitioning from business skill acquisition to the business plan implementation. At the end of each skill, you will be allocated tasks. These are aimed at assisting you apply the acquired skill to your own business and they will guide you in developing and actualizing your own business plan. Be prepared to do the tasks as thoroughly as you can. The training sessions will provide you with opportunities to address concerns and seek solutions as you plan to start and build successful entrepreneurial venture. A vital component of the training will be to provide insight on access to local resources, while equipping you with basic skills to handle the challenges of running a business.

The training objectives are to:

- Understand entrepreneurship
- Understand how to start and develop CAWT related business
- Prepare and implement business action plans while managing risks
- Understand and apply best business management skills to ensure sustainability and profitability.
- Identify community and business resources that support tree farmers.



## SESSION 1:

### Understanding personal background as a prospective farmer entrepreneur

The purpose of this session is to have you establish your entry background regarding basic business best practices. This will assist you to organize and focus on setting personal goals for your business and for the subsequent training sessions. There are five key questions you need to ask yourself:

#### What are the personal goals for my business?

- People become entrepreneurs for different reasons. These may be for income generation, having a unique idea, or by seeing other people do well in business.
- Think through your personal reasons and write down the reasons why you want to start a business. These reasons form the basis for your initiative and the driving force for your hard work. Later they will form a standard for measuring your success.

#### Why do I want to be an entrepreneur?

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#### What are my ideas in tree business?

- Businesses originate from generated ideas. The best business ideas have enough focus to translate the idea into reality and to begin its implementation.
- State your business idea in specific terms. You don't have to give the details at this point. For example, 'tree farming' is too general for a business idea. 'Establish nursery project to raise fruit tree seedlings for fruit farmers' is a specific idea.
- You may have many ideas. Write them down and evaluate which is most compatible with your skills, experience, resources and personal goals.

## **My business ideas**

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## What are my training goals?

- People start entrepreneurial ventures with different levels of experience, knowledge and skills. Some are trained; others have been previously employed in someone else's business or have run their own businesses, yet others have no prior training or experience. In either case everyone has questions about how to be a successful entrepreneur.
- Write down your questions about starting and succeeding in business. Highlight the ones you hope to address through this training.
- You may have some concerns which are not captured in this training. Discuss them with the trainers and other farmers you meet. Try as much as possible to find solutions to your questions so as to minimize any doubts as you progress with the training.

## **What do I want to know about business?**

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## Do I have a habit of keeping records of how I use my income?

- Recording incomes and expenses is a basic business practice. It is also the basis of business and personal budgeting.
- Reflect on your average income per week (especially the last week before the start of this training session), record all the money you received and spent. Begin with the cash money available to you in your home. Then enter your expenses for example, if you bought vegetables enter them in the column OUT.

Date	Detail	IN	OUT	DESCRIPTION

How do I assess my progress in business skill acquisition?

- During this training and as you begin the business; you will want to build your skills. These are same skills you will gain from the training session. Many more will be acquired with experience.
- This training is aimed at increasing your business skills, confidence and knowledge and certainly enhances your competency. There is a self-assessment tool (Refer to Appendix I) to help you evaluate your learning needs. It will help you identify weaknesses in your competency and show you what to concentrate on during the training and afterwards.
- Complete it at the beginning of the training and refer to it regularly to assess your progress and redirect your training efforts.



Photograph 1: FGD group discussing the use of different fodder trees to enhance livestock production

## SESSION 2

### FUNDAMENTALS OF A SUCCESSFUL ENTREPRENEUR

- Starting a business
- Planning
- Evaluating success

#### Definition of entrepreneurship

Entrepreneurship is a process of identifying and starting a business venture, sourcing and organizing the required resources and taking both the risks and rewards associated with the venture. *Source* <http://en.wikipedia.org/wiki/Entrepreneurship>.

Entrepreneurs are innovators who use a process of changing the current situation of the existing products and services, to set up new products and new services. *Source:* [www.econlib.org/library/Enc/Entrepreneurship.html](http://www.econlib.org/library/Enc/Entrepreneurship.html).

#### Starting a Business

##### LEARNING OBJECTIVES

- Be clear about your reasons for wanting to start a business.
- Understand the pillars to turn your vision into reality.
- Test your business idea.

##### CASE STUDY

There was a man named Wafula who lived 100 km from Bungoma town, He visited his friend Njeru in Meru town 900km away from his home area. He found out that his friend was a successful farmer making a lot of money from an avocado plantation. Njeru's avocado harvest was sold to traders and exporters from Nairobi town which is 150km from Meru town. Wafula considered his 50 acres of land and decided he was going to plant avocado trees in his home and since he would be the only one running such kind of business, he was optimistic to make much more money. So he sold seven cows and invested in an avocado farm. It was not until the initial two poor successive harvests and failure to get people to buy his avocados that he realized that he did not have sufficient skills and knowledge about avocado farming.

##### BUSINESS SKILL

There are two kinds of entrepreneurship ventures:

1. Those that succeed.
2. Those that fail.

Everyone dreams that his/her business will be successful. We should look at the foundation of building up a good business; there are four pillars that could ensure that a business succeeds.

### **Pillars of entrepreneurship success**

What makes a successful entrepreneur?

1. An idea and market
2. Skills/knowledge and experience
3. Resources
4. Motivation and hard work

Successful entrepreneurs have these four attributes. Without any of them, your business will be unstable.

**AN IDEA AND MARKET:** An idea is the kind of business you want to do and market is the people who will buy your products or services. A good idea is the basis of a successful venture while the availability of a market is the indicator of the sustainability of the business venture.

**SKILLS/KNOWLEDGE:** This refers to several business skills. (We need both theoretical and practical skills). Do we know how to produce quality products for our market? We also need business management skills. Do we know how to keep basic records so that can assess the profitability of our business?

In addition we know something about our **MARKET.** Do people want our service or product? How are we going to inform people that we have what they want? Who will be our customer? And how will our goods get to the market?

**HARD WORK:** working consistently every day. Making money in business largely depends on you. Are you there to open your business every day? Can people rely on you? Do you sell a quality product or service?

**RESOURCES:** How much **MONEY** do you need to start your business? The money you use to start your business is called your capital. It often takes a lot less money than you expect, the profits to be realized is what you should use to grow your business. ***Starting small is the key for great entrepreneurs.*** Most people only talk about the business they want to start. Take some time and reflect on these things before you start.

### **APPLICATION**

Back to our story, What was Wafula lacking? **KNOWLEDGE.**

Perhaps you think you would like to sell quality dry firewood in a city where people stay in flats and apartments where wood fuel cannot be used.

What do you think is lacking? There is no **MARKET.**

## **CASE CONSIDERATION**

Some farmers came together to form a local group. They wanted to establish a fruit canning and processing plant so that they could process their produce and then sell them at a nearby town as finished products. They considered everything they might need; including a medium - sized processing machine and a building to set up the plant.

They wrote a grant proposal seeking to find a large investor to help them fund their start-up Capital. They failed to get an investor for three years and eventually gave up on the project.

Were they TALKING or STARTING?

*“Many great Ideas wind up before they are actualized because the owners want **BIG MONEY** to start great”* But these farmers could have started small, and as they learn more about running the business and made some money, they could grow their business using their profits.

In small groups, test your business ideas in reference to CAWT against this framework below and share your ideas with your group. Write down your findings.

Describe the need you see in the market ('the tree - based business opportunity').

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Describe in specific terms your business idea ('tree - based business description').

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This is an ideal reality check. It is appropriate for testing an idea. As you continue to work with and refine your business idea, your planning will become more thorough.

## **Entrepreneurship foundation**

The foundation of any successful entrepreneurship is like a four legged - stool illustrated in figure 1. If one of the legs is missing, then the venture will not be stable.

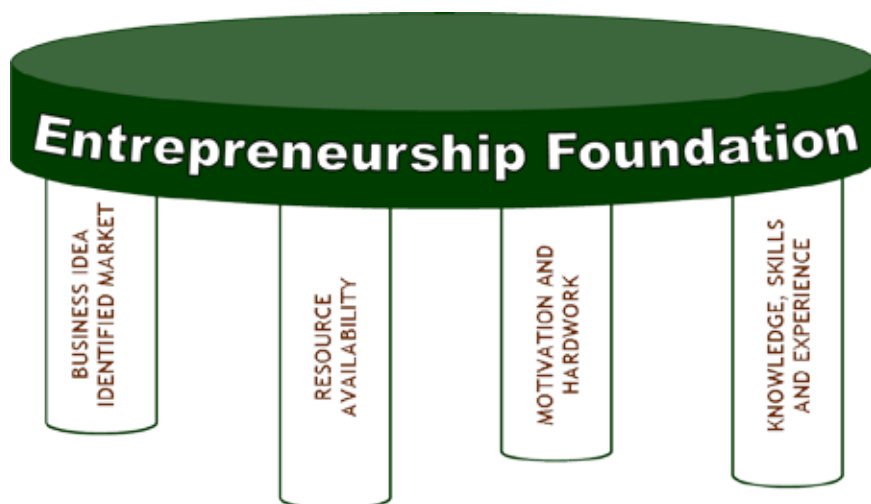


Figure 1

## Planning

### LEARNING OBJECTIVES

- Understand key planning questions.
- Prepare a basic start-up plan for your business.

### CASE STUDY

Mwende, a widow owned three acres of land. Her husband had planted mango trees in a section of the farm while he was still alive. When the trees started producing fruits she thought of launching a mango business. So she went to the market to see what other traders were selling, and for how much. She noticed that most of the people were coming to sell mangoes at a very low price to visiting traders who in turn transported them to other towns and to fruit canning industries. She recalled that when she had visited her friend, she had been served with a glass of homemade mango juice. She thought of producing quality mango juice and perhaps selling it at a lower price, than those available in market shops.

Because she was just starting her business, she decided it would be best if she worked at home. Then she wouldn't have to pay rent. But if she did that, how would people know she was in business? So, she blended some juice and took to the local schools and requested headmasters to allow her to supply it to the school. She prepared a brief write up on how nutritious and healthy her juice was and how it was important for the whole family.

She further asked the headmaster to allow her to distribute the flier to the students to take to their parents. She did the same thing at the local churches asking the pastors to recommend her work to their members. She did not stop there; she gave samples to all her friends and invited them to buy her product.

Lastly, she looked around for someone who might be able to help her if her business was successful. She would run the business on her own to start with, because that would save her paying a salary, but she hoped very soon she could afford help, and she would need a friendly person who would be good with the customers to help her.

### **BUSINESS SKILL**

Before you start your business, you need to make a plan. A good business plan is a product of a homework done well. There are basic questions that need to be answered before you start.

### **TASK 1**

Answer these basic questions.

- What does Mwendu want to do or sell? \_\_\_\_\_
- Who will buy her product? \_\_\_\_\_
- How much will it cost her to make her product? \_\_\_\_\_
- What price will she charge her customers? \_\_\_\_\_
- Where will she sell her product or service? \_\_\_\_\_
- How will people know she is in business so they can buy her product? \_\_\_\_\_  
\_\_\_\_\_

### **Role play**

Second, look at Wanjiku's experience starting her agri-entertainment business. Read this with another participant, one as the interviewer, one as the entrepreneur.

1. Why did you choose this business?

*Because of the need for a natural quiet retreat centre away from town, I also chose this business because it serves as a community service and conserves the environment. Both the community and I can benefit.*

2. What are the challenges you faced in getting your business started? And what are challenges you are facing now?

*Getting the licence from the city council because I had not processed the title deed for the piece of land, second; getting people to know of the existence of my business.*

3. How many employees do you have?

*Because the business is still small, only my husband and I currently run the business since both of us are retired and still strong.*



4. Do you think you are successful? What is the reason for your success?

*I am at the early stages of operating the retreat farm; I hope that my business will be successful, but I believe that I have planned ahead very well. However, I am flexible and ready for surprises.*

5. What is your advice to other people thinking of starting their own business? What are the lessons learnt?

*They should enter into business with an open mind to new ideas and lessons because there will always be new lessons! Also, they should have a time frame in which to work in; they should set targets, and always expect minimum profit, at least at the beginning of your business. But most importantly I would advise that anyone who wants to work in a business to fully familiarize him/herself with his/her line of business.*

6. How did you market your business?

*I put adverts in daily newspapers (in the classified section which is cheaper) and distributed brochures in several places like companies and organizations that conduct team building events. I also placed advertisement posters on notice boards of the library, colleges and the gym that are in town.*

### **TASK 3**

In your small groups share what business you would like to do to by answering the simple questions below.

- What do you want to do or sell? \_\_\_\_\_  
\_\_\_\_\_
- Who will buy your product or service?  
\_\_\_\_\_
- How much will it cost you to produce your product?  
\_\_\_\_\_
- What price will you charge your customers?  
\_\_\_\_\_
- Where will you sell your product or offer your service?  
\_\_\_\_\_

- How will you inform people that you are in business so they can buy your product?
- 

- Are you sure that you have done your planning well?
- 

- Do you think you need to research on something else regarding your business?
- 

## EVALUATING SUCCESS

### Understanding the concept of profit

#### LEARNING OBJECTIVES

- Define profit.
- Understand the difference between income and profit.
- Understand that in business, profits are meant to support the entrepreneur, his/her family and business.

#### Consider this

There was a young man who attended an entrepreneurship skills training. He was very excited because he had just started a business of going to the city to buy second hand shoes for 200 shillings per pair and later sell them in his home town at 300 shillings. He thought he had a brilliant business idea and he would make lots of money.

He was asked by the trainer:

- How he was getting to the city, he replied, by train.
- If he was spending the night in the town and his reply was. Yes, in a hotel he added.
- If he bought some food while in the city he answered, yes.
- How he got the shoes from the market to the hotel where he was spending the night. He replied by taxi he said.
- If he was paying the city council fee, his answer was yes.

The trainer asked the participants to add up all his expenses. They found out that the cost of each pair cost was actually 280 shillings and not 200 shillings and so his profit on each one was 20 shillings and not 100 shillings.

Let's think about why most people want to do business. They want to earn a living. They want to support their family, to pay school fees for their children, to have money for entertainment, to build good houses, to pay hospital bill when they are sick. They do business to make a **PROFIT**.

### **INCOME - EXPENSES = PROFIT**

But what is profit? You may think it is the money you make when you sell something. That is income. Income and Profit are different.

We always need to remember those expenses. Do we have to pay rent for the space where we make or sell our product? Do we need to pay for transportation? Do we pay salaries to the people who work for us? Those are some of the expenses of doing business.

Sometimes we do things that affect our profit, usually reducing it, without realizing it. If we run a fruit shop in the community, and we let our friends and relatives take some for free, we reduce our profit. If we sell fruit seedlings and give the Agricultural Extension officer who visits us .

#### **TASK 3**

Working in small groups suggest other things that can reduce profits.

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Always remember this; we make profit It is to support ourselves, our family, and more importantly, our business. Savings are vital to sustaining and expanding a business.

**INCOME - EXPENSES = PROFIT**

*Remember that, the measure of success in business is when we make profit in the confinement of the larger well being of our family, business, society and environment.*

## SESSION 3

### PERSONAL CHARACTERISTICS OF AN ENTREPRENEUR

#### LEARNING OBJECTIVES

- Understand practices to manage business cash
- Understand the basic records to manage business cash
- Understand the use of cash book or cash flow statement
- Start and practice record keeping with personal finances

#### CASE STUDY

Some women started rearing chicken to sell the eggs. Each day three different women were in charge of collecting and selling the eggs. However, some sold eggs to their friends on credit without recording and sometimes they used money earned from the sales to buy drinks for their families. Several of them took eggs without paying for them or making a record.

The treasurer collected money without recording it. Sometimes she sent someone else to collect it. Sometimes no one collected it and the sales ladies took it home. Sometimes it was lost or stolen before it could be handed over to the treasurer. One day the treasurer's husband borrowed the money she was keeping, and there was none left to buy feed for the chickens. At the weekly meeting, someone asked how much money they were making, but no one knew. Some women got very angry and left the meeting.

#### Task 4

In your groups, discuss the following questions and note down your agreed responses

- Does this story relate to your experience? \_\_\_\_\_
- Is this the right way to manage a business? \_\_\_\_\_
- Will it lead to profit or loss? \_\_\_\_\_
- Can you suggest any changes? \_\_\_\_\_

## **CASE STUDY**

A group of six men decided to start a business of selling timber. Before they started, they organized their business. They agreed to work in turns, three people per day. They also laid down the rules for controlling the money. When they made any sale, they recorded the sale. They only gave credit to members of the group and that was recorded. The treasurer collected the money everyday checking the amount against their receipts.

They all signed a book to prove the money had changed hands. On the way home, the treasurer called on the group's secretary, who checked the money and recorded it in a cashbook. Twice a week, they took the money to the bank. At every meeting they reported on the cash in hand, and at the end of every month, they read a statement summarizing the income, expenses, profit and bank deposits they had made.

What happened in the above case study?

- Is this the right way to manage a business?
- Will it lead to profit or loss?
- Can you suggest any changes?

You need to 'manage' your money. Entrepreneurs need to systematically adopt practices to control their money.

### **Characteristics of a good entrepreneur (good business practices)**

- Keeping daily records: With cashbooks, we should always know how much money we have and how much we spend.
- Keeping money safe: It should be banked frequently and cash locked up safely while it is within the business premises.
- Avoid giving credit as much as possible: There will be exceptions to this, but if the base line is 'no credit', then the business can establish records to track credit and practices to collect money owed to the business.
- Collecting long standing debts.
- Routinely preparing a profit/loss statement to look at the expenses and income. At the beginning, this is done weekly, then monthly or quarterly.
- When the business grows large enough, look for professionals like financial officer or treasurer to maintain daily records and check cash receipts against the records.

## **Business skill to learn**

### **1. Keep a daily RECORD**

This record will track where the money comes from and where it goes. This record is called a **cash book** and it will help you to know how your business is doing. Without records, you can never know whether we are making a profit or a loss.

### **2. Put money in SAVINGS regularly**

You should not wait till the end of the month to start saving. By then there is usually nothing left to save. Try to set aside a small amount each day. This becomes very useful during emergencies. Banks can be a safe place for your savings, but in some of the bank fees may be more than the interest to be earned. In that case, a look for cheaper options available to you.

### **3. Avoid selling your products /services on credit**

If someone has no money and cannot pay for the item, some entrepreneurs are afraid they will lose the sale if they do not give credit. But it is not a sale until it is paid for. In such a case you lose both the money you invested and the profit. Giving people credit does not make them friends. When you give so much credit to your customers that you do not have enough cash to restock, the customers will go to other enterprises and your business will fail.

### **4. Don't allow long standing DEBTS**

Money owed to you by people is yours, and you need it to support your enterprise. Sometimes business is done with credit, but this leads to delayed payments. You need to set your terms up front and have a plan to collect payment. Sometimes you can sell your product on credit and wait for the payment for a very long time as a result you lack products to sell to other customers.

### **5. Check if you are making a PROFIT OR LOSS**

This should be done on a regular basis. This can only be possible if you keep records.

## **TASK 5**

Name two records you will keep as you do your business.

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Write down three practices you will routinely do in your business.

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## BUSINESS MANAGEMENT SKILLS TO ENSURE BUSINESS SUSTAINABILITY AND PROFITABILITY

### Preparing a Cash book

Keeping records in business entails writing down everything concerning money which happens in the business.

As an entrepreneur you need to pay yourself a salary. Very few entrepreneurs pay themselves a documented salary. What most of them do if they need money is to take it out of the cash box without recording.

It is important to know where all your money comes from and goes to. Therefore you need to record everything in your **cashbook**, even the salary that you earn.

A cashbook does not have to be complicated. A simple note/exercise book is sufficient. When you start recording, you must do it in a systematic and consistent order, with everything clearly labelled.

### Basic cash book format

Date	Detail	Revenue/ Money In	Expenses/ Money out	Description
1st April	Cash in hand			

*Cash in hand:* This is the money we have in our pocket or purse, available to spend. It is the money at the beginning of the period.

*Date:* The date/day when the transaction or business activity takes place.

*Detail:* The details of the transaction are recorded in this column.

*Money In:* You record all the money you receive in the business.

*Money out:* You record all the money you spend or give out of the business.

*Description:* Indicate where the money is being debited and credited.



Sometimes at the beginning of business you have no cash. Write a zero in the 'revenue' column. You have to have some figure there. 'Cash in hand' is the money you have to spend at that moment, it does not include your savings. The revenue column tells you what money is in your pocket. If someone buys something from you and pays, you record it in the IN column, because the money comes into your business.

The Expenses column, tells you when you spend money, or give money to somebody and it goes out. When you put money into savings you record it in the expenses column because it goes out of your business cash and is set aside.

The Description column, tells you if the transaction was for your Domestic, your Business or Savings.

Ensure you record all your money transactions every day. If you give out some money, write it down. When you make sales, write them down. When you buy a drink, or you contribute to charity or church writes it down. Without these records, we cannot tell how our business is performing. These records:

- Tell us how our business is performing.
- Tell us where our money is going.
- Help us increase our profit and decrease our expenses.
- Help us to prepare a Profit/Loss statement using them.
- Are used when applying for a loan.
- Help us to determine the taxes need to pay.

### Example 1

Date	Detail	Revenue/ Money In	Expenses/ Money out	Description
1st April	Cash in hand	1000		
2nd April	Paid exam fee for son		200	D
2nd April	Sale of tree seeds	2000		B
3rd April	Savings in cooperative bank		500	S
4th April	Paid electricity bill for the shop		200	B
5th April	Bought rice for Lunch		150	D

Look at this example. What do these records tell us? Is the business profitable? Does the business support the family and generate savings at the same time?

## **TASK 6**

In small groups discuss a possible CAWT- related enterprise, list possible incomes and expenses and develop a Cash book to cover one week on a separate sheet provided by the trainer.

**Recall:  $\text{Income} - \text{Expenses} = \text{Profit}$**

NOTE: As your business grows, you will keep cash records for the business only.

## **Calculating Profit and Loss**

### **LEARNING OBJECTIVE**

Learn how to calculate profit and loss from records of sales and expenses.

### **BUSINESS SKILL**

Using your profit and loss statements, you will keep track of the source of money you receive and where it goes. This is why you must label every entry as either: Family, Business or Savings. By this you will know what income was earned by your business, and what it costs to run the business. But you will also know how much you are spending on your family and if you are doing it wisely. You should also keep track of your savings because it secures the future of your business and your family.

Unlike the cash book where records are made every time a transaction is done, the profit and loss is prepared periodically, either weekly at the starting stages of the business and quarterly or annually as your business grows.

The profit and loss statement is extracted from the cash book.

## Example

Mwaringa's cash book

Date	Detail	IN	OUT	DESCRIPTION
1/4/2013	Cash in hand	1000		
2/4/2013	Sales	500		Business
2/4/2013	Gave daughter school bus fare		80	Domestic
3/4/2013	Sales	500		Business
3/4/2013	Savings		300	Business
4/4/2013	Bought rice		100	Domestic
4/4/2013	Transport		50	Business
5/4/2013	sales	700		Business
6/4/2013	Bought fertilizer		200	Business
6/4/2013	Bought seeds		100	Business
7/4/2013	Church offering		100	Domestic

Now Mwaringa's profit and loss statement at the beginning of the second week of April will be as follows:

Profit and loss statement as at 8/4/2013			
<b>Cash in hand 1/4/2013</b>			<b>1000</b>
<b>Income (IN)</b>		<b>+2100</b>	
Business	2100		
Domestic	0		
Savings	0		
<b>Expenses (OUT)</b>		<b>-1250</b>	
Business			
Domestic	650		
Savings	300		
	300		
<b>Profit/Loss</b>			<b>850</b>
Cash in hand 8/4/2013			<b>1850</b>

This statement tells us, that Mwaringa's business started the week of April 1st - 7th with Ksh.1000. This was the cash in hand.

During this period, he earned an income of Ksh.2100. This is the sum of all the entries in the IN column. It is the total income for the week and is recorded on the **Income** line.

But he needs to know whether it came from the business, or perhaps from family or from savings. In this case no money came from family or savings so under this he indicates '0'.

He also needs to know how much he spent during the week by adding the OUT column. A total of Ksh.1250 was spent. That is written on the **Expenses** line. But he also needs to know what the money was spent on. He adds everything in the OUT column that he spent on the Family, Business and savings. All this adds up to 1250 (we put a minus sign because it goes out).

Recall from our previous session that:

$$\text{Income} - \text{expenses} = \text{Profit}$$

$$2100 - 1250 = 850 \text{ (this is Mwaringa's profit for the first week of April)}$$

At the start the week of 8th April 2013 Mwaringa's cash in hand was Ksh.1000

$$1000 + 850 = 1850 \text{ (Add the profit to the 'cash in hand' on 1st April)}$$

In your business you may have some 'cash in hand' at the beginning of the week you may have spent more during that week than you received, that will show a LOSS on our profit/loss statement. If that happens you should SUBTRACT the loss from the 'cash in hand' you started the week with.

The trends of profit/loss of a business is monitored by the use of profit and loss tracking tool (refer to Appendix III).

## HOW TO IDENTIFY BUSINESS OPPORTUNITIES RELATED TO CAWT



Photograph 2: farmers add value to tree product

Take some time and study the picture below

# WOOD you believe; We get so much from trees!

dye  
oxygen  
piano keys  
rayon - books  
fishing floats - inks  
telephone books  
varnish - atlases and maps  
price tags - ping pong balls  
tires - umbrella handles - signs  
automobile instrument panels  
space craft reentry shields - newspaper  
photographic film - newspapers - posters  
football helmets - toilet seats - guitars  
road building materials - insulation

shatterproof glass - artificial vanilla flavoring  
cork - vacuum cleaner bags - movies - stadium seats  
adhesives - decorations - turpentine - camphor - waxes  
fireworks - crayons - tannin - charcoal - pine oil - pitch  
musical instruments - perches for birds of prey - toilet paper  
milk cartons - flooring - bark for landscaping - cardboard  
grocery bags - furniture - chewing gum - paper towels  
oil spill control agents - Christmas trees - hockey sticks  
wildlife habitat - cosmetics - roofs - baby foods - cider - vitamins  
cooking utensils - photographic film - lacquer - pallets - rubber gloves

mulch - clean water - golf tees - egg cartons - nail polish - fence posts - toys  
toothpaste - eyeglass frames - syrup - antacids - shampoo - rubber gloves  
menthol - electrical outlets - medicines - energy for electricity - plates and bowls  
sausage casings - torula yeast - rulers - wooden blocks - houses - notebook paper - oars  
plywood - paper plates - computer casings - stain remover - coffee filters - toothpicks  
movie tickets - carpet and upholstery backsides - imitation bacon - diapers - horse corrals  
postcards - tax forms - sponges - shade - particle board - shoe polish - luggage - bowling alley lanes  
postage stamps - colognes - animal bedding - irrigation piping - fruit pie filling - golf balls - game boards  
suspending agent for drinking soda - pencils - dry wall - baby cribs - baseball bats - lumber - decoys - kites  
magazines - ice cream thickener - step ladders - birthday cards - broom sticks - cider - ceiling tiles  
crutches - backyard play sets - axe handle - food labels - 2 x 4's - candy wrappers  
scenery - party invitations - disinfectants - cd inserts - gummed tape - fruit  
railroad ties - shelter belts - puzzles - swings - baking cups

buttons - cutting boards  
benches - bird houses  
stereo speakers  
garden stakes  
stairways - beds  
tables - barrels  
window frames  
bulletin boards  
linoleum - seesaws  
fishing boats - billboards  
disposable medical clothing  
church pews - totem poles - desks

**How many other tree products can you list? Those are your business opportunities!**

**There are two processes involved in identifying business opportunities:**

**1. Description of the business opportunity**

- Who is the customer and what product or service are they buying?
- How do they use the product or service/Why do they purchase it?
- What do customers need that is currently not available?
- Is the need in the market growing?
- What changes are taking place that could affect purchasing choices?
- How did you get the idea?
- Why are you especially likely to succeed?

**2. Business description**

- What is your product or service?
- Why is it unique?
- Who is your customer?
- Where will you sell your product or service?
- Why will customers purchase it?
- When will you be ready to sell it?



Photograph 3: A nursery operator admires his seedlings

## SESSION 4

### SOURCING FOR FUNDS FOR BUSINESS

#### OBJECTIVES

- Know the steps to looking for funds
- Understand the differences between lenders

#### BUSINESS SKILL

As a wise entrepreneur you need to start small. As you learn more about running the business as well as making money then you grow your business using profits.

Depending on your business idea sometimes your own resources may not be enough at the start. You need funds for equipment purchases and operating expenses. The starting capital needed is determined from your business plan. If you decide to seek additional funds, you should be prepared with a business plan and know the alternative sources.

#### Steps to looking for funds:

1. What is your business plan? Your lender needs to know your plan.
2. What funds do you need for your business? A detailed budget is most important. It convinces potential lenders that you have done your homework. It confirms that this is a good business idea.
3. What resources do you have?
4. Go back to step one. Are you convinced that your business plan is realistic?
5. List the sources of funding available to you. Consider family, banks, credit unions, village lending programs, cooperatives and any other money lenders.
6. Prepare the loan application.
7. If you get the loan, put the money in a safe place and begin working according to your plan. Do not divert funds to other needs. You have to build a successful business and repay the loan.
8. If you do not get the loan, ask the lender why not? What can you learn from that? What can you change for the next application?



You can also access micro-credit. These are small loans for short periods, up to 4 months for example. When the loan is repaid, a second loan may be offered to you. In most cases you will succeed if you have skills to do business and manage money well. Avoid temptations of using the loan on other things other than the intended business and also you should only get a loan if you are sure it will produce enough income to pay back the loan and interest within the time allowed.

SOURCE	AVAILABLE AMOUNTS	FEATURES	RISKS
Own Savings	Depends on what you have saved from other sources	No interest	Have least risks but if the business fails it depletes family savings
Micro-finance	Small amounts available usually for small business	Interest rate high May include training	Comes with supportive environment and may provide discipline for repayment
Bank loans	Larger amounts available especially for business with experience	High interest rates Security/collaterals may be required	Consequences exist if loan is not repaid
Family loans	Funds may be limited	You may not be obliged to pay more than you borrowed	Moral obligation to family. May cause strain in family relationships if not paid
Money lender	Funds often available	Very high interests	Consequences are high if the loan is not repaid
Grants from /donors Government or NGOs	Amounts depend on the granting body.	In most cases it comes with training and close monitoring and evaluation. No interest	Comes with supportive environment but largely depends on the donor satisfaction for continuity.

Write down the sources of funding you will consider in your business. Give local specifics e.g. name of the bank.

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## PARTICIPATORY MARKET CHAIN ANALYSIS

- Competition
- Marketing Principals: 5 'P's'
- SWOT analysis
- Sales Forecast

### Marketing Your Business: Competition

#### LEARNING OBJECTIVES

- Understand the importance of competition
- Identify a competitive threat
- Apply an appropriate response

#### CASE STUDY

A team travelling along Ngong road, a road leading to one of Nairobi's leafy suburbs of Karen, notice a chain of tree and flower seedlings displays along the road. There is actually little difference between the displays. However, one stands out, for two reasons. The owner greets her customers politely with a smile and her seedlings are neatly packed while the arrangements are lovely and well labelled.

#### BUSINESS SKILL

You will at some point if not always meet competitors in the market with the same product or service as yours. You need to equip yourself with more skills, know the market better, work harder, then make a better product or service with less cost and get more customers. Ultimately if you plan better, you will have more satisfied customers and earn higher profits.

A 'competitive advantage' may be **product-related** or **service-related**. Try as much as you can as to achieve both.

## **TASK 7**

In the case study above, what was the competitive advantage?

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Look at local businesses with the same products or services. Each individual business has its own business strategy. At the same time, each is strongly influenced by competition. As an entrepreneur find your strategy and be dynamic because the market is very dynamic. The strategy you use in one season may not during the next one. Similarly the one that is used to attract particular types of customers may not work for others.

In small groups discuss the following question in reference to a CAWT - related business idea you had come up with during an earlier session:

What are you going to focus on as your competitive advantage pillar in the market?

Discussion might include:

- Better quality
- Better display
- Better location
- Better service

Note down your group's findings

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## **Marketing Your Product or Service**

### **Know the 5 'P's**

#### **CASE STUDY**

A certain man decided to open a shop for leather bags near his home. He decides to make really beautiful bags that ladies can use when going to parties, weddings and even work. He had noticed when he was in town buying one for his wife that the bags were very expensive so he thought he could make a big profit if he sold them.

To keep his costs down he decided to open the shop in his home, even though he lived some distance from the town. His wife regularly used the sample bag whenever she went to town. Her friends would ask her of where she had bought the bag and she would direct them to the husband's shop. They were excited to come and buy the bags. The man became very busy because he started getting so many orders. He had to employ someone to assist him in the business.

### **TASK 8**

In groups discuss the following questions and note down your response.

- What is the product? \_\_\_\_\_
- Where did he sell it? \_\_\_\_\_
- Who did he sell it to? \_\_\_\_\_
- How did he set the price? \_\_\_\_\_
- How did he attract customers? \_\_\_\_\_
- How did he plan the business? \_\_\_\_\_
- Where did he get his idea? \_\_\_\_\_

### **Business skill**

The focus of any successful business is the customer. As an entrepreneur you have to understand the customer's needs. The four 'P's of marketing are your decision about the Product, Place, Price, and Promotion. These four revolve around the fifth 'P' which stands for the people — your customers.

### **TASK 9**

What is the difference between the man's products in the case study above and those in the shops in town?

\_\_\_\_\_

Which will be more popular?

\_\_\_\_\_

Which is more 'customer - oriented'?

\_\_\_\_\_

How will location affect the business?

\_\_\_\_\_

How will the wife affect the business?

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How did the man determine the price? How will that affect the business?

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How is he promoting his business? Will it have a great impact? Why?

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How did they develop his plan?

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## Marketing Consideration

5 'P's	Marketing questions	Business Skills
PEOPLE	Who are my customers?	State your major target customers. They should be enough to consistently buy your product/service. These are people who you will ensure are the first to know you are in business and their purchases forms the foundation of your sales. They can be individuals, companies, other entrepreneurs, organization, local, regional, national or international.
	What do they like? What do they need?	Services/product that will make them happy because their needs have been met/their problem has been solved.
	Do they have money to buy my products?	Consider the capacity of the people to afford your service/ product. This largely determines their interest (interest + affordability is known in business as demand).
PRODUCT	How do I make or get the product?	You should make your product in such a way you reduce the cost of production while maintaining standards of high quality.
	Does it meet the customer's needs?	A product that solves a problem/need among the people is what will be bought. Such can only be developed after you conduct a market research (market need assessment).
PLACE	Where will I start my business?	Very important to consider the location. First, it must be easily accessible to customers, Second, consider the impact of location to your overall cost of business (do you have to pay rent? Are your products safe?).
	Is it convenient for the customer?	Customers will always spent their money at a place that is convenient to them (they never want to feel extra - burdened to spend) consider distance from the customer or availability transport.

PRICE	How much will it cost to get the product to the customer?	The cost of production must be the minimum possible for production of a quality product. This will ensure your prices are competitive while at the same time raising profits.
	How much will they pay?	Determine your price after considering your overall expenses of production, the other prices in the market and profit you want.
	Will I make profit?	This is determined after you have taken into account all the costs involved until the product gets to the customer and comparing the market price by your competitors.
PROMOTION	How will I let people know that I am in business?	Use the most effective and affordable means of advertisement. This depends on the type, distribution and exposure of your customers and also the type of product/service.
	How will I attract them to my business?	Things that attract people to business are simple: <ul style="list-style-type: none"> <li>• Use of good language while talking to customers.</li> <li>• Showing interest in them when you are talking to them (simple gestures like a smile means a lot) good packaging, display and presentation of your products.</li> <li>• Talk to people positively and confidently about your product.</li> </ul>
	How will they know my product is better than another?	You should try to have samples or demonstrations of your product or service and confidently tell people that your product is the best.

## **TASK 9**

Recall the business idea you came up with in the earlier session, in your small group discuss and share your thoughts, suggestions and ideas about the questions above. Write your answers in the table below. THIS WILL FORM PART OF YOUR MARKETING STRATEGY.

5 'P's	Marketing strategy pillar questions	Write your answers here
PEOPLE	Who are my customers?	
	What do they like? What do they need?	
	Do they have money to buy my products?	
PRODUCT	How do I make or get the product?	
	Does it meet the customer's needs?	
PLACE	Where will I start my business?	
	Is it convenient for the customer?	
PRICE	How much will it cost to get the product to the customer?	
	How much will they pay?	
	Will I make profit?	
PROMOTION	How will I let people know that I am in business?	
	How will I attract them to my business?	
	How will they know my product is better than another?	



## Value chain analysis

*“In business, we’re paid to take raw inputs, and to “add value” to them by turning them into something of worth to other people. This is easy to see in manufacturing, where the manufacturer “adds value” by taking a raw material of little use to the end-user (for example, wood pulp) and converting it into something that people are prepared to pay money for (e.g. paper). But this idea is just as important in service industries, where people use inputs of time, knowledge, equipment and systems to create services of real value to the person being served – the customer”.*

Source:[https://depts.washington.edu/oei/resources/.../value\\_chain\\_analysis.pdf](https://depts.washington.edu/oei/resources/.../value_chain_analysis.pdf)

In most cases, the more value you create, the more people will be prepared to pay a good price for your product or service, and the more they will they keep on buying from you. On a personal level, if you add a lot of value to your product, you will excel in what you do. You should then expect to be rewarded in line with your contribution.

So how do you find out where you can create value?

This is where the **“Value Chain Analysis” tool** is useful. Value Chain Analysis helps you identify the ways in which you create value for your customers, and then helps you think through how you can maximize this value: whether through superb products, great services, or jobs well done.

### Value Chain Analysis is a three-step process:

1. **Activity Analysis:** First, you identify the activities you undertake to deliver your product or service;
2. **Value Analysis:** Second, for each activity, you think through what you would do to add the greatest value for your customer.
3. **Evaluation and Planning:** Thirdly, you evaluate whether it is worth making changes, and then plan for action.

We follow these through one-by-one:-

### Step 1 – Activity Analysis

The first step to take is to brainstorm the activities that you undertake that in some way contribute towards your customer’s experience. At a business level, this will include the step-by-step business processes that you use to serve the customer. These will include marketing of your products or services; sales and order-taking; operational processes; delivery; support; and so on (this may also involve many other steps or processes specific to your business).

At a personal or team level, it will involve the step-by-step flow of work that you carry out. However, it could also involve other activities. For example:

- How you recruit people with the skills to give the best service.
- How you motivate yourself or your team to perform well.
- How you keep up-to-date with the most efficient and effective techniques.
- How you select and develop the technologies that give you AN edge.
- How you get feedback from your customer on how you're doing, and how you can improve further.

### **Some advice if you have a team working in your business**

If you carry out the brainstorming behind the Activity Analysis and Value Analysis with your team, you'll almost certainly get a richer answer than if you do it on your own. You may also find that your team is more likely to "buy into" any conclusions you draw from the exercise. After all, the conclusions will be as much theirs as yours. Once you've brainstormed the activities which add value to your company, list them. A useful way of doing this is to lay them out as a simplified flow chart running down the page – this gives a good visual representation of your "value chain".

### **Step 2 – Value Analysis**

Now, for each activity you've identified, list the "Value Factors" – the things that your customers value in the way that each activity is conducted.

For example, if you're thinking about a tree seedling business, your customers will value an elaborate explanation of how to care for the seedling after planting; a polite manner; efficient taking of order details; fast and knowledgeable answering of questions; and an efficient and quick resolution to any problems that arise.

If you're thinking about delivery of a professional service, your customer will most likely value an accurate and correct solution; a solution based on completely up-to-date information; a solution that is clearly expressed and easily actionable; and so on.

Next to each activity you've identified, write down these Value Factors.

And next to these, write down what needs to be done or changed to provide great value for each Value Factor.

### **Step 3 – Evaluate Changes and Plan for Action**

By the time you've completed your Value Analysis, you'll probably be fired up for action: you'll have generated plenty of ideas for increasing the value you deliver to customers. And if you could deliver all of these, your service could be fabulous!

Now be a bit careful at this stage: you could easily waste your energy away on a hundred different jobs, and never really complete any of them.

So first, pick out the quick, easy, affordable wins – go for some of these, as this will improve your spirit and that of your team.

Then sort out the more difficult changes. Some may be impractical. Others will deliver only small improvements, but at great cost. Drop these.

And then prioritize the remaining tasks and plan to tackle them in an achievable, step-by-step way that delivers steady improvement and at the same time keeps your team's enthusiasm going.

## **BUSINESS SKILL**

Value Chain Analysis is a useful way of thinking through the entire value chain of the product you are dealing with and developing ways in which you deliver value to your customers, and reviewing all of the things you can do to maximize that value.

It takes place as a three stage process:

- **Activity Analysis**, where you identify the activities that contribute to the delivery of your product or service.
- **Value Analysis**, where you identify the things that your customers value in the way you conduct each activity, and then work out the changes that are needed.
- **Evaluation and Planning**, where you decide what changes to make and plan how you will make them.

By using Value Chain Analysis and by following it through to action, you can achieve excellence in the things that really matter to your customers.

## **The Collective Marketing**

It is important to note that farmer entrepreneurs have been facing difficulties in making maximum profits from their sales due to lack of a collective bargaining power. This gives room for middle men and women commonly known as brokers to exploit them.

As an entrepreneur you should join with other farmers to form groups or associations that will market your products. Below is a guideline and framework within which to form a successful association that will benefit you as an entrepreneur.

Key aspects of forming a group	Guideline and framework of forming a beneficial/successful farmers association/group
1) Fair pricing	The members expect that a fair price will be negotiated on their behalf by their association. The group's stronger bargaining position should translate into better terms than members could have negotiated on their own. This creates the need for a mechanism that creates transparency in price determination.
2) Quality assurance	When a deal is made, there is a need to control the quality that the organisation has promised. Individual members may try to deliver lower quality produce but the association/group needs a system to maintain minimum quality requirements.
3) Coping with working capital constraints	Some farmers may face cash constraints and want fast payments, while the group needs time to complete transactions with the end buyer. This creates financial costs for the group as they need to have a working capital to pay members quickly.
4) Anticipating "side selling"	The organisation might provide a credit service or advance payment system to enable production. However, this entails a serious risk that farmers will "side sell" their produce to competing traders or processors, to whom they have no repayment obligation.
5) Distributing profits	When the organisation makes a profit, it will prefer to invest or increase its capital reserves, while the members will prefer shorter term benefits, e.g. better prices.
6) Differentiating services to members and non-members	Most economic organisations need contributions from members to achieve their business targets. However, members can sometimes be deterred from making such contributions if the benefits from the group's activities accrue to both investors and non-investors.
7) Task delegation and supervision of professional staff	The farmers' group may employ professional staff to support them. Board members need to have proper information to make good decisions. This means that staff must be transparent and willing to provide this information. At the same time, however, decisions about commercial transactions often need to be made quickly, and therefore the professional staffs needs to have sufficient autonomy to make these decisions.

## SESSION 5

### SWOT ANALYSIS

#### LEARNING OBJECTIVES

- Know what S, W, O, and T mean for a business
- Describe a business by its strengths, weaknesses, opportunities and threats

#### CASE STUDY

There was farm enterprise called Wakulima enterprise. It was organizing small agro-enterprises and giving training. The organizers were highly respected by the farming community, but they realized that not many new businesses called them. When they thought about their own business, they saw that their telephone operator was rude. She had a strong voice that was not welcoming. It was a problem until they changed and put a person with a pleasant voice on the telephone and at the front desk. They found another job for the first operator.

#### BUSINESS SKILL

When we have a business, we often take it for granted. 'We have always done it this way'. But is it the best way? We need to look at our business often as if it belongs to someone else. Be critical. What could we do that would raise our profit? What do we do well? Where do we need to improve? What could we do to attract more customers? Do people like to do business with us? Do we run it in a business- like way?

We need to do a SWOT analysis every three or four months, to see if we can improve our profits.

<b>S</b>	<b>= Strengths</b>
<b>W</b>	<b>= Weaknesses</b>
<b>O</b>	<b>= Opportunities</b>
<b>T</b>	<b>= Threats</b>

A SWOT analysis lets you look at your business on a regular basis and work to improve your weaknesses and make the most of your opportunities.

## **TASK 9**

Strengths and weaknesses are in your control. You can do something about them.

Opportunities and threats are outside of your control. You can still respond to them.

Assume you run an animal feed shop. You have decided you need to look at how you run the business, to see if it's as good as you can make it. You start by making a list and you write down everything you can think of about your business.

- You animal feeds to your friends at half price.
- A new ranch is being established near the town centre.
- You record your sales in the cashbook every day.
- Some of your feeds are poor quality.
- You're always friendly with your customers.
- Three new animal feeds shops are opening in town.
- The shop nearest to you is opening an hour early.
- You have not paid your business license this quarter.
- You visited three farms near the town and have some new orders.
- The Council is talking about closing your street to commercial business.

Look at the list and decide which things listed are **Strengths.**

1. Keeping daily records is very good.
2. Being friendly with your customers is good. People would much rather buy from someone who is pleasant and greeted them by name than from a bad tempered person.
3. Visiting the three farms to get some orders was a good thing to do. You went out and looked for business.

What are the **Weaknesses?**

1. Selling feeds to your friends at half price reduces your profit, so that is bad... a weakness
2. Also, why would anyone buy poor quality feeds? In business, you want a reputation for selling a quality product for a fair price. Bad quality is a weakness
3. There is no excuse for not paying your business license.

Now let's look at the **opportunities**.

1. The new ranch is being established near the town presents you with an Opportunity. They will be buying animal feeds for their animals and maybe, you can persuade them to buy from your shop.

Lastly, let us look at the **threats**.

1. The new shops are a threat... they are competition. However, if they pay their business license you cannot stop them coming.
2. But what could you do about the shop, which is opening earlier than you do? You might also arrive early.
3. If you hear rumours that the Council is considering closing a street to your shop, you may not be able to do anything to stop them, but you can be looking for another favourable location.

## SWOT ANALYSIS

Strength	Weaknesses
Keep daily record	Sells daily menus at half price to friends
Friendly to customers	Has poor quality ink
Visit three hotels and get orders	Owes business licence
Opportunities	Threats
New hotel being built	Three new print shops
	Nearby shop opening early
	Council thinking of closing the street to commercial businesses

## TASK

In our story, think about

1. What can you do about weaknesses?

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How can you build on your strengths?

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How can you take advantage of your opportunities?

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How can you protect your business against the threats?

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Now look at your business or your business idea. What are the strengths, weaknesses, opportunities, threats? Be objective and comprehensive.

Your Strength	Your Weaknesses
Your Opportunities	Your Threats

Then begin to think about what you have identified about the situation in your business and in the environment. What can you do with this information? How can you best use your strengths? What can you do about the weaknesses? How do you respond to opportunities and threats? This thinking will be the start of your planning.

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Do this individually and then share the SWOT analyses in small groups.



Photograph 4: A well displayed tree nursery

## Sales Forecast

### LEARNING OBJECTIVES

- Define sales revenue
- Define the target customers of a business
- Estimate the number of customers and the amounts purchased
- Calculate sales revenue

**Sales forecast** is predicting the sales a business is likely to make.

### BUSINESS SKILL

Why is it important to forecast sales revenue?

Sales forecast is done at the beginning stages of business as part of the market strategy. It is very important at the early stages because it is a test of the viability of your business idea. Later the sales forecast will be used as a tool (Appendix IV) to evaluate expenses to ensure the business returns a profit.

As an entrepreneur you should review your sales forecast regularly in assessment of your business situation as well as to plan for the future.

It is important to understand your sales revenue. This is what you receive when you sell your product or service. For example if you are selling tree seedling at Kshs. 50 each and you sell 1000 seedlings then your sales revenue is  $1000 \times 50 = 50,000$

$$\text{Sales Revenue} = \text{Quantity Sold} \times \text{Price per Unit}$$

Note: Revenue is not the same as profit.

Revenue refers to the income without subtracting expenses while profit is income minus expenses.

To forecast sales revenue, you need to identify:

- Your customers
- Their buying pattern
- Price per unit

### Your Customers

These are the people in your business trading area who could become customers of the business. Their choice to become your customer may be influenced by their level of education, social status, gender, age, history or preferences.

### **Business skill**

You need to discover, define and determine the realistic number of your target customers as the first step in carrying out your sales forecast.

### Buying Pattern

Customers may buy a product regularly; it may be several times or once daily, monthly, quarterly or yearly. This regular or repeated buying defines a buying pattern of your customers.

### **Business skill**

Identifying and defining the buying pattern of your customers helps you to estimate the amount of products you are likely to sell during a certain period of time.

### Price per unit

The price of a product should be proportional to the value of the product in the view of your customer.

### **Business skill**

The price you set however, must cover all the expenses and should be realistic considering market competition.

## **TASK**

Recall your business idea. The following questions will help you conduct a sales forecast for your business. (Your answers should be realistic estimates)

How many customers are there in the community?

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Is there a segment (or segments) of people who are most likely to be your customers.

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Who are these target potential customers in your trading area?

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Approximately how many target potential customers are there?

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How many might realistically be customers of your business?

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What will be the most likely price?

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What will be your sales revenue?

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Consider your sales forecast and ask yourself, is the business worth investing in? If the revenue doesn't seem to support you as the owner, your family and the business, (in other words it doesn't look promisingly profitable) then you may have to revise your business plan. Such changes in the plan are better done at the early stages.

## Business skill

Sales forecasting is very important in business. If your forecast does not sustain a profitable business, it does not mean you should abandon your business. It means that:

- You have additional planning to do.
- Perhaps your product needs to be altered or
- Your product or service line should be expanded to attract more customers
- You should explore possibilities of reducing the cost of production or making savings in the costs of the materials purchased or the business operation
- You could consider viability and possibility of increasing price
- You expand your promotion to reach out more effectively to additional customers.
- You think about how to make the most of your business opportunity and competitive advantage



Photograph 5: Sale of poles as source of income generation

## SESSION 6

### REVIEW TASK

The goal of this training is to equip you with entrepreneurship skills so that you can become a successful farmer entrepreneur. So far you have been taken through some of the key entrepreneurship skills. During the early stages of the training you wrote down your business idea, maybe in the process you have gotten a new viable idea. This section will guide you to put together the skills you have acquired so far and write down a frame work for your business to be implemented immediately after this training. The task will involve:

- Using the guideline questions and statements provided below to prepare and present a summary of your marketing strategy.
- Writing your business plan by completing the business plan worksheet provided.

### **Marketing Strategy**

#### **A. Competition**

What major businesses offer products or services similar to yours?

For each case:

What do customers like about their product?

What do customers dislike about their product?

Who are their customers?

What is their price?

What is their reason for success?

What is their potential weakness?

How will you be different and better?

## **B. SWOT ANALYSIS**

Think about the business you plan to start.

What are its greatest strengths?

What are the biggest challenges?

Think about the market and the area.

What are the external influences on your business?

Which are the possible opportunities?

Which are the threats?

## **C. Customer**

Who is your customer?

What do they need, which is not currently available to them?

Where will they buy your product or service?

Do they have the money to buy it?

How many customers are there in your business area?

How often will they buy your product or service?

## **D. Product or Service**

What products and/or services will you provide?

What is your experience/expertise in producing the product or service?

What is your capacity to manufacture or provide the product?

Do you need to source any materials?

Do you have access to all inputs you need?

How will you maintain the quality of your product and supplies?

How might the product or service develop in the future?

## **E. Pricing**

Do you want to attract customers?

What price do you think you would set to do that?

How much will it cost to make and deliver the product to your customer?

What is the range of prices currently paid by customers for the same or similar products or services?

Is your product or service new and more valuable than those currently available in the market?

Can it sell for a higher price because of that?

What is the value of the product or service to the customer?

What is the price you will charge for your product or service?

Why?

What service and/or product improvements would increase the value?

## **F. Place**

Where will you sell your product or service?

Is the location convenient for customers?

Do you need to transport your product?

If yes, how?

## **G. Promotion**

What do you want to say about your product?

Who do you want to know about your product?

Where will your customer see your message?

How much will it cost to deliver the message?

## **H. Marketing Strategy**

Define briefly how you wish your business to be seen by target customers.

What message communicates the uniqueness of your product or service?

What image differentiates your business from the competitors?

Who is your target customer and how will your business satisfy their needs?

What are the key images and messages you want the community to have of your business and your unique product or service?

## **I. Sales Forecast**

Describe all the people who might be interesting in your product or service.

Among the total, is there a group most likely to purchase?

How many people in that group can your business reach?

How many competitive choices are available for this group?

Use the Sales Forecast Tracking Tool provided (appendix IV).

How many customers is your business likely to have each month in the first year?

What is their buying pattern?

Will they buy once?

Will they make repeat purchases?

How many items will they purchase in each transaction?

What is the sales quantity that the business anticipates from each customer each month?

What is price charged to the customer for each product or the service?

What is the sales revenue anticipated for the first year?

Are sales likely to be comparable or higher in future years?

If there is more than one customer type or more than one product or service, prepare the forecast for each group individual. Repeat for the others and then sum the forecasts to estimate the total business revenue.

Examine the forecast. Does it seem realistic and achievable?

Is the forecast too optimistic?

Does the sales revenue warrant the effort it will require?

When you are satisfied with the worksheets, proceed to complete the same Sections in your Business Plan Template (Appendix II)





Photograph 6: A farmer, his sons and workers in a banana farm

## **COST OF BUSINESS**

- Marketing Strategies
- Operating Budget
- Managing Product and Operating Costs

### **Marketing Strategies**

#### **LEARNING OBJECTIVES**

- Determine how to get the customer to buy your product or service and not someone else's product or service
- Presentation practice

#### **BUSINESS SKILL**

As you plan to start your business your marketing strategy is what will give you to your first customers, retain them and progressively give you more, How you will get the consumer to buy your product or service more than someone else's.

## **1. You should understand your customers very well**

Recall that shop owner in your market centre or town who you can simply make a phone call to and he will give your children what they need when you are far, or a barber (kinyozi) whom you don't have to struggle explaining to how you want your hair or your child's done. This entrepreneur understands you and that retains you as his/her customer.

Have you ever received a call from a business lady/man informing you that she has just arrived with your favourite dresses, perfume or even vegetables? Do you have a service person who understands your equipment, car or electronic so well that you only trust them to fix or service it? Without him you will wait until they come back from a two weeks journey? Such a business person understands his /her customers and this does two things:

- It retains the current customers.
- It increases your customers because customers that are happy with you will refer their friends to you and hence effectively promoting your business.

### **You should endeavour to satisfy their needs**

Recall an instance when you walked into a shop and asked for an item only to discover that the shopkeeper has never stocked it or even he doesn't know it. But the story doesn't end there, this lady/man engages you in a conversation about the product you asked. Asking you about why you like it, how good it is, at what price have been buying it, how often do you use it, then he says that he has had several people requesting for it and for that reason he assures you will get it the following day.

This is a business person who is committed to understanding and satisfying his customer's needs.

### **How?**

- Talk positively and confidently about your service or product at any slightest opportunity you get to everyone you meet.
- Make business cards brochures that have all you contacts and give them to potential customers you meet.
- Identify influential people within the society (local leaders, religious leaders and managers and heads of institution, companies and organizations) and introduce them to your business and request them to tell to those under them.
- Have an interest in lives of your customers (this is what large companies call 'social responsibilities' a customer who saw you attend or contribute when he/she lost a beloved one is most likely to buy your services/ product than buying from one who did not show concern.

Consider two business persons selling the same product at the same price, a community in which they are doing business has decided to work together and repair their road and water borehole. One of the businessmen participates in the project together with his family, the other doesn't. Who will have more customers?

### **Pillars of successful marketing strategy**

1. Be self-reliant.
2. Be diplomatic when dealing with people.
3. Be determined and never despair.
4. Be proficient and honest.
5. You have to study the market and know where the appropriate place you can work in and succeed.
6. Evaluate yourself according to your talents and abilities and choose what you want.
7. Be aware of what is going on around you
8. Study the market before you make any step
9. To be a successful entrepreneur you should be a good accountant and manager

### **Operating Budget**

#### **OBJECTIVES**

- Itemizing the expenses to run a business
- Compiling these into a budget to plan for the business

#### **BUSINESS SKILL**

##### **Making a budget of expenses**

- For raising business funds, we will have to prepare a budget.
- To set fair prices, we need to know our expenses.
- To operate efficiently, we have to monitor our actual expenses against our budget.
- To test our business idea, we work out a budget of our first year expenses and compare this to what we hope we can earn.

*You must remember that the first year will be the most challenging as you set up and learn about the business.*

## **TASK**

By now your business idea must begin taking a definite shape towards implementation.

On a separate worksheet list all the expenses you expect when you launch the business. For each, estimate how much it will cost. Try as much as possible to list all the items you can think of to run your business.

**NOTE:** Refer to your business plan worksheet which you had completed in our previous session.

## **Managing Product and Operating Costs**

### **LEARNING OBJECTIVES**

Use cash records to reduce production and operating costs

There are two types of costs.

1. Direct costs
2. Indirect costs

**Direct costs** are those costs involved in production. They include things like raw materials, labour costs, and transportation. These costs determine the production of one unit of production. To a farmer they include seed, fertilizer, pesticides, paying workers, and fuel for machines.

**Indirect costs** are those costs that you must incur; they have no direct relation to the amount of units produced. They include licence fee and market levies.

### **Business skill**

1. You should compare your cost to the price you set for your product or service to ensure that your business is profitable. This means you should cover all costs and get surplus. We emphasize the need to keep records because they will point to you areas you spend more and guide you in reducing costs through careful planning.
2. You should keep your costs low. (This ensures high profits) these can be done by:
  - Buying raw materials in bulk at wholesale price
  - Buy and make products that people like
  - Reduce travelling
  - Reduce non business expenses
  - Keep clear records

NOTE: Your efforts to reduce costs should not result in reduction on quality of your product or service

### **TASK**

Your business idea is taking a definite shape.

In the table below list what your direct and indirect cost

	<b>DIRECT COSTS</b>	<b>INDIRECT COSTS</b>
1		
2		
3		
4		
5		
6		
7		
8		
9		

Now select a few that you think you can reduce the cost without reducing the quality of your product or service. For each try to state what you will do to reduce the costs.

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AFTER THE TRAINING Refine the costs you estimated for your business.

Visit suppliers and other businesses.

### **Complete Business Plan Work Sheet:**

#### **Production Costs**

Write down the materials you need for each product or service you plan to sell. Find out which costs are directly related to production, such as fertilizers, buying of land or any other permanent asset and write them down.

#### **Facilities**

Write down the recurring costs, such as rent, utilities, licence fees, banking expenses, marketing expenses?

### **Equipment and Hardware**

- Machines for production.
- Vehicle for transportation.
- Do you need office equipment and stationary.
- The cost of renting an equipment.
- Include equipment maintenance costs.

### **Furniture & Fixtures**

- List down the furniture you may require and other fixtures like water pipes and taps.

### **Labour**

- Number of employees.
- The amount of salaries, wages and benefits.
- Your salary if you choose to pay yourself. (you must make this decision from start)

### **Taxes, Other statutory levies**

- Taxes must you pay (Sales or VAT)
- License Fees.

### **Operating Budget**

- Record and total the operating expenses needed to make your product or provide your service.
- Use the Cash Flow Tracking Tool (template provided) to record operating expenses
- Summarize the detail on the Cash Flow Summary (template cash flow summary sheet provided)

Refer to your sales forecast and check if your sales will cover your expenses and give you profit

When you are satisfied with the work sheets, proceed to complete the same sections in your Business Plan template. (Appendix II)

For any business to do well there are important things that you need to put in place, they include:

### **Safety in the work place**

- Identify safety and health hazards in the work place.
- Understand how they affect the business, cost money, and reduce worker output.
- List plans to correct safety and health hazards.

You need to look at your work place and keep it safe for you and your workers and, certainly, your customers.

### **Product and service quality**

- Know the difference between a good product and a bad product.
- Identify ways in which you can improve your product or service.

### **Training and cross-training**

- Identify skills that more than one person should know to keep your business running.
- Develop training plans to maintain a smoothly running operation.

### **Capital budgets**

- Determine equipment, hardware, and property needs.
- Be realistic about the minimum needed to start your business.

## MISSION AND VISION

Mission Statement, Goals, and Objectives  
Business Risks and Planning for Transition

### Mission Statement, Goals and Objectives

#### LEARNING OBJECTIVES

- Develop a mission statement for your business.
- Develop realistic goals and objectives.

#### BUSINESS SKILL

**Mission Statement** describes the overall purpose of the organization. It may include statements such as: To operate profitably so as to create career opportunities and financial rewards the youth in our society.

**Goals** describe the long-term results, which you hope to achieve. These might be profit, employment or community service.

**Objectives** specifically state what you plan to accomplish in a set period of time.

These might be, for example I want to achieve sales 1million shillings at the end of the year.

#### TASK

**Write a mission statement, Goal or Objective for your business and Present them to the whole group.**

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## Identify potential business risks and planning for transition

### **BUSINESS SKILL**

Imagine you fall sick today and are hospitalized or you are not able to work hard and run your business due to an unforeseen circumstance. What will be the source of income for your business, family and employees once a calamity befalls you? You need to put in place measures that would ensure continued operation of your business. Always get prepared by:

- Always have someone you trust involved in your business.
- Get a person who is trained to run the business.
- Get the person you trust to know where your business papers, licenses, and cash are and how to maintain them.
- Let him/her have access to you property.
- Introduce Him/her to your suppliers and how to access them.
- Train the person in preparation for them to assume responsibility for the continuation of my business.
- Induct the person with skills to meet the requirements of your customers
- delegated to him/her sufficient authority like signing power for your bank accounts.
- It is best to have all of the documents required for your business in a single file or notebook The files should be available in case of emergency but kept confidential and in a safe place.
- you must have some of the documents on public display.
- Consult with someone you trust to protect your interests, your lawyer, your accountant, or your bank.
- You may want to give signing power to a spouse or someone within your immediate family.

## CONCLUSION

In general, once a business is profitable it should cover its expenses from its revenues. However some businesses are seasonal. Expenses will be incurred in one month or quarterly. Revenues will be realized later. For example, farmers collect revenue when crops mature. Ideally the business will earn enough money to carry it through the periods of low revenue. It is easier to sustain the business through those periods if there is a plan to save cash for that purpose.

## APPENDICES

### Appendix I: Self assessment tool

Name:	First session			Middle session			Last session		
Business skill	Skill level			Skill level			Skill level		
	Low	Med	high	Low	Med	High	Low	Med	High
<b>Understanding basic skills for starting and growing a business</b>									
Setting goals and objectives									
Asses business risks									
Market analysis									
Evaluating competition									
Keeping basic records of income and expenses									
Define profit									
Forecast sales									
Itemize business expenses									
Prepare an operating budget									
Manage products cost									
Conduct SWOT analysis									
Eliminate safety hazards in the work place									
Manage production cost									
Calculate capital needed to start a business									
Calculate profit and loss									
Improve quality[ value addition]									
Set fair and competitive prices									
Train employees									
Finance a business									
<b>Aspects of business plan development</b>									
Financial statements									
Description of the business opportunity									
Market strategy									
Executive summary									
Operational plan									
Operating budget									
Capital budget									
Start-up financing									

Name:	First session			Middle session			Last session		
Business skill	Skill level			Skill level			Skill level		
	Low	Med	high	Low	Med	High	Low	Med	High
<b>Identify business resources</b>									
Other players in business - tree farmers									
Farmers associations									
Support government bodies									
Support NGOs									
Banks and other financial institutions									
Training and agricultural extension providers									

## Appendix II: Business plan template

Description and Overview	
<b>Description of Business Opportunity</b>	
<b>Business Description</b>	
<b>Mission Statement</b>	
<b>Long – Term Goals</b>	
<b>Business Objectives</b>	
<b>Business Risks</b>	

<b>Marketing Strategy</b>	
<b>Competition</b>	
<b>SWOT</b>	
<b>Customer</b>	
<b>Product or Service</b>	
<b>Pricing</b>	
<b>Location or Distribution</b>	
<b>Promotion</b>	
<b>Market Strategy</b>	
<b>Sales Forecast</b>	

<b>Business Operations</b>	
<b>Production Costs</b>	
<b>Facility &amp; Maintenance</b>	
<b>Equipment &amp; Hardware</b>	
<b>Labour &amp; Salary Requirements Furniture &amp; Fixtures</b>	
<b>Taxes and statutory levies</b>	
<b>Expenses &amp; Capital Requirements</b>	
<b>Operating Budget</b>	

<b>Profit and Loss</b>	
<b>Capital Expenses</b>	
<b>Pricing Strategies</b>	
<b>Start-Up Financing</b>	



**Appendix III: Profit and loss tracking tool**

<b>PROFIT/LOSS TRACKING TOOL</b>													
<b>[ NAME OF BUSINESS]</b>													
<b>[FOR THE YEAR ENDING [date]</b>													
<b>DESCRIPTION</b>	<b>JAN</b>	<b>FEB</b>	<b>MAR</b>	<b>APR</b>	<b>MAY</b>	<b>JUN</b>	<b>JUL</b>	<b>AUG</b>	<b>SEP</b>	<b>OCT</b>	<b>NOV</b>	<b>DEC</b>	<b>TOTALS</b>
<b>REVENUE</b>													
<b>TOTAL REVENUE</b>													
<b>EXPENSES</b>													
<b>TOTAL EXPENSES</b>													
<b>PROFIT/LOSS</b>													

**Appendix IV: Sales forecasting tool**

SALES FORECASTING TOOL													
[ NAME OF BUSINESS ]													
[ FOR THE YEAR ENDING [date] ]													
DESCRIPTION	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTALS
Product one													
Customers purchasing product													
Unit sales													
Price/unit													
Sales Revenue													
Product two													
Customers purchasing product													
Unit sales													
Price/unit													
Sales Revenue													
<b>TOTAL REVENUE</b>													

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