

# COURSE 2



## Understanding Business

# Introduction

In this course you will learn about the different business structures, types of small businesses and their characteristics, the core business skills, business management, legal requirements of a business and what to focus on for successful entrepreneurship and business.

# Learning objectives

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Upon completion of this course you will be able to:

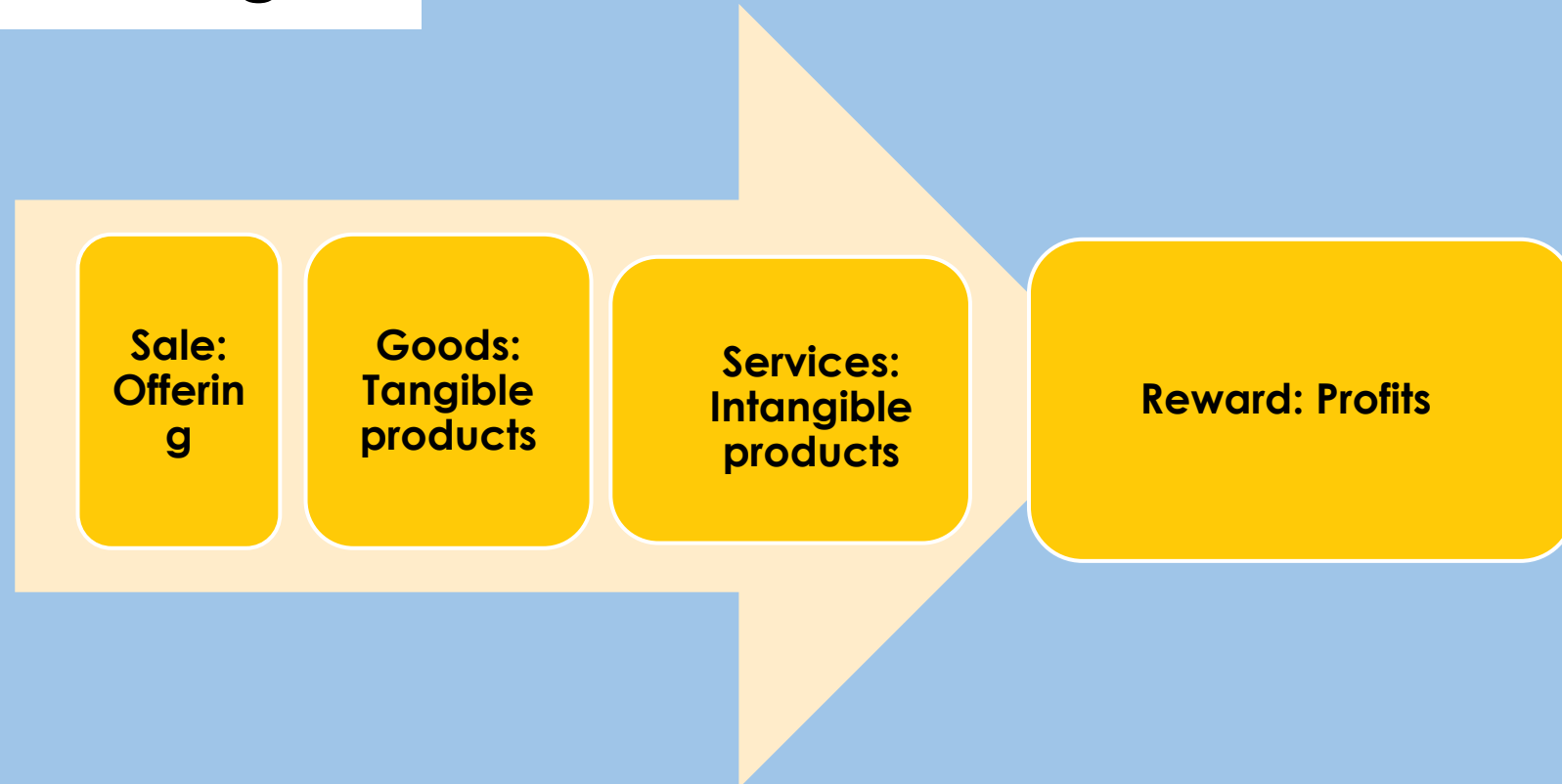
1. Use appropriate terms that are related to the start up of a small business within the context of creating a business plan.
2. Suggest at least 3 reasons for setting up businesses.
3. Identify the type of business structure that best suits your situation.
4. Differentiate between product-oriented and service-oriented business types.
5. Describe factors that influence the starting of a business, and relate them to your situation.

# Lesson 1: Business



Business is defined as “an organization operated with the objective of making a profit from the sale of goods or services.”

# Terminologies



# Types of Business

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## ● sole proprietorship

Also known as a sole trader, is the simplest form of business organization. You can start the business on your own using your own money, without having to set up a complicated legal structure.

All the income earned through the business is yours and In case of bankruptcy, you will be liable for the business' debts.

## ● Partnership

Is, in essence, a sole trader but having the ownership shared between partners. A partnership should have a partnership agreement drawn up to show the rights and responsibilities of all the partners, as well as each one's share in the business.

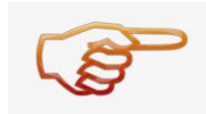
There may also be 'sleeping partners'- that is those who own a share of the business but are not involved in the day-to-day running of the business.

## A Small Business:

A business "that is independently owned and operated and which is not dominant in its field of operation."

- Small businesses can be defined by different standards. These standards include:

Click to read



- Start up investment/ Amount of capital
- Number of employees
- Rate of turnover/profits

According to African Development bank, below are the guidelines to characterize small businesses for African countries:

### Informal Operator / Survivalist

- no employees
- no distinction between business and personal finances
- does not keep records
- does not pay taxes
- is not registered with any authority
- engages in business activities to pay for daily expenses

### Informal Micro or Small Business

- ✓ less than 10 employees
- ✓ no distinction between business and personal finances
- ✓ may not keep records
- ✓ may not pay taxes
- ✓ may not be registered with any authority
- ✓ has physical address and contact details

### Formal Micro or Small Business

- ❖ between 10 and 49 employees
- ❖ keeps records
- ❖ has separate bank account
- ❖ pays taxes
- ❖ is registered with all required authorities
- ❖ has physical address and contact details



# Activity



From the guideline above, list at least five businesses and categorize each one according to the business types you have just studied.

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## **Lesson 2: Business skills**

Let's face it, as a solo entrepreneur you are THE business! No matter the size of your business, you are the visionary, accounting, marketing, sales, customer service, and technical expert.



For you to be able to juggle all the roles and responsibilities of the business you need to have a good understanding of the core business skills that will contribute to your success as an entrepreneur.

# The core business skills include;



- **Communication skills**

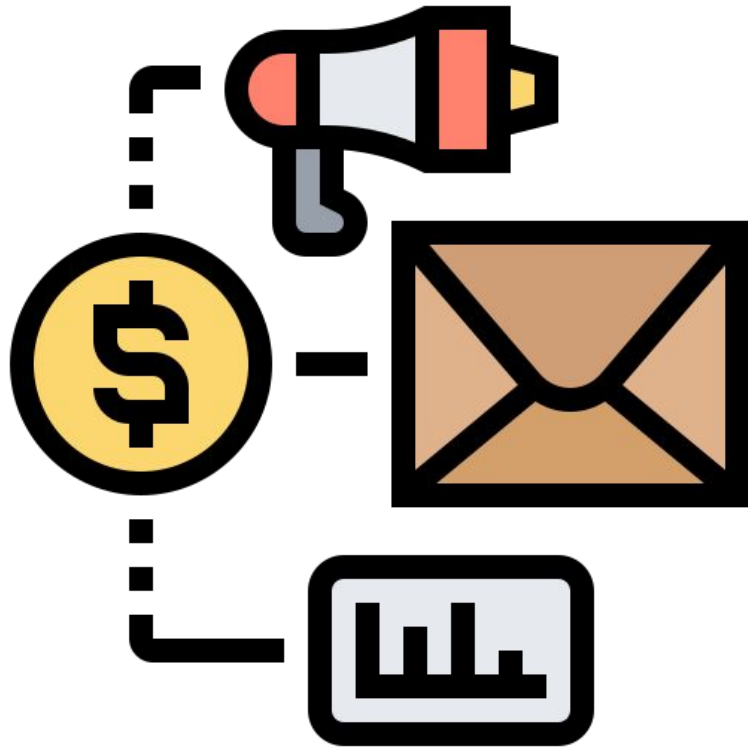
You will need to communicate and negotiate with your suppliers, potential investors, customers and employees. Having effective written and verbal communication skills will help you to build good working relationships. Every communication should reflect the image of your business you are trying to project.



- **Financial and accounting skills**

Being able to effectively manage your finances is critical. You will need to be able to forecast your cash flow and sales, as well as, monitor your profit and loss.

Having sound financial management skills will help you to run your business profitably and protect your financial investment.



- **Marketing skills**

It is important to be able to promote your products or services effectively. Providing good customer service and having a marketing strategy in place will help you to generate sales.

Marketing is a fundamental skill to have and by delivering what people want to buy is an obvious requirement for running a business. However, not many people truly understand how to market a business correctly. Marketing led businesses always tend to produce more revenues and profits than their competitors.



- **Strategic planning**

Every business follows a plan and sometimes it might not be written down in a document. But developing and implementing strategic change is a skill all business owners need.

Knowing how to effectively manage your resources, including time, money and staff will help you to achieve your goals.



- **Interpersonal & team management skills**

Team-building and interpersonal skills are essential for an entrepreneur in today's workplace. People working at their potential in teams generate better solutions and more productivity than individual members working independently.

Building a good relationship with employees, partners, advisors, and investors will help you take your business to the next level.



## **Lesson 3: Business Activities**

To run your business successfully, you need to take care of a number of important activities in your business. If you do them all well, they will support each other leading to business growth and sustainability. There are four main areas to take care of.

# Business activities

## 1. Product

Customers want good value for money. You will be able to provide good value for money by taking care to produce quality products or buy quality products without spending too much money. If you do not take care of the products, customers might not want to buy them, or you can't get a good price.

### What to do

- Choosing the right products
- Producing a good quality
- Buying supplies at a good price
- Making up new products or solutions
- Maintaining good relationships with your suppliers

# Business activities

## 2. Taking care of customers

When you satisfy your customers and give them a good experience they might come back. If you do not take care of the customers, they might not want to buy from you.

### **What to do**

- Learning about customers needs and tastes
- Attracting customers
- Maintaining an inviting shop
- Transporting products to where the customers are
- Choosing the right prices for selling
- Explaining the benefits of products to customers
- Being friendly and helpful towards customers

# Business activities

## 3. Taking care of money

By managing the money in your business well, you can make good decisions about how to spend money, and increase your profit. If you do not take care of the money, you might lose money or even run out of money without warning.

### What to do

- Finding money for starting
- Keeping business records
- Making sure you're making a profit
- Repaying loans on time
- Remembering who you gave credits to
- Managing money for living

# Business activities

## 4. Taking care of business

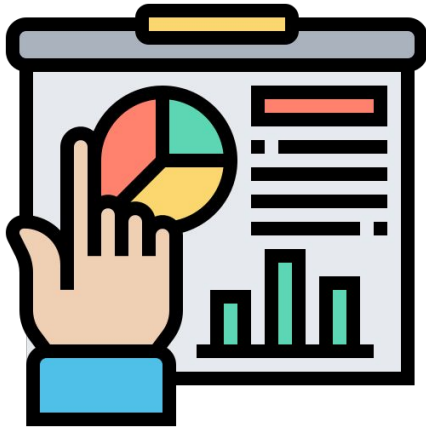
You should also take care of the business itself. Caring for the business includes all the activities that are not directly related to products, money or customers, but are still important for your business. For example, if you are a group running the business, it's important to learn how to work well together and solve conflicts. Managing the different activities is also part of taking care of your business. If you do not take care of the business, it might be inefficient, you might forget things or take bad decisions.

### What to do

- Working well together
- Thinking ahead
- Taking good decisions
- Finding easier ways to do things

# Reflection

**Good Job!** By now you the core business skills and the major business activities to focus on when you start business.



Learning the different business activities will as an entrepreneur provide you with more knowledge about the different parts of business to focus on as you implement your business idea or as you improve your business.

## **Lesson 4: Planning for the business**

Planning is one of the key parts of running a business and one of the important things to plan for is legal requirements of the business. Below are some of the things to put into consideration while planning;

## Naming your business and registration

→ If you intend to trade using a name other than your own; in other words if you intend to create a name for your business, you must seek permission to use that name. You must also ensure that no other business has registered that name before you can put up that name on your building or on your business documents.

→ Following the procedures to name your business should be one of the first tasks you do. You may want to think of two or three names just in case the name you have chosen is already in use. Once you have approval to use the name of your choice, you can move on to registering your business.



## Government Regulations for your business

As the owner of a small business/enterprise you will have to deal with government rules, regulations and laws. Taking the time to research the applicable regulations before you start your business is as important as knowing your market. It is important for you to be familiar with the laws that will govern your business so that you can plan ahead to ensure that your operations will be law abiding.

# Licenses

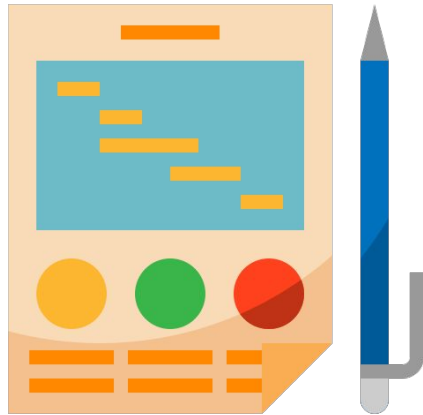
There are many types of licenses. However, they may not all be applicable to your type of business. Here are some examples of licenses you may need to get once you register your business:

- ❖ Traders license: gives individuals permission to trade and operate businesses in specific areas.
- ❖ Certificate of Occupancy: Permits you to put up building/stall or to operate from a certain area. For example on the street or alongside road
- ❖ Liquor license must be had if your business will be involved in the sale of alcohol. For example kiosks, bars, restaurants, among others.

## You may also be required by law to register for tax purposes:

- Value Added Tax (VAT) registration (where applicable) is a requirement by law. There can be some exemptions, therefore it is important for you to determine if this will apply to your business.
- Tax requirements - In many countries, small businesses/enterprises sole proprietor and partnerships are exempt from direct taxes. However, the business owners become liable. Most companies/corporations are required to pay corporate taxes. In some countries, the company/corporation may be tax-exempt for a specified period of time or if their sales value doesn't reach a certain amount per year.

# Course Summary



**Good job!** In summary Knowing the business requirements and needed business skills prepares you as an entrepreneur for when you decide on which business to start. You may not need to know everything but having an idea guides you on which action to take.

And for better legal preparedness make sure you take some time to research some of these options, as your new business may qualify to benefit from some of these incentives. The best place to start is your local business center, if there is one in your community. For example in Kampala its Kampala Capital City Authority (KCCA)