

## **BASIC FOUNDATION COURSE IN ENTREPRENEURSHIP FOR ADDO OWNERS—PARTICIPANTS' GUIDE**

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## FOREWORD

The Tanzania Food and Drugs Authority (TFDA) was constituted under the Food, Drugs and Cosmetics Act, 2003, to ensure the quality, safety, and effectiveness of the food products, medicines, cosmetics, and medical devices in order to protect the health of the general community. In executing this role, TFDA has the responsibility to register all facilities which provide medicine services and ensure that medicines are available.

TFDA is implementing the Accredited Drug Dispensing Outlets (ADDO) Program in the country with the aim of improving Duka La Dawa Baridi (DLDB) and upgrading them to ADDOs with the intention of minimizing the problems encountered in the operation of DLDBs both for human beings and livestock. To facilitate the establishment and operation of the ADDOs according to the established regulations and procedures, TFDA has prepared this guideline.

This guideline is an important tool to be used by every ADDO owner, dispenser, supervisors, and inspectors of food, drugs, and cosmetics. In addition, this guideline aims at sensitizing various partners on ADDOs.

It is my hope that all those who are responsible with implementing the ADDO Program will read this guideline and ultimately be able to execute their respective responsibilities effectively and efficiently within the program.

**M. Ndomondo-Sigonda**  
**Director General**  
**Tanzania Food and Drug Authority**

The TDFFA would like to encourage you—as stakeholders in the TFDA—to give us your opinion of these materials and guidelines. Please write us at the following address and let us know your opinions and recommendations.

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**Hiiti B. Silo**  
**Assistant Director**  
**TDFA**



## ACRONYMS AND ABBREVIATIONS

ADDO	accredited drug dispensing outlet
ARW	ADDO Restricted Wholesale
CFDC	Council Food and Drugs Committee
DLDB	<i>duka la dawa baridi</i> (Swahili, private drug shop)
DLDM	Duka la Dawa Muhimu (Swahili, private accredited drug shop)
MEDA	Mennonite Economic Development Association
MoHSW	Ministry of Health and Social Welfare
MSD	Medical Stores Department
TFDA	Tanzania Food and Drugs Authority
TZH	Tanzania shilling



## INTRODUCTION

The Tanzania Food and Drug Authority (TFDA) is pleased to introduce you to a Basic Foundation Course in Entrepreneurship. This course is intended for owners of Accredited Drug Dispensing Outlets (ADDOs), commonly known in Swahili as Duka la Dawa Muhimu (DLDM). The training course was developed following the initial assessment of DLDMs conducted in Ruvuma Region in 2002 showing that DLDM owners were limited in their capacity to effectively manage their businesses.

The course concentrates on the following areas—

- Business management
- Business records and bookkeeping
- Understanding real profit
- Marketing
- Effective pricing
- Management of credit and relations with financial institutions

During the training course, you will learn the benefits of effective business management and how you can apply those skills in the day-to-day running of your business and make it successful.



## **GOAL AND OBJECTIVES**

At the end of the training, participants should be able to—

- Understand and manage their businesses, thereby improving the overall performance of the ADDO businesses
- Establish and maintain a proper record keeping system
- Use business management skills to make well-informed financial, marketing, investment, and management decisions
- Manage their businesses more efficiently and professionally in line with the existing legal statutory regulations and business ethics



## INTRODUCTION TO ENTREPRENEURSHIP

More often than not, the word entrepreneurship is associated with doing business or profit-making activities. However, the meaning of entrepreneurship is much broader than that as it also encompasses vision, skills, and practice/behavior.

### Objectives

- To explain the meaning and concept of entrepreneurship
- To identify the characteristics and skills of the entrepreneur
- To explain how to develop entrepreneurial skills
- To explain the benefits of entrepreneurship.

### Concept of Entrepreneurship

Entrepreneurship is based on the individual's ability to identify and use opportunities to generate income by using available limited resources profitably. There are two schools of thought regarding entrepreneurship—those who believe that it is innate while others who believe that entrepreneurial skills can developed over time, depending on one's environment. Both points of view are correct even though a viable business is critical for success. Thus, both the entrepreneur with innate business acumen and the one with acquired business skills need a solid business environment to be able to succeed in business. This necessitates some basic training in entrepreneurship.

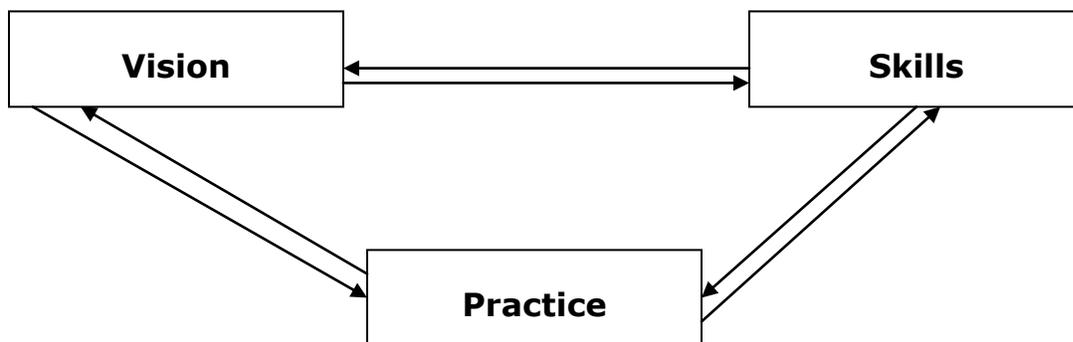


Figure 1. The concept of entrepreneurship

## **Characteristics and Skills of an Entrepreneur**

The following are the characteristics of an entrepreneur—

- Sees opportunities where others don't
- Constantly strives to improve his or her skills and performance
- Acts with caution
- Works with clear objectives
- Is self-reliant (does not depend on others on for ideas, action, and economically)
- Self-motivated
- Hard-working and does not easily give up
- Creative
- Network closely with various stakeholders
- Plans and implements projects as planned
- Provides leadership to others in implementation of different activities
- Influences others positively

**Question:** Is it possible to get a person with all these skills?

## **How to Develop Entrepreneurship Skills**

Entrepreneurship skills can be developed by doing the following—

- Always ask yourself, is it there a better way of doing whatever you are doing?
- Do not be too conservative
- Remember that there is always more than one way of doing something
- Whenever you do not do well, take it as a challenge to improve your performance
- Keep in close contact with people who can positively influence and support your endeavors
- Be open to challenges and never shy away from difficult tasks
- Aim higher but ensure you set realistic objectives
- Accomplish your initial objectives before taking on new ones
- Try find solutions to your own problems before seeking help elsewhere
- Have self-confidence in whatever you do. If you believe you can, you will surely get somewhere, but if you believe you cannot, you will definitely not go far.

## BENEFITS OF ENTREPRENEURSHIP

Following are some benefits of entrepreneurship to the community—

- Entrepreneurs provide commodities and services needed by the community
- Entrepreneurship makes it possible to use the available limited economic resources to generate income and improve living standards
- Entrepreneurs increase employment opportunities
- Entrepreneurs can be instrumental in devising better strategies for increasing economic production
- Entrepreneurs can be instrumental in establishing mechanisms for addressing social problems

### Case Study 1. How Judith Became an Entrepreneur

Judith wanted to start a small business operation in her community. At that time, she and her neighbors had to walk some distance to purchase items such as soap, salt, candy, or batteries. Judith saw this as an opportunity to earn some money. Judith had not worked in a few years because after her first child was born, she left her job as a clerk at the Ministry of Works. At the time she opened her Duka, she had two children and no job.

Judith decided to do the following—

For initial capital, she took 300,000 Tanzania shillings (TZS) from her savings, borrowed 50,000 TZS from her mother, and 150,000 TZS from her two closest friends.

To be able to offer items in her shop at lower prices than found in nearby shops, Judith decided to purchase her stock in the capital city where items cost less. She also decided to try out some other items like shampoo, powder, and cosmetics; although in the past she had observed that not too many women buy them. She felt confident that women would buy these extra items if they were displayed at the counter.

Judith embarked on this business opportunity, which she felt would be successful if she was very cautious. She started talking to others about her store and instructed her children to talk about it to other children.

As a precaution, she did not immediately invest in a structure since she computed that all of her TZS 300,000 savings would have to be spent on building the store. She decided to put the items in her shop area during the day and, in the evening, secure them in a cupboard. Whenever Judith fetched water from the nearby well, she would talk about her store with other women. She also kept an account of all expenses and was careful to separate her personal expenses from that of the business. She kept all the receipts and noted every transaction in writing promptly and accurately.

At the end of each week, Judith would balance her accounts by subtracting the money paid out for shop expenses from the money she received and put in her cash box; the money she had left over was her profit for the week. Judith was tempted to take her profit and buy more clothes for her children but then she decided not to take money from the cash box to spend on personal things. She was always careful to record all her expenses, and because of this, she had an accurate picture of her business.

As Judith was able to see that she made a profit every week, she then decided to buy more items with her profits. By buying more items for the business, Judith was reinvesting the profits in the business instead of spending them on herself. Judith stayed within her budget and never touched the business money.

At the end of the month, Judith was able to make TZS 100,000 with which she paid back her mother's loan of TZS 50,000. She decided to keep the other TZS 50,000 to buy more goods to sell the following week.

After one year, Judith was able to pay back all the people who initially helped her and now has a small structure in the front of her house where more items are being sold.

*Group discussion:*

What were the major factors that contributed to the success of Judith's business? Give explanations where possible.

*Possible responses*

The participants can mention/ discuss any of the following factors

- Entrepreneurship skills
- Marketing skills
- Financial management abilities
- Record keeping abilities
- Business management skills
- Smart buying/selecting the right place to buy goods
- Ability to pay debts on time
- Effective use of credit as capital
- Problem-solving skills
- Good relationship with the community

### **Marketing Skills**

Judith's marketing skills involved—

- Identifying and reaching out to potential buyers of her products (mainly women and children)
- Understanding the needs of the market and identifying products which are fast-moving (soap, salt, candy, and batteries)
- Conducting a market survey to enable her to price her goods more competitively
- Establishing a commercial network and using it to publicize her business
- Using a simple structure for starting the shop instead of constructing an expensive structure and keeping her merchandise in a secure place (cupboard)
- Purchasing commodities from the capital city to keep expenses down

### **Financial Skills**

Judith's financial efforts included—

- Doing some homework on where she would get initial capital for her business
- Keeping good financial records
- Recording all her business expenses regularly

### **Management Skills**

To successfully manage her business—

- Judith personally attended to financial, marketing, and management details
- She understood exactly what was happening to her business and did not rely on anybody to look after it
- She separated her personal needs from those of the company



## **FINANCIAL RECORDS FOR YOUR BUSINESS**

The purpose of this session is to enable participants to identify their needs for business records and to help them to decide what records they should keep and why.

### **Objectives**

At the end of this topic, the participants should be able to—

- Know the costs and benefits of maintaining proper business records
- Maintain a simple cash book to record cash receipts and payments
- Maintain a simple ledger – a summary of financial transactions in a form which can be used to prepare financial statement reports;
- Keep a stock card to record purchases and related issues.

### ***Types of Business Records***

There are different types of business records. In the ADDO program, the following business records are recommended—

- Drug register
- Client register
- Cash book
- Analysis book

### ***Importance of Business Records***

There are a number of benefits in keeping and using proper business records, such as—

- To avoid overestimation of taxes due to lack of records
- To prevent theft or excessive withdrawing of funds from the business
- To record the amount of cash spent and received
- To provide data that shows how much profit you are making (profit and loss statement) which will guide decisions for business growth or expansion
- To help decide correct prices
- To know when you will be able to afford new/additional investment
- To keep track of your debts
- To keep track of what you are owed
- To be sure what money belongs to the business
- To develop and exercise financial control over the business

## **Cost of Record Keeping**

Even though there are many benefits to keeping good records, there are costs attributed to the process—

- Cost of supplies
- Records may show that higher taxes need to be paid
- Family members may demand profits
- Employees can demand higher wages
- There is time spent in learning and preparing business records

### **Role Play: Tax Collector Visits Maduka Mawili**

#### *Part 1*

Tax Collector: Hello. How are you? I'm a Tax Officer from the Revenue Department. I have come to assess your business.

ADDO Owner: Welcome sir. Please have a drink.

Tax Collector: Thank you very much for the drink. May I please see your business records?

ADDO Owner: (*Looks rather worried*) Yes sir, I have a number of them here such as sales receipts, drug register, business license, and even tax clearance certificate for the last financial year.

Tax Collector: Ok. But I need to check more than that. I also need to go through your cash book and cash analysis book, if you have them.

ADDO Owner: No. Please come right inside so that we can talk. This is not the right place for us to talk.

Tax Collector: No. It is Ok here. May I please have a seat so that I may review your records to correctly assess your taxes (*The tax collector flips through papers and books*). You are expected to pay TZS 1,200,000 for the year.

ADDO Owner: What! That is more than my capital in this business. I will not be able to pay that for sure. I will have to close down the business.

Tax Collector: That is what you are supposed to pay based on your business. You have many customers. For example, for the time I have been here, over 80 people have come to your shop. Unfortunately you don't have records, so you have to pay your taxes as estimated. Thank you. Good-bye!

*Part II. After that the Tax Collector goes to the second shop which appears to be slightly bigger than the first one.*

Tax Collector: Good afternoon. I am a tax officer. I have come to assess your business so that I can project your taxes.

ADDO Owner: Thank you for coming. Please have a seat.

Tax Collector: I need to know about your monthly sales, expenditures, and profits.

ADDO Owner: Check in the cash book, and the analysis book where I have included all the details.

Tax Collector: My work has been made so easy.

ADDO Owner: Ok. Let me attend to my clients.

Tax Collectors: *(After going through the books)* You should be paying the Revenue Department TZS 650,000 based on your records.

ADDO Owner: Sorry, I forgot to show you this record. I have a bank loan worth TZS 1,500,000 and I pay back TZS 200,000 every month.

Tax Collector: Ok. It's good you have informed me. Your annual provisional income tax will be TZS 400,000.

ADDO Owner: I will be able to pay that without a problem. Thank you very much.

### **Questions**

After the role play, the participants should answer the following questions—

#### **Role Play-Part I**

- How did the ADDO owner feel and what has he learned from that?
- How did the tax collector feel and what has he learned from that?
- What can the participants learn from this experience if that is how they also operate?

#### **Role Play-Part II**

- How did the ADDO owner feel and what has he learned from that?
- How did the tax collector feel and what has he learned from that?
- What can the participants learn from this experience if that is how they also operate?
- Have the participants mention the differences they observed between the two cases

### **How to Keep Records**

In general, there are not any laws on what types of records should be kept and how to keep them. But for any business to function properly, certain basic records should be kept. In the case of government-regulated ADDOs, as part of the accreditation process, owners must keep the recommended records—both financial and operational—according to the ADDO Regulation of 2004.

### **Who Is Responsible for Keeping ADDO Records?**

Both the ADDO owner and dispenser are responsible for proper record keeping. The owner has the overall responsibility of ensuring that all records are properly kept in line with ADDO Regulations. The owner is also directly responsible for keeping both the cash and analysis books, while the dispenser is directly responsible for keeping the drug and client registers.

### **Factors to Consider in Preparing Business Records**

- Record every transaction immediately upon completion so you do not forget anything.
- Ensure you record the details carefully in good handwriting that can be easily read. If you have to cancel anything, use a straight line to ensure that records remain tidy.
- Various documents and records should be kept in specific files clearly marked to indicate what is in each file.
- All records and files should be kept in a safe place such as a cupboard or cash box.
- All business records should be stored at the business premises for easy access and reference should any authority/institution (such as the Tanzania Reserve Authority, TFDA, trade officer, or bank) request to see them.
- Business records are confidential and except for the above groups, should not be shared with anybody else

### **Example of Cash Book—Hard Cash**

Date	Particulars	Cash In	Cash Out	Balance

*Example of Cash Book—Bank Transactions*

Date	Particulars	Check No.	Amount Received	Amount Paid Out	Balance

*Example of an Analysis Book*

**A. Income**

Date	Particulars	Grand Total	Income			
			Drugs	Medical Appliances	Water	Other Sales

**B. Expenditure**

Date	Particulars	Grand Total	Expenditures						
			Tax	Rent	Transport	Water	Electricity	Purchase of medicine	Purchase of other Items

### **Case Study 2. Keeping a Cash Book**

Record the transactions of Mwandapole ADDO in the provided cash book.

<b>Date</b>	<b>Particulars</b>	<b>TZS</b>
01/08/2008	Cash sales	150,000
01/09/2008	Cash sales	200,000
01/10/2008	Bank loan deposited in the bank account of the client	1,000,000
01/11/2008	Purchase of drugs using the money borrowed from the bank	700,000
01/11/2008	Cash sales	175,000
01/12/2008	Staff salaries	150,000
01/12/2008	Cash sales	160,000
01/13/2008	Cash sales	120,000
01/14/2008	Purchase of medicines by cash	655,000
01/14/2008	Cash sales	200,000
01/15/2008	Bank savings	150,000
01/15/2008	Repayment of loan	100,000
01/15/2008	Payment of water bill	10,000
01/15/2008	Cash withdrawal from the bank to pay school fees for the shop owner's child	140,000

*Answers to Case Study 2.*

Mwandapole ADDO Shop

#### **Cash Book—Hard Cash**

<b>Date</b>	<b>Particulars</b>	<b>Cash In</b>	<b>Cash Out</b>	<b>Balance</b>
01/08/2008	Drug sales	150,000		150,000
01/09/2008	Drug sales	200,000		350,000
01/11/2008	Drug sales	175,000		525,000
01/12/2008	Drug sales		150,000	375,000
01/12/2008	Drug sales	160,000		515,000
01/13/2008	Drug sales	120,000		635,000
01/14/2008	Drug sales	200,000		835,000
01/14/2008	Purchase of drugs		655,000	180,000
01/15/2008	Bank deposit		150,000	30,000
01/15/2008	Payment of water bills		10,000	20,000

**Cash Book—Bank Transactions**

Date	Particulars	Check No.	Amount Received	Amount Paid Out	Balance
10/01/2008	Loan		1,000,000		1,000,000
11/01/2008	Drugs purchase			700,000	300,000
15/01/2008	Cash deposit		150,000		450,000
15/01/2008	Loan repayment			100,000	350,000
15/01/2008	School fees			140,000	210,000

**Case Study 3. Sara's Shop**

Sara kept a small shop, and employed a young girl to help her serve the customers. Sara went to a training course and learned how important it is to keep a cash book.

As soon as she got home, she started keeping a cashbook, and she made sure that she kept it up to date. On the evening of January 5, the cash book looked like this—

Date	Particulars	Cash In	Cash Out	Balance
Jan. 3	Opening balance			170,000
Jan. 3	Purchases		123,450	46,550
Jan. 3	Cash sales	229,850		276,400
Jan. 4	Purchases		53,000	223,400
Jan. 4	Cash sales	215,600		449,000
Jan. 4	Purchases		125,000	324,000
Jan.5	Purchases		136,800	461,200
Jan. 5	Cash sales	155,000		616,200
Jan. 5	License		10,000	606,200

Sara carefully counted the cash in her cash box and found, to her great alarm, that she only had TZS 322,200.

She immediately sent for the girl and accused her of theft; the assistant burst into tears and denied the accusation, but Sara dismissed her at once.

*Question*

Was Sara right to dismiss the assistant as she did?

### *Answers to Case Study 3. Sara's Shop*

The problem with Sara's records—

#### **Sarah' Shop: Cash Book**

Date	Particulars	Cash In	Cash Out	Balance
Jan. 3	Opening balance			170,000
Jan. 3	Purchases		123,450	46,550
Jan. 3	Cash sales	229,850		276,400
Jan. 4	Purchases		53,000	223,400
Jan. 4	Cash sales	215,600		439,000
Jan. 4	Purchases		125,000	314,000
Jan.5	Purchases		136,800	177,200
Jan. 5	Cash sales	155,000		332,200
Jan. 5	License		10,000	322,200

#### *Observations*

- Sara added the January 4 balance on (TZS 223,400) and cash sales (TZS 215,600) and got a total of TZS 449,000 instead of TZS 439,900.
- Sara added TZS 136,800 for purchases of January 5 instead of subtracting, so she recorded TZS 461,200 instead of TZS 177,200.
- As a result of these mistakes, Sara ended up with a higher closing balance of TZS 606,200 on January 5 instead of TZS 322,200.

#### *Conclusion*

Sara was wrong to dismiss Ashura from her job.

### **Case Study 4. Jane's Shop**

Jane is an ADDO owner who has gone through entrepreneurship training and learned the importance of keeping business records. She managed to find capital and started the ADDO business after meeting all the procedures and regulations.

She kept her business records as follows—

Jan. 3	Gift from husband	TZS 100,000
	Paid deposit for new purchases	TZS 47,500
	Paid for shop supplies	TZS 5,500
Jan. 4	Paid for purchases	TZS 23,500
	Sales	TZS 10,000
	Own cash invested	TZS 16,000
	Paid for dishes	TZS 16,000
Jan. 7	Paid by George for various goods	TZS 32,000
	Paid wages to the helper	TZS 6,000
	Paid for purchases	TZS 25,000
	Taken out for buying school uniform	TZS 11,000
Jan. 9	Paid by Mrs. Jones for snacks	TZS 12,000
	Paid for ingredients	TZS 39,000
	Paid for husband's beer	TZS 10,000
Jan. 10	Paid for delivered snacks	TZS 15,000
	Paid for delivered snacks	TZS 5,000
Jan. 12	Taken for school fees	TZS 25,000
	Paid for delivered snacks	TZS 15,000
	Paid for delivered snacks	TZS 23,000
	Paid for meat	TZS 14,500
	Paid for shop supplies	TZS 5,000
	Taken for food	TZS 7,500
Jan. 14	Paid wage for helper	TZS 6,000
	Payment for oven	TZS 10,000

Create a better system to record Jane's transactions and enter her transactions into your new record book.



# USING FINANCIAL STATEMENTS

## Introduction

This session discusses profit and loss statements. Participants will practice preparing and analyzing a simple profit and loss statement to know whether a business makes or loses money.

## Objectives

At the end of the session, trainees should be able to—

- Understand if their businesses make money or lose money
- Understand the necessity of generating a profit
- Learn what a profit and loss statement is and how to prepare and analyze it
- Know the difference between profit and cash, and examine profit and loss statement to determine the status of a business
- Make decisions on what to do about the business (whether to expand or closely monitor it) based on profitability

## What is a Profit?

Profit is the balance you get after subtracting all operational costs and purchases from the total sales in a given period of time. The purpose of doing business is to make profits that help to build the capital base of the business and to meet the individual needs of the owner of the business. Every business person should ensure that his or her business is making a profit.

## *Important Things to Consider*

- Make sure you keep accurate sales and expenditure records
- Separate your personal expenditures from those of the company
- Carefully price your merchandise, taking into account the purchasing price and the running costs of the business
- Identify a particular time in the year when you close accounts to determine if you are making profits or not

- Set a reasonable limit for personal expenditures based on tax after profits and ensure that a good proportion of the profit is put back into the business
- Conduct stock-taking at the beginning and then every accounting period

Stock-taking for ADDO should be done and at the beginning and end of the accounting month. The buying price should be used to value stock.

Mwendapole ADDO Shop

**Case Study 5. Study of Rehema’s Shop**

Rehema started her “Rehema Native Bags” business last month. She has the feeling that she’s making money and would like to hire a shop assistant who will work in the shop permanently at TZS 200,000 a month (eight working hours).

Rehema thinks that if she hires this assistant, she would be free to travel more often to nearby towns and show samples of her bags to different stores. Right now, she only receives orders from Wakati Fashions. Wakati Fashions is currently buying most of the bags produced and sold at Rehema Native Bags.

Rehema has the following information about her business—

Total sales from Wakati Fashions (35 bags at TZS 10,000 each)	TZS 350,000
Cost of woven material for 40 bags	TZS 40,000
Cloth lining	TZS 30,000
Thread	TZS 12,000
Finishing	TZS 5,000
Rehema’s labor (sewing for 10 days)	TZS 100,000
Salary for an assistant	TZS 20,000
Electricity cost	TZS 10,000
Rent	TZS 20,000
Wedding contribution	TZS 20,000
a5 bags remained unsold	

*Questions*

- Prepare a profit and loss statement for Rehema
- What advice would you give to Rehema if she wanted to hire a full-time assistant?
- Should she hire the assistant?
- Should she explore more outlets in nearby towns?

*Answers to Case Study 5. Rehema's Bag Business*

**Profit and Loss Statement for the Period Ending January 31, 2008**

SN	Particulars	Amount in TZS	
	Sales		
A	Total monthly sales (35)		350,000
	Less: Cost of goods sold		
	Opening stock	0	
	Goods purchased in the month	200,000	
	Less: Cost of unsold goods	(25,000)	
B	Total cost of the goods sold		175,000
C	<i>Gross Profit (a-b)</i>		175,000
D	Less: Running costs		50,000
E	<i>Gross Profit (c-d)</i>		125,000
F	Provisional income tax (monthly projection)		5,000
<b>G</b>	<b>Net Profit (e-f)</b>		<b>120,000</b>
<b>H</b>	<b>Less: Personal Expenditures</b>		<b>20,000</b>
<b>I</b>	<b>Profit for re-investment</b>		<b>100,000</b>

*Observations*

Rehema is making a profit in her business. Rehema should not hire the assistant immediately, but should first explore the bag market in the nearby towns. If she finds that there are more buyers for the product, she should go ahead and hire the assistant on a permanent basis. Furthermore, Rehema should feel optimistic about her business. \

### **Case Study 6. Maria's Shop**

Maria opened her shop two weeks ago. It is a big one located at the town center. Maria has two sellers who help in the shop. Her husband's 15-year old niece has completed primary school and is now applying to Maria to be a third seller.

Maria would like to accommodate the niece's request because of pressures from her husband. Maria is not sure whether it will be healthy for her business to add this extra expense. She started working on her profit and loss statement from the following information—

#### **Maria's Initial Profit and Loss Statement for Two-Week Period**

Total sales (two-week period ending Dec. 1, 2002)	600,000
<b>Cost of Goods Sold</b>	<b>TZS</b>
Soap	32,000
Coffee	12,000
Candy	40,000
Rice	32,000
Cooking oil	10,000
Cigarettes	70,000
Seasoning	50,000
Snacks	30,000
Soft drinks	40,000
Total, Goods Sold	316,000
<b>Expenses</b>	
Rent (per month)	20,000
Electricity (per month)	15,990
Wages (for two assistants)	200,000
Shop repainting	50,000
Drawings (miscellaneous expenses)	100,000
Total, expenses	385,500

#### *Questions*

- What did Maria find out about her business?
- What should Maria say to her husband?
- How could she prove it using the profit and loss statement?

*Answers to Case Study 6. Maria's Shop*

Total sales (two-week period ending Dec. 1, 2002)	600,000
Cost of Goods Sold	<b>TZS</b>
Soap	32,000
Coffee	12,000
Candy	40,000
Rice	32,000
Cooking oil	10,000
Cigarettes	70,000
Seasoning	50,000
Snacks	30,000
Soft drinks	40,000
Total, Goods Sold	316,000
Gross Profit	284,000
Expenses	
Rent (per month)	20,000
Electricity (per month)	15,990
Wages (for two assistants)	200,000
Shop repainting	50,000
Drawings (miscellaneous expenses)	100,000
Total, expenses	385,500
Net Profit (Loss)	(101,500)

*Observations*

Maria should show this profit and loss statement to her husband and tell him they could not afford to hire another helper. Maria should even consider releasing one of the sellers to reduce costs. She should also consider minimizing what she takes out as her salary.

**Case Study 7. Ngonyani ADDO Shop**

The Ngonyani ADDO shop was accredited by TFDA in June 2003. Ngonyai, the shop owner, obtained a loan of 500,000 from the Mennonite Economic Development Associates (MEDA) in September 2003 to improve his business. He has decided to critically assess the progress for the period beginning December 2003 and ending January 2004.

<b>December 2003</b>	<b>Amount (in TZS)</b>
Total Sales (drugs and cosmetics)	700,000
Cost of medicines and cosmetics by November 1	250,000
Purchase of drugs and cosmetics during the entire month of December (by cash, loan)	450,000
Cost of drugs and cosmetics by the end of December	1,400,000
<b>Operational/Running Costs</b>	
Rent	10,000
Staff salary	60,000
Water and electricity	6,000
Stamp Duty	6,000
Renovations	15,000
Food and beverages for staff	5,000
Security	5,000
Transport and communication	15,000
Stationery	5,000
ADDO membership contribution	500
Bank loan	75,000
<b>Personal Expenditure and Miscellaneous</b>	
Debtors (drugs and cosmetics)	50,000
School fees	40,000
Entertainment	3,000
Contribution to social welfare group	1,000
Purchase of drugs and cosmetics by loan	150,000
Purchase of table and seats for the shop	45,000
<b>January 2004</b>	<b>Amount (in TZS)</b>
Total Sales (medicines and cosmetics)	1,000,000
Cost of drugs and cosmetics by January 1	1,350,000
Purchase of medicines and cosmetics (by cash, loan)	560,000
Cost of medicines and cosmetics by end of January	1,420,000
<b>Operational/Running Costs</b>	
Rent	10,000
Staff salary	60,000
Water and electricity	7,000
Stamp Duty	6,000
Renovations	15,000
Food and beverages for staff	30,000
Security	5,000
Transport and stationary	10,000
Bank loan	75,000
Communication	25,000
Expired medicines	10,000
ADDO membership contribution	500
<b>Personal Expenditure and Miscellaneous</b>	
Debtors (medicines and cosmetics)	70,000
Medicines for personal use	20,000
Church contribution	15,000
Contribution to Uhuru Torch Race (Mwenge)	3,000
Personal phone calls	5,200
School fees	25,000
Purchase of drugs and cosmetics by loan	300,000

Ngonyai was able to capture all this information from his business records for the month of December 2003.

Ngonyai obtained all this information from his records for the month of January 2004.

*Discussion and Homework*

Assess the progress of Ngonyani's business over the two months and give advice using the profit and loss statement.



# MARKETING SKILLS

## Introduction

This session aims to help participants to understand the general importance of marketing for successful business operations. Marketing involves a sound understanding of one's business environment which includes the following—

- Consumers' needs
- Consumer buying power and buying behavior
- Competition and competitor strategies
- Laws are regulations regarding different products and services

## Objectives

At the end of the topic participants should be able to understand—

- The way marketing works for a business
- The basics of pricing for profit
- The benefits customer satisfaction

## What Is Marketing?

Marketing is the process of interaction between a potential buyer and seller, and involves identifying and satisfying the buyer's needs and wants profitably.

## Understanding Your Customers

In business, there are different types of users of products and services which include customers and consumers. A customer can be an individual or organization in need of your products or services. A consumer can be any individual or organization which uses products or services bought by the customer.

For the example, when a parent buys some medicines for her child from an ADDO, the parent is the customer while the child is the consumer. Likewise, the customer can also be a consumer at the same time when he/she buys products for personal use. Therefore, it is important to understand both the customer and consumer needs and wants and respond to them accordingly.

## **Factors to Consider**

It is important to understand that—

- Every customer has his or her specific needs.
- Not everyone who comes to your shop is a regular customer or knows you. Therefore, efforts should be made to entice such a person with satisfactory services so as to make him or her your customer.
- It is easy to lose a customer than to find one. Remember the common saying that “the customer is king,” so treat the customer as royalty.
- Quality products and services are what attract customers.

## **Marketing Plan**

A marketing plan is a sustainable strategy to help a business person to reach more customers and consumers with different products and services to increase sales and profit. It is important to have this plan in writing.

To meet customers' needs, a business must offer products to satisfy those needs, charge the right price, get the goods to the right place at the right time, and make the products known through promotion. For businesses that also involve service delivery such as an ADDO, it is important to consider other factors such as the relationship between the customers and the dispenser, service delivery environment, and the entire system of service delivery. In a nutshell, these factors can be summarized as “7Ps” (**P**roduct; **P**rice; **P**lace; **P**romotion; **P**eople, i.e., customers and service providers; **P**hysical environment; and **P**rocess).

### ***Products***

People buy goods and services for a wide range of reasons. There are many characteristics of a product that can influence the decision to buy. Some of the most important features of a product are—

#### ***Function***

When you buy panadol, what would you want it to do? The function of panadol is to relieve pain such as headaches and sore muscles.

#### ***Appearance***

The aesthetic value of a product in terms of its packing, details, and the manner in which it is displayed has a major influence on the perception of the consumers. It is important to ensure that the appearance of our products makes it easier to market.

### **Status**

Customers often associate certain products and services with a particular social status. It is important, therefore, to understand the local market and provide products and services which meet the expectations of local customers

### **Price**

The price of any product or service is dependent on a number of factors such as cost of transportation to the point of sale and the need for the seller to make some profit. Other basic factors to consider are the market scenario, consumer buying power, competitor's price, and general growth trends of the market.

### **Place**

Distribution is a key feature in the marketing process. It refers to getting the right product to the right customer at the right place at the right time at a competitive price. Therefore, the ADDO shops should be situated in locations that are easily accessible by customers.

### **Promotion**

For a product or service to sell well, consumers have to know about it, and where they already know about the product, it is important to constantly remind them about it and its availability in the market. Therefore, it is necessary to develop effective strategies within reach to promote the business. The strategies include use of posters, leaflets, radio, TV, and newspapers, among others. Advertising can be expensive, so there is a need to be careful and take the budget into consideration when thinking about what channels and methods to use to promote the business.

### **People—Customers and Service Providers**

In customer care, the relationship between the customer and the service provider is extremely important. The quality of care the customer receives is highly dependent on the service provider; therefore, the service provider needs to have good customer care skills especially in communicating. Subsequently, whoever is in charge of the ADDO should be a well trained person in customers care. ADDO owner or service dispenser who is not sensitive to customer needs and lack communication skills could make the business lose customers. Likewise, good relationship between the ADDO owner and the dispenser is equally important in ensuring the quality of services and sustainability of the ADDO.

### **Physical Evidence**

The appearance of a business both inside and outside, the arrangement of goods in the shop, the condition of the service delivery tools, and the general manner of the service providers all are important in attracting customers and inspiring the confidence in the quality of goods and services. It is crucial for every ADDO to have a well-kept, clean, and inviting physical environment.

## **Process**

The system and process of service delivery should be well organized to ensure efficient, quality services to customers. Therefore, the system of service delivery in the ADDOs should focus on both the dispenser (service providers) and customer and address issues such as opening hours, dispensing modalities, and payment system.

## **Market Research**

Market research is necessary to discover the needs and wants of customers. Following are some key issues to consider when conducting market research—

- What are the gaps in the market?
- What are the gaps in the product range?
- How big is the market?
- What should be the market segment (geographic, demographic, income)?
- What is the competition doing?
- What price should the product be?
- How should we advertise?
- What should our message be?
- How should we sell it?
- What sales can we expect?
- What profit can we expect?

## **Pricing Strategies**

Businesses will have different pricing strategies depending on what their objectives are at the time they set the price. The major objectives and strategies include—

### ***Maximizing Profits***

For many businesses, maximizing short-term profit is the major pricing objective. However, this approach may not lead to long-term business sustainability.

### ***Cost-Plus Pricing***

Another way of pricing is setting a profit target based on the cost of goods. For example, one may decide to have 10 percent profit from every product sold. Thus, if the buying price of the product was TZS 1,000, the businessman would add TZS 100 to the buying price and make TZS 1,100 the selling price for the product. This approach is easy to use because information about costs is easier to collect than information on other variables involved.

### ***Competitive Pricing***

In this approach, pricing decisions are based on what competitors charge.

### ***Maximizing Sales***

Some businesses may be more interested in increasing sales to take a large market share than maximizing profits. With this approach, the idea is to make profits from large volume of sales.

### ***Contribution Pricing***

This is another form of cost-plus pricing strategy aimed at attracting customers to buy goods in large quantities or in bulk. Thus, the selling price of a product may be the same as the buying price or a very small percentage of the buying price added to help cover certain direct costs in the business. For example, if the buying price of panadol is TZS 2,000, you may add 5 percent (TZS  $2,000 \times 5 \text{ percent} = \text{TZS } 100$ ), hence the sales price in the shop will be TZS 2,100.



## FINANCING AND ASSOCIATED RISKS

This topic aims to help you learn the relationship between financing and associated risks in a business.

### Objectives

- To understand different financing opportunities for your business
- To understand how to avoid risks associated with different financing opportunities
- How to utilize different financial opportunities to the benefit of your business.

### Case Study 8. Benjamin's Business

Benjamin operates a small shop in the community. He was always dreaming of having a successful business. He wanted to increase his sales, so his business would grow.

No credit was available at low interest, so he decided to borrow money from a friend at 5 percent monthly interest to buy more goods. Coincidentally, at that time, someone who was relocating his business to Dar es Salaam offered him a larger and more spacious shop frame, which was very good looking at a good price. He quickly decided to buy it without analyzing his real needs and without making a business plan. He wasn't able to increase his sales because he had to continue working with the same quantity of stock in his original shop.

Since Benjamin could not buy more stock, he could not expand his business, which made it very difficult to pay the interest on his loan. The day arrived when he was due to repay the loan from his friend, but since his business hadn't grown, he was forced to sell both of his shop frames to pay his debt. He felt very isolated with his problem.

#### *Question*

What made Benjamin's business fail?

### *Answer*

Benjamin decided to take out a loan before properly analyzing his business.

### *Lessons*

- Loans can be risky, especially for small businesses
- The higher your interest rate, the more of your money goes to the lender, especially when you are unable to pay back the loan.
- It is important to look at your personal capital, figure out realistically what it can be used for, and compare that against what a loan will cost you and if you can safely repay it.

### **Balance Sheet**

A balance sheet is a financial statement which shows the status/value of your business in a given period of time. It has two main sections—assets and liabilities. Following is an example of a balance sheet.

#### **Section A: Assets**

- Cash at hand
- Bank savings
- Cost of goods in the shop and store
- Fixed assets

#### **Section B: Liabilities**

- Cost of goods bought through loan (unpaid)
- Unpaid loan from a bank/SACCO

**Equity = Total Assets – Total Liabilities**

### **Case Study 9**

Using Case Study 7, calculate the equity of Ngonyani's business over the stated two-month period.

## **Relationship with Financial Institutions**

Establishing a good working relationship with a bank is easier if you understand how banks operate. Banking is a business just like any other business. Banks compete with one another for customers and profits. Therefore, they depend on the success of their customers, including your and your business if you are one of their customers.

Banks and ADDOs are stakeholders who need each other, especially in the liberalized market. Therefore, ADDO owners have to understand banking procedures and regulations so that they can patronize and use the existing banking services to improve their businesses.

Following are the common criteria banks consider when considering whether or not to give loans to their customers—

- Business records showing feasibility of the business
- Character of the client
- Credit history of the client
- Capital base of the business
- Available security/collateral
- Prevailing economic situation

## **Formation of SACCOs**

Self-help savings and credit co-operatives (SACCOs) is another financing instrument which ADDO owners can use to access liquidity and strengthen the capital base of their businesses. ADDO owners are therefore encouraged to come together to form SACCOs.



## APPENDIX 1. ASSESSMENT FORM

**Instructions:** Please put “X” within the indicated box where applicable to show the level of performance.

	<b>Very Good</b>	<b>Good</b>	<b>Average</b>	<b>Poor</b>
1. Record keeping	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Marketing skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Business planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Problem solving	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Purchasing skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Pricing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Stock control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Financial skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Business analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Key:**

Very Good	81 – 100%
Good	61 – 80%
Average	41 – 60%
Poor	0 – 40%