

# **BASIC BUSINESS SKILLS COURSE FOR ADS OWNERS**

## **ADS Business Manual**

### **Module 4: ADS Business Planning**



## Table of Contents

<b>MODULE 4: ADS BUSINESS PLANNING .....</b>	<b>3</b>
INTRODUCTION TO THE CONCEPT OF BUSINESS PLANNING.....	3
KEY COMPONENTS OF A BUSINESS PLAN FOR AN ADS .....	4
THE BUSINESS FINANCING PLAN.....	7

## Module 4: ADS Business Planning

This module is dedicated to helping the ADS owner understand the importance of a business plan in guiding business operations and generating business finance and profits. Many microenterprises and small businesses operate without the guidance of a simple business plan. A business plan is not only used to obtain bank loans but is a key guiding document for any business enterprise.

### Introduction to the Concept of Business Planning

#### What is business planning?






Business planning means defining a deliberate, focused growth path that helps guide you as you start your business, help it grow, and make it successful. You follow a *business planning process* to develop your business plan, which will detail how to start your business, what to sell, who to sell to (your customer), costing and pricing, financing options, how to operate profitably, and how to grow your business in the long term.

A business – even the smallest business - needs a plan if it is to succeed. This plan is like a road that you follow when travelling. If you want to move from here to the next village, you must know how to get there, which means knowing what road to take, whether you will travel by foot or by bicycle, how long it will take you, with whom you will travel, what supplies you will need, etc.

As we will see in the next section, a business plan is based on two key factors, namely, the **vision** of the business (where the owner/business should be in the future) and the **mission** of the business (what you do to achieve your vision).

#### Summary

Your ADS needs a business plan because it will:

-  Help define the overall direction of the developing the business.
-  Help set realistic financial and non-financial targets.
-  Enable the owner to plan for and track growth.
-  Help identify the most appropriate structure and systems.
-  Assist with raising financing (because a good plan will interest a potential investor).

## Key Components of a Business Plan for an ADS

### Business vision and mission

A business plan begins and is heavily guided by two factors, which are the **vision** of the business and the **mission** of the business.

 The **vision** is the mental picture of the future you want.

If in your mind, you see a village where everyone has access to affordable quality medicines, then you set out to achieve that. Your reasons for starting an ADS business are inevitably linked to your vision of the type of society you want to live in.

Once you have that vision (the mental picture of the future you want), write it down. This is called your **vision statement**.

For example, Afya Bora Drug Shop could have its vision statement as:

*Our vision is that our community is a place where everyone has access to affordable, quality medicines.*

 The **mission** is what you do to achieve a vision.

If your vision is a village with affordable, quality medicines, then your mission will be to ensure that affordable, quality medicines are available to the community in that village.

Once you have your mission (what you are going to do to achieve your vision), write it down. This is called your **mission statement**.

Afya Bora Drug shop could have their mission statement as:

*Our mission is to engage in a profitable medical drug business to ensure a steady supply of quality medicines to our customers.*



## Key Components of the Business Plan

An ADS Business Plan should include the following key components:

### Background

- ✚ Vision
- ✚ Mission
- ✚ Business environment (opportunities and threats)
- ✚ Business status (strengths and weaknesses)
- ✚ Business location (physical address) and contact information

### Sales and Marketing Strategy

- ✚ Description of your potential customers
- ✚ Your current competition
- ✚ Your competitive advantage. Key areas to consider are: price, quality, delivery, customer service, terms of business, other features or services.
- ✚ How will you promote your business? What, where, when, how, and why are you going to market your service to your potential customers to best effect (and how much will it cost?).

### Supply or Procurement Plan

Key factors to consider here include the following:

- ✚ Who our suppliers are or will be.
- ✚ How many potential suppliers there are.
- ✚ How far away the suppliers are.
- ✚ How long it takes to receive orders.

- ✚ What the terms of supply will be: cash or credit terms.
- ✚ What the terms of delivery will be: the wholesaler delivers or we pick up from them?
- ✚ The mode of transport we will use.

### **Stock Management Plan**

Stock management is a key factor in the drug business. The business plan must clearly state how this will be handled.

- ✚ The type of medicines to be stocked.
- ✚ How much of each type to stock.
- ✚ The minimum stock for re-ordering.

### **Staff Plan**

The staff plan looks at the **number** and **type** of staff to employ. This is determined by the size of the business and the number of customers served. In an ADS that is managed by the owners, some key staff to consider include:

- ✚ Dispenser
- ✚ Cashier/Accountant
- ✚ Cleaner

The business plan will provide further guidance on whether or not employees will be family members. This is further determined by the size and age of the business or the agreed-upon mode of business operations by the business owner.

### **Business Growth and Expansion Plan**

A good business plan should include how the business will grow:

- ✚ Whether it will be opening more shops or branches.
- ✚ Whether it will be expanding the business in the same premises.
- ✚ Whether it will provide additional products and services.

### **Community Responsibility Plan**

This is both a policy and a component of a business plan. It states how much money the business will spend on community responsibility or good causes. This is important because if it is not planned and well managed, it may lead the business into losses. The easiest way to determine this is to:

- ✚ Set a ceiling that is the maximum amount the business will donate.

- ✚ Respect this ceiling.

If a business plans to spend one million shillings on community responsibility, it should be this amount. It can be spent as lump-sum or spread across many causes.

## Summary

- ✚ A business plan has seven key components.
- ✚ A business plan is a living document that must be updated periodically.

## The Business Financing Plan

The business financing plan must accompany your business plan. It includes detailed information about your business finances.

### Key Objectives and Financial Review

Under the key objectives and financial review section of your business plan, you should include the following information:

- ✚ Financial objectives: These can be in the form of sales or profit targets. You could also list your main financial management goals, such as cost reduction targets.
- ✚ Finance required: Enter how much money you need up-front and include:
  - From where you'll obtain the money.
  - What portion you'll be seeking from loans, investors, business partners, friends, or relatives.
  - How much of your own money you can contribute to the business.

### Financial Projections

For an ADS, a key consideration when starting a business is seed capital or growth capital. This is the amount of money that one needs to start or expand the business. It is usually spent on the three key investment areas:

- ✚ Rent or building premises
- ✚ Furnishings
- ✚ Working capital (= assets less expenses or what money is left after everything is paid at the end of the month)

### Sources of Business Finance

The major sources of finance for a business include the following:

- ✚ Savings
- ✚ Credit from family, friends
- ✚ Reinvested profits
- ✚ Supplier credit
- ✚ Customer advance
- ✚ Selling assets
- ✚ Overdrafts
- ✚ Loans

### *Savings*

This is the most reliable source of business funds. It is determined by how you set your life goals and financial goals. Remember the matrix on age and goals/achievements? If your goal was to become an investor at 45, then it means that you should have started saving at age 25. The richest man in Kenya, Naushad Merali, is still starting new businesses, even when he is past 60 years.

So at whatever age, the formula works: if you save 20% of whatever income you get, you will be a millionaire in 20 years. And these savings will give you start-up capital for investment.

### *Credit or grant from friends and family*

This is another reliable source of starting capital or expansion capital. Once you receive a soft loan from family (friends or relatives), make an effort to pay back, even if it is in small instalments. This will help you establish an image of an honest and credit-worthy person. Such an image is one of the biggest assets in life and business.

### *Reinvested profits*

This is the most reliable and secure source of business finance. It means the business is growing organically, on its own strength. To achieve this, the business must state clearly in its business plan how profits will be used: what percentage goes to shareholders, what percentage goes to grow the business.

### *Supplier credit*

Supplier credit is when you do not pay cash for your stock. The supplier gives you an agreed-upon period within which you will pay. It is a good source of business finance but it depends on two key factors: honesty and good management. Honesty means that you will be trusted that you can pay back. Good business management enables you to earn the money to pay back. When you receive goods on credit, it means you can charge affordable prices, get more customers, and thus more sales. This is the secret behind the success of most Indian small businessmen. They receive goods on credit but they pay back to their suppliers.



### *Customer advance*

This is when a customer pays for medicines in advance before taking them. If you do your marketing well, and you are a trusted businessman, it is possible to get customers depositing against their future medical needs. It can be a school depositing on the account for their students' medical needs, or a family head who travels frequently and needs to ensure his family has emergency medicine when he is away. There are several potential customers in this category, if you do your marketing well.

### *Selling assets*

This is normally done when one is seeking starting capital. Any asset can be sold, as long as the money obtained is invested and it earns profits. What you sell today can be bought tomorrow. The challenge here is when it comes to family assets, getting the agreement of everybody is not easy. There is still the culture of sentimental attachment to things. But when you have a clear business plan of what will be done with the money, it becomes easy. As one wise man has said: *“the only thing you cannot sell is your wife and your children...”*.

### *Overdrafts*

If you are a good regular customer of your bank, it is possible to get an overdraft. This is normally needed for short-term financial needs and operations.

### *Loans*

Loans are the most common form of bank credit. It will be easy to get a loan if you keep records and your business is profitable. One key fact about loans is that it must be used for the business it is borrowed to finance, not for other purposes. Large long-term loans are normally needed for investment capital, such as opening a new branch, or expanding the existing business.

## **Summary**

- ✚ All planned activities in an ADS require an accompanying financing plan.
- ✚ The financing plan of your ADS is a core component of your business plan that will guide your ADS on the most appropriate ways of financing the business.
- ✚ The financing plan is a more comprehensive version of a budget because it provides guidance on potential sources of financing for the various aspects of the business, while a budget provides you with the anticipated costs involved.
- ✚ A financial plan will help you to determine cost price, your profit margins, and therefore, enable you to determine the required sales projections that will ensure that you run a profitable and sustainable ADS.