MINISTRY OF AGRICULTURE
LIVESTOCK AND FISHERIES
STATE DEPARTMENT OF LIVESTOCK

Off farm Business training Manual

Smallholder Dairy Commercialization Programme (SDCP)

Off farm Business

Training Manual

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Preface

This manual is a tool to guide trainers who are facilitators in enterprise development. The content has been developed based on training needs identified under the Smallholder Dairy Commercialization Programme (SDCP) which is jointly funded by the Government of the Republic of Kenya and the International Fund for Agricultural Development (IFAD). The Programme implementation period is 12th July 2006 and 30th September 2015. While the approach was to address the Programme's design and beneficiaries' needs, the lessons can be applied widely.

The purpose of this training manual is to guide trainers who facilitate in the training of business operators comprising commercially oriented smallholder dairy farmers and other small scale traders dealing primarily in milk and dairy products for their livelihood. This guide is intended to provide basic training for business operators to whom farming as a business and the commercialization approach to smallholder dairy operations is relatively new. It is a simple guide that should be easy to use for facilitators who are mainly extension officers in the field of animal production.

The topics covered include starting a business, business planning, business management, financial management, business ethics and relationships, marketing, business cycle, regulatory requirements and cross cutting issues affecting businesses.

Acknowledgement

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Indicative Training Areas

The indicative training areas are based on SDCP design and baseline survey. The Programme's beneficiaries comprise smallholder dairy farmers as well as small scale milk traders vending milk from their bicycles, motorcycles, shops and milk bars. Different players in the value chain have varying training needs. Based on the market-oriented dairy enterprise (MODE) progression adopted in the Programme and the various needs on commercialization the following training subjects were identified:

Step I

- Introduction to farming as a business
  - o Characteristics of a business
  - o Important aspects in business: marketing, finance, ethics
- Basic record keeping for dairy farmers
- Basic enterprise analysis (gross margin, profit analysis, opportunity cost)

Step II

- Optimizing returns from farming
- Farm/business planning
- Basic management
  - o Farm management
  - o Basic accounts
- Basic financial management
  - o Sources of finance (community/group based such as merry-go-round and village saving and loan associations; Government funds such as Njaa Marufuku Kenya, Youth Enterprise Fund and Women Enterprise Fund; non-governmental organizations (NGOs); micro-finance institutions; other institutions)
  - o Cash-flow management
  - o Managing loans
  - o Managing default
- Basic negotiation skills
- The law and the commercial dairy farmer
  - o Laws governing trade in milk
  - o Basics in the law of contract as it touches on the dairy farmer.

Step III

- Preparation of investment plans and bankable proposals
- Advanced negotiation skills
- Contracts and agreements
- Profit maximization
- Revenue maximization – value addition (demonstrated in figures)
- Loss reduction – identification of causes, areas where highest costs are incurred, identifying interventions to address the same
- Financial reports
- Auditing

Training of milk traders/shop/bar operators

- Record keeping
- Optimizing returns
- Business planning
- Business management
- Financial management
- Business ethics
- Negotiation skills
- Contract development and writing of agreements
- Legal issues in milk trade
- Corporate governance in groups, marketing associations/cooperative societies
- Financial reports
- Auditing

The training content to be covered will vary according to the stage of the business, activities of the group as well as previous training.

Introduction

Entrepreneurship involves establishment of a business which is expected to generate profit with the founder undertaking risks associated with creation of the new venture. The entrepreneur identifies a business opportunity to provide goods or services at a profit based on a gap or need. There are many businesses in the dairy value chain with some directly handling milk and dairy products while other offer complementary goods and services such as animal feeds, animal health products, veterinary services, information, finance, transport and distribution.

Entrepreneurship skills

The main skills that a successful entrepreneur requires are:

1. Management skills
   – Ability to plan, organize resources, direct the application of the resources, coordinate various aspects of the business to achieve the intended goal and control so that divergence from the intended path is managed.

2. Leadership skills
   – Ability to influence people to achieve the desired goals.

3. Technical skills
   - Competence in the area of the chosen business.

Lesson 1: Starting a business

Objectives

By the end of this training participants will be able to:

1. State at least 5 reasons why a starting a business is important.
2. List at least 3 business ideas that can be turned to profitable businesses.
3. Identify 3 forms of business and the advantages and disadvantages of each.
4. List at least 3 skills necessary for someone who is starting a business.

Content

- Definition of terms
- Identification of business opportunities
- Forms of business
- Important skills for someone who is starting a business
- Sourcing for information
- Networking, collaboration and partnership

Methodology: Lecture, interactive group sessions, case study

Duration: 4 hours
Evaluation/assessment: Presentation, question and answer.

Facilitator's notes

Definition of terms:

- Memorandum of association – a document prepared at the formation of a company which defines the relationship between the company and outsiders. It defines the objectives, the share capital, scope of the business, location.
- Articles of association – a document prepared at a company's inception that guides the company's operations and the rights and duties of people in the company.
- Contract – a legally enforceable agreement.
- Memorandum of understanding – document that expresses mutual accord regarding an issue which is made by two or more parties.

Identification of business opportunities

A business starts with an idea of a service or goods that can be supplied at a profit based on a gap or need that has been identified. An entrepreneur can have several options for business. It is not possible to carry out all the businesses that one has in mind. The business ideas must be screened and the best one selected based on the profitability, market trends, level of investment required and preference of the owner among other considerations.

Identification of business opportunities involves:

- Generation of business ideas from a need that has been identified; research; brainstorming; spotting a market niche; successful business that has worked elsewhere; interests of the entrepreneur; trends in the environment; etc.

- Selection of viable opportunities/screening a business idea – e.g. based on market trends, effective demand, level of investment required and capital available, etc.

- Analysis of business opportunities – gross margin analysis, profitability analysis, break-even analysis, situation analysis, cost benefit analysis, payback period, feasibility assessment, market analysis, organizational analysis.

- Prioritization – ranking of business opportunities according to their feasibility, projected performance and other factors that are important to the entrepreneur.

Location

A suitable location is very important to the success of any business. The business should be easy to access for the customers. The environment should also be suitable for the type of business. For example, milk can easily be contaminated in dusty or poorly drained places.

Forms of business

Once a person decides to start a business he must select the form of the business.
The common types of business are:

1. **Sole proprietorship**
   A sole proprietorship is a business whose ownership and control is vested in one person. Tax is charged at individual graduated rate of tax.

2. **Partnership**
   A partnership is a relationship between persons who engage in business with a view to making profit. The business is jointly owned by between two and twenty people who have agreed on how to conduct the business and share in the profit or loss that may accrue.

3. **Company**
   A company is a body corporate. It is an organization that is formed by two or more people but which is distinct from its members. The common form is a limited liability company where members are not liable for the company's debts. A corporate rate of tax is applied.

Advantages and disadvantages of different types of business

Type of business	Advantages	Disadvantages
Sole proprietorship	1. Faster decision making. 2. Focus due to sole ownership and control. 3. All profit belongs to the business owner	1. Decisions lack the input of others which may lead to poor quality 2. The business owner may have resource constraints 3. Losses and liabilities are not shared
Partnership	1. Ability to pool resources 2. Contribution of different partners can improve the business based on their strengths	1. Some partners may not be as active as other limiting their contribution to the business 2. Divergent opinions can lead to conflict
Limited company	1. Individual owners are separate from the company therefore the liability of the company is not charged on shareholders 2. The life of the organization is not tied to the life of owners	1. Higher rate of tax at 30% 2. Governed by the Companies Act it is therefore more complex than a sole proprietorship or partnership

Important skills for someone who is starting a business

1. **Record keeping** – written information about transactions e.g. invoices and receipts of transactions, journals, ledgers, cash book

2. **Negotiation** – a communication process through which parties resolve conflict in a matter of common interest. Conflict arises when a buyer wants to buy at the lowest price while the seller is seeking the highest price possible. The must therefore negotiate so that they can agree on the price. Negotiation with suppliers and buyers is part of the everyday life of a business operator. He therefore needs appropriate negotiation skills so that the business has a steady supply of inputs and stock for resale and also regular customers to sustain the business.

3. **Decision making** – an entrepreneur will constantly have to select the best course of action in the face of alternatives and challenges. He will therefore require decision making skills that will help him take the most appropriate action that will propel his business to success.

Sourcing for information

The entrepreneur requires information on licensing requirements; market information e.g. demand, supply, competitors, substitutes, trends; business development service providers – acquisition of technical skills required for the selected enterprises; appropriate technology; relevant laws and policies. Common sources of information include: newspapers, magazines, radio and television programmes, internet, field days, exhibitions, trade fairs and agricultural shows, extension officers, service providers, input suppliers, relevant Government Departments, Huduma Centres, and Non-Governmental Organizations.

Networking, collaboration, building partnerships

The business operator needs the support of other parties in order to succeed in business. Through understanding the value chain concept and the role of various players, the business person can identify other parties with whom to collaborate and build partnerships.

Lesson 2: Business planning

Objectives

By the end of this training participant will be able to:
1. State at least 5 reasons why a business plan is important
2. List at least 3 uses of a business plan
3. Develop a business plan

Content

- Definition of terms
- Importance of a business plan
- Uses of a business plan
- Parts of a business plan

Methodology: Lecture, interactive group sessions, case study
Duration: 4 hours
Evaluation/assessment: Presentation, question and answer

Facilitator's notes

Definition of terms:

Business plan – a formal statement of the business goals and how they will be achieved.
Forecasting – making statements about uncertain future events before their outcome is known. It is a planning tool that uses past data and trends to make estimations about the future.
Budget – estimation of income and expenses over a specified period of time
Feasibility – ability to accomplish an undertaking successfully and profitably taking into account factors in the environment which influence it

Importance of a business plan

A business plan is important because it outlines the operations of a business and facilitates the making of timely decisions on how the business will be carried out.

Uses of a business plan.

1. **Planning tool:** It shows what the business intends to achieve in future. A business plan helps to point out any mistakes on paper before resources can be committed.

2. **Management tool:** It is a decision making tool. It guides the person implementing it because it details the activities, activity schedules, resource requirements, purpose and how the activities will be carried out. It helps in assessing progress made i.e. performance against set targets.

3. **Financing tool:** A business plan explains the business to outsiders for example when one wants to obtain a loan from a bank. The business plan shows the activities, resources required and the financial projections of the proposed project.

Parts of a business plan

1. Executive summary
2. Business background and objectives: vision, mission, brief history, registration, core values, ownership, management, location, area of operations
3. Organizational plan – organizational structure, personnel (number, skills, recruitment)
4. Marketing plan – description of the product/service, market, target consumers, competitors, pricing, packaging, distribution, customer service, growth of market share
5. Production plan – source of inputs, operations, equipment and materials required, management of inventory
6. Financial plan – projected income and expenditure, performance, financial statements
7. Annexes - attachment of necessary documents in support of information contained in the business plan.

Lesson 3: Financial management

Objectives

By the end of the training participants will be able to:
1. Identify 5 sources of financial services
2. State 5 reasons why it is important to manage finances
3. Name 5 essential financial records
4. Identify 5 key factors to consider when taking credit
5. State at least 5 uses of financial statements

Content

- Definition of terms
- Importance of financial management
- Record keeping and accounting
- Financial statements – types, uses, preparation
- Sourcing for funds
- Credit management
- Auditing
- Risk management
- Taxation

Methodology: Lecture, group discussion, group work
Duration: 4 hours
Evaluation/assessment: Presentation, question and answer, exercises

Facilitator's notes

Definition of terms:

balance sheet, ledger, credit, debit, cash flow, financial statements, journal, profit, gross profit, net profit, surplus, mark up, interest, asset, liability, net worth, capital, investment, variable cost, fixed cost, break-even point, return on investment

Record keeping and accounting Importance of record keeping

- Control of resources
- Information for decision making
- Monitoring performance
- Communication to other parties e.g. financiers, tax authorities

Types of records

Journal, cash book, petty cash voucher, ledger, receipt, invoice

Financial statements

- Income and expenditure account
- Balance sheet
- Cash flow statement

Sources of funds

Personal savings; relatives and friends; groups – merry go round or rotating savings and credit associations (ROSCAS) and accumulating savings and credit associations (ASCAS); savings and credit cooperative societies (SACCO); banks; Micro Finance Institutions (MFI) e.g. Faulu Kenya, Kenya Women Finance Trust (KWFT); Government institutions and funds such as Agricultural Finance Corporation (AFC); Youth Enterprise Fund; Women Enterprise Fund; traders; venture capital firms; other sources.

Features of a loan

- **Principal:** This is the amount of money borrowed.
- **Interest:** refers to the cost of the loan which is calculated as a percentage of the principal. Interest may be charged on a fixed amount or on a reducing balance.
- **Grace period:** This is the duration between the time a loan is disbursed and the time that repayment commences.
- **Repayment period:** refers to the time given for the loan and interest to be paid in full.
- **Instalment:** Payments are divided into amounts to be paid periodically. The amounts comprise a portion of the principal and interest
- **Security/collateral:** Usually the lender requires an asset that can be sold in event of the borrower's failure to repay the loan. The type and value of the security depends on the loan amount and the policy of the lender. Land title deeds, motor vehicle logbooks, equipment, warehouse receipts, household items and group guarantee are some of the forms of security which are commonly used.
- **Preliminary expenses** e.g. application fees, agreement fees

Credit management

When one takes a loan he should realize that it is not free money. It is money that comes at a cost and which must be repaid at a future date. Failure to repay may have legally enforceable consequences resulting in loss to the borrower. When borrowing one should have a plan of how the funds will be utilized and repaid on time.

Risk management

Risk refers to uncertain events that could have negative effects on an undertaking. For dairy business operators there are risks such as drought which affects supply of milk, milk spoilage, spillage, accidents, fire and theft among others. Risk management involves identifying possible risks and putting in place measures to prevent occurrence or reduce the negative impact when such an event occurs. Some of the measures include putting in place security systems, milk testing and quality control at various points and insurance covers for insurable risks.

Taxation

Tax is a charge by the Government which is levied to finance public expenditure. There are various taxes which may apply to the business and the operator should know which laws apply. Some of the taxes which apply in dairy related businesses are cess for milk sold, income tax and value added tax. Taxes must be paid on time to avoid penalties for late payment or failure to file returns and pay.

Lesson 4: Business management

Objectives

The participants will be able to:
1. Identify 5 factors of production
2. State at least 5 records kept in a business and their importance
3. List 5 functions of a good business manager

Content

- Factors of production
- Qualities of a good manager
- Functions of a manager
- Record keeping
- Decision making

Methodology: Demonstration, lecture, discussion
Duration: 2 hours
Evaluation/assessment: group discussion, questions and answers

Facilitator's notes:

- Factors of production - land, labour, capital, time, technology
- Qualities of a good manager – leadership skills, communication skills, planning, negotiator, arbitrator, interpersonal skills
- Functions of a manager – planning, organizing - structures, directing, coordinating, controlling, resources allocation, decision making
- Record keeping
  - Types of records – physical and financial
  - Importance of records
  - Use of records
- Decision making – the decision making process

Lesson 5: Business cycle

Objectives

The participant will be able to:

1. List 4 stages in the business cycle
2. Develop a plan that incorporates appropriate interventions for each stage

Content

- Business growth curve
- Stages of the business cycle
- Interventions for various stages of the business

Methodology: Lecture, group discussion
Duration: 2 hours
Evaluation/assessment: Question and answer, presentation

Facilitator's notes

A business experiences upward and downward movement in the level of economic activity.

- Business growth curve
- Stages of the business cycle: pre-start, start-up, growth, maturity, stagnation, decline, (include issues on succession)
- Interventions for various stages of the business – e.g. business reengineering (at maturity)

Lesson 6: Business ethics and relationships

Objectives

By the end of this training the participant will be able to:

1. List 5 desirable values for the business
2. State 5 ways which demonstrate good ethical practice in the business

Content

- Definition of terms
- Principles of business ethics
- Customer care
- Supplier relations

Methodology: Group discussion, role play, case study, lecture
Duration: 2 hours
Evaluation/assessment: Reflective questions and answers, presentation,

Facilitator's notes

- Definition of terms: ethics, business ethics, integrity, transparency, accountability, compliance, equity, justice, governance
- Principles of business ethics: transparency, accountability, business values, integrity, trust, respect, justice, equity, fairness, governance, prevention of conflict of interest, willing compliance to the law
- Customer care – importance, maintaining product standards, feedback, meeting customers' expectations
- Supplier relations – importance, maintaining suppliers

Lesson 7: Marketing

Objectives

By the end of the training participants will be able to:
1. Define what marketing is
2. Differentiate between marketing and selling
3. Describe at least 4 components of marketing
4. Identify at least 3 market outlets for their products/services
5. Identify 5 ways of obtaining market information

Content

- Definition of terms
- Components of marketing
- Market outlets and channels
- Market information
- Market analysis
- Developing a marketing strategy
- Negotiation skills
- Contracts
- Evaluating performance of products/services

Methodology: Lecture, group work, discussions, case study
Duration: 4 hours
Evaluation/assessment: Questions and answer, presentations

Facilitator's notes:

1. Definition of terms: market, marketing, selling, advertising, branding, publicity, service, product, customer, niche market, competition, competitor, market outlet, marketing channel
2. Components of marketing – product, price, place, promotion, branding, demand and supply
3. Market outlets and channels
- General requirements of product marketing – technology,
4. Market information – importance, types of information required (production, technology, market trends, customer satisfaction, etc), sources of market information
5. Market analysis – channels, customers, competitors, substitutes, trends
6. Developing a marketing strategy – positioning the product, market segmentation
7. Negotiation skills
8. Contracts – use of legally binding agreements for more reliable trade relationships
9. Evaluating performance of products/services - incorporating customer feedback in product development

Lesson 8: Regulatory requirements

Objectives

By the end of the training participant will be able to:
1. List at least 5 regulatory authorities governing their business
2. State the legal requirements of at least 3 regulations
3. State at least 5 reasons why regulations are important
4. State 5 implications of not following regulations

Content

- Definition of terms
- Regulations governing businesses
- Regulatory authorities
- Importance of regulations
- Implications of not following regulations

Methodology: Lecture
Duration: 2 hours
Evaluation/assessment: Question and answer

Facilitator's notes

- Definition of terms: law, statute, licence, permit, fine, penalty, regulator, offence, crime, inspector
- Regulations governing businesses
- Regulatory authorities
- Importance of regulations
- Implications of not following regulations

Milk bars, mini-dairies, milk coolers

Kenya Dairy Board is the regulator in the dairy industry. The board has various categories of licences issued after inspection of facilities for compliance. The licences include primary producers licence for farmers who sell milk direct to processors or process milk on their farms; milk bar; cottage industry; mini-dairy; cooler; and processor licence.

Agro-vet stores

To operate an agro-vet shop, it is a requirement that the person manning it holds a minimum of a certificate in animal health and is registered with the Kenya Veterinary Board. Additionally if the store sells seeds they must be certified by the Kenya Plant Health Inspectorate Service (KEPHIS).

Lesson 9: Cross cutting issues affecting business

The goal of the training is to create awareness on cross-cutting issues that can impact the business and the interaction between the business and the environment (PESTLE).

Statement of objectives

- List at least 5 issues that would affect the business
- Explain how at least 5 of the issues affect the business
- Identify 3 ways the business would affect the environment (PESTLE)

Content

- Environment
- Gender issues
- HIV/AIDS
- Drugs and substance abuse
- Corruption
- Human rights
- Governance

Methodology: Lecture, discussion, video, role play
Duration: 2 hours
Evaluation/assessment: Question and answer, group presentation

Facilitator's notes:

- Environment – climate change, carbon credit, pollution, waste disposal, biogas, energy saving devices, water harvesting
- Gender issues – gender mainstreaming
- HIV/AIDS – awareness creation on effects
- Disability
- Drugs and substance abuse
- Corruption
- Human rights
- Governance

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Notes

Notes

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