

**START
YOUR BUSINESS**

MANUAL

International Labour Office

Copyright © International Labour Organization 2015
First published 2015



This is an open access work distributed under the Creative Commons Attribution-ShareAlike 3.0 IGO License (<http://creativecommons.org/licenses/by-sa/3.0/igo>). Users can re-use, share, adapt and build upon the original work, even for commercial purposes, as detailed in the License. Any new works that use the original content must carry the same CC-BY-SA licence. The ILO must be clearly credited as the owner of the original work. The use of the emblem of the ILO is not permitted in connection with users' work.

Translations – In case of a translation of this work, the following disclaimer must be added along with the attribution: *This translation was not created by the International Labour Office (ILO) and should not be considered an official ILO translation. The ILO is not responsible for the content or accuracy of this translation.*

Adaptations – In case of an adaptation of this work, the following disclaimer must be added along with the attribution: *This is an adaptation of an original work by the International Labour Office (ILO). Responsibility for the views and opinions expressed in the adaptation rests solely with the author or authors of the adaptation and are not endorsed by the ILO. Adaptations not endorsed by the SME Unit of the ILO cannot use the SIYB brand name and logo.*

All queries on rights and licensing should be addressed to ILO Publications (Rights and Licensing), CH-1211 Geneva 22, Switzerland, or by email to rights@ilo.org.

International Labour Office

Start your business: manual / International Labour Office, Enterprises Department. - Geneva: ILO, 2015

ISBN: 9789221287612; 9789221287629 (web pdf); 9789221287636 (set)

International Labour Office Enterprises Dept.

enterprise creation / corporate planning / small enterprise

03.04.5

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and digital products can be obtained through major booksellers and digital distribution platforms, or ordered directly from ilo@turpin-distribution.com. For more information, visit our website: www.ilo.org/publns or contact ilopubs@ilo.org.

Printed in Switzerland

About the Start and Improve Your Business (SIYB) Programme

The Start and Improve Your Business (SIYB) programme is a management-training programme developed by the International Labour Organization (ILO) with a focus on starting and improving small businesses as a strategy for creating more and better employment for women and men, particularly in emerging economies. With an estimated outreach in over 100 countries, it is one of the world's largest programmes in this field.

The programme has four inter-related packages - Generate Your Business Idea (GYB), Start Your Business (SYB), Improve Your Business (IYB) and Expand Your Business (EYB).

The ILO implements the programme using a three-tier structure comprising Master Trainers, Trainers and the end beneficiaries – potential and existing entrepreneurs. The Master Trainers licensed by the ILO are responsible for developing the capacity of the Trainers to effectively conduct SIYB training. Thereafter, the Trainers train entrepreneurs in SIYB packages. The ILO plays a critical role in identifying and disseminating best practices, carrying out trainings, monitoring activities, performing quality control and providing technical advice on the implementation of the SIYB programme.

About Start Your Business (SYB)

Start Your Business (SYB) is a training programme for potential entrepreneurs who have a feasible business idea for their own small enterprise. The training helps in developing a detailed business plan and to actually get started. The training also provides an opportunity to test the required entrepreneurial skills and the business plan in a simulated and safe environment.

The SYB training course usually delivered in five days using the SYB manual and business plan booklet. The training uses an active, problem-centred learning approach which builds on what the potential entrepreneur already knows. It challenges the entrepreneur by introducing new market dynamics through, for example, short cases and graphic illustrations.

Authors and acknowledgements

The SYB manual is a result of a collective effort and reflects the experience and knowledge gathered by implementing the programme for nearly three decades. In particular, the contributions of SIYB Master Trainers and Trainers who have tested, designed and implemented the programme in different countries over the years have been invaluable. There are many colleagues from the network of SIYB practitioners, consulting firms and in the ILO, whose experience, support and constructive suggestions made the publication of this training manual possible.

This manual is based on the materials originally developed in 1996 by the ILO SIYB Regional Project Office in Harare, Zimbabwe. The authors of the original version are Geoffrey Meredith, Douglas Stevenson, Hakan Jarskog, Barbara Murray and Ulf Kallstig. The original manual was subsequently revised by the ILO Youth Entrepreneurship Facility (YEF), whereby it was written and reviewed by Milena Mileman and Sibongile Sibanda. Short contributions and other valuable materials and ideas used in the YEF versions were provided by Julius Mutio, Marek Harsdorff, Milan 'Divecha, Namsifu Nyagabona, Mike Oneko, Dorothy Katantazi and Stephen Kyalibulha.

The author team of the 2015 version, which revised the existing text and wrote new chapters to include recent thinking in enterprise development and related fields comprises Phan Minh Tue and Pranati Mehtha. Stylistic and language editing were carried out by Steve Raymond.

Many thanks are due to SIYB senior Master Trainers Dissou Zomahoun, Gemunu Wijesena, Sibongile Sibanda and Walter Verhoeve for the review of the draft manuscript and suggestions based on their training experience. A special thanks to the ILO colleagues- Marek Harsdorff from the Green Jobs Programme of the Enterprises Department; Jurgen Menze and Esteban Tromel from the Gender, Equality and Diversity Branch; Julia Faldt from the HIV and AIDS and the World of Work Branch, Kristen Sobeck and Patrick Belser from the Inclusive Labour Markets, Labour Relations and Working Conditions Branch, for their contribution to the content of the manual. Short contributions, advice and assistance on integrating linkages to finance in the manual were received from Cheryl Frankiewicz and Severine Deboos (Technical Expert in the Social Finance Unit of ILO's Enterprises Department).

The internal layout and illustrations were carried out by Le Nguyen Sang and the cover design was developed by Maurizio Costanza.

The review efforts and technical contributions of the SIYB Global Coordination Team members who provided invaluable support to the development and finalization of the manual is greatly appreciated: Merten Sievers (Specialist – Value Chain Development and Business Development Services), Eva Majurin (SIYB Global Coordinator) and Thokozile Newman.

Contents

INTRODUCTION

- | | |
|---------------------------------|----------|
| | i |
| 1. What is this manual about? | i |
| 2. Who should read this manual? | i |
| 3. Objectives of this manual | i |
| 4. How to use this manual? | ii |

PART I - ASSESS YOUR READINESS TO START A BUSINESS **01**

- | | |
|--|----|
| 1. Assess your entrepreneurial abilities | 01 |
| 2. How to strengthen your entrepreneurial abilities? | 05 |
| Summary | 07 |

PART II - THE BUSINESS PLAN **09**

- | | |
|--|----|
| 1. Why is Business Plan important? | 09 |
| 2. Content of the Business Plan | 10 |
| 3. Where to find information for your Business Plan? | 11 |
| Summary | 12 |

PART III - REINFORCE YOUR BUSINESS IDEA **13**

- | | |
|---------|----|
| Summary | 16 |
|---------|----|

PART IV - THE MARKETING PLAN **17**

- | | |
|----------------------------|----|
| 1. Conduct market research | 17 |
| 2. Make a Marketing Plan | 22 |
| 2.1 Product | 22 |
| 2.2 Price | 26 |
| 2.3 Place | 30 |
| 2.4 Promotion | 31 |
| 2.5 People | 34 |
| 2.6 Process | 35 |
| 2.7 Physical Evidence | 36 |

3. Sales estimation	37
Summary	39
PART V - STAFF	41
1. What staff do you need?	41
2. Staff costs	42
Summary	44
PART VI - ORGANIZATION AND MANAGEMENT	45
1. Form of business	45
1.1 The different forms of business	46
1.2 How to select the right form of business?	47
2. Legal responsibilities and insurance	51
Summary	54
PART VII - BUYING FOR YOUR BUSINESS	55
1. Equipment	55
2. Raw materials	56
3. Finished goods	56
Summary	58
PART VIII - GREENING YOUR BUSINESS	59
1. Your business and natural resources	59
2. Increase efficiency and profits: reduce, reuse, recycle	60
3. Classifying the waste	60
Summary	61
PART IX - COSTING YOUR GOODS AND SERVICES	63
1. What are costs?	63
2. Costing for a manufacturer or service operator	64
3. Costing for a retailer or wholesaler	73
Summary	79

PART X - FINANCIAL PLANNING	81
1. What is financial planning?	81
2. Make a Profit Plan	81
2.1 Sales Plan	81
2.2 Cost Plan	83
2.3 Profit Plan	84
3. Make a Cash Flow Plan	86
Summary	90
PART XI - REQUIRED START-UP CAPITAL	91
1. What capital investments do you need?	91
2. What working capital do you need?	93
Summary	96
PART XII - TYPES AND SOURCES OF START-UP CAPITAL	97
1. Owner's equity	97
2. Loans	97
Summary	100
PART XIII - STARTING THE BUSINESS	101
1. Are you ready to start your business?	101
2. Start or not?	103
3. Do you need more information to complete your Business Plan?	103
4. Presenting and defending your Business Plan	103
5. Action Plan for starting your business	104



INTRODUCTION

1. What is this manual about?

There are many things to think about when you start a new business. This manual will help you to organize your thoughts and to develop a plan for your business idea. After you have gone through the manual, you will be able to assess whether or not your business idea has the potential to evolve into a profitable enterprise and whether you should go ahead or you should reconsider your original concept. If you then decide to develop your idea into a business, this manual will teach you how to start.

2. Who should read this manual?

Start Your Business (SYB) is a manual for people who have a practical business idea and want to start a new business. It introduces the proper steps for starting a business and creating a Business Plan for the proposed venture.

3. Objectives of this manual

When you have completed this manual, you should be able to:

- Describe the content of a Business Plan
- Consolidate your business idea
- Translate your business idea into a completed Business Plan
- Assess your readiness for starting a business

4. How to use this manual?

The SYB manual is accompanied with a SYB Business Plan booklet. The manual explains the steps that you need to follow in order to start a business. The Business Plan booklet is to be completed as you go through the manual.

In this manual you will find:

- **Stories of businesses:** Compare these examples with your future business and use them to improve your plan to start the business.
- **Activities:** Practical exercises in the middle of each part that help you to proactively think about the concepts and how to apply them to your future business.
- **Summary:** This is provided at the end of each part. Use it to review the key points.
- **Action Plan:** Fill in and use the Action Plan near the end of the manual. These will help you to put your new knowledge into practice.
- **Important notes:** Each of these notes has important information. Use this information to the best of your ability. You can find these notes in the middle of different parts of the manual.

Several icons are used within the manual to help guide your study. Examples of the icons and their meanings are listed below:



When you see this icon, you have activities to do or questions to answer.



When you see this icon, it signifies that the information in this part is extremely important.



When you see this icon, you will know you have just completed one part and the important ideas that were presented are being summarized here.



When you see this icon, it tells you where to find more information or what to do.

ASSESS YOUR READINESS TO START A BUSINESS

Before you decide to start your own business, you should assess whether or not you are ready to run a business of your own. The success of your business will depend on your entrepreneurial abilities (personal characteristics, situation and skills) and your commitment to the environment and community. You should consider which of your characteristics needs improvement and then try to change your situation and skills.

1. Assess your entrepreneurial abilities

The following activity will help you find out if you have the abilities to successfully run your business. Be honest in your assessment.

ACTIVITY 1



To help you decide if you have what it takes to be in business, think about each of the following factors. Decide if each of these factors is a strength or an area in which you need to improve. For example, if you have knowledge in business management, this is a strong point. But if you lack such knowledge and you plan to hire someone else to manage your business and make decisions, then this may be an area of improvement.

PERSONAL CHARACTERISTICS AND YOUR SITUATION	AREAS OF STRENGTH	AREAS THAT NEED IMPROVEMENT
<p>Commitment</p> <p>For your business to be a reality and to succeed, you must be committed. Commitment means that you are willing to put your business before almost everything else. Do you want to be in business for a long time? Can you spend most of your time and efforts on your business?</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Motivation</p> <p>Your business is more likely to succeed if you are very motivated to try your business idea, create wealth and make your money work for you. Do you know clearly why you want to have your own business?</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Taking risks</p> <p>There is no absolutely safe business idea. You always run the risk of failure. Are you prepared to take risks? Are you willing to risk your money to invest in your business?</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Making decisions</p> <p>You are in charge of your business, which means that you have to make decisions that may lead to either success or failure. Important decisions cannot be postponed or passed on to someone else. Can you make difficult decisions by yourself?</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Ability to handle stress</p> <p>Entrepreneurs are subject to a lot of stress. Stress may be the result of either difficult decisions that must be made, dealing with stakeholders in the business or working long hours. Are you excited about your business prospects? Do you derive a great deal of enjoyment from your work?</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Problem solving</p> <p>Running your own business requires that you are able to solve problems. Do you have the ability to solve the root cause of problems in creative ways?</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Goal orientation</p> <p>One feature that differentiates an entrepreneur from an employee is the ability to develop and achieve goals. You should be able to envision where your business is headed and to see the bigger picture, rather than just focusing on minor details. Have you drawn a vision and set a goal for your business?</p>	<input type="checkbox"/>	<input type="checkbox"/>

Social support

Running your business will take a lot of time and effort. It is important to have adequate support from family, friends and other business people. Do you have a social network of people and organizations that will support the realization of your dream?

Financial situation

Access to financial resources to start your business is important. Have you set money aside to get your business started? If you need additional funds, do you have family or friends who might be willing and able to lend you money, to use their assets to guarantee your loan with a financial institution? Do you have a savings or credit history with a financial institution that offers loans to new businesses?

SKILLS	AREAS OF STRENGTH	AREAS THAT NEED IMPROVEMENT
Technical skills <p>Technical skills are the practical abilities you need for your business idea to result in goods produced or services provided. For example, if you want to start a cell phone service and repair shop, you need to know how to repair cell phones. Do you have technical skills that are necessary for your business?</p>	<input type="checkbox"/>	<input type="checkbox"/>
Business management skills <p>Business management skills are the abilities to run your business efficiently. Do you have skills in marketing, costing, record keeping, people motivation, etc.?</p>	<input type="checkbox"/>	<input type="checkbox"/>
Knowledge of your line of business <p>The more you know about your line of business, the more you will avoid making costly mistakes. Do you have a detailed knowledge of the specific type of business that you want to start?</p>	<input type="checkbox"/>	<input type="checkbox"/>
Negotiation skills <p>Negotiation skill is the ability to communicate with others without offending anyone. When you negotiate, you not only think about what is in your favour, but you must be aware of things that are in the other person's favour also. Can you get what you want from a negotiation in a way that both parties can benefit?</p>	<input type="checkbox"/>	<input type="checkbox"/>

ENVIRONMENTAL AND COMMUNITY CONCERNS	AREAS OF STRENGTH	AREAS THAT NEED IMPROVEMENT
<p>Your business and the environment</p> <p>As an entrepreneur, you need to know the environmental issues affecting your line of business. Do you know how to sustain the natural capital or resources on which your business depends?</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Commitment to your community</p> <p>Your business needs to be community friendly. Entrepreneurs are important members of the community and you need to have a commitment to the advancement of the community as a whole. Do you have a good relationship with the community?</p>	<input type="checkbox"/>	<input type="checkbox"/>

Number of areas of strength

Number of areas that need improvement

Count the number of areas of strength and the number of areas that need improvement and write the total here.

.....

.....

Look at the assessment areas above and decide which ones that need improvement or growth are critical for your business success. Note the number of needed improvements below:

CRITICAL AREAS NEEDING IMPROVEMENT AND GROWTH

2. How to strengthen your entrepreneurial abilities?

There are many ways to alter your characteristics, improve your business skills and situation and also address the necessary environmental and community concerns. Here are some suggestions on how to strengthen your entrepreneurial abilities:



Read: Research on books about businesses that can be found in most libraries; also read business related articles on the internet, in newspapers and magazines.



Attend training: Find and attend university or privately funded training programmes in business management, technical skills or motivation and entrepreneurship.



Learn from successful business people: You should be able to find successful business people who will talk to you about their businesses. If they allow you to visit their business locations, observe them as they work and learn from them. If possible, work as an apprentice in a related successful business.



Seek help from others: Talk about the areas that need improvement with your friends and family. You could also join a business association and discuss the issues with other members in the association.

You might want to think about finding a partner who complements your abilities, instead of going into business entirely on your own. A partner might also be able to bring financial resources, collateral or relationships with financial service providers that could be helpful if your business ever needed a loan.

There are a number of successful business people who did not have much experience or practice in a business situation before starting their businesses. What is important is to be aware of the areas that need improvement and develop a plan of action to deal with these before they negatively affect your business.



ACTIVITY 2

Complete the following Action Plan to help you think about ways to improve your entrepreneurial abilities.

ACTION PLAN	
My characteristics and situation	What will I do to strengthen them?
My skills	What will I do to strengthen them?
Environmental concerns	What will I do to address them?
Community concerns	What will I do to address them?



Include these issues in your capacity development plan in the Action Plan at the end of this manual.



Now do you feel comfortable about starting your own business?

Yes No

If you are comfortable about starting your own business and think that you will be able to work on the areas that need improvement, you are ready to start planning. The following parts will guide you in the process of creating an Action Plan to actually start the business.

If you have answered “No” to the question above, think more about what you can do to improve your abilities as an entrepreneur. Remember, not everyone can run a business. If you still do not feel comfortable about starting a business, maybe you should work for somebody else instead.

SUMMARY



In Part I you have learned the following:

- Before you decide to start your own business, you should assess whether or not you are ready to run a business.
- The success of your business will depend on your personal characteristics, situation, skills and how well you address environmental and community concerns. The more entrepreneurial characteristics, situation and skills you have, the more likely it is that your business will succeed.
- You can make yourself aware of the characteristics that need improvement, change your situation, address environmental and community concerns and acquire the skills needed for the business.

THE BUSINESS PLAN

1. Why is Business Plan important?

Putting your ideas and information together is called making a Business Plan.

You need to prepare the Business Plan because it helps you to:

- **Decide** if you should start your business or not. Starting a business will change your life completely. Therefore, you need to make sure that you make the right decision. The Business Plan will help you to judge whether or not starting a business is the right decision.
- **Organize** your ideas so that you will see how to start and run your business in the best possible way. The Business Plan follows a standard sequence of relevant topics which will help you to visualize the road ahead.
- **Present** your Business Plan to investors or to a lending institution, such as a bank or a microfinance institution, to obtain a loan. By preparing the Business Plan yourself, you will be able to answer most of the questions they may ask.

The accompanying booklet contains the outline of the Business Plan that you will complete for your business idea.

“

It is important to continually take the time to find new and better information. Feel free to go back and change the Business Plan at any time as you work through the manual.

”



2. Content of the Business Plan

A Business Plan should cover all the important aspects to be considered before starting a business.

Main parts of the Business Plan	Purposes
Executive Summary	The executive summary is an outline of your business idea. You will, therefore, need to complete all the other parts of the plan before doing the executive summary. It must be clear and organized, because it is the first impression one gets of your business idea.
The Business Idea	All business plans are based on an idea. Part III helps you to think about the concept of your business idea so that you can put your idea in writing at the beginning of your Business Plan.
The Marketing Plan	Marketing is everything you do to find customers and satisfy their needs while making profit. Part IV helps you to think about and create your Marketing Plan.
Staff	You need to think about staffing your business. Part V helps you to think about all the jobs that need to be accomplished in your new business and to decide who will do them.
Organization and Management	Part VI explains the different types of businesses and helps you to decide which type suits you best. Part VI also helps you to understand the legal requirements of your business and shows you how insurance can provide a form of financial security against risks.
Buying for Your Business	Whatever business you are in, you need to buy before you make or sell your products. Part VII will advise you on what you should consider when you buy to start your business.
Greening Your Business	Different businesses depend upon and use natural resources in their production processes in different ways. Part VIII introduces the three “Rs” strategy: Reduce, Reuse and Recycle to help your business have a positive impact on the environment and be more profitable.
Costing	To be able to set your prices and make a financial plan, you need to calculate the cost of your products. Part IX shows you how to do costing.
Financial Planning	All businesses need to plan for the future. Part X helps you plan how to make a profit and how to handle the cash flow for your new business.
Required Start-up Capital	To start a business, you need money for equipment, materials, rent, wages, etc. Part XI helps you to calculate how much capital you need to start your business.
Sources of Start-up Capital	When you know how much start-up capital you need, you have to figure out how to source that amount. Part XII explains how you can get start-up capital from both the owner’s equity and loans.

3. Where to find information for your Business Plan?

You can find some of the information on your own and use your own experience to do many of the estimates and calculations. But some information may be difficult to find and some estimates and calculations may be difficult to make. It is helpful to have someone with experience in the business to assist you or to review your Business Plan.

The following list suggests possible sources of assistance:

- **Business development services providers** that offer different services, such as management training, access to market information, access to financial information and technical training. These could be government departments, consultants, specialist projects or other non-governmental organizations.
- **Industry specific associations** that offer information on legislation, taxes, standards and other industry specific developments that might have an effect on your new business.
- **Accountants, lawyers and business consultants** can assist with some parts of your Business Plan.
- **Financial institutions** such as banks, cooperative societies or microfinance institutions sometimes give assistance to entrepreneurs who apply for a loan.
- **International organizations** with special projects designed to assist entrepreneurs could help you access information.
- **Yellow pages** are where you can find addresses of organizations handling things like business registration, taxes and financial requirements for small businesses.
- **On the internet**, you can find most of the information that you will need to complete your plan.



SUMMARY

In Part II you have learned that:

- Putting your ideas and information together is called making a Business Plan.
- A Business Plan helps you to:
 - **Decide** if you should start your business or not.
 - **Organize** your ideas so that you will know how to start and run your business in the best possible way.
 - **Present** your Business Plan to investors or to a lending institution, such as a bank or a microfinance institution, to obtain a loan.
- A Business Plan should cover all the important aspects to be considered before starting a business. It is a guide for you to follow so that you do not overlook anything when preparing to open your new business.
- You may find information for your Business Plan from the following sources:
 - Business development services providers
 - Industry specific associations
 - Accountants, lawyers and business consultants
 - Financial institutions
 - International organizations
 - Yellow pages
 - Internet

REINFORCE YOUR BUSINESS IDEA

When you see a business opportunity, you need to develop your thoughts into a business idea. A business idea is a short and precise description of the basic operation of the business. Your business idea will tell you:

- **What good or service will your business sell?** Your business idea should be based on a particular skill that you have. Maybe you have experience with or have been trained in a specific line of business.
- **Who is your business going to sell to?** Will you only try to sell to a specific type of customer or to everyone in an area? It is important to be clear about who you intend to sell to.
- **How is your business going to sell its goods or services?** You can sell in many different ways. A manufacturer can, for example, sell either directly to customers or to retailers.
- **Which need will your business fulfil?** Your business idea should always have the customer and the customer's needs in mind. It is important to find out what customers want when you work out your business idea.
- **What impact will your business have on the community and the natural environment?** Your attitude and people's view on your business will determine your success. If you exploit labour and damage the natural environment (waste generation, water wastage, deforestation) people might avoid your business.

ACTIVITY 3



To make sure your business idea is concrete and feasible, answer following questions:

1. What good or service will your business sell?

.....

2. Who will buy your good or service?

.....

3. How are you going to sell your good or service?

.....

4. Which needs will your good or service fulfil for which customers?

.....

5. What is the positive or negative impact your business will have on your community and the natural environment?

.....



*If you are not sure about answers to the above questions, you may need to study the **GENERATE YOUR BUSINESS IDEA MANUAL**.*

Look at how these people have described their business idea:

CITY GARBAGE RECYCLERS



Prior to starting the business, John and Mary attended a training course on organic farming which was conducted by a non-governmental organization (NGO). They believe that organic farming will be touted as the best approach to modern farming techniques.

So they decided to form a partnership and start a business - *City Garbage Recyclers*

They decided to focus on producing and packaging organic manure.

BUSINESS IDEA

Name of business:

City Garbage Recyclers

The business is going to produce the following product:

- Compost manure

The customers will be:

- Small-scale farmers, greenhouse farmers, landscaping businesses, hardware stores and plant nurseries in the area

The business will sell the manure by:

- Delivering to hardware stores, plant nurseries and greenhouses
- Having sales people go from door to door, which will entail distribution
- Selling directly to customers from the business location

The business will satisfy the following needs of the customers:

- Reduce the problems associated with the disposal of waste in the area
- Help farm produce grow faster
- Provide farm produce that is more marketable
- Offer a product that is environmentally-friendly

TOSAMA CLOTH BAGS



Jane has been interested in environmentally-friendly products for a long time. While surfing the internet and watching television, she noticed a demand for alternative packaging materials that were not made from plastic. She has also become aware of businesses that are producing different types of products from recycled clothes.

Jane visits one of these companies and asks the managers to make special recycled cloth bags. She provides the company with the pattern of the bags she wants. Jane and the company sign an agreement that the bags will be sold exclusively to her for the first five years.

Jane plans to sell bags that are produced from recycled clothes.

BUSINESS IDEA

Name of business:

Tosama Cloth Bags

The business is going to produce the following products:

- Recycled cloth bags and other packaging materials

The customers will be:

- Retail shops that stock packaging materials, small businesses, vendors, farmers for storing vegetables in freezers, plus individual consumers who use bags for shopping, packaging, laundry, storing green waste in the garden, etc.

The business will sell the bags as follows:

- Bags will be delivered to bulk buyers and individuals can purchase them from the shop.

The business will satisfy the following needs of the customers:

- Provide reusable environmentally-friendly bags
- Enable easy access to packaging materials of different sizes to meet the needs of the different business and individual consumers
- Provide cost-effective carriage and storage of goods

ACTIVITY 4



Think through your own business idea and write it down in section 1: "Business idea" in the Business Plan booklet. The business idea will guide you as you write the rest of the Business Plan.



SUMMARY

In Part III you have learned:

- When you discover a business opportunity you need to develop your thoughts into a business idea.
- A business idea is a short and precise description of the basic operations of the business:
 - **What** good or service will your business sell?
 - **Who** is your business going to sell to?
 - **How** is your business going to sell its goods or services?
 - **Which** need will your business fulfil for the customers?
 - **What** impact will your business have on the community and the natural environment?

THE MARKETING PLAN

Marketing is an important part of starting and running a business. It helps you to sell your goods or services in the right way and to the right people.

Marketing is the ability to identify the needs of potential customers and to satisfy those needs better than your competitors, in order to make a profit.

1. Conduct market research

It is important that you should identify the needs of potential customers and find out how your future competitors have been satisfying those needs. This can be done by conducting a market research. From your experience and from developing your business idea, you may already know quite a lot about your market. But the more you know, the more capable you are to design a good Marketing Plan.

ACTIVITY 5



You need to find out more information about the market from a variety of sources. List all the sources that you are aware of.

.....

.....

.....

Here are some examples of ways to find out more about your customers and competitors:

- **Talk** to potential customers. Ask them:
 - What goods or services do they want to buy?
 - What do they think about your competitors?
- **Observe** your competitors' businesses. Find out about:
 - What goods or services do they provide?
 - What prices do they charge?
 - How do they attract customers?
- **Ask** suppliers and friends in the business:
 - Which products do they sell the most?
 - What do they think about your business idea?
 - What do they think about your competitors' products?
- **Read** newspapers, catalogues, trade journals and magazines to get information and ideas about new goods or services.
- **Surf** the web to explore what others are doing and to get information about the goods or services you want to provide, your competitors and new trends.

As you collect information about your customers, remember that potential customers do not all share the same needs and wants. In order to be able to provide the most adequate good or service, you need to identify different groups of potential customers that have clear and distinguishable characteristics. This is called **market segmentation**. Grouping your potential customers by their characteristics will enable you to collect detailed and specific information on their product preferences.

CITY GARBAGE RECYCLERS



When John and Mary have completed their market research, they write down what they found in their Business Plan:

MARKET RESEARCH				
Products (1)	Customers (2)	Needs and preferences of customers (3)	Competitors (4)	Gaps (that competitors have not fulfilled) (5)
Compost manure	Small-scale farmers Greenhouse farmers in the area Landscaping businesses Plant nurseries Hardware stores	Need various types of products suitable for the various growth stages of the plants Need to ensure that the product is clean and good for the soil in the long term Look for competitively priced products Need delivery to their locations Need factory packed and labelled products, with a competitive commission	Cheap “home-made” manure provided by farmers Other compost manure factories whose brands have gained a foothold in the market Chemical fertilizer companies whose products come in smaller packages and provide immediate effect on plant growth	Compost manure should not be expensive because it is easy to produce Current packaging is too big (30 kg) and not convenient for individuals to buy and use Some concerns about the quality of “home-made” manure

TOSAMA CLOTH BAGS



When Jane has finished doing her market research, she writes down what she found in her Business Plan:

MARKET RESEARCH				
Products (1)	Customers (2)	Needs and preferences of customers (3)	Competitors (4)	Gaps (that competitors have not fulfilled) (5)
Laundry bags	Households	The need for a pretty, compact bag that can be easily stored (as plastic containers take up too much space)	Shops that sell plastic bags and containers of all sizes and designs	The trend to be more environmentally-friendly, to use more recyclable products and to reduce the use of bags and containers that are not good for the environment The desire to have a different lifestyle, to avoid using bags and containers that everyone else uses and to want something that is more creative Good quality with certification
Shopping bags	Retail shops	The need for reusable shopping bags that are foldable (disposable plastic bags break easily and are not environmentally-friendly)	Shops that give away disposable plastic bags to shoppers	
Green waste garden bags	Urban households, hotels and restaurants, offices, etc.	The need for strong storage bags that can be used in multiple ways		
Vegetable storage bags	Small-scale farmers	The need for storage bags that keep vegetables fresh and that come in various colours or different decorative patterns so that different vegetables can be stored in different bags		

ACTIVITY 6



Do market research for your own proposed business by collecting information about your goods or services, customers and competitors. The five columns in the Market Research form will guide you.

Column 1: Think about and list each good or service you will sell.

Column 2: Think about the customers who want that good or service and are willing to pay for it. Write all the types of customers.

Column 3: Think about and list the needs of the customer segments that the good or service may satisfy. Also, list particular preferences that different customers may have about the good or service, where those customers may wish to buy it, how the customers want to buy it and what the customers are willing to pay.

Column 4: Describe the important information that you have learned about your competitors, especially their competitive advantages.

Column 5: Write down the gaps that you notice in the needs of customers that competitors have not fulfilled. This information is important for you to decide what you would do differently to meet the unmet needs and how you would do it.

MARKET RESEARCH				
Products (1)	Customers (2)	Needs and preferences of customers (3)	Competitors (4)	Gaps (that competitors have not fulfilled) (5)



ACTIVITY 7

When you have finished the market research for your proposed business, write your findings in section 2.1: "Market research" in the Business Plan booklet.

2. Make a Marketing Plan

The market research provides important information about customers' needs and how your competitors have been fulfilling those needs. Consequently, in your Marketing Plan, you need to think about and describe how you will meet the needs that were not met by the competitors. This will make your business different and stand out from the competitors. To clearly describe what different methods you will use to serve your customers, write down the seven Ps of the marketing mix:

- Product
- Price
- Place
- Promotion
- People
- Processes
- Physical Evidence

All of the seven Ps are equally important. They should work in unison and not contradict each other to produce a synergy that effectively meets the needs of the customers.

2.1 Product

Product can mean more than a single good or service or a range of goods or services you offer.

You will attract more customers if your product is certified by reputable organizations, as you are making them aware that your products are guaranteed to meet the high standards that have been set.

You should not only describe your goods or services in general terms, but the more detailed the description of your goods or services (i.e. their quality, colour, size, packaging etc.), the more the customers will understand how you will satisfy their needs.



ACTIVITY 8

Describe your goods or services with as much detail as possible:

.....

.....

.....

Now, check whether your product meets your customers' needs:

.....

.....

.....

Customers buy goods and services to satisfy their basic needs and their specific needs. Meeting their basic needs is only the first step your business should take. Meeting their specific needs may make your business more competitive and sustainable. The following are examples of how companies can meet specific needs:

Products	Basic needs	Specific needs
Fresh vegetables	Satisfy the need to consume food daily	Vegetables that are cleaned, cut and ready for cooking, satisfy a need to save time in the kitchen.
Mobile phones	Satisfy the need to communicate and to be entertained	A mobile phone shop that offers a decoration service for mobile phones satisfies the need to be fashionable and stylish.

“

Many customers even go beyond the need for a quality product. People are increasingly aware of social and environmental issues and prefer products from companies that do not use child labour or that do not adversely affect the environment.

”



Let's see how the *City Garbage Recyclers* and *Tosama Cloth Bags* described their "Products".

MARKETING PLAN

Product

Good, service or range of products

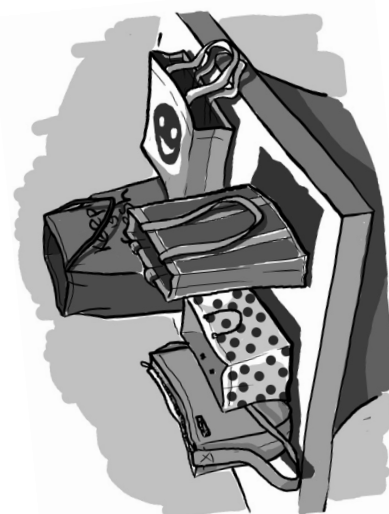
	1. Super Organic compost	2. Organic compost	3.	4.
Quality	Compost with a high percentage of manure, suitable for plants in the early stage to help develop leaves and flowers	Compost made from organic garbage, without any heavy metals and other toxins, suitable for soil regeneration before planting		
Colour	N/A	N/A		
Size	10 kg bags	20 kg bags		
Packaging	Ordinary recyclable bags	Ordinary recyclable bags		
Certification	Organic label	Organic label		



MARKETING PLAN

Product

Good, service or range of products				
	1. Laundry bags	2. Shopping bags	3. Green waste garden bags	4. Vegetable storage bags
Quality	<ul style="list-style-type: none"> • Strong stitching • Various patterns • Nice design 	<ul style="list-style-type: none"> • Strong stitching • Designed to carry goods comfortably • Easily folded and compacted when not being used 	<ul style="list-style-type: none"> • Strong stitching • Various design patterns 	<ul style="list-style-type: none"> • Strong stitching • Various design patterns
Colour	Multiple colours	Multiple colours with drawings that promote the "going green" trend	Green colour	Multiple colours
Size	Small, medium and large	Small, medium and large	Small, medium and large	Small, medium and large
Packaging	Two in one	None	None	Three in one
Certification	Fair trade label	Fair trade label	Fair trade label	Fair trade label





ACTIVITY 9

When you have thought about and decided what goods or services you will sell, complete section 2.2: “Product” in your own Marketing Plan in the Business Plan booklet.

2.2 Price

Price is the amount you will charge your customers for your goods or services. Price also includes any discount you will give and if you are going to offer credit. There are many factors that you must consider before setting your price.



ACTIVITY 10

List all the factors that may influence the price of your goods or services:

.....

.....

.....

To set your prices you have to:

- Be aware of how much customers pay for a similar product and then decide how much extra they would pay for fulfilling any specific unmet need supplied by your product.
- Know the highest and lowest prices charged by the competitors, so you will have a better idea of the prices you can charge for your product.
- Know the cost of your products so you can set a price that is above your cost.

You do not always have to set a low price to be competitive. Instead, your price should reflect your differentiation. For example, if you offer a high quality product, your price should be higher than the price charged by the competitors. A price that is too low may not cover all the costs and could be counter-productive, that is, customers may doubt the product quality.

In situations wherein you are selling a totally new product, it is impossible to compare with competitors’ pricing. What should you do then? You should check with potential customers about different levels of pricing and see how many of them would agree to buy your product at each price level.

Once you have decided on your price, you might consider doing several promotions, offering discounts and giving credit terms to increase sales occasionally. Make sure you have a clear objective for each discount or credit decision, so that these decisions do not become unprofitable.

“

You have to know your costs before you can set your prices, so you cannot finalize your prices until you have calculated your costs in Part IX: Costing your goods and services. At this stage, gather all the information you can and decide on a probable price, which you can come back and change later.



”

See how *City Garbage Recyclers* and *Tosama Cloth Bags* set their “Price” on pages 28-29.

ACTIVITY 11



Decide what price you will charge, what discounts you will give and if you are going to give credit to any customer. Fill your decision in section 2.3: “Price” in your own Marketing Plan in the Business Plan booklet.



John and Mary spoke to potential clients and found out what prices the customers are willing to pay and what prices their competitors charge. They think that setting a lower price will be one of the best ways to compete with other companies producing manure. However, they will not compete against the cheap “home-made” compost provided by individual farmers.

MARKETING PLAN

Price

(for manufacturers and service operators)

	1. Super Organic compost	2. Organic compost
Cost	\$0.76 per kg	\$0.63 per kg
The price that customers are willing to pay	\$1.2 per kg	\$0.8 per kg
Competitor's price	\$1.1 per kg (offered by other factories)	\$0.7 per kg ("home-made" compost offered by individual farmers)
Price	\$0.9 per kg	\$0.72 per kg
Reasons for setting this price	To be lower than competitor's price and still maintain a 19% profit margin	Meet the customers' expectations in terms of price and quality and still maintain a 14% profit margin
Discounts will be given to the following customers	Discount of 10% to hardware shops and plant nurseries, free delivery to all other customers	Discount of 10% to hardware shops and plant nurseries, free delivery to all other customers
Reason for giving discounts	Motivate retailers to stock and sell our products to end users	Motivate retailers to stock and sell our products to end users
Credit will be given to the following customers	No credit will be given	No credit will be given
Reason for giving credit		

Jane has no benchmark to use in order to price her bags as there is currently no product similar to hers in the area. However, customers perceive that non-plastic packaging is more expensive than plastic packaging. She should educate potential customers about the benefits of her environmentally-friendly product so that they will be willing to spend more money on her bags than they spend on the plastic bags.

MARKETING PLAN				
Price				
(for retailers and wholesalers)				
	Shopping bags	Laundry bags	Green waste garden bags	Vegetable storage bags
Cost	\$6.15	\$8.61	\$8.61	\$1.48
The price that customers are willing to pay	A bit higher than plastic bags and containers			
Competitor's price	\$5 per reusable bag, free for disposable bags	\$5- \$12 per plastic container, depending on the size and design	N/A	\$1-\$1.5 per small plastic container (more convenient for meat storage than vegetables)
Price	\$7/ piece	\$10/ piece	\$10/ piece	\$1.6/piece
Reason for setting this price	The price is higher than plastic items, as it provides added value to customers. They look more trendy and more environmentally-friendly when using our products. It is also slightly more expensive to produce recycled cloth bags than plastic or paper bags.			
Discounts will be given to the following customers	Buy one product and get a discount voucher of 5% towards the next purchase (applicable for only the opening week)			
Reason for giving discounts	Promote customers to buy more			
Credit will be given to the following customers	No	No	No	No
Reason for giving credit				

TOSAMA CLOTH BAGS

2.3 Place

Place is a location for your business. If your business is not located where your customers are, you need to find ways to get your products to the customers. This is called **distribution**. Choose between **direct distribution**, **retail distribution** and **wholesale distribution**.

Direct distribution means selling your products directly to consumers. Direct distribution is the most useful form of distribution for businesses that produce fairly expensive, specialized products and have few customers.

Retail distribution means selling your products to shops and stores who then sell to the consumers.

Wholesale distribution means selling your products in very large quantities to wholesalers who then sell them in smaller quantities to retailers to sell to consumers.

Retail distribution and wholesale distribution are the most useful forms of distribution for businesses that usually produce large quantities of goods, sell goods at low prices and have many customers spread over a large area.

CITY GARBAGE RECYCLERS

The *City Garbage Recyclers* need lots of space and a place near the source of the food waste and chicken and goat manure which are the main ingredients for the compost.

Marketing Plan

Place

Location:

- The business will be located on a plot situated 15 kilometres from the city centre.

This location has been chosen for the following reasons:

- Its proximity to the raw materials, as it is near both a household and restaurant food waste collection plant and some small chicken and goat farms.
- Its proximity to neighbourhoods with unemployed youth needed for labour.
- It is also located near some greenhouses.

Method of distribution:

- Direct Retail Wholesale Others

This form of distribution has been chosen for the following reasons:

- The manure would be available to farmers who buy small amounts from the retailers and also those farmers who wish to order larger quantities at discounted prices directly from *City Garbage Recyclers*.



TOSAMA CLOTH BAGS

Jane's business needs to be located in an area that has many affluent people who are aware of environmental management issues. She has found space in one of the malls and intends to partition the spot she has chosen to make it more appealing to the customers.

MARKETING PLAN

Place

Location:

- I will rent a shop in the nearby mall, which is a shopping complex for affluent people.

This location is chosen for the following reasons:

- All the potential customers have easy access to this location, complex is located in a wealthy neighbourhood.

Method of distribution:

- Direct Retail Wholesale Others

This form of distribution has been chosen for the following reason:

- The target customers will be approached directly and get educated about environmental issues as well as the solution of buying and using cloth bags.



ACTIVITY 12



Now decide where you should locate your business. Write down the location that you have chosen in section 2.4: "Place" in your Marketing Plan in the Business Plan booklet.

If you plan to start a manufacturing business, decide which type of distribution you will use and write it in your Business Plan booklet.

2.4 Promotion

Promotion means informing and attracting customers to buy your goods or services. There are many different ways to inform and attract customers:

Direct marketing means communicating directly to the customers. Direct marketing may take many different forms, such as direct email, telephone sales, text messages via cell phones, emails, interactive websites, forums and fan pages.

Advertising is giving information to potential customers to make them interested in buying your goods or services. Advertisements on newspapers, magazines, television, radio and outdoor billboards can reach a large number of potential customers but are often quite expensive. New types of media, such as blogs, websites, social media or pop up advertisements which are relatively cheap but still reaches wide audience.

Publicity is gaining visibility with the public through sponsorship of some charity or organizing a debate about environmental issues or an awards ceremony. In comparison to advertising, publicity is inexpensive and more credible. However, it is difficult to control what the public says about you. You should protect your business from bad publicity by maintaining a good reputation with your customers.

Sales promotions are incentives to simulate immediate sales. Examples of sales promotions are coupons, samples, premiums, point of purchase displays, contests, rebates and sweepstakes.

TOSAMA CLOTH BAGS



Jane plans to use a persuasive and informative promotion strategy. This is how she fills in the “Promotion” section of her Business Plan:

MARKETING PLAN

Promotion

Means	Details	Costs
Advertising		
Website	Develop a website to share information about how recycled cloth bags are environmentally-friendly and describe the products	\$200
Online banners	Buy banners on women’s forums (as they are the target customers) to briefly introduce the environmentally-friendly bags and link to the website	\$150 for 6 months
Leaflets	Print leaflets with the location of the business and a description of the types of bags that are sold, distribute the leaflets to shoppers at the entrance of the shopping mall	1,000 leaflets, cost \$150
Publicity/ Direct marketing		
Educational story	Make a story telling how the use of cloth bags benefits both the customer and the environment, post it on a social networking site	I will do it myself
Sales promotion		
Impressive display of bags	The bags will be attractively arranged on shelves and stuffed with products that are appropriate to their types and sizes.	N/A
Demonstration	The shopkeeper will demonstrate new products to customers.	N/A
Discount	Buy one product and get a discount voucher of 5% on the next purchase (applicable for only the opening week)	\$100
Total promotion costs for the year		\$600

CITY GARBAGE RECYCLERS



As organic fertilizers improve water retention and soil fertility, thus contributing to food security and productivity in the long term, John and Mary plan to cooperate with agricultural extension service providers to educate the public about the benefits of organic manure. They will also use sales promotions to encourage customers to use their products. This is how they fill in the “Promotion” section of their Business Plan:

MARKETING PLAN

Promotion

Means	Details	Costs
Advertising		
Brochures	Details about the company and the product	1,000 brochures \$200
Publicity/ Direct marketing		
Display	Display at agricultural exposition	\$ 500
Demonstration	Provide demonstrations on how to use the compost manure for crops, flowers and other plants; invite the target customers and local newspapers and television journalists to attend the demonstration	Three demonstrations, \$ 600
Sales promotion		
Discount	5% discount for all initial orders, applicable for the first two months only	\$70
Total promotion costs for the year		\$1370

ACTIVITY 13



Think about the different methods you can use to promote your business. When you have decided what methods you will use, fill in section 2.5: “Promotion” of your own Marketing Plan in the Business Plan booklet.

2.5 People

Please refer to Part V for a discussion about staff in general. From a marketing point of view, the term “People” refers to the question: “Who will develop the unique characteristic that differentiates your product?” For example, if you decide to provide better customer service than the competitors, you will need staff who are customer-oriented. It means they should be responsible, patient, flexible, sympathetic and enjoy working with different people.

For your Marketing Plan, you will need to:

- Identify the key positions that could make a difference in your business
- Decide the criteria for recruiting people to fill those key positions
- Plan relevant training and coaching for people in the key positions

TOSAMA CLOTH BAGS



Jane is aware that the success of her business will greatly rely on providing a unique design of the bags and her ability to persuade customers to purchase items that are environmentally-friendly. Below is an example of how she completes the “People” section of her Business Plan:

MARKETING PLAN

People

Position	Recruiting criteria	Training plan
Designer	Creative part-time designer with knowledge and experience in applicable art	N/A
Shopkeeper	Someone who is presentable, patient and has good communication skills	Train the shopkeeper on the concept of the product, environmentally-friendly living styles and customer service

CITY GARBAGE RECYCLERS



John and Mary believe that sales staff play an important role in their business. Sales staff should be able to inform customers about the various types of fertilizers and compost that are available, make comparisons and give advice about when to use the product and what compost is good for each type of plant. They fill in the “People” section of their Business Plan as follows:

MARKETING PLAN

People

Position	Recruiting criteria	Training plan
Sales staff	They must have a background in agriculture and good communication skills	Train them on the various product specifications and consultative sales skills

ACTIVITY 14



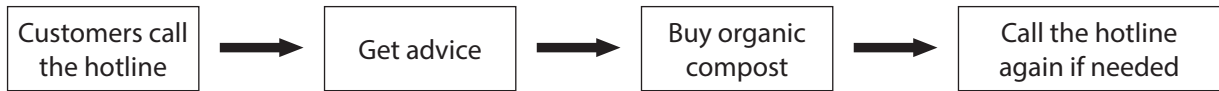
Think about the key positions you need for your business. When you have decided what they should be, fill in section 2.6: “People” in your own Marketing Plan in the Business Plan booklet.

2.6 Process

Process includes the various mechanisms and procedures that you use to get the product to your customers. For example, if a customer goes to a pizza restaurant, he or she not only consumes a pizza, but also enjoys going through the entire process. This includes easily finding convenient parking, enjoying the ambiance of the restaurant, reading an attractive menu, getting information on the menu items from staff and listening to good music while waiting for the pizza. Therefore you should make sure that each step of the process is a pleasant experience for your customers.

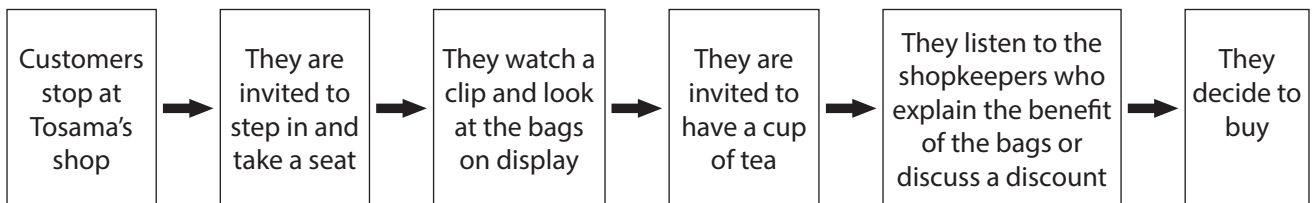
CITY GARBAGE RECYCLERS

While compost is a tangible product, John and Mary still believe that they should enhance the customer experience by providing consultative service before and after the purchase. They decide to create a hotline so that customers can call and ask for advice about how to effectively use compost products.



TOSAMA CLOTH BAGS

Jane thinks that the more time customers spend in her shop, the more chance she has to sell them a bag. She, therefore, designs a process to make her customers enjoy their stay.



ACTIVITY 15

Think about a process that would please your customers and make them decide to buy your product. When you have decided on a process, fill in section 2.7: "Process" in your own Marketing Plan in the Business Plan booklet.

2.7 Physical Evidence

Physical Evidence is the overall appearance of your product or company. You should consider what your customers should see and feel whenever they interact with your business or product. Below are some of the many points of interaction between your business and the public:

- Office premises and interior decoration
- Internet presence and website
- Packaging
- Signage
- Employee uniforms
- Business cards

CITY GARBAGE RECYCLERS

John and Mary would like customers to perceive their products to have a green image. They decide to use the following physical evidence:

- Uniforms: Green technician style uniforms for the sales staff.
- Packaging: They use second hand bags with waterproof printing labels showing a picture of a flower on the bags for the “Super Organic compost” and a picture of a freshly ploughed field for the “Organic compost”.

TOSAMA CLOTH BAGS

Jane knows that the decoration of her shop should create an environmentally-friendly image for her customers. She lists the following for the physical evidence:

- Shop decoration: Use brown and green colours, wooden display hooks, indoor green plants and background sounds of nature.
- Shopkeepers: Wear light colours, simple styles and natural make-up.

ACTIVITY 16



Think about the key physical evidence that you would implement for your business. When you have decided on the appearance you want to give to customers, fill in section 2.8: “Physical Evidence” in your own Marketing Plan in the Business Plan booklet.

3. Sales estimation

For those businesses that use direct distribution, sales start low and pick up continuously over time. If you use wholesale or retail distribution methods, sales may be quite good for the first couple of months because you are sending a supply of your product to wholesale warehouses and stores, where it is initially stockpiled or put on display before being distributed or purchased by consumers. Sales may drop for a few months until the wholesalers or retailers sell the product and place additional orders. Then sales will become more stable and reflect the actual amount of purchases by the end users.

CITY GARBAGE RECYCLERS

With their competitive pricing strategy, John and Mary expect to capture at least ten percent of the compost manure market after six months. The current size of the local market for compost manure is approximately 8,000 tons per year. They will sell about half directly to small farms, greenhouses and landscape businesses and distribute the other half to retail hardware stores and nurseries. Following is their projection of sales from their launch in June to the end of the year.

Product	Distribution	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total (bags)	Total (tons)
Super Organic compost (10 kg bags)	Direct	480	720	800	1,000	1,200	1,400	1,400	7,000	70
	Retail	1,600	2,000	400	600	680	800	920	7,000	70
	Total	2,080	2,720	1,200	1,600	1,880	2,200	2,320	14,000	140
Organic compost (20 kg bags)	Direct	600	800	1,000	1,200	1,400	1,600	1,800	8,400	168
	Retail	2,000	2,400	400	600	800	1,000	1,200	8,400	168
	Total	2,600	3,200	1,400	1,800	2,200	2,600	3,000	16,800	336
Total sales volume										476
Total sales in the market for seven months = 8,000 tons divided by 12 and that figure is multiplied by 7.										4,667
Market share										10%

TOSAMA CLOTH BAGS

In the first 6 months, Jane intends to open one shop. All of her sales will be made through this shop directly to consumers. Jane is conservative when projecting sales, as this is quite a new concept. It will take some time for customers to be educated, to get excited about the idea and then to actually buy the bags. She targets to gain about five percentage of the current size of the plastic bags market in the first six months.

Product	Jan	Feb	Mar	Apr	May	Jun	Total (pieces)
Shopping bags	100	200	300	400	500	500	2,000
Laundry bags	200	400	600	800	1,000	1,000	4,000
Green waste garden bags	300	600	900	1,200	1,500	1,500	6,000
Vegetable storage bags	500	1,000	1,500	2,000	2,500	2,500	10,000
Total	1,100	2,200	3,300	4,400	5,500	5,500	22,000
Total sales volume							22,000
Total sales in the market for six months							400,000
Market share							5%

ACTIVITY 17



Think about the sales volume that you could achieve and the market share that you could capture within six months or one year. When you have come up with a figure, fill in section 3: "Sales estimation" in your Marketing Plan in the Business Plan booklet.

SUMMARY



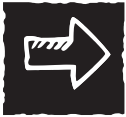
In Part IV you have learned that:

- **Marketing** means identifying the needs of consumers and satisfying them better than your competitors in order to make a profit.
- Your marketing starts with your **business idea**. Using your business idea, you need to learn more about your customers and competitors through **market research**. The more you know the better you will be at designing your Marketing Plan.
- The **Marketing Plan** will identify how to market your goods or services. One way of organizing your Marketing Plan is to describe the seven Ps of the marketing mix.
- **Product** is the goods or services or range of goods or services you are going to offer to satisfy the customers' needs.
- **Price** means how much you will charge your customers for your goods or services. It also means what discounts you will give and if you are going to offer credit. To set your price you have to:
 - Know how much the customers are willing to pay
 - Know your competitors' prices
 - Know your costs
- **Place** is always very important because location must be convenient for the customers. For manufacturers, place means the method of distribution you choose for your products. Depending on your product, you have to choose between direct distribution, retail distribution and wholesale distribution.
- **Promotion** means informing customers about your goods or services and attracting them to make a purchase. **Direct marketing** often allows two-way communication between you and your customers. Technology has recently provided many low or no cost methods of direct marketing. **Advertising** is providing information to your potential customers to make them interested in buying your goods or services. **Publicity** spreads news about your business free of charge but you have a very little control over what is said. Publicity can be either good or bad. **Sales promotion** provides added value or incentives to simulate immediate sales when customers come to your business.

-
- **People** refers to the question “Who will develop the unique characteristic that differentiates your product?” You should identify the key positions in your business and create the criteria for recruitment and training.
 - **Process** includes the various mechanisms and procedures used to get the product to your customers. You should make sure that each step of the process provides a pleasant experience for your customers.
 - **Physical Evidence** is the overall appearance of your good, service or company. You should decide what your customers should see and feel whenever they interact with your business or product.
 - Based on the Marketing Plan, you should be able to estimate the **sales volume** you will reach in the first six months or even the first year. Look at your market research to get the total amount of sales in the market for a specific period and then estimate the share of the market that you think you could get with your Marketing Plan. For your production or purchase plan, you should also project the amount of sales you will have per month.

STAFF

When starting your new business, you may need to hire employees. If you employ staff you will need skills to manage them. You should also adhere to the laws and regulations which apply to the labour market.



The productivity of your business will largely depend upon the people you employ. The IYB PEOPLE AND PRODUCTIVITY MANUAL goes into more detail about how to recruit, motivate and manage your staff to achieve a higher productivity.

You can hire members of your family. To prevent conflicts of interest or resentments by other employees, make sure that the family members you employ have the required skills and are not employed just because they are family members. They should not be given special privileges and should have the same working conditions as other employees.

1. What staff do you need?

Your business idea will help you to decide what skills your staff need.

Follow these steps to determine what staff you will need in your business:

1. List the tasks that will have to be performed; group similar tasks together
2. Decide which tasks you will not have the time or the skill to perform yourself
3. Determine what skills, experience and other requirements you need in the staff you hire to do these tasks
4. Decide how many employees are needed to perform each task - this will largely depend on the volume of business you anticipate and the time required for performing each task

5. Prepare job specifications for each position, where you describe the job title, tasks, responsibilities, qualifications and skills needed to perform the tasks
6. Develop staff policies, such as working hours, holidays, annual and sick leaves, etc.

When you are ready to start your business, you will then need to select the right people by identifying possible candidates or by advertising the opening. Be careful to consider other soft skills, such as attitude and commitment. Interview qualified applicants and choose the best person.

All employees need to have a written contract that complies with the labour law and with government regulations. In addition, your employees will need an induction programme that makes them feel comfortable in their new working environment and describes how they are to perform their jobs.

2. Staff costs

Consider the costs associated with the staff that you have decided to hire. Your staff costs will include their monthly salaries, as well as payments for statutory contributions such as insurance, health services and allowances.

As the owner of the business, you should also determine the salary and other benefits that you will receive. This amount should not be too low so that the capital of the business is not eroded by personal or household needs of the owner. It should also not be very high because the more profit is consumed by the owner, the less a new business can grow.

You may consider employing temporary staff to meet unexpected work demands. You pay temporary staff an hourly wage, but they receive no other benefits like paid holiday entitlement or sick leave payments. When you hire temporary staff, you must know in advance when you need them and for how many hours.

This is how John and Mary decided on their staff requirements and the related costs:



At *City Garbage Recyclers*, John will be responsible for the overall management of the business and the administrative work, while Mary will be the factory supervisor, responsible for all the production and the sourcing of raw materials. They plan to use part-time labour and only employ a few full-time staff. Mary will need an Assistant Factory Supervisor. John will need a Marketing Officer, two Sales Assistants and a driver to manage deliveries. They need an accountant to do the record keeping but Mary will do it at least for the first six months.

For the full-time employees ten percentage of the monthly salary must be contributed to the pension fund and health insurance scheme.

STAFF REQUIREMENTS AND COSTS

Task	Required skills and experience	Performed by	Monthly pay	Contributions to pension fund and health insurance
Factory Manager	Degree in commerce	John	\$900	\$90
Factory Supervisor	Science degree with a diploma in administration	Mary	\$800	\$80
Assistant Factory Supervisor	Diploma in veterinary science from a recognized institution with three years experience	Michael	\$450	\$45
Marketing Officer	Advanced diploma in sales and marketing	Joan	\$500	\$50
Driver /general handyman	Driver's licence	Alex	\$250	\$25
Part-time labourers	Certificate in organic farming	Part-time labourers	\$3/hour	
Sales Assistant	At least one year of experience selling compost manure to farmers	Mark, Mario	\$600	\$60
Total number of permanent staff		7	\$3,500	\$350
Total staff cost per month				\$3,850

TOSAMA CLOTH BAGS



Jane plans to start small. She will perform all the management duties herself.

She plans to start with only one shop assistant. If this is not enough, she will employ another assistant later when the business can afford it. Jane fills in the "Staff" section in her Business Plan.

STAFF REQUIREMENTS AND COSTS

Task	Required skills and experience	Performed by	Monthly pay	Contributions to pension fund and health insurance
Purchasing, stock control, administration and sales	Business management and sales	Jane	\$600	\$60
Sales and customer service in the store	Sales experience with some knowledge of green products	One full-time employee	\$300	\$30
Total number of staff		2	\$900	\$90
Total staffing cost per month				\$990



ACTIVITY 18

Turn to section 4.1: "Organizational structure" and section 4.2: "Staff requirements and cost" in the Business Plan booklet. Fill in the form describing the tasks for which you need to hire staff, the qualifications required of each employee, how many employees you need to hire and how much you will pay each employee per month.



SUMMARY

In Part V you have learned:

- Before you hire staff, you need to decide what skills are necessary. Based on that decision, decide what type of people you are looking for.
- You should follow the laws and regulations which apply to the labour market in your country.
- You may employ temporary staff, but you should know in advance when you will need them and for how many hours.
- Staff costs include salaries as well as payments for statutory contributions such as insurance, health services and allowances.

ORGANIZATION AND MANAGEMENT

1. Form of business

Before you start, select the type of business structure that is best for your business. The choice of the form of business is important and can make a difference with regards to the:

- Cost of a start-up and the amount of legal fees for registering the business
- Simplicity or complexity of starting and administering the business
- Financial risks for the owner of the business
- Possibility of having business partners
- Way decisions are made in the company
- Taxation of business profits



The rules and regulations for different forms of business vary from country to country. Find out exactly what rules and regulations apply in your country before you decide what form of business you will choose. Do not let anyone persuade you to select one form until you fully understand the advantages and disadvantages of each structure.



1.1 The different forms of business

Sole Proprietorship

As a sole proprietor, your business will be owned by you alone and you will have the authority to make all the business decisions.

A sole proprietorship is an easy and cheap form of business to start. But it is also the most risky, because you are personally responsible for all the debts of the business. If the business fails to pay its debts, the creditors can legally force you to pay or they can put liens on any property you may own until the debts are paid.

Partnership

If two or more people decide to start a business together they can form a partnership.

The procedures for starting a partnership are quite simple and the cost is relatively low. To start a partnership, the partners enter into a partnership agreement. The partnership agreement should be in writing to avoid misunderstandings. The partnership agreement should cover:

- A description of your line of business
- How the profit or loss is going to be divided by the partners
- The duties of each partner

The partners jointly make all decisions about the business, unless their partnership agreement gives the authority to one person to make decisions. It is important to note that if one partner makes an agreement on behalf of the other partners, the agreement is binding for all partners.

The advantage of a partnership, as opposed to a sole proprietorship, is that it benefits from the business skills and experience of more than one person and the amount of capital needed to start the business is a shared responsibility.

Cooperative

A cooperative is formed by a number of people who decide to work together for a common purpose. The common purpose can be for economic gain or to provide certain services for the members of the cooperative. For example, these services can be advertising for the cooperative or sharing the supply of raw materials. All the members of the cooperative have one vote each when making decisions, but often they appoint a management committee to handle the daily operation of the cooperative.

Each member of the cooperative buys shares and pays for membership. Profits are allocated according to the number of shares that each member holds. The financial risks are normally not very high.

Limited Company

A limited company is owned by one or more owners called shareholders. All the owners may or may not work in the business or some owners may actively run the business, while others are merely investors.

To start a limited company, you should follow these steps:

Step 1: The name you have chosen for your business must be approved by the Registrar of Companies or a similar authority.

Step 2: After approval of the name, the Memorandum and Articles of Association for your proposed company must be drawn.

Step 3: The Memorandum and Articles of Association are filed with the Registrar of Companies or a similar authority.

Step 4: The Registrar of Companies issues a Certificate of Incorporation, which means that your limited company is now formed.

The biggest advantage of a limited company is that there is less risk for each shareholder. In a limited company, the shareholders are not personally responsible for the debts that the business might incur.

Another advantage is that a limited company is often considered to be more stable and reliable, which can be an advantage when dealing with creditors, suppliers and customers.

A limited company is quite complicated and expensive to form. You should always seek assistance from a lawyer or legal expert to help you decide if a limited company is the right form for your business.

To foster decision-making processes, the shareholders will appoint a board of directors that is responsible for the management of the business. The board of directors can, in turn, appoint one or more managers to run the business. The shareholders, board of directors and managers can be the same people.

1.2 How to select the right form of business?

In the table on the next page you can see the main differences between the four legal forms of business. Use it to assess which factors are important for you:

- If your business will have to borrow a lot of capital to buy equipment, it would be better not to be personally responsible for the debts therefore a limited company would then be most suitable.
- If your business will not have to borrow a lot of capital, a sole proprietorship or partnership would then be more suitable.

	Sole Proprietorship	Partnership	Cooperative	Limited Company
Registration	Must obtain a business licence	Must obtain a business licence and register a partnership deed	Must obtain a business licence and register as a cooperative	Must obtain a business licence and register as a limited company
Legal cost of starting a business	The cost of the business licence	The cost of the business licence and the registration fee for a partnership deed	Legal fees to write the Articles of Incorporation, the cost of buying the shares and annual membership fees plus licence and registration fees	Legal fees to write the Articles of Incorporation, the cost of various forms, stamp duty, plus licence and registration fees
Level of legal difficulty	Simple	Simple	Complicated, requiring legal counsel	Complicated, requiring legal counsel
Number of owners	One	Two or more	Many	One or more
Financial responsibility of the owner for the business debts	Complete personal responsibility for all future debts	Complete responsibility by the owners for all future debt	No personal liability by the members for the debts	No personal liability by the shareholders for the debts
Decision-making in the business	All the decisions made by the owner	All decisions are made jointly by all the owners unless other arrangements are written into the partnership agreement	Every member has one vote. A management committee is often appointed to run the business.	The shareholders appoint the board of directors who can appoint managers to run the business
Taxation	The owner is taxed for business profits	The owners are taxed individually for their share of the business profits	The cooperative pays tax on business profits	The company pays tax on business profits

CITY GARBAGE RECYCLERS



John and Mary realized that relatively high costs will be incurred in obtaining different licences from different regulatory bodies. In order to keep individual costs low and yet manage the business effectively, they decide to enter into a partnership agreement. Consequently, they register it with the office of Register of Deeds.

Their partnership agreement includes:

Line of business:	Manufacturing organic manure
Division of profits:	The profit will be divided equally between John and Mary.
Duties of partners:	John will be responsible for the overall management of the business and Mary will be responsible for managing the factory.

When they have agreed to start their business as a partnership, they fill in the “Legal Form of Business” section of their Business Plan.

LEGAL FORM OF BUSINESS

The business will operate as a:

Partnership

The reason for choosing this form of business is:

It is simple to start and will not require a lot of financing. The two partners have enough money to pay for the various licences and assessments that are required.

The owners will be:

Name

John

Description of skills

Degree in commerce

Certificate in organic farming

Administration and sales

Management diploma

Relevant experience

Assisting in farm activities

Name

Mary

Description of skills

Bachelor of science degree

Human resource management diploma

Certificate in organic farming and organic manure

Relevant experience

Farming experience

TOSAMA CLOTH BAGS



Jane has been thinking about the legal form of business she should choose for her shop. Jane knows that the risk is higher if she runs her business as a sole proprietor, but the simplicity of starting as a sole proprietor appeals to her. It is also cheaper than registering as a limited company. Jane decides to run her business as the sole proprietor. She writes it down in her Business Plan.

LEGAL FORM OF BUSINESS

The business will operate as a:

Sole Proprietorship

The reason for choosing this form of business is:

The simplicity and low cost of starting the business makes it worth the risk that is involved compared to a limited company.

The owners will be:

Name: Jane

Description of skills: Business management, sales and marketing

Relevant experience: Four years of working experience in green products



ACTIVITY 19

Think about the advantages and disadvantages of each form of business. When you have made your decision, fill in section 5.1: "Legal form of business" in the Business Plan booklet.

2. Legal responsibilities and insurance

Taxes

Your business will collect some taxes from your customers and forward them to the government tax agency, for example, sales tax or value added tax. The business is also responsible for deducting and forwarding to the tax authority Pay as You Earn (PAYE) or income taxes from employee salaries.

Other taxes are paid by the business itself. If the business is profitable, the government tax authority will tax a percentage of the profit. When your business buys goods or services from other businesses, it is responsible for paying sales tax or value added tax to those businesses, which will then forward that amount to the tax authority.

Employees

Find out what labour laws and regulations apply to your line of business. For instance in most countries, when you hire permanent employees you need to contribute to the pension fund and to the health insurance programme.

Licences and permits

Find out if you need a licence and where to get it. For some businesses there may also be special permits needed to operate. Find out if this applies to your business.

Insurance

If you insure your business, you will have some financial security against losses that are caused by accidents, disasters or other types of incidents.

Risks such as a drop in the demand for your good or service are part of running a business, but other types of risks can be offset through insurance, for instance:

- Property, machines, stock and vehicles can all be insured against theft.
- Property can be insured against damage caused by fire or accidents.
- Your employees, your family and you can all be insured against accidents and for medical expenses.

CITY GARBAGE RECYCLERS



Contact insurance companies to know which insurance is best for your business. You should understand and compare the payment and claims procedures that are offered by different insurers. Ask questions such as: How easy will it be for your business to file for a claim if something happens? Will the policy be cancelled if they are late to make a payment?

John and Mary have contacted the regional tax office and local government authorities to find out what legal requirements apply to their business. They write down what they have learned in their Business Plan.

LEGAL RESPONSIBILITIES AND INSURANCE

The following taxes apply to the business:

Income tax, value added tax

The following regulations apply to the employees:

Need to provide paid holidays, sick leave, minimum wages and follow minimum hours of work guidelines.

The business will need the following licences and permits:

	Cost
Trade licence per year	\$300
City Council licence per year	\$300

Other responsibilities of the business:

Environment assessment per year	\$600
---------------------------------	-------

TOSAMA CLOTH BAGS



Jane has also contacted other people in business and an insurance company to find out about legal requirements and insurance costs. She writes down what she learned in her Business Plan.

LEGAL RESPONSIBILITIES AND INSURANCE

The following taxes apply to the business:

Income tax

The following regulations apply to the employees:

Need to provide paid holidays, sick leave, minimum wages and follow minimum hours of work guidelines.

The business will need the following licences and permits:

	Cost
Business licence	\$0

The business will need the following insurance:

Insurance for stock and equipment per year	\$600
--	-------

Other responsibilities of the business:

To help collect garbage to keep the area clean	\$10
--	------

ACTIVITY 20



Go through the list below and think about what legal responsibilities apply to your business and what insurance you will need. Add things to the list if necessary.

Legal responsibility	Applies to you (tick)	Where to find more information?
TAXES		
Sales tax or value added tax		
Employee's income tax		
Tax on business profit		
EMPLOYEES		
Minimum wage		
Allowable number of hours an employee can work per day		
Holidays		
Occupational safety and health		
Sick leave		
LICENCES AND PERMITS		
Business licence		
INSURANCE		
Property		
Damage		
ENVIRONMENTAL MANAGEMENT		
Environmental licence		



ACTIVITY 21

Review all of these legal responsibilities and insurance, fill in section 5.2: “Legal responsibilities and insurance” in the Business Plan booklet.



SUMMARY

In Part VI you have learned that:

- There are several forms that you can select for your business. The form or type of corporate structure is important and can make a difference in:
 - The cost of starting and registering the business
 - The simplicity or complexity of starting and administering the business
 - The financial risk for the owner of the business
 - The possibility of having partners
 - The way decisions are made in the business
 - The taxation of business profits
- A **sole proprietorship** is an easy and cheap form of business to start. But it is also the most risky, because you as the owner are personally responsible for all the debts of the business.
- A **partnership** can be an advantage if the business needs skills or experience which you do not possess. Partners can also help by contributing capital to start the business. All partners share the responsibility for the debts of the business so your own risk is reduced.
- A **cooperative** is formed by a number of people who decide to work together for a common purpose. The common purpose can be either economic gain or to provide certain services for the members of the cooperative.
- The biggest advantage of a **limited company** is that there is less risk for each shareholder. As a shareholder you only risk losing the money you put into the business when purchasing shares. But a limited company is quite complicated and expensive to form.
- When you run a business you have legal responsibilities, including paying taxes, following labour laws and regulations, getting licences and permits and abiding by lease agreements and other contractual agreements.
- Insurance can provide some protection against financial losses that are caused by accidents, theft, fire, illness and other types of incidents.

BUYING FOR YOUR BUSINESS

If your business is manufacturer or service provider, you need to buy equipment and raw materials to make goods or services. If your business is retailer or wholesaler, you need to buy finished goods to resell.

1. Equipment

Equipment is all the machines, tools, workshop fittings, vehicles etc. that your business needs to make goods or supply your services. To choose good equipment, you should consider:

- Does the equipment work well? How often does it break down?
- Is there another new kind of equipment that would be better?
- Which equipment is the cheapest to run and easiest to operate?
- Do I need special training to use the equipment? Can I get it? Is it free?
- How long will the equipment last?
- Does the supplier give a written guarantee?
- Will the supplier install the equipment and service it?
- Are spare parts available locally? How quickly can I get them? How much do they cost?

You may get advice from suppliers on the equipment, but also talk to your family members, business friends and people who use the same or similar equipment. You can also find information on equipment specification, reliability and limitations on the internet.

Finally, you should decide what is the best use of your business money. Should your business:

- Buy new equipment?
- Buy second-hand equipment?
- Borrow, rent or lease equipment?
- Pay another business that has the equipment to do the work for you?

Investment in renewable energy

There are three major reasons why you might want to invest in renewable energy (such as solar power, wind energy, bio-gas, etc.) equipment:

-
- Your planned business is in a place where there is no electricity or the national grid is very unreliable and power outages will disturb your production and business.
 - It is cheaper to produce energy using renewable forms. You will save on energy costs in the long run even if the equipment is more expensive.
 - Governments incentivize the investment in renewable energy. Subsidies are paid in the form of feed-in tariffs, either for the electricity generating equipment or for the investment.

If you are considering buying renewable energy equipment, find out what equipment is needed, the capacity of the available equipment, the amount of electricity you will need and the investment costs taking the government subsidies into consideration.

CITY GARBAGE RECYCLERS

John and Mary need to buy equipment to produce compost manure. They have asked equipment suppliers in the city and also taken advices from a NGO. The NGO provided them with useful information on several types of equipment. Finally, John and Mary decide to buy duo-energy equipment, which is operated by electrical power and bio-gas. It is more expensive than the electrical equipment but it can save on energy costs.

2. Raw materials

Raw materials are all the materials and parts that go into the products you make. Planning the raw material your business needs is important to ensure that the business has sufficient raw materials for production so that products are delivered timely to the customers. You may need to stock raw materials to ensure they are available when you need them. But overstocking will waste your money so you should keep the stock of raw materials as minimum as possible. Based on the sales estimation in **Part IV: Marketing Plan**, you can estimate the right amount of raw materials that your business needs.

You should buy the materials from reliable suppliers and make sure the quality is good, which will increase the acceptance of your products in the market place.

3. Finished goods

When you buy finished goods, you should consider:

- Which types of goods do your customers want?
- Do your customers want quality assured goods?
- What are your customers' environmental concerns? Any health concerns?
- What prices are your customers willing to pay?

- How many of each type of good can you expect to sell per week or per month?
- Can you buy the goods directly from the manufacturer or should you buy from a wholesaler?

Similar to buying raw materials, you can estimate the amount of finished goods needed based on the sales estimation so that you can keep stock of finished goods as minimum as possible.

Some suppliers are willing to provide goods on credit to increase sales. Buying on credit is often expensive, as you might be required to pay interest fees on top of the base purchase price. However, it could help you to get through your start-up phase, if you do not have sufficient capital.

TOSAMA CLOTH BAGS

Jane visited some suppliers and asked them to make special recycled cloth bags according to the pattern that she provided. Finally, she selected a company that can make bags in the quantity and quality she requires. Jane and the company have signed an agreement that the bags will be sold exclusively to her for the first five years and the payment will be made on the first day of the following month.



A good buying process will save costs for your business. The IYB BUYING AND STOCK CONTROL MANUAL goes into more detail about how to buy well and control stock efficiently.



ACTIVITY 22

Think about your business and list down all things that you need to buy to start your business.

Things need to buy	Requirements	Suppliers	Costs
Equipment:			
Raw materials:			
Finished goods:			



SUMMARY

In Part VII you have learned that:

- You should make sure that the equipment that you plan to buy can make goods or services in the quantity and at the quality you have described in the Marketing Plan.
- You should buy the materials from reliable suppliers and make sure the quality is good. Ensure that the raw materials you purchase meet the required quality standards. Using quality assured raw materials increases acceptance of your products in the market place.
- If your business is retailer or wholesaler, when you buy finished goods to resell, you should consider:
 - Which types of goods do your customers want?
 - Do your customers want quality assured goods?
 - What are your customers' environmental concerns? Any health concerns?
 - What prices are your customers willing to pay?
 - How many of each type of good can you expect to sell per week or per month?
 - Can you buy the goods directly from the manufacturer or should you buy from a wholesaler?
- If you buy renewable energy equipment, find out what equipment is needed, the capacity of the available equipment, the amount of electricity you will need and the investment costs.

GREENING YOUR BUSINESS

1. Your business and natural resources

Businesses depend upon natural resources and use them in the production process in different ways, including:

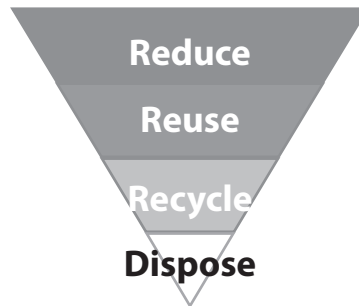
- Most businesses need materials in their production. These can be renewable ones such as wood, recycled ones such as from plastic waste or non-renewable ones such as cement, non-recycled iron and wood from deforestation activities.
- Most businesses need electricity or heat energy in their business. Energy can come from renewable sources such as from wind, sun, water flow, sustainable wood or from non-renewable sources such as diesel and fuel.
- Most businesses need water. Water can come from sustainable sources such as from rainwater harvesting or unsustainable sources such as excessive groundwater pumping. Most businesses also produce solid and water waste which the natural environment needs to absorb.

All businesses are located in and surrounded by natural environment. This natural environment can be clean and healthy or very polluted and dirty. A healthy natural environment is an advantage to your business. Notably when you work in tourism the beauty of the place will attract tourists and make them stay longer. Overuse of natural resources and excessive pollution leads to their depletion and affects the viability of businesses depending on them. For instance, businesses that deforest and overuse wood from non-regenerating forests will cause soil erosion, lack of wood for future needs, deterioration of natural water purification and climate change. This, in return, will affect the business itself, as it depends on wood, clean water or fertile soil. Businesses also rely on the health of their workers and owners which is threatened by the degradation and pollution of the environment.

There are a number of strategies that businesses are employing in the management of the natural resources, which you should consider for your business. The following is a strategy that has a positive impact on the environment, as well as improving the profitability of businesses.

2. Increase efficiency and profits: reduce, reuse, recycle

A common strategy for increasing efficiency and hence profits is the three “Rs” approach: Reduce, Reuse and Recycle. Businesses that tap into the opportunities which arise from these strategies are those like John and Mary’s *City Garbage Recyclers*.



Reducing unnecessary consumption and therefore, waste is the most important step. It can be done if we change our consumption behaviour by buying more durable products, keeping them longer and not turning them in for each new “innovative” product in the marketplace.

Reusing things is another way to diminish the amount of waste we produce. Old objects can be used in new ways. Using old objects to create new objects is a reuse.

Recycling is the third priority in the three “Rs” efficiency strategy. It can be done when reduction and reuse are not possible. Recycling can provide new raw materials from waste materials. Therefore, recycling prevents waste disposal and the need to extract more raw materials from the natural environment to create more new products. It establishes a cyclical production process.

Disposal is the last resort. It is chosen after all the other waste management options have been exhausted. Disposal involves the dumping and incineration of waste. Therefore, the waste should undergo pre-treatment before being ultimately disposed in order to decrease the quantity of waste or its toxicity.

3. Classifying the waste

When we produce waste, most people do not separate **organic waste** from **inorganic waste**, but dispose all the waste together. To categorize and then sort the waste is essential.

Organic waste is biological. Some examples are rotting plant life, food and animal waste. Due to its characteristics, this waste is also called “wet waste”. It is biodegradable and can be processed into organic fertilizer like the compost that John and Mary at *City Garbage Recyclers* plan to sell.

Inorganic waste is that which does not come from nature, but is produced by mankind. Some examples of typical inorganic waste are metals, glass and plastic. This waste contains many materials that can be recycled. Due to its characteristics, inorganic waste is also called “dry waste”. *Tosama Cloth Bags* is an example of using dry waste – recycled cloth to produce environmentally-friendly products. Recycling dry waste is a sensible way to expand your business opportunities.

ACTIVITY 23



Now think about your business and the waste that is created. What can be reduced and what can be reused, recycled or sold as a raw material? For what purpose can items be reused or recycled? List the waste, estimate the quantity and suggest a strategy to Reduce, Reuse and Recycle (The three “Rs” strategy):

Wastes	Quantity	Three “Rs” strategy

SUMMARY



In Part VIII you have learned that:

- Your business may depend upon and use natural resources in different ways. Overusing natural resources leads to their depletion and affects the viability of your business.
- There are a number of strategies that businesses are employing in the management of the natural resources which your business should consider. A common strategy for increasing efficiency and hence, profits is the three “Rs” approach: Reduce, Reuse and Recycle.
- By sorting the waste that is produced by your business into organic waste and inorganic waste, you are not only creating a positive environmental impact, but also may be saving on material costs of production.

COSTING YOUR GOODS AND SERVICES

In Part IV “Marketing Plan” you have learned how to determine the prices for your goods or services. Another factor that you should consider is the cost of making and selling your goods or services. This will help determine whether the prices you have set will make your business profitable.

1. What are costs?

Costs are all the money your business spends to make and sell your goods or services. Costs for businesses can be broadly classified into two categories: **Fixed Costs** and **Variable Costs**.

Fixed Costs remain constant even when production volume changes, sales volume changes or the amount of services being provided changes. Rent, loan payments and salaries for administrative workers are examples of Fixed Costs.

Fixed Costs can change sometimes. For example your rent may increase. But reasons for the change are not related to the production or sales volume.

Variable Costs are those that fluctuate with production volume, sales volume or the amount of services you provide. For example, raw materials, packaging and wages of production workers are all Variable Costs.

ACTIVITY 24



City Garbage Recyclers have listed some of the following costs that they will have for making organic compost. Tick all of the Variable Costs?

Costs		Costs	
Waste vegetables	┌	Second hand bags	┌
Chicken manure	┌	Equipment	┌
Wages of part-time workers	┌	Wages of the owners	┌
Wages of sales staff	┌	Telephone	┌
Electricity and water	┌	Licences	┌
Insurance	┌	Marketing expenses	┌
Transport	┌	Herbs	┌

The examples mentioned above are easy to classify. Others may be more ambiguous because they are not strictly fixed or strictly variable. For example, wages for sales staff may include a fixed salary and a sales commission that varies with sales volume. These costs should be broken up into separate fixed and variable elements. Only the sales commission would then be treated as Variable Cost.

Costing is the way you calculate the total costs of making or selling a good or providing a service.

$$\boxed{\text{Total Variable Costs}} + \boxed{\text{Total Fixed Costs}} = \boxed{\text{Total cost}}$$

Costing helps your business to:

- Set prices
- Reduce and control costs
- Make better decisions about business
- Plan for the future

2. Costing for a manufacturer or service operator

If you are a retailer or wholesaler, turn to page 73.

Manufacturers and service providers follow the three steps below to calculate the total cost of each product. This is illustrated by using *City Garbage Recyclers* as an example.

$$\begin{array}{c}
 \text{Step 1} \\
 \text{Estimate} \\
 \boxed{\text{Variable Cost per item}}
 \end{array}
 +
 \begin{array}{c}
 \text{Step 2} \\
 \text{Estimate} \\
 \boxed{\text{Fixed Cost per item}}
 \end{array}
 =
 \begin{array}{c}
 \text{Step 3} \\
 \text{Add up} \\
 \boxed{\text{Total cost per item}}
 \end{array}$$

Below is a Product Costing Form for a manufacturer or service operator.

PRODUCT COSTING FORM (for manufacturers and service operators)			
Product:			
1. VARIABLE COST PER ITEM			
1	2	3	4
Input	Cost of purchase	Estimated quantity per item	Estimated cost per item
Estimated Variable Cost per item (1)			
2. FIXED COST PER ITEM			
Estimated total Fixed Cost per month (2)			
Estimated total Variable Cost of the business per month (3)			
Fixed Cost per Variable Cost (4) = (2)/(3)			
Estimated Fixed Cost per item (5) = (4) x (1)			
3. TOTAL COST PER ITEM (6) = (1) + (5)			

You will need to make a separate Product Costing Form for each of your product. You will learn how to do each step and how to fill in the form.

STEP 1: ESTIMATE THE VARIABLE COST PER ITEM

To estimate the Variable Cost for each of your goods or services, follow these five steps:

1. List all your inputs that have costs which fluctuate with production volume or the amount of services provided in part 1 of the Product Costing Form, column 1.
2. Get the cost of purchase for each unit of input and write that cost in column 2.
3. Estimate the quantity of input needed to make one good or service and write that amount in column 3.
4. Calculate the cost of each input needed to make one good or service by multiplying the unit cost of each input (column 2) and the quantity of input you need to make one item (column 3); write that amount in column 4.
5. Calculate the Variable Cost per item by adding up all amounts in column 4. Write the result in the space for item (1).

CITY GARBAGE RECYCLERS

City Garbage Recyclers is going to make two types of compost fertilizer, one with a moderate amount of nitrogen and packed in 20 kilograms bags with the title "Organic" and the other with a high amount of nitrogen packed in 10 kilograms bags with the title "Super Organic". They filled out part 1 of the Product Costing Form for their Super Organic compost as follows:

PRODUCT COSTING FORM (for manufacturers and service operators)			
Product: Super Organic compost			
1. VARIABLE COST PER ITEM			
1	2	3	4
Input	Cost of purchase	Estimated quantity per item	Estimated cost per item
Waste vegetables	\$0.05/kg	20.0 kg	\$1.00
Chicken manure	\$1.00/kg	3.0kg	\$3.00
Second hand bags	\$0.25/bag	1 bag	\$0.25
Labour	\$3.00/hour	0.6 hours	\$1.8
Estimated Variable Cost per item (1)			\$6.05

Here are some notes on how *City Garbage Recyclers* completed part 1 of the Product Costing Form:

1. Input

City Garbage Recyclers lists the input with costs that vary depending on the production volume. The input includes waste vegetables, chicken manure, second hand bags and the wages for production labour.

They also use herbs. The cost of herbs varies with the production volume. However, the herbs needed for a bag of Super Organic compost cost very little and it is difficult to calculate how much herb they need for one bag, so John and Mary have decided that herbs are not a Variable Cost. On page 68, you can see how *City Garbage Recyclers* include herbs in their Fixed Cost.

2. Cost of purchase

In column 2, John and Mary write down the amount they would need to pay for one unit of each input. They get this information by doing market research and asking different suppliers.

For example, *City Garbage Recyclers* will use part-time labour for production. Mary knows that she needs to pay a part-time employee \$24.00 per day for eight hours of work, so the hourly labour cost is \$3.00 (\$24 per 8 working hours).

3. Estimated quantity per item

John and Mary estimate that they will need 800 kilograms of waste vegetables and 120 kilograms of chicken manure for processing a batch of Super Organic compost. Each production batch will provide 400 kilograms of high nitrogen fertilizer. That makes 40 bags per batch.

They divide the amount of each input by the number of bags made from each production batch. In column 3, they write down how much of each input (20 kilograms of waste vegetable, 3.0 kilograms of chicken manure) that they need to make one bag.

For each batch of production they will need three people working eight hours for one day. This means they need 24 man hours in total to make 40 bags (3 people x 8 hours x 1 day). Or it means they need 0.6 hours to make one bag of Super Organic compost.

4. Estimated cost per item

To calculate the cost of each input per item, John and Mary multiply the cost of purchase of each input (column 2) by the quantity of each input needed to make one bag (column 3). In column 4, they write down the results of their calculations.

5. Estimated Variable Cost per item

John and Mary add up all the amounts in column 4 to get the Variable Cost for each bag of Super Organic compost, which is \$6.05. They do the same for their Organic compost and calculate that the Variable Cost of each 20 kilograms Organic compost bag is \$10 (see the form on page 73).

“

While the Variable Cost per month in your business will vary with production volume or the amount of service being provided, the Variable Cost per item will not change unless the market price of the raw materials you use changes.

”



When you have estimated the Variable Cost per item, you have completed step 1 of your costing.

STEP 2: ESTIMATE THE FIXED COST PER ITEM

To estimate the Fixed Cost per item for each of your goods or services, use part 2 of the Product Costing Form and follow these four steps:

1. Estimate the total Fixed Cost per month; write the amount in the space for item (2) on the Product Costing Form.

2. Estimate the total Variable Cost per month for your business; write the amount in the space for item (3) on the Product Costing Form.
3. Calculate the ratio between the total Fixed Cost per month and the total Variable Cost per month, then write the result in the space for item (4) on the Product Costing Form.
4. Calculate the Fixed Cost per item and then write the result in the space for item (5) on the Product Costing Form.

1. Estimate the total Fixed Cost per month

Work out how much money your business is likely to spend for each item of Fixed Cost every month. Remember that you might be able to add Fixed Costs for items that you reuse and recycle, if you are able to do this to make your business more efficient.

CITY GARBAGE RECYCLERS

John and Mary at *City Garbage Recyclers* filled out their Fixed Cost Form, as follows:

FIXED COST FORM	
1	2
Details	Cost per month (\$)
Rent	2,000
Electricity and water, including waste water	600
National Environmental Management Assessment fee	50
Trade and City Council licences	50
Labour	3,850
Consumables including recycling and disposal	1,000
Depreciation	500
Transport	450
Maintenance and repairs	200
Herbs	150
Marketing expenses	114
Total Fixed Cost per month	8,964

Here are some notes to help you fill out your Fixed Cost Form.

- **Small Variable Costs which are considered Fixed Costs:** You should first estimate the total amount of the input that your business needs each month based on your estimation of production or sales volume and then multiply the total amount of the input needed per month by its unit cost.

Herbs are a Fixed Cost for *City Garbage Recyclers*. This is because a small amount of herbs is needed for each bag of compost, which makes the cost of herbs for each bag of compost is difficult to calculate. Based on the sales volume estimation (see Sales Estimation in Part IV: Marketing Plan, page 38), John and Mary estimate the amount of herbs they will use each month. To work out the cost of herbs each month, they multiply the cost of one kilogram by the amount of herbs needed each month.

- **Wages that do not vary with production volume:** Such costs are regarded as fixed. At *City Garbage Recyclers*, the wages for John, his assistant, the driver, the sales staff and the marketing staff are fixed because they do not vary with production volume. Mary is directly involved in the production process but her salary will not vary with the volume produced.

To calculate the fixed wages each month, John and Mary look at their Staff Requirements and Costs (see *City Garbage Recyclers' Staff Requirements and Costs* in Part V, page 43) and add up all the fixed wages.

- **Costs that you do not pay every month:** Your business may have some costs that you do not pay every month, for example insurance, licences, tools and stationery. For these costs, divide the cost by the number of months the item is used.

City Garbage Recyclers pays \$600 once a year for the National Environmental Management Assessment. So they calculate that their cost per month for the assessment is \$50:

$$\frac{\$600}{12 \text{ months}} = \$50$$

City Garbage Recyclers also pays \$300 once a year for the trade licence and \$300 once a year for City Council licence. So they calculate that their cost per month for the licences is \$50.

Marketing expenses for the first year will be \$1,370. So the marketing expense per month is \$114:

$$\frac{\$1,370}{12 \text{ months}} = \$114$$

- **Depreciation:** Depreciation is the loss in value of your business equipment, which is a cost to your business.

$$\frac{\text{The total cost of equipment}}{\text{Number of years expected to use it}} = \text{Depreciation cost}$$

Decide if your business will have equipment for which you should calculate depreciation. In general, only calculate depreciation for equipment which:

- Costs a lot of money
- Lasts for a long time

To estimate the life of the equipment, you can:

- Use your own experience
- Ask the company that supplied or built the equipment
- Ask other businesses using the same or similar equipment

If you have more than one machine or other equipment, add up the depreciation per month for each piece of equipment to give you the total amount you need to include in your monthly Fixed Costs.

City Garbage Recyclers' heating machine will cost \$20,000 and they expect to use it for five years. Its depreciation costs per year are \$4,000:

$$\frac{\$20,000}{5 \text{ years}} = \$4,000$$

They also calculate depreciation cost per year for the mixing machine as \$2,000.

To calculate the total depreciation cost per month for your business, divide the total depreciation cost per year of all the equipment by twelve months. *City Garbage Recyclers'* total depreciation cost per month is \$500:

$$\frac{(\$4,000 + \$2,000)}{12} = \$500$$

This is how John and Mary completed their depreciation form:

DEPRECIATION FORM			
Equipment	Estimated cost of purchase	Estimated life of the equipment	Depreciation per year
Heating machine	\$20,000	5 years	\$4,000
Mixing machine	\$10,000	5 years	\$2,000
Total	\$30,000		\$6,000
Depreciation per month			\$500

Now John and Mary know that their estimated total Fixed Cost per month is \$8,964. They write this figure in the space for item (2) in part 2 of the Product Costing Form for their Super Organic compost product.

2. Estimate the total Variable Cost of the business each month

The total Variable Cost of your business is all the Variable Costs that your business will have as a result of producing different goods or services. To calculate total Variable Cost per month for a good or service, multiply its Variable Cost per item by the quantity your business will make in a month.

In the sales estimation, John and Mary sell an average of 2,000 bags of Super Organic compost and 2,400 bags of Organic compost each month. They calculate the total Variable Cost per month as follows:

Product	Quantity produced per month	Variable Cost per item	Total Variable Cost per month
Super Organic compost	2,000 bags	\$6.05	\$12,100
Organic compost	2,400 bags	\$10	\$24,000
Total			\$36,100

John and Mary write *City Garbage Recyclers'* estimated total Variable Cost per month in the space for (3) on the Product Costing Form.

3. Calculate the ratio between the total Fixed Cost and the total Variable Cost per month

The total Fixed Cost per month is for the entire business and must be divided and shared by each good or service your business makes or sells. The Fixed Cost for one item depends on the Variable Cost of making that item. Therefore, to calculate the Fixed Cost for one item, we first calculate the ratio of Fixed Cost to Variable Cost for the entire business.

John and Mary must add a part of their total Fixed Cost of \$8,964 to the cost for each Super Organic compost bag and each Organic compost bag. They divide the total Fixed Cost of \$8,964 by the \$36,100 total Variable Cost. They write the result (0.25) in the space for item (4) on the Product Costing Form.

4. Calculate the Fixed Cost per item

When we know the ratio of Fixed Cost to Variable Cost for the whole business, we can easily calculate the Fixed Cost per item by multiplying the ratio by the Variable Cost of each item.

John and Mary multiply the \$6.05 Variable Cost for a bag of Super Organic compost by the ratio of Fixed Cost to Variable Cost, which works out to be 0.25. They come up with a Fixed Cost for each bag of \$1.51. They write that number in the space for item (5) on the Product Costing Form.

PRODUCT COSTING FORM (for manufacturers and service operators)	
Product: Super Organic compost	
2. FIXED COST PER ITEM	
Estimated total Fixed Cost per month (2)	\$8,964
Estimated total Variable Cost of the business per month (3)	\$36,100
Total Fixed Cost per Total Variable Cost (4) = (2)/(3)	0.25
Estimated Fixed Cost per item (5) = (4) x (1)	\$1.51

City Garbage Recyclers is a multiple product manufacturer. For single product manufacturers or service providers the Fixed Cost per item is estimated by simply dividing the total Fixed Cost per month by the number of items that will be made each month.

“

While the Fixed Cost per month in your business will be constant, the Fixed Cost per item will vary with the production volume or the amount of services provided. The more items you make, the lower the Fixed Cost per item and therefore, the lower the cost is for your product.



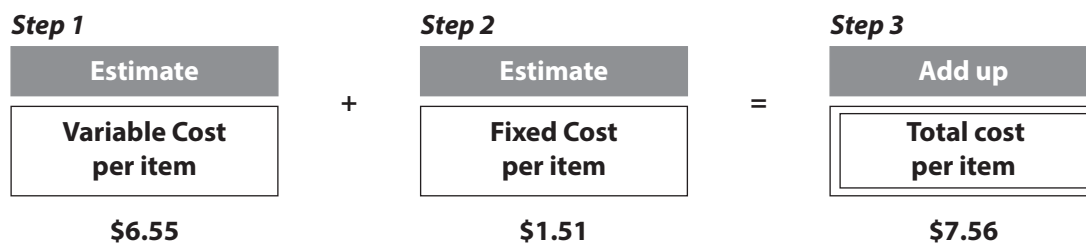
”

Now that you have estimated the Fixed Cost per item, you have completed step 2 of your costing.

STEP 3: ADD UP TO GET THE TOTAL COST PER ITEM

Upon completing steps 1 and 2, you are ready to work out the estimated total cost per item.

John and Mary have completed steps 1 and 2 for costing their bag of Super Organic compost. To do step 3, they add up the figures on the Product Costing Form:



They follow the same three steps for costing their Organic compost. They use a separate Product Costing Form for Organic compost.

PRODUCT COSTING FORM
(for manufacturers and service operators)

Product: Organic compost (20 kg bag)

1. VARIABLE COST PER ITEM

1	2	3	4
Input	Cost of purchase	Estimated quantity per item	Estimated cost per item
Waste vegetables	\$0.05/kg	40 kg	\$2.00
Chicken manure	\$1.00/kg	4 kg	\$4.00
Second hand bags	\$0.40/bag	1 bag	\$0.40
Labour	\$3.00/hour	1.20 hour	\$3.60
Estimated Variable Costs per item (1)			\$10

2. FIXED COST PER ITEM

Estimated total Fixed Cost per month (2)	\$8,964
Estimated total Variable Cost of the business per month (3)	\$36,100
Fixed Cost per Variable Cost (4) = (2)/(3)	0.25
Estimated Fixed Cost per item (5) = (4) x (1)	\$2.5

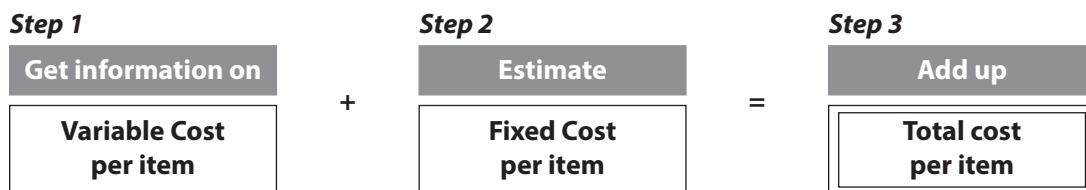
3. TOTAL COST PER ITEM (6) = (1) + (5) **\$12.5**

3. Costing for a retailer or wholesaler

If you are a manufacturer or service operator, turn to page 64.

Retailers and wholesalers have the same type of costs and can normally do costing in the same way.

They follow these three steps to calculate the total cost of each product.



To illustrate how a retailer does costing, we use *Tosama Cloth Bags* as an example. Below is a Product Costing Form for retailers and wholesalers. You will learn how to do each step and how to fill in the form.

PRODUCT COSTING FORM (for retailers and wholesalers)			
FIXED COST CHARGE(%)			
$\frac{\text{TOTAL FIXED COST PER MONTH (2)}}{\text{TOTAL VARIABLE COST PER MONTH (3)}} = \text{_____} \times 100\% = \boxed{\text{_____}} \%$			
FIXED COST CHARGE (4)			
	1	2	3
Product	Variable Cost per item (1)	Fixed Cost per item (5) = (1) x (4)	Total cost per item (6) = (1) + (5)

STEP 1: GET INFORMATION ON THE VARIABLE COST PER ITEM

For a retailer or wholesaler, Variable Costs are the costs of buying goods to resell. Although transport is also a Variable Cost, it is a minimal cost for each item of goods sold, so it is difficult to calculate and therefore, considered a Fixed Cost.

Jane at *Tosama Cloth Bags* asks her suppliers for information on Variable Costs per item for the different products her store will sell. On the Product Costing Form, Jane writes the name of the product. In column 1, she writes how much she will pay for one item.

PRODUCT COSTING FORM
(for retailers and wholesalers)

FIXED COST CHARGE (%)

$$\frac{\text{TOTAL FIXED COST PER MONTH (2)}}{\text{TOTAL VARIABLE COST PER MONTH (3)}} = \frac{\quad}{\quad} \times 100\% = \boxed{\quad} \%$$

FIXED COST CHARGE (4)

	1	2	3
Product	Variable Cost per item (1)	Fixed Cost per item (5) = (1) x (4)	Total cost per item (6) = (1) + (5)
Shopping bags	\$5.00		
Laundry bags	\$7.00		
Green waste garden bags	\$7.00		
Vegetable storage bags	\$1.20		

STEP 2: ESTIMATE THE FIXED COST PER ITEM

For retailers and wholesalers, Fixed Costs are normally all the other costs you will have for running your business, except the cost of buying goods to resell. To estimate the Fixed Cost per item for each of your products, follow these four steps:

1. Calculate the total Fixed Cost per month. Write the result of your calculation in the space for item (2) on the Product Costing Form.
2. Calculate the total Variable Cost per month of your business. Write down the amount in the space for item (3) on the Product Costing Form.
3. Calculate the ratio between your total Fixed Cost and the total Variable Cost per month. Write the amount in the space for item (4) on the Product Costing Form.
4. Calculate the Fixed Cost per item and write the amount in the space for item (5) on the Product Costing Form.

1. Estimate the total Fixed Cost per month

Here are some notes to help you fill out the Fixed Cost Form for your business.

- **Labour costs:** All salaries, wages and benefits for employees and owners of retail and wholesale businesses are Fixed Costs.
- **Costs that you do not pay every month:** Your business may have some costs that you do not pay every month, for example insurance, licences, tools and stationery. For these costs, divide the cost by the number of months the item is used.
- **Depreciation:** See calculation of depreciation on pages 69-70.

Below is an example of how Jane would have filled out her Fixed Cost Form.

TOSAMA CLOTH BAGS	
FIXED COST FORM	
1	2
Details	Costs per month (\$)
Rent	2,000
Electricity and water, including waste water	100
Insurance at \$600 per year	50
Transport	100
Labour	990
Depreciation	142
Miscellaneous, including recycling and disposal	20
Marketing expenses at \$600 per year	50
Total Fixed Cost per month	3,452

Now Jane knows that her estimated total Fixed Cost per month is \$3,452. She writes this figure in the space for item (2) on the Product Costing Form.

2. Calculate the total Variable Cost per month

Total Variable Cost per month is the expenses your business has each month when buying goods to resell. To estimate the total Variable Cost each month, you will need to use your estimate of monthly sales.

Using the sales estimation for *Tosama Cloth Bags* (see the Sales Estimation in Part IV, page 38), Jane calculates monthly average sales of each product, then fills in the Monthly Purchase Form and calculates the total Variable Cost as follows:

MONTHLY PURCHASE FORM			
Product	Estimated number of items sold per month	Variable Cost per item	Total Variable Cost per month
Shopping bags	333	\$5.00	\$1,665
Laundry bags	667	\$7.00	\$4,669
Green waste garden bags	1,000	\$7.00	\$7,000
Vegetable storage bags	1,667	\$1.20	\$2,000
Total Variable Cost per month			\$15,334

Jane writes *Tosama Cloth Bags*' total Variable Cost per month of \$15,334 in the space for item (3) on the Product Costing Form.

3. Calculate the ratio between total Fixed Cost and total Variable Cost

$$\text{Fixed Cost Charge} = \frac{\text{Total Fixed Cost per month}}{\text{Total Variable Cost per month}} \times 100\%$$

Here is how Jane calculates the Fixed Cost Charge:

$$\frac{3,452}{15,334} \times 100\% = 22.5\%$$

It means that Jane must add 22.5% to the Variable Cost of each product to find the total cost.

4. Calculate the Fixed Cost per item

$$\text{Fixed Cost per item} = \text{Variable Cost per item} \times \text{Fixed Cost Charge}$$

Here is how Jane calculates the amount to add to each shopping bag:

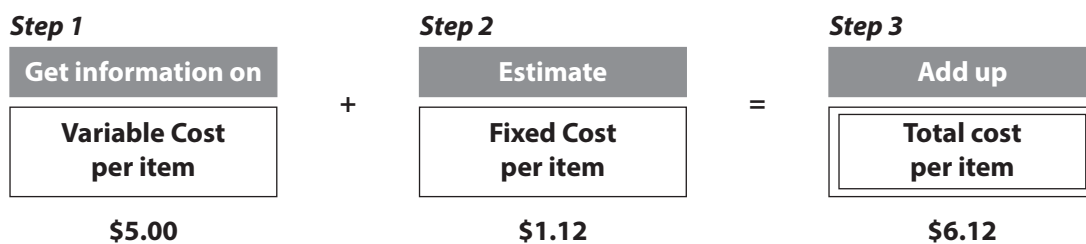
$$\begin{array}{rcccl} \$5.00 & & & & \\ \text{Variable Cost per item} & \times & 22.5\% & = & \$1.12 \\ & & \text{Fixed Cost Charge} & & \text{Fixed Cost per item} \end{array}$$

The Fixed Cost for a shopping bag is \$1.12. Now Jane knows that she must add \$1.12 to the cost of each shopping bag that *Tosama Cloth Bags* sells.

Jane uses the same Fixed Cost charge of 22.5% to calculate the amount to be added to each product in the column 2 of the Product Costing Form.

STEP 3: CALCULATE THE TOTAL COST PER ITEM

To get the total cost per item, you add up the Variable Cost and the Fixed Cost per item. Jane now has all the information she needs to calculate the total cost of a shopping bag.



On the Product Costing Form, you can see how the total cost of a shopping bag and the other products is calculated for *Tosama Cloth Bags*:

PRODUCT COSTING FORM (for retailers and wholesalers)			
FIXED COST CHARGE(%)			
$\frac{\text{TOTAL FIXED COST PER MONTH (2)}}{\text{TOTAL VARIABLE COST PER MONTH (3)}} = \frac{3,452}{15,334} \times 100\% = \boxed{22.5\%}$			
FIXED COST CHARGE (4)			
	1	2	3
Product	Variable Cost per item (1)	Fixed Cost per item (5) = (1) x (4)	Total cost per item (6) = (1) + (5)
Shopping bags	\$5.00	$\$5.00 \times 22.5\% = \1.12	\$6.12
Laundry bags	\$7.00	$\$7.00 \times 22.5\% = \1.57	\$8.57
Green waste garden bags	\$7.00	$\$7.00 \times 22.5\% = \1.57	\$8.57
Vegetable storage bags	\$1.20	$\$1.20 \times 22.5\% = \0.27	\$1.47

When you know your total cost, refer to the Price Form in the Marketing Plan of your Business Plan booklet. The final price for your good or service should be set using all of the following:

- The total cost of your good or service: If your total cost exceeds the price customers would be willing to pay, your good or service is not likely to be profitable.
- The price customers are willing to pay for it: The amount customers are willing to pay for your goods or services also depends on how you market them.
- The price charged by your competitors: It will be difficult for you to charge higher prices than your competitors for identical products, even if customers would be able to pay more.



ACTIVITY 25

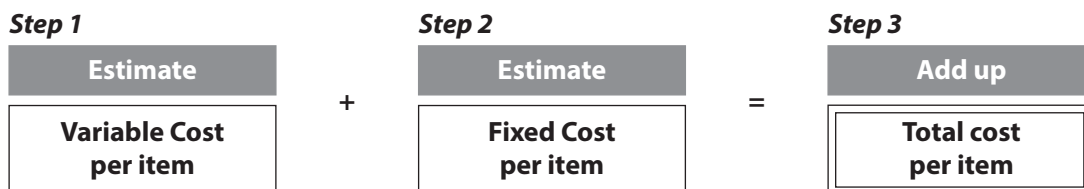
If you plan to start a manufacturing or service business, fill in section 6.1: "Product Costing Form", section 6.3: "Fixed Cost Form", section 6.4: "Depreciation Form" and section 6.5: "Total Variable Cost per month" in your Business Plan booklet.

If you plan to start a retail or wholesale business, fill in section 6.2: "Product Costing Form", section 6.3: "Fixed Cost Form" and section 6.6: "Monthly Purchase Form" in your Business Plan booklet. When you have done costing for your goods or service, return to the Marketing Plan and finalize the "Price" section.

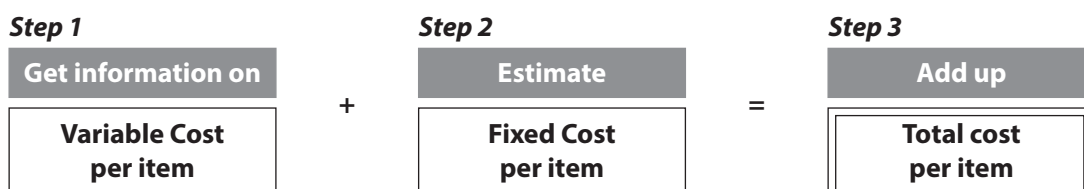


In Part IX you have learned:

- **Costs** are the money your business spends to make and sell your goods or services.
- **Costing** is the way you calculate the total cost of making or selling a product or providing a service. Costing helps your business to:
 - Set prices
 - Reduce and control costs
 - Make better decisions about the direction of the business
 - Plan for the future
- The cost of doing business can be categorized as follows:
 - **Fixed Costs** are those that will remain constant even when production volume, sales volume or the amount of services provided changes.
 - **Variable Costs** are those that fluctuate with production volume, sales volume or the amount of services provided.
- For manufacturers and service providers, costing a good or service follows three steps:



- For wholesalers or retailers, Variable Costs are the costs of buying goods to resell. Therefore, to calculate the Variable Cost in step 1, you only need to get information on product prices from the suppliers:





FINANCIAL PLANNING

Normally during the first few months after a business begins operating, it is difficult to recover costs or to make a profit. It takes some time before money from sales starts to come in. During this time your business is very vulnerable and you must keep a careful eye on the financial situation.

When you start your new business, these two things are very important:

- Do not run out of cash
- Make sure that the operation you have created will eventually become profitable

1. What is financial planning?

Follow these four steps to plan and monitor the financial situation of your business:

1. Make a Profit Plan
2. Make a Cash Flow Plan
3. Compare the financial records with both plans every month
4. Take action if anything is not going according to plan

2. Make a Profit Plan

$$\boxed{\text{SALES}} - \boxed{\text{COSTS}} = \boxed{\text{PROFIT}}$$

Profit is the amount of money left after you have subtracted all the costs of your business from its total sales. So, before making a Profit Plan, you must make both a Sales Plan and a Cost Plan for your business.

2.1 Sales Plan

A Sales Plan shows the sales your business is likely to have each month. When planning your marketing (see Part IV), you have estimated the price you will charge for your good or service and the sale volumes of your good or service per month. Now you should use that information to make a Sales Plan.

CITY GARBAGE RECYCLERS

John made a Sales Plan for *City Garbage Recyclers* as follows:

City Garbage Recyclers started business in April, but it will take two months to set up the factory before it is ready to make the product available to sell to customers. They will start selling their product in June. Therefore, John decided to make a plan from June to December. The selling price and the sales volume of each product were taken from the Marketing Plan. They worked out the sales value of each product in a month by multiplying the sales price by the sales volume for that month. They, then, added up the sales value of the two products to get the total sales of the business.

SALES PLAN									
	Details	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Super Organic – Direct	Sales price (\$)	9	9	9	9	9	9	9	
	Sales volume	480	720	800	1,000	1,200	1,400	1,400	7,000
	Sales value (\$) (1)	4,320	6,480	7,200	9,000	10,800	12,600	12,600	63,000
Super Organic – Retail	Sales price (\$)	8	8	8	8	8	8	8	
	Sales volume	1,600	2,000	400	600	680	800	920	7,000
	Sales value (\$) (2)	12,800	16,000	3,200	4,800	5,440	6,400	7,360	56,000
Organic- Direct	Sales price (\$)	14.38	14.38	14.38	14.38	14.38	14.38	14.38	
	Sales volume	600	800	1,000	1,200	1,400	1,600	1,800	8,400
	Sales value (\$) (3)	8,628	11,504	14,380	17,256	20,132	23,008	25,884	120,792
Organic- Retail	Sales price (\$)	13	13	13	13	13	13	13	
	Sales volume	2,000	2,400	400	600	800	1,000	1,200	8,400
	Sales value (\$) (4)	26,000	31,200	5,200	7,800	10,400	13,000	15,600	109,200
	Total sales value (\$) (5) = (1) + (2) + (3) + (4)	51,748	65,184	29,980	38,856	46,772	55,008	61,444	348,992

2.2 Cost Plan

A Cost Plan shows the costs your business is likely to have each month. To make such a plan you need the Variable Cost per item and the total Fixed Cost per month of your business which can be obtained when you do costing for a good or service. In addition, you also need to know the quantity of good or service your business will produce or provide per month. This can be obtained from the Sales Plan.

“

The production volume may be the same as the estimated sales volume if you are a service operator or if your business does not keep stock of finished goods. But you may have reasons, such as cost effectiveness, for making the production volume different from the sales volume.



”

CITY GARBAGE RECYCLERS

John decides to produce as much as he can sell, so the production volume will be the same as the sales volume. He fills in the “Production volume” rows in his Cost Plan.

John then reviewed his costing and found the following information:

- The Variable Cost for one Super Organic compost bag is \$6.05.
- The Variable Cost for one Organic compost bag is \$10.
- The total Fixed Cost of the business per month is \$8,964.

The Cost Plan for *City Garbage Recyclers* is on the next page.

COST PLAN									
	Details	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Super Organic	Production volume (1)	2,080	2,720	1,200	1,600	1,880	2,200	2,320	14,000
	Variable Cost per item (\$) (2)	6.05	6.05	6.05	6.05	6.05	6.05	6.05	
	Total Variable Cost (\$) (3) = (1) * (2)	12,584	16,456	7,260	9,680	11,374	13,310	14,036	84,700
Organic	Production volume (4)	2,600	3,200	1,400	1,800	2,200	2,600	3,000	16,800
	Variable Cost per item (\$) (5)	10	10	10	10	10	10	10	
	Total Variable Cost (\$) (6) = (4) * (5)	26,000	32,000	14,000	18,000	22,000	26,000	30,000	168,000
	Total Variable Cost of the business (\$) (7) = (3) + (6)	38,584	48,456	21,260	27,680	33,374	39,310	44,036	252,700
	Total Fixed Cost (\$) (8)	8,964	8,964	8,964	8,964	8,964	8,964	8,964	62,748
	Total cost (\$) (9) = (7) + (8)	47,548	57,420	30,224	36,674	42,338	48,274	53,000	315,448

2.3 Profit Plan

A **Profit Plan** shows the profit your business is likely to have each month.

Follow these steps:

1. Get the information from your Sales Plan and Cost Plan
2. Put the information in the Profit Plan form
3. Do the calculations on the Profit Plan form to find the likely gross and net profit for your business in the first year

The plan must show that your business should expect to make enough profit to allow for something to go wrong. For example:

- Your sales might be lower than you expect
- A machine might break down

CITY GARBAGE RECYCLERS

Below is the completed Profit Plan that John made for *City Garbage Recyclers*.

PROFIT PLAN								(Unit: \$)
Details	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total Sales (1)	51,748	65,184	29,980	38,856	46,772	55,008	61,444	348,992
Total Variable Cost (2)	38,584	48,456	21,260	27,680	33,374	39,310	44,036	252,700
Gross Profit (3) = (1) - (2)	13,164	16,728	8,720	11,176	13,398	15,698	17,408	96,292
Total Fixed Cost (4)	8,964	8,964	8,964	8,964	8,964	8,964	8,964	62,748
Net Profit (5) = (3) - (4)	4,200	7,764	(244)	2,212	4,434	6,734	8,444	33,544

Net profit is negative in August. This is shown by writing the figures within brackets, which means that *City Garbage Recyclers* will show a loss during this month. Because of the low sales in August, the gross profit will not cover the Fixed Cost.

TOSAMA CLOTH BAGS

Jane also follows the same steps and creates the *Tosama Cloth Bags* Profit Plan for the first six months, as follows:

PROFIT PLAN - first 6 months							(Unit: \$)
Details	Jan	Feb	Mar	Apr	May	Jun	Total
Total Sales (1)	6,500	13,000	19,500	26,000	32,500	32,500	130,000
Total Variable Cost (2)	4,600	9,200	13,800	18,400	23,000	23,000	92,000
Gross Profit (3) = (1) - (2)	1,900	3,800	5,700	7,600	9,500	9,500	38,000
Total Fixed Cost (4)	3,452	3,452	3,452	3,452	3,452	3,452	20,712
Net Profit (5) = (3) - (4)	(1,552)	348	2,248	4,148	6,048	6,048	17,288



ACTIVITY 26

Now follow the same steps to make your own Sales Plan, Cost Plan and Profit Plan for the first year of your business in sections 7.1, 7.2 and 7.3 in the Business Plan booklet.

3. Make a Cash Flow Plan

A Cash Flow Plan is a forecast of how much cash you expect to come into and go out of your business each month. The Cash Flow Plan helps you to make sure that your business does not run out of cash at any time.

There are many reasons that your business may run out of cash. For example:

- You have to build a factory or buy equipment and raw materials before you sell anything. This means that cash goes out before cash comes in.
- If you give credit to your customers, you do not get paid immediately.

TOSAMA CLOTH BAGS

Jane makes a Cash Flow Plan for the first six months.

CASH FLOW PLAN							
(Unit: \$)							
	Month	Jan	Feb	Mar	Apr	May	Jun
CASH IN	1.Cash at the beginning of the month	15,000	2,990	8,180	15,270	24,260	35,150
	2.Cash from cash sales	6,500	13,000	19,500	26,000	32,500	32,500
	3.Cash from credit sales						
	4.Other cash in						
	5.Total cash in	6,500	13,000	19,500	26,000	32,500	32,500
CASH OUT	6. Purchase of goods		4,600	9,200	13,800	18,400	23,000
	7.Payment of wages	990	990	990	990	990	990
	8.Purchase of equipment	8,300					
	9.Loan repayment						
	10.Other payments	9,220	2,220	2,220	2,220	2,220	2,220
	11.Total cash out	18,510	7,810	12,410	17,010	21,610	26,210
12.Cash at month end	2,990	8,180	15,270	24,260	35,150	41,440	

To make your Cash Flow Plan, follow the 12 steps in the plan. Steps 2-5 are for Cash In. Steps 6-11 are for Cash Out. Look at each step for January.

Step 1 - Cash at the beginning of the month: This is the amount of cash that Jane has, plus the amount of money she expects to have in her bank account when she starts.

Step 2 - Cash from cash sales: This is cash Jane will receive from her customers for sales during the month of January. Look at *Tosama Cloth Bags'* Sales Plan to find the forecast for cash sales in January.

Step 3 - Cash from credit sales: This is the amount of cash the business can expect to get from their credit customers during the month. Jane leaves the section blank because she will not sell on credit.

Step 4 - Other cash in: This is the amount of cash that Jane forecasts she will get from other sources, such as a loan.

Step 5 - Total cash in: Jane adds up all the amounts from steps two to four.

Step 6 - Purchase of goods: Jane pays her supplier on the first day of the following month, so she will pay for the goods purchased in January in February. She will write the amount for January in the February row.

Step 7 - Payment of wages: Jane takes this amount from her Staff Requirements and Costs Plan.

Step 8 - Purchase of equipment: Furniture and other fittings need to be purchased for *Tosama Cloth Bags* during January. Jane writes the amount she will pay here. She finds the amount in her Fixed Costs Form.

Step 9 - Loan repayment: Jane takes soft loans from her friends and she plans to repay the loans from July.

Step 10 - Other payment: In January, besides her monthly payment of \$2,220 (for rent, electricity and water, transport, miscellaneous), Jane will need to make a deposit for two months of rent to Real Estate company totalling \$4,000. She also records her other expenses of \$2,000 for shop decoration, \$600 for insurance and \$400 for marketing expenses here. The calculation is: $\$9,220 = \$2,220 + \$4,000 + \$2,000 + \$600 + \400 .

Step 11 - Total cash out: Add up all the Cash Out amounts from steps six to ten. This is the total cash amount that is paid out by *Tosama Cloth Bags* during January.

Step 12 - Cash at the month end:

Cash at the month end = Cash at the beginning of the month + Total cash in – Total cash out.

CITY GARBAGE RECYCLERS

John and Mary at *City Garbage Recyclers* make their Cash Flow Plan for the first year. They start in April, so their Cash Flow Plan is as follows:

CASH FLOW PLAN											
(Unit: \$)											
	Month	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
CASH IN											
1.	Cash at the beginning of the month	47,200	5,750	(700)	4,164	11,922	12,392	15,118	20,266	27,514	27,514
2.	Cash from cash sales			51,748	65,184	29,980	38,856	46,772	55,008	61,444	61,444
3.	Cash from credit sales										
4.	Other cash in										
5.	Total cash in	0	0	51,748	65,184	29,980	38,856	46,772	55,008	61,444	61,444
6.	Purchase of goods			38,584	48,456	21,260	27,680	33,374	39,310	44,036	44,036
7.	Salaries	3,850	3,850	3,850	3,850	3,850	3,850	3,850	3,850	3,850	3,850
8.	Purchase of equipment	30,000									
9.	Loan repayment										
10.	Other payments	7,600	2,600	4,450	5,120	4,400	4,600	4,400	4,600	4,400	4,400
11.	Total cash out	41,450	6,450	46,884	57,426	29,510	36,130	41,624	47,760	52,286	52,286
12.	Cash at month end	5,750	(700)	4,164	11,922	12,392	15,118	20,266	27,514	36,672	36,672
CASH OUT											

The Cash Flow Plan shows that at the end of May *City Garbage Recyclers* will have negative cash flow. This means the business will run out of money. The cash level will be very low in other months. It is not safe to operate a new business with such a low level of cash.

John is thinking about getting a soft loan of \$3,000 from his friends in May and paying it back from June. If he can do that, the form below shows how *City Garbage Recyclers'* Cash Flow Plan will look like.

CASH FLOW PLAN												
(Unit: \$)												
	Month	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
CASH IN	1. Cash at the beginning of the month	47,200	5,750	2,300	6,164	12,922	12,392	15,118	20,266	27,514		
	2. Cash from cash sales			51,748	65,184	29,980	38,856	46,772	55,008	61,444		
	3. Cash from credit sales											
	4. Other cash in		3,000									
	5. Total cash in		0	3,000	51,748	65,184	29,980	38,856	46,772	55,008	61,444	
CASH OUT	6. Purchase of goods			38,584	48,456	21,260	27,680	33,374	39,310	44,036		
	7. Salaries		3,850	3,850	3,850	3,850	3,850	3,850	3,850	3,850		
	8. Purchase of equipment		30,000									
	9. Loan repayment			1,000	1,000	1,000						
	10. Other payments		7,600	4,450	5,120	4,400	4,400	4,600	4,400	4,600	4,400	
	11. Total cash out		41,450	6,450	47,884	58,426	30,510	36,130	41,624	47,760	52,286	
	12. Cash at month end		5,750	2,300	6,164	12,922	12,392	15,118	20,266	27,514	36,672	



ACTIVITY 27

Now follow the same steps to fill in section 7.4: 'Cash Flow Plan' in your Business Plan booklet.



SUMMARY

In Part X you have learned:

- When you start your business, you should make sure that you have enough money so you do not run out of cash before your business begins to generate income. That is the reason that you have to plan ahead so that your business not only makes a profit, but has sufficient cash to operate.
- During first few months, your new business is very vulnerable, so you must properly prepare your financing. To plan and monitor the financial situation of your business, you should:
 - Make a Profit Plan
 - Make a Cash Flow Plan
 - Compare the actual business with both plans every month after the operation has begun
 - Take action if anything is not going according to plan
- Profit is the amount of money left after you have subtracted all the costs of your business from its total sales. So, before making a Profit Plan, you must make both a Sales Plan and a Cost Plan for your business.
- A Cash Flow Plan is a forecast which shows you how much cash you expect to come into your business and how much cash you expect to go out of your business each month. The Cash Flow Plan helps you to make sure that your business does not run out of cash at any time.

REQUIRED START-UP CAPITAL

It is absolutely necessary that you know how much start-up capital you need and where you will get it before you start setting up your business. You will need start-up capital for:

- Capital investments
- Working capital

1. What capital investments do you need?

A capital investment is the purchase of an asset for the business that is expensive and lasts for a long time.

The capital investment needed can be divided into the following two categories:

- Business premises
- Equipment

Business premises

The size and location of business premises depends on the type of business.

ACTIVITY 28



Rate which factors are important or not for your choice of business premises by ticking in the appropriate column below. Add more factors if needed.

Factor	Important	Not important
Size of premises		
Possibility to expand		
Specific layout to suit the business		

When you know what sort of premises you require, you need to decide if you should:

- Build the premises
- Buy the premises
- Rent the premises
- Run the business from your home

Building or buying your own property can be the best option if your business has special requirements for the building or the location of the building. However, this option will require a lot of capital and it often takes a long time.

Renting the business premises needs less capital than building or buying. It is also more flexible because it is easier to change the location of your business if you are renting. But it is not as secure as owning your own property.

Running your business from home is obviously the cheapest option. It can be a good way to start until your business is successful. However, separating business issues from family issues can be difficult if you are working from home.



ACTIVITY 29

Decide what premises you need for your business.

I will

Build our own premises

Buy premises

Rent premises

Run business from home

Because:

.....

.....

.....



“

If your decision is different now from what you wrote down in the “Place” section of the Marketing Plan in your Business Plan booklet, go back to that section and change the location. If the altered location has new cost implications, go back to the Fixed Cost Form and adjust the figures accordingly.

”

Equipment

Buying equipment may require a large capital investment when you start up the business. Instead of buying equipment, you can sometimes lease it for a specific time period. You would make monthly payments for the duration of the lease. You should compare the cost and benefits of asset loans that may be needed to buy the equipment and leases.

If you decide to lease equipment, you will not have to add the cost of new equipment onto the amount of initial capital required, but you must add the lease payments to your calculations for working capital.

2. What working capital do you need?

Working capital is the money you need to pay for the expenses generated when your business starts production.

Some businesses will need enough working capital to cover all costs for a few months or even a year or more. You must estimate how long it will take before your business will receive sufficient revenues to cover your on-going expenses. Plan to keep a bit more working capital than you think you need.

You will need working capital to cover:

- Stocks of raw materials and finished products
- Promotional activities
- Salaries
- Rent
- Insurance
- Loan or lease payments
- Other costs

TOSAMA CLOTH BAGS



Jane tried very hard to accurately estimate how much start-up capital she needed for *Tosama Cloth Bags*. She believed that it would take only three months before the money coming in from sales was sufficient to pay her monthly expenses.

The rented shop will be modified to allow for a display.

Jane plans to buy furniture for the business.

Rent is for five months, includes two month deposit.

Other costs like stationery and consumables etc.

REQUIRED START-UP CAPITAL

For a period of three months (January to March) (Unit: \$)

INVESTMENTS

Business premises

- Construction or purchase of a building 0
- Conversion or reconstruction of business premises 2,000

Equipment

- Furniture 8,300 **10,300**

WORKING CAPITAL

Stock of raw materials or finished goods 13,800

Marketing 600

Salaries (\$990 x 3 months) 2,970

Rent for three months and two month deposit (\$2,000 per month) 10,000

Licence and registration 0

Electricity and water 300

Insurance 600

Other costs 360 **28,630**

TOTAL START-UP CAPITAL 38,930

CITY GARBAGE RECYCLERS



John and Mary also estimated how much start-up capital they needed to start their business. They plan to start their business in April and think that it will take two months before sales fully cover their monthly expenses. This is their estimation:

REQUIRED START-UP CAPITAL

For a period: Two months (April and May) (Unit: \$)

INVESTMENTS

Business premises

- Construction or purchase of a building 0
- Conversion or reconstruction of business premises 0

Equipment

- Machinery and tools 28,000
- Furniture Fittings 2,000 **30,000**

WORKING CAPITAL

Stock of raw materials or finished goods 0

Trade and City Council licences 600

Marketing expenses 200

Salaries (\$3,850 x 2 months) 7,700

Rent 8,000

National Environmental Management Assessment fee 600

Electricity and water 200

Contingency for emergency (30% of working capital as normal standard) 5,000 **22,300**

TOTAL START-UP CAPITAL 52,300

They do not stock raw materials until the business starts.



Rent is for four months, including two month deposit.



Start-ups are less likely to get emergency liquidity from banks or other sources, unless they have a good credit history. Thus it is important to budget for emergency/the unexpected.





ACTIVITY 30

Turn to section 8: “Required start-up capital” in your own Business Plan booklet to calculate the amount of capital you will need for the initial investment and for working capital.



SUMMARY

In Part XI you have learned:

- **Start-up capital** is the money you need to start your business. You will need capital for:
 - Capital investment
 - Working capital
- A **capital investment** is an asset that you have purchased for the business that is expensive and will be used by the business for a long period of time. The purchase or rental/lease of both the business premises and the equipment are necessary investments for most businesses.
- Depending on your requirements and your available start-up capital, you can decide to build, buy or rent the premises or you might be able to operate the business from your home.
- You normally operate your business for some time before sufficient money comes in from sales to cover your expenses. When your business starts, you need money to buy materials, to pay salaries, for rent and electricity etc. **Working capital** is the money you need to pay for these expenses.
- You will need working capital to cover:
 - Stock of raw materials and finished products
 - Promotion
 - Salaries
 - Rent
 - Insurance
 - Loan or lease payments
 - Other costs
- You must calculate how much working capital you need. The amount depends on how long it will take before money starts coming in from sales and how much stock you need.

TYPES AND SOURCES OF START-UP CAPITAL

When you have estimated how much start-up capital you need for your business, the next question is where to get that capital?

The most important types of start-up capital are:

- Owner's equity
- Loans

1. Owner's equity

The equity or the contribution from owners to start the business is the private money that is put into the business. An entrepreneur's savings can be a possible source of owner's equity. Entrepreneurs can use targeted savings accounts to accumulate some or all of the funds they will need to start their business. Savings that an entrepreneur does not want to invest in the business could serve as cash collateral for a loan.

The owner's equity is called risk capital, because the owners are risking their own money on the business. Whatever form of business you start, you will have to invest some of your own money.

If you do not have enough money yourself, you can consider finding a partner or partners who are interested in investing in the business. You should not allow the partner to own more than half of the business. If you own less than 50 percent, you will forfeit the right to make decisions for the business.

2. Loans

You will have to repay the amount borrowed and you will probably have to pay interest charges and/or fees. You can pay the loan back either in instalments or all at once, depending on the agreement with the lender.

If you borrow money from a lending institution, you usually will have to comply with two major requirements:

1. The institution will want to see a viable and clear Business Plan with a business idea that is believable and feasible. An unclear Business Plan will leave a bad impression and make it difficult for the lending officer to grant loan.

- The lending institution will probably also need some kind of collateral to make sure that you repay your loan. If you cannot repay the loan, the lending institution has the right to take possession of the collateral instead. Machines and other equipment in your business can sometimes be used as collateral. If you do not own any of these, you may also use your home or the home of a family member as collateral. This is a big risk, which must be thought through very carefully.



ACTIVITY 31

Use this form to help you decide what you can offer as collateral for the finance institutions:

Type of collateral	Check if applicable to you	Details
Fixed deposit		
Land and buildings		
Shares and bonds		
Business assets (for example machines and vehicles)		
Personal guarantees		

Here are a number of different sources you can access when you are applying for a loan to start your business.

Banks: Several banks have specialized departments for giving loans to small businesses. To obtain loans from banks you need a viable business idea presented in a well thought out Business Plan and some kind of collateral.

Government credit schemes: Many governments have lending programmes to help entrepreneurs who want to start small businesses. You may not need collateral for these government loans, but the requirements for your Business Plan are just as strict as with the banks.

Microfinance institutions: These financial service providers focus on the low-income market and exist in many legal forms- sometimes as banks, sometimes as regulated non-bank financial institutions and sometimes as unregulated non-profit organizations. They have more flexible collateral and documentation requirements than mainstream banks, but loan amounts are relatively small, especially for first-time borrowers. They rarely offer start-up business loans, but may make capital available to an entrepreneur through other loan products based on the entrepreneur's household cash flow.

Membership based associations: To be able to borrow from these associations, you will need to be a member and to buy shares. You will also be required to have money deposited in an association savings account.

Other sources: You might be able to get a loan from your family or friends. But remember that if your business fails and you have difficulty in paying back loans, then relationships can suffer. You can also take loans from private moneylenders. But these loans usually have extremely high interest rates.

There are different types of loans that entrepreneurs can access from the different sources. For example, start-up loans, asset loans, housing loans, consumption loans, emergency loan and supplier credit. Entrepreneurs should try to find information about such loans and from where they can access it best.

TOSAMA CLOTH BAGS	
SOURCES OF START-UP CAPITAL	
	(Unit: \$)
Required start-up capital	38,930
Sources of start-up capital:	
Owner's equity	28,930
Other sources	
Soft loan from friends	10,000
Total (must be the same amount as the required start-up capital)	38,930
Collateral (if applying for a loan)	

CITY GARBAGE RECYCLERS	
SOURCES OF START-UP CAPITAL	
	(Unit: \$)
Required start-up capital	52,300
Sources of start-up capital:	
Owner's equity	42,300
Other sources	
Soft loan from Mary's mother	10,000
Total (must be the same amount as the required start-up capital)	52,300
Collateral (if applying for a loan)	

ACTIVITY 32



When you have identified the sources of start-up capital, fill in section 9.1: "Sources of start-up capital" in the Business Plan booklet.

If you decide to borrow money as one of your sources of start-up capital, you should plan your repayment schedule and write it in section 9.2: "Loan Repayment Schedule" in the Business Plan booklet.



SUMMARY

In Part XII you have learned:

- You should have all the start-up capital necessary for both the initial investment and the working capital. The most important types of start-up capital are:
 - Owner's equity
 - Loans
- Your owner's equity is your own money that you put into the business. The equity is called risk capital, because you, as the owner, risk your money on the business.
- If you do not have enough money to invest in the business, you might consider finding a partner or partners who are interested in owning part of it. But you should not let the partner buy more than half of the business, because you will then forfeit the right to make the decisions for your business.
- You may get a loan for the start-up capital. You would have to pay interest on a loan in addition to the principal. You can pay the loan back either in instalments or all at one time.
- There are different sources of business loans available from:
 - Banks
 - Government credit schemes
 - Microfinance institutions
 - Membership based association
 - Other sources

STARTING THE BUSINESS

1. Are you ready to start your business?

This part will help you to evaluate your plans and preparations for your new business. After that, it is time to decide whether or not you should start your own business.

ACTIVITY 33



Go through the questions in the checklist. Tick either "YES" or "NO" for each question. If you are not sure about the answer, tick NO.

	YES	NO
1. Have you decided what goods and/or services you are going to sell?	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you know who your customers will be?	<input type="checkbox"/>	<input type="checkbox"/>
3. Have you asked any potential customers what they think about your proposed goods or services?	<input type="checkbox"/>	<input type="checkbox"/>
4. Do you know who your competitors will be?	<input type="checkbox"/>	<input type="checkbox"/>
5. Do you know what prices your competitors charge?	<input type="checkbox"/>	<input type="checkbox"/>
6. Have you decided what prices you will charge?	<input type="checkbox"/>	<input type="checkbox"/>
7. Have you found a good location for your business?	<input type="checkbox"/>	<input type="checkbox"/>
8. Have you decided what kind of distribution you will use?	<input type="checkbox"/>	<input type="checkbox"/>

-
9. Have you decided what kind of promotions you are going to do?
 10. Do you know how much your promotions will cost?
 11. Have you decided what staff you will need and how much staff will cost?
 12. Have you calculated a wage for yourself that will enable you to meet your household's basic needs?
 13. Have you decided which legal form your business will take?
 14. Do you know all the legal requirements for your business?
 15. Have you decided what insurance your business will need?
 16. Do you know how much the insurance will cost?
 17. Have you made Sales Plan?
 18. Do your Sales Plan and Cost Plan show a profit for the first year?
 19. Have you made a Cash Flow Plan?
 20. Does your Cash Flow Plan show that you will not run out of cash during the first six months?
 21. Have you calculated how much start-up capital you need to start your business?
 22. Have you raised the money for all your required start-up capital?
 23. Have you found out what assistance you can get from business development service providers, associations, finance institutions and government agencies?
 24. Have you assessed the positive or negative impact your business has on your community and the natural environment?

Number of "YES" answers _____ Number of "NO" answers _____

2. Start or not?

When you have answered all the questions and counted the number of “YES” and “NO” answers, look at the table below. It will help you to assess the efficacy of the preparations you have made to start your business.

Number of “YES” answers:

24	You are well prepared and should probably go ahead and start your business.
11-22	You should analyze the reasons that you answered “NO” to some questions and decide what you need to do so that you can honestly and comfortably answer ‘YES’ to all the questions.
0-10	It would be very risky to start your new business. You should go back and start from the beginning of your Business Plan. Maybe you need to change your business idea.

3. Do you need more information to complete your Business Plan?

If there are still preparations which have not been made and issues that are not properly thought through, you should go back and work on your Business Plan to resolve them. If you start your business without the necessary preparations, you will increase the risk of failure.

Depending on your score, you may need to develop more knowledge of business management to do your Business Plan for which you may need more information. Consult business people around you.

Think about what information you might need and fill in the Action Plan on the next page.

4. Presenting and defending your Business Plan

Once you have completed your Business Plan, you may need to present it to potential partners, financiers and other relevant stakeholders and to defend the premise and viability of the plans for your business idea.

The main objective of a Business Plan presentation is for the interested stakeholders to assess whether you have considered every eventuality in the implementation of your business idea. It also allows the stakeholders an opportunity to question your ideas and to listen to your answers so that they can decide for themselves if you truly understand your business concept and have confidence in its success. The following tips will help you to prepare for your presentation:

- Know your audience: Partners, financiers and other stakeholders have their own business interests to protect. You need to prepare with adequate information about their expectations, attitudes and knowledge.

- Ensure that the information you have prepared is both accurate and good quality.
- Keep your explanations simple, short and interesting.
- Be prepared with visual aids that can be used to emphasize a point, but do not over use them.
- Be prepared to answer questions. Interpret their questions as an indication of interest in your business idea. Your Business Plan should be able to withstand scrutiny.
- If you are not sure of an answer to a question, do not be afraid to say “I do not know”. If it is appropriate, promise to get back them with an answer.

5. Action Plan for starting your business

When you have confidently answered yes to all the questions in the previous section, it is time to go ahead and actually start the business.

Use the Action Plan in the Business Plan booklet to organize yourself. Fill in everything you need to do under each heading, who you should contact and when you will do it. Use your Business Plan as often as possible as a checklist and check regularly whether you are still on track.

Action required	Contact	When	Responsible person
Product			
Price			
Place			
Promotion			
People			
Process			
Physical Evidence			

Action required	Contact	When	Responsible person
Staff			
Form of business			
Legal responsibilities and insurance			
Buying			
Impact on community and natural environment			
Costing			
Financial planning			
Required start-up capital			
Sources of start-up capital			

START YOUR BUSINESS

Manual

Already have a concrete business idea, but not sure how to start a business?

Use the **Start Your Business (SYB)** manual to assess your readiness to start a business and examine whether your business idea has the prospect to evolve into a profitable enterprise by making a robust business plan.

SYB is part of the 'Start and Improve Your Business' family of management training courses for start-ups and small entrepreneurs. The programme builds on 25 years of experience working in 100 countries, partnering with 2500 local institutions, 200 certified Master Trainers and a network of over 17,000 Trainers. It has reached 6 million clients to date and these numbers are only increasing!

