Youth Entrepreneurship
The *Youth Entrepreneurship Guide* and the accompanying e-course are intended to provide development practitioners and those working with young people, as well as young entrepreneurs themselves, with an overview of youth economic development, focusing on entrepreneurship (Part 1) and core business skills (Part 2).

Much of the content of this course is based on MEDA’s experience in Youth Economic Development within various projects across the world. Most notably, the Agricultural Transformation Through Stronger Vocational Education (ATTSVE) program led by Dalhousie University and implemented in Ethiopia must be acknowledged, alongside the youth clients engaged within this project. We extend our thanks and appreciation to these young people for your dedication and ability to apply what you have learned now and into the future.

Furthermore, we would like to acknowledge some of the great work being done engaging with youth by many organizations and initiatives which influenced this course:

**USAID’s YouthPower:** a global, multifaceted project focused on expanding the evidence base for what works in positive youth development and applying improved approaches across programs and sectors. YouthPower seeks to improve the capacity of youth-led and youth-serving institutions and engage young people, their families, communities, and governments so that youth can reach their full potential.\(^1\)

**Global Entrepreneurship Monitor (GEM):** GEM carries out survey-based research on entrepreneurship and entrepreneurship ecosystems around the world. GEM has shared some excellent youth-focused publications within the industry, particularly “Future Potential: A GEM Perspective on Youth Entrepreneurship 2015.”\(^2\)

**UNFPA The Missing Peace:** this progress study published by UNFPA is an important contribution to understanding the diversity and complexity of young people’s engagement for peace. It offers insights on the counterproductive effects of policies that cast youth as a challenge or problem, rather than an indispensable asset and partner in building peaceful societies. The study proposes ways to support the agency, leadership and ownership of young people and their networks and organizations to facilitate their equal and full participation at all decision-making levels.\(^3\)

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1. [https://www.youthpower.org/](https://www.youthpower.org/)
2. [https://www.gemconsortium.org/](https://www.gemconsortium.org/)
3. [https://www.unfpa.org/youth-peace-security](https://www.unfpa.org/youth-peace-security)
Restless Development: an organization focused on youth leadership, they provide training and support to young people to become leaders and help them to multiply that leadership in their communities and around the world.4

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The core content development team was led by Catherine Walker, Jennifer Denomy, Fiona MacKenzie, Ashlea Webber, and Katelynn Folkerts. We would like to thank all contributors to this course and hope that the result is a useful tool for development practitioners, those engaged in work with youth as well as youth themselves.

Introduction to the Guide

This guide can be utilized as a stand-alone document or as a companion to the Youth Entrepreneurship E-course available at www.meda.org. This guide is intended to complement the information provided in the e-course and is organized using the same module structure. This guide also includes templates for the major tools and frameworks presented and utilized in the e-course and referred to within this document.

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4 https://restlessdevelopment.org/
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1.1 Introduction to Course

Welcome to the **Youth Entrepreneurship Course**, prepared by Mennonite Economic Development Associates (MEDA) as part of the Agricultural Transformation Through Stronger Vocational Education (ATTSVE) project funded by Global Affairs Canada and implemented in partnership with Dalhousie University Faculty of Agriculture, McGill University and Jima University of Agriculture and Veterinary Medicine.

This course has two components: this resource guide and the e-course, operating on the Articulate platform. The resource guide provides information on key topics covered in the course, and the e-course is an interactive set of modules that cover the same topics as the resource guide, allowing the user to test, refresh and deepen their knowledge. Users may choose to read the resource guide first, using the e-course to refresh their knowledge; conversely, users may decide to take some or all of the e-course first, and then read the resource guide to deepen their understanding.

**Audience**

The course is divided into two main sections:

- **Part 1 – Overview of Youth Economic Development**, aimed at practitioners and those working with young people, provides background on youth economic development, with a focus on youth entrepreneurship.
  
  **Purpose:** prepares practitioners to implement activities supporting young people to enter the labour market.

- **Part 2 – Core Business Skills for Young Entrepreneurs**, is designed primarily for new and existing young entrepreneurs, and may also be useful for practitioners who would benefit from learning or refreshing their core business skills.
  
  **Purpose:** provides an introduction to the core business skills and processes required to effectively set up, grow, analyze, and run a small business.

This course focuses on entrepreneurship as a key pathway for youth, recognizing that not all youth can or wish to run businesses. However, entrepreneurship skills are valuable for everyone, regardless of the choices they make or the circumstances of their lives. Entrepreneurial employees are valuable for a business and skills can be applied in other areas of life.

The **Youth Entrepreneurship Course** defines youth as those under 35 years old. However, as explained more fully in this unit, there are many different definitions of youth. For example, the International Labour Organization (ILO) defines youth as those between 15 and 24, and therefore they collect and report data on young people within this age range. Wherever possible, data on youth under 35 years old will be provided in this course.
1.2 Learning Objectives

By the end of this module it is expected that you will:

1. **LO1**: Understand why definitions of youth vary around the world
2. **LO2**: Understand key challenges and opportunities youth face as they enter the world of work
3. **LO3**: Be introduced to youth economic opportunities programming and how interventions can be targeted to different life stages

1.3 Defining Youth

An 18-year-old woman living with her husband and two children in northern Ghana sells fruit on a street corner to supplement her family income. A 23-year-old business graduate looks for his first job in urban Kenya. A 29-year-old woman is opening a shop in Addis Ababa, after borrowing money from her family and friends.

Though these three people have very different choices and opportunities available to them, there are many similarities in their lives. As part of the largest cohort of young people the world has ever seen, they face enormous challenges but also unprecedented potential.

**Who Are Youth?**

Youth is by definition a stage of transition, specifically from the dependence of childhood to the independence of adulthood. The specific age during which this takes place varies from one individual to the next, depending on their context, experiences and responsibilities. For example, an 18-year-old who attends secondary school and lives with their family experiences ‘youth’ quite differently from the 18-year-old described above who already works to provide for her own family and children.

The definition of ‘youth’ varies by country and by organization. Most include people roughly between the ages of 15 and 29, though some definitions begin younger or extend to older populations. For example, the United Nations defines youth as people between 15 and 24, though several entities within the UN use variations. The ILO defines young people as those between 15

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6 For example, UN Habitat defines youth as those aged 15 to 32 and UNICEF defines those under 18 as children.
and 24, and adults as anyone over 25 years old, with those between 25 and 29 defined as young adults. The Government of Ethiopia includes those 15 to 29 as youth;\textsuperscript{7} by contrast, Liberia and Sierra Leone include those up to 35 years old. In some cases, these varying definitions recognize historical circumstances: Liberia includes those up to 35 as youth because so many young people missed out on school during the civil war. Extending the age allowed more people to re-enter school after the peace settlement. In other cases, having a broad definition of youth may be political: almost all governments run programs to benefit youth socially and economically, and they can include more people when the definition of youth has a broader age range. Finally, many countries have recognized that gaining the resources and opportunities to successfully transition from youth to adulthood has become increasingly difficult, and that “higher levels of unemployment and the cost of setting up an independent household puts many young people into a prolonged period of dependency.”\textsuperscript{8} Extending the upper age bracket of youthhood acknowledges that many young people are working to achieve other markers of adulthood such as education, gainful employment, marriage and children, well into their 30s. The African Union, for example, uses the definition of 15 to 35 across its member states.\textsuperscript{9}

1.4 Why Focus on Youth?

\textbf{Context: Global Demographics and the Labour Force}

The world population is now approaching 8 billion people and four in ten people globally – 42\% – are under the age of 25.\textsuperscript{10} Nearly half the world’s young people live in Sub Saharan Africa. Youth can be a positive force for development but require access to high quality education and opportunities in order to thrive. Many countries struggle with high youth unemployment rates. The global youth unemployment rate is 13.6\%, with significant regional variation, from less than 9\% in North America and Sub Saharan Africa, to 30\% in North Africa. Youth are three times more likely than adults over 25 years old to be unemployed.\textsuperscript{11} Many factors contribute to this, including youth inexperience in the world of work, which puts them at a disadvantage when compared to more experienced job applicants (Factors contributing to youth unemployment are discussed in more detail in Module 2).

The school to work transition – young people’s entry into the labour market – is a critical life stage and has long-term impacts on people’s ability to earn and build their skills, as well as their confidence and mental health. In higher income countries, the first transition is typically into

\begin{itemize}
  \item \textsuperscript{7} https://chilot.files.wordpress.com/2011/08/fdre-youth-policy.pdf
  \item \textsuperscript{8} Holt, Diane. (N.D.), Exploring Youth Entrepreneurship. United Nations Department of Economic and Social Affairs (UNDESA).
  \item \textsuperscript{10} https://blogs.worldbank.org/opendata/chart-how-worlds-youth-population-changing
\end{itemize}
stable wage employment – in other words, a job with a contract and benefits. In lower income countries, those with lower levels of skill and schooling tend to transition into unstable and/or self-employment, often in the informal sector.

**Entering the World of Work: Young Entrepreneurs and Employees**

Of the world's 1.3 billion youth, less than 500 million, or 41% are in the labour force. Of these, 429 million are employed – including those in informal, part-time and self-employment – and nearly 68 million are unemployed and looking for work. More than half of all young people – approximately 776 million – are outside the labour force. They are not employed and are not looking for work. Many of these are studying, but many are described as NEET – not in employment, education or training. In effect, they have given up on finding work and many remain in this transitional state for months, even years.

**Global youth labour market in 2019, ages 15 to 24 (ILO, 2020)**

Youth unemployment is impacted by several factors, including:

- Limited capacity building and training opportunities, compounded by the education/skill mismatch, the widespread phenomenon whereby the skills and knowledge taught in schools does not align with the needs of the labour market

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Geneva: ILO, 2020
• Lack of entrepreneurship support, including training and mentorship, but also familial and community acceptance of entrepreneurship as a viable pathway, and
• Lack of access to financing and assets, including savings and loans, land, equipment and other assets.

Limited employment opportunities leave young people vulnerable to exploitation (including political manipulation) and unprepared or unable to make productive contributions to their families and communities.

Even those young people who secure jobs may face challenges. Over three-quarters of young workers are in informal employment, meaning that they lack contracts, benefits, and job security. The rise of the ‘gig economy’ has also brought an increase in insecure forms of work for young people. Almost half of young workers are either working in a family business or self-employed. While such work is often un- or under-paid and advancement opportunities may be limited, contributing to family businesses can provide important labour market entry and growth opportunities for youth. Similarly, self-employment may – at least in the start-up stages – bring lower income stability and social security coverage. However, running a business brings many benefits for entrepreneurs of all ages, including creativity, flexibility, and autonomy.

In Sub Saharan Africa, 79% of workers are self-employed, the majority in small-scale agriculture or retail.

—Kew, Africa’s Young Entrepreneurs

### Persistent Gender Gap

Young men and women participate in the workforce at different rates. Globally, 16 percent more young men than young women are working, a rate that varies considerably across regions. In

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North America, participation rates are almost equal, and the gaps have narrowed significantly in Latin America and the Caribbean. The largest gender gap is in the Arab region, where 37 percent fewer young women than men are in the labour force.

In addition to fewer young women participating in the labour force, they tend to be concentrated in sectors traditionally associated with their gender roles, such as teaching, care work, personal services and community or social work. Men, meanwhile, dominate the better-paying sectors such as financial services, engineering, business services and technology. Occupational segregation tends to limit women to relatively lower paid, less secure work which has little authority and fewer opportunities for advancement.¹⁴

**Youth Bulge**

As noted above, 42 percent of the global population is under the age of 25. When “older youth” aged 25 to 35 are included, the proportion of young people increases. In many developing countries, particularly in Africa and the Middle East, youth populations are large and growing relative to the country’s overall population. This is sometimes called a ‘youth bulge,’ so named because of the appearance of demographic charts that show total populations broken out by age segments (see following examples).

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The following population pyramids show Ethiopia’s population broken down by demographic segments at three points in time: 2017, and projections for 2030 and 2060. In 2017, children make up the largest proportion of the population, and as they grow up, these large cohorts enter and leave the school system and the labour market.

https://www.unfpa.org/data/ET
By contrast, Canada’s population pyramid shows a much larger proportion of older age segments, with the largest group aged 50 to 60 years old.\textsuperscript{16}

The sheer number of youth in many developing countries points to the need to consider the challenges and objectives of young people as key development priorities. As either the largest or one of the largest segments of the population in many developing countries, global challenges such as those identified by the Sustainable Development Goals (SDGs) – such as poverty, hunger, insufficient access to water and sanitation, environmental degradation and unemployment – can also be seen as youth challenges. In addition, issues such as poverty and inequitable economic growth have unique impacts on youth based on their life stage, as they reduce the resources and opportunities that allow youth to transition into socially-recognized adulthood, such as access to quality education and viable employment.

**Adulthood: Delayed**

In Africa, for example, youth development practitioners and scholars report that though considerable economic growth has occurred, it has not been equitable growth or translated into significant job creation. At the same time, livelihood opportunities in rural areas have led many youth to migrate to cities, where viable employment in both the formal and informal sectors remains rare. Moreover, while access to education has been increasing, “the mismatch between educational systems and the labour markets leaves many unemployed or underemployed; [youth]
are pushed into the oversaturated informal economy or become informal workers in the formal sector.”\textsuperscript{17} As a result, more and more young people are experiencing what has come to be known as ‘waithood’ – or the “period of suspension between childhood and adulthood.”\textsuperscript{18} With fewer options to secure education and/or viable employment, youth across the Global South are increasingly unable to acquire important markers of adulthood, such as financial independence, land, and the ability to marry and provide for children. As a result, they are regarded as “youth” long after reaching the age by which the transition to adulthood is normally completed.

This phenomenon is so widespread that terms for it have cropped up in various locations in the Middle East, Africa and the Caribbean. For example, in West Africa the term youthman describes men who have reached their late thirties to forties without marrying or finding employment. While according to their age they should be adults, they have not accomplished those things that would cause them to be seen and accepted as full adult members of society. Similarly, the term granmoun timoun in Haitian Creole literally translates to ‘adult child,’ and refers to people who have reached adulthood age without having been able to achieve financial independence, and still rely fully or partially on others to meet basic needs. For many youth, ‘waithood’ is experienced as the “feeling of being blocked in a stage of prolonged or permanent youth.”\textsuperscript{19}

Education, employment, and equitable economic growth are key factors in understanding whether a country’s youth population, or youth bulge, will be able to contribute to national development and wellbeing. As young people leave school and transition into the workforce, they will encounter a variety of factors that impact their ability to find or create decent work. If large numbers of young people are able to find productive and remunerated work, the youth bulge can translate into a ‘demographic dividend,’ which is when the working population is larger relative to children

\begin{itemize}
  \item [17] Honwana, 2013, Youth Waithood and Protest Movements in Africa
  \item [18] Ibid.
  \item [19] Sommer, 2014, The Outcast Majority; Creole – Author’s key informant interview, Port-au-Prince, 2018
\end{itemize}
and elderly cohorts, leading to lower dependency ratios, and more opportunity for investment in higher standards of living. The World Bank points to several East Asian economies that have successfully turned the youth bulge into a demographic dividend during the late twentieth century during the “Asian economic miracle, which saw a sevenfold increase in gross domestic product.20 South Korea has experienced dramatic GDP growth, rapid increases in average wages and low youth employment in recent years. Similarly, China has kept youth unemployment low, and moved young workers from low productivity agricultural jobs into higher productivity manufacturing.21 In this way, these countries equipped large youth populations to provide an economic boost to their economies.

By contrast, a similar period in Latin America saw only twofold growth, accompanied by unequal access to investments in health and education, including reproductive health and rights of women and girls.22 Countries where large numbers of young people cannot find employment or earn a satisfactory wage risk pushing youth into insecure or unsafe informal employment, and missing the opportunity that large numbers of employed youth offer to boost the domestic economy. Some studies have also linked high rates of youth unemployment to social instability. In these cases, the youth bulge has sometimes been referred to as a “demographic bomb,” in which high numbers of frustrated youth – particularly young men – are seen as a potential source of conflict. While only a minority of youth worldwide become involved in armed movements, gangs or extremist groups, research conducted with youth who do points to the role that decreasing livelihood opportunities and pathways to a productive and socially-recognized personhood play in youth involvement in violence. Indeed, the meaning of youth “risk-taking” becomes increasingly complex as youth are forced to mitigate some risks – such as poverty, hunger and social humiliation from unemployment and the inability to achieve adult status – by taking on others, such as criminal behaviour, illegal or unsafe forms of work, and membership in armed groups or patrimonial political networks.

1.5 Engaging Youth in Economic Empowerment

Youth as Agents of Change

It is important to recognize the role that youth play as agents of positive social and political change. Young people between ages 15 and 35 are at a distinct physiological and social developmental stages that represent both opportunities and risks. They are figuring out where they fit in their communities and families, how they want to develop themselves and their skills, and which pathways are likely to help them succeed as they become adults. They are also aware of and engaged in the challenges faced by their neighborhoods and countries, which are often intimately tied to the challenges faced by youth themselves. As noted above, though high levels of youth unemployment are thought to lead to increasing frustration and social instability, youth also actively

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20 https://www.unfpa.org/demographic-dividend
22 https://www.unfpa.org/demographic-dividend
work to transform adverse conditions through both their everyday activities and intentional forms of social organization. Youth development initiatives can build on what youth have identified as important goals for themselves and their communities, and what they are already doing to work towards them.

First, even with limited access to resources and opportunities, youth exhibit agency and creativity in addressing the barriers they face on a daily basis. That is, though they might not always have access to formal education or employment, they are rarely idle or waiting for opportunities to come to them. For example, in Mozambique many young men engage in informal cross-border trading and street vending in South Africa.\(^ {23}\) Young people also become successful entrepreneurs reselling used clothing, doing hair and nails, or repairing and reselling electronics.\(^ {24}\) In Haiti, many youth drive moto-taxis for half of the day in order to pay their own secondary school fees and attend classes for the other half of the day. It is important to remember that while these strategies demonstrate youth’s agency and creativity in responding to their own challenges, they may not always be their first choice of employment or constitute safe and appropriately remunerated work. Many young women and men, for example, are also forced to use their sexuality in order to earn a living, which can result in many negative mental, emotional and physiological impacts.

Youth have also long acted as leaders in organizing and bringing about positive social and political change. For example, youth were prominent in organizing the One Million Voices against FARC marches in Columbia in 2008. They also played a critical role in the Arab Spring protests which

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\(^{23}\) [https://www.tandfonline.com/doi/abs/10.1080/713661400](https://www.tandfonline.com/doi/abs/10.1080/713661400)

\(^{24}\) Honwana, 2013
sought to establish more authentic democratic processes in the Middle East and North Africa. In the United States, youth associations and youth-led social media campaigns have been instrumental in highlighting ongoing racial and structural inequalities. At the community level, youth in Haiti have organized protests to demand access to basic water, waste and electricity infrastructure, and carry out informal garbage collection and sanitization services for their neighborhoods.

In sum, efforts to promote youth economic empowerment operate in a space that is already rich in creativity and critical thinking, and one that enjoys long history of social organization. Youth, though large in number and faced with many of our current global development challenges, are already working to improve their own lives and create more aware and just social and economic arrangements. Youth development initiatives can assist in this process by partnering with youth and providing the education and opportunities youth need in order to thrive.

1.6 Earning a Living: Youth Economic Opportunities

**Entrepreneurship in Context**

As the title suggests, this Youth Entrepreneurship Course focuses on supporting young people to start and grow businesses as safely and effectively as possible. As such, this course includes context – factors that support and hinder youth in the labour market – and skill building – the core business skills and processes required to effectively set up, grow, analyze, and run a small business.

In addition, it is important to note that youth often engage in ‘mixed livelihoods,’ a combination of income generating activities that may change over time as they build skills and find new opportunities.25 Many young people must pursue a variety of income sources, including working for a family farm or business, engaging in small-scale agricultural production and running micro-enterprises that can be easily started and stopped, as necessary. This mixed livelihood strategy allows young people to diversify risk, earning from a variety of sources and allowing greater flexibility to pivot when the market for one service or product is lower.

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25 Mixed livelihoods is a term popularized by The MasterCard Foundation in their research on youth economic lives. See for example https://mastercardfdn.org/research/invisible-lives-five-takeaways-from-new-research/ and https://mastercardfdn.org/mixed-livelihoods-a-reality-for-youth-in-africa
In recognition of this reality, the **Youth Entrepreneurship Course** focuses on self-employment, but includes material on youth economic opportunities more broadly. Many initiatives promoting youth entrepreneurship have a broader focus, recognizing that many young people need a range of support in order to be successful entrepreneurs.

Entrepreneurship and self-employment are important pathways for youth entering the workforce. In addition to providing a means for earning a living, studies show that entrepreneurship for young people brings numerous benefits, including:

- Young entrepreneurs are more likely to hire other youth as employees
- Youth are active in high growth sectors, including technology
- Self-employment may bring higher levels of job satisfaction
- Young people with entrepreneurial skills are more valuable employees
- Entrepreneurial skills and experience are transferrable to other areas of life, building teamwork, leadership and resilience.26

In short, entrepreneurial skills and experience benefit youth who start businesses, but also those who work as employees.

**Working with Youth: Life Stages and Support**

MEDA finds it useful to subdivide young people more specifically, as this age range covers a wide variety of experiences and transitions in a person’s life. This resource guide and e-course will use the following definitions: adolescents, between 15 and 18 years old; youth, between 19 and 24 years old; and older youth or young adults, between 25 and 35 years old. The diagram below compares MEDA’s definition to that of the ILO:

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Young people in all three age groups face major events that affect their future well-being. At the younger end of the age spectrum, adolescents are still children in many respects, transitioning from puberty to maturity. As they transition from adolescence to youth, they have set in motion many of the events that will determine their life path. Youth, aged approximately 19 to 24, are still discovering their interests and talents and making commitments—to work, to a spouse, and often to becoming a parent. Older youth, aged 25-35 may have reached the “age” by which adulthood normally starts, but are often working towards achieving the factors that allow them to be socially recognized as an adult, such as financial independence, stable jobs and contributions to family and social life.

In terms of economic development interventions, different activities will be appropriate at different points in a young person’s life. This will vary depending on the person and their context, but the following is a guideline:

<table>
<thead>
<tr>
<th>Adolescents (15 to 18)</th>
<th>Youth (19 to 24)</th>
<th>Older youth (25 to 35)</th>
</tr>
</thead>
<tbody>
<tr>
<td>skills training</td>
<td>skills training</td>
<td>skills training</td>
</tr>
<tr>
<td>entrepreneurial mindset</td>
<td>job search skills</td>
<td>starting and growing businesses</td>
</tr>
<tr>
<td>envisioning future pathways</td>
<td>first job / starting business</td>
<td>or securing employment</td>
</tr>
<tr>
<td>financial literacy and savings</td>
<td>risk reduction for new businesses</td>
<td>financial literacy, savings and loans</td>
</tr>
</tbody>
</table>

Interventions targeted at adolescents – those aged approximately 15 to 18 – would focus on building foundational skills, fostering an entrepreneurial mindset and beginning to envision the type of future they want to pursue. For youth, interventions would build on these foundations, and would begin preparing people more concretely for the world of work. For older youth, interventions could include a more deliberate focus on starting and growing businesses, as well as accessing assets and financial services.

These interventions will be described in more detail in the coming modules.
1.7 Summary

This module focused on the following learning objectives:

1. **LO1: Understand why definitions of youth vary around the world**

   Definitions of youth vary by country and by organization. Most definitions include people roughly between the ages of 15 and 29, with some variations on the younger and older end of this range. In some cases, these varying definitions recognize historical circumstances: Liberia includes those up to 35 as youth because so many young people missed out on school during the civil war.

2. **LO2: Understand key challenges and opportunities youth face as they enter the world of work**

   Youth are three times more likely than adults to be unemployed. They face a range of challenges entering the labour market, including competition with large numbers of young job seekers, limited training, lack of marketable skills and the perception that youth are not serious employees. However, they are also well-positioned to take advantage of opportunities, such as the transformative role technology can play in the labour market.

3. **LO3: Be introduced to youth economic opportunities programming and how interventions can be targeted to different life stages**

   Economic opportunities programming supports youth as they transition into the labour force, building their skills and capacities and helping them to unleash their agency and creativity. MEDA finds it useful to subdivide young people more specifically, as this age range covers a wide variety of experiences and transitions in a person’s life: adolescents, between 15 and 18 years old; youth, between 19 and 24 years old; and older youth or young adults, between 25 and 35 years old. In terms of economic development interventions, different activities will be appropriate at different points in a young person’s life.

**Key Terms**

Entrepreneurship, employment, gender gap, education / skill mismatch, mixed livelihoods
MODULE 2: Principles of Youth Economic Development
2.1 Introduction

Now that we have defined and provided context for youth entrepreneurship and broader economic development programming, this module will introduce several key principles that should be considered in the design and implementation of youth economic development programming. Key principles include understanding and acknowledging youth diversity by applying an intersectional lens, acknowledging youth-specific challenges, and identifying opportunities that draw on youth skills and networks.

2.2 Learning Objectives

By the end of this module it is expected that you will:

1. LO1: Understand the diversity of youth and how economic development programming must adapt tools and approaches to match the priorities, challenges, identities and goals of young people

2. LO2: Understand the range of challenges youth face in entering the labour market and some techniques for overcoming these

3. LO3: Understand how youth bring skills, knowledge, and talents to overcome these challenges

2.3 Diversity of Youth

As discussed in Module 1, multiple age-based definitions of youth exist and are used in development work. Social and cultural definitions also exist, specifying youth as the period when young people are in the process of gaining the markers of adulthood, in addition to age. These vary from context to context, but usually involve completing education, securing viable work – either as employees or entrepreneurs, becoming financially independent and able to provide for others, getting married, and/or having children. These definitions offer a helpful starting point for understanding who youth are, as well as the status or role they might hold in their communities and societies.

However, a key principle of youth economic development is recognizing the diversity of youth identities even within age and socio-cultural categories. That is, ‘youth’ are not a homogenous group even among people of the same age, and efforts to promote youth empowerment must adapt tools and approaches to match the specific identities, priorities, challenges and goals of the particular young people they are working with.
Intersectionality: Diversity of Youth

A useful lens for project designers, implementers and evaluators in integrating the diversity of youth into project design is intersectionality. Intersectionality is a perspective or approach that seeks to understand the ways in which different combinations of identity markers may result in different experiences of disadvantage or privilege for people of different identities. These markers can include class, race, religion, sexual orientation, age, gender, geographic location, and political affiliation, among others. Approaching youth economic empowerment with an intersectional lens can help project designers break down the rather vague category of ‘youth,’ and add more depth to our understanding of their diversity of identities, opportunities, strengths, and needs.

For example, gender differences are important to consider when working with youth. Social and cultural norms around gender and gender roles can impact the types of economic opportunities youth are exposed to or able to take advantage of. For instance, in a context of limited family resources and a preference for boys’ education, girls and young women may not be given the same opportunities to build skills and qualifications for future employment or entrepreneurship as boys and young men who are otherwise similar in age, class, socio-economic status, religion or other identity markers. Social and cultural norms may also promote rigid definitions of “men’s work” and “women’s work” in both the formal or informal sectors, which can limit the opportunities that different genders experience in accessing different opportunities, or allocating their time freely to paid work, unpaid or housework, and rest and leisure.

Intersectionality: an approach that considers different elements of an individual’s identity – including gender, sex, ethnicity, age, and religion – and how they face inequality through intersecting realities and experiences.

Illustration of intersectionality, from Status of Women Canada
Mainstreaming both youth and gender concerns is therefore essential to effective youth development programming. Gender-focused programming that does not take into account age and life stage may therefore not be suited to addressing specific challenges faced by young women. For example, young women who are also mothers may be considered “adults” due to their status as parents, without having had the opportunity to gain other markers of adulthood such as education and employment. Similarly, youth development programming that does not mainstream gender can also miss gender-related challenges faced by young men, such as the limitations that may result from upholding cultural and social norms of masculinity. For example, many cultures across the Global North and Global South place heavy pressure on young men to conform to dominant conceptions of “manhood,” which often involve economic factors such as gaining viable employment and social status based on wealth. Economic decline or conflict can place these markers ever further out of reach for the majority of young men, while the public humiliation often associated with being a “failed” man remains constant.27 Young men trying to meet basic needs may therefore feel additional pressure to succeed in order to avoid such humiliation. The integration of both youth and gender concerns in youth economic empowerment are therefore crucial to understanding not only opportunities available to young people of different genders, but also the social landscape that youth navigate when both forging an identity and securing their prospective economic wellbeing in the future.

### Exploring Intersectionality

Consider four scenarios of two men and two women, described below. All are considered youth, but their life experiences are likely to be dramatically different, with contrasting potential ‘moments of oppression’ and ‘moments of opportunity.’

- Young man (aged 17), single, living with family in Addis Ababa, high school certificate with above average grades
- Young woman (aged 17), from a low caste, left school at age 12, lives in a rural part of Nepal, married with a young child
- Young woman (aged 22), in a wheelchair, lives in California, with an undergraduate degree
- Young man (aged 22), deaf, lives in rural Yemen, attended primary school

Adapted from UNDESA, Exploring Youth Entrepreneurship.

In addition to age and gender, class and socio-economic status are identity markers that are important for efforts aimed at promoting youth economic empowerment. For example, youth

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in the same geographical location and of the same gender may experience different access to education based on family income, as well as different degrees of social capital, based on the socio-economic status and connections of their parents or relatives. These dynamics are often overlooked in youth programming in favour of reaching the most accessible youth, or the youth who are the most likely to succeed. A common result is that the same youth who are relatively better-connected to community gatekeepers, better educated or already involved in economic or community development efforts often participate in multiple youth-development initiatives, trainings, and workshops. This, in turn, can have the effect of exacerbating local inequalities between youth of different classes or socio-economic status. An intersectional lens can thus increase the effectiveness of strategic targeting of “harder-to-reach” or less well-connected youth, depending on the objectives of the program or project.

Gender and class are only two examples of the many important dimensions of youth diversity. Others might include whether youth are from urban or rural areas, whether they or their families have experienced conflict or trauma, or whether they have access to education and health services. Using an intersectional lens, program designers can identify and understand the ways in which different identity markers of youth in a particular context impact their current and future wellbeing, as well as the types of tools and approaches that would best accommodate differences between youth. Indeed, conducting preliminary research or working through local organizations trusted by different types of youth is a helpful starting point to get to know the youth and the context within which they are growing up and transitioning to adulthood. Diversity and inclusion considerations can also be incorporated into program design by seeking out the opinions, priorities and perspectives of youth themselves on what effective programming might look like – for example, by using action or community-based research – allowing different and multiple perspectives to inform program design.

**Setting the Stage for Success**

As noted in Module 1, the definition of youth varies across countries, contexts, and individuals. Youth is a transition period, when people move from dependence to greater independence, and begin taking on more responsibility. This stage is also a critical window of opportunity for support: youth is a developmental stage where important professional, social, and personal skills are learned.

In addition, youth is a biologically distinct life stage, during which a person’s physiology rewards certain behaviours more than at other times in one’s life – specifically, risk taking and seeking out new experiences. From an evolutionary perspective, this may be because it is a relatively ‘safe’ time to experiment, learn preferences and skills and understand consequences to one’s actions. Many people still have the safety net of their family to rely on if a decision has negative consequences.

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As seen in the diagram below, youth is the ‘window’ during which the choices made by youth, as well as the opportunities available to youth, begin to have longer term consequences. People can begin embarking on pathways that are largely positive – seeking out and taking part in economic opportunities, engaging in and building family and social networks, building skills, and taking on more independence and leadership. However, negative pathways can also form, where people finish or leave school but cannot find employment or become trapped in dangerous or dead-end jobs. Isolation and indebtedness lead to disempowerment. In some extreme circumstances, people may be drawn into radicalism.

From a programming perspective, it is valuable to provide young people with opportunities to not only learn new skills but also to test them in realistic contexts where risk is minimized. Starting a business involves a degree of risk and can result in significant, long-lasting consequences. In many cases, young entrepreneurs are already acting against family or community preferences when they choose self-employment.

Wherever possible, programs should seek to reduce risk to the young entrepreneur. Strategies may include:

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**Five Dollar Business Challenge**

It is a common misconception that starting a business requires a large amount of capital. Many business schools and entrepreneurship training programs challenge participants to start an enterprise with very limited funds. In Ontario, Canada, Trent University’s Business Students Association hosts an annual Entrepreneurship Week where they challenge students to start a business with $5 in seed money. The University of Connecticut also runs a $5 Challenge, giving students a week to plan their business. The initiatives are designed to spur creativity, while limiting risk to the entrepreneurs.
• Linking entrepreneurs to established businesses, for example as franchisees or as distribution agents

• Providing peer and adult mentors, who can support youth with linkages to services and provide expert counsel

• Providing opportunities to fail safely, such as the “Five Dollar Business” Challenge (see text box)

2.4 Youth-Specific Challenges in Accessing Markets

Accessing the labour market – either as an entrepreneur or an employee – is challenging for workers of all ages. Some challenges affect youth more acutely, and youth have specific challenges that are unique. This section will go into more detail on key challenges that impact youth, as shown in the diagram below.

New to the World of Work

As noted earlier, people of all ages face challenges in entering the labour market, either as employees or entrepreneurs. For young people, these challenges are compounded by the inexperience that comes along with being new to the world of work. Despite rising school enrolment and completion rates, even those youth fortunate enough to have completed secondary and tertiary education may have trouble securing a job or starting a business because of their lack of hands-on experience and relevant skills. Many find that skills they have been taught do not match what the labour market needs: the education and skills mismatch is well documented.\(^{29}\)

\(^{29}\) See, for example, Kew J.; Namatovu R.; Aderinto R.; Chigunta F. (2015) ‘Africa’s Young Entrepreneurs: Unlocking the Potential for a Brighter Future.’ IDRC Canada
A recent study, analyzing surveys conducted in ten African countries, found that almost half of employed youth aged 15 to 29 (46.4%) perceived their skills to be ill-matched with their jobs: 17.5% reported feeling over-skilled and the remaining 28.9% experienced skill deficits. The skills gap is not limited to Africa: in PwC’s 22nd Annual Global CEO Survey, 79% of global CEOs reported that they were concerned about availability of key skills in the workforce. Among African business leaders, this number increases to 87%, with 45% stating that they were ‘extremely concerned.’

Skill mismatches have negative impacts at multiple levels: for individuals, the mismatch can affect their earning potential and their job satisfaction; the struggle to find skilled workers impacts on a firm’s productivity and profitability; and at the macro level, widespread skill deficits can lead to a country’s increased unemployment and loss of competitiveness.

Technical Vocational Education and Training (TVET) institutions are educational institutions focused on building knowledge, attitudes and skills needed for employment. TVETs hold strong potential for addressing the skill mismatch and are increasingly being promoting by governments globally.

However, to maximize the potential impact of TVETs a number of challenges need to be addressed including: limited funding compared to other education streams, negative perceptions of TVET, alignment with labour market needs, and the prioritisation of practical, hands-on teaching approaches.

In addition to relevant skills, success in starting and running a business is increased with a network – other businesspeople to buy from and sell to, and people who can give advice. Both formal and informal networks are important to success; many are increasingly facilitated and supported by social media outreach. Many young businesspeople have not yet had time to develop the necessary business networks and business social capital, frequently relying on family and friends for guidance and support and mentorship. This may limit their access to key market information, technology, inputs, production practices and possibly financing.33

**Contextual Social Norms and Preferences**

While not always representing a challenge to youth, access to markets, social and cultural norms and preferences can significantly influence youth entrepreneurship and employment. For example, UNDESA notes that in some contexts, entrepreneurship is not considered an acceptable profession, and is not actively encouraged as a ‘first choice’ for youth.34 This may be for a variety of reasons. For example, in contexts of relative scarcity, people may be more risk averse as losses to income or assets holds greater consequences for individual and family wellbeing. Youth entrepreneurship may therefore be discouraged in favour of jobs that are perceived as more stable, such as working in the public sector or for a formal organization or enterprise. Young people may also feel the desire or pressure to pursue jobs labelled as more prestigious in their society and culture; commonly cited examples include healthcare, law or engineering, among others.

Alternatively, efforts made by youth to engage in entrepreneurship to provide for themselves and others may be positively reinforced by other people and society. In Nigeria, for example, ‘hustling’ – or engaging in several small economic activities at once to earn a living – is normally applauded as evidence of hard work, and determination to provide for oneself and others. Peers and family members will often go to great lengths to promote and patronize each other’s businesses. Thus, while entrepreneurship may not always be the preferred type of economic activity, neither is it always labeled as negative or unacceptable. Indeed, studies conducted by the World Bank have argued that perceptions or attitudes towards entrepreneurship are often transmitted within families, and that positive entrepreneurship outcomes can increase younger family members’ tolerance for entrepreneurial risk.35

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34 Holt, Diane. (N.D.), Exploring Youth Entrepreneurship. United Nations Department of Economic and Social Affairs (UNDESA).
In sum, cultural attitudes towards entrepreneurship as well as contextual factors such as financial poverty that influence individuals’ and groups’ risk preferences will likely have a strong influence over whether youth themselves view entrepreneurship as a viable path to financial independence. Across different contexts, such attitudes and perceptions can both encourage or discourage youth entrepreneurship.

**Structural Challenges**

Youth, like other population segments, are deeply affected by the larger political, social, and economic environment in which they live. For example, accessing markets, particularly in terms of finding decent work and earning a stable living, is a key priority for youth. However, as noted in Module 1, many developing countries have high rates of youth in precarious situations, including unemployment, working in the informal sector with no contract or benefits, or those described as NEET – neither in employment, education or training. High rates of youth unemployment and underemployment are symptoms of underlying structural issues, such as economic decline or inequitable growth in the domestic economy, or a lack of publicly funded services.

It is therefore important to recognize that while youth may experience challenges that impact their ability to find a decent job or start a business – such as lack of experience, social connections or education – the reasons why youth experience these challenges are intimately connected to structural or systemic factors that impact a country as a whole. These factors could include the strength of the domestic economy, national economic and social policy, international relations and trade agreements, and the ability of governments to provide public services in education, health and support to small businesses.

Structural challenges which impact the whole population can have disproportionate or unique impacts on youth. This is because they limit the opportunities and services available to young people during a critical developmental life stage. For instance, underfunded public education systems are a prime example of a country-level structural issue which can disproportionately affect youth, who rely on this service for many aspects of personal, social, and professional development.

Economic decline and weak demand for labour are also structural issues that can disproportionately impact youth. On the one hand, youth make up a large proportion of many developing country populations and thus high levels of overall unemployment will also equate to high levels of youth unemployment. However, other systemic issues can increase the impact of economic decline on youth in particular. These will vary by country, but include: the education / skill mismatch that leaves
### WORLD POPULATION

<table>
<thead>
<tr>
<th>Region</th>
<th>Young Female NEETs</th>
<th>Young Male NEETs</th>
<th>Young Non-NEETs</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOUTHEAST ASIA</td>
<td>34%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>CENTRAL &amp; WESTERN ASIA</td>
<td>32%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>ARAB STATES</td>
<td>27%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>SUB-SAHARAN AFRICA</td>
<td>19%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>EASTERN EUROPE</td>
<td>17%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>EASTERN ASIA</td>
<td>5%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>NORTHERN AFRICA</td>
<td>36%</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>LATIN AMERICA &amp; THE CARIBBEAN</td>
<td>27%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>SOUTH-EASTERN ASIA &amp; THE PACIFIC</td>
<td>23%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>NORTHERN, SOUTHERN &amp; WESTERN EUROPE</td>
<td>12%</td>
<td>12%</td>
<td></td>
</tr>
</tbody>
</table>

NEET stands for **Not in Education, Employment or Training**. The Youth NEET rate is the percentage of people between 15 and 24 years old who are NEETs.

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Youth unqualified for existing jobs; fierce competition for limited jobs; restrictive labour laws that make employers reluctant to hire if they cannot easily let staff go; and perceptions that youth are not serious workers.

Another issue often cited by youth in marginalized communities is a lack of connection to influential business or political leaders, who are seen as informally controlling access to positions in the public and private sectors. The inability to find decent work can prevent youth from successfully gaining the income and stability needed to become recognized as an adult, and attain other adulthood traits, such as marriage.

The formal and informal dynamics of political structures can also have disproportionate impacts on youth. For example, many practitioners and scholars have drawn attention to both the exclusion of youth from formal political and decision-making processes, as well as their problematic inclusion into politics. In Haiti, for example, conflict analysts have noted both the difficulty youth face in accessing formal platforms for engaging with local and national leaders, on the one hand, as well as the prevalence of informal recruitment of (mostly male) youth to advance party-specific objectives, for example, by staging protests or creating a “climate of insecurity” during elections or other politically-opportune moments.36

For this reason, while youth may experience unique challenges in accessing the labour market based on their age and life-stage, attention must not be diverted from the structural issues which give rise to such challenges in the first place. This is particularly important given the relatively common narrative that paint large numbers of unemployed youth as a threat to social stability. For youth scholar and educational ethnographer Dianne Hoffman, focusing narrowly on what youth lack and the possible societal implications of this can cause youth to be seen as both “at risk,” and “the risk.” This, in turn, can miss both the creativity and determination youth demonstrate

in navigating their own development in challenging social and economic environments, as well as potential opportunities to address the larger social, political and economic arrangements that give rise to “risks” to youth wellbeing in the first place.

In sum, while interventions aimed at youth or specific groups of youth are important, systems-level interventions also have a role to play in youth development. Market Systems Development (MSD) is one approach that can help frame the unique challenges of youth within the context of the wider market system, allowing program designers to situate projects within the context that gives rise to youth challenges, such as unemployment. A Market System is defined as the supporting ecosystem in which market actors conduct business transactions. Value chain transactions form the core of the overall market system as this is where transactions take place as a good, product or service moves from an input supplier to an end consumer. Market systems also include the supporting functions and rules which support and govern these transactions.

Market Systems Development is a specific approach to economic development that acknowledges that markets do not naturally function in a way that meets everyone’s needs, and that interventions are needed to ensure that marginalized populations, such as women and youth, receive equal opportunity and benefits. The MSD approach aims to facilitate changes in the way markets operate so that they work more effectively and sustainably for people living in poverty, by working with actors who are already present in the market to take on roles which align with their own interests and incentives. Encompassing both public and private entities which either participate or provide supporting functions or rules for different value chains, MSD offers a lens to analyze and identify opportunities for increasing youth economic opportunities at a systems level. For more information about the MSD approach and how it can be tailored to different populations, see MEDA’s Market Systems Project Design and Implementation course.

**Legal and Regulatory Environment**

One component of Market Systems analysis is understanding the legal and regulatory environment that governs market activity in a given area. The nature of the legal and regulatory environment can have a profound impact on the ability of youth to access the market. For example, the legal and regulatory environment impacts on how easy – or challenging – it is to start and grow a business.

For all entrepreneurs, but particularly youth, a conducive regulatory environment makes it easier to start, grow and formalize a business. The World Bank’s annual Doing Business report compares the ease of doing business across 190 countries. The 2020 report notes: “An entrepreneur in a low-income economy typically spends around 50 percent of the country’s per-capita income to launch a company, compared with just 4.2 percent for an entrepreneur in a high-income economy. It takes nearly six times as long on average to start a business in the economies ranked in the bottom 50 as in the top 20.”

A successful strategy employed by many countries is establishment of ‘one-stop shops’ – fast track mechanisms where new start ups can access the necessary information to launch

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their businesses. Some countries, like El Salvador and China, have adopted online portals for new businesses.

In addition to these regulatory issues, which affect business owners of all ages, youth also face age-specific hurdles. Minimum ages for opening bank accounts, taking loans and signing contracts may limit young people’s ability to start businesses. For example, the minimum age to open a savings account in most countries is 18 years old, because financial institutions are reluctant to provide financial services without a signed contract. Since legally binding contracts can only be signed by those above the age of majority, accounts for those under 18 are opened by parents or guardians. The Philippines is a notable exception, where children as young as 7 can open a bank account.38

A related issue is youth access to assets. Productive technology may be necessary to run a viable business but acquiring or leasing such equipment may be impossible for young people who lack financing or the ability to secure a loan. Lack of access to land limits youth seeking to earn a living in the agricultural sector. Land is necessary for production, but also to use as collateral for loans.

2.5 Youth Opportunities

Building on Youth Skills for Economic Empowerment

While youth experience significant challenges in accessing the labour market as employees or entrepreneurs, there are also opportunities associated with bringing youth into economic development. First, as members of younger generations youth bring with them new skills, knowledge and worldviews. For example, across many contexts, youth are seen as technologically more adept, in general, than other population segments. Their relative familiarity with and trust in adopting and using new technologies can offer an opportunity to firms and organizations wishing to upgrade their efficiency or market access. In addition, youth selling products or services related to technology will have a degree of credibility among potential customers. Youth may also bring new ideas and innovations, as well as information on emerging trends.

Second, as noted in the introduction to this course (Module 1), youth are not only on the receiving end of development challenges and projects. Instead, youth around the world are actively working

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38 https://www.cgap.org/blog/legally-how-young-too-young-open-savings-account
to shape their own futures and take the lead, both in community development and broader social movements. A key principle of youth economic empowerment is to recognize and build on the agency that youth *already* demonstrate in their ability to identify, analyze and act in relation to the challenges they face, as well as their capacity to organize others to do the same. This is in line with the United Nations’ 2030 Agenda for Sustainable Development, which notes that while the international community may be instrumental in channeling financial support and providing technical assistance, “real challenges to the economic and social challenges facing youth will begin and end at home.”

This can take place on both local and broader societal levels. For example, while frequently under-resourced and heavily impacted by the structural or legal challenges mentioned above, many individual youth and youth groups (formal and informal) have an intimate understanding of the barriers young people face in securing jobs or building successful businesses, as well as workable ideas about how to address them in their community or context. Rather than replacing youth initiatives with donor-provided services, the capacity of youth can be built to transform their own needs assessments and solutions into workable business models.

Finally, at broader societal levels, creating space for youth engagement and leadership presents the opportunity to contribute to processes of wider social change. For example, youth played a central role in sparking protest movements across the Middle East during the Arab Spring uprisings which started in Tunisia in 2011. While many scholars have focused on the violent potential of large, disenfranchised youth populations, what happened in 2011 was quite different. Instead of young men joining the ranks of existing violent movements, a large number of young activists in Egypt, Tunisia and elsewhere - both men and women - chose to use strategic non-violence as their strategy for change. There are a number of reasons for this. Young people in the Middle East and North Africa region, especially the growing urban youth population, have been hurt by low wages, high unemployment and high food prices that have exacerbated their existing discontent. Just as significant, this generation’s global interconnectedness through media and technology has exposed them to images of possibilities besides their current governments. These factors, among other conditions, combined to give youth both the impetus and the vision to lead the cause for change.

While the outcomes and legacy of the Arab Spring remain mixed, this and other youth-led social movements point to the ability of youth to both identify and take action to address the power imbalances that lie beneath everyday barriers to exercising human rights, accessing public services and earning a living.

In sum, though youth experience significant challenges in accessing or creating viable forms of employment, working with youth and promoting youth economic empowerment also offers opportunities for meaningful progress and social change. While youth development interventions

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40 http://www.usip.org/publications/youth-and-the-arab-spring#youth
are often framed in terms of what youth lack, a key principle of youth economic empowerment is to recognize and validate what youth bring to the table in terms of competencies, ideas, and visions for themselves and their societies.

2.6 Summary

This module focused on the following learning objectives:

1. **LO1: Understand the diversity of youth and how economic development programming must adapt tools and approaches to match the priorities, challenges, identities and goals of young people**

   Youth are diverse, and multiple identity factors – in addition to age – impact on how youth enter and succeed in the world of work. Taking an intersectional approach will make economic interventions more responsive to the variety of factors impacting the lives of youth.

2. **LO2: Understand the range of challenges youth face in entering the labour market and some techniques for overcoming these**

   Programs working to increase youth economic engagement must help young people address and overcome a range of challenges, including legal and regulatory issues, the education / skill mismatch and youth inexperience in the world of work.

3. **LO3: Understand how youth bring skills, knowledge, and talents to overcome these challenges**

   Wherever possible, organizations supporting youth should seek to build on the skills, knowledge and talents youth bring.

**Key Terms**

Intersectionality, education / skills mismatch, structural challenges, regulatory environment, technical and vocational education and training (TVET), youth engagement
MODULE 3: Designing Youth-Focused Programming
3.1 Introduction

In the previous modules we discussed characteristics of youth and the key principles of youth economic development. Module 3 is focused on designing youth-focused programming. In this module, we will learn about integrative approaches to youth programming. First, we will learn about the importance of combining entrepreneurship-focused activities with activities that promote the other skills and opportunities that youth need to experience holistic positive development. This includes working with actors on multiple levels in a wider environment in which youth grow and develop, to ensure youth experience an enabling environment that promotes their personal and economic development. USAID’s positive youth development (PYD) framework will be explored as an example of integrated, multi-dimensional and multi-level youth-focused programming.

We will also examine the integration of different entrepreneurship-focused activities, building on our learning in Module 2, where we explored the multiple challenges that youth face in accessing labour markets on favourable terms. Combining multiple program areas into a strategic youth entrepreneurship project can increase the effectiveness and sustainability of project outcomes for both youth and the enabling environment.

Finally, in this module we will also learn about the importance of tailoring any approach or framework to the specific context in which the program will take place. A range of tools exist to use in the planning stages of a project to ensure that the problems and solutions identified respond effectively to the specific youth opportunities and needs present in a given location. In this module, we will look at the example of youth-led participatory or community-based research as a tool that can both generate context-specific information about the challenges and opportunities faced by youth in a particular area, as well as involve youth in the creation and ownership of solutions. This increases youth capacity in identifying and addressing the challenges that affect them, as well as youth commitment to a project.
3.2 Learning Objectives

By the end of this module it is expected that you will be able to:

1. LO1: Understand the value of integrative approaches to youth development and entrepreneurship
2. LO2: Identify the key components of Positive Youth Development (PYD) and its applications to youth entrepreneurship
3. LO3: Understand the importance of integrating multiple activities into entrepreneurship programming
4. LO4: Understand how to integrate the local context and actors when designing youth-focused programming.
5. LO5: Identify key considerations and strategies involved in youth entrepreneurship programming in the agricultural sector

3.3 Integrative Approaches to Youth Development and Entrepreneurship

As noted in the previous modules, youth are a diverse group with an equally diverse set of obstacles and opportunities. They are also uniquely impacted by wider development processes and challenges. Leading youth scholars and practitioners have emphasized the importance of integrative approaches to youth development. In general, integrative approaches acknowledge that youth is a life-stage in which young people are developing as individuals; and that even when sector-specific goals are being pursued (such as health, education, civic participation or economic development), programming should encompass multiple aspects of youth wellbeing in order to promote holistic youth development, and amplify the gains made in any one area.

Integrative approaches to youth development acknowledge that:

- **Successful youth development requires that youth are equipped with a variety of positive developmental assets.** This includes both technical skills, sometimes called ‘hard skills,’ such as learning a profession or trade, as well as ‘soft’ or ‘life skills,’ such as communication, teamwork, leadership, critical thinking, the ability to identify emotions, conflict transformation and self control. Positive developmental assets also include less-tangible assets such as a positive self-identity, a strong sense of self-efficacy, and positive personal values.
• **Successful youth development is optimized when it integrates the multiple levels of social and economic life that influence youth each day.** This includes youths’ immediate social and physical environment (schools, families, youth programs); the formal and informal social institutions or networks at the community level (local government, religious institutions); and macro-level political, economic and social systems, including social and cultural norms that form the wider environment within which youth grow and develop. The relationships between different levels of youth development are often illustrated using the social-ecological diagram, pictured below: 42

Integrative approaches to youth development can still focus on a particular sector, such as health, education, social cohesion or economic development. However, integrative approaches recognize that the gains made in any of these sectors or areas can be reinforced or amplified if programming includes cultivating a range of different developmental assets, and works collaboratively across different youth contexts such as families, schools, community groups, and markets, from local to

42 Social-ecological diagram adapted from the Ecological Systems Model developed by German psychologist Urie Bronfenbrenner.
macro levels of society. This applies to youth entrepreneurship programming as much as other types of youth development work.

For example, recent research conducted by the Mastercard Foundation found that a key factor in youth success following entrepreneurship and business training programs was the role of family, community and program-based social networks, which offered youth financial support and connections to further opportunities. This allowed participants to maintain steady self-employment or jobs in the years following the training. Activities that promote ‘bonding’ or the development of relationships between youth and adults in their community or field of work can therefore be just as important in terms of positive economic outcomes as learning how to run a business or practice a trade. Similarly, Mercy Corps’ youth development approach includes a strong focus on training in life skills alongside other activities such as internships or entrepreneurship training. This is due to feedback from participants and evaluations showing that youth are much more likely to succeed as employees or entrepreneurs when equipped with both business skills and skills that are transferrable to a wide variety of life experiences, such as self-control, time management, teamwork, leadership and conflict resolution.

We will now take a look at Positive Youth Development as an example of an integrative approach to youth development, and how it can be applied to entrepreneurship and economic development.

### 3.4 USAID’s Positive Development Framework

Positive Youth Development (PYD) is an approach which focuses on building the assets and skills necessary for youth wellbeing and successful transition into adulthood. The PYD approach emerged in the United States in the 1990s as a response to ‘problem-based’ approaches. These approaches tended to focus narrowly on solving or managing negative or risky youth behaviors such as delinquency, substance abuse or teen pregnancy. In contrast, PYD takes a ‘strengths-based’ approach, viewing youth as having assets and skills that can be developed and nurtured, resulting in immediate and long-term positive impacts for youth themselves, their families, and their communities.

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Consistent with the integrated approach described above, PYD also operates with the understanding that young people develop within wider social, political and economic environments, and that being able to experience acceptance within social groups and make contributions to communal life are central to both personal and community development. PYD therefore includes a focus on both building the assets and skills of youth; as well as ensuring that local social and cultural norms, policies, laws and market dynamics provide youth with the spaces and opportunities they need for their positive development. This involves working directly with youth as well as community groups, local leaders, governments, and other key actors within the systems that influence youth wellbeing.44

Common aims of PYD programming include:

- Equipping youth with skills and resources necessary to succeed
- Empowering youth to make changes for themselves and be productive members of society
- Ensuring that youth are surrounded by structures and people that positively reinforce them

USAID uses positive youth development as a framework for its youth work worldwide, defining PYD as follows:

Positive youth development (PYD) engages youth along with their families, communities and/or governments so that youth are empowered to reach their full potential. PYD approaches build skills, assets and competencies; foster healthy relationships; strengthen the environment; and transform systems.45

Operating from this definition, USAID’s positive youth development framework consists of four critical domains: Assets, Agency, Contribution and Enabling Environment. These domains form the overarching aims of PYD programming. The table below summarizes each domain:

<table>
<thead>
<tr>
<th>Domain</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>Youth have the necessary resources, skills and competencies to achieve desired outcomes.</td>
</tr>
<tr>
<td>Agency</td>
<td>Youth perceive and have the ability to employ their assets and aspirations to make or influence their own decisions about their lives and set their own goals and to act upon those decisions in order to achieve desired outcomes without fear of violence or retribution.</td>
</tr>
</tbody>
</table>

Youth are engaged as a source of change for their own and for their communities’ positive development.

Youth are surrounded by an environment that maximizes their ability to avoid risks, stay safe and secure, and be protected. An enabling environment encourages and recognizes youth while promoting their social and emotional competence to thrive. The term “environment” should be interpreted broadly and can include the social (e.g. relationships with peers and adults), normative (e.g. attitudes, norms and beliefs), structural (e.g. laws, policies, programs and systems, and physical environments (e.g. safe, supportive spaces).

Positive Youth Development Framework.
Source: https://www.youthpower.org/positive-youth-development-pyd-framework
Under each domain are grouped a set of constructs. Each construct represents an attribute that youth should have or be able to develop in order to reach their full potential as a happy, productive and engaged young person. These constructs are the outcomes that PYD programs aim to achieve under each of the domains for both youth and the wider enabling environment. The graphic above shows the four domains along with their associated constructs. In order to be considered PYD, projects should seek to cover two or more domains, and multiple constructs in each domain. This is because the strength of the approach is in combining multiple aspects of youth development, leading to better outcomes than a narrow focus on a single aspect of youth development could produce alone. The focus on enabling environment in particular ensures that gains made at the individual level are reinforced by changes at local and systemic levels. For instance, a program to train youth in life skills such as interpersonal communication, goal-setting and teamwork (assets) might also engage with local civil society organizations to create space for youth to lead community development initiatives (contribution), as well as different levels of government to ensure that youth have safe spaces to gather and work (enabling environment).

Practitioners designing entrepreneurship programs can use the PYD approach. To cover

Based on the PYD framework, **Mercy Corps** developed the following theories of change for their economic work with youth:

*If job creation occurs alongside building transferable and market-driven technical skills within a supportive enabling environment, individuals are more likely to secure safe, decent, and equitable employment.*

**AND:**

*If aspiring entrepreneurs and those seeking self-employment have access to inputs and appropriate services and operate a sound business concept within a supportive enabling environment, they are more likely to achieve success in starting, growing, and maintaining a profitable business.*

These theories of change embody key aspects of PYD. First, they acknowledge that both technical and transferrable skills are necessary for success in the marketplace. Technical skills refer to those competencies currently in demand by the market; while transferrable skills refer to all the basic skills necessary to navigate everyday life and plan for the future. Mercy Corps pairs job creation and entrepreneurship activities with a life skills course, which contains modules on teamwork, leadership, mental health, conflict resolution, and others; and is offered using a training of trainers (TOT) model that allows youth to continue training others in their community beyond the life of the project.

Similarly, these theories of change acknowledge that without a supportive enabling environment, youth may lack opportunities to use their skills or operationalize their business plans. Mercy Corps focuses on “enabling the enabling environment” by working to transform gender, social and cultural informal norms that affect how youth are perceive in the workforce, as well as help youth navigate formal rules such as business registration processes and requirements.
Youth entrepreneurship programs might incorporate activities which equip youth with positive developmental assets and agency, and which promote bonding with adults in their fields or integration within social networks at the community level. This might include, for example, trainings in entrepreneurial and business management skills, as well as social-emotional skills. Programming may also include matching youth participants with a mentor in the community; connecting youth to government resources available for small-business creation; or advocating for these where they do not exist. For an example of application of PYD to project theories of change, see the box outlining Mercy Corps’ approach to job creation and entrepreneurship work with youth.

3.5 Integration of Enablers and Solutions to Youth Entrepreneurship Challenges

In addition to incorporating multiple domains of PYD, youth-focused entrepreneurship programming should aim to integrate multiple aspects of entrepreneurial success. In Module 2, we learned about the key challenges that youth face in accessing the market on favourable terms, including: a lack of work experience, shallow social or professional networks, mismatch between education and skills and market demands, social and cultural norms that constrict youth (or women and girls’) opportunities, and legal and regulatory barriers. For this reason, programs which focus narrowly on a single activity or type of training can be less effective than programs which integrate multiple aspects of entrepreneurial success, on individual and environmental levels.

The integration of complementary entrepreneurship-focused activities is also backed by research and evaluations from the field. For example, USAID’s systematic review of best practices in entrepreneurship training and education found that start-up rates, longevity and financial success of youth businesses, as well as the duration and quality of youth employment were positively impacted by the combination of multiple programming strategies, such as training, grants or loans, mentoring and internships. The table below offers an overview of the programming areas that can be layered into a PYD-informed youth entrepreneurship program.

---

<table>
<thead>
<tr>
<th>Programming Area</th>
<th>Description</th>
<th>Domain</th>
</tr>
</thead>
</table>
| Entrepreneurship education and training  | • Opportunity identification  
• Ability to capitalize on opportunities through resource mobilization  
• Business model execution  
• Financial and economic literacy  
• Self-efficacy, confidence and positive self-identity                                                                                       | Assets, Agency    |
| Youth Engagement                         | • Savings and loans groups  
• Cooperative formation  
• Peer-to-peer skills transmission (e.g. training of trainers model)  
• Youth-informed policy design                                                                                                                   | Contribution      |
| Access to financial resources            | • Loans or microcredit  
• Grants  
• Direct cash transfers  
• In-kind support                                                                                                                                     | Assets            |
| Business Development Support             | • Business plan development  
• Marketing plan development  
• Product development  
• Financial planning  
• Business coaching and mentoring                                                                                                                   | Assets, Agency    |
| Regulatory Framework and Infrastructure  | • Accompaniment through business registration process  
• Youth-informed policy design  
• Advocacy                                                                                                                                             | Enabling Environment |
| Support Systems                          | • Mentorship and Role Models  
• Follow-up and check-ins  
• Cultural/community support for youth businesses  
• Professional networks  
• Gender and social norms transformation                                                                                                           | Enabling Environment |

This table is descriptive of possible programming areas and components that can be combined to strengthen youth entrepreneurship programming. While a combination of all of these areas is often beyond the financial and time resources of an individual organization or project, strategic layering of different types of skill-building and support can increase the likelihood of success.

An example of a project that recognized and integrated multiple programming areas into youth economic development is MEDA’s work as part of the Agricultural Transformation Through Stronger Vocational Education (ATTSVE) project. The project which worked via the agricultural technical vocational education and training (ATVET) system in Ethiopia to better prepare young people to enter the labour market as employees or entrepreneurs. The project worked across the programming areas outlined above. Specifically, MEDA supported entrepreneurship education and training through directly incorporating business education into the ATVET curriculum, building the capacity of instructors to deliver this curriculum and supporting on-campus enterprises; offered practical learning and employment experience through facilitating cooperative placements with industry; and provided a variety of supports to graduating students interested in launching their own agricultural businesses including: matching grants, business plan development and business registration support, ongoing coaching/mentorship, linkages to financial institutions, and peer learning opportunities.

3.6 Integrating the Local Context and Local Leaders: PYD as embedded in place and relationship

Integrative approaches to youth development attempt to ensure that the range of factors that contribute to positive youth development and entrepreneurial success are incorporated into programming. They also place emphasis on working with youth themselves, as well as the social and structural environment that surrounds them.

In addition to lessons learned about the need to integrate complementary youth development activities and programming areas, there is increasing recognition of the need to contextualize youth entrepreneurship efforts. This is based both on the understanding that the combination of programming areas and activities that works well in one context will not necessarily work in another, and that program design should be based on a thorough understanding of the youth in the intervention area, as well as the opportunities and barriers they experience within their specific social, cultural, political and economic environment. The imperative to contextualize youth programming is also based on growing recognition of the value of those people or groups who will remain part of youth lives beyond the scope of the project, who were often involved in their personal, educational and economic development prior to external intervention.
Programs or interventions can be contextualized in two main ways:

1. Program design decisions and ongoing adaptation are rooted in solid understanding of youth themselves and the social, cultural, political, and economic environment in which they live and work.

2. Programs build on rather than replace or compete with existing local efforts and capacity to accompany young people in their personal and economic development, including efforts of youth themselves.

3.6.1 Context Analysis

Program design decisions should be based on a solid analysis of the context within which the program will take place. This requires significant effort in advance, conducting research and other activities to develop a thorough understanding of youth themselves and the environment within which they live and work.

First, a solid analysis of the economic, political, social and cultural environment is required. This provides information on the types of structural or systemic barriers youth in a specific location might face, as well as any potential opportunities or leverage points. Such an analysis could include, but is not limited to:

- Labour market assessments to examine specific market systems that show potential for youth entry as business owners or employees
- National economic policies and priority growth areas
- Alignment or misalignment between educational systems and the skills in demand in the labour market
- Legal or regulatory barriers to hiring youth as employees or to a young person’s ability to legally register a business
- Social attitudes towards or perceptions of youth as entrepreneurs or as employees
- Gender norms enabling or discouraging men and women’s involvement in the labour force, or in specific sectors or forms of employment
- Informal enablers or barriers to market access, such as patronage networks and high or low-level corruption (e.g. paying bribes for entry into educational institutions or places of work).

Second, it is important to enter with a solid understanding of youth themselves. In Module 2, we discussed the concept of intersectionality as an approach that considers the way that different elements of an individual’s identity – include gender, sex, race, class, age and religion – intersect to result in different experiences of disadvantage or privilege based on their identity. On the one...
hand, understanding youth in a particular context means understanding the way that aspects of their identity (such as being young and female, or young, female and black, for example) result in different opportunities and barriers, even compared to other youth in the same geographical location. On the other hand, understanding youth also requires understanding both youth’s own perspective of the barriers and opportunities that they face, as well as their personal goals and aspirations. Not only will this allow program designers to triangulate information on environmental or institutional barriers, but also how they are actually experienced by different types of youth. It also allows practitioners to design programs which respond to real youth priorities and goals, increasing the likelihood of youth involvement and commitment.

There are many tools that can be used to conduct a preliminary context analysis to inform program design. Most organizations will conduct some form of research to get a sense of the context and the main opportunities and challenges that youth face. One tool that is gaining increasing recognition is youth-led participatory action research (YPAR). YPAR is a tool that helps organizations design with rather than for youth. Specifically, YPAR is:

1. Youth-led: Youth take a lead role in defining the overall objectives of the research, identifying research questions, and conducting data collection, analysis and writing.

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48 For more information on YPAR as an approach to program design or context analysis, see resources available on the Berkley YPAR Hub: [http://yparhub.berkeley.edu/](http://yparhub.berkeley.edu/) or the Center for Community-Based Research at the University of Waterloo’s Youth-Led Community-Based Research Toolkit: [https://www.communitybasedresearch.ca/youth-led-research-toolkit](https://www.communitybasedresearch.ca/youth-led-research-toolkit)
2. Participatory: The “subjects” of the research are the same people who control the research goals, processes and outcomes. While external actors can provide guidance and technical support, key decision-making power lies with the participants.

3. Action-oriented: The research is meant to produce information that will inform tangible responses to participant-identified problems or challenges. Action components can be piloted as part of the research process.

Under YPAR, youth are trained in research methods, as well as research study design. Usually guided by a seasoned researcher-facilitator, they define the issues or challenges that matter most to them, and the key information they need to better understand or address these challenges. Accompanied by the facilitator, they design and carry out a study to answer their own research questions and test workable solutions. While the general subject of the research is often decided in advance (such as youth economic development or the barriers and enablers to youth entrepreneurship), youth set the objectives, collect the information, and create a plan of action or directly inform project activities.

Key advantages to this approach can include:

- Youth generate new knowledge about their own communities and wider environment
- Youth practice identifying the issues that affect them and craft their own responses
- Youth gain increased ownership over project interventions, which can increase commitment and sustainability of results

Disadvantages to this approach can include:

- Youth participants are often (but not always) first-time researchers, and research skills such as sampling, interviewing, analyzing, and writing take time to build. The research process may require multiple iterations to collect accurate and usable data.
- Due to the participatory nature of the approach, it often takes more time and resources than preliminary research and context analysis led by a small team of project staff.
- Youth may focus on or uncover challenges that are difficult to address at a local level, or within the resource and time constraints of a project. Efforts may need to be made to ensure that the research does not create false expectations or reinforce feelings of discouragement or powerlessness.
- Additional market studies and labour market assessment may be needed to supplement or triangulate the findings of the youth-led research.

Regardless of how contextual information is generated, a best practice in any type of youth programming is to design with youth, rather than for them. While tools such as YPAR integrate
youth voices and leadership from the outset, youth perspectives can – and should – be brought in at any stage of project design. Designing with youth ensures that program activities reflect youth priorities and goals present in the program location.

3.6.2 Integration of Local Groups and Individuals

Depending on the objectives and scope of the project, youth-focused entrepreneurship programming can benefit from the integration of local groups and individuals into program design and implementation. As discussed in the first section of this module on Integrative Approaches, youth development occurs within a physical and social environment, and that healthy bonding with adults and peers across home, school and workplaces plays a crucial role in positive youth development. Durable and affirming relationships between youth entrepreneurs and adults can facilitate connections to new opportunities, provide increased access to resources, and reinforce youth’s feelings of self-confidence and self-worth in the periods of difficulty or discouragement common to starting a business.

For example, according to research conducted by the Mastercard Foundation, the youth who had fared better than others in the five years following entrepreneurship training were those who had developed relationships with the trainers and program staff over the course of the program, and who received extended support and job opportunities from their trainers after the program had ended. Similarly, the youth who were able to maintain steady employment or grow their own businesses after receiving training were more likely to have strong, financially secure social
networks, which included but were not limited to family members. Finally, many youth reported benefiting from peer-to-peer connections developed throughout the program, which sometimes led to job opportunities beyond the scope of the project. According to the study, a common theme was that the development of young people’s social networks resulted in “increased trust and investment by others, which then directly affected their earnings and ultimately their ability to ‘get ahead.’”

As such, youth-focused programming can intentionally facilitate relationship building among youth and adults in the same field or community, which can increase likelihood of post-intervention success and sustainability of gains made through other activities such as training. Common strategies to facilitate these connections include a mentorship component, where youth are matched to mentors who agree to ‘walk alongside’ youth for a set amount of time. These mentors might be business owners or leaders from the community. If the program contains a training component, trainers might be selected who will remain present in the community and can continue to offer support after the program has ended.

Finally, present in almost every community are also formal or informal community-based organization who are engaged in accompanying youth in their own community. Partnering and working with community-based organizations to recruit youth, conduct context analyses, and implement project activities can not only build local capacity to respond to the economic challenges facing young people, but deepen connections between youth and local leaders that can endure beyond a time-bound project. This strategy can be particularly important when working with vulnerable or “hidden” youth populations, such as youth who are members of gangs, out-of-school youth or young women. Accessing and gaining the trust of some youth populations may require working with people or groups who know and have developed relationships with them already and who will continue to support them after the project ends.

3.7 Youth-Focused Programming in Agriculture

Agriculture: Sector of Youth Opportunity?

Agriculture is an important sector for youth entrepreneurship programming. With the majority of the world’s youth living in rural areas of developing countries, the agriculture sector provides an important opportunity for alleviating unemployment among young people. Youth participate in agricultural market systems through formal and informal wage work, as labourers on family farms, and as entrepreneurs. In addition to the employment gap faced by youth, there is a growing imperative to involve young people in agriculture: globally, the average age of farmers is 60 years old, and as one Zimbabwean reporter put it, “Africa will starve or survive on expensive food imports because it is not growing new farmers.” Approximately 9 in 10 rural youth are engaged

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50 http://www.ipsnews.net/2020/01/africas-food-future-really-lie-young-farmers
Despite the large numbers of young people employed in agriculture, youth often regard it as a sector of last resort. Farming is seen as labour-intensive, repetitive, and bringing low financial return. A recent survey found that only a limited number of youth in Sub Saharan Africa run agribusinesses – 9%, compared to 64% who run businesses in the retail, hotel and restaurant sector. However, some strategies that have been successful at attracting youth to agricultural sector jobs include:

- Providing opportunities for ‘quick money’ – rather than staple or slow-maturing crops as, those with rapid earning potential will be more attractive
- Use information communications technology (ICT) to boost productivity and profitability – ICT can help modernize agricultural practices and increase production. Innovative initiatives such as Hello Tractor provide streamlined platforms for farmers to access essential services,

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52 IFAD, Ten Things to Know about Rural Youth. https://www.ifad.org/en/web/latest/photo/asset/39019742
while providing pricing transparency, security and quality control.\textsuperscript{54} Other green tech opportunities – such as solar energy, organic agriculture – can boost farm productivity. In addition, sales of green technology can provide employment opportunities for youth, who can work as sales agents for suppliers.

- Supporting labour market entry points across the agricultural market system – while production may employ large numbers of people, youth may be attracted to jobs in other areas of the system, including processing, logistics or ICT.

- Working with technical and vocational institutions to target agriculture sectors that demonstrate growing demand and ensure that students are equipped with the practical skills needed.

- Working with parents to raise awareness of the opportunities available in rural areas in the agricultural sector, as opportunities for children are often perceived as better in urban areas.

**Youth Entrepreneurship in Agriculture**

Integrative approaches to youth programming which are contextualized to match the needs and identities of youth and which draw on local groups, institutions and individuals can also be applied to youth entrepreneurship in agriculture. For example, Technoserve’s STRYDE program worked with local Vocational Training Institutes, Agricultural Colleges, community-based organizations and local government district councils to equip 15,000 rural youth in Kenya, Rwanda and Uganda with the skills and connections needed to start agri-businesses. The program was built on two key components:

- **Training:** Equipping youth with both life and technical skills that allow them to start and grow new ventures. Trainings included modules on agribusiness, entrepreneurship, personal finance, youth savings and business groups, personal effectiveness, and gender.

- **Aftercare:** A nine-month follow-up program allowed youth to build on their training gains through exposure to new opportunities and peer support networks. Aftercare activities

included mentorship, formation of youth savings and business groups, field visits to other successful businesses, job fairs and business plan competitions.

Overall, youth who participated in the STRYDE program experienced an average increase in income of 84% (from an average of $58 to $107 per month), and 89% of participating youth were engaged in at least one income earning activity after the program. These included, for example, poultry, vegetable and horticulture businesses, staples farming (rice and maize), restaurants, and production of household or personal care products. Key success factors of the program included:

- **The combination of technical and life skills training**: Modules such as Personal Effectiveness motivated participants by answering the questions: “who am I?” and “what are my goals?” This exercise increased self-esteem, self-confidence, and interpersonal communication. This approach helped youth pursue objectives and goals they had previously thought were out of their reach.

- **Extended aftercare activities connected youth to peers and business leaders in their communities.** For example, Business Counselors assigned to youth business groups provided mentorship that helped youth overcome personal entrepreneurship challenges and facilitated field trips to visit farms, salons, retail stores and other types of businesses that youth were interested in learning about. Aftercare also included partnerships with firms to offer internships and apprenticeships. Technoserve reports a 65% difference in income between youth who took part in aftercare versus those who did not.

- **Partnering with local people and institutions to deliver training**: Youth participants were either trained by locally-based Technoserve staff or through partnerships with local actors such as vocational training institutes. Sixty-eight percent of these training partners continued to implement the STRYDE curriculum after the end of the project without continued financial support. Master trainers were trained in monitoring and evaluation techniques and in how to train other trainers, allowing them to develop the skills to sustain STRYDE independently, increasing local ownership and sustainability of the program.

- **Engaging the youth economic ecosystem**: STRYDE used a market systems approach to ensure that partners would continue to create an enabling environment for youth agro-entrepreneurship beyond the end of the project. For example, Technoserve worked with training partners to embed the curriculum and aftercare approach into each partner institution’s training syllabus. Technoserve also supported the government to adapt and scale the STRYDE model to other government-run vocational training institutes. Finally, the project worked with microfinance lenders to raise awareness of youth as a viable market for financial products and services.

In summary, agriculture is a vital sector for youth entrepreneurship and employment opportunities, given the large number of youth residing in rural areas and the average age of those currently
farming. To attract and retain youth in this sector, a range of support mechanisms and innovations will be necessary.

3.8 Summary
This module focused on the following learning objectives:

1. **LO1: Understand the value of integrative approaches to youth development and entrepreneurship**

   Integrative approaches to youth development acknowledge that:
   
   • Successful youth development requires that youth are equipped with a variety of positive developmental assets.
   
   • Successful youth development is optimized when it integrates the multiple levels of social and economic life that influence youth each day.

   These approaches can focus on a specific sector, such as health or economic development, but recognize that gains made in any individual sector is reinforced or amplified if programming cultivates different developmental assets and works across multiple contexts, including families, schools, communities and markets.

2. **LO2: Identify the key components of Positive Youth Development (PYD) and its applications to youth entrepreneurship**

   PYD is an integrative approach to youth development which focuses on building the assets and skills necessary for youth wellbeing and successful transition into adulthood. Common aims of PYD programing include:
   
   • Equipping youth with skills and resources necessary to succeed
   
   • Empowering youth to make changes for themselves and be productive members of society
   
   • Ensuring that youth are surrounded by structures and people that positively reinforce them

   PYD programs fulfill these aims by integrating two or more domains into program activities. The domains of PYD include: assets, agency, contribution, and enabling environment.

3. **LO3: Understand the importance of integrating multiple activities into entrepreneurship programming**

   In addition to integrating multiple domains of PYD, youth-focused entrepreneurship programming should also aim to integrate multiple aspects of entrepreneurial success. Available evidence suggests that youth employment and business creation outcomes are positively impacted by combinations of multiple programming strategies, such as training, grants or
loans, mentoring and internships. Possible programming areas to be layered into effective entrepreneurship programming include:

- Entrepreneurship education and training
- Community engagement and peer-to-peer networking
- Access to financial resources
- Business Development Support
- Creation of youth-friendly Regulatory Frameworks and Infrastructure
- Business and social support systems
4. **LO4: Understand and integrate the local context and actors when designing youth-focused programming.**

Youth and community ownership, as well as the sustainability of youth interventions can be maximized when embedded within the local context. Programs or interventions can be contextualized in two main ways:

1. Program design decisions and ongoing adaptation are rooted in solid understanding of youth themselves and the social, cultural, political and economic environment in which they live and work.

2. Programs build on rather than replace or compete with existing local efforts and capacity to accompany young people in their personal and economic development, including efforts of youth themselves.

5. **LO5: Identify key considerations and strategies involved in youth entrepreneurship programming in the agricultural sector.**

Agriculture is an important sector for youth entrepreneurship. Integrative approaches to youth programming which are contextualized to match the needs and identities of youth and which draw on local groups, institutions and individuals can also be applied to youth entrepreneurship in agriculture and in rural areas. This sector intersects with the strategic development priorities of many developing countries.

**Key Terms**

Positive youth development, integrative programming, assets, agency, agro entrepreneur.
MODULE 4: Principles of Entrepreneurship and Skills for Success
4.1 Introduction

Projects focused on youth entrepreneurship programming or those that contain an entrepreneurship component can follow many of the recommendations discussed in Module 3: Designing Youth-Focused Programming. However, entrepreneurship is a very specific form of youth economic development, and youth entrepreneurship programming comes along with its own set of considerations and frameworks.

In this module, we will cover some of the key skill areas that any youth entrepreneurship program should seek to cultivate with its participants, as well as some of the key principles of designing of youth entrepreneurship programming that responds to the needs and objectives of different types of youth and youth entrepreneurs. Finally, we will examine the impact of the ‘entrepreneurship ecosystem’ on the design and evaluation of youth entrepreneurship programming.

4.2 Learning Objectives

By the end of this module it is expected that you will develop an understanding of:

1. LO1: Important traits and skills for entrepreneurial success
2. LO2: Key principles of entrepreneurship programming for youth
3. LO3: The role of the entrepreneurship ecosystem
4. LO4: Start-Up to Business Growth; The business-oriented skill areas required for youth to move from potential entrepreneurs to business owners

4.3 Important Traits and Skills of Entrepreneurs

Identifying Traits that Drive Success

There is a large and growing body of literature describing the key traits and skills necessary to be a successful entrepreneur. In fact, a recent paper from the Harvard Business School notes that this literature dates back to the 18th century. Until recently, some researchers focused on attempting to identify common personality traits, but there is increasing acceptance of the heterogeneity of entrepreneurs. In other words, there are many ways to be a good entrepreneur. This section summarizes skills and traits commonly associated with entrepreneurship.

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A recent report from the global USAID-funded YouthPower initiative outlined findings from a large-scale evaluation of youth entrepreneurship programs. Three core entrepreneurial skill areas were identified:

- The ability to identify opportunities, also described as ‘entrepreneurial mindset,’ is the ability to see gaps in the market that can be filled
- The ability to capitalize on those opportunities by mobilizing resources – in other words, understanding how to fill those market gaps
- The ability to execute a business model or taking the necessary steps to develop and implement business plans or models to realize the opportunities.56

Each of these skills encompass broad areas of competency and can be broken down further. The European Commission’s Entrepreneurship Competency (EntreComp) Framework summarizes these three core skill areas as ‘Ideas and Opportunities,’ ‘Resources,’ and ‘Into Action.’ Each skill area is composed of specific skills and traits necessary for success, including soft skills such as communication, cooperation, and self-awareness, as well as financial literacy and (as above) the ability to mobilize resources. The framework defines entrepreneurship competence as “the

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ability to transform ideas and opportunities into action by mobilising resources.” Resources may be personal (creativity, knowledge, self-awareness or motivation) or material (such as financial resources). The competence areas and the competencies themselves are interconnected. Together, these competencies can be applied to entering the job market as an employee or starting an enterprise.

As noted in previous modules, entrepreneurs are frequently grouped into those who open businesses in the absence of other options (necessity entrepreneurs) versus those who choose to be self-employed (opportunity entrepreneurs). There is little documentation on how the competencies described above may vary across these two groups. A guiding principle of the EntreComp framework is that individuals can become more entrepreneurial by developing the 15 competencies, whether through participating in a training program, accessing mentorship or practicing the skills in a business context.

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4.4 Key Principles of Entrepreneurship Programming for Youth

Much of youth entrepreneurship programming is centered around helping youth develop, practice and operationalize the competencies which make up the main entrepreneurial skill areas, which the European Commission categorizes as: Ideas & Opportunities, Resources and Into Action. However, youth and youth entrepreneurs are not homogenous categories, and entrepreneurship programming should be structured to maximize impact at different stages of the entrepreneurship journey, and for different groups of youth. This section outlines key considerations and principles for structuring youth entrepreneurship programming:

1. Consider different types of entrepreneurs,
2. Adapt programming to different stages of entrepreneurship,
3. Consider youth subgroups and the role of identity differences (age, socioeconomic status, gender).

4.4.1. Consider different types of entrepreneurs

First, program designers should consider different phases or stages of entrepreneurship. The Global Entrepreneurship Monitor (GEM) encourages entrepreneurs and program staff to view entrepreneurial activity as a “continuous process, rather than individual events.” That is, entrepreneurial activity can begin long before an individual or group actually starts a business. GEM divides this process into 5 different classifications:

<table>
<thead>
<tr>
<th>Potential Entrepreneurs</th>
<th>Individuals who believe they have adequate entrepreneurial skills and who perceive business opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intentional Entrepreneurs</td>
<td>Individuals who have indicated that they intend to pursue a business opportunity within the next three years.</td>
</tr>
<tr>
<td>Nascent Entrepreneurs</td>
<td>Individuals who are actively involved in setting up a business or who already own a business but whose business has not paid any wages for zero to three months.</td>
</tr>
<tr>
<td>New Entrepreneurs</td>
<td>Individuals that are owners/managers of an active business that has been in existence from three to 42 months.</td>
</tr>
<tr>
<td>Established Business Owners</td>
<td>Individuals who own and manage a business that has been in operation for more than 42 months.</td>
</tr>
</tbody>
</table>

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GEM suggests thinking about these phases as falling along a continuum or pipeline. We can also categorize different types of skill development, practice, and operationalization along this progression as well. At the beginning of the pipeline are the potential entrepreneurs. These are people or groups who, as described above, believe that they have the capacity to start a business and see opportunities around them, but who have not yet undertaken any specific actions to start yet. Intentional entrepreneurs, the next stage of the pipeline, are people who have developed the basic beliefs and attitudes needed to start a business, and who have expressed the intention to actually pursue a business opportunity. The next two stages – nascent and new entrepreneurs – are individuals or groups who are in the midst of starting and growing a business. They have begun operationalizing a business plan, using their entrepreneurial skills and mindsets, and are at various stages of resource mobilization and business development. Finally, established business owners are those who have left the early stages of entrepreneurship and whose businesses have normally been in operation for over 42 months.

**Entrepreneurship Phases**

Potential entrepreneurs

Beliefs and attitudes

→ Intentions

→ Nascent

→ New

→ Established

Total early-stage entrepreneurial activity (TEA)

Discontinuance

Source: GEM Global Report, 2011

It is important to note that though these different types of entrepreneurs and entrepreneurial phases are represented as consecutive, the process of moving from being a potential entrepreneur to becoming an established business owner is rarely this linear or simple. For example, an entrepreneur with a novel business idea, access to finance and support from a large or influential social network may progress through these stages quickly and in the order shown here. On the other hand, many entrepreneurs start businesses out of necessity and a lack of other income-earning options. Without adequate startup funds or support from family or social networks, ‘necessity entrepreneurs’ may be more likely to find themselves cycling back and forth between the nascent and new stages of entrepreneurship if, for example, unexpected family expenses arise, or the economy experiences a downturn. Many factors contribute to entrepreneurial success and both program designers, participants and other stakeholders should cultivate a mindset of flexibility and openness to setbacks or re-direction. In fact, the ability to cope with ambiguity, uncertainty and risk is one of the 15 entrepreneurial qualities included in the EntreComp framework, in section 4.3 above.
4.4.2. Adapt Programming to Different Stages of Entrepreneurship

Program designers should also consider that the different stages of entrepreneurship will likely require different emphasis on the three core areas of entrepreneurial skills.

For instance, potential entrepreneurs are those individuals who are just learning entrepreneurial skills, mindsets, and attitudes. Rather than diving directly into the technical details of how to start a business, programming at this stage might focus on cultivating the skills, mindsets, and attitudes necessary to succeed as a businessperson. The ability to identify opportunities and mobilize resources are often cited as the essence of the entrepreneurial mindset, but many other traits and skills can be cultivated during this stage. As described in Module 2 of this course, these could include Life Skills such as teamwork, creative thinking, leadership, time management, conflict resolution, and interpersonal communication. They could also include attitudes or assets such as a self-esteem, confidence, and belief in their ability to accomplish their objectives. In sum, programming at this stage should focus on:

1. Equipping potential entrepreneurs with the basic personal competencies to be able to identify and act on promising opportunities or in response to problems, alone or as a member of a team, as well as mobilizing the financial and non-financial resources to do so.

2. Cultivating a foundation of self-esteem, self-confidence and self-awareness needed to believe that they can accomplish actions they have decided to undertake.

Many of the skills and competencies developed at this stage are the same as those necessary for positive development as an engaged member of society. This is important as not all potential entrepreneurs will move on to actually start a business. However, the ability to identify opportunities, plan and organize action, and hold a positive sense of oneself and one's capabilities can be applied to a wide range of life experiences beyond starting a business. Programming which aims to help youth adopt and develop entrepreneurial behaviors and mindsets can not only prepare youth for success as entrepreneurs, but also as adults, employees, leaders, and engaged community members.

Intentional entrepreneurs are those individuals or groups who have decided that they want to open a business in the next 1-3 years. Programming at this stage may still include the development of a foundational entrepreneurship mindset and complementary life skills, but will be focused on developing more technical entrepreneurial capabilities. Programming for those at this stage may still include the development of a foundational entrepreneurship mindset and complementary life skills, but will be focused on developing more technical entrepreneurial capabilities. These can include:

- General knowledge of how a business functions
- General business management skills
- Accounting, financial literacy and savings
- Planning and execution of marketing strategies
- The ability to make sales
- Strategic planning – strategic and risk assessment, business plans, problem forecasting
- Networking skills
- Vocational skills related to specific sectors and industries

At this stage, programming should prepare individuals who intend to eventually start a business with both the hard and soft skills needed to work towards that goal. General business management, accounting and financial literacy skills are essential to build up before attempting a new venture. In some cases, youth may be interested in starting a business that requires specific vocational training, such as a trade like plumbing or service such as hospitality. These certifications and technical skills are also important to acquire in advance of starting a business.

**Nascent and new entrepreneurs** are those individuals who are either in the process of setting up their business, or who own a business that has not yet grown to a point where it is able to pay wages or salaries. At this stage, both the development of technical business planning, management, finance, and marketing skills as well as hands-on practice of these skills are the focus. For example, programming can include a combination of classroom-style learning or training in business skills and practical application of these skills to the participant’s own business. This can be facilitated through tailored services such as business coaching or mentorship opportunities. With business coaching, a trainer or coach may be paired with a nascent entrepreneur to assist them in applying their new skills in the context of their own business. Similarly, matching a nascent entrepreneur with the owner of an established business can provide the opportunity to interact with and learn from the experience of other entrepreneurs. Finally, at this stage, complementary financial services can be particularly important in facilitating access to the capital needed during startup. Many programs provide small capital grants or loans, or connect youth participants to microfinance institutions.

Finally, **established business owners** are those entrepreneurs who have been operating their business for over 42 months, according to the Global Entrepreneurship Monitor’s classification. Entrepreneurs at this stage are likely more confident in their skillsets and processes. They are likely more stable, able to pay salaries and wages, and able to experiment with new products or services. Programming for established business owners will likely involve specialized support to troubleshoot specific issues that they identify to improve business management or growth. This could include, for example, assistance expanding to new clientele, accessing new markets, developing new products, or improving on existing management practices. Established business owners at this stage can also make good mentors or business coaches for entrepreneurs at earlier stages.
4.4.3. Consider Youth Subgroups and the Role of Identity Differences

Finally, it is essential to understand and adapt programming to the needs and realities of different young people as well as the different stages of entrepreneurship that they may be at. As was discussed in Module 1, intersectionality is an important lens for any type of youth work, entrepreneurship included. A person’s age, gender, race class, and ability, among other identity markers, can have a profound impact on the opportunities open to them and the ability they have to take advantage of such opportunities.

Age

First, age is an important factor in youth entrepreneurship programming. Program designers should ensure that programming activities match the priorities and capacities of youth in different age groups. For example, adolescents aged 15 to 18 may still be finishing elementary or high school, and many are likely to fall in the category of potential entrepreneurs. Programming at this stage for in-school youth might take advantage of classroom settings or partnerships with educational institutions to focus on cultivating core entrepreneurial skills and mindset, as well as general life skills. Programming may also offer formal training and certification in vocational skills, to build adolescents’ technical skills while fostering an entrepreneurial mindset. Similarly, youth aged 19 to 24 may have different needs, prioritizing gaining professional experience through work experience, or accreditation in trades and services. These youth may be thinking of or already have plans to start a business, moving into the intentional or nascent categories. Programming might focus on core business management and financial literacy skills, practical learning, and mentoring and coaching. Finally, older youth aged 25-35 may require programming similar to youth aged 19-24, with extra emphasis on growth or sustainable business practices. Aligning programming appropriately to these different age and life stage groups is considered in more detail in Module 5.
Socioeconomic Status
An equally important factor to consider is socioeconomic status. While age can provide a general guideline as to what programming might be appropriate, it is important to recognize that not all youth will have the same opportunities and support to progress from one stage to another in a timely, consecutive manner, and that there are many entrepreneurship pathways. For example, youth living in communities or families which experience financial poverty may not complete secondary school until their mid-twenties (if at all), spending significant periods of time out of school when they are unable to or their caregivers cannot pay fees. Programming that takes place in classrooms or adopts a curriculum-based strategy will exclude out-of-school youth, further exacerbating socio-economic inequalities between in- and out-of-school youth.

Similarly, research has shown the critical role that social networks often play in business startup and growth, whether by providing clientele, loans and financial support, or other connections. Family support in providing for food, shelter and other needs of the entrepreneur during startup and early entrepreneurship phases can also increase the likelihood of entrepreneurial success. Programming for youth who experience financial poverty or lack of access to social capital may need more intensive support to fill specific gaps.

Gender
A solid analysis of gender dynamics in the project context should also inform programming. As discussed in Module 1, young women and young men often experience different societal expectations and opportunities for engaging in business. Some of the factors that may cause differences in young women’s entrepreneurship pathways can include:

- higher levels of domestic responsibility
- lower levels of education (if in a context where men’s education is prioritized in the household or culture more generally)
- fewer women role models in business

Prior Learning Assessment and Recognition (PLAR) is an important strategy used in some TVET systems, offering certification based on skills learned in workplace settings. This allows young people with work experience to spend less time in the classroom.

Women entrepreneurs face gender stereotypes as men remain dominant in the ranks of entrepreneurs with entrepreneurship and masculinity being closely associated thus down-playing women’s real potential and viewing women as less suited for it.59

• greater difficulty in accessing capital and assets
• mobility limitations that reduce access to inputs and markets

Global Entrepreneurship Monitor (GEM) surveys have also found that young women are less likely than young men to be involved in high-growth businesses with multiple employees other than the owner, and more likely to be involved in small, low-growth or survivalist businesses, operating out of or near the home.60

For these reasons, gender considerations should be mainstreamed into all levels of entrepreneurship programming. The following steps are normally taken to assess gender dynamics and gender-related barriers, and integrate them into programming:

1. Conduct a gender assessment as part of the pre-project context analysis. This includes analyzing the entrepreneurship ecosystem and local market dynamics using a gender lens.

2. With the findings, develop a gender equality and social inclusion (GESI) strategy that identifies constraints experienced by women and men due to their gender, age, location, etc., and identify actions to address these constraints and promote greater inclusion. Where possible, stakeholders should be included in defining what inclusion and equality mean to them and identify barriers and solutions.

3. Design interventions using these findings, ensuring they are incorporated into the project budget. If needed, train staff and partners to ensure they are confident with principles of gender equality, and can implement activities appropriately.

4. Conduct regular monitoring (annually or bi-annually) of activities against the project’s GESI strategy and targets. Monitoring should be qualitative and quantitative, and as participatory as possible.

Program Example – ATTSVE

In the ATTSVE project, MEDA and its project partners placed a strong focus on gender and understanding the unique barriers young women face in engaging in the agriculture sector as employees and entrepreneurs. Gender-lead McGill University conducted gender analysis at the start of the project and developed a comprehensive gender strategy, including identifying and training gender-focal persons. Implementers encountered the following additional gender-specific challenges in its ATVET and entrepreneurship programming:

- In many ATVETs in Ethiopia enrollment of women and men is relatively equal; however, women tend to be less engaged in classroom discussions and may attend class less frequently due to increased domestic responsibilities, with some even cooking for male students.

- In businesses run by mixed groups of men and women, women were often less involved in making decisions related to the business. Gender norms also persisted in specific agricultural activities needed for the business and the types of businesses men vs. women engaged in.

- It was more challenging to recruit young women to participate in the project’s entrepreneurship program, men tended to apply with more frequency than women.

To address these and other gender-based constraints, the project used a number of strategies:

- Gender training and sensitization for ATVET and project staff
- Gender mainstreamed curriculum development
- Gender Clubs established to support women students and promote gender equality
- Drawing on examples of successful women entrepreneurs in learning and promotional materials to recruit new program entrepreneurs. Engaging gender clubs to promote entrepreneurship program among female students.
- Grants provided to help overcome barriers to accessing capital and linkages provided to microfinance institutions for continued support post-project.
- Ongoing technical support to manage group dynamics and sharing of business responsibilities.
In particular, programming should respond to youths’ self-identified priorities and objectives, and targeted support offered where gender dynamics pose barriers to these objectives. For example, young women aiming to grow their businesses may face additional barriers (due to their limited access to collateral, for example) to accessing loans in comparison to young men undertaking the same entrepreneurship program. On the other hand, young women who wish to balance income-earning activities with home and childcare responsibilities may want to grow their businesses slowly or only up to a certain level. In any case, efforts to identify and assess gender-related barriers should be informed by youth’s own understanding of the barriers they face, as well as their individual priorities and goals.

4.5 The Role of the Entrepreneurship Ecosystem

As discussed in Module 2, the entrepreneurship ecosystem is the social, political and economic context within which businesses start and grow. It includes both formal rules, such as laws and regulations, as well as informal rules and perceptions, such as social and cultural norms. The entrepreneurship ecosystem is also influenced by the micro- and macroeconomic characteristics of a country or particular geography, including inflation and interest rates, employment levels, trade regulations and industry trends.

When designing youth entrepreneurship programming, it is important to remember that many of the factors that play key roles in determining business success are not directly linked to a young person’s entrepreneurial mindset, motivation or skills, and qualities (see Figure 1 below). For example, ecosystem factors such as the existence or absence of government support or grants to small businesses can have an impact on new and growing businesses. Small businesses also need demand; overall economic health and the purchasing power of potential customers can be affected by inflation and economic shocks or growth, with large impacts on initial and sustained business success. Social networks and family support also play key roles in providing initial financial support, both directly in terms of loans and indirectly in terms of food, shelter and other basic needs before the business is able to earn profit.

It is therefore important to design program activities and evaluations with realistic expectations of the value the program can offer to youth in terms of viable-self employment and livelihoods, given the context they will be developing their business in. These expectations should also be discussed and communicated clearly between both youth and program staff, in order to avoid creating unrealistic expectations of entrepreneurship success. If done in a participatory way, these conversations can benefit youth by preparing them with an accurate gauge of the challenges and opportunities ahead, as well as open up space for creative problem solving and innovation around addressing ecosystem-related barriers.
How to Be Realistic about Youth Entrepreneurship

Secondary education students can develop entrepreneurial mindset

BUT

Higher education students can learn to launch and operate a firm

BUT

Potential entrepreneurs can create a firm

BUT

Practicing entrepreneurs can improve business practices

BUT

most don’t develop a marketable product or services

need maturity and funding to start one

need time and mentoring to survive startup stages

need access to growing markets and to expand and hire employees


4.6 Start-Up to Business Growth

This module has provided an overview of core entrepreneurial skills, and what stages most entrepreneurs who move on to create businesses will pass through. We have looked broadly at the different considerations involved in programming at each stage of entrepreneurship and for different groups of youth. Module 5 of the Youth Entrepreneurship E-Course will describe a selection of practical models and techniques that can be used at different stages to foster both entrepreneurial mindsets and develop ‘hard’ entrepreneurial and business management skills.

This will be followed by Modules 6 through 10, which will cover in detail the key business-oriented skill areas that youth will need to master to move from being potential entrepreneurs, to running established and growing businesses. These include:

- **Business Research and Analysis**: Identifying the market landscape in which you wish to start or expand your business and developing an understanding of the market, competition, customer needs and how your business can fulfill those needs. Business Analysis helps to define needs of the business, the internal and external factors that may impact a business, and to develop solutions that deliver value to customers.
• **Business Modeling:** A business model is a document or plan that identifies supply and demand opportunities, specific to the business. It describes the business, what it produces, how it produces, how it markets, the risks it faces, who the customers are, and financial situation and financing needs. It is a plan for the successful operation of a business, identifying sources of revenue, the target customer base, products, and details of financing – essentially it should inform how the key drivers of the business fit together.

• **Business Management:** this includes how to manage and plan a business, human resources, marketing, and performance measurement.

• **Financial Management:** The basic concepts of financial management and its importance to businesses, particularly start-up businesses, in ensuring success and sustainability, with a focus on financial information and key financial tools (the income statement, balance sheet and cashflow statement).
4.7 Summary

This module focused on the following learning objectives:

1. **LO1: Important traits and skills for entrepreneurial success**

   Three core entrepreneurial skill areas were identified:

   - The ability to identify opportunities, also described as ‘entrepreneurial mindset,’ is the ability to see gaps in the market that can be filled
   - The ability to capitalize on those opportunities by mobilizing resources – in other words, understanding how to fill those market gaps
   - The ability to execute a business model, or taking the necessary steps to develop and implement business plans or models to realize the opportunities.

2. **LO2: Key principles of entrepreneurship programming for youth**

   When designing youth entrepreneurship programming, project staff should consider:

   1. **Different types of entrepreneurs:**

<table>
<thead>
<tr>
<th>Potential Entrepreneurs</th>
<th>Individuals who believe they have adequate entrepreneurial skills and who perceive business opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intentional Entrepreneurs</td>
<td>Individuals who have indicated that they intend to pursue a business opportunity within the next three years.</td>
</tr>
<tr>
<td>Nascent Entrepreneurs</td>
<td>Individuals who are actively involved in setting up a business or who already own a business but whose business has not paid any wages for zero to three months</td>
</tr>
<tr>
<td>New Entrepreneurs</td>
<td>Individuals that are owners/managers of an active business that has been in existence from three to 42 months.</td>
</tr>
<tr>
<td>Established Business Owners</td>
<td>Individuals who own and manage a business that has been in operation for more than 42 months.</td>
</tr>
</tbody>
</table>
2. *Adapting programming to different stages of entrepreneurship*

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Potential Entrepreneurs**  | • Equipping potential entrepreneurs with the basic personal competencies to be able to identify and act on promising opportunities or in response to problems, alone or as a member of a team, as well as mobilizing the financial and non-financial resources to do so.  
  • Cultivating a foundation of self-esteem, self-confidence and self-awareness needed to believe that they can accomplish actions they have decided to undertake |
| **Intentional Entrepreneurs**| Developing more technical entrepreneurial capabilities. These can include:  
  • General knowledge of how a business functions  
  • General business management skills  
  • Accounting, financial literacy and savings  
  • Planning and execution of marketing strategies  
  • The ability to make sales  
  • Strategic planning – strategic and risk assessment, business plans  
  • Networking skills  
  • Vocational skills related to specific sectors and industries |
| **Nascent and New Entrepreneurs** | Both the development of technical business planning, management, finance and marketing skills; and hands-on practice of these skills. Can include a combination of classroom-style learning and practical application of skills to participants’ own businesses. Business coaching and mentoring can be effective at this stage. |
| **Established Business Owners** | Specialized support to troubleshoot specific issues that they identify to improve business management or growth. Established entrepreneurs can also make good mentors for entrepreneurs at earlier stages. |
3. **Age:**

Program designers should ensure that programming activities match the priorities and capacities of youth in different age groups.

4. **Socio economic status:**

While age can provide a general guideline as to what programming might be appropriate, it is important to recognize that not all youth will have the same opportunities and support to progress from one stage to another in a timely, consecutive manner, and that there are many entrepreneurship pathways. Programming for youth who experience financial poverty or lack of access to social capital may need more intensive support to fill specific gaps.

5. **Gender:**

Gender considerations should be mainstreamed into all levels of entrepreneurship programming. The following steps are normally taken to assess gender dynamics and gender-related barriers, and integrate them into programming:

1. Conduct a gender assessment as part of the pre-project context analysis. This includes analyzing the entrepreneurship ecosystem and local market dynamics using a gender lens.

2. With the findings, develop a gender equality and social inclusion (GESI) strategy that identifies constraints experienced by women and men due to their gender, age, location, etc., and identify actions to address these constraints and promote greater inclusion. Where possible, stakeholders should be included in defining what inclusion and equality mean to them and identify barriers and solutions.
3. Design interventions using these findings, ensuring they are incorporated into the project budget. If needed, train staff and partners to ensure they are confident with principles of gender equality, and can implement activities appropriately.

4. Conduct regular monitoring (annually or bi-annually) of activities against the project’s GESI strategy and targets. Monitoring should be qualitative and quantitative, and as participatory as possible.
3. **LO3: The role of the entrepreneurship ecosystem**

The Entrepreneurship Ecosystem is the social, political and economic context within which businesses start and grow. It is structured by both formal and informal rules and norms. It is important to design program activities and evaluations with realistic expectations of the value the program can offer to youth in terms of viable-self employment and livelihoods, given the context they will be developing their business in.

4. **LO4: The business-oriented skill areas required for youth to move from potential entrepreneurs to business owners**

Key business skills to be described in detail in models 6-10 include:

- Business Research and Analysis
- Business Modeling
- Business Management
- Financial Management
MODULE 5: Approaches and Models for Supporting Youth Entrepreneurs
5.1 Introduction

This unit provides an overview of different models that can be used to support youth at different stages of entrepreneurship. Appropriate models for adolescents focus on fostering an entrepreneurial mindset and building core skills, such as financial literacy and goal setting. Youth benefit from approaches that provide safe ways for them to test their skills in realistic settings. Risk reduction is important to avoid negative consequences. For older youth, models can emphasize moving beyond start up and survival businesses, focusing on deepening knowledge of markets, products, and clients.

5.2 Learning Objectives

By the end of this module it is expected that you will develop an understanding of:

1. LO1: The youth entrepreneurship framework that highlights programming elements to feature at different stages of youth development
2. LO2: Successful models that are appropriate for youth at different stages of entrepreneurship

5.3 Adapting Programming to Age and Stage

In the last module, we discussed adapting youth entrepreneurship programming to youth of different ages and life stages. In particular, we divided the broad ‘youth’ category into adolescents (ages 15 to 18), youth (ages 19 to 24) and older youth (ages 25 to 35). These ages can be a helpful guide for choosing appropriate entrepreneurship activities.

In general, while adolescents may be interested in business, they may still be in school or too young to start their own business. Programming for adolescents usually focuses on cultivating core entrepreneurial skills and mindsets, and basic organization and financial literacy skills.

Youth aged 19 to 24 may be better positioned to move from wanting to start a business, to actually starting one. Programming for youth should still include emphasis on core entrepreneurial skills and mindsets, but also more technical business skills.

For older youth, establishing or growing an already existing business is usually the main focus. Programming generally focuses on ensuring business sustainability and growth, troubleshooting weak points in the business plan, and building on existing knowledge and use of financial literacy, savings and loans.
It is important to note that these age categories and their corresponding programming suggestions are to be viewed as a general guide, rather than a prescription for how youth entrepreneurship should progress. In many instances, the journey from learning entrepreneurship skills to starting and growing a viable business is much less linear and varies greatly from young person to young person. For example, an adolescent who is not in school may start a business out of necessity or survival, without any prior training. Helpful programming for this entrepreneur might involve developing an entrepreneurial mindset, at the same time as applying more technical business skills to their existing business and seeking out loans. Similarly, project designers cannot always assume that all older youth have completed elementary and secondary school. In this case programming might integrate foundational literacy and financial literacy elements to “bridge” that learning gap.

As discussed in the previous module, socioeconomic status, gender and other aspects of youths’ identity and circumstances are also important factors to consider when tailoring programming to youths’ own identities, priorities and challenges.

With this in mind, the following sections provide suggestions and programming approaches that have worked well for adolescents, youth and older youth. While they are grouped by age group in this module, project designers can be creative about mixing, matching and adapting strategies to match the specific priorities and constraints of the youth they work with, as well as the context within which they are creating their businesses.
5.4 Adolescents: Focus on Foundational Skills

**Model: School and Community-based Entrepreneurship Clubs**

Appropriate models for adolescents focus on fostering an entrepreneurial mindset and building core skills, such as financial literacy and goal setting. This section will highlight school and community clubs promoting entrepreneurship, a model which has been successfully scaled to reach millions of young people worldwide. School-based entrepreneurship clubs and activities can provide realistic opportunities for students to gain hands-on experience. In some cases, entrepreneurship activities are integrated into classes, reinforcing core subjects such as math and English with applications in the business world; even where these activities are considered extracurricular, they will allow students to put learning into practice. Community-based clubs can provide comparable experience for both in- and out-of-school youth. Both models allow young people to take leadership roles and for peer-to-peer learning to take place.

**Junior Achievement Worldwide** (JA) promotes entrepreneurship and workforce readiness through formal education systems, working with primary, secondary and tertiary level students in over 100 countries. JA trains teachers and volunteers to operate in-school and after school activities, including entrepreneurship clubs and skill-building opportunities. Groups of students are supported to plan, launch and grow micro-enterprises.

Key features driving the scale and success of the JA model include:

- Integration into school learning
- Programs are offered early enough to become a career choice, starting with children as young as 5 years old
- Range of program adapted to different countries and age levels
- Focus beyond entrepreneurship, with topics including business, economics and financial literacy, but also ethics and leadership.

**Asante Africa Foundation**, operating in Kenya and Tanzania, also employs school-based clubs to promote entrepreneurship. Like the JA model, Asante Africa Foundation’s program focuses on core business skills, and also includes leadership and personal competencies, including critical thinking skills, positive identity and active civic engagement.

The multi-year **Youth Leadership and Entrepreneurship Incubator (LEI) Program** was designed with a **strong gender lens**. The Foundation noted that in many of the rural communities where they operate, girls and women receive less economic and social support to complete their education, find employment or start businesses. To provide learning and leadership opportunities

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61 See website for more information: https://www.jaworldwide.org/
62 See website for more information: https://asanteafrica.org/
for girls, all of the school-based clubs in the LEI program are governed by a team of girls, or a shared leadership structure with boys where the club president is a girl. The Foundation found that this structure provides opportunities for boys to interact with and become accustomed to girls in leadership positions. Ultimately, the structure encourages boys to act as advocates for girls. An independent evaluation of the program noted that providing opportunities for youth – girls in particular – to practice leadership was critical. Fostering girl-led business activities was an important element of the program’s success.63

As seen in the two previous examples, business and entrepreneurship clubs can provide valuable opportunities for young people to build skills, practice leadership and even test their entrepreneurialism. Established in 1985, Fundación Paraguaya’s San Francisco Agricultural School takes entrepreneurship promotion a step further. Described as ‘Education that Pays for Itself,’ the school is completely self-sufficient. Students at the San Francisco Agricultural School complete an accredited secondary education program, but also work in some of the many school-run agribusinesses, learning valuable hands-on skills. Each student rotates through the school’s business units, learning to manage financial transactions, monitor profitability, market and sell their produce. The combination of classroom learning, and practical application produces successful graduates who are employed, accepted at higher education institutions, or running their own businesses. Fundación Paraguaya works in over 30 countries, replicating the self-sufficient school model and promoting entrepreneurship.64

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64 https://www.teachamantofish.org.uk/our-partners.html
The ATTSVE project combines both models described in this unit: business clubs and mainstreamed entrepreneurship curriculum within the formal school system. Entrepreneurship activities were incorporated directly into the TVET curriculum, with students asked to conduct research and develop agriculture-focused business plans as part of their core courses. MEDA also provided additional training, coaching, and funding to graduating students to launch their own businesses. At one ATVET, all graduating students were required to develop a business plan and the project provided funding for the strongest plans to begin implementation.

As noted in Module 4, the ATTSVE project established Gender Clubs to support women students, especially in entrepreneurial activities, and to promote gender equality within the TVET environment, where women tend to be less engaged in classroom discussions and may attend class less frequently due to increased domestic responsibilities. In the remaining years of the ATTSVE project MEDA plans to establish entrepreneurship clubs so that students are able to continue sharing learnings and resources in addition to applying these principles in the classroom. In addition, on-campus businesses were established to provide staff and students with more practical opportunities to apply agriculture and business skills.

5.5 Youth: Focus on Applying and Testing Skills in Practice

Model: Microfranchising

As youth begin to enter the labour force, either as entrepreneurs or employees, they benefit from opportunities to test their skills in practical contexts – with risk reduction mechanisms that make it safe for them to take measured risks. This section focuses on microfranchising, a business model that applies traditional franchising principles to very small businesses in developing economies. Through systematization of marketing and operational concepts, microenterprises can be replicated.65

A recent World Economic Forum blog notes that the proven business model and systems found in microfranchising reduce the extent to which franchisees must be truly entrepreneurial.66 The risk reduction and support mechanisms built into microfranchising will provide needed support to some, particularly entrepreneurs of necessity; it also allows a degree of creativity and flexibility for those who wish to push the boundaries.

Franchising: Key Principles

A company with an established brand, product or service (the franchisor) enters a contractual relationship with other businesses (franchisees). In return for a fee, franchisees use the franchisor’s brand name, sell its products or services and receive support on marketing and system of doing business.

—Michael Evans, allbusiness.com

65 https://ofoundation.nl/micro-franchising/
The franchising model, which also applies to microfranchises, allows an entrepreneur to start a business but to benefit from the name recognition of an established brand. In addition, the franchisee benefits from market research which establishes that there is demand for a product, and insight into differentiating from the competition. Perhaps most important for a new businessperson, a franchisee buys into a proven system of operation and training on how to use it. In many cases, this will include being connected to a supply chain from which the franchisee buys materials, supplies and services, such as advertising.

Advantages of Microfranchising

- Standard products and supplies
- Product recognition
- Systems and administrative support
- Marketing support
- Growth and expansion opportunities
Case Study: Fan Milk

Fan Milk Group is a West African company selling frozen dairy and juice products. In addition to traditional retail channels, Fan Milk engages microfranchise vendors who sell milk, popsicles, ice cream and yogurt from coolers mounted on their bicycles. Vendors purchase the cooler-equipped bicycles and their inventory of milk, popsicles, ice cream, and yogurt in advance, and are required to save a portion of their daily profits. Fan Milk has started experimenting with new equipment, including motorcycles and solar-powered kiosks. If vendors leave the company, they can return the equipment to Fan Milk.

Working as a vendor can be an entry point into more formal employment with Fan Milk. Typically, microfranchisees work as vendors for eight years; some may take other positions in the company, or expand their microfranchising activities, purchasing additional bicycles and sub-leasing them to new vendors. Fan Milk engages approximately 25,000 vendors and agents, and though recent documentation is scarce, results seem promising. In 2007, microfranchising expert Jason Fairbourne reported that Fan Milk was engaging 10,000 young men as microfranchisees, with a 95% retention rate. These young men were earning double the income of their counterparts.

Figure 2: Microfranchisees sell Fan Milk products from refrigerated bike containers

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67 https://ofoundation.nl/fan-milk/
5.6 Older Youth: Beyond Start Up

**Model: Smart Incentives**

For older youth, aged 25 to 35, appropriate programming models are those that emphasize moving beyond start up and survival businesses, into more sustainable and mature businesses. For entrepreneurs, this may mean growing their business; alternatively, it may mean diversifying products and services, broadening client base and deepening knowledge of market and products.

For most business owners, access to some form of financing is essential to start and grow their enterprises. Many start businesses with savings or with informal loans from family and friends, either to reduce risk (the obligation of repaying a loan with interest) or because formal loans from financial institutions are simply not available to them. Access to both savings and loans are important for the long-term success of a business. Globally, young people are less likely than older adults to save and borrow. The World Bank’s Global Findex report reports that 72 percent of adults age 25 and older have an account, while only 56 percent of those ages 15–24 do. There is also a significant age gap in formal borrowing behaviour, with only six percent of youth having borrowed from a financial institution in the previous year, compared with 11 percent of older adults.

Promoting youth entrepreneurship that creates sustainable, mature enterprises requires access to finance that goes beyond what is currently available from existing sources. For project designers and implementors, it is important to consider ways to increase youth access to financing. Projects and NGOs should not act as lenders but can play a range of important roles in increasing financial inclusion, including building youth financial literacy, and creating linkages to financial service providers that serve young people.

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69 Please see Module 2 for more information the barriers youth often face when accessing financial services.


Case Study: Smart Incentives Promote Youth Entrepreneurship in Ghana

In Ghana, MEDA is implementing the Farmers’ Economic Advancement Through Seedlings (FEATS) initiative, a six-year project which is improving the well-being and incomes of tree crop farmers by developing sustainable supply chains and markets for high quality tree seedlings. The Global Affairs Canada-funded initiative includes support for two main groups of businesses: farmers, who operate microenterprises with between one and five employees, and tree nurseries, growth-oriented SME-level businesses. The project is designed to be youth-inclusive, seeking to attract youth to the tree crop sector.

FEATS supports these two levels of business with a package of important support services, including:

- **Capacity building** – for farmers, this focuses on Good Agricultural Practices training and for nursery operators, capacity building includes business support and technical support, such as financial management, business operations, environmental assessments and specifics on how to run a nursery business.

- **Linkages to markets** – key to sustainability, FEATS links the nursery operators to customers who will buy from them long after the project has concluded. Specific markets are farmers, farmer associations and the Ghanaian government, which distributes seedlings through District Assemblies.

- **Financial services** – in addition to linking farmers to financial service providers, the project offers targeted smart incentives customized for each group of business. This case study focuses on the smart incentives as a driver of enterprise growth.

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While financial service providers such as MFIs are important potential sources of financing for farmers, there has been little uptake. In part, this is because farmers see no return on their investment for three to five years, the time it takes for seedlings to mature and bear fruit. Few financial service providers are inclined to offer repayment terms that align with this timeline. FEATS is encouraging tree farmers to intercrop, planting maize and other crops on their land to bring in income sooner from these faster maturing crops.
Smart Incentives for Farmers

FEATS is targeting 100,000 farmers, of whom 58,000 will plant seedlings. These farmers are eligible for a 50% price discount on seedlings produced by nurseries supported by the project. Because of the large numbers of farmers being targeted, FEATS works through farmer associations, groups of varying sizes, including between 50 and several thousand members. The associations’ leaders communicate information on the price discounts to members and register interested farmers.

For transparency and traceability of funds, farmers pay in advance to their association, which deposits the money in the bank and submits list of paid up farmers with proof of payment to FEATS. The project uploads approved list to the purchase discount electronic platform. To pick up their seedlings, farmers present a valid ID card and receipt of payment to nursery operators who validate their information with the project’s mobile app. Nurseries submit monthly reports and invoices to the project, which pays the balance owing to the nurseries.

Smart Incentives for Nurseries

As of 2020, FEATS supports 28 nurseries, which sell seedlings to farmers and other distributors. These nurseries are growth-oriented businesses with entrepreneurial owners. They are eligible for matching grants, which allow them to purchase infrastructure and equipment upgrades for their businesses. They select the upgrades that are most relevant for them and submit a proposal in which they describe their needs, the cost and how much of this cost they can provide – their ‘match’. If their application is accepted, FEATS provides the balance of the cost. On the matching grants provided to date, nursery owners have contributed an average of 85% of the cost, with FEATS providing 15%. Typical upgrades include chain link fencing to put around the nursery grounds and protect the plants from animals. Shade netting and metal poles allow nursery operators to protect seedlings from direct sun exposure. Bore hole wells and water tanks are also popular, allowing the nursery owners to produce seedlings all year round, not just during the rainy season. This is important for business expansion, as the nurseries can now provide seedlings to farmers when planting season begins.

Smart incentives are used to address a business problem or barrier in the market system that has been identified and which requires a catalyst to create change in behaviour, ideally towards more inclusive markets. Smart incentives take a variety of forms. They can be financial, such as coupons or price discounts to allow clients to purchase services or commodities at a preferential rate. Incentives can also be provided in the form of services such as training. Smart incentives can be used in a variety of ways:

- to promote or incentivize specific behaviours, such as encouraging sale of products to a previously underserved market segment
- to overcome access barriers, such as limited availability of a particular commodity or product
Results

To date, FEATS has supported 28 nurseries, 68% women-led, with technical and financial support. Over the short period of collaboration with the project, these nurseries have more than doubled their production capacity. As noted above, their businesses are not only larger but also more sustainable because of these improvements. They are able to produce year-round, not just in the rainy season, and can more effectively supply buyers in advance of the planting season. The smart incentives catalyzed change for the nursery operators, and created a ripple effect in the market, with impact extending to their buyers and suppliers. In addition, the project has supported over 3,000 youth farmers with technical assistance and financial services.

Other key results include:

- 23,679 farmers, over 3,000 youth, have planted seedlings including 9,924 farmers (39% women) supported with purchase discount
- 3,472,402 seedlings planted
- 1,296 farmers trained on Good Agricultural Practices
- 329 nursery owners and employees trained (70% women)
5.7 Conclusion

In conclusion, older youth and those operating more sustainable, mature businesses frequently require access to finance in order to expand their enterprise. This financing can come from savings or informal loans from friends and family, and frequently business owners must draw on these types of funds, in the absence of more formal financial services. Organizations promoting youth entrepreneurship should consider ways to increase youth access to appropriate financial services. In the example shared in this section, a project was able to provide matching grants to SMEs, bridging a finance gap that formal financial services were largely not filling. These matching grants are designed as temporary bridging mechanisms which will help catalyze business growth.
5.8 Summary

This module focused on the following learning objectives:

1. **LO1: The youth entrepreneurship framework that highlights programming elements to feature at different stages of youth development**
   
   • The youngest segment youth, adolescents from 15 to 18 years old, may be interested in business, they may still be in school or too young to start their own business. Programming for adolescents usually focuses on cultivating core entrepreneurial skills and mindsets, and basic organization and financial literacy skills.
   
   • Youth aged 19-24 may be better positioned to move from wanting to start a business, to actually starting one. Programming for youth should still include emphasis on core entrepreneurial skills and mindsets, but also more technical business skills.
   
   • For older youth, establishing or growing an already existing business is usually the main focus. Programming generally focuses on ensuring business sustainability and growth, troubleshooting weak points in the business plan, and building on existing knowledge and use of financial literacy, savings and loans.

2. **LO2: Successful models that are appropriate for youth at different stages of entrepreneurship**
   
   • For adolescents, appropriate models focus on fostering an entrepreneurial mindset and building core skills, such as financial literacy and goal setting. This section highlighted school and community clubs promoting entrepreneurship, a model which has been successfully scaled to reach millions of young people worldwide.
   
   • As youth begin to enter the labour force, either as entrepreneurs or employees, they benefit from opportunities to test their skills in practical contexts, with risk reduction mechanisms. This section focused on microfranchising, a business model that applies traditional franchising principles to very small businesses in developing economies.
   
   • For older youth, aged 25 to 35, appropriate programming models are those that emphasize moving beyond start up and survival businesses, into more sustainable and mature businesses. This section focused on the need for financial services, highlighting how smart incentives can be used to catalyze change in the market.
6.1 Introduction

Business Research helps to clearly identify the market landscape in which you wish to start or expand your business. It helps you to understand the market, competition, customer needs and how your business can fulfill those needs. Business Analysis helps to define needs of the business, the internal and external factors that may impact your business, and to develop solutions that deliver value to your business and customers.

6.2 Learning Objectives

By the end of this module it is expected that you will:

1. LO1: Understand the role of business research in identifying the market landscape including opportunities, risks and customer needs
2. LO2: Learn how to conduct business research and apply key tools
3. LO3: Understand the importance of conducting business analysis and how internal and external factors impact your business
4. LO4: Learn how to conduct business analysis and apply key tools

6.3 Business Research

6.3.1 Introduction to Business Research

A. Why Conduct Business Research?

Business research is important for not only NEW businesses/entrepreneurs but also EXISTING businesses and entrepreneurs.

For new businesses or entrepreneurs the purpose is:

- To make decisions about whether to start a particular type of business, and what products or services to sell.
- To understand how to start a business successfully.
- To develop a business idea into a business model and plan.
- To learn about market opportunities and risks, understand your customers and their needs/ issues, gain knowledge of competitors and suppliers in order to develop business strategies.
For existing businesses the purpose is:

- To determine how to grow – through expanding or diversifying.
- To increase capacity or to enter into new markets.
- To understand how to enter into related (value-added) markets or diversify products.
- To assess the competition.
- To understand new trends and technologies in the market.
- To devise or revise current business strategies.

B. How to Conduct Business Research?

There exists a process to conducting business research which follows four steps:

- **Step 1:** Define the Research Needs and Objectives
  - Ask yourself, why are you conducting this research?
  - What exactly do you want to learn about through your research?

- **Step 2:** Develop your Research Plan
  - An important part of this process is identifying the markets and customer segments which are relevant to your business.
  - Market research will help you to better understand your customers and their needs and issues.
  - Determine the information needed, select the methods (secondary research, surveys, focus group discussions and/or in-depth interviews) to be used and groups/individuals to be surveyed.
• **Step 3:** Conduct your research, collect and analyze the results.
• **Step 4:** Consolidate and interpret the findings.

### 6.3.2 Define the Research Needs and Objectives

**Defining your Business Idea**

Think about and write down answers to the following questions:

For **NEW** businesses:

1. What are the products/services you want to provide?

For **EXISTING** businesses:

1. What are the **existing** products/services that you are currently providing?
2. Is there potential to **expand** the supply of any of these products/services?
3. What **related** or **new** products/services might you consider introducing?

**Types of Research Objectives**

- **Exploratory Research** – (e.g. product/service potential)
- **Descriptive Research** – (e.g. market needs, competition)
- **Causal Research** – (e.g. if... then...)

There are three types of research objectives; note that businesses often start with exploratory research and then later follow with descriptive or causal research.

- **Exploratory Research** – is focused on gathering preliminary information to help define the problem. It is meant to guide your understanding of what the market wants before launching a product or service. Business research method tools that can be used for exploratory research could be focus group discussions or in-depth interviews as these are often unstructured (these tools will be explained in the business research methods section to come).

- **Descriptive Research** – is used to describe things such as the market need for a product or the demographics and attitudes of consumers who will buy the product. An appropriate business research method tool to be used for this would be surveys as these are often highly structured.
• **Causal Research** – is used to test hypotheses about cause and effect relationships. Causal research can be conducted in order to assess impacts of specific changes on existing norms, various processes etc. For example, “*Would a 10% decrease in tuition at your college result in an enrolment increase large enough to offset the reduced revenue from tuition?*” Secondary research and surveys would be the ideal business research methods to use for this as it is highly structured.

The table below compares the main characteristics of causal research to exploratory and descriptive research designs:

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<th>Causal research</th>
<th>Exploratory research</th>
<th>Descriptive research</th>
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<td>Amount of uncertainty</td>
<td>Clearly defined</td>
<td>Highly ambiguous</td>
<td>Partially defined</td>
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<td>characterising decision</td>
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<td>situation</td>
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<tr>
<td>Key research statement</td>
<td>Research hypotheses</td>
<td>Research question</td>
<td>Research question</td>
</tr>
<tr>
<td>When conducted?</td>
<td>Later stages of decision making</td>
<td>Early stage of decision making</td>
<td>Later stages of decision making</td>
</tr>
<tr>
<td>Usual research approach</td>
<td>Highly structured</td>
<td>Unstructured</td>
<td>Structured</td>
</tr>
<tr>
<td>Examples</td>
<td>“Will consumers buy more products in a blue package?”</td>
<td>“Our sales are declining for no apparent reason”</td>
<td>“What kind of people patronize our stores compared to our primary competitor?”</td>
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<td></td>
<td>“Which of two advertising campaigns will be more effective?”</td>
<td>“What kinds of new products are consumers interested in?”</td>
<td>“What product features are the most important to our customers?”</td>
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### 6.3.3 Develop your Research Plan

As mentioned, an important part of this process is identifying the markets and customer segments which are relevant to your business. Market research will help you to better understand your customers and their needs and issues.

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73 [https://research-methodology.net/causal-research](https://research-methodology.net/causal-research)
Customer Segmentation

An important first step in business research is determining which customers you wish to target with your business. Customer segmentation is defined as the practice of dividing a customer base into categories of customers that are similar in specific ways relevant to marketing and sales. For example, customers could be segmented by age, gender, interests and spending habits. This concept will help your business in selecting a marketing approach as only a certain percentage of the general population will buy your product or service, so the more accurately you can focus on your potential customers and ensure your business is effectively promoting itself to them the more profitable your business can be.

Segmenting your customers into groups according to their needs has a number of advantages. It can help you to:

1. Identify your most and least profitable customers
2. Focus your marketing on the customers who will be most likely to buy your products or services
3. Avoid the markets which will not be profitable for you
4. Build loyal relationships with customers by developing and offering them the products and services they want
5. Improve customer service
6. Get ahead of the competition in specific parts of the market
7. Use your resources wisely
8. Identify new products
9. Improve products to meet customer needs
10. Increase profit by keeping costs down, and in some areas enabling you to charge a higher price for your products and services
11. Group your customers by factors such as geographical location, size and type of organisation, type and lifestyle of consumers, attitudes and behaviour
### Market Segmentation Types

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<th>Geographic</th>
<th>Demographic</th>
<th>Behavioural</th>
<th>Psychographic</th>
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<tbody>
<tr>
<td>E.g. &quot;customers within 10 kilometers of the village&quot;</td>
<td>E.g. “A Level and University Students”</td>
<td>E.g. “Customers wanting a value for money impulse buy”</td>
<td>E.g. “Customers who prefer to buy organic food”</td>
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<tr>
<th>Customer location</th>
<th>Age</th>
<th>Rate of usage</th>
<th>Personality</th>
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<tr>
<td>Region</td>
<td>Gender</td>
<td>Benefits sought</td>
<td>Lifestyles</td>
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<td>Urban / Rural</td>
<td>Occupation</td>
<td>Loyalty status</td>
<td>Attitudes</td>
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<td>Socio-economic group</td>
<td>Readiness to purchase</td>
<td>Class</td>
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### 1. Geographic segmentation

Marketers can segment according to geographic criteria— for example nations, states, regions, countries, cities, or neighborhoods. This approach combines demographic data with geographic data to create a more accurate or specific profile for your customers. For example:

- With respect to region, in rainy regions merchants may sell things like raincoats, umbrellas and gumboots. In hot regions, merchants may sell sandals, t-shirts and hats.\(^{74}\)
- A small business commodity store may target only customers from the local neighborhood, while a larger department store can target its marketing towards several neighborhoods in a larger city or area.

Geographic segmentation is important and may be considered the first step to marketing, followed by demographic, behavioural and psychographic segmentation.

### 2. Demographic segmentation

Segmentation according to demography is based on variables such as age, sex, generation, religion, occupation, income and education level or according to perceived benefits which a product or service may provide to customers. Benefits may be experienced differently depending on a customer’s stage in the life cycle. Demographic segmentation divides markets into different life stage groups and allows for messages to be tailored accordingly. For example, income demographic

\(^{74}\) https://courses.lumenlearning.com/marketing-spring2016/chapter/reading-segmentation-criteria-and-approaches
segmentation is when people are segmented by their monthly or yearly income. You can segment based on personal income or household income. When you segment the groups that can afford your products away from the ones that can’t, you get clearer feedback about who you should market to. You’re able to build a profile of your ideal customers and improve the products based on what they care about.

- A good example of this type of segmentation is motor vehicles, a company could sell motorcycles as well as very expensive cars. The customers interested in the motorcycle may never buy the expensive car. If you were to ask the motorcycle customers for feedback they’d likely ask the company to make them cheaper whereas the customers who purchase the expensive cars may request better appearance or performance. They have different needs.

3. Behavioral segmentation

Behavioral segmentation divides consumers according to behavior patterns as they interact with a company. As the name suggests, this category of segmentation studies the behavioral traits of consumers — their knowledge of, attitude towards, use of, likes/dislikes of, or response to a product, service, promotion, or brand. It’s important to note that it doesn’t exist independently from other types of segmentation. Characteristics such as a customer’s age, gender, location, income, and occupation frequently correlate to behavioral data. That means behavioral data can often be used to confirm certain conclusions about other segmentation data. Based on the particular requirement of the market, behavioral segmentation is divided into variables namely brand loyalty, benefit sought, readiness to buy/purchase, and usage based segmentation.

- For example, if we look at usage based behavioural segmentation, this target’s the customer’s habit of repeated purchases. Behavioral market segmentation divides customers based on usage, categorizing them under the heavy usage, moderate usage or less usage. Skin care products, for example, target their consumers through offering large containers and tubes for consumers that are placed under the heavy usage category, while offering small packages or sachets for individuals who lay under the less usage category.

4. Psychographic segmentation

Psychographic segmentation is defined as a market segmentation technique where groups are formed according to psychological traits that influence buying habits drawn from people’s lifestyle and preferences. It is mainly conducted on the basis of “how” people think and “what” do they aspire their life to be. It considers how people’s personality traits, values, attitudes, lifestyles, motivations and priorities influence their purchasing.

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75 https://www.marketingtutor.net/behavioral-segmentation
• For example, say your friend has a strong sense of style. He also has a high-paying job that allows him to purchase brand name clothing. Likely, other facets of his lifestyle will support or demonstrate his enjoyment of expensive clothing. Companies that offer these types of products will focus on the person’s hobbies, income, and lifestyle to get them into their stores.

Business Research Methods
Research can be either quantitative or qualitative. There is a purpose, result, and advantages and disadvantages of using each. This is why research often includes a combination of both qualitative and quantitative methods.

• **Quantitative Research** is used to quantify the problem by way of generating numerical data or data that can be transformed into usable statistics. It is used to quantify attitudes, opinions, behaviors, and other defined variables – and generalize results from a larger sample population. Quantitative Research uses measurable data to formulate facts and uncover patterns in research. Quantitative data collection methods are much more structured than Qualitative data collection methods. Quantitative data collection methods include various forms of surveys – online surveys, paper surveys, mobile surveys, face-to-face interviews, telephone interviews, websites, online polls, and systematic observations.

  - **Purpose:** collect numeric market data ex. Customers, demand (volume and value), competitors, supply, growth rates, prices, etc.
  - **Results:** Statistical numeric data
  - **Example:** Surveys, Secondary Research

• **Qualitative Research** is primarily exploratory research. It is used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative research. Qualitative Research is also used to uncover trends in thought and opinions, and dive deeper into the problem. Qualitative data collection methods vary using unstructured or semi-structured techniques. The sample size is typically small, and respondents are selected to fulfill a given quota.

  - **Purpose:** Acquire in-depth understanding of the nature of markets/customers, needs, and behaviours
  - **Results:** Descriptive information/insights
  - **Example:** Focus Group Discussions, In-Depth Interviews
There are four key types of Research Methods:

1. **Secondary Research**: Gathering market information from publications and other existing sources of data.

2. **Surveys**: Used for collecting data from a pre-defined group of respondents to gain information and insights. These can be conducted with target enterprises, suppliers, or even consumers.

3. **Focus Group Discussions**: A discussion led by a facilitator with a group of similar respondents for the purpose of gathering market information.

4. **In-depth Interviews**: An interview (usually conducted one-on-one between a facilitator and respondent) which gathers *detailed* information about the respondent and the relevant issues related to that respondent.

The four key types of research methods fall into two categories: Primary and Secondary Research.

**Primary Research**: gathering market data and information directly from market participants – customers, suppliers, industry experts. Potential sources of this data are the surveys/questionnaires, in-depth interviews and focus group discussions (FGDs).

Advantages:

- Can be targeted, focused & customized to needs
- More authentic data and in-depth insights
- More credible and reliable information
- Opportunity to ask follow-up questions
Disadvantages:
  • Time-consuming
  • Generally more expensive

Secondary Research: gathering market data and information from publications and other existing sources. Potential sources are online and printed reports and publications by government agencies, industry associations, consultants, experts or other businesses within your industry.

Advantages:
  • Low cost
  • Easy and quick to access

Disadvantages:
  • Not customized to your needs
  • Not necessarily credible or reliable sources

Description of Business Research Method Tools

1. SURVEYS

What are they? Respondents are asked to provide answers to a set of fixed questions on a survey or questionnaire.

Methods for administering: Online, paper-based, over the phone, in-person. These questionnaires can be completed online, on mobile devices, over the telephone, face-to-face, through the mail, on the street or any combination. The objective of quantitative research is measurement, it is important that the questions and questionnaire is standardised. Changes to wording, or order of questions can dramatically change the results. For self-complete style online surveys, where individuals read the questions themselves, this is not a problem but where there are interviewers on the phone, or face-to-face, good quantitative interviewers have to be trained to follow the survey exactly.

Advantages
  • Ability to solicit information from large numbers of market actors and stakeholders
  • Gather large amounts of data easily, quickly, and at low cost
  • Standard questions enable data organisation and easy comparison

Disadvantages
  • Potentially low response rates
  • Quality and quantity of information may be unreliable
  • No ability to ask follow-up questions based on answers
Survey Tips:

1. **Don’t Ask Leading Questions:** Top survey mistake #1 – Questions should never be worded in a way that’ll sway the reader to one particular answer. Usually you can tell a question is leading if it includes non-neutral wording. For example:
   - Leading Question – Do you prefer to purchase rice of X or Y variety?
   - Better Question – What varieties of rice do you purchase, and how much quantity of each?
   - Leading Question – Would you be willing to pay X amount of fees for Y training course?
   - Better Question – What is the maximum fees you would be willing to pay for Y training course?

2. **Don’t Ask Loaded Questions:** Sometimes questions will be written in a way that forces the respondent into an answer that doesn’t accurately reflect their opinion or situation. This top survey mistake will throw off your survey respondents and is one of the leading contributors to respondents abandoning surveys. Usually, loaded questions are best avoided
by pretesting your survey to make sure every respondent has a way to answer honestly. For example:

- Loaded Question – From where do you purchase imported rice?
- Better Question – Where do you purchase your rice from?

3. **Don’t Ask Double-Barreled Questions:** What is a double-barreled question? It’s one of the most common survey mistakes, it’s when you force respondents to answer two questions at once. It’s also a great way to ruin your survey results. Survey questions should always be written in a way that only one thing is being measured. If a single question has two subjects, it’s impossible to tell how the respondent is weighing the different elements involved. For example:

- Double-barrelled Question – How satisfied or dissatisfied are you with the quality and price of the rice your purchase?
- Better Questions:
  - How satisfied are you with the quality of the rice you purchase?
  - What is the price of the X variety of rice that you purchase?
  - What maximum price would you be willing to pay for the better Y variety/quality of rice?

4. **Don’t Use Absolutes:** Absolutes in questions force respondents into a corner where they can’t give useful feedback. These questions usually have the options Yes/No and include wording such as “always,” “all,” “every,” “ever,” etc. For example:

- Question with Absolutes – Do you always/only purchase X variety of rice? (Yes/No)
- Better Question – Which varieties of rice do you purchase, and how much quantity of each?

5. **DO Speak Your Respondent’s Language:** Regardless of who’s taking your survey, use clear, concise, and uncomplicated language while trying to avoid acronyms, technical terms or jargon that may confuse your respondents. Make sure to provide definitions or examples if you need to include difficult terms or concepts. That way, you can be certain that almost anybody can answer your questions easily, and that they’ll be more inclined to complete your survey. For example:

- Poor Question – Do you purchase FTC or IFOAM rice?
- Better Question – Do you purchase rice that is Fair Trade Certified (FTC) or certified as organic by the International Federation of Organic Agriculture Movements (IFOAM)?
2. IN-DEPTH INTERVIEWS

_What are they?_ Phone or in-person discussions conducted to gather detailed market information and insights from market participants or industry experts. Interviews often employ the same questions as those found on surveys, but they afford people the opportunity to respond at length. This approach typically yields deep information about one person’s experience with a product, service or company. The opportunity to ask follow-up questions to more fully grasp a person’s response is one of the key advantages to this research method. Interviews tend to be more time-intensive, and careless interviewers can bias interviewee answers.

_Types of Interviews:_

- **Structured:** set sequence of defined questions
- **Unstructured:** questions and their sequence are only broadly specified
- **Semi-structured:** questions specified, sequence is not; additional questions can also be posed to the interviewee

_Advantages_

- Enables gathering detailed and authentic information from market participants and experts
- Deep understanding and insights gained through probing
- Flexible, easily combined with other research methods
- Can be used with illiterate or semi-literate respondents
- Relatively inexpensive if done over phone

_Disadvantages_

- Time consuming for interviewer and respondent
- Smaller sample
- Suspicion of interviewer (tax or government officer)
- Potential for bias with poor interview technique

_In-Depth Interview Tips: Dos and Don’ts_

_DO_

- Explain background and purpose of interview, and potential benefits to interviewees if any
- Show some knowledge & interest/need for more information; may share some information as appropriate
• Be courteous and professional; create a relaxed environment to put interviewees at ease
• Carry out pilot interviews for test purposes (if time permits)
• Plan ahead – who should be interviewed, why, what questions, when, by whom
• Thank them for their time and ask if they have any questions

DON’T
• Promise any benefits, especially false ones
• Ask leading questions
• Use the same questionnaires for different types of interviewees
• Rush the interviewee and cut them off
• Assume that you have a perfect memory and don’t need to take notes

3. FOCUS GROUP DISCUSSIONS

What are they? A facilitated discussion or workshop in which a small group of people consistent with a target market discuss a product/service and/or its supplier. Focus groups offer a kind of middle ground between other research methods. They provide a larger sample group than interviews, while taking advantage of the depth that interviews afford. As with interviews, however, the facilitator who directs the conversation can unintentionally skew answers in a particular direction, and analysis of the information collected during the focus group can prove difficult to analyze.

• Facilitator of FGDs poses predetermined questions to the group members
• Questions discussed and answered amongst the group members

Advantages
• Generate a lot of in-depth qualitative data
• Can be used when respondents are illiterate or semi-literate
• Some respondents (e.g. farmers, consumers) may find individual interviews too threatening and prefer group discussions
• Relatively inexpensive as the opinions of many people obtained in a short time

Disadvantages
• May not be generalized or projected to represent the entire, diverse target audience
• Group dynamics must be carefully moderated by the group facilitator
• Popular opinion often dominates the discussion
• Some participants like to take the lead and be heard over others
• Requires specific skills and group facilitators need to be specially trained to use these methods

Focus Group Discussion Tips: Dos and Don’ts

DO
• Plan/prepare ahead – when, who should participate, why, what questions, by whom
• Keep groups homogeneous to ensure comfort level
• Explain background and purpose of FGD and advise participants of expected length
• Make sure you have a facilitator, recorder and additional FGD assistant
• Create relaxed environment to put participants at ease
DON’T

• Invite too many or disparate participants
• Ask leading questions
• Let some participants dominate over others
• Ask questions on lots of issues – remember the F in FGD
• Use FGDs in isolation

ADDITIONAL TIPS FOR FGDS

• Set ground rules up front
• Make sure everyone is comfortable
• Make sure all voices heard

Research Plan Template

A research plan template is a tool to help organize the research process and keep track of the information needed, potential tools and information sources

Exercise: Using the research plan template, think about your plans to improve or start your business – what information do you want to know? Who might you want to talk to (potential customer segments) in order to get this information? What tools might you want to use?

<table>
<thead>
<tr>
<th>Information Needed</th>
<th>Research Questions</th>
<th>Research Method(s) to Use</th>
<th>Key Information Sources</th>
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</table>
6.3.3 Analyze Results

Once you have completed the data collection, it is time to begin analyzing. You want to gather all the information you collected in a way that helps you to understand the market landscape and the opportunities, risks and customer needs which will help guide you in tailoring your business to meet the market’s need. Ultimately, ensuring your business will be successful.

For **quantitative data** collected from surveys, this will involve compiling the data and conducting statistical analysis using a tool like Excel, comparing average responses or ranking of answers using tables and Pivot Charts, or more sophisticated statistical analysis tools such as the Statistical Package for Social Science (SPSS).

For **qualitative information**, you should start by reading through all of the data and organizing comments into categories aligned with your research questions. Once you have organized the data, look to identify patterns, causal relationships or common themes in the data. Consider if trends are different for different customer segments. You may also choose to quantify your qualitative data, by tracking the number of times a common theme is mentioned across interviews or FGDs.

6.4 Business Analysis

6.4.1 Introduction to Business Analysis

*What is business analysis?*

Business Analysis is the practice of identifying business needs and determining solutions to business problems.

*Why conduct business analysis?*

**For new businesses or entrepreneurs the purpose is:**

1. It helps you to understand the structure and dynamics of your potential business.
2. It allows you to understand potential problems the business may face.
3. It helps you to identify improvements in your business idea to enable the business to achieve its projected goals.
4. To maximize the value to be delivered by your business to its future customers.

**For existing businesses the purpose is:**

1. It helps you to understand the structure and dynamics of your business.
2. It allows you to understand current problems in the business.
3. It helps you to identify improvements and recommend solutions to enable the business to achieve goals.

4. It helps you to identify and articulate the need for change.

5. To maximize the value delivered by your business to its customers.

**How to conduct business analysis?**

There are key tools available to use which will provide insights into your business. It is important to look at both the internal and external factors which may affect your business. Although you cannot control external factors, it is important to understand them and how they will affect your business. This also gives you the opportunity to develop strategies that will mitigate the external and internal risks that could negatively affect your business.

**6.4.2 Key Business Analysis Tools**

**SWOT Analysis (both internal and external)**

**What is SWOT?**

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. A SWOT Analysis is a technique for assessing these four aspects of your business.
You can use SWOT Analysis to ensure the strengths of your business are maximized and used to your organization’s best advantage. Strengths are internal to your business, you can control these, and they are also very helpful for the success of your business. You can start to craft a strategy that distinguishes you from your competitors through identifying opportunities, these are external to your business, you can’t control these but you can take advantage of them in order to be successful in your market.

Further, you can also identify weaknesses, these are internal to your business and could be harmful to it’s success but you can develop strategies to strengthen these areas to reduce their negative impact on your business. Finally, a SWOT can help you to identify threats, external to your business, but which can negatively affect it’s operations in order for you to develop tactics to eliminate these hazards that would otherwise catch you unaware.

**HOW TO USE A SWOT ANALYSIS**

Once you’ve examined all four aspects of SWOT, you’ll likely be faced with a long list of potential actions to take. You’ll want to build on your strengths, boost your weaker areas, head off any threats, and exploit every opportunity.
But, before you leap into action, look for potential connections between the quadrants of your matrix. For example, could you use some of your strengths to open up further opportunities? And, would even more opportunities become available by eliminating some of your weaknesses?

Now it’s time to ruthlessly prune and prioritize your ideas, so that you can focus time and money on the most significant ones. Refine each point to make your comparisons clearer. For example, only accept precise, verifiable statements such as, “Cost advantage of $10/ton in sourcing raw material x,” rather than, “Better value for money.”

Carry through the options you generate to later stages in your strategy formation process and apply them at the right level – for example, at a product or product-line level, rather than at the much vaguer whole-company level.

**Exercise:** Draw up a SWOT Analysis matrix, this is a 2x2 grid, with one square for each of the four aspects of SWOT.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>What do you do well?</td>
<td>What could you improve?</td>
</tr>
<tr>
<td>What unique resources can you draw on?</td>
<td>Where do you have fewer resources than others?</td>
</tr>
<tr>
<td>What do others see as your strengths?</td>
<td>What are others likely to see as weaknesses?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>What opportunities are open to you?</td>
<td>What threats could harm you?</td>
</tr>
<tr>
<td>What trends could you take advantage of?</td>
<td>What is your competition doing?</td>
</tr>
<tr>
<td>How can you turn your strengths into opportunities?</td>
<td>What threats do your weaknesses expose to you?</td>
</tr>
</tbody>
</table>
**STRENGTHS** – These are things that separate the company from the competition. Strengths can be things like a strong brand, loyal customer base, strong balance sheet, unique technology and so on.

Strengths are things that your organization does particularly well, or in a way that distinguishes you from your competitors. Think about the advantages your business has over other businesses. These might be the motivation of your staff, access to certain materials, or a strong set of manufacturing processes.

Your strengths are an integral part of your organization, so think what you do better than anyone else? What values drive your business? What unique or lowest-cost resources can you draw upon that others can’t?

Then turn your perspective around and ask yourself what your competitors might see as your strengths. What factors mean that you get the sale before they do?

Remember, any aspect of your organization is only a strength if it brings you a clear advantage. For example, if all of your competitors provide high-quality products, then a high-quality production process is not a strength in your market: it’s a necessity. Go ahead and fill in this section of the SWOT Analysis matrix you created.

**WEAKNESSES** – These are areas where the business needs to improve to remain competitive. Weaknesses include things like higher than industry average turnover, high levels of debt, lack of sales growth and so on.

Now it’s time to consider your organization’s weaknesses. Be honest! A SWOT Analysis will only be valuable if you gather all the information you need. So, it’s best to be realistic now, and face any unpleasant truths as soon as possible.

Weaknesses, like strengths, are inherent features of your organization, so focus on your people, resources, systems, and procedures. Think about what you could improve, and the sorts of practices you should avoid.

Once again, imagine (or find out) how other people in your market see you. Do they notice weaknesses that you tend to be blind to? Take time to examine how and why your competitors are doing better than you. What are you lacking? Fill in this section of your SWOT Analysis.
**OPPORTUNITIES – Opportunities are any area where the company can grow. They are often related to the company’s strengths. Some common opportunities include offer more products or services to existing customers, lower production costs through new technology and so on.**

Opportunities are openings or chances for something positive to happen, but you’ll need to claim them for yourself!

They usually arise from situations outside your organization and require an eye to what might happen in the future. They might arise as developments in the market you serve, or in the technology you use. Being able to spot and exploit opportunities can make a huge difference to your organization’s ability to compete and take the lead in your market.

Think about good opportunities you can spot immediately. These don’t need to be big changes: even small advantages can increase your organization’s competitiveness. What interesting market trends are you aware of, large or small, which could have an impact?

You should also watch out for changes in government policy related to your field. And changes in social patterns, population profiles, and lifestyles can all create interesting opportunities. **Fill in this section of your SWOT Analysis.**

**THREATS – Threats are external factors, and include the level of competition, the overall economy and any other external issue that can harm the business. Common threats include things like rising costs for inputs, increasing competition, tight labor supply and so on.**

Threats include anything that can negatively affect your business from the outside, such as supply chain problems, shifts in market requirements, or a shortage of recruits. It’s vital to anticipate threats and to take action against them before you become a victim of them and your growth stalls.

Think about the obstacles you face in getting your product to market and selling. You may notice that quality standards or specifications for your products are changing, and that you’ll need to change those products if you’re to stay in the lead. Evolving technology is an ever-present threat, as well as an opportunity!

Always consider what your competitors are doing, and whether you should be changing your organization’s emphasis to meet the challenge but remember that what they’re doing might not be the right thing for you to do, and avoid copying them without knowing how it will improve your position.

Be sure to explore whether your organization is especially exposed to external challenges. Do you have bad debt or cash-flow problems, for example, that could make you vulnerable to even small changes in your market? This is the kind of threat that can seriously damage your business, so be alert. **Fill in this section of your SWOT Analysis.**
EXAMPLE

As you fill out your SWOT analysis, think about this example.

**About the company:** Botanical Bounty is a perennial farm that grows a variety of botanical, medicinal plants. This family-owned farm has been in existence for two years, initially operating as a hobby for the owners—who have training in plant biology—rather than as a profit-producing business.

**SWOT analysis for Botanical Beauty:**

Botanical Bounty SWAT Analysis

<table>
<thead>
<tr>
<th><strong>S</strong></th>
<th>Strengths</th>
<th><strong>W</strong></th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consistent quality:</strong></td>
<td>We consistently produce plants with high active botanical ingredients.</td>
<td><strong>Lack of funding:</strong></td>
<td>We will need to borrow $100,000 in funds for the first year.</td>
</tr>
<tr>
<td><strong>Saleable plants:</strong></td>
<td>We produce a high ratio of healthy (saleable) plants.</td>
<td><strong>No reputation yet:</strong></td>
<td>We haven’t established ourselves as reputable growers in the botanical market yet.</td>
</tr>
<tr>
<td><strong>Experience:</strong></td>
<td>Co-owners have a strong combination of business development and horticultural experience.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>O</strong></th>
<th>Opportunities</th>
<th><strong>T</strong></th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer loyalty:</strong></td>
<td>Customers are looking for an ongoing relationship with one botanicals vendor.</td>
<td><strong>Weather:</strong></td>
<td>A poor growing season due to the change in weather can seriously affect production.</td>
</tr>
<tr>
<td><strong>Growing market:</strong></td>
<td>The market for supplements is huge and growing.</td>
<td><strong>Pests:</strong></td>
<td>Pests are a threat to our ability to provide healthy plants.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Similar-sized farms:</strong></td>
<td>Some similar-sized farms have been in business longer.</td>
</tr>
</tbody>
</table>

[https://articles.bplans.com/swot-analysis-examples](https://articles.bplans.com/swot-analysis-examples)
A potential outcome of the SWOT Analysis could be to look for strategies to grow your business. Based on the above SWOT example, some potential strategies for growth for Botanical Bounty could be:

1. **Customer testimonials.** Botanical Bounty needs to establish its reputation as a highly-efficient, high-potency medicinal herb grower, and one effective and inexpensive way to do that would be to lean on loyal customer testimonials in the company’s marketing strategy.

2. **Sales channel relationships.** Botanical Bounty also needs to establish a strong sales channel with herbal supplement manufacturers and should invest plenty of energy into building those relationships and establishing Botanical Bounty as a reliable vendor.

**PESTLE Analysis (external)**

A PESTLE analysis is a framework to analyse the key external factors (Political, Economic, Sociological, Technological, Legal and Environmental) influencing an organisation. It offers business owners’ insight into the external factors impacting their organisation. The analysis is flexible, so organisations can use it in a range of different scenarios. Business owners and senior managers can use the results to guide strategic decision-making. Organisations don’t exist independently to the outside world. They are intricately connected to an outside world with a constantly changing landscape. If you can analyse this landscape, and the features that impact on your organisation’s performance, then you can begin to make decisions and plans. A PESTLE analysis is a tool to help you do this. Each letter stands for an element of the organisation’s external operating environment.
A PESTLE analysis helps a team to understand the organization's market and business position better, plan strategically, and conduct market research in new and existing markets. The framework:

- Encourages strategic thinking and helps you evaluate how your strategy fits into the broader environment
- Provides an overview of the crucial external influences on the organization
- Allows leaders to make more decisive and knowledgeable decisions

Exercise: Draw up a PESTLE Analysis with one column for each of the six aspects of PESTLE. As you learn about each aspect of PESTLE fill in your PESTLE template for your business for each of the six aspects.

<table>
<thead>
<tr>
<th>Political</th>
<th>Economic</th>
<th>Social</th>
<th>Technology</th>
<th>Legal</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examples:</strong></td>
<td><strong>Examples:</strong></td>
<td><strong>Examples:</strong></td>
<td><strong>Examples:</strong></td>
<td><strong>Examples:</strong></td>
<td><strong>Examples:</strong></td>
</tr>
<tr>
<td>• Government policy</td>
<td>• Exchange rate</td>
<td>• Population growth rate</td>
<td>• Technology incentives</td>
<td>• Employment laws</td>
<td>• Weather</td>
</tr>
<tr>
<td>• Corruption</td>
<td>• Interest rate</td>
<td>• Age distribution</td>
<td>• Level of innovation</td>
<td>• Consumer protection laws</td>
<td>• Climate</td>
</tr>
<tr>
<td>• Labor Law</td>
<td>• Inflation rate</td>
<td>• Safety emphasis</td>
<td>• Technological change</td>
<td>• Copyright and patent laws</td>
<td>• Environmental policies</td>
</tr>
<tr>
<td>• Tax Policy</td>
<td>• Unemployment rate</td>
<td>• Lifestyle attitudes</td>
<td>• Technological awareness</td>
<td>• Health and safety laws</td>
<td>• Climate Change</td>
</tr>
<tr>
<td>• Political stability</td>
<td>• Disposable income</td>
<td>• Cultural barriers</td>
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<td></td>
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</tbody>
</table>

**POLITICAL**

The political factors account for all the political activities that go on within a country and if any external force might tip the scales in a certain way. They analyze the political temperament and the policies that a government may put in place for some effect. For example, the fiscal policy, trade tariffs and taxes are those things that a government levies on traders and organizations and they greatly alter the revenue that is earned by those companies.

- What is the political situation of the country and how can it affect your market or industry?

**ECONOMIC**

The economic factors take into view the economic condition prevalent in the country and if the global economic scenarios might make it shift or not. These include the inflation rates, foreign
exchange rates, interest rates etc. All these can affect the supply and demand cycle and can result in major changes of the business environment.

- What are the prevalent economic factors that influence your business?

**SOCIAL**
Social factors have to do with the social mindset of the people that live in a certain country. This sums up the aspect of culture, age demographics, gender and its related stereotypes, at times this analysis has to include the religious factors (when pertaining to products or services of a different kind).

- How much importance do social/cultural factors have in the market and what are the determinants?

**TECHNOLOGY**
Technological factors take into consideration the rate at which technology is advancing and how much integration does a company need to have with it.

- What technological innovations are likely to emerge and affect the market?

**LEGAL**
Legal factors have to do with all the legislative and procedural components in an economy. Also, this takes into account certain standards that your business might have to meet in order to start production/promotion.

- Is there any current legislation that regulates the industry or can there be any change in the legislation for the industry?

**ENVIRONMENT**
Environmental factors have to do with geographical locations and other related environmental factors that may influence upon the nature of the trade you’re in. For example, agri-businesses hugely depend on this form of analysis.

- What are the environmental concerns for the industry?

**EXAMPLE**
As you fill out your PESTLE analysis, think about this example. 

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77  https://pestleanalysis.com/coffee-industry-pestel-analysis/
About the company: Coffee Roasters Company is an international coffee company that specializes in roasting and delivering fresh organic coffee. They have coffee shops all over the world where they sell their brewed coffee.

PESTLE Analysis for Coffee Roasters Company:

<table>
<thead>
<tr>
<th>Political</th>
<th>Coffee beans are grown in developing countries; there are many trade agreements in place to promote international trade.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Economy is currently doing well; individuals have more disposable income than ever.</td>
</tr>
<tr>
<td>Social/ Cultural</td>
<td>People spend more and more money on coffee and do not go to coffee shops just to drink a coffee, more to relax and enjoy themselves. People are more interested in Fair Trade and Organic coffee.</td>
</tr>
<tr>
<td>Technological</td>
<td>Cheaper and better coffee machines available for home usage</td>
</tr>
<tr>
<td>Legal</td>
<td>Work conditions, child labour</td>
</tr>
<tr>
<td>Environmental</td>
<td>The coffee industry has to be concerned about the way coffee beans are produced, the way they design the supply chain and the way they prepare and sell the products</td>
</tr>
</tbody>
</table>

What the PESTLE Analysis can tell us:

The overall business environment has both pluses and minuses for the coffee industry. On the plus side, the world currently has plenty of trade agreements and consumers’ incomes are growing. On the negative side for Coffee Roasters Company, at home coffee appliances are more available than ever, they need to think about why customers would come to their stores to purchase coffee, what is the benefit? Perhaps this can be found in Social/Cultural section, people are wanting to go to coffee shops not only to drink coffee but to sit and relax, they have the opportunity to create a sit-down coffee shop with an atmosphere that people want to be in. Coffee Roasters Company has an advantage on the environmental front as they sell fresh organic coffee, appealing to customers that are concerned about how coffee beans are produced.
How to Use a PESTLE Analysis

Once you’ve examined all six aspects of PESTLE, you’ll likely be faced with many factors that affect your industry and business. Think about the importance of these to your business and any strategies you may take to avoid negative factors and take advantage of positive factors.
6.5 Summary

This module focused on the following learning objectives:

1. **LO1: Understand the role of business research in identifying the market landscape including opportunities, risks and customer needs.**
   - Why and how to conduct business research
   - The Four Steps in conducting business research

2. **LO2: Learn how to conduct business research and apply key tools.**
   - Secondary research
   - Surveys
   - Focus Group Discussions
   - In-depth Interviews

3. **LO3: Understand the importance of conducting business analysis and how internal and external factors impact your business.**
   - Why conduct business analysis
   - How to conduct business analysis

4. **LO4: Learn how to conduct business analysis and apply key tools.**
   - SWOT Analysis
   - PESTLE Analysis
MODULE 7: Business Modelling
7.1 Introduction

The Business Model Canvas (BMC) is your business model on one page. It’s a global standard used by millions of people in businesses of all sizes. You can use the canvas to describe, design, challenge, strategize, and grow your business. The BMC describes how the components of the business fit together to produce a profit. Its goal is to answer the question, “How does this business work?” It is your first step in developing/designing your business, it will guide you to create your business plan (discussed in Module 8).

This module will review how the BMC is used as a strategic management tool to quickly and easily define and communicate a business idea or concept. Using both external and internal factors to define the value proposition, which is the exchange of value between your business and your customer/clients.

7.2 Learning Objectives

By the end of this module it is expected that you will:

1. **LO1: Understand what a Business Model Canvas (BMC) is**
   - Describes the enterprise, what it plans to produce and how
   - How it markets its products
   - Risks and how to deal with them
   - Financial projections and financing needs

2. **LO2: Identify and understand the key elements of a strong BMC**
   - Understand the nine key blocks in a BMC
   - Understand how these nine blocks relate and connect to form a BMC

3. **LO3: Apply the one-page business model format**
   - Key questions to ask in each block of the BMC
   - Tips to help make sure you have reviewed all the factors to develop a strong BMC
7.3 What is a Business Model Canvas?

A BMC is a document that identifies supply and demand opportunities, specific to your business. It describes the business, what it produces, how it produces, how it markets, the risks it faces, who the customers are, and financial situation and financing needs. It is a plan for the successful operation of a business, identifying sources of revenue, the target customer base, products, and details of financing – essentially it should inform you how the key drivers of your business fit together.

A BMC should give you a way to create a clear business model using a single sheet of paper. And what is great about it is it can be used to describe any business – from the largest business in the world to a start-up with just one employee.

Why Use a Business Model Canvas?

The reason why you want to create a BMC is that it has the following advantages:

- **Easy to understand**: the BMC fits on single page, as in you are describing your business model and the key drivers on one page which makes your business model very easy to understand and visualize for yourself and others.

- **Focused**: It removes any excessive information that might have been present in a traditional business plan – the BMC is a clear and concise, modernized, business plan.

- **Flexible**: It’s quick and easy to make changes to your model and sketch out different ideas.

- **Customer Focused**: the canvas forces you to think about the value you’re providing to your customers, and only then what it takes to deliver that value.

- **Shows Relationships**: The single page graphical nature of the canvas shows how the different parts of the model interrelate to each other. This can be difficult to ascertain from a traditional business plan.

- **Easy to Communicate**: Because the canvas is so easy to understand you’ll be able to share and explain it easily with your team, making it easier to get them on board with your vision. It also allows you to easily communicate to others outside your business such as potential investors.

The first thing is to understand the nine elements which make up the BMC. The following table highlights these and introduces the key questions to ask in each block.
<table>
<thead>
<tr>
<th><strong>Key Partners</strong></th>
<th><strong>Key Activities</strong></th>
<th><strong>Value Propositions</strong></th>
<th><strong>Customer Relationships</strong></th>
<th><strong>Customer Segments</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>What non-key activities can you outsource to enable you to focus more on your key activities.</td>
<td>What unique strategic activities does your business perform to deliver your value proposition?</td>
<td>What is the customer problem or need which you want to address? What is my solution or value proposition and why is that better than the existing alternatives?</td>
<td>How do you get, keep, and grow your customers?</td>
<td>Which segment of the market am I best able to provide a competitive solution?</td>
</tr>
</tbody>
</table>

**Key Resources**

Who and what are the key resources required to make this business successful?

**Marketing Channels**

How will I reach my target market segment? Which market channels will I use? What is currently available and what alternative products or services are available to the customer?

**Customer Segments**

Which segment of the market am I best able to provide a competitive solution?

**Cost Structure**

What are my costs and what are they dependent on?

**Revenue Streams**

What are the revenue streams and their potential? What capital do I require to finance the growth of my business? What are my current funding sources? What other funding sources can I access?
7.4 Understanding the Key Elements of the Business Model

The business model canvas is a shared language for describing, visualizing, assessing and changing business models. It describes the rationale of how an organization creates, delivers and captures value.

1. **Value proposition.** The value proposition describes the value that you deliver to each customer segment. Your Value Proposition is the reason why customers turn to your business over another. It solves your customer’s problem or satisfies your customer’s need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. Some of the most common value propositions are:
   - Newness
   - High performance
   - Ability to customize
   - Design
   - Brand/Status
   - Price
   - Cost reduction
   - Risk reduction
   - Convenience

2. **Key partners.** Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources. We can distinguish between four different types of partnerships, which are strategic alliances between non-competitors, competition: strategic partnerships between competitors, joint ventures to develop new businesses, and buyer-supplier relationships to assure reliable supplies – for example seed suppliers, farmers, technology suppliers.

3. **Key activities.** Your business model calls for a number of Key Activities. These are the most important actions your business must perform to operate successfully. Key activities are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues. And like Key Resources, Key Activities differ depending on business model type. For software maker Microsoft, Key Activities include software development. If your Key Activities are not relatable to your Value Proposition then something is wrong, because the activities you view as most important aren’t delivering any value to customers.
4. **Key resources.** Every business model requires Key Resources. Your resources allow your enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model. Key resources can be owned or leased by the business or acquired from key partners. Broadly speaking resources can fall into one of four categories:

- **Physical:** such as buildings, vehicles, machines, and distribution networks.
- **Intellectual:** such as brands, specialist knowledge, patents and copyrights, partnerships, and customer databases.
- **Human:** sometimes your people will be your most key resource, this is particularly true in creative and knowledge-intensive industries.
- **Financial:** such as lines of credit, cash balances etc.

5. **Customer segments.** In this building block, you enter the different customer segments or that you will serve. Customers comprise the heart of your business model. Without (profitable) customers, your business can not survive for long. In order to better satisfy your customers, you may group them into distinct segments with common needs, jobs-to-get-done, common behaviours, or other attributes. Your Customer Segments are the different groups of people or organizations your enterprise aims to reach and serve. This includes users who might not
generate revenues, but which are necessary for the business model to work (e.g. users of Google's free search engine are essential to their advertising-based business model, or doctors are usually an essential, but non revenue-generating part of a pharmaceutical business's business model).

6. **Customer relationships.** Your business should clarify the type of relationship it wants to establish with each Customer Segment. Relationships are established through your different Channels. Relationships can range from personal to automated, from transactional to long-term, and can aim to acquire customers, retain customers, or boost sales (upselling). The type of Customer Relationships you put in place deeply influence the overall customer experience. The easiest way to define all of this is to walk through the entire customer journey in detail. That includes: how do customers find out about you, investigate whether to buy your product, purchase it and how are they managed after purchase.

7. **Channels.** Your own channels might include any combination of stores you own, a sales force you employ, or your website. Partner channels could include a multitude of options, from using a wholesaler to working with affiliates to sell your products. Your communication, distribution, and sales Channels comprise your business's interface with customers. Your Channels are customer touch points that play an important role in the customer experience. Your Channels serve several functions, including:

   • Raising awareness among customers about a business's products and services
   • Helping customers evaluate a business's Value Proposition
   • Allowing customers to purchase specific products and services
   • Delivering a Value Proposition to customers
   • Providing post-purchase customer support

8. **Cost Structure.** In the Cost Structure building block, we want to map key activities to costs. We also want to ensure that costs are aligned with our Value Proposition. This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships.

9. **Revenue Streams.** Where does the money come from? In this building block, you state where your revenue is generated. This might sound simple, but it isn’t. You’re trying to figure out what strategy you’ll use to capture the most value from your customers? Will customers simply pay a one-time fee? Will you have a monthly subscription fee? Perhaps you give away your product for free initially and then hope that some portion of customers upgrade to the paid premium product?
Activity: With this new understanding of the components of the BMC, let’s take a look at a BMC example for an egg enterprise. As you are learning the structure of the BMC, the below example focuses on identifying general trends and characteristics within each block. Can you relate the template to your business (or sector)?
<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Key Resources</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
<th>Channels</th>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Buyers</td>
<td>• Egg collection</td>
<td>• Competitive prices for fresh eggs</td>
<td>• Land for scavenging</td>
<td>• Trust between rural (mostly women) farmers and egg collection center</td>
<td>• High income markets (mostly women)</td>
<td>• Poultry egg producers travel and manually deliver eggs at collection center</td>
<td>Variable costs:</td>
<td>• Sale of eggs produced</td>
</tr>
<tr>
<td>• Egg suppliers (mostly women)</td>
<td>• Packaging</td>
<td>• Disease free eggs</td>
<td>• Chicken for egg production</td>
<td>• Trust between urban markets and egg collection center</td>
<td>• Restaurants / hotels</td>
<td>• Distribution of eggs to higher income shops in Pronesia</td>
<td>Fixed costs:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Egg sale</td>
<td>• Sustainable supply to urban markets</td>
<td>• Technical poultry producers</td>
<td>• Contracts with buyers</td>
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<td></td>
<td></td>
<td></td>
<td>• Egg collection center</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Variable costs:
- Packaging, transport
- Rent at collection center
- Wages of center employees

Fixed costs:
- Rent at collection center
- Wages of center employees

Revenue Streams
- Sale of eggs produced
7.5 Applying the Business Model to a Small Business

The business model canvas is a shared language for describing, visualizing, assessing and changing business models. It describes the rationale of how an organization creates, delivers and captures value.

The business model canvas is a great tool to help you understand a business model in a straightforward, structured way. Using this canvas will lead to insights about the customers you serve, what value propositions are offered through what channels, and how your business makes money. You can also use the business model canvas to understand your own business model or that of a competitor.

The below section highlights questions you should ask yourself when filling out the nine blocks:

1. **Key partners**
   - List the partners that you can’t do business without (not suppliers).
   - Who are your Key Partners?
   - Who are your key suppliers?
   - Which Key Resources are you acquiring from partners?
   - Which Key Activities do partners perform for you?

2. **Key activities**
   - What do you do every day to run your business model?
   - What Key Activities do Value Propositions require?
   - What Key Activities do distribution channels require?
   - What Key Activities do customer relationships require?
   - What Key Activities do revenue streams require?

3. **Key resources**
   - Who are the people, knowledge, means, and money you need to run your business?
   - What Key Resources do your Value Propositions require?
   - What Key Resources do your Distribution Channels require?
   - What Key Resources do your Customer Relationships require?
   - What Key Resources do your Revenue Streams require?
4. **Value proposition**

- What are your products and services?
- What is the job you get done for your customer?
- What value do you deliver to the customer?
- Which one of your customer’s problems are you helping to solve?
- Which job are you helping the customer get done?
- Which customer needs are you satisfying?
- What bundles of products and services are you offering to each Customer Segment?
5. **Customer relationships**
- What type of relationship does each of your Customer Segments expect you to establish?
- What type of relationship does each of your Customer Segments expect you to maintain with them?
- Which ones have you established?
- How costly are they?
- How are they integrated with the rest of your business model?

6. **Channels**
- How do you communicate with your customer?
- Through which Channels do your Customer Segments want to be reached?
- How are you reaching them now?
- Which ones are most cost-efficient?
- How are you integrating them with customer routines?

7. **Customer segments**
- For whom are you creating value?
- Who are your top three segments?
- Who are the segments that provide the most revenue?
- Who are your most important customers, clients, or users?

8. **Cost structure**
- List your top costs by looking at activities and resources.
- What are the most important costs inherent in your business model?
- Which Key Resources are most expensive?
- Which Key Activities are most expensive?

9. **Revenue streams**
- What are your top three revenue streams? If you do things for free, add them here too.
- For what value are your customers willing to pay?
• How would they prefer to pay?
• How much does each Revenue Stream contribute to overall revenues in terms of percentages of the total?

**Activity:** Using the above questions for each block, start filling in the BMC for your business (don’t forget to reference the example provided in Section 7.4!):

**Tips for a Strong BMC**

As you complete the BMC for your business, use the below tips and recommendations to make sure you have fully integrated all internal and external factors into your BMC:

• Start by mapping out the business on a **high level:** only the most important, vital aspects of the business model.

• You can learn a lot from your **competition.** Choose some competitors and map their business models. Armed with this information you’ll have deep insight into what customers want and what they are willing to pay for. You’ll have a clearer picture of just how customers’ needs are met across the entire industry, not just in your business. And, you’ll uncover vital information about how other businesses, maybe even very successful businesses, have created their own spaces in the market.

• **Connect the different components** – for example, every value proposition needs a customer segment and a revenue stream. When your draft is completed, take a step back. Have a short break. Did you miss anything?

• What are the **customer’s alternatives?** These are important to understand so that you’re sure you understand the problem scenario well and because that’s your critical threshold: your Value Proposition has to be better than those Alternatives for you to get traction.

• If you have multiple customer segments it is best to pick a colour for each segment in the market or font you use. That way you easily see for each segment what the value proposition and revenue stream is. Take a step back check if **every customer segment is linked to a value proposition and a revenue stream.** Make sure everything on the left side of the canvas is needed to support the right side of the canvas. Everything else can go.

• Ensure your BMC is either all focused on **current or future** – try not to mix both on one canvas.

• Do not complete it alone, bring in other **team** members; or have other people review if you must complete it alone.
7.6 Summary

This module focused on the following learning objectives:

1. **LO1: What is a Business Model?**

   The Business Model Canvas (BMC) is a strategic tool for developing new business models or documenting and improving existing ones, helping business owner to understand existing and new businesses in a structured and tangible manner. It helps a business to align its activities by understanding the potential trade-offs.

2. **LO2: Identify and understand the key elements of a strong BMC**

   The BMC consists of nine blocks: key partners, key activities, key resources, value proposition, customer relationships, channels, customer segments, cost structure, and revenue streams.
3. **LO3: Apply the one-page business model format**

Use the BMC to avoid getting overwhelmed by business pressures, and to help you strategize your business in the following areas:

- **Plan your strategy:** The Business Model Canvas helps you plan and evaluate your assumptions quickly and efficiently so you can spend more time growing your business.

- **Be flexible:** It makes it much easier to change things on the fly since you write down just the essentials.

- **Find gaps:** It gives you a high level view of your business so you can quickly see where you need to focus your energies.

- **Drive innovation:** It encourages understanding, discussion, creativity, and analysis within your team.

- **Share your vision:** The whole team should share and have buy-in to the vision, it helps you create a complete pitch for potential investors or partners.
MODULE 8: Business Planning
8.1 Introduction

A business plan is a document that maps out an enterprise’s plan for success and profitability. It describes the enterprise, what it produces, the risks it faces and how to mitigate them, and its financial situation and capital requirements. The business plan draws directly from Business Model Canvas (BMC), providing further details on each element of the business.

A business plan enables businesses to demonstrate to stakeholders, including partners and investors, that there is potential for considerable business growth. It illustrates that the business is capable of achieving significant market power with a sustainable and unique product or service offering.

8.2 Learning Objectives

By the end of this module it is expected that you will:

1. **LO1: Understand the importance of business planning**
   - Value in guiding long-term decision making
   - Usefulness in promoting the enterprise
   - Ensuring effective implementation

2. **LO2: Articulate the key elements of a strong business plan**
   - Alignment with business needs
   - Importance of continually updating the business plan

3. **LO3: Be able to translate a BMC into a full business plan**
   - Align the 9 elements of the BMC with the 10 key sections of the business plan
   - Develop additional, more detailed content for each business plan section

8.3 Why Develop a Business Plan?

It is important to develop a business plan for the following reasons:

- **To guide an enterprise over the long term** – A business plan brings an enterprise’s ideas and decisions together in a concrete, documented form to guide the enterprise’s business direction.
• **To facilitate understanding and agreement** – With possible differences in views and understandings of what the group aims to do, an agreed business plan helps to clarify business direction and eliminate misunderstandings.

• **To improve decision making** – Since a business plan is a structured document, it provides guidance for information gathering which helps streamline business decisions.

• **Measure performance** – A business plan provides clear targets, which can be used to monitor performance and make changes, in the event that an amendment is needed.

• **To ensure continuity** – Ensures that management can take over operations smoothly, reducing risk of disruptions & abrupt changes in direction.

• **To “sell” the enterprise** – Business partners such as major suppliers, contract partners, big customers and business services may want evidence that the group has thought through its business plan and will be viable. A business plan gives them the information and assurance they need.

• **To convince lenders and donors** – Banks and microfinance institutions want evidence that the group’s enterprise will be profitable before they will agree to lend it money. They usually require a business plan as a condition for a loan. Donors also want to see a business plan to be confident that the target of their support is viable.

• **To guide implementation** – The business plan shows what an enterprise needs to do to achieve its goals. It keeps the members and the management focused on what is needed and acts as a framework for the group’s implementation.

### 8.4 Characteristics of a Strong Business Plan

1. **It fits the business need** – We simply can’t look at business plans as generic. You have to start with whether or not the plan achieved its business purpose. Some plans exist to get investment. Some are supposed to support loan applications. Those are specialty uses, that apply to some business situations, while almost all businesses ought to develop management-oriented business plans that exist to help run the company, not to be presented to outsiders. What makes a good business plan, is that it fits the business need. Does it achieve the business objective?

2. **It’s realistic. It can be implemented** – The second measure of good or bad in a business plan is realism. You don’t get points for ideas that can’t be implemented. For example, a brilliantly written, beautifully formatted, and excellently researched business plan for a product that can’t be built is not a good business plan. The plan that requires millions of dollars of investment but doesn’t have a management team that can get that investment is not a good plan. A plan that ignores a fatal flaw is not a good plan.
3. **It’s specific. You can track results against the plan** – Every business plan ought to include tasks, deadlines, dates, forecasts, budgets, and metrics. It’s measurable. Ask yourself, as you evaluate a business plan: how will we know later if we followed the plan? How will we track actual results and compare them against the plan? How will we know if we are on track with the plan or not?

4. **It clearly defines responsibilities for implementation** – You have to be able to identify a single person who will be responsible for every significant task and function. A task that doesn’t have an owner isn’t likely to be implemented. You can go through a business plan and look to see whether or not you can recognize a specific person responsible for implementation at every point.

5. **It clearly identifies assumptions** – This is very important because business plans are always wrong. They’re done by humans, who are guessing the future, and humans guess wrong. So business plans must clearly show assumptions up front because changed assumptions ought to lead to revised plans. You identify assumptions and keep them visible during the planning process.

6. **It’s communicated to the people who have to run it** – At this point we leave the discussion of the plan itself, as if it were a stand-alone entity, and get into how the plan is managed. The first five points here are about the plan. You can deal with them as the plan develops. This and the following two are about the management of the plan. We’re judging the plan by the business improvements it causes; in some sense, by the implementation it causes. So people in charge have to know and understand the plan. Plans in drawers, or locked on a single computer, only work when it’s a one-person organization and nobody else has to know the plan.

7. **It gets people committed** – Here too it’s about the process surrounding the plan, more than the plan itself. The plan has to have the specifics in point 3 and responsibilities as in point 4, but the management has to take them to the team and get the team committed.

8. **It’s kept alive by follow up and planning process** – No business plan is good if it’s static and inflexible. Planning isn’t about predicting the future once a year and then following that predicted future no matter what. Planning is steering and management. It takes a process of regular review and course correction.

**8.5 Key Components of a Business Plan**

A business plan expands the ideas presented in the one-page business model canvas outlined in Module 7 and typically contains the following sections, which will be explained in further detail in the remainder of this module:

1. **Executive Summary** – A brief description of the enterprise and a summary of the key elements of its business model
2. **Company Profile** – Company background, vision and mission, critical success factors

3. **Key Personnel** – A brief summary of key personnel, their roles, skills and experiences

4. **Market Environment and Customer Overview** – An evaluation of market and customer potential, target market and customers, market opportunities, competitive landscape etc.

5. **Marketing and Sales Plan** – Discussion of the key elements of the Marketing Mix (product, price, promotion and place)

6. **Operations Plan** – An overview of production, operational challenges and strategies, inputs and suppliers, technology considerations and innovation plan etc.

7. **Environmental and Social Plan** – A brief overview of ways the business will have an environmental and social (including gender) impact. This section should include both potential positive and negative impacts and outline how potential negative impacts will be mitigated.

8. **Risk Management** – Outline of key risks including risk mitigation and management plans.

9. **Performance Management Plan** – Chart including key performance goals, targets and activities, performance measurement, evaluation and reporting considerations.
10. **Financial Plan** – Plan outlining financial assumptions and forecasts, budget and capital requirements and financing plan.

8.6 **Executive Summary**

As noted above, the purpose of the executive summary is to provide a brief description of the enterprise and key elements of its business model. This section of the plan should actually be written last, after you have completed the other sections of the plan to ensure you are capturing the key points from the overall document. It should provide a short, concise and optimistic overview of your business that captures the reader’s attention and gives them an interest in learning more about it. An Executive Summary typically highlights the following elements:

- Company Profile
- Planned Business Model and Merits

**Company Profile**

This section should provide a very high-level overview of your company and what the business does including the following details:

- Sector
- Location
- Ownership/Management and Experience
- Value Proposition

Your value proposition is essentially a summary of who your customer is, what problem you are helping them solve and what benefit your product is delivering to your customer. Here is an example for a dairy cooperative supplying raw milk to local milk processors:

- Milk processing companies in our region (**CUSTOMER**) do not have access to consistent quality and quantities of milk to keep their processing plant running efficiently (**PROBLEM**). We have improved production of high fat-content milk and expanded our dairy operation so that we can deliver consistent quantity and quality throughout the year (**SOLUTION**).

Returning to our example of the poultry business from *Module 7 – Business Modeling*, the company profile might read as follows:

- Shamba Eggs is an egg distribution company based in the town of Kenge in Kasanga, owned and operated by Musa Shamba. For the last 10 years Shamba has been providing high quality eggs to urban supermarkets, hotels and restaurants. Urban consumers want to support local egg producers but don’t have ready access to these markets and the quality is not secure when sourcing directly from farmers. Shamba Eggs offers consistent access to free-range, disease free eggs through its wide network of small-scale, largely women, egg
farmers so there is no need to compromise on quality while paying a reasonable price and supporting local producers.

Planned Business Model and Merits

In your Executive Summary you should next include a brief description of each element of the BMC, including reinforcing and providing further details related to the value proposition presented in your company profile. Use the key questions outlined below and the responses you included in your BMC (see poultry example below) to develop this section:

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>What non-key activities can you outsource to enable you to focus more on your key activities?</td>
<td>What unique strategic activities does your business perform to deliver your value proposition?</td>
<td>What is the customer problem or need which you want to address?</td>
<td>How do you get, keep, and grow your customers?</td>
<td>Which segment of the market am I best able to provide a competitive solution?</td>
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<tr>
<td>Key Resources</td>
<td>Key Resources</td>
<td>Value Propositions</td>
<td>Customer Relationships</td>
<td>Customer Segments</td>
</tr>
<tr>
<td>Who and what are the key resources required to make this business successful?</td>
<td>What is the customer problem or need which you want to address?</td>
<td>What is my solution or value proposition and why is that better than the existing alternatives?</td>
<td>How do you get, keep, and grow your customers?</td>
<td>Which segment of the market am I best able to provide a competitive solution?</td>
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<td>Marketing Channels</td>
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<td>How will I reach my target market segment? Which market channels will I use?</td>
<td>What is currently available and what alternative products or services are available to the customer?</td>
<td>Which segment of the market am I best able to provide a competitive solution?</td>
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<tr>
<td>Cost Structure</td>
<td>Revenue Streams</td>
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<td>Revenue Streams</td>
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<td>What are my costs and what are they dependent on?</td>
<td>What are the revenue streams and their potential?</td>
<td>What capital do I require to finance the growth of my business?</td>
<td>What are my current funding sources? What other funding sources can I access?</td>
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<td>• High income markets (mostly women)</td>
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<tr>
<td></td>
<td>• Packaging</td>
<td>• Disease free eggs</td>
<td>• Trust between urban markets and egg collection center</td>
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<td>• Sustainable supply to urban markets</td>
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<td>• Rent at collection center</td>
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<td>• Wages of center employees</td>
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8.7 Company Profile

This section provides more in-depth background on your company, building on the Executive Summary as well as articulating the company’s vision, mission, and values, and critical success factors.

Company Background

This sub-section should answer the following questions in further detail, drawing on the “key partners,” “key activities,” “key resources,” and “value proposition” sections of your BMC:

- What market are you in? (ie: dairy, coffee production, poultry production, etc.)
- What role are you playing in this market? (ie: processor, input supplier, aggregator, commercial farmer, etc.)
- When did you start operations in this particular market?
- What is your legal structure?
- What have been your major accomplishments?

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<thead>
<tr>
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<tbody>
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</table>
**Vision, Mission and Values**

A **vision statement** is a statement of an organization's overarching aspirations of what it hopes to achieve or to become. The vision statement does not provide specific targets; instead, it provides a broad description of the value an organization provides. It is a visual image of what the organization is trying to produce or become. It should inspire people and motivate them to want to be part of and contribute to the organization. For example, Disney's vision is: “To make people happy.”

The vision statement and mission statement are often confused, and many companies use the terms interchangeably. However, they each have a different purpose. The vision statement describes where the organization wants to be in the future; the mission statement describes what the organization needs to do now to achieve the vision. The vision and mission statements must support each other, but the **mission statement** is more specific. It defines how the organization will be different from other organizations in its industry. For example, Google's mission is: to organize the world's information and make it universally accessible and useful.

The **values statement** defines what the organization believes in and how people in the organization are expected to behave—with each other, with customers and suppliers, and with other stakeholders. It provides a moral direction for the organization that guides decision making and establishes a standard for assessing actions. For example, international football association FIFA's values are: Customer satisfaction, Profitability, Social accountability, Environmental sustainability, and gender-sensitivity.

**Key Success Factors, Strengths and Strategies**

This section seeks to summarize responses to the following key questions:

- What are the critical factors or attributes (external and internal) that are essential for succeeding in your proposed business (market/industry)?
- What attributes, strengths, and competitive advantages that are required to succeed in this business do you possess? And what strategies (or high-level actions) are you planning to implement to ensure that your business has and does what is required to succeed, and actually succeeds?

You may insert your SWOT analysis developed in Module 6 as an Annex and reference in this section. The following chart may be helpful to articulate this section of your Company Profile. An example has been provided for our poultry example:

---

78 Adapted from: https://courses.lumenlearning.com/wm-principlesofmanagement/chapter/reading-mission-vision-and-values
Key Success Factors (KSFs) | Current Strengths (that align with KSF) | Planned Strategies (that align with KSF)
---|---|---
**Strong supply chain relationships** | Strong network of women egg producers | Establishment of lead farmer structure, with group leaders to coordinate egg collection, improve efficiency and ensure quality production

8.8 Key Personnel

In this section, provide a brief summary of key personnel who would be involved in setting up and operating the proposed business (or existing business if already established), as well as their job title/role in the proposed business, relevant competencies (areas of expertise and skills), experience and qualifications, which demonstrate their ability to set up and run the business successfully. You may use the chart below to summarize this information for key staff:

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Job Title/Role</th>
<th>Relevant Competencies (areas of expertise, skills)</th>
<th>Relevant Experience</th>
<th>Relevant Qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tigist Haile</td>
<td>Marketing Manager</td>
<td>Sales, marketing, communication, digital design</td>
<td>5 Years as Marketing Manager for competing poultry company</td>
<td>Degree in Marketing and Communications</td>
</tr>
</tbody>
</table>

Consider developing a basic organizational chart showing the structure and reporting relationships within the organization which may be included within the text of the document itself or within an annex such as the sample provided below:
8.9 Market Environment and Customer Overview

This section provides an evaluation of target markets and customers as well as the competitive landscape. In this section, consider including the following sections:

**Target Market/Customers**

A target market is a group of consumers or organizations most likely to buy a company's products or services. A target market is a broad group of potential customers defined by ranges. For example, for your business, a target market might be ages 18 to 34, a certain income bracket or a certain geography. The target market may need to be broken down to a specific target customer should you decide to customize your marketing efforts. In order to identify your target market and more specific target customers, we must go from the process of customer segmentation answering the following questions, drawing on the “customer segments” section of your BMC:

- What is the target market for your products/services?
- What is the size of this market? Will the market experience growth?
- Why is this market attractive for your business?
As outlined in detail in *Module 6 – Business Research and Analysis*, customer segmentation is the practice of dividing a customer base into groups of individuals that are similar in specific ways relevant to marketing, such as age, gender, interests and spending habits. This section of the business plan should draw on the business research you completed previously to clearly articulate your chosen market/customer segment and summarize the market research which led you to focus on this market. Its important to note that the overall success of your business is highly dependent on carefully analyzing and selecting the right target market, offering them the right product and marketing it to them in an appropriate way.

**Key Competitors/Competitive Advantage**

As noted above, it is important to consider the competition when selecting and articulating your target market. Competitor analysis is important for the following reasons:

- Understanding what your competition is doing helps you protect your business.
- You can get good ideas from your competitors
• Understanding what your competitors are doing helps you understand their weaknesses and how you can reduce the threat they pose to your business

• Understanding your competition is key to understanding your own competitive advantage

In this section of your business plan you should provide a summary of the research conducted regarding competitors and articulate how you will position yourself in relation to the competition. It can be helpful to complete a chart such as the one below, for key identified competitors which you may choose to include in your business plan which includes an example of a competitor in Kasanga:

<table>
<thead>
<tr>
<th>Name</th>
<th>Competitor A – Kasanga Chicks</th>
<th>Competitor B</th>
<th>Competitor C</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ Location</td>
<td>Katui (capital of Kasanga)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products/Services Offered</td>
<td>Eggs, processed chicken</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pricing</td>
<td>USD 3 per 12 eggs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>High quality production from Kasanga Chick's own facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target Customers</td>
<td>High value supermarkets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reach (Geography/number of customers)</td>
<td>Focus on urban centers, agreements with 3 major supermarket chains</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengths</td>
<td>Company runs entire supply chain and production is centralized; diversified to produce poultry products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weaknesses</td>
<td>Limited engagement of community producers, limited reach outside the capital city</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Once you have conducted this analysis, consider both your competitive advantages (ways in which you are better suited to meet your target market needs than your competitors) as well as your competitive disadvantages (where do your competitors perform better than you do) and how you will overcome them. The SWOT analysis you developed in Module 6 is a useful resource for comparing the strengths and weaknesses of the competitors with your own. You may choose to include your SWOT analysis as an Annex to your business plan.
8.10 Marketing and Sales Plan

This section of the business plan focuses on the key elements of the Marketing Mix (product, price, promotion and place), drawing on the “customer relationships” and “marketing channels” sections of the BMC.

**Marketing Mix**

The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix – Price, Product, Promotion and Place.

---

**Marketing Channels**

*How will I reach my target market segment? Which market channels will I use?*

*What is currently available and what alternative products or services are available to the customer?*

---

**Customer Relationships**

*How do you get, keep, and grow your customers?*
• **Product:** refers to the item actually being sold. The product must deliver a minimum level of performance; otherwise even the best work on the other elements of the marketing mix won’t do any good.

• **Price:** refers to the value that is put for a product. It depends on costs of production, segment targeted, ability of the market to pay, supply-demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used to differentiate and enhance the image of a product.

• **Promotion:** this refers to all the activities undertaken to make the product or service known to the user and trade. This can include advertising, word of mouth, press reports, incentives, commissions and awards to the trade. It can also include consumer schemes, direct marketing, contests and prizes.

• **Place:** refers to the point of sale. In every industry, catching the eye of the consumer and making it easy for her to buy it is the main aim of a good distribution or ‘place’ strategy. Retailers pay a premium for the right location. In fact, the mantra of a successful retail business is ‘location, location, location’.

Your business plan should provide an overview of the key elements answering the following subsection and questions to describe your overall strategy:

• **Product/Service Strategy** – What customized products/services (varieties, specifications, quality, etc.) are you aiming to sell to each of these target markets/customers?

• **Pricing Strategy** – At what price will you sell your products? Where will you position your prices compared to your competitors? Relate this to what you know about your target customers.

• **Promotion Strategy** – What mechanisms will you use to promote your products? Relate this to what you know about the best ways to reach your target customers (advertising, discount coupons, special offers, etc.).

• **Sales & Distribution Strategy (ie: Place)** – How and where can customers buy your products? Directly from you (retail) or through another business?
8.11 Operations Plan

This section provides an overview of production, operational challenges and strategies, inputs and suppliers, technology considerations, innovation plan, etc. This section relates back to the “key partners,” “key activities” and “key resources” sections of the BMC providing further operational details. In this part of your business plan you look deeply into the practical details of making your business operations work and what you need to do to have each part running well. This section will give you a clear picture of the organization you are building. It will also be very important information to draw on when you are describing the human resources you need and when you are budgeting costs.

Consider the following subsections and questions in developing this portion of your business plan:

- **Production/Operations Overview**
  - What assets (land, building/structure, equipment, etc.) and resources (inputs, personnel, etc.) will be involved in the production of your proposed products/services?
  - What are the functions you need to have in place to conduct your business (i.e: production, quality assurance, distribution, customer service, marketing/sales)?

- **Operations Challenges**
  - Describe what specific production/operations related issues, constraints, challenges, needs you are anticipating.

- **Operations Strategies/Solutions**
  - What corresponding strategies and solutions are you planning to implement to overcome the above challenges?

For example, a small agricultural inputs supply company may describe the following in its Production/Operations Overview sub-section:

---

**Key Partners**

*What non-key activities can you outsource to enable you to focus more on your key activities.*

**Key Activities**

*What unique strategic activities does your business perform to deliver your value proposition?*

**Key Resources**

*Who and what are the key resources required to make this business successful?*
• **Assets:**
  - Leased shop with storeroom
  - Fleet of 2 motorbikes for agents
  - Mobile phones for agents
  - Inventory – planting materials, crop management materials and tools and equipment

• **Functions**
  - Timely ordering and receipt of inventory
  - Precise inventory management
  - Customer service – through agents
  - Strategic use of discounts to encourage adoption of new varieties and tools

A key potential challenge and important strategy for this business is careful inventory management and staging of inventory purchase and delivery. If there is no plan, the owner runs the risk of bringing inventory in at the wrong time. For example, he or she might have seeds arrive too late for optimal planting or might have weeding tools in stock at harvest time.

Production planning is particularly important for primary agricultural businesses, as the timing of harvest has a huge impact on prices and demand. Using irrigation can be one strategy for horticulture businesses for example to plan the timing of planting/harvest for the off-season when fewer products are available, and prices are generally higher. For fattening businesses, consider timing purchase/sale for holidays when demand and therefore prices are high.

Ensure that you are considering operational challenges related not only to primary production activities, but also to marketing, staffing and customer relationship development.

### 8.12 Environmental and Social Plan

This section provides an overview of ways the business will have an environmental and social (including gender) impact. This section should include both potential positive and negative impacts and outline how potential negative impacts will be mitigated.

**Environment**

In developing this section consider the following questions:

- What are the various aspects of your business that have adverse/negative impacts on the environment? Provide key environmental impacts baseline data.
• What environmentally sustainable strategies and plans (objectives, targets, initiatives, programs, projects, and/or activities) are you planning to implement to ensure that you minimize the adverse/negative environmental impacts of your business?

Environmental considerations may relate the following areas:

• Biodiversity conservation
• Energy and fuel efficiency
• Natural resources conservation
• Pollution prevention & waste management
• Sustainable energy
• Sustainable land use
• Water resources management

Be sure to consider not only the negative potential impacts of your business, but also areas where you may have a positive impact, generate additional revenue or save money. For example, investing in rainwater harvesting/storage will provide you with more sustainable access to water throughout
the dry season and less dependent on drought; using waste products from agricultural or animal production for biofuel and fertilizer could be a source of energy, inputs and another revenue source if sold externally.

**Social**

In developing this section consider the following questions:

- What are the barriers, constraints or reasons that hinder women from being equitably included/employed and empowered in your business and supply chain?

- What opportunities/solutions exist for women to be equitably included/employed and empowered in your business and supply chain? And what strategies and plans (targets, initiatives, programs, projects, and/or activities) are you planning to implement to ensure this happens?

Gender equity is the process of being fair to women and men. To ensure fairness, strategies and measures must often be available to compensate for women’s historical and social disadvantages that prevent women and men from otherwise operating at the same level. We include gender considerations in our business plans as women are key drivers of economic growth, but are frequently overlooked and underrepresented in the private sector throughout the world.

It has been well documented that globally, women do not currently operate on the same playing field as men. According to recent data from United Nations Women, globally, women earn 77% of what men earn and over 2.7 billion women are legally restricted from having the same choice of jobs as men. Of 189 economies assessed in 2018, 104 economies still have laws preventing women from working in specific jobs, 59 economies have no laws on sexual harassment in the workplace, and in 18 economies, husbands can legally prevent their wives from working.79

It is important for businesses to consider gender equality given the important role that women play as consumers, employees, traders, suppliers and community members and the lost business opportunities that come from not considering their needs. Returning to our poultry BMC for Kasanga, the business owner (egg aggregator) is male, while the majority of his suppliers are female. It will be important for the aggregator to consider gender dynamics and any gender-based barriers that could prevent his largely female supply chain from effectively supplying to his enterprise or the business will not operate effectively. Women are also the primary consumers for his business, as in this community in Kasanga women are responsible for food purchasing decisions.

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8.13 Risk Management

This section outlines key risks facing the business, including risk mitigation and management plans. A risk is any uncertain event or condition that might affect your business. You can use risk planning to identify potential problems that could cause trouble for your business, analyze how likely they are to occur, take action to prevent the risks you can avoid, and minimize the ones that you can’t. Managing risks is a process that includes risk assessment and a mitigation strategy for those risks. Risk assessment includes both the identification of potential risks and the evaluation of the potential impact of the risk. A risk mitigation plan is designed to eliminate or minimize the impact of the risk events—occurrences that have a negative impact on the business. Identifying risk is both a creative and a disciplined process.

Begin by identifying all significant potential events/occurrences that can have negative impacts on the business or hinder it from achieving business objectives. After the potential risks have been identified, you must then evaluate each risk based on the probability that a risk event will occur and the potential loss associated with it. As outlined in the chart below, we want to focus on risks which have the highest risk level which is a combination of high impact and high likelihood.

![Risk Management Chart]

After the risk has been identified and evaluated, the project team develops a risk mitigation plan, which is a plan to reduce the impact of an unexpected event and assigns dates and responsibilities for putting the plans in place to ensure accountability. The following chart can be utilized to summarize these areas. See example below for our poultry business:
### Risk Assessment Table

<table>
<thead>
<tr>
<th>#</th>
<th>Business Area</th>
<th>Risk</th>
<th>Likelihood (of risk event occurring)</th>
<th>Impact (if risk event occurred)</th>
<th>Risk Level (Likelihood x Impact)</th>
<th>Risk Mitigation Actions</th>
<th>Due Date</th>
<th>Responsible Person</th>
<th>Status (of actions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Production</td>
<td>Disease outbreak among producers of layers</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Provide training to producers in animal health, provide access to veterinary services, diversify suppliers</td>
<td>Q2</td>
<td>Outgrower Manager</td>
<td>In progress</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In your business plan you don’t need to list all of the risks involved, but aim to capture the top 5 risks, considering various elements of the business and areas of risk such as: technical, cost, schedule, weather, financial, political, environmental and people.

### 8.14 Performance Management Plan

Performance measurement is often used as a fairly inclusive term to refer to the routine measurement of inputs, activities, outputs, outcomes and/or impacts of an intervention (a project, program, collection of activities or a policy). The emphasis is on regularly collecting a limited set of data to determine where improvements can be made.

Putting performance measurement systems in place can be an important way of keeping track on the progress of your business. It gives you vital information about what’s happening now and it also provides the starting point for a system of target-setting that will help you implement your strategies for growth. Knowing how the different areas of your business are performing is valuable information in its own right, but a good measurement system will also let you examine the triggers for any changes in performance. This puts you in a better position to manage your performance proactively.
One of the key challenges with performance management is selecting what to measure. The priority here is to focus on quantifiable factors that are clearly linked to the drivers of success in your business and your sector. These are known as key performance indicators (KPIs). While financial measures of performance are among the most widely used by businesses, nonfinancial measures can be just as important. For example, if your business succeeds or fails on the quality of its customer service, then that’s what you need to measure - through, for example, the number of complaints received.

If you’ve identified the key areas that drive your business performance and found a way to measure them, then a natural next step is to start setting performance targets to give everyone in your business a clear sense of what they should be aiming for.

The purpose of performance measurement is ultimately to drive future improvements in performance. There are two main ways you can use KPIs to achieve this kind of management power:

- The first is to use your KPIs to spot potential problems or opportunities. Remember, your KPIs tell you what’s going on in the areas that determine your business performance. If the trends are moving in the wrong direction, you know you have problems to solve. Similarly, if the trends move consistently in your favour, you may have greater scope for growth than you had previously forecast.
• The second is to use your KPIs to set targets for departments and employees throughout your business that will deliver your strategic goals.

A performance management plan (PMP) is typically presented in a business plan as a chart including key performance goals, targets and activities, performance measurement, evaluation and reporting considerations drawing on KPIs. For example:

<table>
<thead>
<tr>
<th>Performance Objective</th>
<th>Performance Indicator</th>
<th>Performance Target</th>
<th>Activities</th>
<th>Responsible Person</th>
<th>Due Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUSINESS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Overall Business Objective – Profit increasing every year (after year 2) | Annual net profit growth rate | Y2: 5%  
Y3: 10%  
Y4: 15% | Sound financial management, maintaining low operational costs and increasing sales | Business Manager | Ongoing | In progress |
| Marketing and Sales Objective – Increased sales year over year | Annual sales in USD | Y1: 5,000  
Y2: 10,000  
Y3: 15,000 | Outreach among new potential buyers; increasing price as quality increases | Marketing Director | Ongoing | In progress |
| Operations Objective – Increased number of egg suppliers | Number of active suppliers | Y1: 500  
Y2: 750  
Y3: 1,000 | Outreach and organization activities among suppliers in 2 new geographic areas per year | Supply Chain Manager | Ongoing | In progress |
| HR Objective – Increase number of employees every year | Number of full-time employees | Y1: 10  
Y2: 15  
Y3: 25 | Grow sales, expand collection center as production increases | HR Manager | Ongoing | In progress |
| ENVIRONMENTAL         |                       |                    |            |                    |         |        |
| Manage waste in supply chain through compost production | # of suppliers trained in compost production | Y1: 100  
Y2: 300  
Y3: 500 | Provide training to supply chain in waste management and compost product | Supply Chain Manager | Ongoing | In progress |
| SOCIAL                |                       |                    |            |                    |         |        |
| Development and implementation of corporate gender policy | Policy developed | Y1: Policy consultation completed  
Y2: Policy developed and approved; training completed on policy | Hire consultant to develop gender policy, staff consultation complete, writing of policy, staff training in policy | HR Manager | Policy complete: January 2021 | In progress |
As outlined in the template provided above, it’s important to include metrics for all of the critical aspects of your business, including environment, gender, marketing, HR and operations activities to ensure you get a comprehensive picture of business performance. If you aren’t tracking performance, there is less accountability and its less likely activities will be completed.

**SMART Indicators**

When developing metrics for your PMP, ensure the indicators you are developing are SMART:

- **Specific** – Consider who, what, when, where, why and how in developing the goal.
- **Measurable** – Include a numeric or descriptive measurement.
- **Achievable** – Consider the resources needed and set a realistic goal.
- **Relevant** – Make sure the goal is consistent with the mission.
- **Time-bound** – Set a realistic deadline.

The following chart provides examples of SMART vs. non-SMART goals:

<table>
<thead>
<tr>
<th>SMART Element</th>
<th>Non-SMART Goal</th>
<th>SMART Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific</td>
<td>Increase revenue from my personal chef business – <em>Very general</em></td>
<td>Increase revenue by 25% each month by catering 2 parties a month</td>
</tr>
<tr>
<td>Measurable</td>
<td>Gain more clients for my consulting business by participating in a networking group – <em>no numerical targets included to measure</em></td>
<td>Gain 2 clients each quarter for my consulting business by participating in a monthly networking group.</td>
</tr>
<tr>
<td>Achievable</td>
<td>Offer compilation services to my bookkeeping clients by September 30th (Today is September 1st) – <em>it is not likely you will be able to achieve this goal in 1 month</em></td>
<td>Offer compilation services to my bookkeeping clients by the end of next quarter.</td>
</tr>
<tr>
<td>Relevant</td>
<td>Write a fiction novel about my experience helping build houses in Costa Rica (note: this is a goal for an advertising executive and his company) – <em>the goal does not relate to the business</em></td>
<td>A goal related to advertising</td>
</tr>
<tr>
<td>Timebound</td>
<td>Create a website to sell jewelry from my store – <em>no dates are included to make it timebound</em></td>
<td>Create a website to sell jewelry from my store by December 31st. Utilize a website development company to create the site and payment interface.</td>
</tr>
</tbody>
</table>
Potential Indicators
Consider the following business-related metrics to track the success of your business in your PMP:

- **Sales revenue** – Sales is simply defined as income from customer purchases of goods and services, minus the cost associated with things like returned or undeliverable merchandise.

- **Operating Productivity** – Productivity ratios can be applied to almost any aspect of your business. For example, sales productivity is simply actual revenue divided by the number of salespeople. Compare your productivity to industry norms by consulting industry statistics or check yourself for continuous improvement by accumulating your statistics over time.

- **Size of gross margin** – The gross margin is calculated as a company's total sales revenue minus its cost of goods sold, divided by the total sales revenue, expressed as a percentage. The higher the percentage, the more the company retains on each dollar of sales to service its other costs and enjoy as profits. Tracking margins is important for growing companies, since increased volumes should improve efficiency and lower the cost per unit (increase the margin).

- **Monthly profit or loss** – Profit is not simply the difference between the costs of the product or service and the price being charged for it. The calculation must include the fixed and variable costs of operation that are paid regularly each month no matter what. These include such items as rent or mortgage payments, utilities, insurance, taxes, and the salary that you and your partners are not taking just yet.

Potential environmental metrics to track include:

- Energy consumption
- Waste production
- Water consumption
- Positive environmental programs
- Compliance with local environmental standards

Consider the following gender-related metrics:

- Number of full and part time female employees
- Number of full-time female management employees
- Number of women clients
- Components of the organization’s written policy to recruit employees equally, irrespective of demographic characteristics including gender
- Gender-related programs and attendance
8.15 Financial Plan

The financial section of a business plan relates directly to the final two sections of the business model canvas – “cost structure” and “revenue streams.”

**Cost Structure**

*What are my costs and what are they dependent on?*

**Revenue Streams**

*What are the revenue streams and their potential?*

*What capital do I require to finance the growth of my business?*

*What are my current funding sources? What other funding sources can I access?*

This section typically includes the following content: an overview of financial assumptions, budget/capital requirements, a financing plan and a projected income statement. For established businesses you may also include a copy of financial statements from recent years, including existing income statements, cash flow statements and balance sheets for 2-3 years of past operations. Please see Module 10 for an overview of how to prepare and interpret these financial planning and management tools.

**Financial Assumptions**

The financial assumptions section is used to provide details on how you calculated the costs included in your budget and other financial statements (if included). As for the rest of your business plan, your budget should be developed based on careful market research on operating costs and prices offered in the market. For example, you may speak with suppliers or conduct internet research to gain an understanding of what the various costs are associated with your business. In this section you should note where you got this information from and what specific cost information you found. For example, for rent you may note that you consulted advertisements for office space in the area you plan to implement your business to estimate monthly rent costs which were at the time USD 1,000 per month. Including assumptions is important to 1) ensure you are accurately estimating costs, 2) to demonstrate to the reader that you conducted your research, and 3) to help you later on to update your business plan if conditions change. This section should be completed after your budget but considered throughout the budget development process.

**Budget/Capital Requirements and Financing Plan**

The budget/capital requirements section is where you provide an overview of the amount of money you will need to operate your business and detail the cost of both the larger assets that will be needed to start your business (such as computers, machinery, etc.) and the ongoing costs that will continue to be needed throughout operations (such as staff salaries, rent, regular inputs such as seed). Consider budgeting for a minimum of 2 years.
To develop your budget, you should begin by listing all of the potential capital assets and ongoing costs for your business and then use your costing research to help you estimate annual costs. Be sure to update your financial assumptions section after you have completed your budget. You may include a separate assumptions section (as above) or add an assumptions column to your budget if you prefer. Potential budget cost categories to consider include: Salaries, Equipment, Inputs (fertilizer, seeds), Repair/Maintenance, Transportation Costs, Facilities (land, retail space), and Marketing Expenses (advertising).

Once you have estimated your costs and developed a draft budget you must then consider where you will acquire the money to cover these costs – this is your financing plan. While your costs will eventually be covered by the money you are earning from the business, it will take time for your business to begin to earn a profit. In addition, many of the larger assets you need will need to be purchased at the start of the business to begin operations. It is helpful to develop a chart that shows the various sources of funding you plan to access and how much money you can access from each source to confirm you have enough money to start the business. If the budget is higher than the amount of money you have access to, return to your budget and consider if you can adjust the scale of your business or timing of costs (for example, starting with just one location or employee) to ensure you can cover the costs involved.

Potential sources of finance may include personal savings, business income (for later, ongoing costs), bank financing and grants. Also consider if you have land or other assets that you already own that could be used for the business and include these in your plan. If you are using your business plan to apply for financing from a bank or microfinance institution, they will be looking closely at this section to ensure that you have enough financing available to run the overall business. You can display your budget and financing plan separately or combine into one chart such as the template below:

<table>
<thead>
<tr>
<th>Start-up Requirements</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Source 1</td>
<td>Source 2</td>
<td>Source 1</td>
</tr>
<tr>
<td>One Time Purchases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[line item]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[line item]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[line item]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[line item]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Start-up Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Here is an example of a budget for an input supply business in Kasanga:

<table>
<thead>
<tr>
<th>Start-up Requirements (in Kasanga Shillings)</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Total for Start Up Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Owner's Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computers</td>
<td>20,000</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Mobile Phones</td>
<td>4,000</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td>Motorbikes</td>
<td>50,000</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Source: Private Loan &amp; Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shop Lease</td>
<td>3,500</td>
<td>3,500</td>
<td>7,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>3,000</td>
<td>3,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>15,000</td>
<td>30,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>20,000</td>
<td>25,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Source: Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Start-up Expenses</td>
<td>115,500</td>
<td>25,000</td>
<td>177,000</td>
</tr>
</tbody>
</table>

**Income Statement**

Even for new businesses, you should include a projected income statement in your business plan to outline your estimated income (money being earned by the business) and expenditures (money being spent by the business on operating expenses) so that you can determine when your business will become profitable. Your projected expenditures can be drawn largely from the budget you developed above, while the income section should be developed based on the goods/services that your business will be offering. To project your income you must first have determined the products/services you will be offering and the price you will be offering them for, based both on an understanding of your operating costs as well as market prices (based on your analysis around pricing in the marketing section).

Again, it is helpful to provide projected income statements for a minimum of 2 years. If the business has already been operating, include actual statements and use this information to help project your future costs (as in the example provided below, once again for our input supply company). You can
also use this statement to calculate your profitability (or net income) by subtracting expenses from revenues.

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Actual 2020</th>
<th>Forecast 2021</th>
<th>Forecast 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of Seeds</td>
<td>20,000</td>
<td>28,000</td>
<td>29,400</td>
</tr>
<tr>
<td>Sales of Fertilizer/pesticide</td>
<td>28,000</td>
<td>30,000</td>
<td>31,500</td>
</tr>
<tr>
<td>Sales of Tools</td>
<td>15,000</td>
<td>18,000</td>
<td>18,900</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>63,000</strong></td>
<td><strong>76,000</strong></td>
<td><strong>79,800</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory Purchase</td>
<td>20,000</td>
<td>25,000</td>
<td>26,250</td>
</tr>
<tr>
<td>Salaries (2 agents)</td>
<td>15,000</td>
<td>30,000</td>
<td>31,500</td>
</tr>
<tr>
<td>Fuel, Maintenance, Ins.</td>
<td>3,500</td>
<td>3,500</td>
<td>3,675</td>
</tr>
<tr>
<td>Utilities</td>
<td>3,000</td>
<td>3,000</td>
<td>3,675</td>
</tr>
<tr>
<td>Shop Lease</td>
<td>3,500</td>
<td>3,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>50,000</strong></td>
<td><strong>70,000</strong></td>
<td><strong>73,600</strong></td>
</tr>
</tbody>
</table>

| Net Income (Total Revenue – Total Expenses) | 13,000 | 6,000 | 6,200 |

See Module 10 for further details on how to develop and interpret an income statement.
8.16 Summary

This module focused on the following learning objectives:

1. **LO1: Understand the importance of business planning**

   It is important to develop a business plan for the following reasons:
   
   - To guide an enterprise over the long term
   - To facilitate understanding and agreement
   - To improve decision making
   - Measure performance
   - To ensure continuity
   - To “sell” the enterprise
   - To convince lenders and donors
   - To guide implementation

2. **LO2: Articulate the key elements of a strong business plan**

   An effective business plan achieves the following:
   
   - It fits the business need
   - It’s realistic. It can be implemented
   - It’s specific. You can track results against plan
   - It clearly defines responsibilities for implementation
   - It clearly identifies assumptions
   - It’s communicated to the people who have to run it
   - It gets people committed
   - It’s kept alive by follow up and planning process
3. **LO3: Be able to translate a BMC into a full business plan**

A business plan expands the ideas presented in the one-page BMC and typically contains the following sections:

1. **Executive Summary** – A brief description of the enterprise and a summary of the key elements of its business model

2. **Company Profile** – Company background, vision and mission, critical success factors

3. **Key Personnel** – A brief summary of key personnel, their roles, skills and experiences

4. **Market Environment and Customer Overview** – An evaluation of market and customer potential, target market and customers, market opportunities, competitive landscape etc.

5. **Marketing and Sales Plan** – Discussion of the key elements of the Marketing Mix (product, price, promotion and place)

6. **Operations Plan** – An overview of production, operational challenges and strategies, inputs and suppliers, technology considerations and innovation plan etc.

7. **Environmental and Social Plan** – A brief overview of ways the business will have an environmental and social (including gender) impact. This section should include both potential positive and negative impacts and outline how potential negative impacts will be mitigated against.

8. **Risk Management** – Outline of key risks including risk mitigation and management plans

9. **Performance Management Plan** – Chart including key performance goals, targets and activities, performance measurement, evaluation and reporting considerations

10. **Financial Plan** – Plan outlining financial assumptions and forecasts, budget and capital requirements and financing plan.
MODULE 9: Business Management
9.1 Introduction

Running a small business often requires that you learn many different areas with respect to business; you need to know a little bit of everything. It is therefore important to know early on the skills that you have and those that you either must learn or delegate to others.

This module aims to provide you with the essential tools to start a small business or to grow your existing business more effectively. The key business topics this course will cover include:

- **Introduction to Business Management.** How to manage and plan a business.
- **Human Resources.** Managing people and policy.
- **Marketing.** How to market your business through traditional and non-traditional channels.
- **Performance Measurement.** Understanding Key Performance Indicators to measure success.

9.2 Learning Objectives

By the end of this module it is expected that you will learn the following:

1. **LO1: Introduction to Business Management**
   - What is operations management?
   - How important is this to your business?
   - What are key operations decisions?

2. **LO2: Human Resources**
   - What are the purpose and key functions of human resources management?
   - What are common issues in HR management?

3. **LO3: Marketing**
   - How is a marketing plan developed?
   - How are customers targeted and mapped?
   - What are marketing and distribution channels?

4. **LO4: Performance Management**
   - How do we know how we are doing?
   - What indicators can inform us of business performance?
9.3 Introduction to Business Management

What is Business Management?

Business Management, sometimes called Operations Management, can be a challenge, whether you start a business from scratch or buy an existing one. As a small business owner, you must be ready to solve problems as they arise and move quickly if market conditions change. Operations Management is the engine room – driving all components of your business.

Operations management is essentially the administration of business practices to create efficiency within an organization. It is focused on converting assets and labor into goods and services as efficiently as possible to maximize your profit.

Effective operations management is at the heart of any well-run business, but small businesses often disregard it, feeling that it doesn’t apply to them. What you may not realize, is that the concepts, principles, and the benefits behind operations management are applicable to all businesses - no matter what size.

The fundamentals of Business Management are generally broken down into the following areas:

- **Planning**: Forecasting, planning, and adjusting to optimize business.
- **Process**: Production of goods or services requires having strong, replicable processes.
• **Efficiency**: Troubleshooting bottlenecks and inadequate resources for optimal efficiency.

• **Cost-Control**: Managing production is typically a major part of a company’s cost structure; efficiency is important.

• **Quality**: Good quality control is necessary to maintain customer satisfaction and reputation.

• **Improvement**: To remain competitive, companies need to have processes in place to constantly seek more efficient ways of doing things.

• **Profitability**: If executed properly, the above areas should lead to profitability.

• **Technology**: Underlying these foundations is technology, appropriate technology can keep a company ahead of competition and responsive to the market.

It is no exaggeration to say everything depends on good management of operations. If you are starting or running a small business, and you are struggling to manage the resources you need for production of products and services, then deploying a good operations management strategy can help you to successfully achieve the following:

• Decrease the costs of producing products and services

• Increase customer satisfaction through good quality and service

• Improve revenue

• Increase operational effectiveness

Operations management serves as the engine room of the organization, planning and driving manufacturing or services. To compete in an ever-changing market, operations managers must maximize efficiency, productivity, and profit, which have always been vital to a company’s survival.

The key areas within business management which will be discussed in this module are: human resources, marketing and performance management.

### 9.4 Human Resources

**What is Human Resources Management**

Human Resource (HR) Management is the term used to describe formal systems devised for the management of people within a business – it is essentially people management. The core responsibilities of HR management fall into these major areas: staffing, employee compensation and benefits, and defining work. Essentially, the purpose of HR management is to maximize the productivity of an organization by optimizing the effectiveness of its employees.

As a small business owner, human resources issues are, perhaps, one of the toughest challenges you will experience. While you have to work under the same rules and regulations of the more
prominent companies in your industry, likely you do not have the budget to match. In fact, many small businesses just cannot afford to hire an HR team, and their owners often deal with HR management themselves. It is vital though that you take your responsibilities seriously.

The result of failing to address HR issues appropriately could signal the end of your business.

**Activity:** There are seven main areas of HR operations. As you review the areas of Human Resources below, choose 1-2 points within each area and reflect on how this applies to your business. If you have implemented some of these, reflect on which have been easy and which have been difficult? Which do you want to learn more about?

1. **Staffing**
   - Identifying and monitoring current skills/abilities of staff.
   - Identifying required skills/abilities of staff.
   - Developing and implementing plans to meet staffing needs (job descriptions, promotions, training, recruitment, selection interviewing, developing career plans, mentoring and succession).
   - Setting performance standards/expectations and monitoring results
   - Developing and implementing termination policies and procedures.

2. **Performance Management**
   - Developing an appropriate performance evaluation system.
   - Ensuring that managers conduct regular and effective performance reviews.
   - Monitoring follow-up action plans that result from performance reviews.

3. **Employee Relations**
   - Evaluating the quality of the organizational “climate” and effectiveness of current practices.
   - Assessing and addressing current supervisory issues and administrative difficulties.
   - Analyzing internal or external influences/employment trends that affect the workplace environment.
   - Developing and monitoring communication policies.
   - When necessary, developing alternate strategies for implementation and communication of organizational goals.
4. Compensation and Benefits

- Developing compensation and benefits policies that are consistent with organizational goals and within the context of legal, regulatory, taxation and community framework.
- Maintaining a competitive position in the cultural community regarding compensation levels and benefits.
- Negotiating employment contracts and collective agreements

5. HR Information Management

- Analyzing the organization’s plan to determine what information is required to monitor and assess HR management and staff performance.
- Developing and implementing an appropriate, cost-effective human resources information system

6. Workplace Health and Safety

- Evaluating practices in the areas of health, safety, security and Worker’s Compensation
- Identifying workplace health and safety issues.
- Ensuring compliance to regional and national policies on health and safety.

7. Training and Development

- Evaluating and comparing actual organizational performance to performance expectations.
- Analyzing possible sources of ineffectiveness such as lack of knowledge, skills, ability or appropriate behavior.
- Developing training or development activities (including coaching and mentoring) to increase effectiveness of human resources.
- Developing measurement techniques to gauge the success of HR development activities.

Common Human Resources Issues

When it comes to success, small businesses face more than their fair share of challenges. They often lack the infrastructure and manpower to deal with those smaller human resource problems, when compared to bigger companies. Some common HR matters, for small businesses include:

- **Lacking policies and procedures.** Meeting employment law regulations with handbooks, contracts, policies and procedures, and job descriptions can be tedious and can also become out of date very quickly. These are all legally binding documents, so they must be relevant, current and useful in order to add value to the business. These vary by country and region, and you should be
aware of things like workplace safety regulations, workers’ rights to things like parental leave and union representation, and equal opportunity laws.

**Absence of job descriptions.** Unclear job descriptions extend beyond the hiring process and can affect your employees’ ability to do their jobs properly. Start-ups and small businesses are often more fluid than larger companies, with everyone pitching in to do all sorts of different tasks. That can be good, but it can also lead to confusion and inefficiency. If responsibilities are not clear,
people will end up gravitating to the more interesting and fun tasks, while neglecting the boring but important ones. It’s also hard to judge someone’s performance if it’s not clear what they’re supposed to be doing. So be sure to write proper job descriptions for every staff member, both new and existing. They don’t have to be exhaustive or limiting, but they should cover the basic responsibilities of each employee. You can still encourage people to get involved in new things as well—the job descriptions can always be updated!

**Employee recognition.** It can be difficult to know how much the right amount is to offer a new employee, and how much of a raise you should give each year. And benefits are also part of the equation. If you don’t offer good enough pay and benefits packages, you will struggle to hire and retain the best employees. And then there is payroll, which is easier to mess up than you might think. If you pay people late, or pay the wrong amount, or fail to withhold the right amount of tax and national insurance contributions, you’ll make your employees very unhappy, and you may even end up in legal trouble.

**Not properly training staff.** A small budget does not mean you can’t train people properly. With a little creativity and some use of free or low-cost resources, you can provide your employees with all the help they need to get better at their jobs. Some of the benefits are:

- greater productivity
- happier staff
- lower turnover
- more uniformity
- staying up to date with the latest trends and information

**A lack of documentation.** As a small business owner and employer, you have a responsibility to keep certain records about your employees, such as contracts, pay details, performance reviews, and so on. You also have to make sure you file all the appropriate tax forms, make the right deductions, and run payroll accurately. Small businesses often do things more informally than their larger counterparts, and sometimes this can be a positive thing. But it also has its downsides. If you do not properly document things like company policies and employee benefits, you could face questions from confused employees, and you may open yourself up to legal problems in the future if employees claim they weren’t made aware of important company policies.

**Inadequate Safety Provision.** Your primary responsibility as an employer is to provide a safe place for people to work. It’s a serious matter, every year employees die from injuries sustained in the workplace. Your business may be based in an office and not seem very dangerous, but you still need to assess the risks and put controls in place to minimize the dangers to which employees are exposed.
As you’ve seen, a lot of things can go wrong for small businesses! We have reviewed some important HR issues you may end up facing – even for the smallest of business, it is important to be proactive and have a HR plan and policy in place to protect you, your business, and your employees.

9.5 Marketing

**Understanding the Marketing Mix**

The Marketing Mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion and Place.

- **Product**: A product is an item that satisfies a customer’s need or want. This can be a physical item, a service, or a virtual online offering – this is your value add, and this is important for your business. A successful product must fulfill a specific need in the market. Functionally, it must be able to perform its function as promised. There should be clear communication to users and potential customers regarding its benefits and features – branding is an important feature for a product.

  **Example**: Parboiled and packaged rice – value-add is that the rice is cleaned, prepacked at specific sizes, and ready to cook.

- **Activity**: What is your product, and what is the value add for your customer?
**Price:** Refers to the value that is put for a product – including advertising, direct marketing, and sales promotion. It depends on costs of production, segment targeted, ability of the market to pay, supply – demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used a demarcation, to differentiate and enhance the image of a product.

**Example:** 1kg of rice is sold at $2.00; 5kg of rice is sold for $9.00; 10kg of rice is sold for $17.00 (you will notice, the price rises the more the customer is willing to buy – this is incentive for the customer to purchase more). **Remember** to think about all costs involved when looking at setting your price point – raw materials, processing costs, packaging costs, market materials, transportation, utility costs involved, and hours of work.

**Activity:** What are your costs to manufacture and bring your product to market? This will help you determine the price you will have to charge to be profitable. Ensure to research your competitors and what they are charging so you can be competitive in the market.

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**Promotion:** Refers to all the activities undertaken to make the product or service known to the user and trade. This can include advertising, word of mouth, press reports, incentives, commissions and awards to the trade. It can also include consumer schemes, direct marketing, contests and prizes. Promotion encompasses what is communicated, who it is communicated to, how that audience is reached, and how often promotion happens.

**Example:** A branded label is used so that customers are aware of our rice brand, we also advertise on Bajajis and Buses.

**Activity:** How do you promote your product(s)? What are some other ways you could promote your product(s) to gain more customers?
**Place:** Refers to the point of sale, meaning any physical location where the customer can use, access, or purchase a product. This includes distribution centers, transport, warehousing, inventory decisions, and franchises. In every industry, catching the eye of the consumer and making it easy for him/her to buy is the main aim of a good distribution or ‘place’ strategy. Retailers pay a premium for the right location. In fact, the mantra of a successful retail business is ‘location, location, location’.

Identifying and arranging the elements of its marketing mix allows a business to make profitable marketing decisions at every level. These decisions help a business to:

- Develop its product strengths and limit its weaknesses.
- Become more competitive and adaptable in its market.
- Improve profitable collaboration between other market actors (i.e. suppliers and retailers).

**Example:** We sell rice at local grocery stores, and also offer home delivery for orders of more than $20.

**Activity:** Where do you currently sell your product(s)? What are some other ways you could get your product(s) to more customers?
Identifying your Business’ Marketing Mix

Understanding your business’ Marketing Mix will help you to bring in early sales and build an early customer base, to do this, you must begin by identifying your marketing mix. The first step in this process is identifying your target customer.

Once you know who your customer is, you can start to understand their relationship with your business.

- What **problem** does your target customer have?
- What is the **constraint** in the way of solving that problem?
- How does your product or service **address that need**?
- What differentiates you from your **competitors**?
- What **motivates** your target customer to buy?

Next, you will want to identify your business goals for sales and growth, as well as your budget for marketing initiatives. Then, choose a marketing tactic that will help you reach your target audience and achieve those goals.

For example, if you need 25 sales pitches to sell one product, and you want to sell 1,000 products this month, then you need 25,000 pitch opportunities. You know your target customer reads and trusts two different websites, one with 25,000 visitors a month and one with one million visitors a month. The website with only 25,000 visitors a month is much less expensive to advertise on, but it is unlikely that all 25,000 visitors will become pitch opportunities. Therefore, the website with one million monthly visitors is a better use of your advertising budget, even if it is more expensive.

By working through the elements of your business’ individual marketing mix, you’ll be able to create a strategy that effectively reaches consumers, makes sales, and grows your business.

Developing a Marketing Plan

This is the big picture of the company’s vision informing the marketing plan, which address the vital question: **what tactics are you going to use to meet your goals and bring your strategy to life?**

Unlike a business plan, a marketing plan focuses on gaining and keeping customers – it should be strategic. A good marketing plan spells out all the tools and tactics you’ll use to achieve your sales goals. It’s your plan of action -- what you’ll sell, who’ll want to buy it and the tactics you’ll use to generate leads that result in sales. And unless you’re using your marketing plan to help you gain funding, it doesn’t have to be lengthy or beautifully written. Use bulleted sections, and get right to the point.
Remember that as your business grows you will want to continue to respond to new needs of your customers. One way to do this is to introduce new products and services. It will be important to think about how you will plan to do this. However, at this starting point, during the first few years of your business you will want to focus on the best products you have now.

Building a strong marketing plan lies at the foundation of any prospering, competitive business. As terms can sometimes get mixed up, let’s firstly clarify what a marketing plan should include. It should depict a business’s overall game plan for attracting customers by communicating the benefits of their business and key differentiators.

1. **Conduct a SWOT analysis:** Start by running a SWOT analysis (as discussed in Module 6) to identify your business’ strengths, weaknesses, opportunities, and threats. Vital to your planning process as it shall inform in one way or another all the following key steps outlined below. To avoid bias and cover different perspectives, get as many fellow colleagues to contribute as possible.

**Activity:** Using the below table for guidance, conduct a SWOT analysis for your business, use the suggestions below when considering each of the four sections:

<table>
<thead>
<tr>
<th>S</th>
<th>W</th>
<th>O</th>
<th>T</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Weaknesses</strong></td>
<td><strong>Opportunities</strong></td>
<td><strong>Threats</strong></td>
</tr>
<tr>
<td>• What are things your business does well?</td>
<td>• What is your business missing to stop growth?</td>
<td>• Are there other markets/customer for your product(s)?</td>
<td>• Do you have a lot of competitors offering a similar product?</td>
</tr>
<tr>
<td>• Is your product(s) unique (e.g. are there not many other people making the same product)?</td>
<td>• What are your competitors doing that is better than you?</td>
<td>• Are there other similar products you could also be offering to customers (that are in line with your current product(s))?</td>
<td>• Do your customers have a lot of other options?</td>
</tr>
<tr>
<td>• What separates you from your competitors?</td>
<td>• What resources are you missing (e.g. cash, technology, marketing)?</td>
<td>• Are there other options for you to market to more customers?</td>
<td>• Does the regulatory environment impact your product(s)?</td>
</tr>
<tr>
<td>• Do you have a strong customer base – why?</td>
<td></td>
<td></td>
<td>• Have you had any negative media about your business?</td>
</tr>
<tr>
<td>• What assets do you have that help your business (e.g. computer, technology, car, knowledgeable staff)?</td>
<td></td>
<td></td>
<td>• Is your product(s) vulnerable to changes in weather?</td>
</tr>
</tbody>
</table>
2. **Develop your marketing strategy.** Having a clear view on what you are good at, what areas you need to improve on, spotting the external factors that represent the motivation for your business to exist or, on the other hand, factors that have the potential to place your business at risk, will equip you with the right tools to build a well-informed marketing plan.

3. **Figure out your value proposition.** A great marketing plan derives from a company’s value proposition, which encapsulates its main strengths (identified in the SWOT analysis) and differentiators against competitors, as opposed to being created from scratch. Determining your value proposition is probably the step you should invest most time and resources into, as it is one of the most important conversion factors and what could make the difference between closing a sale and losing it. Get started by identifying the main customer benefits and what value your products/services bring to the customer, followed by outlining the key differentiators. The best value propositions are clear, to the point, and they focus on solving customers’ problems.

4. **Determine marketing strategy objectives.** Businesses define and communicate their goals using objectives. These objectives should specify measurable outcomes that will be achieved within a particular time frame and they help individuals evaluate the success and effectiveness of a particular marketing strategy. They aid marketers to align expectations and plans, coordinate efforts, and hold teams accountable for achieving results. When putting together your key objectives (aim for 3-5), ensure they meet the following criteria: they’re specific, measurable, and have a time frame. Re-evaluate them every six months, make changes if necessary, and use them to measure success.

5. **Understand your customers.** In order to embed your customers’ needs and seek to solve their problems through your marketing strategy, you firstly need to fully understand them. In the marketing space, there’s been lots of buzz on customer centricity, a strategy to fundamentally align a company’s products and services with the wants and needs of its most valuable customers. In their quest of getting to know them, marketers have started to rely less on traditional market research methods such as surveys or focus groups and pay more attention to smart online platforms and tools that tell them everything about their customers’ demographics, online behaviors, and conversations.

6. **Define your customers.** Buyer personas are fictional, generalized representations of your ideal customers. They help marketers better understand and get closer to customers, as real humans. The process of creating buyer personas involves gathering insight from different platforms such as website analytics, social media channels, customer reviews as well as actual conversations with prospects and customers. When researching and building personas, look into their background, preferences, demographics details, and based on that, determine what’s the most appropriate way to communicate with them, what channels they prefer, style and tone of voice, etc.
7. **Analyze your competitors.** You need to have good knowledge of what is happening in your market and how your competitors are doing: what are their struggles? What’s working for them? Which are their weak links? Once again, information is power. Keeping your ears and eyes open for what’s happening in your industry is vital in helping you identify gaps in the market, needs that aren’t being fulfilled, common frustrations, or trends and innovative ideas.

8. **Establish your marketing methods.** Depending on your target audience, you will need to pick the best marketing methods to explain, teach, and communicate your brand messaging. Find out where your audience lives (which social channels they prefer, blogs, sites, forums, etc.) and use that information to your advantage to reach them. It’s equally important to determine at an early stage which marketing areas you’ll focus attention on and how much time and budget you’ll be spending on advertising, public relations, content marketing, community management, events, etc. depending on the nature of your business and what would appeal most to your future customers.

**Customer Mapping**

Customer journey mapping helps businesses step into their customer’s shoes and see their business from the customer’s perspective. It helps businesses gain insights into common customer pain points, how they can improve the customer experience, and define what customers, and prospective customers, need in order to complete a purchase. From a customer’s perspective, they want their experience with a company to be connected, without issues and simple.

There are five steps to customer journey mapping:

- **Attention:** or awareness – how does a customer know about your business?
- **Interest:** How do you get them to care about your business?
- **Desire:** How do you get them to want your product?
- **Action:** How do you get them to actually buy?
- **Loyalty:** how do you keep them coming back?

Mapping the customer journey allows you to inform your business in several ways:

- Gives an outside perspective on your sales process
- Focus the business on particular customer needs at different stages in buying
• Identify whether the customer’s journey is in a **logical order**

• **Shows the gaps** between the desired customer experience and the one actually received

• Allows you to concentrate efforts and expenditure on what matters most to **maximise effectiveness**

• Rather than focusing on the qualities of your product or service, describe the experience customers will get from it. What benefits, solutions, or happiness are you offering?

• It’s all too common for companies to confuse their own opinion of what’s good with what the customer wants.

Customer Journey Mapping, to compare new and existing customers, can be done using this template, an example has been provided using parboiled and packaged rice; fill out customer types 1 and 2 with real customer types you have for your business:

<table>
<thead>
<tr>
<th>Customer Example (eg. young mother)</th>
<th>Customer Type 1</th>
<th>Customer Type 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Attention</strong></td>
<td>Bright packaging, advertising in busy areas.</td>
<td></td>
</tr>
<tr>
<td>How will you make this person aware of the business?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>Advertising competitive price point and already cleaned and ready-to-cook rice.</td>
<td></td>
</tr>
<tr>
<td>How will you get the customer interested in the business?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Desire</strong></td>
<td>High quality and clean rice.</td>
<td></td>
</tr>
<tr>
<td>How will you create a desire to purchase?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Action</strong></td>
<td>Good price point and various sizing options.</td>
<td></td>
</tr>
<tr>
<td>How will you get customers to act and buy your product?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Loyalty</strong></td>
<td>Consistent quality, and home delivery options.</td>
<td></td>
</tr>
<tr>
<td>How will you keep customer loyalty to repeat buying?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Understanding Distribution Channels**

A distribution channel (also called a marketing channel) is the path or route decided by the company to deliver its good or service to the customers. The route can be as short as a direct interaction between the company and the customer or can include several interconnected intermediaries like wholesalers, distributors, retailers, etc. A distribution channel can also be
referred to as a set of interdependent intermediaries that help make a product available to the end customer. For the purpose of this training, an Intermediary will be defined as third party companies that act as wholesalers, transporters, retailers and provide warehouse facilities.

Distribution Channels can be either Direct or Indirect.

- **Direct:** In this channel, the manufacturer/producer directly provides the product to the consumer (eg. A rice farmer selling rice from their home/farm to customers, no cost).

- **Indirect:** In this channel, a company will use an intermediary to sell a product to the consumer (eg. A rice farmer selling to a processor (via an intermediary – includes a cost), who parboils, cleans, and packages; and then sells to a customer).

In order to understand the importance of distribution channels, you need to understand that it doesn’t just bridge the gap between the producer of a product and its user.

There are advantages to both:

<table>
<thead>
<tr>
<th>Channel</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Direct  | • No financial losses through intermediaries.  
          • Complete control over distribution and sales.  
          • Close contact with customers (more personal). | • Not suitable for mass production and larger sales volumes.  
          • Not suitable when customers are scattered.  
          • All risks and losses rest with you. |
| Indirect| • Allows penetration of widely disbursed or fragmented markets.  
          • Potential to benefit from intermediaries’ market connections.  
          • Could increase profitability if sales are large enough. | • Lack of control over product by manufacturer.  
          • Limit access of customer needs/information for manufacturer. |

Selection of the appropriate marketing channel is tough. It is among those few strategic decisions which either make or break your business.

Even though direct selling eliminates the intermediary expenses and gives more control in the hands of the manufacturer, it adds up to the internal workload and raises costs. Hence the following three factors should be considered before deciding whether to opt for the direct or Indirect distribution channel.
<table>
<thead>
<tr>
<th></th>
<th>Direct Channels (or Short)</th>
<th>Indirect Channels (or Long)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regular servicing needed.</td>
<td>Little to no servicing needed.</td>
</tr>
<tr>
<td></td>
<td>Larger/bulk orders.</td>
<td>Small quantity orders.</td>
</tr>
<tr>
<td><strong>Product Characteristics</strong></td>
<td>Perishable.</td>
<td>Durable.</td>
</tr>
<tr>
<td></td>
<td>Complex.</td>
<td>Standardized.</td>
</tr>
<tr>
<td></td>
<td>Personalized</td>
<td>Inexpensive.</td>
</tr>
<tr>
<td></td>
<td>Expensive.</td>
<td></td>
</tr>
<tr>
<td><strong>Business Characteristics</strong></td>
<td>Channel control is important.</td>
<td>Channel control is not important.</td>
</tr>
<tr>
<td></td>
<td>Broad product line.</td>
<td>Limited product line.</td>
</tr>
<tr>
<td></td>
<td>Manufacturer has adequate resources to perform all (or most)</td>
<td>Manufacturer lacks adequate resources to perform channel</td>
</tr>
<tr>
<td></td>
<td>channel functions.</td>
<td>functions.</td>
</tr>
<tr>
<td><strong>Product Examples for the two Channel Types</strong></td>
<td>Fresh fruits and vegetables.</td>
<td>Cosmetics (eg. soap, toothpaste).</td>
</tr>
<tr>
<td></td>
<td>Other perishable foods (eg. Bread).</td>
<td>Canned food.</td>
</tr>
<tr>
<td></td>
<td>Jewelry.</td>
<td>Standardized electronics.</td>
</tr>
<tr>
<td></td>
<td>Personalize electronics.</td>
<td></td>
</tr>
</tbody>
</table>

**Function of Distribution Channels**

The primary purpose of any channel of distribution is to bridge the gap between the producer of a product and the user of it, whether the parties are located in the same community or in different countries thousands of miles apart. The channel of distribution is defined as the most efficient and effective manner in which to place a product into the hands of the customer. The channel is composed of different institutions that facilitate the transaction and the physical exchange.

Distribution channels provide time, place, and ownership utility. They make the product available when, where, and in which quantities the customer wants. But other than these transactional functions, marketing channels are also responsible to carry out the following functions:

- **Logistics and Physical Distribution**: Marketing channels are responsible for assembly, storage, sorting, and transportation of goods from manufacturers to customers.

- **Facilitation**: Channels of distribution even provide pre-sale and post-purchase services like financing, maintenance, information dissemination and channel coordination.

- **Creating Efficiencies**: This is done in two ways: bulk breaking and creating assortments. Wholesalers and retailers purchase large quantities of goods from manufacturers but break
the bulk by selling few at a time to many other channels or customers. They also offer different types of products at a single place which is a huge benefit to customers as they don’t have to visit different retailers for different products.

- **Sharing Risks:** Since most of the channels buy the products beforehand, they also share the risk with the manufacturers and do everything possible to sell it.

- **Marketing:** Distribution channels are also called marketing channels because they are among the core touch points where many marketing strategies are executed. They are in direct contact with the end customers and help the manufacturers in propagating the brand message and product benefits and other benefits to the customers.

### 9.6 Performance Management

#### Measuring Performance

The criteria used to define performance can vary greatly. Transportation services (airlines and busses) look at the number of paid passengers per available seat. Social media companies look at the number of subscribers. Insurance companies look at things like payouts over a given period. The ways that organizations define performance can vary greatly. This understanding of what drives the long-term positive results is what business performance is all about. It is about identifying and measuring the inputs and outcomes of these processes so that we know how well our organizations are doing.
Monitoring Performance – Key Performance Indicators (KPIs)

Businesses set KPIs to measure their success at reaching targets. They demonstrate how effectively a business is achieving its key objectives. They can span across industries, departments or individual tasks.

KPIs that display a measurable value and shows the progress of the business goals. KPIs, help you measure and evaluate the effectiveness of solutions, functions and processes in your business. KPIs take into account your business’ strategic goals and measure performance against a specific target, defined from a strategic, planning or budget point of view.

Depending on your business goals, you should track business metrics that really show how your business is doing.

Tracking irrelevant KPIs will distract you from focusing on the things that truly matter. This way, you’ll end up stressing about the numbers that have no actual impact on your company’s development. So, it is highly important that you not only track business metrics but also choose the right ones to perceive.
Measuring performance is a vital part of monitoring the growth and progress of any business. It entails measuring the actual performance of a business against intended goals. Regularly checking your business performance protects your business against any financial or organizational problems. It helps businesses in lowering process cost and improving productivity and mission effectiveness.

**Common KPIs**

As mentioned in a previous module, one way to evaluate the relevance of a performance indicator is to use the SMART criteria. The letters are typically taken to stand for Specific, Measurable, Attainable, Relevant, Time-bound. In other words:

- Is your objective **Specific**?
- Can you **Measure** progress towards that goal?
- Is the goal realistically **Attainable**?
- How **Relevant** is the goal to your organization?
- What is the **Timeframe** for achieving this goal?

There are thousands of KPIs to choose from. If you choose the wrong one, then you could be measuring something that doesn’t align with your goals. How, then, should you go about selecting the right KPIs for your organization?

The best way to accomplish this is by researching and understanding some of the most important KPIs. This way, you’ll have a better understanding of which ones are specific to your industry and which ones will be of no benefit.

Below are some of the most common and useful KPIs used to measure business performance:

**Financial KPIs**

- **Profit**: This goes without saying, but it is still important to note, as this is one of the most important performance indicators out there. Don’t forget to analyze both gross and net profit margin to better understand how successful your organization is at generating a high return.

- **Cost**: Measure cost effectiveness and find the best ways to reduce and manage your costs.

- **Revenue Vs. Target**: This is a comparison between your actual revenue and your projected revenue. Charting and analyzing the discrepancies between these two numbers will help you identify how your department is performing.

- **Cost of Goods Sold**: By tallying all production costs for the product your company is selling, you can get a better idea of both what your product markup should look like
and your actual profit margin. This information is key in determining how to outsell your competition.

- **Day Sales Outstanding (DSO):** Take your accounts receivable and divide them by the number of total credit sales. Take that number and multiply it by the number of days in the time frame you are examining. Congratulations—you’ve just come up with your DSO number! The lower the number, the better your organization is doing at collecting accounts receivable. Run this formula every month, quarter, or year to see how you are improving.

- **Sales by Region:** Through analyzing which regions are meeting sales objectives, you can provide better feedback for underperforming regions.

- **Expenses Vs. Budget:** Compare your actual overhead with your forecasted budget. Understanding where you deviated from your plan can help you create a more effective departmental budget in the future.

- **Average Annual Expenses to Serve One Customer:** This is the average amount needed to serve one customer. Formula: (Total Expenses) / (Total Customers) = (Average Annual Expenses to Serve One Customer).

- **EBITDA (Earnings Before Interest, Taxes, Depreciation, & Amortization):** Measures revenue after expenses are considered and interest, taxes, depreciation, and amortization are excluded. Formula: (Revenue) – (Expenses Excluding Interest, Tax, Depreciation & Amortization) = (EBITDA).

**Customer KPIs**

- **Customer Lifetime Value (CLV):** Minimizing cost isn’t the only (or the best) way to optimize your customer acquisition. CLV helps you look at the value your organization is getting from a long-term customer relationship. Use this performance indicator to narrow down which channel helps you gain the best customers for the best price.

- **Customer Acquisition Cost (CAC):** Divide your total acquisition costs by the number of new customers in the time frame you’re examining. This is considered one of the most important metrics in e-commerce because it can help you evaluate the cost effectiveness of your marketing campaigns.

- **Customer Satisfaction & Retention:** On the surface, this is simple: Make the customer happy and they will continue to be your customer. Many firms argue, however, that this is more for shareholder value than it is for the customers themselves. You can use multiple performance indicators to measure CSR, including customer satisfaction scores and percentage of customers repeating a purchase.

- **Net Promoter Score (NPS):** Finding out your NPS is one of the best ways to indicate long-term company growth. To determine your NPS score, send out quarterly surveys to your
customers to see how likely it is that they’ll recommend your organization to someone they know. Establish a baseline with your first survey and put measures in place that will help those numbers grow quarter to quarter.

- **Number of Customers:** Similar to profit, this performance indicator is fairly straightforward. By determining the number of customers you’ve gained and lost, you can further understand whether or not you are meeting your customers’ needs.

- **Percentage Of Customers Who Are “Very” Or “Extremely” Satisfied:** Determining this metric opens up an opportunity for further surveying what makes happy customers so satisfied. This is also a good measure to look at over time, so keep your questions consistent on your surveys. Formula: \[
\frac{\text{Customers Who Consider Themselves “Very” or “Extremely” Satisfied}}{\text{Total Survey Respondents}} = \text{Percentage of Customers Who Are “Very” or “Extremely” Satisfied}.
\]

- **Number of New Vs. Repeat Site Visits:** Allows companies to differentiate their website traffic and generate insights on prospective customers. Formula: \[
\frac{\text{Website Visits by New Visitors}}{\text{Total Website Visits}} = \text{percent of new visitors}.
\]

**Process KPIs**

- **Customer Support Tickets:** Analysis of the number of new tickets, the number of resolved tickets, and resolution time will help you create the best customer service department in your industry.

- **Percentage of Product Defects:** Take the number of defective units and divide it by the total number of units produced in the time frame you’re examining. This will give you the percentage of defective products. Clearly, the lower you can get this number, the better.

- **Efficiency Measure:** Efficiency can be measured differently in every industry. Let’s use the manufacturing industry as an example. You can measure your organization’s efficiency by analyzing how many units you have produced every hour, and what percentage of time your plant was up and running.

**Employee KPIs**

- **Employee Turnover Rate (ETR):** To determine your ETR, take the number of employees who have departed the company and divide it by the average number of employees. If you have a high ETR, spend some time examining your workplace culture, employment packages, and work environment.

- **Employee Satisfaction:** Happy employees are going to work harder—it’s as simple as that. Measuring your employee satisfaction through surveys and other metrics is vital to your departmental and organizational health.
- **Knowledge Achieved with Training**: Helps the company see the effectiveness of employee training. It can be determined by creating an exam and monitoring exam pass rate percent, average score percent. If you are a larger organization, you may conduct a pre-test before training and then a post-test after training to see specifically what was learned.

- **Salary Competitiveness Ratio (SCR)**: Used to evaluate the competitiveness of compensation options. This ratio is determined by dividing the average company salary by the average salary offered by competitors or by the rest of your industry.

The right KPIs for you might not be the right KPIs for another organization. Make sure you’ve researched as many key performance indicators as you can to determine which ones are appropriate for your industry. From there, determine which KPI targets will help you further understand and meet your goals. KPIs should match your strategy, not just your industry.
KPIs for your Business

The constant changes in the market conditions mean that it is essential to constantly track and review your business goals and performance to remain competitive.

Once you’ve set your KPIs, you can set appropriate goals, develop strategies to reach them and evaluate your progress, and eventually have a historical record of your business performance. Businesses measure both financial and non-financial KPIs.

Defining KPIs can be tricky business. The operative word in KPI is “key” because every KPI should relate to a specific business outcome with a performance measure. KPIs are often confused with business metrics. Although often used in the same spirit, KPIs need to be defined according to critical or core business objectives. Follow these steps when defining a KPI:

- What is your desired outcome?
- Why does this outcome matter?
- How are you going to measure progress?
- How can you influence the outcome?
- Who is responsible for the business outcome?
- How will you know you’ve achieved your outcome?
- How often will you review progress towards the outcome?

As an example, let’s say your objective is to increase sales revenue this year. You’re going to call this your Sales Growth KPI. Here’s how you might define the KPI:

- To increase sales revenue by 20% this year
- Achieving this target will allow the business to become profitable
- Progress will be measured as an increase in revenue measured in Ethiopian Birr spent
- By hiring additional sales staff, by promoting existing customers to buy more product
- The Chief Sales Officer is responsible for this metric
- Revenue will have increased by 20% this year
- Will be reviewed on a monthly basis
9.7 Summary

This module focused on the following learning objectives:

1. **LO1: Introduction to Business Management**
   - Operations management is the administration of business practices to create the highest level of efficiency possible within an organization.
   - Operations management is concerned with converting materials and labor into goods and services as efficiently as possible.
   - Corporate operations management professionals try to balance costs with revenue to maximize net operating profit.

2. **LO2: Human Resources**
   - Staffing
   - Performance Management
   - Employee Relations
   - Compensation and Benefits
   - HR Information Management
   - Workplace Health and Safety
   - Training and Development

3. **LO3: Marketing**
   - The 4 Ps of the Marketing Mix – Price, Product, Promotion, Place
   - Developing a Marketing Plan
   - Mapping Customer Journey
   - Understanding Distribution Channels – direct and indirect

4. **LO4: Performance Management**
   - Businesses set KPIs to measure their success at reaching targets. They demonstrate how effectively a business is achieving its key objectives. They can span across industries, departments or individual tasks.
   - KPIs that display a measurable value and shows the progress of the business goals.
   - KPIs, help you measure and evaluate the effectiveness of solutions, functions and processes in your business.
10.1 Introduction

The purpose of this module is to provide an overview of basic concepts of financial management and its importance to businesses, particularly start-up businesses, in ensuring success and sustainability. Participants will learn about the key elements of financial management specifically focused on the importance of financial information and financial tools (income statement, balance sheet and cashflow statement).

10.2 Learning Objectives

By the end of this module it is expected that you will:

1. **LO1: Introduction to Financial Management**
   - Understand the importance of business financials
   - Understand the basics of forecasting and budgeting

2. **LO2: Financial Reports**
   - Know how to use the three main financial reports to understand your business

3. **LO3: Sources of Financing**
   - Gain awareness of financing options for businesses

10.3 Introduction to Financial Management

**What is financial management?**

Financial management ensures that a company uses its resources in the most efficient and effective way: maximizing the profit (or earnings) generated by a business, which ultimately increases the value of a business (its net worth or equity).

There are two pillars of finance: **risk and return**. Business is about taking risks in order to gain returns. The bigger the risk, usually the higher return generated. Always ask yourself, is the risk worth the return?

**Why is it important for you to understand financial management?**

If you don’t understand finance, you will always be reliant on financial staff to understand the health of your business. Depending on the size of your business, if it is small or a start-up, you likely need to track this yourself. The survival of your business depends on the tracking of financials.
When your business grows you may have financial staff but you also want to be able to understand how your business is doing. Understanding the underlying financial flows of your business is key to effectively managing your business.

For example: How long will it take to get your first 100 customers? How much money will you need up until you reach that milestone? How much do you need to invest in marketing to get the revenue you want? How long does it take to convert a potential customer into a paying customer? Finance helps you to answer these questions. The world of entrepreneurship is filled with uncertainty so every tool you can get helps to manage that insecurity. Finance is a powerful tool to help you build a successful company.

**Four Key Questions of Financial Management**

There are four important questions that financial management helps answer:

1. **How are we doing?**
   - Meaning is the company profitable? What are the returns on its assets? Is the company keeping costs under control?

2. **How much cash do we have on hand?**
   - This is important to understand liquidity and ability to pay bills and expenses on time.

3. **What should we spend our money on?**
   - Money can be spent on a) operating activities (salaries, inventory, marketing) and b) new assets (property, machinery, equipment).

4. **Where will our funds come from?**
   - Once managers or business owners have identified how much money the business needs and how much cash it has on hand they have to determine where cash can be sourced from in the future (sales, loans, etc.).

**Financial Terms**

Firstly, it is important to understand key terms used in financial management, listed below:

- **Revenue:** the income that a business has from its normal business activities, usually from the sale of goods and services to customers.

- **Expenses:** money spent, or costs incurred in an organization’s efforts to generate revenue, representing the cost of doing business.

- **Net Profit (or Net Income):** a financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something.
• **Capital**: wealth in the form of money or other assets owned by a person or organization.

• **Working Capital**: the capital of a business that is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

• **Fixed Capital**: includes the assets and capital investments - such as property, production facility, and equipment - that are needed to conduct business. These assets are considered fixed in that they are not consumed or destroyed during the actual production of a good or service but have a reusable value.

• **Asset**: a resource with economic value that a company owns or controls with the expectation that it will provide a future benefit.

• **Return on Assets**: a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets.

• **Current Assets**: a balance sheet item that represents the value of all assets that can reasonably expect to be converted into cash within one year.
• **Non-current Assets:** company long-term investments where the full value will not be realized within the first year. Examples of noncurrent assets include investments in other companies, property, plants and equipment.

• **Liabilities:** claimed against the company’s assets. Usually, they consist of money the company owes to others. As with assets, these claims record as current (expect to settle within a year) or noncurrent (longer than a year).

• **Equity:** the part of a small business that the owner or owners actually own. Owner equity comes from two basic sources of equity: money coming from outside investors and money generated from profits that are kept inside the company.

• **Investment:** a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

**Financial Objectives**

There is no question that all organizations – small or large, public or private, manufacturing or service, for-profit, government, or not for profit – need money to function. They want to be efficient, they need to be liquid in order to pay their current bills on time, they do their best to prosper, and they want to secure a certain level of stability.

1. **Efficiency:** means the productivity of assets, how efficiently a firm utilizes its resources (Assets) to produce maximum output (Revenues) at minimum cost (Expenses). The objective of any organization is to ensure that a business’s resources are used efficiently to produce an acceptable return. Ex. Return on Assets (ROA)

2. **Liquidity:** a company’s ability to meet its short-term financial commitments.

3. **Prosperity:** means growth in all segments of a business: revenue, profit, non-current assets, equity and working capital.

4. **Stability:** refers to the financial structure of a business. This looks at the relationship between debt and equity; if a business continues to borrow from lenders, it may have a high debt to equity ratio and may not be able to meet its debt obligations. If a company wants to maintain and improve its stability it must never lose sight of earning a suitable return on assets.

**Budgeting for your Small Business**

Budgeting is the process that allocates resources, evaluates financial outcomes of business decisions, and establishes the business’s financial and operational profile against which to measure future results. The main purpose of budgeting and forecasting is to develop a realistic financial strategy to meet business objectives.
Creating a monthly, quarterly, or annual business budget may seem like a hassle, but it is important to hold yourself and your business accountable and give you a plan to work from. It is an essential infrastructure that gives you the ability to make careful financial decisions so your business can stay on track and grow.

But a budget can help to ensure long-term success for your business. A budget helps you to see past next week and next month to next year, or the next five years, even.

More specifically, a business budget can help your business benefit by:

- Making it more efficient.
- Pointing out funds leftover that you can reinvest.
- Predicting slow months and keeping you out of debt.
- Estimating what it will take to become profitable.
- Providing a window into the future.
- Forecast what money you expect to earn.
- Plan where to spend that revenue.
- See the difference between your plan and reality.

The best budgets are simple and flexible. If circumstances change (as they do), your budget can flex to give you a clear picture of where you stand at all times.

If your business is new or still in the planning stages, creating a budget is tricky – even with a template – because you don’t have actual numbers to plug in. Still, it’s something you need for your business plan – especially if you’re planning to apply for a small business loan to help you launch your business. Below are steps to help you create a budget whether you are a start-up or existing business.

1. **Set your budget goal**

Your budget goal is the total amount you are willing to spend on your business. This helps you establish clear parameters for your budget from the beginning and keep your spending in check. To set your goal, consider the amount of money you currently have or can realistically obtain. How much makes sense for you to spend? Keep in mind that loans must be paid back, often with interest, and you must not deplete your personal savings. For example, let’s look again at our business in Kasanga for input-supply, the budget goal for this business is 177,000 Kasanga Shillings.
2. Gather financial information

For existing businesses: To create a budget, you must project future revenue and expenses. The best way to do this is to look at your business’s past performance. If you have an established business, look at your most recent financial statements. These statements should include an itemized list of the fixed (remain the same each month) and variable (changing from month to month) expenses you incurred during the year. If you lack such statements, go through your income and expense records and bank statements for the prior year. Use these numbers as a starting point to project your revenue and expenses for the next year. You’ll likely need to adjust these numbers. Do you expect your business to improve? You may need to increase your revenue projections if you expect to add new customers or clients, or you plan to raise your prices.

For start-up businesses: If you’re starting a new business, you’ll need to do some research. Gather financial information for companies that are similar in both in size and type. There are various ways to do this:

- Ask colleagues who have established businesses for help—what did they earn during their first year?

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• Use the practical knowledge you gained working in the field for other businesses
• Perform market research
• Factor in how many clients or customers you’ve already lined up and how much more business you can reasonably expect to attract

Armed with this information, make your best estimate of what you will earn. Don’t be overly optimistic, but remember, this is only an estimate. Back to our example in Kasanga, if the market price for seeds in Kasanga is 2000 Kasanga Shillings per Kilogram, and you have 10 confirmed customers willing to purchase 1 Kilogram each, your revenue will be 2000 Kasanga Shilling X 10 customers = 20,000 Kasanga Shillings. However, you also know that it costs you 1800 Kasanga Shillings per Kilogram to produce your product, your expenses will then be 1800 Kasanga Shillings X 10 customers = 18,000 Kasanga Shillings. Meaning you will have a positive profit of 20,000 Kasanga Shillings – 18,000 Kasanga Shillings = 2,000 Kasanga Shillings. However, there are two important things to remember:

• Sales may fluctuate due to seasonality, farming is seasonal, you’ll need to understand the demand of customers per month in order to estimate and forecast your revenues and expenses.
• You do not want to incur expenses if you don’t have to. So holding a large inventory when you know there will be low demand is not efficient and costs you money!

3. Add up all your revenue sources

How much money do you expect your business to earn? Revenue sources can include: hourly earnings, product or service sales, investment income, income from asset sales, and loans.

4. Determine fixed costs

List and add up all your fixed costs. Fixed costs are expenses that remain the same every month. Common examples of fixed costs include: rent, leased furniture or equipment, cell phones, bank fees, salaries and benefits, business loan payments, business licences, property taxes, etc.

5. Identify variable costs

Unlike fixed costs, variable costs can change from month-to-month. You can increase or decrease these expenses, depending on how well your business is doing. For example: raw materials, inventory, delivery costs, utility costs – electricity and water, employee salaries and benefits, advertising and marketing, maintenance and repair of equipment, training, and travel.

6. Account for one-time expenses

If you anticipate incurring one-time expenses during the next year, list them. These may include: computers, software, furniture, and equipment.
7. Put it all together

Subtract your total projected expenses from your total income to see how much profit (Net Income) you expect to earn each month and at the end of one year. Then, throughout the year, track how much money you collect and spend each month and compare it with your budget projections. Shortfalls should raise an alarm. You may have to reduce your expenses if you can’t increase your revenues.

On the other hand, if you earn more profit than projected, you may be able to expand your business. For example, you can increase what you spend on variable expenses like inventory or pay yourself more. Remember the example below for Kasanga:

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Actual 2020</th>
<th>Forecast 2021</th>
<th>Forecast 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of Seeds</td>
<td>20,000</td>
<td>28,000</td>
<td>29,400</td>
</tr>
<tr>
<td>Sales of Fertilizer/pesticide</td>
<td>28,000</td>
<td>30,000</td>
<td>31,500</td>
</tr>
<tr>
<td>Sales of Tools</td>
<td>15,000</td>
<td>18,000</td>
<td>18,900</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>63,000</strong></td>
<td><strong>76,000</strong></td>
<td><strong>79,800</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory Purchase</td>
<td>20,000</td>
<td>25,000</td>
<td>26,250</td>
</tr>
<tr>
<td>Salaries (2 agents)</td>
<td>15,000</td>
<td>30,000</td>
<td>31,500</td>
</tr>
<tr>
<td>Fuel, Maintenance, Ins.</td>
<td>3,500</td>
<td>3,500</td>
<td>3,675</td>
</tr>
<tr>
<td>Utilities</td>
<td>3,000</td>
<td>3,000</td>
<td>3,675</td>
</tr>
<tr>
<td>Shop Lease</td>
<td>3,500</td>
<td>3,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>50,000</strong></td>
<td><strong>70,000</strong></td>
<td><strong>73,600</strong></td>
</tr>
</tbody>
</table>

| Net Income (Total Revenue – Total Expenses) | 13,000 | 6,000 | 6,200 |

Below is a helpful tool to see exactly where you stand when it comes to your business budget planning. It might sound obvious but getting all the numbers in your budget in one easy-to-read summary is very helpful. In an excel spreadsheet, create a page with a row for each of the budget categories above (revenue, fixed costs, variable costs, one-time expenses). This is the framework
of your basic budget. Then next to each category, list the total amount you have budgeted, then when you have the actual figures, add these in and calculate the difference.

<table>
<thead>
<tr>
<th>Income Type (estimated revenue)</th>
<th>Forecast Income</th>
<th>Actual Income</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.e. sales of product 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.e. sales of product 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Income (A)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expense Type (fixed costs, variable costs, one-off costs)</th>
<th>Forecast Cost</th>
<th>Actual Cost</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.e. rent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.e. inputs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Expenses (B)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profit</th>
<th>Forecast Profit</th>
<th>Actual Profit</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income (A)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Expenses (B)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Profit (A – B)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 11.4 Understanding Financial Statements

The three main financial statements you can use in your small business are the income statement, balance sheet, and cash flow statement. Measuring business performance means checking out the money flowing in and out of your business. If you want to see how profitable your business is, check out the financial statements.

The **income statement** measures the profitability of your business during a certain time period by showing your business's profits and losses. The **balance sheet** shows your business financial health, measuring how much you owe and own. The **cash flow statement** shows how liquid cash is at your business.

A business's financial statements are all interconnected, and they report some of the same information, but for different purposes. Because some of your financial statements draw from data
reported on other statements, there’s a particular order you should follow when preparing them, which is:

1. Income Statement
2. Balance Sheet
3. Cash Flow Statement

For example, to prepare a balance sheet, you need to calculate net income. Net income is the final calculation included on the income statement, showing how much profit or loss the business generated during the reporting period. Once you have prepared your income statement, you can use the net income figure to start creating your balance sheet.

Every time a sale or expense is recorded, affecting the income statement, the assets and/or liabilities are affected on the balance sheet. When a business records a sale, its assets will increase, or its liabilities will decrease. When a business records an expense, its assets will decrease, or its liabilities will increase. In this way, the income statement and balance sheet are closely related. The below graphic\(^81\) speaks to how the balance sheet and income statement are linked:

\[\text{Balance Sheet}\]

<table>
<thead>
<tr>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Accounts Receivable</td>
</tr>
<tr>
<td>Inventory</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
</tr>
<tr>
<td>Fixed Assets</td>
</tr>
<tr>
<td>(Accumulated Depreciation)</td>
</tr>
<tr>
<td>Intangible Assets</td>
</tr>
</tbody>
</table>

\[\text{Income Statement}\]

| Sales Revenue            |
| Cost of Goods Sold Expense |
| Depreciation Expense    |
| Amortization Expense    |
| Operating Expense       |
| Interest Income         |
| Income Tax Expense      |
| Net Income              |

\[\text{Liabilities & Owners' Equity}\]

| Accounts Payable        |
| Accrued Expenses Payable|
| Notes Payable           |
| Owners' Equity – Invested Capital |
| Owners' Equity – Retained Earnings |

The income statement and the balance sheet report on different accounting metrics related to a business’s financial position. By getting to know the purpose of each of the reports you can better understand how they differ from one another.

**Income Statements**

An income statement, often also referred to as a profit and loss statement, lists a business’s revenues, expenses, and overall profit or loss for a specific period of time.

**What does the income statement tell us?**

1. **How your sales are changing – are changes seasonal?** Are they going up or down or staying the same?

2. **How your expenses are changing?** Tracks all the expenses over the period covered. As you watch this report over consecutive periods, you will see trends in your expenses – are they going up? Down?
3. **How much money is left after all the expenses are paid?** That is what you have to work with; it’s important as a business owner to think about what the best use of this net income (or net profit) is. How and when do you invest in growing the business?

You need to be watching this report monthly, quarterly and annually to understand trends in your business. Regular review will also help you understand seasonal variation in your business activity.

An income statement reports the following important areas of financial management:\(^82\)

- **Total Revenues (Gross Sales):** This figure represents the amount of revenue generated by a business. The first gross sales line will typically include the revenue from the business’s primary core products or services.

- **Less: Sales Returns & Allowances:** Amount represents product returns and/or sales discounts.

- **Net Revenues (Sales):** Amount represents total sales subtracting any product returns/allowances.

- **Cost of Goods Sold:** Amount represents costs directly associated with making or acquiring your products. The equation for this is:

  \[
  \text{COGS} = \text{Inventory at Beginning of the Period} + \text{Purchases During the Period} - \text{Inventory at the End of the Period}
  \]

- **Gross Profit:** The amount of gross profit is determined by subtracting the cost of goods sold from net sales. It does not include any operating expense or income taxes.

- **Operating Expenses:** Daily or administrative expenses incurred in the operation of a business, such as advertising, administrative expenses, or interest expense. The order in which expenses are listed in the Profit and Loss Statement varies among businesses. One method is to list them in order of size, beginning with the larger items. Miscellaneous expenses are usually shown as the last item, regardless of size. Another method is arranging items alphabetically like advertising, bank fees, car expense, etc.

- **Total Expenses:** Sum of all operating expenses and non-operating expenses like taxes incurred in operating the business.

- **Net Operating Income or Net Profit:** Represents the amount of income earned by a business before paying income taxes.

- **Other Income (Non-operating income):** Gain or loss on the sale of short and long-term assets and/or interest income.

\(^82\) [https://basicaccountinghelp.com/income_statement_example.html](https://basicaccountinghelp.com/income_statement_example.html)
• **Taxes:** Many income statements include a tax expense line while some do not. It is the amount of taxes a business owes to the federal, state, and if applicable, local government taxes.

• **Net Income/Net Profit:** The amount of net income is basically the bottom line. If it is positive, you have a profit. If it is negative, you have a loss. This is the profit or loss a business has made after all of its income and expenses have been taken into consideration.

• **Depreciation expense:** For large capital asset purchases, such as equipment or vehicles, rather than including the entire expense in the year of purchase, enter as a Depreciated Expense spread over the productive life of the asset.

Let’s expand on Depreciation because it is a tricky concept to understand.

**Depreciation**

As mentioned, for large capital asset purchases, such as equipment or vehicles, rather than including the entire expense in the year of purchase, this can be entered as a Depreciated Expense spread over the productive life of the asset.

Fixed assets are those assets which are acquired not with the purpose to resell, but to facilitate business operations and increase the earning capacity of the business by employing them. That is, the benefits derived from fixed assets are expected to be earned over a period of more than a year.

Matching concept is an important accounting principle. This principle states that costs incurred to earn revenues are recognized as expenses only when related revenue is recognized as earned. In this definition, substitute “revenues” with “benefits derived from fixed assets”; and “costs” with “cost of a fixed asset”. Thus, we can draw from the above sentence that the cost of the fixed asset is to be recognized only in the periods when the corresponding benefit is earned (in the case of fixed asset, this period is more than a year).

Depreciation is the systematic allocation of the cost of a fixed asset over its useful life, in proportion to the benefits derived from it. This is why fixed assets are depreciated over their expected useful life, instead of being treated as an expense in the year of purchase. If they were treated as an expense in the year of purchase, the Matching Principle would not be satisfied.

The equation to determine depreciation requires that you know the value of the fixed asset and how long it will keep its value (often 5 years is the assumption used).

\[
\text{Depreciation} = \frac{\text{Total Value of Fixed Asset}}{\text{Number of Productive Years}}
\]

For example, if you bought a tractor for $40,000 dollars and we assume a productive life of 5 years. This would equate to $40,000/5 = $8,000 per year for 5 years. You would then include this depreciation as a reduction under your long-terms assets category of your Balance Sheet as well as an expense under your income statement.
The **end goal of the income statement** is to show a business's net profit income for a specific reporting period. If the net income is a positive number, the business reports a profit. If it's a negative number, the business reports a loss.

Below is an example of the annual income statement for Ashira Vegetable Business in Kasanga. This reports a total revenue of 270,000 Shillings, Cost of Goods Sold of 20,000, total expenses of 50,000. Resulting in an overall Net Income of 20,000 Shillings; the business was profitable in 2018.

<table>
<thead>
<tr>
<th>Annual Income Statement (2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
</tr>
<tr>
<td>Sales Revenue</td>
</tr>
<tr>
<td>Other Revenues</td>
</tr>
<tr>
<td>Less: Sales Returns &amp; Allowances</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
</tr>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>Inventory Purchase</td>
</tr>
<tr>
<td>Salaries</td>
</tr>
<tr>
<td>Fuel, Maintenance Insurance</td>
</tr>
<tr>
<td>Utilities</td>
</tr>
<tr>
<td>Shop Lease</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
</tr>
<tr>
<td><strong>Net Income before Taxes</strong></td>
</tr>
<tr>
<td>Other Income (Non-operating income):</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Taxes</td>
</tr>
<tr>
<td><strong>Net profit/income</strong></td>
</tr>
</tbody>
</table>
Below is a sample Income Statement, you can use for your small business:

<table>
<thead>
<tr>
<th>Category</th>
<th>Numerical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Sales Revenue</td>
<td></td>
</tr>
<tr>
<td>Other Revenues</td>
<td></td>
</tr>
<tr>
<td>Less: Sales Returns &amp; Allowances</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net Income before Taxes</strong></td>
<td></td>
</tr>
<tr>
<td>Other Income (Non-operating income):</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
</tr>
<tr>
<td><strong>Net profit/income</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Balance Sheet**

A balance sheet reports a business’s assets, liabilities, and equity, over a specific period of time – often a quarter or year. A balance sheet is broken into two main sections: assets on one side and liabilities and equity on the other side. The two sides **must balance out**, meaning they should always be equal to one another.
The balance sheet tells you what you have now. It’s a snapshot of a moment in time, and when you read this you can see what assets your business owns, what kinds of assets these are and how easily you could change them into cash if you needed to. You also see your liabilities, what your company owes. It’s again important to look more closely at what kind of liability this is – is it short-term, the bills you have to pay right now or is it longer term debt that you need to plan to repay over time.

What does the Balance Sheet tell you?

1. How much of your debt is current and how much is long-term.

2. When you compare multiple balance sheets (snapshots) you can see changes in cash, accounts receivable, inventory, accounts payable, equity and retained earnings.

Why is this balance important? All the assets owned by a business fall into one of two categories. They’re either owned by a creditor (you had to take a loan to get them) or they’re owned by you (you paid for them in full). That’s pretty much what this equation is saying. The left side of the equation shows you the value of the assets. The right side shows you who owns them – either you do or your lender does.

A Balance Sheet reports the following important financial items:

- **Current Assets**: Assets that will be converted to cash within a year; for example, accounts receivable, inventory and prepaid expenses (i.e. utilities).
• **Long-Term Assets**: Assets that will not be converted to cash within a year; for example, land, buildings, and equipment.

• **Current Liabilities**: Debts owed within a year; for example, rent, utilities, taxes, and payroll.

• **Long-Term Liabilities**: Long-term business loans, and liabilities like pension funds.

• **Shareholders Equity**: A business’s net assets, including money generated by the business and donated capital.

Before you can successfully start preparing a balance sheet, you’ll need to know how to read one. Balance sheets include three sections: assets, liabilities, and shareholders’ equity.

Balance sheets start by listing your assets, followed by your liabilities. The last section will be your shareholders’ (owners’) equity. It is important to understand the components that are factored into these three sections of a Balance Sheet. Below is the basic structure of a balance sheet; you can use this template to create your own balance sheet once you’ve completed this balance sheet section:

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td><strong>Current Liabilities</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Short-term debt (to be paid within 1 year)</td>
</tr>
<tr>
<td>Inventory</td>
<td><strong>Total Current Liabilities</strong></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>Long-term Liabilities</td>
</tr>
<tr>
<td>Long-term Assets</td>
<td>Loans Payable</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>Total Long-term Liabilities</td>
</tr>
<tr>
<td>Minus Depreciation</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td><strong>Total Long-term Assets</strong></td>
<td>Owner’s Investment</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>TOTAL LIABILITIES &amp; OWNER’S EQUITY</strong></td>
</tr>
</tbody>
</table>

**Assets**

Your assets are what you own and should be broken down into categories on your balance sheet – current (also known as short-term assets) and non-current (also known as long-term assets). Throughout your balance sheet, each asset should be listed based on how quickly it is
expected to be turned into cash, sold, or consumed. Typically, you will show short-term assets and long-term assets separately.

**Current Assets:** these are assets that you expect to sell, or convert into cash, within one year. They commonly include:

- Cash
- Inventory
- Marketable securities—traded investments that can be easily converted to cash
- Customer accounts receivable
- Employee accounts receivable
- Prepaid expenses (i.e. insurance, pension contributions)

**Long-term Assets:** These are assets that will not be converted into cash within one year. Generally, these types of assets provide a long-term value to your small business. They include:

- **Fixed assets:** These can include machinery, equipment, furniture, buildings, and land that you do not intend on selling within a year.
- **Investments:** These are investments that are not expected to sell within a year.
- **Intangible assets:** These are assets that are not physically present but still have value. They can include intellectual property, patents, copyrights, trademarks, and goodwill.
- **Less: Depreciation:** The same process you used in your income statement is used here. You subtract depreciation from your long-term assets.

**Liabilities**

Your small business’ liabilities include the money that you owe to others. This could be in the form of loans, accounts payable, wages, taxes, or other debts. Typically, liabilities are listed by their due date and whether they are considered **current (also known as short-term) liabilities** or **non-current (also known as long-term) liabilities**.

**Current Liabilities:** these are liabilities that you will pay for within one year. They commonly include:

- **Accounts payable:** The amounts you owe to your suppliers for products or services they have already provided you.
- **Accrued expenses:** These can include wages, interest, taxes, and other expenses that build up for your small business. They include expenses that your small business plans to pay at a future date. For example, you may pay your employees monthly, so wages not-yet paid are included here.
• **Taxes payable:** These are taxes that are due to the government within one year.

• **Dividends payable:** These are portions of your small business's earnings that are payable to your shareholders, only if you have shareholders.

• **Customer deposits:** This is money that your small business has received in advance of delivering goods or services to a customer. For example, a customer may use a deposit to hold certain goods before they can be delivered.

• **Short-term debt:** This involves any debt due within one year.

• **Current portion of long-term debt:** This section of your balance sheet records long-term debt that must be paid within the current year.

• **Other accounts payable:** These involve money your small business owes to suppliers for goods needed, for example when you purchase on credit.

**Long-term liabilities:** These liabilities do not need to be paid off within the year. They commonly include:

• **Long-term loans.** These loans are paid off in a time period that is longer than one year, for example a mortgage.

• **Capital leases.** These leases allow you temporary use of an asset – for example hiring machinery to clear land. For each year you have the equipment, you will pay a certain amount of money to the lessor. You also will pay insurance, maintenance, taxes, and the other costs associated with the equipment.

• **Deferred revenues.** These involve payments received in advance of services that you have not yet delivered to customers.

• **Deferred income taxes.** These involve taxes that have not yet been paid but are due. These are considered a liability for your small business.

**Shareholder’s Equity**

The portion of the business assets that represents your ownership in the business. Owners’ equity is the initial amount of money invested into a business. If, at the end of the fiscal year, a company decides to reinvest its net earnings into the company (after taxes), these retained earnings will be transferred from the income statement onto the balance sheet and into the owner’s equity account.

Owner’s equity represents the portion of the business assets that you own free and clear. Think of it this way: if you turned all of your assets into cash and then paid off all the debts you owed; the amount left over would be your “owner’s equity”.

Most balance sheets will compare your current balances with the balances from a prior period. This could be the reporting period before, or the year before, your current balance sheet. These comparisons allow you to see how your finances are changing over time.
Below is an example of completed Balance Sheets for two periods for Ashira Vegetable Business. The below tells us that the business is doing well as we can see the increase in total assets over the two periods (this has come primarily from an increase in cash and the investment in an irrigation system), however, it also tells us whether the business is liquid enough (total of current assets) to cover their liabilities (in the second balance sheet this includes a loan, in addition to the original debt owed), in this case we see that that is indeed the case.

<table>
<thead>
<tr>
<th>Balance sheet for period ending Oct 2018</th>
<th>Current liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>200,000</td>
</tr>
<tr>
<td><strong>Potatoes in storage</strong></td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Carrots in storage</strong></td>
<td>160,000</td>
</tr>
<tr>
<td><strong>Tomato sauce in storage</strong></td>
<td>90,000</td>
</tr>
<tr>
<td><strong>Computer</strong></td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Money owed from retailers</strong></td>
<td>180,000</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Ag equipment</strong></td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,195,000</td>
</tr>
<tr>
<td><strong>Total liabilities + equity</strong></td>
<td>1,195,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balance sheet for period ending Oct 2019</th>
<th>Current liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>200,000</td>
</tr>
<tr>
<td><strong>Potatoes in storage</strong></td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Carrots in storage</strong></td>
<td>160,000</td>
</tr>
<tr>
<td><strong>Tomato sauce in storage</strong></td>
<td>90,000</td>
</tr>
<tr>
<td><strong>Computer</strong></td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Money owed from retailers</strong></td>
<td>180,000</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Ag equipment</strong></td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Irrigation system</strong></td>
<td>550,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,745,000</td>
</tr>
<tr>
<td><strong>Total liabilities + equity</strong></td>
<td>1,745,000</td>
</tr>
</tbody>
</table>

Remember what you look at your balance sheet for:

- How many assets could you convert quickly into cash if you needed to. These are your current assets, as you can see converting Non-Current Assets such as Agricultural Equipment or an Irrigation System into cash would take time, perhaps longer than one-year.
• How many debts are you carrying and over what period do you have to re-pay them. The items you need to repay within a year are your Current Liabilities and the items you have over a year to pay back are your Non-Current Liabilities, in this case the loan of 550,000.

You will want to compare Balance Sheets (remember these are snapshots of your business at specific points in time) regularly so that you can see trends in how your asset and liability mix is changing.

**Cash Flow Statement**

The Cash Flow Statement is the third of the financial statements and portrays how a business has spent its cash; it is the third component of a company’s financial statements. The cash flow report is important because it provides information on the business cash position and is used to compare your budgeting and forecasting. A successful business needs cash to pay its expenses, to pay bank loans, to pay taxes, and to purchase new assets and working capital for growth. A cash flow report determines whether a business has enough cash to do this. Having cash is a key requirement for a business to stay alive. When a business no longer has enough cash to pay its dues, it can be declared bankrupt.

Often, in the business world, small businesses do not produce a cash flow report, as an Income Statement is thought to be sufficient for their needs. But, a cash flow statement for small business is particularly important for forecasting and to investors seeking to determine the short-term viability of a business, particularly its ability to generate cash and pay bills. Another benefit is that if your cash flow statement confirms that your business is consistently generating more cash than it spends, your ability to pay off debt, increase your dividend, or even acquire another business is enhanced. Cash flow statements aren’t just for investors, though.

Your cash flow statement is crucial for running your business well. It is one of the best ways to get ahead of cash flow issues before they threaten your long-term viability. Regularly reviewing or analyzing your cash flow statement will show you when in the future you might be at risk of running low on cash so you can plan ahead and get a line of credit, loan, or other financing before you’re in the midst of a cash crunch.

**Negative and Positive Cash Flow**

**Positive cash flow** is defined as ending up with more liquid money on hand at the end of a given period of time (i.e. in a fiscal year) compared to what was available when that period began.

For example, your business started with $1,000 in cash at the beginning of February - you paid $500 in bills and expenses ($500 remaining), and your customers paid you $2,000 for your services. This means that your cash flow is positive, at $2,500 for the month.
February Cash Flow

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting Balance</td>
<td>$1,000</td>
</tr>
<tr>
<td>Bill and Expenses</td>
<td>-$500</td>
</tr>
<tr>
<td>Revenue from Customers</td>
<td>$2000</td>
</tr>
<tr>
<td><strong>Cashflow</strong></td>
<td><strong>$1000-$500+2,000=$2,500</strong></td>
</tr>
</tbody>
</table>

If you have positive trending cash flow, it’s easier to:

- **Pay your bills.** Positive cash flow ensures employees get checks during each payroll cycle. It also gives decision makers the funds they need to pay suppliers, creditors, and the government.

- **Invest in new opportunities.** Today’s business world moves quickly. When cash is readily available, business owners can invest in opportunities that may arise at any given point in time.

- **Manage the unpredictable.** Having access to cash means that whenever equipment breaks, clients do not pay their invoices on time, or new government regulations come into effect, businesses can survive.

**Negative cash flow** is when more cash is leaving the business than is coming in. When cash flow is negative, the amount of cash in your business bank account is shrinking. This might not be a
problem if your business has plenty of cash in the bank; however, it does mean that your business will eventually run out of money if it does not become cash flow positive at some point. The main causes of cash flow problems are:

1. **Low profits or losses**: The first main problem is poor profitability – too many losses. So, the first place to look for solutions in cash flow is to look at costs. Losses are THE MOST IMPORTANT cause of cash flow problems for a business, particularly for the medium-long term. Loss-making business by definition will run out of cash in the medium-long term.

2. **Too much production capacity**: This relates to spending too much on fixed assets/production capacity, over expanding the business before it is ready – examples: new production line, new premises, equipment etc. – and sales haven’t yet come in. If these are financed, this can create issues as you cannot turn fixed assets back into cash in the short term.

3. **Excess stock/inventory**: Excess stock ties up cash as you have to pay for stock but haven’t yet sold it. There is also a risk that stock can perish/become obsolete. You must balance having enough stock to meet demand with demand itself while recognizing that when you purchase in bulk, prices will go down.

4. **Allowing customers to take too much credit**: Businesses may allow customers to buy on credit, but late payment is a common problem and the longer it takes someone to pay the less likely they will.

5. **Seasonal demand/supply**: If demand is seasonal – i.e. if you expect higher demand around religious holidays - you need to plan appropriately. If supply is seasonal (like a harvest), you need to be prepared for months of tight cash.

To provide an example of a situation of negative cash flow, imagine you started with $2,500 in the bank at the beginning of March. You paid $3,000 in bills and expenses (-$500 remaining), and even though you did plenty of work and invoiced your customers for $3,000 worth of services, your customers only actually paid you $200. You’re still waiting for the rest of your payments to come in so your cash flow is negative at $300 for the month.

<table>
<thead>
<tr>
<th>March Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting Balance</td>
</tr>
<tr>
<td>$2,500</td>
</tr>
<tr>
<td>Bill and Expenses</td>
</tr>
<tr>
<td>-$3,000</td>
</tr>
<tr>
<td>Revenue from Customers</td>
</tr>
<tr>
<td>$200</td>
</tr>
<tr>
<td><strong>Cashflow</strong></td>
</tr>
<tr>
<td>$2500-$3,000+200=-$300</td>
</tr>
</tbody>
</table>

If you don’t have any reserves, you may not be able to pay rent. If you have a line of credit already established, you might have relied on that to pay part of your bills. Maybe you forecasted your cash flow, and you knew that you were going to be short that month, so you made a plan to be
able to cover your expenses. One month of negative cash flow won’t necessarily bankrupt your business; however, when you start to see a trend, and you don’t do anything to reverse it (or when you’re unpleasantly surprised because you haven’t been tracking your cash flow), that’s when your business is at risk. There are a few exceptions to having a negative cash flow.

New businesses and start-ups often have negative cash flow when they are first getting started. This is due to lots of upfront costs and bills to pay while launching the business, and not a lot of sales yet. As revenue from sales start to come in, hopefully, cash starts to flow into the business instead of just flowing out. This is why new businesses often need investment and loans to get started—they need cash in the bank to cover all of the negative cash flow that happens during the early days of the business.

Negative cash flow can also happen when a business chooses to invest in a new opportunity. The business could be betting that investing in a new opportunity now will pay off in the future. That investment could cause negative cash flow for some time, so it’s important to keep a close eye on cash and have a solid cash flow forecast in place so you know if your business is on track to stay in the positive and be prepared for unexpected costs.

**Using a Cash Flow Statement**

Running out of cash is the number one reason that small businesses fail. Even if you are making plenty of sales, if you do not have enough cash in the bank, your business will not be able to pay its bills and stay open. This is why it is important to understand the costs going into production – or the costs coming into and leaving your business.

When you measure your business’s cash flow, you are keeping track of how much actual cash is moving in and out of your business so you can ensure that your business is staying healthy. If you’re the type of business that invoices for your work or product after you have delivered and there is a lag time while you wait to get paid, keep in mind that accounts receivable (money you are owed) isn’t the same thing as cash until you actually have the money in hand.

To construct a cash flow statement, you first need to focus on operating activities. To do that, determine net income/profit - you can find the net income number on your income statement. This will be your **Opening Cash Balance**.

You then need to determine the money flowing in and out of your business. Generally, cash flow statements consist of three core components:

**Operating activities**

- How does your business make money on a day-to-day basis? Your business’s operating activities include everything that relates to how you generate revenue.

- Cash inflows are generated whenever customers buy your products or services; outflows occur when you pay employees, suppliers, taxes or interest, among other things.
Investing activities

- Most transactions relating to the sale or purchase of property, equipment, or other non-current assets are included in your investing activities.

Financing activities

- This section of the cash flow statement includes information about taking out loans to buy property or equipment; issuing stock to the public, or other stakeholders; and paying out dividends.

- It is worth noting that cash flow statements can be affected by non-cash transactions, like depreciation or outstanding debt that a customer owes you.

Some examples of cash in-flows include cash sales, sales of fixed assets, or loans while examples of cash out-flows may include payments to suppliers, wages and salaries, payments for fixed assets, tax payments, repayment of loans or rent payment.

The real power of the cash flow statement is when you have prepared projections for multiple months. Below is an example from Ashira Vegetable Business:

<table>
<thead>
<tr>
<th>Opening Cash Balance</th>
<th>Jan-16</th>
<th>Feb-16</th>
<th>Mar-16</th>
<th>Apr-16</th>
<th>May-16</th>
<th>Jun-16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH IN</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of Carrots</td>
<td>$1,042</td>
<td>$0</td>
<td>$0</td>
<td>$2,083</td>
<td>$4,167</td>
<td>$6,250</td>
</tr>
<tr>
<td>Sales of Potatoes</td>
<td>$1,250</td>
<td>$0</td>
<td>$0</td>
<td>$2,500</td>
<td>$5,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Sales of Tomato Sauce</td>
<td>$750</td>
<td>$0</td>
<td>$0</td>
<td>$1,500</td>
<td>$3,000</td>
<td>$4,500</td>
</tr>
<tr>
<td>Owner’s Investment</td>
<td>$20,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL CASH IN</strong></td>
<td>$3,042</td>
<td>$20,000</td>
<td>$0</td>
<td>$6,083</td>
<td>$12,167</td>
<td>$15,750</td>
</tr>
</tbody>
</table>

| CASH OUT              |        |        |        |        |        |        |
| Inventory Purchases   | $12,500| $0     | $0     | $12,500| $0     | $0     |
| Salaries (2 agents)   | $2,500 | $2,500 | $2,500 | $2,500 | $2,500 | $2,500 |
| Fuel, Maintenance, Ins| $292   | $292   | $292   | $292   | $292   | $292   |
| Utilities             | $250   | $250   | $250   | $250   | $250   | $250   |
| Shop Lease            | $3,500 | $0     | $0     | $0     | $0     | $0     |
| **TOTAL CASH OUT**    | $19,042| $3,042 | $3,042 | $15,542| $3,042 | $3,042 |

| Net Cash (Cash In - Cash Out) | ($16,000) | $16,958 | ($3,042) | ($9,458) | $9,125 | $12,708 |
| **Closing Cash Balance (Net Cash + Opening Cash Balance)** | ($3,000) | $13,958 | $10,917 | $1,458 | $10,583 | $4,000 |
What do you learn as you look at this example not just at one month but at multiple months of cash flow?

- You can see if you will have enough money coming in to cover your day-to-day, month-to-month costs and repay any loans you take to finance your business.
- You can also see if you will be able to invest in growth.
- This projection also warns you when cash will be tight. If you have significant variation in the amount of cash coming in during some months, you need to know when those variations will happen. In this example, you can see that some months are very tight for cash flow.
- What can you do when you see the amount of cash is changing in the months ahead? You could reduce expenses, make an additional investment in your business, secure a working capital loan in short – bring more resources into the business. You can see from this example, that the owner was aware that they would need to make an additional investment in the business to bring them through negative cashflow months, and therefore made an additional investment into the business in February of $20,000.
- As a new business it’s likely that cash will be tight. You need to think about what resources you can bring in to cover the expenses until you are generating enough cash from your operations to cover all your expenses.

**How can you use your cash flow projection to make decisions about your business?**

A cash flow forecast can help you:

- plan out how much you expect to make in sales this year
- plan how much you expect to spend in costs
- understand when cash will come into your bank account and leave it

Armed with this knowledge, you will be well placed to make important decisions about your business.

**Here are some questions that a cash flow forecast can help you answer:**

- Could you start making a new product, or offer a new service? You can only do so if you have identified where you are getting the cash to cover the costs associated with making this new product.
- Could you start selling in a different geographic area? Again, you need to be sure you have enough cash to cover the expenses of this expansion.
- Can you afford to recruit a new member of staff?
• If you need more space for your business, can you afford to rent more area or build new structures?

• Are you at risk of running out of cash? Should you look at borrowing money – either to cover the short-term shortfall or for making an investment that will bring in more cash.

• When could you consider taking more money out of your business?

Remember that your forecast is not set in stone. You can - and should - change the figures in your forecast if you realise that your original plan is not going to work, for example if a new product sells better than you expected.

How to manage cashflow problems?
1. Use reliable cash flow forecasting
2. Keep costs under control
3. Manage working capital effectively
4. Choose the right sources of finance

The below is an example of the format of a cash flow statement template for you to use for the first 6 months of your business:

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opening Cash Balance</strong></td>
<td>$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CASH IN</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.e. sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.e. owner’s investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL CASH IN</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CASH OUT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.e. inventory purchases</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.e. salaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.e. utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL CASH OUT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Cash (Cash In – Cash Out)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Closing Cash Balance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Net Cash + Opening Cash Balance)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10.5 Sources of Financing

During the life of almost any business, the owner will need to secure cash to grow the business, or to keep the business going through a rough patch (i.e. poor harvest of a crop, or an economic recession). Therefore, planning on how to fund a business is an important topic for any business owner to understand and prepare for.

There are two ways to externally fund a business: equity and debt. With equity financing, you sell a portion of the company, in exchange for funding, therefore bringing another owner or shareholder on board. When debt is used, an investor receives a note for his or her cash spelling out the terms of repayment, including timing and interest.

**Equity Financing**

The main advantage of equity financing is that there is generally no obligation to repay the funds acquired through this mode of financing. Equity investors will be looking for a good return on their investment, but without required payments or interest charges as is the case with debt financing. Equity financing places no additional financial burden on the company. Since there are no required monthly payments associated with equity financing, the company has more capital available to invest in growing the business. But that doesn't mean there is no downside to equity financing.
In fact, there are a few significant downsides. In order to gain funding, you will be selling the investor a percentage of your business. Meaning you will be sharing your profits and will consult with your new co-owners any time you make decisions affecting the company. The only way to remove investors is to buy them out, but that will likely be more expensive than the money they originally gave you.

**Partners.** Taking on a partner can be a source of funding. The partner may or may not become an owner or employee of the business. Strategic partners can benefit the business by aligning resources. For example, a property management company might make a strategic investment in a property maintenance company because it could eventually feed work to the maintenance group.

**Venture capital.** These types of investments usually provide early-stage funding but are typically looking to make large investments and also take a significant share of the company – this is often referred to as a controlling interest. For very small businesses, this type of funding is not overly common.

**Debt Financing**

Debt financing sometimes comes with restrictions. Creditors tend to look favorably upon a relatively low debt-to-equity ratio if the company needs to access additional debt financing in the future.

The advantages of debt financing are numerous. Focally, the lender retains no control over your business when providing funding so you retain ownership of your company. Once you pay the loan back, your relationship with the lender ends. It is also easy to forecast expenses because loan payments do not fluctuate. The downside is that you have an obligation to repay. If you fail to meet your commitment, the lender, under certain circumstances, can force the company to close and distribute the assets to those who lent you money.

**Types of Debt Financing**

**Financial Institutions.** Financial Institutions, like a commercial bank or microfinance institution, make small business loans. However, they typically require a track record and will often want the loans secured with assets. There are more options for funding small businesses than we can cover here; however, with a good business plan and much persistence, funding can be secured. Securing a loan from a financial institution, like a bank, can help your business to build credit, assuming proper repayment.

**Small business lenders.** Many organizations are interested in lending to small businesses. Try Googling “small business loans” to see the options. However, many lenders will want the loan to be secured by assets of some sort, and or may have high interest rates. For example, if the interest rate was 3%, for a term of 30 days, the annual interest rate for the loan is actually 36% – the 3% is per month, so this needs to be multiplied by 12 months. When looking at financing from small business lenders, it is important to fully understand the interest rates.
Government Start-up Loans. These types loans require a guarantee (usually collateral in the form of a house or land) that the loan will be repaid, to enable businesses to get loans from traditional lenders.

Additional Sources of Funding
There are also additional sources of funding where the business owner funds itself as well as funding that could be both debt or equity.

Bootstrapping. The business funds itself. As the business grows, profit enables further growth. This is best done by a budgeting system, so profits are set aside to be reinvested when needed.

Self-funding. Many entrepreneurs fund their businesses themselves. They use savings or personal debt (such as a second mortgage or credit cards). Alternatively, they sell assets to generate cash (e.g., a second home or a boat) for the business.

Friends and family. Friends and family can provide either equity or debt funding. While this may initially seem like a good source, be careful about selling part of your business to this group. Unfortunately, businesses can fail and this loss of capital can cause hurt feelings, ruin friendships, and make for unpleasant family gatherings. Be sure that your friends and/or investors know the financial risks.
Crowdfunding. These are primarily web-based projects and allow individuals with a business, idea or project to reach out to thousands of potential investors through various platforms – and reach a global audience. Investments can be debt, equity or rewards based. There are hundreds of crowdfunding platforms, so you will need to do your homework before launching into this arena.

10.6 Summary

This module focused on the following learning objectives:

1. **LO1: Introduction to Financial Management**
   - What is financial management
   - 4 key questions of financial management and financial objectives
   - How to budget for your small business

2. **LO2: Financial Reports**
   - What the three main financial reports tell you about your business
   - How to use the three main financial reports to understand your business

3. **LO3: Sources of Financing**
   - Awareness of financing options for businesses; debt and equity.
MODULE 11: Conclusion
11.1 Introduction

This is the final module of the Youth Entrepreneurship Course. To review, the course was divided into two main sections with distinct audiences and goals:

- **Part 1 – Overview of Youth Economic Development**, aimed at practitioners and those working with young people, provides background on youth economic development, with a focus on youth entrepreneurship.

- **Part 2 – Core Business Skills for Young Entrepreneurs**, is designed primarily for new and existing young entrepreneurs, and may also be useful for practitioners who would benefit from learning or refreshing their core business skills.

This course focuses on entrepreneurship as a key pathway for youth (defined as individuals under 35 years old), recognizing that not all youth can or wish to run businesses. However, entrepreneurship skills are valuable for everyone, regardless of the choices they make or the circumstances of their lives. Entrepreneurial employees are valuable for a business and skills can be applied in other areas of life.

Now that you have completed the course you should be able to:

- Identify and implement activities supporting young people to enter the labour market (Part 1)
- Demonstrate an understanding of core business skills and processes required to effectively set up, grow, analyze, and run a small business (Part 2)

This final module is intended to provide a high-level review of the key concepts covered throughout the course focused on the key learning objectives for the overall course listed above.

11.2 Learning Objectives

By the end of this module it is expected that you will:

1. LO1: Review key youth economic empowerment concepts and principles
2. LO2: Review implementation models and activities which support young people to enter the labour market
3. LO3: Review core business skills and processes required to effectively set up, grow, analyze, and run a small business
11.3 Review of Key Youth Economic Empowerment Concepts

Defining Youth

Youth is by definition a stage of transition, specifically from the dependence of childhood to the independence of adulthood.83 The specific age during which this takes place varies from one individual to the next, depending on their context, experiences and responsibilities. The definition of ‘youth’ varies by country and by organization. Most include people roughly between the ages of 15 and 29, though some definitions begin younger or extend to older populations. Extending the upper age bracket of youthhood acknowledges that many young people are working to achieve other markers of adulthood such as education, gainful employment, marriage and children, well into their 30s. The African Union, for example, uses the definition of 15 to 35 across its member states.84

Youth Unemployment

Many countries struggle with high youth unemployment rates. The global youth unemployment rate is 13.6%, with significant regional variation, from less than 9% in North America and Sub-Saharan Africa, to 30% in North Africa. Youth are three times more likely than adults over 25 years old to be unemployed.85 Many factors contribute to this, including youth inexperience in the world of work, which puts them at a disadvantage when compared to more experienced job applicants.

Gender Gap

Young men and women participate in the workforce at different rates. Globally, 16% more young men than young women are working, a rate that varies considerably across regions. In North America, participation rates are almost equal, and the gaps have narrowed significantly in Latin America and the Caribbean. The largest gender gap is in the Arab region, where 37% fewer young women than men are in the labour force.86

In addition to fewer young women participating in the labour force, they tend to be concentrated in sectors traditionally associated with their gender roles, such as teaching, care work, personal services and community or social work. Men, meanwhile, dominate the better-paying sectors such as financial services, engineering, business services and technology. Occupational segregation

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86 Ibid.
tends to limit women to relatively lower paid, less secure work which has little authority and fewer opportunities for advancement.87

Youth as Agents of Change

It is important to recognize the role that youth play as agents of positive social and political change. Young people between ages 15 and 35 are at a distinct physiological and social developmental stages that represent both opportunities and risks. They are figuring out where they fit in their communities and families, how they want to develop themselves and their skills, and which pathways are likely to help them succeed as they become adults. They are also aware of and engaged in the challenges faced by their neighborhoods and countries, which are often intimately tied to the challenges faced by youth themselves. Though high levels of youth unemployment are thought to lead to increasing frustration and social instability, youth also actively work to transform adverse conditions through both their everyday activities and intentional forms of social organization. Youth development initiatives can build on what youth have identified as important goals for themselves and their communities, and what they are already doing to work towards them.

Youth Entrepreneurship

This course focused on supporting young people to start and grow businesses as safely and effectively as possible. As such, this course includes context – factors that support and hinder
youth in the labour market – and skill building – the core business skills and processes required to effectively set up, grow, analyze, and run a small business.

In addition, it is important to note that youth often engage in ‘mixed livelihoods,’ a combination of income generating activities that may change over time as they build skills and find new opportunities.88 Many young people must pursue a variety of income sources, including working for a family farm or business, engaging in small-scale agricultural production and running micro-enterprises that can be easily started and stopped, as necessary. This mixed livelihood strategy allows young people to diversify risk, earn from a variety of sources and allows for greater flexibility to pivot when the market for one service or product is lower.

In recognition of this reality, the Youth Entrepreneurship Course focuses on self-employment, but includes material on youth economic opportunities more broadly. Many initiatives promoting youth entrepreneurship have a broader focus, recognizing that many young people need a range of support in order to be successful entrepreneurs.

**Youth Life Stages and Support**

MEDA finds it useful to subdivide young people more specifically, as this age range covers a wide variety of experiences and transitions in a person’s life. This resource guide and e-course uses the following definitions: adolescents, between 15 and 18 years old; youth, between 19 and 24 years old; and older youth or young adults, between 25 and 35 years old. The diagram below compares MEDA’s definition to that of the ILO:

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88 Mixed livelihoods is a term popularized by The MasterCard Foundation in their research on youth economic lives. See for example [https://mastercardfdn.org/research/invisible-lives-five-takeaways-from-new-research/](https://mastercardfdn.org/research/invisible-lives-five-takeaways-from-new-research/) and [https://mastercardfdn.org/mixed-livelihoods-a-reality-for-youth-in-africa/](https://mastercardfdn.org/mixed-livelihoods-a-reality-for-youth-in-africa/)
Young people in all three age groups face major events that affect their future well-being. At the younger end of the age spectrum, adolescents are still children in many respects, transitioning from puberty to maturity. As they transition from adolescence to youth, they have set in motion many of the events that will determine their life path. Youth, aged approximately 19 to 24, are still discovering their interests and talents and making commitments—to work, to a spouse, and often to becoming a parent. Older youth, aged 25-35 may have reached the “age” by which adulthood normally starts, but are often working towards achieving the factors that allow them to be socially recognized as an adult, such as financial independence, stable jobs and contributions to family and social life.

In terms of economic development interventions, different activities will be appropriate at different points in a young person’s life. This will vary depending on the person and their context, but the following is a guideline:

Interventions targeted at adolescents – those aged approximately 15 to 18 – would focus on building foundational skills, fostering an entrepreneurial mindset and beginning to envision the type of future they want to pursue. For youth, interventions would build on these foundations, and would begin preparing people more concretely for the world of work. For older youth, interventions could include a more deliberate focus on starting and growing businesses, as well as accessing assets and financial services.
**Intersectionality**

A useful lens for project designers, implementers and evaluators in integrating the diversity of youth into project design is *intersectionality*. Intersectionality is a perspective or approach that seeks to understand the ways in which different combinations of identity markers may result in different experiences of disadvantage or privilege for people of different identities. These markers can include class, race, religion, sexual orientation, age, gender, geographic location, and political affiliation, among others. Approaching youth economic empowerment with an intersectional lens can help project designers break down the rather vague category of ‘youth,’ and add more depth to our understanding of their diversity of identities, opportunities, strengths, and needs.

For example, gender differences are important to consider when working with youth. Social and cultural norms around gender and gender roles can impact the types of economic opportunities youth are exposed to or able to take advantage of. For instance, in a context of limited family resources and a preference for boys’ education, girls and young women may not be given the same opportunities to build skills and qualifications for future employment or entrepreneurship as boys and young men who are otherwise similar in age, class, socio-economic status, religion or other identity markers. Social and cultural norms may also promote rigid definitions of “men’s work” and “women’s work” in both the formal or informal sectors, which can limit the opportunities that different genders experience in accessing different opportunities, or allocating their time freely to paid work, unpaid or housework, and rest and leisure.

**Youth-specific Challenges in Accessing Markets**

Accessing the labour market – either as an entrepreneur or an employee – is challenging for workers of all ages. Some challenges affect youth more acutely, and youth have specific challenges...
that are unique. Key challenges that impact on youth are summarized in the diagram below and were explored in detail in Module 2.

Youth Market Opportunities

While youth experience significant challenges in accessing the labour market as employees or entrepreneurs, there are also opportunities associated with bringing youth into economic development. First, as members of younger generations youth bring with them new skills, knowledge and worldviews. Second, as noted in the introduction to this course (Module 1), youth are not only on the receiving end of development challenges and projects. Instead, youth around the world are actively working to shape their own futures and take the lead, both in community development and broader social movements. A key principle of youth economic empowerment
is to recognize and build on the agency that youth already demonstrate in their ability to identify, analyze and act in relation to the challenges they face, as well as their capacity to organize others to do the same. Finally, at broader societal levels, creating space for youth engagement and leadership presents the opportunity to contribute to processes of wider social change.

11.4 Designing and Implementing Youth-Focused Programming

**Integrative Approaches**

Integrative approaches to youth development acknowledge that:

- **Successful youth development requires that youth are equipped with a variety of positive developmental assets.** This includes both technical skills, sometimes called ‘hard skills,’ such as learning a profession or trade, as well as ‘soft’ or ‘life skills,’ such as communication, teamwork, leadership, critical thinking, the ability to identify emotions, conflict transformation and self control. Positive developmental assets also include less-tangible assets such as a positive self-identity, a strong sense of self-efficacy, and positive personal values.

- **Successful youth development is optimized when it integrates the multiple levels of social and economic life that influence youth each day.** This includes youths’ immediate social and physical environment (schools, families, youth programs); the formal and informal social institutions or networks at the community level (local government, religious institutions); and macro-level political, economic and social systems, including social and cultural norms that form the wider environment within which youth grow and develop.

These approaches can focus on a specific sector, such as health or economic development, but recognize that gains made in any individual sector is reinforced or amplified if programming cultivates different developmental assets and works across multiple contexts, including families, schools, communities and markets.

**Positive Youth Development (PYD)**

PYD is an integrative approach to youth development which focuses on building the assets and skills necessary for youth wellbeing and successful transition into adulthood. Common aims of PYD programming include:

- Equipping youth with skills and resources necessary to succeed
- Empowering youth to make changes for themselves and be productive members of society
- Ensuring that youth are surrounded by structures and people that positively reinforce them
PYD programs fulfill these aims by integrating two or more domains into program activities. The domains of PYD include: assets, agency, contribution, and enabling environment summarized in the graphic below:

**Applying PYD to Youth Entrepreneurship Programming**

The following table offers an overview of the programming areas that can be layered into a PYD-informed youth entrepreneurship program.
<table>
<thead>
<tr>
<th>Programming Area</th>
<th>Description</th>
<th>Domain</th>
</tr>
</thead>
</table>
| Entrepreneurship education and training | • Opportunity identification  
• Ability to capitalize on opportunities through resource mobilization  
• Business model execution  
• Financial and economic literacy  
• Self-efficacy, confidence and positive self-identity | Assets, Agency |
| Youth Engagement | • Savings and loans groups  
• Cooperative formation  
• Peer-to-peer skills transmission (e.g. training of trainers model)  
• Youth-informed policy design | Contribution |
| Access to financial resources | • Loans or microcredit  
• Grants  
• Direct cash transfers  
• In-kind support | Assets |
| Business Development Support | • Business plan development  
• Marketing plan development  
• Product development  
• Financial planning  
• Business coaching and mentoring | Assets, Agency |
| Regulatory Framework and Infrastructure | • Accompaniment through business registration process  
• Youth-informed policy design  
• Advocacy | Enabling Environment |
| Support Systems | • Mentorship and Role Models  
• Follow-up and check-ins  
• Cultural/community support for youth businesses  
• Professional networks  
• Gender and social norms transformation | Enabling Environment |

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This table is descriptive of possible programming areas and components that can be combined to strengthen youth entrepreneurship programming. While a combination of all of these areas is often beyond the financial and time resources of an individual organization or project, strategic layering of different types of skill-building and support can increase the likelihood of success.

Youth and Agriculture

Despite the large numbers of young people employed in agriculture, youth often regard it as a sector of last resort. Farming is seen as labour-intensive, repetitive, and bringing low financial return. A recent survey found that only a limited number of youth in Sub Saharan Africa run agribusinesses – 9%, compared to 64% who run businesses in the retail, hotel and restaurant sector.90 However, some strategies that have been successful at attracting youth to agricultural sector jobs include:

- Providing opportunities for ‘quick money’ – rather than staple or slow-maturing crops as, those with rapid earning potential will be more attractive
- Use information communications technology (ICT) to boost productivity and profitability – ICT can help modernize agricultural practices and increase production. Innovative initiatives such as Hello Tractor provide streamlined platforms for farmers to access essential services, while providing pricing transparency, security and quality control.91 Other green tech

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opportunities – such as solar energy, organic agriculture – can boost farm productivity. In addition, sales of green technology can provide employment opportunities for youth, who can work as sales agents for suppliers.

- Supporting labour market entry points across the agricultural market system – while production may employ large numbers of people, youth may be attracted to jobs in other areas of the system, including processing, logistics or ICT.

- Working with technical and vocational institutions to target agriculture sectors that demonstrate growing demand and ensure that students are equipped with the practical skills needed.

- Working with parents to raise awareness of the opportunities available in rural areas in the agricultural sector as opportunities for children are often perceived as better in urban areas.

**Key Principles for Youth Entrepreneurship programming**

1. **Consider different types of entrepreneurs** – The Global Entrepreneurship Monitor (GEM) encourages entrepreneurs and program staff to view entrepreneurial activity as a “continuous process, rather than individual events.”\(^{92}\) That is, entrepreneurial activity can begin long before an individual or group actually starts a business. GEM divides this process into 5 different classifications:

<table>
<thead>
<tr>
<th><strong>Potential Entrepreneurs</strong></th>
<th>Individuals who believe they have adequate entrepreneurial skills and who perceive business opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intentional Entrepreneurs</strong></td>
<td>Individuals who have indicated that they intend to pursue a business opportunity within the next three years.</td>
</tr>
<tr>
<td><strong>Nascent Entrepreneurs</strong></td>
<td>Individuals who are actively involved in setting up a business or who already own a business but whose business has not paid any wages for zero to three months</td>
</tr>
<tr>
<td><strong>New Entrepreneurs</strong></td>
<td>Individuals that are owners/managers of an active business that has been in existence from three to 42 months.</td>
</tr>
<tr>
<td><strong>Established Business Owners</strong></td>
<td>Individuals who own and manage a business that has been in operation for more than 42 months.</td>
</tr>
</tbody>
</table>

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2. **Adapt programming to different stages of entrepreneurship** – Program designers should also consider that the different stages of entrepreneurship will likely require different emphasis on the three core areas of entrepreneurial skills.

- **Potential entrepreneurs** are those individuals who are just learning entrepreneurial skills, mindsets, and attitudes. Rather than diving directly into the technical details of how to start a business, programming at this stage might focus on cultivating the skills, mindsets, and attitudes necessary to succeed as a businessperson.

- **Intentional entrepreneurs** are those individuals or groups who have decided that they want to open a business in the next 1-3 years. Programming at this stage may still include the development of a foundational entrepreneurship mindset and complementary life skills, but will be focused on developing more technical entrepreneurial capabilities.

- **Nascent and New entrepreneurs** are those individuals who are either in the process of setting up their business, or who own a business that has not yet grown to a point where it is able to pay wages or salaries. At this stage, both the development of technical business planning, management, finance, and marketing skills as well as hands-on practice of these skills are the focus.

- **Established Business Owners** are those entrepreneurs who have been operating their business for over 42 months. Entrepreneurs at this stage are likely more confident in their skillsets and processes. They are likely more stable, able to pay salaries and wages, and able to experiment with new products or services. Programming for established business owners will likely involve specialized support to troubleshoot specific issues that they identify to improve business management or growth.

3. **Consider youth subgroups and the role of identity differences (age, socioeconomic status, gender).** Program designers should ensure that programming activities match the priorities and capacities of youth in different age groups. Programming for youth who experience financial poverty or lack of access to social capital may need more intensive support to fill specific gaps. A solid analysis of gender dynamics in the project context should also inform programming as young women and young men often experience different societal expectations and opportunities for engaging in business.

**Adapting Programming to Age and Stage**

In general, while adolescents may be interested in business, they may still be in school or not ready to start their own business. Programming for adolescents usually focuses on cultivating core entrepreneurial skills and mindsets, and basic organization and financial literacy skills.

Youth aged 19 to 24 may be better positioned to move from wanting to start a business, to actually starting one. Programming for youth should still include emphasis on core entrepreneurial skills and mindsets, but also more technical business skills.
For older youth, establishing or growing an already existing business is usually the main focus. Programming generally focuses on ensuring business sustainability and growth, troubleshooting weak points in the business plan, and building on existing knowledge and use of financial literacy, savings and loans.

The graphic below summarizes the types of skills that are most relevant to young people at the ages and stages described above as well as examples of programming models explored in depth in the course:

11.5 Core Business Skills

As noted in the introduction, Part 2 of the course – Core Business Skills for Young Entrepreneurs, is designed primarily for new and existing young entrepreneurs, and may also be useful for practitioners who would benefit from learning or refreshing their core business skills. This section provides a summary of the key business skills explored in this half of the course.

**Business Research and Analysis**

*Business Research* helps to clearly identify the market landscape in which you wish to start or expand your business. It helps you to understand the market, competition, customer needs and how your business can fulfill those needs. Key research methods include the following:

1. **Secondary Research:** Gathering market information from publications and other existing sources of data.
2. **Surveys**: Used for collecting data from a pre-defined group of respondents to gain information and insights. These can be conducted with target enterprises, suppliers, or even consumers.

3. **Focus Group Discussions**: A discussion led by a facilitator with a group of similar respondents for the purpose of gathering market information.

4. **In-depth Interviews**: An interview (usually conducted one-on-one between a facilitator and respondent) which gathers detailed information about the respondent and the relevant issues related to that respondent.

**Business Analysis** helps to define needs of the business, the internal and external factors that may impact your business, and to develop solutions that deliver value to your business and customers. Key business analysis tools include the following:

1. **SWOT** – SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. A SWOT Analysis is a technique for assessing these four aspects of your business.

   ![SWOT Diagram]

   - **Internal**
     - Strengths
     - Weaknesses
   - **External**
     - Opportunities
     - Threats
   - **Helpful**
   - **Harmful**

2. **PESTLE** – A PESTLE analysis is a framework to analyse the key external factors (Political, Economic, Sociological, Technological, Legal and Environmental) influencing an organisation. It offers business owners’ insight into the external factors impacting their organisation.
### Political
- Government policy
- Corruption
- Labor Law
- Tax Policy
- Political stability

### Economic
- Examples:
  - Exchange rate
  - Interest rate
  - Inflation rate
  - Unemployment rate
  - Disposable income

### Social
- Example:
  - Population growth rate
  - Age distribution
  - Safety emphasis
  - Lifestyle attitudes
  - Cultural barriers

### Technology
- Examples:
  - Technology incentives
  - Level of innovation
  - Technological change
  - Technological awareness

### Legal
- Examples:
  - Employment laws
  - Consumer protection laws
  - Copyright and patent laws
  - Health and safety laws

### Environment
- Examples:
  - Weather
  - Climate
  - Environmental policies
  - Climate Change

### Business Modelling
The Business Model Canvas (BMC) is your business model on one page. It’s a global standard used by millions of people in businesses of all sizes. You can use the canvas to describe, design, challenge, strategize, and grow your business. The BMC describes how the components of the business fit together to produce a profit. Its goal is to answer the question, “How does this business work?” It is your first step in developing/designing your business, it will guide you to create your business plan.
The below table highlights the key elements of the BMC and summarizes the key questions to ask in each block.

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>What non-key activities can you outsource to enable you to focus more on your key activities?</td>
<td>What unique strategic activities does your business perform to deliver your value proposition?</td>
<td>What is the customer problem or need which you want to address? What is my solution or value proposition and why is that better than the existing alternatives?</td>
<td>How do you get, keep, and grow your customers?</td>
<td>Which segment of the market am I best able to provide a competitive solution?</td>
</tr>
<tr>
<td>Key Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who and what are the key resources required to make this business successful?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing Channels</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How will I reach my target market segment? Which market channels will I use?</td>
<td></td>
<td>What is currently available and what alternative products or services are available to the customer?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Structure</td>
<td>Revenue Streams</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are my costs and what are they dependent on?</td>
<td>What are the revenue streams and their potential? What capital do I require to finance the growth of my business? What are my current funding sources? What other funding sources can I access?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Business Planning**

A business plan is a document that maps out an enterprise’s plan for success and profitability. It describes the enterprise, what it produces, the risks it faces and how to mitigate them, and its financial situation and capital requirements. The business plan draws directly from the Business Model Canvas (BMC), providing further details on each element of the business.
A business plan enables businesses to demonstrate to stakeholders, including partners and investors, that there is potential for considerable business growth. It illustrates that the business is capable of achieving significant market power with a sustainable and unique product or service offering. The key sections of a business plan are summarized below:

1. **Executive Summary** – A brief description of the enterprise and a summary of the key elements of its business model

2. **Company Profile** – Company background, vision and mission, critical success factors

3. **Key Personnel** – A brief summary of key personnel, their roles, skills and experiences

4. **Market Environment and Customer Overview** – An evaluation of market and customer potential, target market and customers, market opportunities, competitive landscape etc.

5. **Marketing and Sales Plan** – Discussion of the key elements of the Marketing Mix (product, price, promotion and place)

6. **Operations Plan** – An overview of production, operational challenges and strategies, inputs and suppliers, technology considerations and innovation plan etc.

7. **Environmental and Social Plan** – A brief overview of ways the business will have an environmental and social (including gender) impact. This section should include both potential positive and negative impacts and outline how potential negative impacts will be mitigated against.

8. **Risk Management** – Outline of key risks including risk mitigation and management plans.

9. **Performance Management Plan** – Chart including key performance goals, targets and activities, performance measurement, evaluation and reporting considerations.

10. **Financial Plan** – Plan outlining financial assumptions and forecasts, budget and capital requirements and financing plan.

**Business Management**

Running a small business often requires that you learn many different areas with respect to business; you need to know a little bit of everything. It is therefore important to know early on the skills that you have and those that you either must learn or delegate to others.

This module aimed to provide you with the essential tools to start a small business or to grow your existing business more effectively:

- **Business (Operations) Management** – The administration of business practices to create efficiency within an organization. It is focused on converting assets and labor into goods and services as efficiently as possible to maximize your profit.
• **Human Resources (HR) Management** – The term used to describe formal systems devised for the management of people within a business – it is essentially people management. The core responsibilities of HR management fall into these major areas: staffing, employee compensation and benefits, and defining work. Essentially, the purpose of HR management is to maximize the productivity of an organization by optimizing the effectiveness of its employees.

• **Marketing** – How to market your business through traditional and non-traditional channels. The Marketing Mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps that make up a typical marketing mix - Price, Product, Promotion and Place.

• **Performance Measurement** – Understanding Key Performance Indicators (KPIs) to measure success. Businesses set KPIs to measure their success at reaching targets. They demonstrate how effectively a business is achieving its key objectives. They can span across industries, departments or individual tasks. KPIs that display a measurable value and shows the progress of the business goals. KPIs, help you measure and evaluate the effectiveness of solutions, functions and processes in your business. KPIs take into account your business’ strategic goals and measure performance against a specific target, defined from a strategic, planning or budget point of view.

**Financial Management**

Financial management ensures that a company uses its resources in the most efficient and effective way: maximizing the profit (or earnings) generated by a business, which ultimately increases the value of a business (its net worth or equity).

There are two pillars of finance: **risk and return.** Business is about taking risks in order to gain returns. The bigger the risk, usually the higher return generated. Always ask yourself, is the risk worth the return? There are four important questions that financial management helps answer:

1. **How are we doing?**
   - Meaning is the company profitable? What are the returns on its assets? Is the company keeping costs under control?

2. **How much cash do we have on hand?**
   - This is important to understand liquidity and ability to pay bills and expenses on time.

3. **What should we spend our money on?**
   - Money can be spent on a) operating activities (salaries, inventory, marketing) and b) new assets (property, machinery, equipment).
4. Where will our funds come from?

- Once managers or business owners have identified how much money the business needs and how much cash it has on hand they have to determine where cash can be sourced from in the future (sales, loans, etc.).

**Budgeting** is the process that allocates resources, evaluates financial outcomes of business decisions, and establishes the business’s financial and operational profile against which to measure future results. The main purpose of budgeting and forecasting is to develop a realistic financial strategy to meet business objectives.

The three main **financial statements** you can use in your small business are the income statement, balance sheet, and cash flow statement. Measuring business performance means checking out the money flowing in and out of your business. If you want to see how profitable your business is, check out the financial statements.

- The **income statement** measures the profitability of your business during a certain time period by showing your business's profits and losses.

- The **balance sheet** shows your business financial health, measuring how much you owe and own.

- The **cash flow statement** shows how liquid cash is at in your business.
11.6 Summary

This module focused on the following learning objectives:

1. **LO1: Review key youth economic empowerment concepts and principles**

2. **LO2: Review implementation models and activities which support young people to enter the labour market**

3. **LO3: Review core business skills and processes required to effectively set up, grow, analyze, and run a small business**

You have now completed the Youth Entrepreneurship Course. We hope that this guide and the accompanying e-course have left you with a deeper understanding of youth entrepreneurship core concepts, design, and implementation principles (Part 1) as well as core business skills and processes needed by young entrepreneurs (Part 2). For practitioners, we hope that the course has provided you with the practical tools needed to adapt and implement effective youth programming and that Part 2 of the course can be directly used or adapted to deliver training directly to young entrepreneurs. If you are a young entrepreneur, we hope that this course has provided you with an introduction to the practical business skills needed to successfully launch or grow your business.