STANDARD HIGH SCHOOL- ZZANA

S.2 ENTREPRENEURSHIP NOTES

INSTRUCTIONS;
Copy these notes to your entrepreneurship books starting from where we stopped

Prepared by
MADAM SCOVIA ARINEITWE

1. **JOINT STOCK COMPANY.**
   Joint Stock Company is a corporate body or association
   Of persons having joint capital for purpose of carrying out business to earn profits.it is a business unit owned by a number of individuals called shareholders.
   TYPES OF JOINT STOCK COMPANIES
   Companies may be classified mainly into two groups i.e. registered companies and statutory companies
   - **Statutory companies.** These are companies that are created by an Act of parliament i.e. they are government companies like Bank of Uganda.
   - **Registered companies**. These are companies formed and registered under the companies act.

   Types of registered companies

Registered companies may be further divided into the following groups**;**

- According to the number of members i.e. private or public limited companies
- According to the liability of members i.e. limited or unlimited companies.
- Companies limited by shares or companies limited by guarantee.

Private limited companies

These comprise of twenty (20) to fifty (50) members, excluding employees.

Public limited companies

These have a minimum number of seven (7)members but with no maximum limit.

Limited companies

A limited company is one where the liability of members is limited to a stated amount, usually the capital contributed.

Unlimited companies

These are companies where the liability of members is unlimited like those of sole traders and general partners**.**

Companies limited by shares

These are companies where the liability of shareholders is limited to the face value of shares held them. Thus if one holds a share of shs 10,000 face value in a particular company, the maximum he can lose in the event of winding up/closing/bankruptcy is shs.10,000. If such a shareholder has only paid, say shs.8000 on that share, he may be called upon to pay the balance of shs. 2000, and no more, if the company fails to pay its creditors.

Companies limited by guarantee

These are companies with no share capital where the liability of members is limited to the amount of money a member guarantees or promises or pledges to pay at the time of taking membership. If such a company is liquidated, and its assets are not sufficient to meet the debts, members would be asked to contribute up to the maximum of the amount guaranteed by them at the time of taking membership. In Uganda, examples of companies limited by guarantee include football clubs.

FORMATION OF A COMPANY

For a company to be formed there must be some people who bring out an idea of forming one and setting its operation. Founder members are known as **promoters.** The promoters are required to submit to the registrar of companies the following documents; memorandum of association, articles of association, certificate of incorporation, prospective, certificate of trading, list of directors, statement signed by the directors and a declaration that necessary requirements have been complied with.

- **Memorandum of association**

  This is a document that governs the external relationship between the company and the public. It shows/lays down the powers and limitations of the company. It is an application by the promoters to the registrar of companies showing their need to be formed into a company and it must be signed by all the promoters.

  Contents/clauses of the memorandum of association

  The memorandum of association consists of six clauses, each of which defines a particular aspect of the company. They include;

1) **Name clause.** This clause states the name of the company with the word 'limited' at the end which serves as a reminder to the people dealing with the company that the liability of its members is limited.
2) **Situation clause.** This gives the location/ place where the registered office which notices can be sent is situated or located.
3) **Objects clause**. This clause outlines the aims and objectives for which the company is being formed. It is the most important clause when forming a company.
4) **Capital clause.** This gives details about the stated share capital the company wishes to have. It contains the following information;
   i. The total amount of share capital.
   ii. The units (shares) into which the share capital is divided.
   iii. The value of each share.
   iv. The types of shares
5) **Liability clause**. This clause states the liability of members shall be limited
6) **Declaration clause**. This states the desire of the promoters to form themselves into a limited company. This clause sets out the names and addresses of the promoters and the number of shares each has agreed to take.

- **Articles of association/table of a company's act.**

This is a document that governs the internal organization of the company. It lays down the rules and regulations about the internal organization of the company.

Contents of articles of association

- The rights and powers of each type of shareholders
- The qualification, duties, and powers of directors
- Methods/procedures of calling and conducting general meetings
- Rules governing election and removal of directors and auditors
- Auditing the books of accounts
- The issue and transfer of shares, etc

    - List of directors. This gives the names and addresses of directors
    - Statement signed by directors stating that they agreed to act as such
    - A declaration that all necessary requirements have been duly complied with the directors agrees to act as such.

- **Certificate of incorporation**. This is a document that gives legal existence to the company. It brings the company into existence as a separate legal entity. When the required documents are presented to the registrar of companies and everything is found satisfactory, a certificate of incorporation may be issued. It allows a private limited company to commence business.

  Prospectus. This is a document that invites the public to subscribe for shares. It is use by a public limited company to advertise shares to the public inviting the public to subscribe so as to rise the capital required. It is usually printed in newspapers or may be sent directly to the people who are likely to be interested.

    - Certificate of trading/certificate of commencement. This is a document that allows a public limited company to commence business. It is issued by the registrar of companies after;
        i. A minimum share capital has been raised
        ii. The directors have paid for shares taken by them
        iii. The directors have filled a declaration that the above requirements have been met.

PUBLIC LIMITED COMPANIES

A public limited company is a business unit of a minimum number of seven (7) members but no definite maximum number of stake holders who have pulled their resources together to run a business with a view of making profits. Public companies are large in size and therefore have greater issued share capital.
Examples of public limited companies in east Africa include; pan world insurance company, green land investment, East African breweries limited and East African industries limited.

Features of public limited companies

- The liability of members is limited
- They have an entity of their own quiet separate from the members that make it up i.e. they can sue and can be sued

- They have a minimum number of seven members but with no upper limit of number of share holders
- Their capital is divided into units of uniform values and each of such units is called a share.
- The owners of the company are those who hold shares in it and such people are called share holders
- Shares of the public companies are freely transferable without any restriction
- They can start business without a certificate of training/commencement of business

- The public company is not affected by bankruptcy, insanity or death of a share holder
- Directors who elected by shareholders from among themselves conduct the affairs of the company
- The annual accounts must be published to the public for instance in form of newspapers.

Advantages of public limited companies

- Employment of specialists is possible due to large capital
- Shareholders are safeguarded against fraud by the publicity of company accounts.
- The liability of members is limited hence the financial collapse doesn't affect the social status and the financial position of the shareholders
- The company is much better placed to raise greater amount of capital through the sale of shares and debentures to the public
- The death, bankruptcy or withdraw of one member cannot affect the existence of the business
- Specialization or division of labor can easily be exploited because of big membership and large-scale operation
- They have large chances of improving their capital through selling shares ,debentures or borrowing from financial institutions
- Company shares are freely transferable hence, an incentive to investors as they are assured of converting their holding in the business into cash at any time they wish
- There is a possibility of issuing different types of shares to sue to the investment habits of the different types of people
- Employees may be allowed or encouraged to buy shares in the company thereby giving them added incentives to work harder hence increased production
- If a company has been making good dividends, a shareholder would be able to sell his shares at a much higher price than the normal value and thus making financial gains

Disadvantages of public limited companies

- Formation is a long and expensive procedure

- The shareholders do not have a direct control over the running of the business since they normally employ experts to undertake the administrative activities of the firm
- The directors employed to manage the company may have their own interests that may conflict with the intended interests and objectives of the company
- There are slow and expensive decision making since all important decisions are taken by the directors and more important issues are handled by the shareholders
- Many public companies grow beyond their optimum points hence experience diseconomies of scale for instance managerial diseconomies
- It is usually difficult to keep business secrets in the public companies as they are required by law to disclose certain information to the public
- It is difficult to establish direct contact with customers and employees since the business is on large scale
- Public limited companies are subject to a number of legal regulations which hinder the smooth operation of the business. For examples they are required by law to file their returns, publish their accounts ,etc

PRIVATE LIMITED COMPANIES

A private limited company is a business unit consisting a minimum of two but a maximum of fifty shareholders exclusive of the past and present employees who have put together their capital and management resources with an aim of making profits.

Private companies are very desirable and they are just a developed form of partnership. They are normally small with few shareholders and this allows the shareholders to have direct control over the business affairs.

Examples of private limited companies include;

Madvan Group of Companies, British America tobacco Uganda limited (BAT), Foam Industries for example royal Foam etc

Characteristics of Private limited companies

- The liability of members is limited
- They have an entity of their own quiet separate from the members that make it up
- The minimum number of members is two and the maximum is fifty excluding past and present employees
- The owners of the company are those who hold shares in it and such people are called shareholders
- The shares of private companies are not freely transferable i.e private accompanies are not allowed to offer their shares to the general public and shareholders wishing to sell their shares in private companies have to seek permission from all other members or directors

- Private companies can commence business as soon as they receive a certificate of incorporation. They do not have to wait for a certificate of trading as it is the case with public companies
- Private companies are not required to publish their accounts as it is the case with the public companies
- The private company is affected by bankruptcy, insanity or death of a share holder
- Directors who are elected by shareholders from among themselves conduct the affairs of the company

Advantages of private limited liability companies

- Employment of specialists is possible due to large capital
- They can attract capital so easily from the investing public because of limited liability that the owners enjoy
- The liability of members is limited hence the financial collapse of the company doesn't affect the social status and the financial position of their shareholders
- The death, bankruptcy or withdrawal of one member cannot affect the existence of the business
- Specialization can easily be exploited because of big membership and large scale operation
- They have large chances of improving their capital through selling shares or borrowing from financial institutions
- There is a possibility of issuing different types of shares to suit the investment habits of the different types of peoples
- Economies of scale are easily reaped as a result of their large scale operation and lump sum capital stock
- There is independence i.e. a private company is free from legal restrictions which apply to public companies e.g. publishing of their accounts, feeling of returns etc.
- The promoters of private companies usually keep control of their businesses by holding majority of the shareholders unlike in the case of the public companies whereby directors are the ones to take decision and run the business

Disadvantages of private limited companies

- A private limited companies cannot appeal to the general public to buy shares hence leading to smaller capital
- Shares of private companies are not easily transferable and this may be a disincentive to speculative investors
- Total membership of private companies is restricted in numbers hence the expected capital structure is limited
- The principal benefits of large scale activities cannot be achieved for example expansion in size is limited.

- It is difficult to establish direct contact with customers and employees since the business is on a large scale
- There is slow and expensive decision making since all important decisions are taken by all the shareholders

Activity

Explain the differences between private limited companies and public limited companies.

Advantages of limited liability companies over other forms of business units

- Specialization can easily be exploited under limited liability companies compared to sole trade
- More capital is raised with the large number of shareholders than in the case of sole trade or partnership
- Members enjoy limited liability unlike in sole trade of partnership except for limited partners
- The death or bankruptcy or withdrawal of one firm cannot affect the existence of the business compared to sole trade or partnership
- Employment of specialists is possible due to large capital unlike sole trade or partnership where capital tends to be small
- They have greater chances of improving their through selling shares, debentures or borrowing from financial institutions unlike sole trade or partnership
- Company shares are freely transferable hence an incentive to investors unlike in sole trade or partnership where owners interest is not transferable
- There is a possibility of issuing different types of shares to suit the investment habits of the different types of people than it is the case in sole trade or partnership
- Shareholders are safeguarded against fraud by the publicity of company accounts unlike in partnership

LIQUIDATION OR WINDING UP OF A COMPANY

This refers to the process of selling off all the assets of the company or business and paying off its creditors. Liquidation of a company represents the last stage in its life and it may be liquidated voluntarily by shareholders by court upon petition by unsatisfied creditor

If the members wish to liquidate the company, the directors are required to file a declaration of solvency.

Declaration of solvency is a document stating that the directors believe that the assets of the company will be sufficient to pay off its debts.

Reasons why/ curmstances may wind up

- where the shareholders pass a resolution at a meeting to wind up the company ie voluntarily winding up

- if the period, if any fixed for the duration of the company by its articles of association expires
- when the company can no longer carryout its business because of lack of funds(in debentures)
- if the creditors apply to court for the company to be liquidated on the grounds that it has not paid its debts or is unable to meet its financial obligations
- In case it is found out that the number of shareholders does not correspond with the minimum number
- if it does not commence business with a year of issue with a certificate of incorporation
- if the activity or operations of the company become illegal

Advantages of forming a company

a) **Limited liability** i.e. shareholders of a company are liable only to the extent of the value of shares held by them

b)Large financial resources, it facilitates the collection of huge financial resources due to a big number of shareholders.

b) **Continuity**, accompany enjoys uninterrupted business and life. As body corporate, it continues to exits even all if all its members die or descent it.

c) **Transferability of shares**, a member of a public limited company can freely transfer his shares without the consent of other members.

d) **Professional management**, due to its large financial resources, it avail of the services of expect managers with the required skills which leads to profitability and efficiency.

e) **Scope of growth and expansion** , there is a considerable scope of growth and expansion due to vast financial and managerial resources and limited liability, this can help it to reap various economic of large scale which improves on efficiency and reduces costs.

f) **Public confidence** ,a company can acquire public confidence since its activities are regulated by the government under the company's act.

g) It **is separate legal entity** i.e. it is separate from the owners , and hence can sue and be sued on own. This is advantageous in that in case of a loss made by the business, the owners are not affected.

Disadvantages of a company

a) **Difficulty of formation**, it is so expensive and difficult to form as a number of documents have to be prepared and presented to the Registrar of companies.

b) **Excessive government control** in form of rules and regulations, submission of periodic reports, which reduces efficiency and flexibility of the business operations.

c) **Lack of motivation and personnel touch** as there is a divorce between ownership and management public companies.

d) **Delay indecision making,** there are many levels in management, which result into the red tape and bureaucracy.

e) **Conflicting interests**, since they are many , there is a possibility of having conflicting interests, for instance between shareholders and management , this retards growth.
f) **It is accompanied with corruption** , fraud and embezzlement of companies' funds
g) **Lack of secrecy** as it is required to disclose and publish a variety of information on its working operations.
h) Such companies are **usually interfered with political situation**, for instances as in electing the management it may be influenced by the ruling government for their own benefits that could be contrary to those of the members.

4. CO-OPEATIVES

A co-operative is a group of producers or consumers who voluntarily join together to a chive a common social or economic objectives, by pooling their resources and working together. A co- operative society is an association of members who come together and contribute its capital with an aim of carrying out an activity to realize mutual benefits like profits.

FEATURES OF CO-OPERATIVE SOCIETIES.

- The capital of a co-operative society is raised by members by way of share capital.
- The owner of co-operative society is necessarily the consumers/ suppliers.
- They enjoy a separate and independent status distinct from that of its members.
- At least 10 people are required to form a co-operative.
- They are voluntarily society that any person can join and leave at any time on her or his own will.
- Shares are freely transferred as it is unlimited liability company.
- They are subject to control by government e.g.s in Uganda, co-operative societies are registered under co-operative societies act 1963 with a minimum of ten people.
- Profits or surplus made by co-operative societies is distributed among members in form of dividends at the end of every trading period basing on services rendered by a member to the success of co-operative society.
- They are controlled by elected committee of management who are also members of the society and this is done democratically where each member is entitled to only one vote irrespective of the number of his/ her shares.
- Part of the profit/ surplus which is retained is paid out of the members as interest on capital contributed.

Types of Co-operative societies

There are Marjory four types and they include;

a. Consumer's co-operative societies,; these are owned and operated by a group of final consumers who purchase and distribute goods . Services to themselves at a fair price.

b. Producer co-operate societies; these are owned and operated by producers who collect, process market and transport their produces, they deal in products like coffee, tea, cotton, etc. they normally do this to avoid being exploited by individual buyers.
c. Wholesale co-operative societies; these are almost the same as consumer co-operatives, having the same principles, but these normally operate on large scale with huge capital investments.
d. Savings and credit co-operatives, these are set up to encourage producers, consumers and other groups to carry out savings and also offer them assistance in form of loans and other facilities to carry out profitable businesses.
e. Transport co-operatives; these are formed to provide transport services to the public and members at affordable prices / fares.

Principles of co-operative societies

a. All members are entitled to a fixed rate of interest on their capital contributed.
b. Members get dividends according to their participation, like in consumers co-operatives, member who buys more, gets more dividends.
c. Co-operatives are expected to be politically neutral with no religious or political bias.
d. Members have equal voice because each member has one vote (democratic principle).
e. In case one wants to leave the society, he /she can only sell his shares to another willing person but cannot be refunded.
f. Directors are elected by members themselves, but not appointed.
g. There is free and voluntary membership, i.e who ever feels he abide by the rules and regulations of the society can join.
h. Management and decision making is in the hands of the members since they follow a " one man one vote" principle.

Functions of co-operatives societies

a. They help in the marketing of farmers produce a t fair prices

b. They provide training facilities to the farmers, like the modern farming methods at lower no cost.
c. They provide storage facilities for the farmers produce.
d. They offer transport facilities for the farmers' produce to the market centers.
e. They carry out research on behalf of farmers and hence extend quality and modern farming techniques.
f. They provide agricultural raw materials and farming tools to farmers at low costs.
g. They mobilize funds from the members, which can be extended to other members in form of credit facilities / loans hence increasing productivity.
h. They may also access credit facilities from financial intuitions on behalf of their members, which can be used to boost their business.

ADVANTAGES OF CO-OPERATIVE ORGANIZATIONS.

- The liability of the members is limited to their capital contribution contributions just like limited companies with the exception of those co-operatives with unlimited liability i.e. smaller co-operatives.
- The death, bankruptcy or withdrawal of one member cannot affect the existence of the business.
- The management of co-operatives is in the hands of the management committee which is elected by all members on the basis of one man one vote which encourages democratic management.
- Co-operatives can attract capital so easily from the investing public because of liability that owners enjoy.
- They have large chance of improving their capital through borrowing from financial institutions.
- Economies of scale are easily reaped as a result of their large scale operation and lump sum capital stock.
- Being voluntary organizations, they are easy to form ie they do not involve tedious legal formalities as it is the case with companies.
- Government usually provides various privileges and assistance to co-operatives societies because they are viewed as organizations helping the poor.
- Specialization or division of labor can easily be exploited because of big membership and large scale operation.

Problems faced by co-operatives in Uganda

Inadequate capital as members may fail to pay their contributions, this limits the progress of the societies.

Lack of business experts in management, most societies are run by illiterate members since they lack funds to hire experts, this also hinders the operations of the society.
Corruption and embezzlement of members fund by top managers, this is so common among societies and leads to its collapse.
Most societies **offer little or low interest on capital** which is contributed by members, this discourages them and other members from injecting in their money limited growth.
Most of the area where such societies operate **from rem**ote, coupled with poor infrastructure development like roads, this makes transportation of their produce expensive and difficult.
Illiteracy of the people , most of the people are illiterate and hence difficult to convince them the importance of joining such societies, they think it's a form of taking their funds, this also hinders growth of such societies.
Since most of them deal in agricultural produce, they face a problem of price fluctuations in the market, this also leads to fluctuations in profits and incomes of the members.

N.B.
it should be noted that co-operative societies are set up to help members access certain products supply their products are reasonable prices, but not make profits , however , where profits are realize its shared among them basing on their capital contribution.
It is also important for an entrepreneur to take the legal form of business ownership as part of his / her business start-up process. This is because either of the legal forms has its ownership is detected several factors which may include:

12.3 Factors considered when choosing a legal form of business ownership.

Nature of business; i.e. Service, trading, manufacturing e.g. manufacturing businesses are more commonly set up by companies since most of them operate on large scale.

Size and area of operation e.g. large scale enterprises catering to national and international market can be organized more successfully as private or public companies.

Degree of control desired, a person who desires direct control of business prefer sole proprietorship.

Amount of capital required, e.g organizations, which require heavy investment, should be organized as joint stock companies.

Degree of risk and liability e.g. a single individual may have enough financial resources enough for medium or large scale enterprises, but due to unlimited personal liability, he may not organize it as proprietorship business.

Division of surplus, i.e. a sole trade receives all the profits but bears all the risks alone , so if person desires or deserves maximum share of profits, proprietorship is preferred.

Duration of business, temporary ventures can be organized as proprietorship as they are easy form and dissolve however they lack continuity and proprietorship are subject to little regulation and control the government.

Flexibility of operations, businesses which need a high degree of administrative flexibility should better be organized as sole proprietorships.

Tax burden, various forms of ownership are taxed differently under the income tax, proprietorship and partnership share a little or no tax burden as compared to companies.

N.B Identify the location of the business, this should also be highly considered because the location should be favorable in terms of easy reach of the market and minimizing operating costs like transport costs from the raw material source and to market centers etc.

Starting business operations. Since the above start up process is a accomplished an entrepreneur now ready to start business operations. Assuming it was a trading business, one may commence operations in the following format.

- Mobilizing and setting up the required business funds.
- Preparing and cleaning the business premises.
- Procuring the necessary business stocks / merchandise / goods to be sold.
- Displaying the stocks / goods in their shelves properly, ready to open the premises.

Acquiring bank accounts and arranging for books to be used in recording business transactions.

EXPLORING THE ENVIRONMENT FOR BUSINESS OPPORTUNITIES.

Business opportunities

A business opportunity is an identified situation or chance that changed into a real and profitable businesses. It is brought about by the identified needs in the market that are not being satisfied by the existing business (es).

Before an entrepreneur starts a business, he thinks of various business ideas that can be turned out into opportunities, there are different factors that an entrepreneur considers when selecting an idea that can be turned into a business opportunity.

FEASIBLE AND VIABLE BUSINESS.

Before putting money in any business venture, one needs to first find out whether such a business opportunity is feasible and viable

A feasible business refers to a business that can possibly be done or implemented using the available resources. On the other hand a viable business refers to a business that is profitable.

FEASIBILITY AND VIABILITY OF THE BUSINESSIDEA.

Feasibility of a business idea refers to the extent to which business idea can be done or implemented using the available resources while **viability** of a business idea refers to the degree to which a given business idea ii profitable.

INDICATORS OF A GOOD BUSINESS OPPORTUNITY

a) **The reasonable level of returns on investment**; the expected profits from the business should be acceptable for the level of investment by the entrepreneur.
b) **Availability of market** i.e. the number of willing buyers should be large enough to ensure that the produced goods will be easily sold to achieve the desired profits.
c) **Availability of required resources** to set up the business, like raw materials, capital etc. if they exist and satisfy the entrepreneur .
d) **Availability of required technical skills.** The relevant technology and skilled manpower to start and operate the business, it should not only be available, but also affordable by the entrepreneur.
e) **Acceptability in community**. The business should be legal and compatible with the social norms of the community in which it is to be located, for instance one would not be advised to set up a bar near born again church community.
f) **Availability of good infrastructure** (supportive services).this takes the form of good transport, power, bank, insurance companies, warehouses etc.
g) **Favorable government policy**. There should be a conducive government policy favorable for investment e.g. low taxes tax holiday's etc. for business to be viable.

QUALITIES OF ATTRACTIVE BUSINESS OPPRTUNITIES.

Good income potential. A good business opportunity is one which is capable of giving sufficient income to support oneself, in a reasonable life style. It is one that has potential to produce good, steady and fulltime income.

Sizeable market gap in terms of people or institutions willing and able to buy goods and services of the business.

Lower and moderate startup capital. A good and attractive business opportunity is one which requires low capital investment.

Good growth potential. An attractive business opportunity is one which has a chance to survive for a long time while generating a sufficient income to the owner or manager.

Reasonable ease of entry into the market.it is advisable that one should enter into the business in which he/she has got the general background of it. For example he can use contracts he already has and reputation in the field could be valuable in running the business successfully.

Related to one's skills and experience. Some businesses require certain skills and experience. This means that for one to succeed in such business, he/she should possess the required skills and experience needed to run the business successfully.

Properly timed. A good business opportunity is one which is timely and responds to the unsatisfied needs or requirements of customers who have the ability to purchase and who are willing to buy.

10.2 Sources of business ideas

Business ideas are generated by an entrepreneur and out of which, a business opportunity may be selected. Such ideas are generated from any of the following;

a) **Technical skills and experience** that they possess, these give them an opportunity to think deeply about the identified situations like finding out better ways of doing things.

b) Through **carrying out personal contacts with different (brainstorming)** people and this exposes them to numerous ideas.

c) Through **observation** of the developments and changes taking place in and around them, the challenges coming up and the needs that are becoming important, this helps them generate ideas basing on the changing needs.
d) Through **the press**, like from newspapers, Business magazines, over the radios where most developments, policies and consumers' priorities are communicated and publicized.
e) Through **conducting research** to find out what is happening and the latest tastes and preferences of customers, this leads to generation of different business ideas.
f) Through **carrying out a market survey** to identify the products being sold, those that are needed but do not exist, those that need improvement, etc.
g) Through **discussions with other existing entrepreneurs** on issues concerning business and through this, one gets to learn different views, comments and advice on different situations, etc.
h) Through **looking at the trends in the market**, like population shifts, people's income, the buying patterns etc. this helps them to generate ideas basing on these market trends.

N.B creativity: This refers to an entrepreneurs' power and ability to come up with various business ideas even in situations that may seem hopeless. For instance setting up an opportunity in a refugee's camp.

I) Through **trade shows, exhibitions and companies** which maybe visited with an aim of acquiring business ideas by observing those of others as well as the products they produce.

J) **Entrepreneurial workshops**. That may be organized to equip individuals with skills of managing running of businesses.

Market, potential market and market assessment

A **market** refers to all buyers (people, institutions) with in a specific geographical area, who are in need business products, willing and able to buy them. These constitute **A Real market**.

This means that people or institutions, to constitute a market for any business (Like trading business) should exhibit the following:

- Need or want the products being sold by the business
- Able to buy the products
- Are willing to buy the product

A potential market for a business is composed of people or institutions in need and are able but are not yet willing to buy its products.

Market assessment is the process of determining the market of the products of the business.

SEPS/GUIDELINES FOLLOWED WHEN CARRYINGOUT MARKET ASSESSMENT.

1) Selecting a product (goods and services) for which market assessment is to be done.
2) Identifying the market where assessment of a given product is to be done.
3) Selecting the methods and approach to be used in market assessment.

4) Collection of the data on the 5ps i.e. product, price, place, promotion and positioning.
5) Analyzing the data that has been collected in step 4 above.
6) Analyzing the marketing strategy which the entrepreneur may have come up with.
7) Assessing the feasibility and viability of the selected product in market.

Factors for assessing market potential for a business

There are factors which one should consider when determining customers who are in need and able to have his products and among which are;

1. **Demand:** This is the amount of the product that people are willing and able to buy at given price, if the demand is high the market potential will also be high and hence the better prospectus of the business.
2. **Competition:** This is all about a business struggling to maintain its customers as well attracting those of other business, mainly those who sell the same or related products. A business which faces high competitions will automatically experience a low market potential as it will keep on losing customers to other business / competitors.
3. **Price;** There might be many people who would be willing to have a business product but the ability to buy them is restricted by the prices at which it is being offered, however, this one depends on the nature of the market, for instance , the potential market for expensive shoes in rural areas is very low as if people will not afford them and thus second hand clothes will have a high potential market.
4. Availability of substitutes; these are alternative products which customers can go for in order to satisfy the same need, e.g. beans and peas, kiwi and dragon shoe polish. Thus a commodity without close substitutes will have a high potential market compared to the one with close substitutes e.g. salt as the customer will be having no alternative apart from the product.
5. Income levels; The ability of the target people or institutions to buy a business product at profitable price will influence the potential market, i.e. the higher the income level, the higher potential market will be.
6. The location of the business also affect the potential market, a business which is strategically located in relation to its target customers will have a higher potential market than the one which was not planned for, that is why a business plan is a very important management tool as far as a business is concerned.
7. The number of people , business and institutions that operate from a target area will also determine the potential market, the bigger number of people, the higher the potential market.

8. Government policies, These may affect the business operations e.g the opening hours for business the location of the business, the nature of customers to serve etc. for instance trading business which were located near the bus park in Kampala were having a high market potential, however , when concerned authorities decides to demolish, the park and set up the Bus terminal building all those businesses lost their markets.

10.7 Factors considered when conducting a market assessment

For an entrepreneur to conduct a market assessment for his or her products, he or should consider number of factors which may include;

1. The target markets for the products i.e. the people, business or institutions the business intends to serve. This provides a boundary with in which the assessment is to be done, e.g. with the target group one may look at the age, sex, income levels, education etc.
2. The nature of the product to be produced and the market needs ; Under this, one looks at the variety of products, quality, design, brand name, packaging etc. and all these are checked against what the market or customers would wish to have.
3. The competition and substitute products facing the business and this affects the market, most business have competitors and their products can be substituted for the ones entrepreneur wishes to make. This therefore necessitates an entrepreneur to check on the level of competition his or her products are likely to face. e.g. if the level of competition is too high, he or she would rather give up with the business and goes back to crosscheck on the list of his ideas and get another one and checks if it can be an opportunity that can be turned into business.
4. The target market trends and their implications on the business market , an entrepreneur would wish to know the market he hope to join has been behaving in the recent past since it will affect the products he is to sell now and in the future.

Among the trend issue that one would wish to May to may include the following;

- Is the market expanding or contracting?
- Is the market stable or unstable?
- How are new entrants treated in the market?

OBJECTIVES OF CARRYING OUT MARKET ASSESSMENT FOR A PRODUCT.

- To find out the type and the nature of a product preferred by the customers at a given period of time.
- To find out the quality of product consumers desire to buy.

- To determine the quantity of product to be put on market ie how much is likely to be bought now and in future.
- To find out the consumers' reactions on the prevailing price.
- To increase sales or turnover of a firm.
- To determine the best distribution channel of goods and services for possible areas where the channel of distribution is appropriate.
- To find out and follow up the effectiveness of advertising and sales promotion on the sale of a particular product.
- To assess the level of competition with rival firms for example crown bottles may carryout market research to determine its market share and how its product are competing with those of century bottling company.

IMPORTANCE OF CARRYING OUT MARKET ASSESSMENT/MARKET RESEARCH FOR A PRIODUCT.

It helps an entrepreneur to check the effectiveness of his/ her advertising and promotional activities.

It helps an entrepreneur to find out the response of customers about th new product development that he/ she introduced in the market.

It helps an entrepreneur to identify problems in the current product or service and find areas of improvement on a product or services in order to fulfill customers' needs.

It helps an entrepreneur to identify changing market trends that may affect the sales and profit levels presently and in future.

It helps an entrepreneur to find out his/her market share i.e. the number of customers he/she is serving in market.

It helps an entrepreneur to find out who his/ her customers are, where they live,, what customers want and when they want it, their buying patterns etc.

It helps an entrepreneur to know what peoples' opinion is regarding particular good or services.

It helps an entrepreneur to assess he most favored designs, size, styles flavored, and packages which customers want most.

It helps an entrepreneur to identify his/her competitors, their activities and strategies and device various ways of outcompeting them.

It helps an entrepreneur to collect information which can be used as a basis for marketing decision making.

METHODS OF COLLECTING DATA FOR CONDUCTING MARKET RESEARCH / MARKET ASSESSMENTFOR A PRODUCT.

Interviewing. This method is used to collect data from customers' knowledge, opinion attitudes, preferences and their buying patterns. It involves a face to face discussion between the researcher and the respondents about the problem at hand.

Observation methods. This method involves watching or observing certain factors in a given market in order to arrive at general conclusion about the entire market. For example a firm wishing to start a processing fruits may observe the consumer to find out whether they buy processed juice or not in order to enable it make decisions of whether to process or not to process fruits. This method can be used to collect information which people do not want to give freely.

Questionnaire. This method involves asking all respondents similar structured questions. The questions are presented in written form and sent to respondents who are supposed to return after filling in the required information.

Sampling method. This is where the manufacturer selects an area which reasonably represents the entire market to carry out the test using sample product. The product is then launched on to that particular area e.g. a town, city, village and research is done thereafter. Respondents may be required to answer different aspects of the product like price, quality, brand names etc. The answers are then analyzed to help the manufacturer modify his product before supplying.

Surfing / use of internet. This is where information is gathered through surfing from different websites from internet.

SWOT analysis. This method involves collecting data by a business through gathering information about its strength, weakness, as well as information about opportunities and threats from outside environment.

SOURCES OF DATA FOR CONDUCTING MARKET RESEARCH /MARKET ASSESSMENT FOR A PRODUCT.

Company employees/ workers. This is one of the best sources of information about customers' likes and dislikes. This is because workers usually work more directly with the customers and here complaints that may not reach the owner if the business. They may also be aware of the items customers request that the business does not offer.

Competitors. This is where data is collected by monitoring the activities of competitors in the same line of the business. This may provide important information about customers' demand that were overlooked and they may be capturing part of the market by offering something unique.

Customers. Under this method, the entrepreneur talks to the customers to get their feelings about his/ her product and ask them where improvement can be made. This is because by asking customers to explain how the product could improve to fulfill their needs, constructive market research is done as well as instilling customers' confidence in the product.

Company records and files. Company records and files can be very informative to the if they are looked at. For example records relating to sales, complaints, receipts, information about where customers live, where they work from, how they buy, etc. such information enable the entrepreneur to check on the effectiveness of advertising.

CHALLENGES FACED WHEN CONDUCTING MARKET RESEARCH / MARKET ASSESSMENT.

Language differences which make researchers sometimes miss the information they desire to get due to inability to communicate in the languages understood by the different respondents or consumers.

Limited funds i.e. it is very expensive to carry out market assessment especially by small firms with limited capital.
Limited skills to handle data collection due to limited skilled manpower to effectively and efficiently handle market assessment.
Limited communication facilities which make accessibility of some areas of the country difficulty due to poor road network.
Limited co-operation form the consumers or public whereby some people refuse to answer the questions, others give wrong answers while some chase away the researchers.
Changes in demographic factors like population, age, sex, etc. all of which affect findings.
Competitors who sabotage effective data collection.
Insecurity/hostility in some areas which hinders effective data collection.
The challenge of getting information from **biased sample/ source**.

Using S.W.O.T analysis to determine the competitive advantage of a business

SWOT analysis is a tool which enables an entrepreneur to check the chances of success of his / her business in the market. SWOT analysis enables an entrepreneur to check his business strengthens, weaknesses, opportunities are threats, compares them with those of his competitors so as to determine whether his business is in a better position to compete favorably with those of this competitors.
Some of the issues that an entrepreneur will consider when carrying out self-assessment. using **SWOT** analysis to d determine his competitive advantage are;

1. **Strength**: These are things/ features or qualities that put an entrepreneur's business products and advantage compared to those the competitors, they include:
   - High quality products
   - Ability to produce a product that meet customer needs.
   - Customer friendly who can but at profitable prices
   - Efficiency and effectiveness when handling customers.
   - Ability to attract customers
   - Good location of the business
   - Well trained marketing staff.

2. **Weaknesses:** These are constraints or limitations that the business products may face in the market, they include:
   - Being new in the market hence low market / weak market image.
   - Weak distribution image.
   - Low marketing skills
   - Higher costs compared to the competitors.
   - Poor and inaccessible location of the business.
   - Inability of finance the needed marketing changes.
3. **Opportunities:** These are externals chances or possibilities and benefits to the business. However, the business has no control over them, i.e. may happen or not happen. They include:

- Sudden changes in customer's tastes and fashions, in favor of an entrepreneur's product.
- Possibility of big orders for the products, say from the government , may be due to certain changes in government policies.
- Changes in the market trends due to new developments like a large institutions being set up near the business.

- Falling trade barriers in attractive foreign markets like the COMESA that removed some duties on imports and exports for traders who come from countries under COMESA.
- Increased market growth.
- Complacency among rival firms / enterprises i.e. where rivals feel that they are satisfied with the market they have and the kind of services they produce and cannot make more improvement or expansion of their works.

4. **Threats:** These are undesirable happenings that may occur in the market to the disadvantage of the business. They include;
   - Entry of new lower cost foreign companies in the market
   - Increase in sales of substitute goods.
   - Costly regulatory requirements
   - Increasing bargaining power of customers and suppliers
   - Changing customer tastes and needs
   - Sudden negative changes in government policies.
   - Competitors reducing their prices for the goods.

When an entrepreneur analysis his position, he then compares it using all the above against those of his competitors.

If the comparison / outcome is un favorable i.e when competitors are in a better position than him, this means that he has a competitive disadvantage.
This would imply that if the product are put on market, they will not compete favorably with those of competitors.

And if the comparison is / outcome is unfavorable, i.e. he is stronger than that of his competitors, then it means he has a competitive advantage over them and thus if the products are put on market, they would attract more buyers.

The outcome of the analysis will enable an entrepreneur to find out whether his / her position can be improved or not. If it cannot improved, then he /she should leave the business and cross checks back in his business ideas to find out the second best alternative and makes a similar analysis over it. This is done continuously until an entrepreneur finds out a business that portrays a better or the competitive position in the market.