Davao del Sur State College
Brgy. Matti, Digos City, Davao del Sur

Introduction to Organization and Management of Small Business

PREFACE

The resilience and innovation of small-scale enterprises form the bedrock of the Philippine economy, serving as a vital engine for national development and community empowerment. This course, Introduction to Organization and Management of Small Business, is designed to bridge the gap between entrepreneurial passion and professional management, providing students with a strategic toolkit to navigate the complexities of starting and sustaining a venture. By exploring the unique dynamics of Small and Medium Enterprises (SMEs), learners will gain a deep understanding of how to transform investment opportunities into viable business realities while addressing the specific challenges of the local market.

Throughout this course, students will engage with a structured curriculum divided into two primary phases. The first phase focuses on the entrepreneurial blueprint, covering the nature and diverse forms of small business ownership alongside the critical steps of strategic planning and organizational design. The second phase shifts toward operational excellence, focusing on the essential skills of directing, controlling, and financial management, as well as the strategic importance of marketing and location selection. By synthesizing theoretical frameworks with practical case analysis, this course pack aims to cultivate a new generation of ethical, proactive, and competent Filipino entrepreneurs ready to lead their businesses toward long-term sustainability and success.

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MODULE 1: SMEs in the Philippines

Module Overview

Hello everyone! Welcome to this course, The Introduction to Organization and Management of Small Business. This self-instructional module is especially written for you, students of business management, to supplement your reading materials needed through online class. This module may serve as the way and the light into an easier study of small business enterprises. This is composed of four (4) units. The first unit deals with the SMEs in the Philippines which is divided into two (2) chapters. This unit will help you understand and appreciate the nature of small business, types and characteristics, its forms of ownership and the SMEs contribution to the Philippine economy.

Lesson 1: The Nature of Small Business

Learning Outcomes:

At the end of the lesson, the students are expected to:

1. Examine the nature, types and characteristics of small business; and
2. Explore the economic importance of small business as well as its advantages and disadvantages.

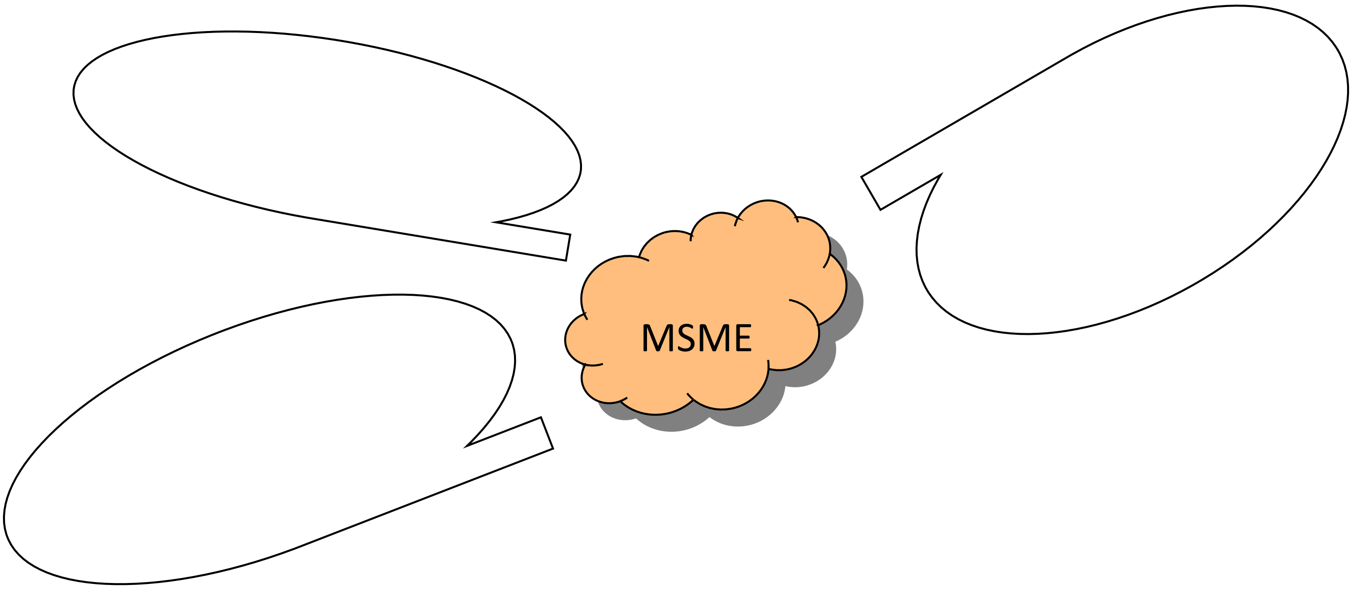
Time Frame: 2nd – 3rd week

Introduction

This module is divided into two (2) chapters. The first chapter is focusing on the nature of small business which is organized to help you, students, understand the types and characteristics of small business. This chapter may help you to appreciate the economic importance of small business as SMEs contribute a lot in the Philippine economy. Activity is given in order to activate background knowledge needed to easily understand the topic that will be discussed as well as an application of the topic at the end of the discussion.

Activity

Kindly write down on the speech bubble icons below a word or words that will come up in your mind when you hear MSME.



Analysis

Please present your activity output in the class and also get to know the shared output from your classmates and consider the questions below:

1. Do you have a word or words in common with your classmates?

2. Have your own definition of MSME formulated out from the shared words in the class.

Abstraction

"Great things start from Small beginnings"

Small business is defined as one which is independently owned and operated and which is not dominant in its field of operation. This means that the ownership is by private individual, partnership, or a corporation and does not control a sizable share of its market (Manigo & Manigo, 2020).

- The Magna Carta for Small Enterprises (R.A. 6977) defined small business as one having total assets valued at above ₱3 million to ₱15 million.

The Magna Carta for MSMEs or Micro, Small and Medium Enterprises (R.A. 9501) by asset size structure and number of employees are as follows:

Category	Total Asset	Total Number of Employees
Micro	**Below P 3 Million**	**1-9 employees**
Small	**P3,00,000,001– P15,000,000**	**10-99 employees**
Medium	**P15,000,001- P100,000,000**	**100-199 employees**
Large	**Above P100,000,000**	**More than 200 employees**

Figure 1: MSMEs categories

Most new ventures nowadays are small businesses, thus small business management is really very significant considering its contribution to the Philippine economy. Proper managing of small business may lead to the development of large enterprises which bring a lot more benefits to the economy. Therefore, small business management is an activity very worth pursuing.

Some of its contributions in the country's development are as follows:
1. Providers of economic opportunities for entrepreneurs
2. Providers of products and services to consumers
3. Suppliers of products and services to other businesses
4. Distributors of products and services of other businesses
5. Supporters of government
6. Providers of employment

ECONOMIC IMPORTANCE OF SMALL BUSINESS

SMALL BUSINESS

Provider of:

- **ECONOMIC OPPORTUNITIES FOR ENTREPRENEURS**
- **PRODUCTS AND SERVICES TO CONSUMERS**
- **FUNDS TO THE GOVERNMENT IN THE FORM OF TAXES**
- **EMPLOYMENT TO THE LABOR FORCE**

Supplier of:

- **ECONOMIC OPPORTUNITIES FOR ENTREPRENEURS**

Supplier of:

- **ECONOMIC OPPORTUNITIES FOR ENTREPRENEURS**

Figure 2: SMALL BUSINESS ECONOMIC IMPORTANCE

ADVANTAGES OF OPERATING A SMALL BUSINESS

- Opportunity to gain control over his own destiny
- Opportunity to reach full potential
- Opportunity to reap unlimited profits
- Opportunity to make a contribution to society and receive recognition for his efforts

DISADVANTAGES OF OPERATING A SMALL BUSINESS

- Uncertainty of income
- Risk of losing your entire capital investment

- Lower quality of life until the business gets established
- Complete responsibility

- Having to serve undesirable customers
- Paperwork and other chores; and
- Long hours and demanding work condition.

Small businesses operate differently as it has the following characteristics:
1. Independent management
2. Small capital requirement
3. Mostly local operation

TYPES OF SMALL BUSINESS

There are five (5) types of small business (Inyang, 2015).

Manufacturing – this is a type of small business that is engaged in the conversion of raw materials into products needed in the market such as bakeries, restaurants, and others. It is a small business engaged in manufacturing if and only if there is a production process involved in producing a product.

Service – this type of small business is one that engaged in rendering services to customers in one way or another. The product under this type of small business is intangible.
Service businesses may be classified as follows:
1. Business services
2. Personal services
3. Repair services
4. Entertainment services
5. Hotels and motels; and
6. Education services

Wholesaling– this is a type of small business engaging in the activities of selling to retailers and other merchants in bulk form. This type of small business does not sell in large amounts directly to final users.

Retailing– this refers to a small business that is engaged in selling the products directly to final consumers.

General Construction Firms– these are the small businesses engaged in the construction of buildings whether for private individuals or firms, or for the government.

Application

The Nature of Small Business – Case Analysis Story (SMEs problems)

Case 1: Angel Ball Construction Supply

Miss Angelita Ballesteros is currently trying hard to make a decision on whether or not she should continue operating her construction supply business.

Angelita was raised by her parents as a God-fearing and decent person. She does not fail to go to mass every Sunday. She graduated valedictorian at the La Salette High School. The University of Santo Tomas awarded her a diploma in Business Administration with highest honors.

It was while studying at UST when she met Hamilcar, a townsmate who was also enrolled in the College of Engineering of the same university. He courted her and after some time, she agreed to mary him one year after the graduation. On the day of the nuptial, Hamilcar did not appear. Angelita felt humiliated, but after a few months of desperation, she bounced back and got a job in a commercial bank. Two years later, she was promoted supervisor and after a year she became the manager of the branch. She began to think that a job in a bank does not provide her with enough opportunities to prove her real worth. She entertained thoughts about operating a small business. She resigned from the bank and started to make moves to effectively operate a construction supply business.

Angelita's parents own a vacant 1,000-square meter lot at the edge of the town's business district. Directly in front of the lot is the national highway and its back is the city road. The place is an ideal site for a construction supply business. Her parents agreed to construct a building to house her business on the condition that she would pay rent.

Just a month after she started operating, her assistant informed her of the need to convince a top rated contractor to buy from them. Angelita agreed to meet him. A few days later, when Angelita was in her office, her assistant came rushing to inform her the prospect has arrived to meet her.

Angelita was shocked when she saw that the potential customer was her former boyfriend. Hamilcar shook her hand and asked how she was. She tried hard to hide displeasure and said she's fine. They talked for a few minutes and then he left.

Once more, Angelita felt a rising anger within her. She wants to avoid the guy, so she is considering shifting to another type of business like that of drug wholesaling or hospital supplies.

Application Activity:
1 Identify the Issues and Concerns of the case.
2. Formulate the Statement of the Problem.
3. Provide at least three (3) Alternative Courses of Action (ACA).
4. Enumerate the advantages and disadvantages of each ACA.

Closure

Congratulations! You have just learned the background idea of small business needed for the next lesson. Keep it up! Please bear with this module for the following lessons to take.

MODULE 1: SMEs in the Philippines

Lesson 2: Forms of Small Business Ownership

Learning Outcomes:

At the end of the lesson, the students will be able to:

1. Explore the advantages and disadvantages of each form of small business ownership; and

Time Frame: 4th week

Introduction

Welcome to Lesson 2 of Module 1. In this chapter, you will discover that small business operates in different forms of ownership which is depending on the environment and the inclinations of the small business operator. This part may help you understand small business management in different forms of its ownership.

Activity

Study the scrambled letters and rearrange the letters to form a word.

1. HPATPNSRRI ____________________
2. SSBNSIEU ____________________
3. NHPOIESWR ____________________
4. OPRATNCROOI ____________________
5. GOAIAIRNZTON ____________________

Analysis

Forms of Small Business Ownership (Medina, 2015)

Case 2: ROSE RESTAURANT: WHAT NOW MY LOVE?

On any given day, Rose restaurant is full of customers. It is not surprising because of two factors: first, its location in the center of the commercial district of Santiago City, and second, the dynamism of its owner and manager, Ms. Rosemarie Ginez. She is more than happy because she was able to realize her dream of becoming successful in the food business. She now owns the building and the lot she used to rent. Served in its large air-conditioned function hall are native and Chinese delicacies. The place has ample parking space for 20 cars.

It was in the restaurant where she first met her future husband. He is a government employee and is assigned to work in a nearby town. Rose's husband is a native of San Jose City and his widowed mother is operating a big palay trading firm. Apart from owning 10 cargo trucks, his mother also owns one a half hectares of commercial land in the city's business district.

Just as Rose was considering opening a branch of her restaurant in Cauayan City, her mother in law died. Two weeks later, her husband informed her that being the heir, he needs to move quickly to San Jose City and manage his mother's business and other properties.

Even if her husband operates her mother's business, Rose could still continue managing her restaurant. Both of them, however, are aware of the difficulty of maintaining the two businesses which are four hours away by car from each other. They will miss each other for days every week if they decide to keep both businesses. Her husband is indifferent, however, on whatever Rose's decision will be.

Rose is now mulling over her family's chances of succeeding in business if she decides on maintaining only the palay trading firm. Her decision-making is made more complicated when her assistant reported a 49% increase in last year's profits of her restaurant.

Analysis Questions:

1. Should Rose stop operating her restaurant?
2. If you were Rose, what additional information would you need before making a decision?

Abstraction

The small business operator (SBO) has to decide which form of ownership to enter depending on the resources available and personal objectives to be achieved. It could be sole proprietorship, partnership, and corporation (Kumari & Reddy, 2015).

The Sole Proprietorship

- This is the oldest, simplest and the most popular form of small business ownership.
- It has only one owner, who takes all the risk, enjoys all the profit and makes all the managerial decisions.

Proprietor – the owner of a small business or a holder of a property. A term used to a person who owned and usually managed a sole proprietorship form of small business.

Advantages of Sole Proprietorships:

- Complete control of plans, programs, capital, profits, policies and management decision.
- Ease and cost of formation
- Secrecy, legal formalities and government regulation and taxation
- Termination or modification
- Good financial standing – lenders extend lending funds

Disadvantages of Sole Proprietorships :

- Limited amount of capital
- Difficulty in attracting and keeping good quality employees
- Risk is great and unlimited liability
- Lacks of stability and continuity
- Business incapacity
- Bad financial standing – lenders refuse to lend money

Partnership – is owned by an association of two to four people who share in both risk and profit.
Partnership Act of 1990 defines partnership as the relationship that subsists between two or more people carrying out lawful business with a view to making profit.
Business partner – is a commercial entity with which another commercial entity has some form of alliance.

Advantages of Partnerships:

- More resources (capital, labor, management, expertise, etc.)
- Benefits from talented individuals
- Ease of formation
- Credits availability
- Taxes based on shares

Disadvantages:

- Unlimitedly liability
- Lack of stability and continuity
- Potential conflict between partners

- Difficulty in dissolving the business

Partnership agreement – is a written drawn to formalize what has been agreed upon by the partners of the small business. It is a document designed to prevent or at least minimize disagreements between which usually covers the following:

1. Purpose of the business
2. Terms of the partnership
3. Goals of the partners and the partnerships
4. Financial contribution made by each partner at the beginning and during the lifetime of the business
5. Distribution of profits and the losses
6. Withdrawal of contributed assets or capital by a partner
7. Management powers and work responsibilities of each partner
8. Provisions for admitting new partners
9. Provisions for expelling a partner
10. Provisions for continuing the business in the events of a partner's death, illness, disability, or withdrawal;
11. Provision for determining the value of a departing partner's interest and method of payment of that interest;
12. Methods of settling disputes through mediation or arbitration; and
13. Duration of the agreement and the terms of dissolution of the business.

Corporation

- A corporate form of business is owned by stockholders who are issued with certificate of ownership called STOCKS.
- This form of ownership is the most appropriate when large amount of capital is needed by the firm. Hence, corporation is a legally chartered enterprise with most of the legal rights of a person including the right to conduct a business, to own and sell property, to borrow money, and to sue and be sued.

Shareholder– is any person, company or other institution that owns at least one share of a company's stock.

Advantages:

- Limited liabilities
- Unlimited lifespan
- Ease of expansion
- Ease of transferring ownership
- Greater ability to hire specialized management
- Liquid investment – convertible to cash

Disadvantages:

- More extensive government restrictions, permit regulation and reporting requirements
- More expensive and complicated to organize

- Double taxation
- Employees lack personal identification and commitment

Application

Forms of Small Business Ownership (Medina, 2015)

Case 3: MP Records

When he was 15 years old, Manuel Palisoc showed interest in music. Three of his classmates played the electric guitar so well and he wanted so much to join them as drummer in their weekly rehearsals. He could not be taken in because he did not know how to play the drums.

Many did not get discouraged, however, and he bought he could be useful in some other way. He tried very hard to find a good drummer and when he found one, he convinced his classmates to take him in. Since then, Manny acted as assistant and troubleshooter for the group. He saw to it that the group performed in school activities whenever possible.

His college studies interrupted Manny's passion for music. After graduation, however, he made some serious moves to reform his old group and exposes them to the public. He negotiated for performances in prestigious night clubs and hotels. Regular performance in television shows became a routine for the group. Within a short period, Mannys's band became famous throughout the Philippines, and this became possible because of Manny's skill in managing them.

Realizing his talent for the entertainment business, Manny decided to make it a full time job. He invited other groups to join him. Some months later, he sent some of them for live performances abroad.

Many thought that his accomplishments will not operate a recording company and a radio station. He also sees these businesses as compatible with developing his wards. However, Manny also thinks that he does not have sufficient money and talent to handle both types of business.

Somebody informed Manny that he has a former classmate who has three years of experience in the recording business and another classmate has four years of experience in broadcasting.

Many agreed to see his former classmates. However, he wonders what information he would like to have before he proposes anything to them. He also wants to know the proposal he would offer just in case he gets the right information.

Application Activity:
1 Identify the Issues and Concerns of the case.
2. Formulate the Statement of the Problem.
3. Provide at least three (3) Alternative Courses of Action (ACA).
4. Enumerate the advantages and disadvantages of each ACA.

Closure

Congratulations, you have just completed two (2) lessons in Module 1. You already learned what small business is and its nature. With this, as your background, you are now ready to learn more deeply into management of small business enterprises that will be discussed in the next module.

Module Assessment

Kindly answer the following:

1) Discuss some important contributions of small business in the Philippine economy.

2) Differentiate the forms of small business ownership.

3) How small business operates?

4) What is the possible effect of a wrong decision on the choice of business ownership form?

MODULE SUMMARY

This module has presented you in the introductory chapter the small business and its nature which are very useful in your understanding as to how small business operates. The module has given you the needed inputs for better analysis on the types of small business and has prepared you into understanding on how to manage properly small business enterprises.

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Medina, R. (2015). *Entrepreneurship and Small Business Management.* (3rd ed.). Manila: Rex Bookstore.

MODULE 2: Strategic Planning and Organization of Small Business

Module Overview

Welcome to the module 2 of the course. This module is composed of three (3) lessons which cover such topics of strategic planning and organizing the small business. The topics were organized for you to identify the different strategies for small business as well as to learn how to organize small business enterprise.

Lesson 1: Steps in Strategic Planning

Learning Outcomes:

At the end of the lesson, the students are expected to:

1. Examine the steps of strategic planning for small business.
2. Explore the SWOT analysis method in developing strategies.

Time Frame: 5th – 6th week

Introduction

The chapters in this module explore the different strategies needed by a small business in order to survive. Welcome and may you find this interesting as the first chapter looks further into the steps of strategic planning which should not be ignored by small business operator. Strategic planning provides an answer to determine strategic objectives of the organization and formulate strategic plans to achieve those objectives.

Activity

Strategic Planning – Case Analysis Story (SMEs problems)

Case 4: Rem Apparel

For the past 13 years, Ms. Remedios Olay operated her clothing shop located in the middle of the city's commercial district. Her merchandise consists of apparel for men and women. Under her employ are six salesladies. Her shop opens at 9:00 AM and closes at 6:00 PM. Among the clothing stores in the city, her shop is the most successful. The recent opening of two giant malls did not affect the viability of her firm. Many people are amazed at the outstanding performance of Ms. Olay's shop: The Rem Apparel.

Ms. Olay's success can be attributed to her skill in defining what the customers really want to buy from her. The products she displays in her shop are considered elegant and stylish by her customers, most of whom are professionals and middle level business and government executives.

She continued enjoying the patronage of her customers until one of her major supplies ceased operating due to the failing health of its owner. Ms. Olay got worried and she began to consider manufacturing her own requirements.

She started to make preliminary moves to operate an apparel manufacturing business. Her first step was to hire an assistant who will initially help her prepare the necessary documents to purchase a suitable lot where the factory will be located. Her next move was to send her brightest employee to enroll in an apparel designing course in a reputable vocational school in Manila. In addition to her other experiences, the chosen employee had worked as a seamstress for three years in a tailoring shop.

Ms. Olay is so enthusiastic and she plans to start operating within two years.

Guide Questions:
1. If you were asked to offer suggestions to Ms. Olay, what would it be?
2. Do you think Ms. Olay is on the right track?

Analysis Questions:

1. What are the Issues and Concerns of the case?
2. What is the major Problem of Rem Apparel?

Abstraction

Strategic Planning is defined as the process of determining the primary objectives of the entrepreneurship and then adopting courses of action and allocating resources to achieve those objectives.

Steps of Strategic Planning

Figure 3: Strategic Planning Steps

How to determine Strategic Objectives?

Mission Statement – this is the direction of the firm in general, its nature as well as rationale. This should be developed first to determine the specific objectives of the firm.

This statement includes the plans of the firm with regards to the allocation of resources in order to offer the best output to customers and to relate to the ever- changing environment.

Example:

"The mission of the Preshyla Vegatable Products is to provide the vegetable needs of consumers through the help of the wholesalers and retailers in Digos City. The farm will be a producer of fresh vegetable products all throughout the town within two years through offering affordable and quality products."

Primary Objectives – this is the specific targets on how to accomplish the mission statement of the firm.

Examples:

1. Increase production by 20% within two years.
2. Expand business outlets by two within five years.
3. Increase market share by 5% every two years.
4. Increase sales by 50% by the year 2023.

After developing objectives, a firm has to design plans to achieve these objectives. Therefore, a strategy should be developed.

Adoption of Course of Action – this is the strategy that should be carefully developed to achieve the objectives of the firm.

In developing these strategies, SWOT analysis and forecasts of future sales performance should be done to implement the plans successfully.

1. SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis – is an organized method in analyzing the internal strengths and weaknesses together with the external opportunities and threats in to determine what strategy to adopt.

2. Forecasts of future sales performance – this is a prediction of the future income of the firm in short term or long term basis. Sales are estimated base on the experiences of the firm for the last years of operation.

How to do the SWOT analysis?

	Opportunities	**Threats**
Strengths	In this part of strengths and opportunities analysis, you need to list down the company's strengths can be fully used in order to explore and take advantage of the opportunities outside.	This part of strengths and threats analysis will require identifying how you can use the company's strengths in order to minimize the threats from outside.
Weaknesses	This part of the combination of weaknesses and opportunities, the company will take actions in order to minimize the weaknesses using the opportunities identified.	This part where both negative internal and external factors match, you need to identify ways in order to minimize the firm's weaknesses so that the threats can be avoided.

Figure 4: Strategic Planning Steps

Implementing Strategies – this involves identifying the specific methods to be used and allocating the right quality and quantity of human and nonhuman resources which is the last step in strategic planning in order to achieve the objectives of the company.

Tactics are the specific methods which are more detailed and used to best accomplish the specific task on time with available resources.

Strategy	Tactical plans
"establish branches in strategic locations"	✓ Identify strategic locations
	✓ Determine the potentials of the identified strategic locations
	✓ Set a timetable for installing the branches

Figure 5: strategy vs tactics

Small business in many parts of the world including the Philippines, strategic planning is often ignored (Orcullo, 2015), due to the following reasons:

1. Lack of expertise of the small business operators (SBO).
2. Inability to get started due to lack of sufficient exposure to planning activities.
3. Uncontrollable variables, often intangible factors that discourages small business operator to complicate planning.
4. Resource poverty such as lack of time, adequate capital, managerial experience, outside advice, management specialist and other key assets.
5. Focus on daily operations that keep the small business operator so busy and left no time for planning.
6. Failure to realize the importance of strategic planning.

Application

Direction: Kindly analyze the Rem Apparel Case:

1. Identify the Areas of Consideration of the case applying SWOT analysis.
2. Provide at least three (3) Alternative Courses of Action (ACA).
3. Enumerate the advantages and disadvantages of each ACA.
4. Select the best implementation strategy among the three (3) ACA provided and enumerate specific plan of action in order solve the problem.

Strategic Planning – Case Analysis Story (SMEs problems)

Case 4: Rem Apparel

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Ms. Olay is so enthusiastic and she plans to start operating within two years.

Closure

Congratulations! You have just learned the method of SWOT analysis needed to develop realistic strategies. Keep it up! Please bear with this module for the following lessons to take.

MODULE 2: Strategic Planning and Organization of Small Business

Lesson 2: Strategies for Small Business

Learning Outcomes:

At the end of the lesson, the students will be able to:

1. Identify different fundamental strategies for small business; and

2. Differentiate the strategies applicable for a new business and a going concern business.

Time Frame: 7th week

Introduction

Welcome to Lesson 2 of Module 1. In this chapter, you will discover a different strategy that is applicable depending upon whether a business is new or a going concern business. This part may help you understand how small business able to survive as it still gaining a foothold in the market.

Activity

Study the scrambled letters and rearrange the letters to form a word.

6. YGTTSRAE ____________________
7. ILESMP ____________________
8. LBFXIIYTLI ____________________
9. ISVLVRUA ____________________
10. ENW ____________________

Analysis

Strategies for Small Business– Case Analysis Story (SMEs problems)

Case 5: **Sammy's Motor Repair Shop**

At age 26, Samuel Bugarin established his motor repair shop along the highway, one kilometer away from the commercial district of his town. He holds a degree in Mechanical Engineering and just after graduation, he started working as an apprentice in his uncle's motor repair shop. He prodded his uncle to expand his business but his advice was not heeded.

He thinks that the motor repair business is growing steadily. He noticed that the new car models are operated with electronic systems installed in them. Sammy believes that repair and maintenance of the new car models cannot be served adequately by repair shops existing in the area.

Sammy gathered relevant information he thought would be necessary in the preparation of a business plan. He considered hiring at least five experienced mechanics. He started constructing the building where his office and service facilities will be housed. He made sure that customers can contact him through the telephone he installed in his office. In addition, he maintains a handy phone so he can serve those whose cars get stalled somewhere.

Sammy stuck to his business plan and business was very encouraging during the first three years. On the fourth year of his operation, a new motor repair shop opened just across the highway from his shop. It was inevitable that some of his customers would move over to his new competitor. Sammy did not anticipate the threat now confronting his business. He was already entertaining the idea of putting up another shop at the other end of the commercial district. But now, it seems that his dream of opening another shop is slowly drifting away. With the entry of the competitor, he is beginning to lose faith in the usefulness of a business plan. He is apprehensive and he wants quick advice.

Analysis Questions:
1. If you were a friend of Sammy, what would you tell him?
2. Is Sammy's situation hopeless?
3. What did Sammy miss regarding his business plan?

Abstraction

Small business should apply strategic planning in order to identify the best strategy to be adapted that will lead the business to success.

Some of the basic strategies of small business to survive are as follows:
1. Flexibility Strategy
2. Strategy of effectiveness as a higher priority; and
3. Strategy of starting simple

Flexibility strategy - This is the strategy needed by a small business when there are such hindrances that prevent pursuing its objectives especially in times of a competition against large business.

Considering the limited resources of a small business compared to a large business, the small business should be flexible enough to effect changes in its environment.

Strategy of effectiveness as a higher priority – this is a strategy of prioritizing effectiveness than efficiency. This strategy is needed when a small business is trying to survive in a new market. When business is just starting small, the venture should first gain foothold in the market rather than making a bigger profit.

Strategy of starting simple – this a strategy also for a small business to survive in starting a new business venture. Since, funds are not always sufficient in small business; a strategy of starting simple with a subcontract option is needed. This includes collaboration with other manufacturer's with the same line of products offered.

The strategy developed also will be adapted depending upon the situation whether the small business is a new one or an old business currently operated.

New Business – this is a new small business that will be operated for the first time. In this situation, the small business operator has to choose between three options of a new business as follows:
1. Acquiring an existing business
2. Organizing a new business
3. Buying a franchise

Acquiring an Existing Business: This is the "turn-key" approach. The advantage is an established customer base, existing inventory, and historical financial records. However, the disadvantage may include a poor reputation from the previous owner or hidden liabilities.

Organizing a New Business: This offers the most freedom. The owner builds the brand and culture from the ground up. The primary challenge is the "high-risk" phase of early survival, as there is no guaranteed cash flow or market recognition yet.

Buying a Franchise: This is a middle ground. You gain the advantage of a proven business model and national brand recognition. The trade-off is the high initial cost (franchise fees) and the lack of total independence, as you must follow the franchisor's strict rules.

In any of these options of a new business to enter, the small business operator must identify the advantages and disadvantages of each option considering the resources available.

Strategies for a Going Concern

The following strategies are applicable for small business:

- segment markets
- efficient use of research and development
- think small

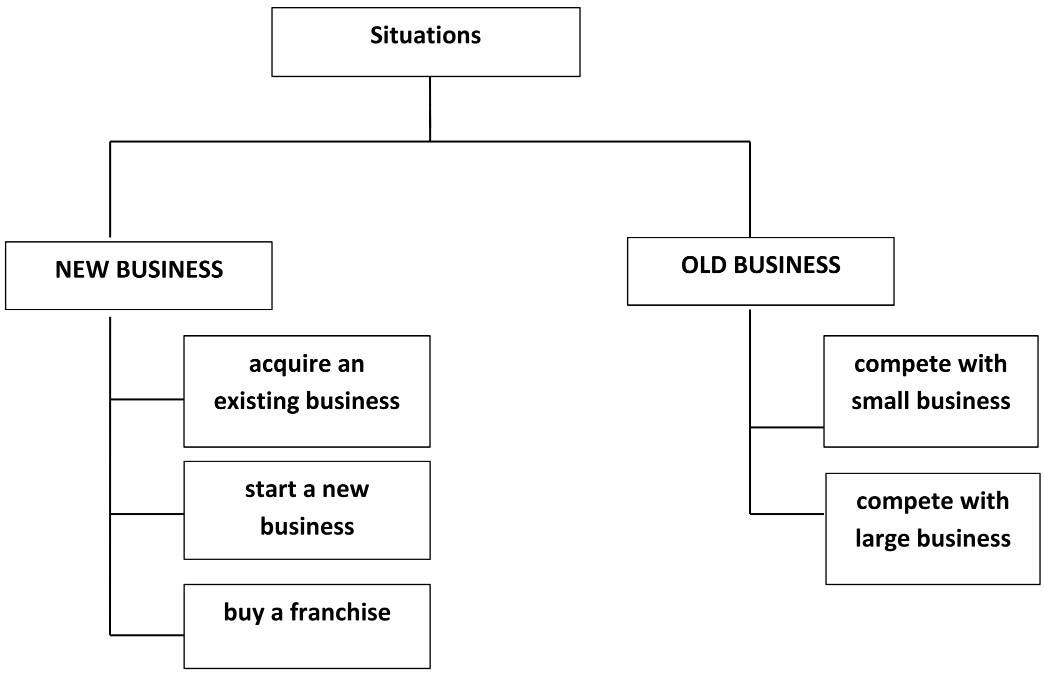


Figure 6: strategy situations

Application

Case 5: **Sammy's Motor Repair Shop**

At age 26, Samuel Bugarin established his motor repair shop along the highway, one kilometer away from the commercial district of his town. He holds a degree in Mechanical Engineering and just after graduation, he started working as an apprentice in his uncle's motor repair shop. He prodded his uncle to expand his business but his advice was not heeded.

He thinks that the motor repair business is growing steadily. He noticed that the new car models are operated with electronic systems installed in them. Smmy believes that repair and maintenance of the new car models cannot be served adequately by repair shops existing in the area.

Sammy gathered relevant information he thought would be necessary in the preparation of a business plan. He considered hiring at least five experienced mechanics. He started constructing the building where his office and service facilities will be housed. He made sure that customers can contact him through the telephone he installed in his office. In addition, he maintains a handy phone so he can serve those whose cars get stalled somewhere.

Sammy stuck to his business plan and business was very encouraging during the first three years. On the fourth year of his operation, a new motor repair shop opened just across the highway from his shop. It was inevitable that some of his customers would move over to his new competitor. Sammy did not anticipate the threat now confronting his business. He was already entertaining the idea of putting up another shop at the other end of the commercial district. But now, it seems that his dream of opening another shop is slowly drifting away. With the entry of the competitor, he is beginning to lose faith in the usefulness of a business plan. He is apprehensive and he wants quick advice.

Application activity:

1. What are the Issues and Concerns of the case?
2. What is the major Problem of Sammy's Motor Repair Shop?
3. Identify the Areas of Consideration of the case applying SWOT analysis.
4. Provide at least three (3) Alternative Courses of Action (ACA).
5. Enumerate the advantages and disadvantages of each ACA.
6. Select the best implementation strategy among the three (3) ACA provided and enumerate specific plan of action in order solve the problem.

Closure

Congratulations, you have just completed two (2) lessons in Module 2. You already learned what are the basic strategies needed for small business in order to survive in a competition. Keep it up! Please bear with this module for the following lessons to take.

MODULE 2: Strategic Planning and Organization of Small Business

Lesson 3: Organizing the Small Business

Learning Outcomes:

At the end of the lesson, the students will be able to:

1. Identify the factors for consideration in designing organizational structure; and

2. Discover how to organize a small business appropriate structure depending on the firm's need.

Time Frame: 8th week

Introduction

Welcome to Lesson 3 of Module 2. In this chapter, you will discover that small business is designed with different phases of organizational structure which is depending on the need of the firm as to how many number of employees needed to perform the task and authority functions This part may help you understand how to organize small business.

Activity

Study the scrambled letters and rearrange the letters to form a word.

11. ERSTURTCU
____
12. ECOALAITCNISPI
____
13. SSOEVRRPUI
____
14. ENWOR
____
15. MAORLF
____

Analysis

Organizing Small Business (Medina, 2015)

Case 6: Twin Sisters Noodle House

The lady manager of a bank's branch in Malolos City was amused to hear her high school classmate, Marylou Andres, declare:

"In my noodle house, business, I never use paper to communicate with my subordinates. As soon as I hire anyone, I give him or her verbal instructions on what I expect them to do. Once a week, I call everyone to a meeting and I relay to them my general instructions for the week."the

Marilou and her twin sister, Mary Ann, jointly own and manage Twin Sisters Noodle House. Their main shop is located at Malolos with a complement of nine employees composed of a supervisor, a cook, an assistant cook, a cashier, two waiters, a driver, a security guard, and a janitor. At the beginning, there were only three of them, the twins and a helper. They did all they can to make the venture a viable concern. Between the three of them, they performed the various functions related to cooking, purchasing, promoting, and maintaining cleanliness, and the like. As customers slowly poured in, they gradually hired people until there were nine of them.

Five years after their successful Malolos operations, the twins opened a branch at a junction in Plaridel. Mary Ann took charge of managing the branch. Within a few months, the branch showed potentials greater than the Malolos main.

The twins were experiencing the joys of a successful venture when MaryLou suddenly took a leave to undergo surgery to remove gallstones in her system. The situation forced Mary Ann to simultaneously manage the two outlets.

After a while, the cook in Malolos began to experience discomfort in Mary Ann's management style. He complained about the restrictive policies of Mary Ann. He was scolded several times for doing what he normally did when Marylou was supervising him. For instance, Mary Ann questioned the quality of seasoning he applies on the food he cooks. He was also scolded for using kitchen utensils on instances Mary Ann thought as inappropriate.

The cook started to harbor ill feelings toward Mary Ann. He thought he can no longer work effectively under such conditions. When a job opening for another restaurant was relayed to him by a friend, he applied. When he was informed that he will be hired, he resigned from Twin Sisters Noodle House.

Analysis Questions:
1. Is there anything wrong with the set-up of the firm?
2. If you were Mary Ann, what will you do?

Abstraction

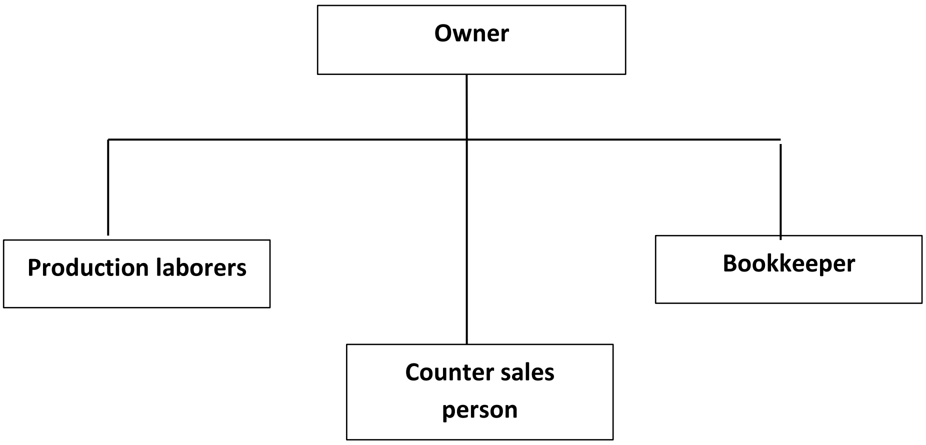
Organizing the small business is the means of blending human and nonhuman resources through designing a formal structure of tasks and authority. The task as to who performs it and the authority as to who supervises (Manigo & Manigo, 2020).

The formal structure is represented with an appropriate **organizational structure** depending upon the need of the firm as to how many persons needed for the task function as well as for the authority function.

Phase 1

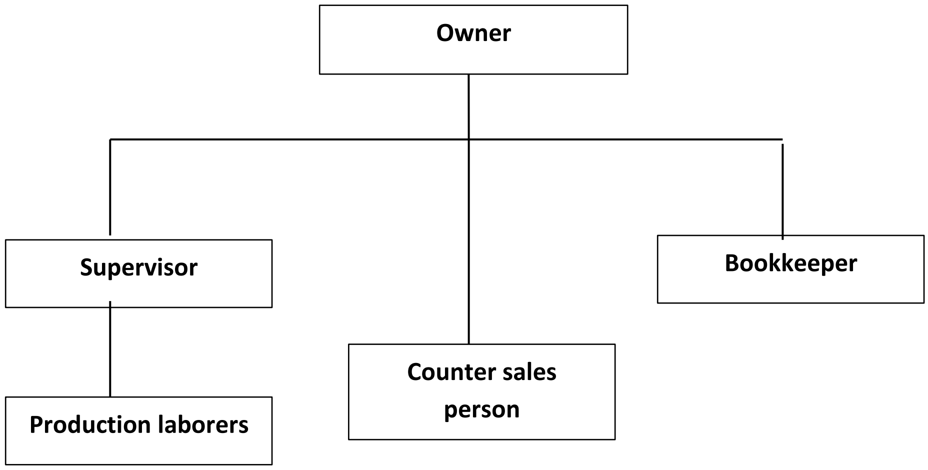
Phase 1 type of organizational structure represents when the owner can perform all task and authority functions for the organization.

Phase 2



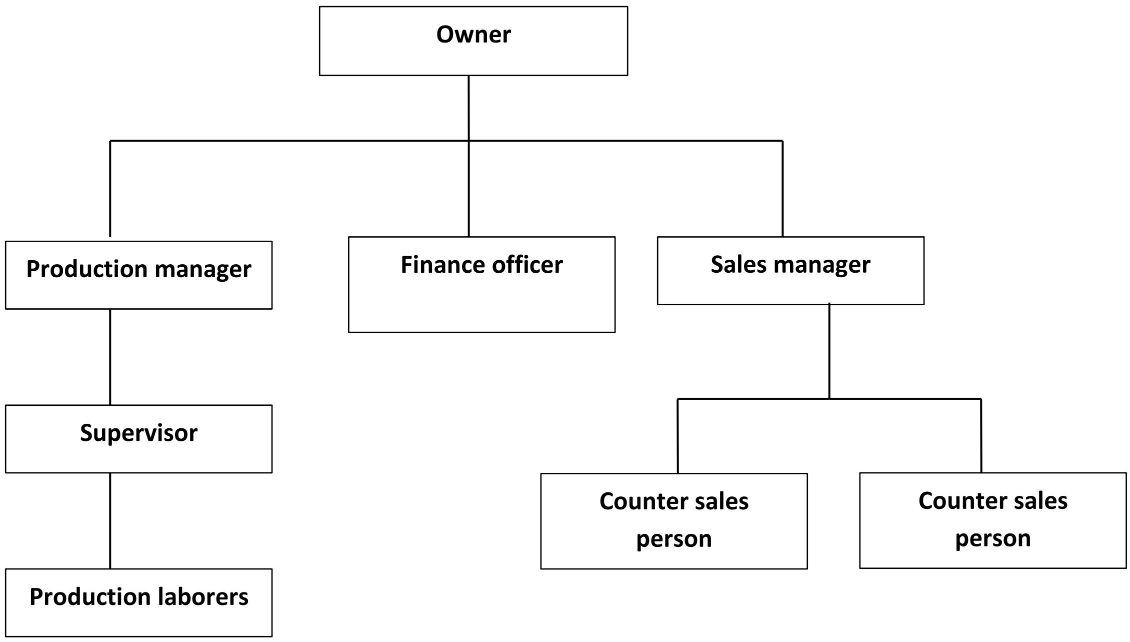
Phase 2 type of organizational structure represents when the owner has to hire employees to perform the task function while he manages and supervises the employees. Such employees hired in this phase are assistants as well as laborers who will just work for the owner as the supervisor of the company.

Phase 3



Phase 3 type of organizational structure represents when the owner has to hire a supervisor to perform some of the authority function needed while he manages and supervises the other employees.

Phase 4



Phase 4 type of organizational structure represents when the organization has to increase the number of employees. At the same time, hiring of manager in different departments of the firm is needed to perform the authority function for each department.

In designing a small business structure, the following six elements must be carefully integrated to ensure operational harmony:

1. **Specialization:** This involves dividing work into specific, manageable tasks. By assigning employees to roles that align with their specific field of expertise, the business achieves higher efficiency and technical proficiency.
2. **Departmentalization:** Once tasks are specialized, they are grouped into logical departments (e.g., Marketing, Finance, Operations). This grouping allows for better coordination of related activities.
3. **Delegation of Authority:** This is the process of granting subordinates the right to make decisions or take action. Proper delegation empowers employees and prevents the business owner from becoming a bottleneck.
4. **Span of Management:** This refers to the number of subordinates reporting directly to a single manager. For management to be effective, this number should be limited so that the supervisor can provide adequate guidance and oversight.
5. **Hierarchy of Objectives:** Organizational goals follow a "top-down" flow. **Strategic objectives** from the top are broken down into **specific, tactical objectives** for lower-level staff. Success at the bottom level feeds back up to realize the overall mission of the company.
6. **Degree of Centralization:** This determines where the power lies. In a **Centralized** structure, top management retains all major decision-making power—often used in risky environments or when staff are still developing their skills. In a **Decentralized** structure, authority is pushed down to lower-level managers to foster speed and local expertise.

When assigning each task function of the employees, the tasks assigned should be in line with the field of **specialization** of the employee in order to be efficient in performing the assigned specific task. These tasks also should be divided into different **departments** or groups as to where it should be functioning, as well as with the proper authority of manager or supervisor delegated for each division or unit.

As to the **span of management**, the authority function will be efficient if the number of subordinates reporting to each manager or supervisor is considered. A number of employees should only report to one authority and the subordinates for each authority should be limited as well for effective management.

In terms of the hierarchy of objectives, strategic objectives are broken down into specific objectives intended to be achieved by the lower level subordinates and in turn will be supervised through the authority and then going to the top management for the realization of the strategic organizational objectives in general. Rank and file or the lower level employees should only report to its direct authority of supervisory level for proper attainment of the hierarchy of objectives. Subordinates also may be delegated with the authority in decision making before top management hands it over (**decentralized organization)**. The management has to decide on whether authority would be centralized or decentralized. Centralized decision making is adapted when conditions are risky and when lower level managers lack the necessary skills in decision making. Therefore, the decision making in centralized organization is in the hands of the top management.

Application

Organizing Small Business (Medina, 2015)

Case 6: Twin Sisters Noodle House

The lady manager of a bank's branch in Malolos City was amused to hear her high school classmate, Marylou Andres, declare:In my noodle house, business, I never use paper to communicate with my subordinates. As soon as I hire anyone, I give him or her verbal instructions on what I expect them to do. Once a week, I call everyone to a meeting and I relay to them my general instructions for the week."the

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The cook started to harbor ill feelings toward Mary Ann. He thought he can no longer work effectively under such conditions. When a job opening for another restaurant was relayed to him by a friend, he applied. When he was informed that he will be hired, he resigned from Twin Sisters Noodle House.

Application activity:

1. What are the Issues and Concerns of the case?
2. What is the major Problem of Twin Sisters Noodle House?
3. Identify the Areas of Consideration of the case applying SWOT analysis.
4. Provide at least three (3) Alternative Courses of Action (ACA).
5. Enumerate the advantages and disadvantages of each ACA.
6. Select the best implementation strategy among the three (3) ACA provided and enumerate specific plan of action in order solve the problem.

Closure

Congratulations, you have just completed three (3) lessons in Module 2. You already learned how to organize small business. With this, as your background, you are now ready to learn more deeply into organization and management of small business enterprises as to directing and controlling functions that will be discussed in the next module.

Module Assessment

Kindly answer the following:

5) Identify a small business near in your locality and draw its organizational chart.

6) In what way is specialization useful to small business?

7) Identify an industry where small and large businesses compete with each other. If you own one of the competing small business, what strategy would you adapt?and why?

8) When is it appropriate to apply a centralized organization?

MODULE SUMMARY

This module has presented you the organization and management of the small business and the strategic planning process which are very useful in your understanding as to how small business survives. The module has given you the needed inputs for better analysis on the different strategies of small business and has prepared you into understanding on how to manage properly small business enterprises.

REFERENCES

Manigo, B. and Manigo, J. (2020). *Introduction to Enterprise and Entrepreneurship*. Poject WRITE XI: An Easy Guide for Course Pack Making and Module Development.

Medina, R. (2015). *Entrepreneurship and Small Business Management.* (3rd ed.). Manila: Rex Bookstore.

Orcullo, N. A. (2015). *Contemporary Entrepreneurship.* Academic Publishing Corporation. Quezon City, Manila

MODULE 3: Managing the Small Business

Module Overview

Welcome to the module 3 of the course. This module is composed of two (2) lessons which cover such topics of managing the small business in terms of handling employees and the organization itself. The topics were organized for you to identify different skills and strategies for directing, controlling and managing small business finance.

Lesson 1: Directing and Controlling Small Business

Learning Outcomes:

At the end of the lesson, the students are expected to:

1. Examine the kinds of control applicable for different stages of growth of small business.

2. Identify the skills needed in directing and controlling small business.

Time Frame: 10th – 11th week

Introduction

The chapters in this module explore the different strategies needed by a small business in order to efficiently and effectively handle employees as well as the organization itself. Welcome and may you find this interesting as the first chapter looks further into the skills needed to an effective directing function to employees.

Activity

Study the scrambled letters and rearrange the letters to form a word.

1. ISSLKL
   ____
2. YSAETTGR
   ____
3. CNITLLGNOOR
   ____
4. ESELYOEPM
   ____
5. TGASES
   ____

Analysis Question

1. Do you think directing and controlling function applicable to small business? Why?

Abstraction

Directing the Small Business refers to guiding and motivating employees to accomplish organizational objectives. This involves directing people as to their specific duties and responsibilities such as explaining procedures to every task given to each employee, issuing orders as well as seeing that mistakes are corrected (Manigo & Manigo, 2020).

The function of directing phase in managing small business is actually the part of implementation stage of strategic planning. The small business operator (SBO) should have the following skills in order to be effective in directing function.
1. Communicating with subordinates
2. Counseling
3. Motivating
4. Maintaining Discipline

Communication – this is a process wherein the **sender** speaks or dictates the message to the **receiver.** The process also involves **encoder** who transcribes what is spoken or dictated and prepares it for sending so the **decoder** interprets it. This process is aided with a **medium** of communication that serves as a tool to convey or transmit the message through written, oral, nonverbal or electronic means.

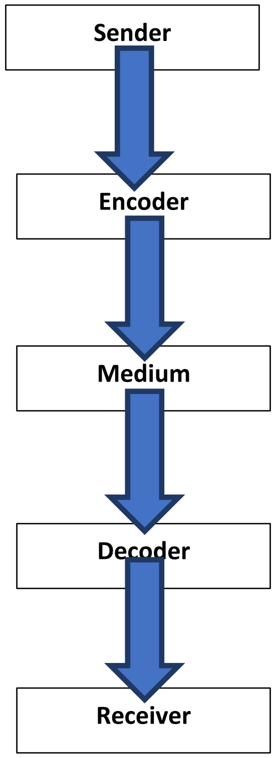

Figure 1: The Communication Process

The functions of communication serve as follows:
1. Information function – this function is attained using communication when the information communicated is used in the decision making of the small business operator (SBO).
2. Motivational function – this is a function performed with the use of communication when the purpose is to motivate subordinates to contribute to the achievement of company goals.
3. Control function – this is a way of communicating the subordinates with their respective duties and responsibilities which provides the authority of the manager or top management to control subordinates.
4. Emotive function – this is performed when the communication provides subordinates with an outlet for self-expression.

Counseling – this is the task of a small business operator (SBO) when there is a need to be corrected in the company. This includes listening, giving advice and preventing and solving employees' problems.

Motivating – this is one of the skills needed by the small business operator to effectively direct every employees in the small business organization. This involves improving the organization of the elements of a job, modifying organizational behavior, harnessing recognition and pride and financial incentives.

Maintaining Discipline – this is an action needed in such instances where punishment and disciplinary measures are necessary correct undesired behavior and poor performance of employees. When employees fail to follow the rules, standards and policies, discipline towards them should be implemented and maintained progressively in the organization.

In order to maintain discipline, the disciplinary measures may consist of the following step by step procedure:

1. Verbal warning
2. Written warning
3. One-day suspension
4. Three-day suspension
5. Termination

The common performance of employees that should be disciplined inside the organization are as follows:

1. Loafing
2. Absenteeism
3. Fighting
4. Falsifying records
5. Insubordination

CONTROLLING THE ORGANIZATION

This is the process of establishing goals and standards, measuring performance against the established goals and standards and reinforcing successes and correcting shortcomings. This should be done efficiently to attain the objectives of the firm (Orcullo, 2015).

There are four stages of growth of small business as follows:

1. Start-up
2. Early growth
3. Late growth
4. Resource maturity

Application

1. **What particular skills are required in effective directing? Kindly discuss each.**
2. **Give your own example of a situation where counseling services in small business should be provided.**

Closure

Congratulations! You have just learned the skills needed in effective directing. Keep it up! Please bear with this module for the following lessons to take.

MODULE 3: Managing the Small Business

Lesson 2: Managing Small Business Finance

Learning Outcomes:

At the end of the lesson, the students will be able to:

1. Identify different strategies for managing small business finance; and
2. Analyze financial statements of small business.

Time Frame: 12th – 13th week

Introduction

Welcome to Lesson 2 of Module 3. In this chapter, you will learn the basic financial analysis needed in managing the finances of the firm. This part may help you understand how small business records and analyze different transactions affecting its expenses as well as income.

Activity

Study the scrambled letters and rearrange the letters to form a word.

1. AORIT ____________________
2. INEFACN ____________________
3. AFPITORBYILIT ____________________
4. LAAPITCI ____________________
5. BGTUDE ____________________

Analysis Question

1. Why do you think managing the finance of the firm a very basic function of the small business operator?

Abstraction

In managing small business finances, financial planning is very important. This provides the small business operator (SBO) with a detailed approach to managing the financial activities of the firm.

Financial Planning involves an analysis of interpreting the past, present and future financial condition of a firm. This includes knowing the profit objectives of the firm, identifying the sources and uses of funds and making decisions on financing alternatives. Budgeting is an effective way to manage properly the finances of small business (Medina, 2015).

Budget is an estimate of the income and expenditures for a future period of time with the objective of satisfying the target market, employees and management goals.

How budget is prepared?
1. Build the foundation for the budget
2. Determine anticipated fixed costs
3. Establish projected non- operating income and costs.

Financial Analysis as part of financial planning activities consists of the basic requirements in analyzing small business finance which is the following:
1. Financial Statements
2. Break-even analysis
3. Financial ratio analysis

FINANCIAL STATEMENTS

Income statement – this shows the revenue and other income, expenses and net income of the business covering a period of time.

Balance sheet - This is the financial profile of a business at any given point showing its assets, liabilities and owner's equity.

This will reflect the financial health of the business as it shows the assets of the business such as buildings and machineries together with its payables. Thus, providing the remaining net worth of the business (Diez, 2021).

Cash flow – this is the changes in the financial position of the business in terms of cash in and cash out flows.

Sample Problem:

XYZ COMPANY OPERATION				
DECEMBER 31, 2020				
PARTICULARS				
		CASH	2,800.00	
		ACCOUNTS RECEIVABLE	20,000.00	
		MERCHANDISE INVENTORY	38,796.00	
		SUPPLIES	1,700.00	
		EQUIPMENT	20,000.00	
		ACCOUNTS PAYABLE		9,200.00
		NOTES PAYABLE		25,000.00
		J. TAMAD, CAPITAL		50,000.00
		J. TAMAD, WITHDRAWAL	3,000.00	
		SALES		71,600.00
		SALES RET	1,900.00	
		SALES DISCOUNTS	504.00	
		COST OF GOODS COLD	57,700.00	
		FREIGHT OUT	500.00	
		ADVERTISING	1,000.00	
		RENT	3,500.00	
		SALARIES	4,000.00	
		UTILITIES	400.00	
TOTALS			155,800.00	155,800.00

XYC Company	
INCOME STATEMENT	
FOR THE PERIOD ENDED DECEMBER 31, 2021	
(IN PESOS)	
Sale	71,600.00
Less : Sales Returns & Allowance	(1,900.00)
Sales Discount	(504.00)
	69,196.00
Less Cost of Sale	(57,700.00)
Gross Income	11,496.00
Less : Operating Expenses	
Freight Out	(500.00)
Advertising Expense	(1,000.00)
Rent Expense	(3,500.00)
Salaries	(4,000.00)
Utilities	(400.00)
Net Income	**2,096.00**

XYC Company	
BALANCE SHEET	
AS OF DECEMBER 31, 2021	
(IN PESOS)	
ASSETS	
Current Assets	
Cash	2,800.00
Accounts Receivable	20,000.00
Merchandise Inventory	38,796.00
Supplies	1,700.00
Non-Current Asset	
Equipment	20,000.00
TOTAL ASSETS	83,296.00
LIABITIES	
Accounts Payable	9,200.00
Notes Payable	25,000.00
	34,200.00
OWNER'S EQUITY	
Initial Investment	50,000.00
Less: J. Tamad, Drawings	(3,000.00)
	47,000.00
Add : Net Income	2,096.00
J. Tamad, ending Capital	49,096.00
TOTAL LIABILITIES & OWNER' EQUITY	83,296.00

STATEMENT OF CASH FLOWS	
FOR THE PERIOD ENDED DECEMBER 31, 2021	
(IN PESOS)	

OPERATING ACTIVITIES	
Cash Receipts	
Collection of accounts	24,696.00
Refund	800.00
Sales	26,400.00
	51,896.00
Cash Payments:	
Cash purchases	(46,700.00)
Payment of accounts	(39,696.00)
Payment of supplies	(1,700.00)
Payment of Freight	(1,700.00)
Operating Expenses	(9,400.00)
Payment of Returns & Allow	(1,900.00)
	(49,200.00)
INVESTING ACTIVITY	
Purchase of Equipment	(20,000.00)
FINANCING ACTIVITIES	
Investment (capital)	50,000.00
Less: Drawings	(3,000.00)
Borrowings	25,000.00
	72,000.00
Total Cash flow	***2,800.00***

Break-even analysis – this is a used to determine at what point in a business activity the total revenue equals expenses.

Financial Ratio Analysis

The financial health of the small business is determined using the following financial ratio analysis:

- Liquidity ratios – a current ratio or a quick ratio may be used to reveal the firm's ability to pay debts as they become due.
  Current ratio = current assets/current liabilities
  Quick ratio = current assets less inventory/current liabilities
- Activity ratio – this is also called as turnover ratios which analysis on how the firm is using its assets effectively.
- Profitability ratios – this measures the overall financial performance of the firm.
- Leverage ratios – this is the extent to which a firm relies on debt financing.

Sources of Financing

Debt capital – a source of financing of the small business operator (SBO) obtained through borrowings. This can be a short term or a long term financing.

Equity capital – this is financing the small business with the use of the owner's capital invested in the business.

Application

ABC COMPANY OPERATION
December 31, 2021

Cash	**P2,800.00**			
Accounts Receivable	**20,000.00**			
Supplies	**1,700.00**			
Equipment	**20,000.00**			
Accounts Payable			**9,200.00**	
Notes Payable			**25,000.00**	
J. Tamad, Capital			**50,000.00**	
J. Tamad, Drawing		**3,000.00**		
Sales		**71,600.00**		
Sales Ret. & Allow.		**1,900.00**		
Sales Discount		**504.00**		
Purchases	**96,800.00**			
Purchases Ret. & Allow				**1,500.00**
Purchase Discount			**504.00**	
Freight Out	**500.00**			
Freight In	**1,700.00**			
Salaries	**4,000.00**			
Advertising	**1,000.00**			
Utilities	**400.00**			
Rent	**3,500.00**			

Required:

1. **Prepare the Income Statement of the ABC Company**
2. **Prepare the Balance Sheet of the ABC Company**
3. **Prepare the Cash Flow Statement of the ABC Company**

Closure

Congratulations, you have just completed the lessons in Module 3. You already learned how to record and analyze finances of small business. You are now ready to learn more deeply into establishing small business enterprises with a proper consideration of financial planning as basic tool for starting a new business.

Module Assessment

Kindly answer the following:

9) How a small business source out finances?

10) Why are financial ratios useful to small business operator?

11) Why there is a need to determine the break even point?

MODULE SUMMARY

This module has presented you the organization and management of the small business and the strategic planning process which are very useful in your understanding as to how small business survives. The module has given you the needed inputs for better analysis on the different strategies of small business and has prepared you into understanding on how to manage properly small business enterprises.

REFERENCES

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MODULE 4: Establishing Small Business

Module Overview

Welcome to the module 4 of the course. This module is composed of two (2) lessons which cover such topics of establishing the small business at a right place, price and marketing strategies. The topics were organized for you to identify different strategies for pricing and marketing small business products.

Lesson 1: Small Business Marketing Strategy

Learning Outcomes:

At the end of the lesson, the students are expected to:

1. Examine the steps of the strategy in selecting target market for small business.

2. Identify different strategies for marketing the small business.

Time Frame: 14th – 15th week

Introduction

The chapters in this module explore the different marketing mix strategies needed by a small business in order to establish a right business at a right location at a right price and a right marketing strategy.

Activity

Study the scrambled letters and rearrange the letters to form a word.

6. RMETAK ____________________
7. YSAETTGR ____________________
8. AGTRTE ____________________
9. EMSETGN ____________________
10. SNOPITOIGIN __________________

Analysis Question

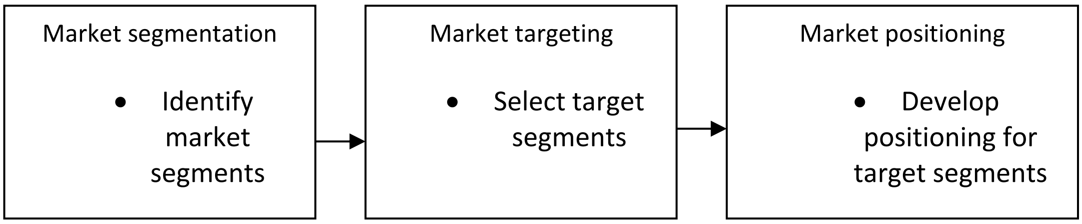
1. Why is the application of the marketing concept useful to small business?

Abstraction

Marketing strategy is the general guide for the small business operator (SBO) to satisfy the needs of the consumer. Not just a single market but it should be serving a group of people considering that there are different types of market in which business firms should serve to. Thus, marketing strategy planning is very important marketing activity of small business in order to find attractive opportunities and develop profitable marketing strategies (Manigo & Manigo, 2020).

Market Segmentation – this is the basic strategy in marketing which involves process of dividing a market into distinct groups of buyers or market segment with different needs. Thus, requires also providing with different products to different market segment (Alcebar, 2021).

Market Segment – is a sub- market of a particular market which is composed of units with more or less similar characteristics. The **sub – markets** now which is already divided into different groups may have different wants, characteristics, lifestyle, resources, and locations, buying attitudes, behaviors and practices.



Every buyer can be potentially a separate market that can be served with different products. This is the reason why companies should serve buyers individually or by market segment. They may divide their markets in the following levels.

- Mass marketing – a practice of mass producing, distributing and promoting the same product to all market segments.
- Segment marketing – a practice of isolating market segments and offering the needs of different sub- markets.

There are also strategies of segmenting market where companies can choose whether to concentrate on a single segment or two or more segments to serve.

Bases for market segmentation

There are four (4) basic ways to divide target markets as follows:

1. Geographic segmentation – this is dividing the market into different geographical units such as nations, countries, regions, provinces, cities, towns, barangays or neighborhoods. Let us take the Philippines as an example. A company produces a different product in the Philippines and another different product also to other country.

2. Demographic segmentation – this refers to the segmentation of market into groups with similar age, gender, income, occupation, education, religion, race and nationality.
For example a company has chosen age group ranging from 21-30 years of age for the brand of jeans to be produced. This means that their target markets are these individuals who belong to this age group who are having a need of buying their design of jeans.

3. Psychographic segmentation – this is dividing a group of buyers depending upon their social status or lifestyle. Let us take a woman of fashion who prefers to buy a luxury shoes as trending in her

generation. Companies in this scenario find ways to provide the needs or wants of these group of market segment.

4. Behavioral segmentation – this is grouping of buyers according to their knowledge, attitude, use or need and response to a product such as a purchase of school supplies which is a need heavily during enrolment periods.

Selecting Market Segments

This is the second step in selecting target market wherein a company finds one or more segments to enter.

Target market – is the set of buyers who share common needs or characteristics that the company decides to serve. This can be in a form of market segment which should be selected properly in consideration with the following criteria:

- ✓ The size of a market segment must be large enough so as the sales even in the future is expected to be growing.
- ✓ The competitive position should be strong enough to successfully make profits.
- ✓ The cost of reaching the segment must be reasonable and not too expensive.
- ✓ The compatibility with the company's objectives and resources.

The company may adopt different strategies in selecting the best market segment to cover as follows:

- ➢ Undifferentiated marketing – this is a strategy of ignoring market segment differences and go after the whole market with one offer.
- ➢ Differentiated marketing – a strategy deciding several market segments to enter and provide a separate offer for each segment.
- ➢ Concentrated marketing – is a market coverage strategy in which a company goes after a large share of one or a few market segments.

This step of selecting target market to cover is the basic process that should be done after evaluating the different segments identified in market segmentation stage and prior to product positioning stage as well.

Positioning for Competitive Advantage

Product's position

- o This is how consumers defined the product as compared to competitors.
- o This is the place the product occupies in the minds of the consumer.
- ✓ Competitive advantage of a company can position itself through providing superior customer value to the selected market segments covered.

Application

In your own words, what do you understand by the following:

1.Market segmentation

2.Competitive advantage

3.Differentiated marketing

Closure

Congratulations! You have just learned the different strategies needed in marketing a small business. Keep it up! Please bear with this module for the following lessons to take.

MODULE 4: Establishing Small Business

Lesson 2: Establishing Right Location

Learning Outcomes:

At the end of the lesson, the students will be able to:

1. Examine the strategies in establishing small business in a right place; and

2. Identify pricing strategies that will best fit in the choice of location.

Time Frame: 16th – 17th week

Introduction

Welcome to Lesson 2 of Module 4. In this chapter, you will learn how to place the products and services of small business within the reach of consumers. This part may help you understand how small business consider the best pricing strategy in the choice of the right location.

Activity

Study the scrambled letters and rearrange the letters to form a word.

6. LAOTCNIO ____________________
7. ALCOL ____________________
8. OCIHCE ____________________
9. RCIPE ____________________
10. AERA ____________________

Analysis
1. Why is selecting a location an important business decision?

Abstraction

The term **Place** – refers to placing products and services within the reach of the consumer.

- ✓ Choosing the right place for small business is one of the most important decisions the small business operator (SBO) has to make (Orcullo, 2015).

The Right Location – refers to that one which will bring the highest possible benefits to the firm.

Selecting the Region – some regions are more desirable areas of investment than others which can be generated from the growth patterns and economic performance of the nation's different regions (Medina, 2015).

Selecting the Province – there are some provinces also that may be identified as more promising for a small business than other provinces considering the following factors:

1. Proximity to markets;
2. Proximity to supply of raw materials;
3. Labor supply; and
4. Business climate.

Selecting the City or Town – there are some specific places also that may be identified as more promising city or town for small business than other areas considering the following factors:

1. Population trends;
2. Local laws and regulations;
3. Compatibility with the community;
4. Transportation;
5. Public services;
6. Police and fire protection; and
7. The reputation of the location.

Distribution Strategies
1. Intensive distribution – a market exposure where a product is available in almost all outlets.
2. Selective distribution – is selling through only those outlets which will give the product special attention.
3. Exclusive distribution – is one where the product is sold by only one type of middlemen in a certain area.

The markets, compatibility with the community, population trends and competition factors to consider in choosing the right place for small business are very challenging. Therefore, in determining the right location for a small business, pricing strategies also should be considered. A pricing strategy that will best fit in the choice of area is a prerequisite to small business success.

Pricing Strategies

1. Market Skimming Strategy – involves setting a high price for a new product and promote it heavily via advertising and sales promotion.

2. Market Penetration Strategy – means setting a low price for a new product in order to attract a large number of buyers and a large market share.

Pricing Approaches

Cost Based Pricing – refers to the setting of prices on the basis of costs wherein the total costs are calculated and a margin of profit is added.
There are two (2) types of cost-based pricing:
1. Cost-plus pricing – is an approach that adds a standard markup to the cost of the product.
2. Break-even pricing – is an approach/ to setting price to break- even on the cost of making and marketing products.

Cost-plus pricing formula

Price = direct costs + overhead costs+ profit margin

Where: direct costs = materials + labor;
Overhead costs = fixed indirect costs
Profit margin = markup %

Example:
If a direct cost is 75, an overhead cost is 25 and profit margin is 25% of total cost.

Solution

Price = direct costs + overhead costs+ 25%
= 75 + 25 + 25%
= 100 + 25
$\underline{\underline{= 125}}$

Value Based Pricing – is setting prices based on buyer's perceptions of value rather than on the seller's cost.

Competition Based Pricing – refers to the setting of prices based on what prices are being charged by competitors.

Application

In your own words, what do you understand by the following:

1) Competitor-Based Pricing
____
____
____
____

2) Market penetration
____
____
____
____

3) Selective distribution
____
____
____
____

Closure

Congratulations, you have just completed the lessons in Module 4. You already learned how to make small business products available to consumers in their best convenience.

Module Assessment

Kindly answer the following:

1. What is the RIGHT location?

   ____

2. Why is competition an important factor in selecting a city or town as business location?

   ____

3. What are contained in a marketing strategy?

   ____

MODULE SUMMARY

This module has presented you the establishment of the small business as to how to determine the right location for the business. The module has given you the strategies for small business marketing and has identified different strategies for pricing, placing and segmenting the market as first basic requirement in marketing the small business.

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