

Training Manual on Economic Empowerment and HIV Vulnerability Reduction

A STEP BY STEP GUIDE TO STARTING YOUR OWN VIABLE BUSINESS

Prepared under the ILO-Sida Project on Economic
Empowerment and HIV Vulnerability Reduction
along the transport Corridors in Southern Africa

2014

A STEP BY STEP GUIDE TO STARTING YOUR OWN VIABLE BUSINESS

**DEVELOPED BY: THE ILO/CORRIDOR ECONOMIC EMPOWERMENT
PROJECT 2013**

About the ILO/Corridor Economic Empowerment Project (CEEP)

In contribution to the SADC responses to HIV and AIDS, the International Labour Organisation (ILO) is working on increasing the availability of social and economic services by organizing informal economy workers into cooperatives/producer associations along transport corridors. The programme seeks to promote evidence-based knowledge sharing mechanisms to scale up interventions on HIV vulnerability reduction through economic empowerment. This is in line with the provisions of the National HIV and AIDS Strategic Plans for the participating countries which make a distinct acknowledgement of the need to address poverty as a key driver of HIV.

The Government of Sweden through its International Development Agency (Sida) is funding this regional project in Malawi, Mozambique, South Africa, Tanzania, Zambia and Zimbabwe. The project seeks to mitigate the impact of HIV and AIDS and its effects through sustainable prevention, improved livelihood strategies, access to care and support programmes involving affected and infected grassroots communities and transport sector workers and their families alike.

The main target groups are the vulnerable communities such as the sex workers, truck drivers, individuals and groups involved in income generating activities in the transport corridors. The project also supports informal economy workers with greater focus on women to increase their economic empowerment by improving their business skills and establishing enterprise associations, and cooperatives. This reduces the need to engage in high risk sexual behaviour as a means of survival as well as strengthen their ability to mitigate the effects of HIV and AIDS. The following criterion is used to select project beneficiaries:

- High employment potential
- High women participation
- High potential for wider reach
- To be along corridor routes and other hotspots
- Vulnerability to HIV (most important factor)
- High poverty levels

In the selected communities, ILO has supported the formation of legal support structures such as Savings and Credit Cooperatives Societies. Working on the premise that poverty, mobility and HIV are interlinked and reinforced by the unequal gender relations. Poverty leads to survival strategies that expose people, in particular women and girls, to the risk of HIV infection. Negative coping mechanisms as well as gender inequalities further place women and girls at a higher risk of HIV infection. Some men and women find themselves unable to adopt safe behaviours, primarily due to poverty and economic disempowerment. Thus effective interventions to reduce HIV vulnerability and enhance economic development require conscious efforts in ensuring gender equality. Based on these assumptions, the project seeks to demonstrate that the promotion of self-reliance, improved income streams and business performance can go a long way in mitigating the impact of HIV and AIDS on both affected and infected vulnerable groups among the most at risk populations along our corridors.

CEEP project intervention areas were identified based on the following criteria:

- High HIV prevalence, internal and external corridors,
- Cross border major trading areas,
- High levels of poverty, high levels of unemployment, and
- Synergy with other partners

About Start Your Business

The Corridor Economic Empowerment Project (CEEP) is implementing the Start Your Business (SYB) training as a strategy to enable vulnerable communities to plan for implementation of business ideas and contribute to their livelihoods. The overall objective of this empowerment and job creation initiative is to better equip the vulnerable communities to address the underlying inequalities that tend to fuel the HIV and AIDS pandemic.

This ILOCEEP/SYB manual is an adaptation based on the ILO Start Your Business Manual. Start Your Business (SYB) is a training programme for people that have a practical business idea and want to start a new business. It introduces the steps in starting a business and results in a business plan for the proposed business venture. The SYB programme aims to contribute to the creation of viable small scale businesses by enabling potential entrepreneurs to carry out the steps to start their own businesses.

The SYB materials consist of a Manual and a Business Plan booklet. The Manual explains the steps to follow in preparing a business plan for starting a business. The Business Plan booklet is filled in by the entrepreneur as he or she works through the Manual. The business management methods used in the SYB Manual are the same as those in the seven Improve Your Business (IYB) Basics Manuals.

The ILO/CEEP through its accredited Master Trainers works closely with its partners in Eastern and Southern Africa in identifying, training and mentoring potential entrepreneurs along the transport corridors. Partner organisation trainers are introduced to the SYB programme in a Training of Trainers seminar, and they in turn conduct training and mentorship for beneficiaries who wish to start their own businesses.

The CEEP empowers vulnerable communities through assisting beneficiaries to form business groups as a way of harnessing their potential towards business start-up and growth. Business groups are critical in building confidence and as a voice on key issues that affect their members.

© Copyright International Labour Organisation 1998, 1996

First Published 1996

Second revised edition 1998

Third Impression 2013

ISBN:

Publications of the International Labour Organisation enjoy copyright under Protocol 2 of the Universal Copyright Convention. For reproduction, adaptation or translation, application should be made to ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. The ILO welcomes such applications.

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of the materials 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 its authorities, 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.

Acknowledgements

The workbook has been adapted for the ILO Corridor Economic Empowerment Project (CEEP) with invaluable input from CEEP Project staff that included Joseph Ajakaye (CTA), Eliam Mahohoma, Darryl Crossman, Colly Masuku, Oniah Nkosi, Patrick Makondesa, Tulanoga Matimbwi, Lovemore Nkhoma and Alfredo Munguambe. Feedback from ILO CEEP SIYB trainers was immensely valuable in bringing field experiences and specific topics to include in the adaptation process.

The Start Your Business Manual brings in valuable experience of integrating HIV and AIDs mitigation strategies with enterprise development. The CEEP project has been integrating HIV and Aids training and enterprise training in the six different countries of operation. The manual is therefore a great stride towards economic empowerment of the vulnerable as a strategy to mitigate against HIV and AIDS.

CONTENTS

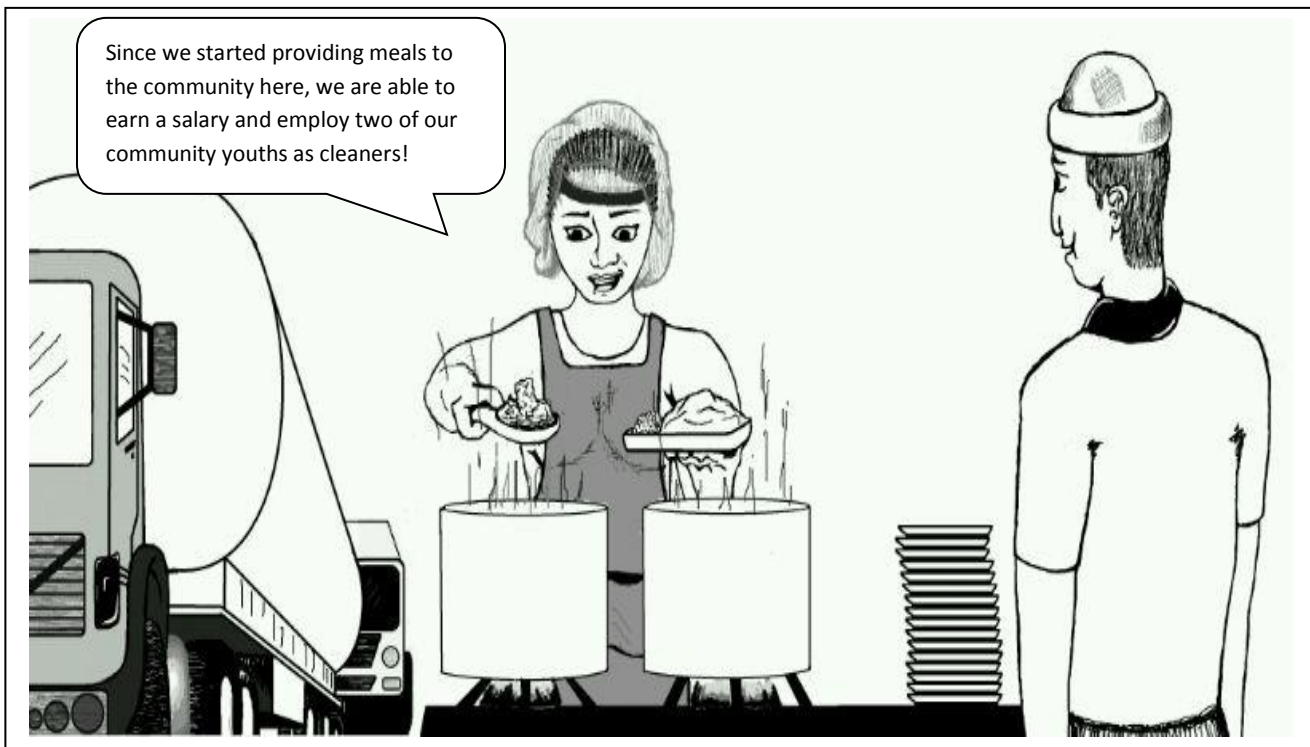
Chapter 1: Dealing with Vulnerability through Entrepreneurship	7
Role of entrepreneurship in addressing economic challenges	7
Entrepreneurship and its benefits	9
Organizing your group/self to start a business	9
Financial Literacy	12
Group Savings and Internal lending	12
Chapter 2: Preparing to Start Your Business.....	15
What does it mean to be an entrepreneur?	15
Assess Your Entrepreneurial Skills and Abilities.....	16
How to Strengthen Your Entrepreneurial Skills and Abilities	20
Chapter 3: The Business Plan.....	24
Content of the Business Plan.....	25
Where to find information for your Business Plan.....	27
Chapter 4: Your Business Idea.....	29
Test Your Business Idea	32
Chapter 5: The Marketing Plan.....	38
What is Marketing?.....	38
Do Market Research	39
Make a Marketing Plan	44
Chapter 6: Types of Business Registration	56
The Different Forms of Business Registration	57
How to Select the Right Form of Business.....	60
Other Legal responsibilities and insurance	61
Chapter 7: Staff.....	65
Staff Related legal Responsibilities.....	67
Chapter 8: Costing Your Products and Services	69
Single Product Costing	73
Detailed Costing for a manufacturer or service operator	76
Detailed Costing for a retailer or wholesaler	82
Chapter 9: Financial Planning	89
Sales and costs plan	89
Cash Flow Plan.....	93
Chapter 10: Required Start-Up Capital	97
Chapter 11: Types and Sources of Start-up capital	103
Chapter 12: Starting the business	111

CHAPTER 1: DEALING WITH VULNERABILITY THROUGH ENTREPRENEURSHIP

This manual is designed to take you through a step-by step process of preparing to start your business by thinking through different aspects of your business ideas. The first chapter will help you organise your group to work together and be an answer to challenges you face as vulnerable communities.

One of the challenges that are faced by communities in the transport corridors is poverty which is interlinked with mobility and HIV and AIDS. Poverty leads to survival strategies that expose people, in particular women and girls, to the risk of HIV infection. Negative coping mechanisms have placed poor persons at a higher risk of HIV infection. Some men and women find themselves unable to adopt safe sexual behaviours, primarily due to poverty and economic disempowerment.

However, in any situation there is always something that can be done to alleviate problems. The distinguishing characteristic of enterprising men or women is their readiness and alertness to do something to respond to the new situations they find themselves in. By working as a group of people with similar challenges and objectives, vulnerable people can start viable businesses that create their own jobs and jobs for their families.



By seeking to be self-reliant, improving income streams and business performance vulnerable persons can go a long way in mitigating the impact of HIV and AIDS on themselves, their families and the society at large.

ROLE OF ENTREPRENEURSHIP IN ADDRESSING ECONOMIC CHALLENGES

Everybody has the potential to initiate action in any situation if they have the drive and motivation. Men and women have innate talents and capabilities that would enable them to identify practical solutions to the challenges they experience in life. Many people find it difficult to take advantage of these capabilities because they do not believe in themselves.

Entrepreneurship involves identifying business opportunities and taking advantage of those opportunities for personal and society benefit. Things happen to you, to your family, within your community that demands things to be done differently. For example you might be unemployed and have been forced into different activities such as child trafficking, substance abuse or transactional sex activities.

Taking action that addresses your vulnerability enables you to build confidence in yourself and benefit from the profits. An entrepreneurship attitude enables you to act quickly and take advantage of opportunities without waiting for other people to solve your problems.

Entrepreneurship is about innovative action whenever a person is in a situation that requires change. Entrepreneurs play a critical role in creating jobs for themselves and their families which enables them to move out of poverty and reduce the risk of HIV/AIDS infection. Involvement in income generating business activities enables men and women to have control of actions and decisions that affect their lives.

Have you seen entrepreneurs in your community? List them on the space below:

Entrepreneur we know	What was their situation before starting a business	What business did they Start

WHAT IS AN ENTREPRENEUR AND WHAT ARE BENEFITS OF ENTREPRENEURSHIP

An entrepreneur is a person that has the ability to identify opportunities for business, act on them by organising resources to offer the needed products or services and taking risks. By choosing to be self employed as a vulnerable person you create an opportunity to offer job opportunities and alleviate poverty. Economic empowerment has a direct impact on reducing vulnerability to HIV/Aids infection.

Benefits of entrepreneurship include the following:

- Empowerment and decision making ability that mitigate HIV/Aids infection
- Creation of wealth that benefits society and their individual families.
- Provision of goods and services needed by the community
- Provision of employment for people who want and need to work
- Entrepreneurs through their business activities provide an income that benefits many in the community and their families
- Contribute through taxes to income used to offer social services

ORGANISING YOUR GROUP TO START A BUSINESS

It is important to plan your business with a group of likeminded persons. Together with your group members, you can identify one business idea that you can implement together. The Generate Your Business Idea manual has different activities that help you identify business ideas.

Working as a group is key in bringing in resources both financial and human skills to build one business. Your business will depend on the skills that each of your group members bring to the business. In addition, by working as a group you can support each other in breaking away from the poverty cycle, starting by changing mindsets.

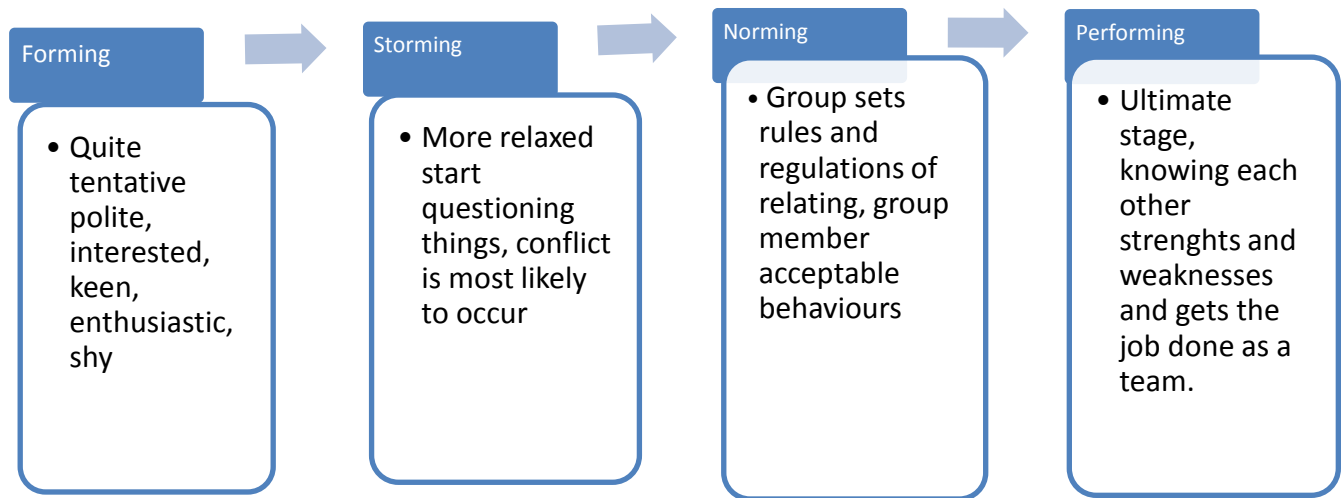
Working as a group has many advantages for you. See Box below:

ADVANTAGES OF WORKING AS A GROUP

- Mutual support
- Sharing of ideas, knowledge, skills and risks
- Bringing different skills and expertise to achieve a common goal
- Mobilization of financial resources
- Access to finance earmarked for groups
- As a group you have a voice in the community
- Opportunity to exploit your God given talent
- Opportunity to deal with social and economic issues affecting members

Group Development Stages

Groups develop over different stages. Each stage requires different strategies to keep the group together. Understanding the stage of development for your group is critical in helping you develop the rules and regulations to manage the group operations and behaviour of members. The stages are listed below.



At which stage is your group and why do you think so?

Once you have decided to form a group to start a business you need to agree on how the group members will work together. Discuss with your new group how you want to work together. This includes the roles and responsibilities that each person will play. In assigning roles and responsibilities, focus on things that interest all the group members and take advantage of their skills.

Complete the table below about your group members.

No.	Name of Group Member	Areas of interest	Skills and Abilities they bring to the Group
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Defining Group Purpose

Problems that your group members experience become opportunities when you come together to work on a common purpose. The common purpose could be to raise enough money to pay school fees for children, build descent homes for each member, save money to finance business activities among others. The purpose of your group existence should fall within the interest of all group members to maintain their interest and motivation.

The main Purpose for our Group is to.....

Working as a group enables vulnerable persons to contribute to their own self-improvement and support each other towards achievement of the vision. The group comes together with the intention of helping, encouraging and challenging one another to think beyond their current challenges and work their way out of poverty.

FINANCIAL LITERACY

Your ability to manage finances is called **financial literacy**. It involves planning, organising and controlling the use of financial resources. Managing finances is about how individuals or families wisely and productively plan for the use of earned income.

By working as a group you are able to pull together resources both financial and non-financial to the achievement of your goals. The ability to save for the future enables you as entrepreneurs to create valuable resources to support your efforts in starting a business.

GROUP SAVINGS

Savings starts in the mind, so it is important for you to develop a positive mind towards savings by looking at the benefits. The secret to successful saving is simple. Start NOW! Even a small amount saved regularly can really make a difference and help you reach your goals. Savings involves depositing some parts of your income in small amounts but frequently for future use.

Your business will require financial resources. Vulnerable people find it difficult to convince lenders to advance loans to them. By saving together groups create financial resources essential to support business start up.

What is a Savings Culture?

Savings culture is a habit just like other good and bad habits found in human beings, for example, politeness, punctuality, rumour-mongering, and drunkenness. One becomes a drunkard because he or she has nursed the habits of drinking for so long that his or her entire inclination is geared towards drinking. To develop a savings habit, one needs to develop the character, attitude, behaviour, outlook and focus that goes with the habit.

There is no such thing as “too poor to save, or too rich to save”.

Saving is all about discipline and spending less than you earn. To save you need to adjust your lifestyle and the manner in which you live so that you can accommodate savings.

Savings is a culture, a habit or a way of life. When you have developed the culture, you will start to see your wealth grow. There are a number of social institutions that have been set up in communities to encourage people to save such as the Savings and Credit Cooperatives (SACCOs). When you commit to participating in a SACCO or your own savings group you can change your life and create your own wealth.

By saving regularly at least 5% of your income, into a group savings account through the strength of numbers you can pool large sums of money, the pool of savings created could be a source of cheap credit guaranteed only by the members of the group.

For example, suppose all the 450,000 teachers in KwaZulu Natal formed a SACCO and decided to contribute only R100 per month into their SACCO, they will have R45 million per month into their kitty. In 6 months, they will have R270 million in their savings account. In one year they will have accumulated R540 million.

All members must save a minimum amount every week/month, as agreed by the group during a group meeting. Based on the level of mutual trust and the capacity of the group to save, the group may fix minimum contributions and not the maximum contribution per member. The table below demonstrate benefits of saving together.

Monthly Savings Amount	Number of Members	Total Savings per Month	Total Savings After 3 months	Total savings after 6 months
50	20	1,000	3,000	6,000
100	20	2,000	6,000	12,000
200	20	4,000	12,000	24,000
300	20	6,000	18,000	36,000
400	20	8,000	24,000	48,000
500	20	10,000	30,000	60,000

Managing Group Savings

Managing group savings requires transparency on amount saved and interest earned. For accountability, the member savings could be paid during group meeting in front of all members, not in any member's house. Or money could be deposited directly into the group account and proof of such deposit be presented at the group meeting. Other important rules include the following:

- All savings need to be recorded in the group minute book and signed for by the group members
- All income and expenditure of the group should be entered in the minutes book
- The money collected should be deposited in the bank immediately or on the very next day by the members on a rotation basis. If not possible to take the money to the bank the group members can borrow the money for personal or business activities.
- Total savings should be announced at the end of each meeting.

Managing Group internal lending

When money is put together, the group savings create a common fund. The common fund can be used to invest in a business to earn an income. The fund is also important to cover members in times of emergency where members can borrow to meet approved emergency needs. This is known as internal lending.

The savings group needs to agree on the rules that will govern their internal lending processes. This reduces conflict and funds mismanagement. The group needs to agree on:

- Amount each member can borrow
- Interest rate to be charged
- Loan Repayment period
- Eligibility criteria of members
- Loan approval process
- Loan recovery processes among others.

Example internal lending norms

- We will start with internal lending in the first month of savings. Each member will access the loan on a rotational basis.
- Interest rates will be based on what micro lenders are charging
- A loan will be for a maximum of three months repayable on a monthly basis
- Eligibility criteria of applicant: The following criteria should apply:
 - Up to date with savings
 - Attendance and participation to group meetings
 - Purpose for which the loan is requested
 - Ability and capacity of member to repay the loan
 - Member' history with the group in repaying the loan
- All loans will be recorded in the minutes register indicating the amount of repayment and frequency. The books of account especially the cashbook, individual ledger should be updated all the time- when granting loans and receiving loan repayments
- Loans will be approved by all members of the group
- In case of failure to pay a penalty of 2% of loan will be charged for each week or month (as per agreed upon frequency) the installment is not paid

CHAPTER 2: PREPARING TO START YOUR OWN BUSINESS

The manual will help you think through, organise your ideas and develop a plan for your business idea whether you will operate as an individual or a group. Thinking through and planning for your business is a critical step towards clarity of business direction and developing realistic expectations for your business.

There are many things to think about when you start a new business. When you have gone through the manual you will be able to assess if your business idea is profitable or not and whether or not you should go ahead and start the business. If you decide that starting is a good idea, you will have a plan for how to start.



WHAT DOES IT MEAN TO BE AN ENTREPRENEUR?

Not everyone is born an entrepreneur. Entrepreneurial characteristics can be learnt and acquired. For many people going into business is motivated by necessity. It is therefore important to examine yourself and identify your own personal entrepreneurial characteristics.

An entrepreneur is a person who:

1. Has the **vision, courage, ideas** and **creativity** that enable them to develop new business ideas that are successful
2. Is self-**motivated** and **persistent**
3. **Seeks for Opportunity**. Seeks for ways to create new products or services
4. Anticipates possible changes in the market and recognises **opportunities** that enable him/her to make money.
5. Identifies new **solutions** to current societal challenges and addresses them in a profitable manner.
6. Is prepared to **risk** their money to provide needed goods or services
7. Develops important **networks** of people and organizations that support their vision and goals
8. Seeks important **information** about their business
9. Is **committed** to the success of their business
10. Is prepared to learn new **skills** that promote business growth

The success of your business depends on your personal characteristics, situation and skills. The more entrepreneurial characteristics and skills you have, the more likely it is that your business will succeed.

WHICH OF THE ABOVE CHARACTERISTICS DO YOU HAVE? WHICH ONES DO YOU HAVE COLLECTIVELY AS A GROUP?
--

ENTREPRENEURIAL SKILLS AND YOUR READINESS TO START YOUR OWN BUSINESS

As an entrepreneur you need to have the vision, courage, ideas and creativity that enable you to develop successful business ideas. Entrepreneurs continuously seek for ways to create new products. Becoming a business owner requires a lot of innovativeness and creative thinking on new ways of doing things. The kind of characteristics and skills you need will vary with each type of business you want to start. You can make yourself aware of the characteristics that need improvement and change your attitude and behaviour.

ASSESS YOUR ENTREPRENEURIAL SKILLS AND ABILITIES

The following exercise will help you find out if you have the personal characteristics, skills and experience to successfully run your business. Be honest in your assessment.

To help you decide if you have what it takes to be in business, think about each of the following factors. For each one, decide if it is a *strength* or an *area of improvement* for you. For example, if you have acquired a technical skill relevant for your business, this may be a strength; but if you think you will often rely on others to make decisions, then this may be an area of improvement.

Read through the list below and place a tick in the box to show if this is an area of strength or an area for improvement.

PERSONAL CHARACTERISTICS AND SITUATION

	AREAS OF STRENGTH	AREA OF IMPROVEMENT
Commitment		
For your business idea to materialise and become a success, you must be committed. Commitment means that you are willing to put your business before almost everything else. It means that you want to be in business for a long time and that you are willing to risk your own money on the business and lose time with friends for social events and save money for investment.	☐	☐
Motivation		
Why do you want to have your own business? Your business is more likely to succeed if you are very keen to try your business idea, create wealth, make money for yourself and your family and improve your livelihood.	☐	☐

**AREAS OF
STRENGTH****AREA OF
IMPROVEMENT****Taking Risks**

There are no absolutely risk free business ideas. You always run the risk of failing in your business. Although an entrepreneur must be willing to take some risks, you should only take reasonable risks. To be willing to take moderate risks is strength. Risking everything on a gamble or not being prepared to take any risks at all is an area of improvement. Entrepreneurs need to seek adequate information before taking a risk.

☐☐**Making Decisions**

You are in charge of your business and that means you will have to make important decisions. They cannot be postponed or passed on to someone else. Being able to make difficult decisions that could have positive and negative consequences is strength. When working as a group, your constitution guides you on the decision making process.

☐☐**Social Support**

Running your business will take a lot of time and effort. It is important to have adequate social support from family, friends and other business people. By working within your support group, you can share ideas and bring different skills to make your business viable. Also think about other business people that can support your group in starting a business. It is important to have a code of conduct that guides all group members how they will work together. Does your group have a clear agreement of how you will work together?

☐☐**Access to finance**

Access to financial resources to start your business is important. Your group savings are critical in building up the resources that you need to start your business. Your family and friends can also support you with financial resources. Other sources include relatives and microfinance institutions. Has your group established a savings plan? How much money have you put together so far?

☐☐

**AREAS OF
STRENGTH**

**AREA OF
IMPROVEMENT**

SKILLS:

Technical skills

Technical skills are the practical abilities you need if your business idea is to produce products or provide services. For example, if you want to start a cell phone service and repair shop you need to know how to repair cell phones; to start a fruit juice processing facility you need technical knowledge of making fruit juices and operating the machines. If your business idea requires you to have a skill that you do not have, then rate this as an area of improvement.

☐☐

Business Management skills

Business management skills are the abilities you need to have in order to run your business efficiently. Marketing skills are perhaps the most important but other areas of business management are also vital for the success of your business, for example, costing and record keeping.

☐☐

Knowledge of your line of business

Having knowledge of the specific line of your business idea is important. The more you know about your line of business, the more you will avoid making mistakes that can be costly to your business.

☐☐

Negotiation skills

Negotiation skills involve the ability to communicate well with others without offending anyone. When you negotiate, you think about what is in your favour and what is in the other person's favour. You need to have the ability to listen to other people's views and opinions. The best way to get what you want from a negotiation is to try to find a way both parties can get what they want.

☐☐

**AREAS OF
STRENGTH**

**AREA OF
IMPROVEMENT**

ENVIRONMENTAL CONCERN:

Your Business and the Environment

It is important to be aware of how your business idea is dependent and how it will impact the environment. As an entrepreneur you need to know the environmental issues that affect your line of business. You will also need to think about how your business idea can contribute to the conservation of the immediate environment and how to sustain it.

Commitment to your community

Your business idea needs to be community friendly. An entrepreneur has an important role in the development of the community. As such, you need to be committed to the social advancement of the community as a whole.

NUMBER OF
STRENGTH
RATINGS

NUMBER OF
WEAKNESSES
RATINGS

Count the number of strengths and the number of weaknesses you have and write the number here.

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

CRITICAL AREAS NEEDING IMPROVEMENT AND GROWTH

Summary Group Characteristics, skills and abilities

Name of Group Member	Areas of strength	Areas needing improvement	Comment

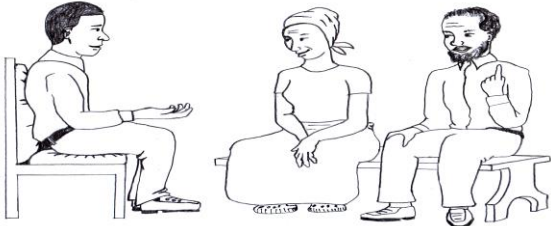
Do you feel comfortable as a group about starting a business if you consider your overall strengths and areas that need improvement?		YES ☐	NO ☐

There are many ways to improve your business skills and alter your characteristics if you do not have enough of the qualities and abilities necessary to open your own business. Read about how to strengthen yourself as an entrepreneur below.

HOW TO STRENGHTEN YOUR ENTREPRENEURIAL ABILITIES AND SKILLS

There are a number of successful business people who did not have much experience or practice in a business situation before starting. But skills can be learned, characteristics developed and situations improved. What is important is to be aware of the areas of improvement and develop a plan of action to deal with these areas before they negatively affect your business. You can work on your areas of improvement and turn them into strengths.

Here are some suggestions of how to strengthen your entrepreneurial skills and characteristics:



Seek help from others. Talk about these issues with your friends and family. When you form a business group you can share information. You can join a business association and discuss with other members in the association.



Talk to successful business people. Consult successful business people who are role models. Business persons can also be mentors for you as you conduct business activities. Observe them as they work and learn from them. You can also work as an apprentice in a related business



Attend Training. You can attend formal and informal training to acquire technical and business skills. Other small business people may be willing to train you as an apprentice. You can also attend formal training in terms of short courses or even certificate courses if resources allow you. Go for training in the areas that need improvement.



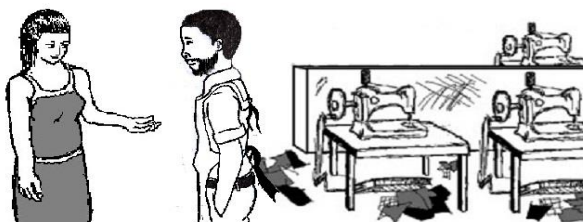
Read. Society has many magazines and newspapers you can read to acquire relevant information. You can also read business related articles on the internet, newspapers, magazines and books from libraries about businesses and learn from the business information motivational and entrepreneurship training.



Savings: Because of vulnerability, access to finance can present problems. However, by participating in a savings group, you have access to finance and support to start your business. Group savings can also enable you to access additional finance from other finance institutions like microfinance institutions.



Self Help Group: Your savings group also supports you with information, skills and moral support that compensate for your practical skills. As a group, you can organise a trainer to train you in specific skills needed by your business. By working together you complement your abilities and skills, instead of going into business entirely on your own.



Skills Training: Many vulnerable people in communities do not have access to practical skills training. Skills for your business idea can be acquired through different ways such as learning from other business people through apprenticeship, being trained by other community trainers among others. There are some NGOs and government programmes that assist vulnerable communities to access skills training. Find out from your area if such programmes exist. Business skills can also be learnt through observation and exposure visits.



Business Associations and Networking: Your ability to talk to other business people is critical in building your own skills and attitudes that contribute to success. Business associations are important for accessing information and sharing tactical skills. You can join a local small business association in your area and participate in forums.

Decide on how you are going to improve on your skills and attitude and complete the action plan below on how you intend to improve your knowledge, abilities and skills.

You might want to think about finding a partner who complements your abilities and skills, instead of going into business entirely on your own. Compare your ratings with other group members if you are starting the business as a group. It is important that your skills complement each other. For instance, one of you can be good at marketing whilst the other is good at financial management.

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

Fill in the action plan below on how you intend to improve your knowledge, abilities and skills.

Development Action Plan	
Characteristics	What I will do to strengthen it
Skills	
Environmental Issues	
Social Issues	

Important

Include these issues in your capacity development plan of 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 you will be able to work on the areas needing improvement, you are ready to start planning for your new business. The following Chapters will take you through the process of developing a business plan for your business. You will be assisted on how to collect relevant information and do some calculations to be able to see if the new business will be profitable. It will also assist you in making a decision about whether or not to start your business and guide you in presenting the plan better. The document will assist you to come up with 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 on your abilities and skills as an entrepreneur. Remember not everyone can run a business on their own. If you still do not feel comfortable about starting the business maybe you should be content to work for somebody else instead of starting your own business.

CHAPTER 3: THE BUSINESS PLAN

Even a good business idea can fail if you do not have a good plan on how to start and manage it. Many small businesses fail because owners operate without a clear plan and resources needed to make the business successful. Starting a business takes planning, even if you plan to run your business in your home. Many pieces must be in place before we can open the enterprise, keep it open, and be successful.

Once your group has identified the business idea you want, it is therefore important that you collect as much information as is possible before you start your business in order to know if your business will have customers, will be profitable and whether you will be able to access the required raw materials and other relevant skills.

It is important to collect this information and put it into one single document before you start your business. A business plan does not need to be long and complicated. Writing down your information and ideas you collect is the process of making a business plan. A business plan enables you to think through critical questions about your new business which have a bearing on its success such as:

- What is your business idea, what opportunity exists, which products or service you will sell.
- How you will market and sell your products or services, who will buy at what price, who else is selling similar products, what price are they selling at. It also seeks to understand what needs and wants your business will meet for your customers.
- What skills are needed for the people working in the business for example keeping broiler chickens, hairdressing skills, selling and buying skills for a spaza shop.
- How much money is needed to start the business for buying raw materials, equipment, paying salaries and buying raw materials before the business can make money? A business plan may also be required to access a loan from community based organizations, government or other sources.
- Which licenses are needed to operate the business, where to get such licenses and how much they cost?

While completing the Business Plan, you will continuously have a chance to think through and assess your business idea. By the time you have finished your business plan, you will be able to decide if your business idea is as viable and profitable as you expected. If you decide to go ahead and start your business, you will then have your own guideline on how to do it. The accompanying booklet contains the Business Plan you will complete for your business idea.

It is important to take your time to find new and better information all the time. Therefore, when writing your Business Plan, do not hesitate to go back to a previous step in order to make the necessary modifications because of new decisions made and

additional information gathered. Before you are satisfied with the result, you will certainly modify your Business Plan several times.

The accompanying booklet contains the Business Plan you will complete for your business idea. While completing the Business Plan, you will continuously have a chance to think through and assess your business idea. By the time you have finished your business plan, you will be able to estimate if your business idea is as viable and profitable as you expected. If you decide to go ahead and start your business, you will then have your own guideline on how to do it.

It is important to take your time to find new and better information all the time. Therefore, when writing your Business Plan, do not hesitate to go back to a previous step in order to make the necessary modifications because of new decisions made and additional information gathered. Before you are satisfied with the result, you will certainly modify your Business Plan several times.

Important

Feel free to go back and change the Business Plan at any time as you go through the Manual.

CONTENT OF THE BUSINESS PLAN

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 for your new business. Chapters 3-10 in this Manual each cover one part of the Business Plan. When you have worked through all the chapters you should be able to make your own Business Plan.

These are the main parts of the Business Plan:

- **Executive summary**

The executive summary is the first page of your business plan and gives an outline of your business idea. It contains most of the important information from the Business Plan. You will therefore need to complete all other parts of the Business Plan before you fill in the executive summary. It is important that the executive summary is clearly worked out and looks tidy, because it is the first impression one gets of your business idea.

- **Background information, Vision, Mission and Objectives**

This section will provide information on the HIV vulnerability of the group/individuals. It contains important information on who are the group members and how participation in the business is expected to change their situation. The members detail their goals,

objectives and the peculiarities of the group. For instance the group could be made up of widows, youths, and people living with HIV among others.

- **The business idea**

All business plans are based on an idea. It is about which needs the products or services will satisfy, what product you are going to produce, what service you are going to provide or what goods you are going to sell, who are going to sell to and how are you going to sell them. Chapter 4 helps you to think about your business idea and to write it down in the first part of the Business Plan.

- **The marketing plan**

After you have described your business idea you should think in detail about how you are going to market your products or services. Marketing is everything you do to find out who your customers are; what they need and want. Marketing is satisfying your customer's needs while making a profit. In your Marketing plan you write down in detail what products or services you are going to sell, what prices you are going to charge, where your business is going to be located, what methods of distribution you are going to use, how you are going to promote your business, your products and services. Chapter 5 helps you think about your marketing plan and write it down in your Business Plan.

- **Type of business registration**

There are different legal forms you can choose for your business. They all have advantages and disadvantages. The form of business you choose depends on the characteristics of your own business, the ownership structure you wish to pursue and the amount of capital you wish to invest in the beginning. The different forms you can choose from are cooperative, partnership, company and sole proprietorship. The section also explores the legal responsibilities of the business. Chapter 6 explains the different forms of business registration and helps you decide which form suits you best and identify legal responsibilities for your business.

- **Staff**

You need to think about the staff you need for your business. What skills and experience are needed? How many employees do you need? Of course you will then also need to find out how much you need for salary costs (including your own). Chapter 7 helps you to look at all the tasks that will be performed in the business and decide who will carry them out. Even when you plan to employ your relatives or other group members, it is important to understand the staff requirements and related costs.

- **Costing**

To be able to set your prices and make financial plans, you need to calculate the cost of your products or services. Chapter 8 shows you how to do simple costing for your business.

- **Financial Planning**

All businesses need to plan for the future. Chapter 9 helps you to plan both your profits and your cash flow for your new business.

- **Required start-up capital**

Start-up capital is the amount of money you need to start your business. You need money for equipment, materials, rent, wages etc you also need money to cover your expenses during the first two or three months after the business has started, as very little or no money is coming in yet. Chapter 10 helps you to calculate how much start-up capital you need before you can start your business.

- **Sources of start-up capital**

When you know how much start-up capital you need, you need to make sure that you can obtain that amount. Chapter 11 explains how you can get start-up capital through owner's equity, group savings and loans.

WHERE TO FIND INFORMATION FOR YOUR BUSINESS PLAN

You have to gather a lot of information and make estimates and calculations for your Business. Some of the information you can find on your own and many of the estimates and calculations can also be done by yourself using your experience. But you might need some assistance to complete the Business Plan. Some information and some estimates and calculations can be difficult to make. It may be helpful to have someone with experience in business to assist you or review your business plan.

The following list suggests possible sources of assistance in making your Business Plan:

- **Business Mentors:** There are individuals/business persons committed to developing other entrepreneurs in your community. Mentors are willing to share experiences and guide you in the development of your business plan. Identify mentors in your community for assistance and encouragement.
- **Business trainers/Business Development Services providers** that offer different services such as management training, access to market information, linkages, technical training among others. These can be government departments, consultants, specialist projects and other non-governmental organisations
- **Community or Industry specific associations** that offer information on legislation, standards and other industry specific developments that might have an effect on your new business as well as business ideas
- **Accountants, lawyers and business consultants** and others can assist with some parts of your Business Plan.
- **Finance Institutions** such as Banks, cooperative societies, microfinance institutions often give assistance to entrepreneurs who apply for a loan.
- **Revenue Authority** in your country can assist on the applicable taxes for your type of business

- **Yellow pages** supply you with addresses of organizations handling for example, business registration, taxes, and finance requirements for small businesses.
- **The Internet** has a lot of information that you will need to complete your plan
- **National development strategies or plans:** information on global and national development agenda such as (Green Growth Strategies, Poverty Reduction Strategy Papers (PRSPs), National Adaptation Plans of Action (NAPAs), National Appropriate Mitigation Action (NAMAs).

CHAPTER 4: YOUR BUSINESS IDEA

Starting your own business is a great responsibility that will change your life in many aspects but it is also very rewarding. You will need to spend a lot of time in the business. Besides considering customer needs, you also need to look at your own interests and ambitions. Every business comes out of an idea. Businesses are started by youth, women and men who see that people want to buy a particular product or service. 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. Your business idea will tell you:

- **What** product or service your business will sell.
- **Who** your business is going to sell to.
- **How** your business is going to sell its products or services.
- **Which** need your business will fulfil for the customers.
- **What** impact your business have on the community and natural environment

What

What product or service will your business sell? Your business idea should be based on what you are good at. Maybe you have experience in a specific line of business or have been trained on a particular skill. The business idea will help you to focus on what you could do.

Who

Who will buy your product or service? Your customers can be individuals or other businesses. They may all be within a small area or they can be spread over a large area, maybe the whole country. Will you only try to sell to a specific type of customers or to everyone in an area? It is important to be clear who you intend to sell to.

How

How are you going to sell your product or service? If you plan to open a shop this is clear, but a manufacturer or service operator can sell in many different ways. A manufacturer can, for example, sell either direct to individual customers or to retailers.

Which

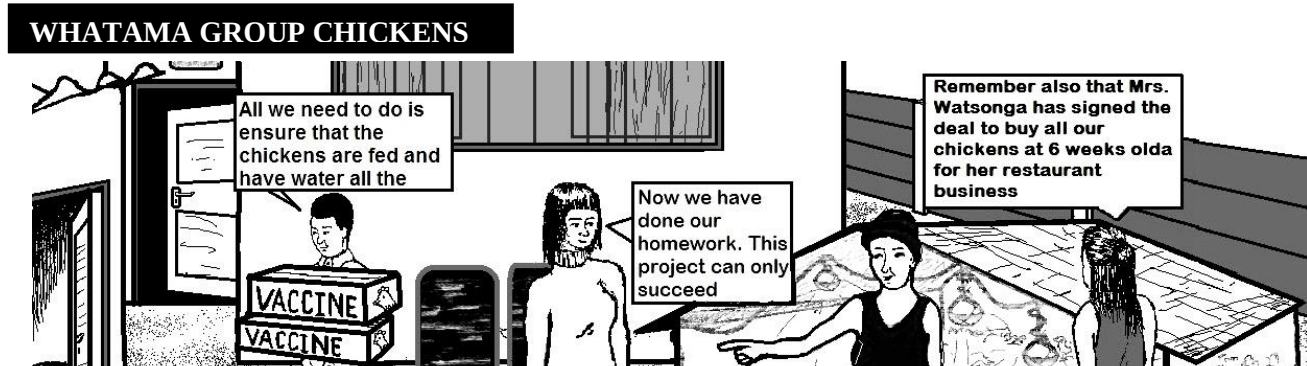
Which need will your product or service fulfil for customers? Your business idea should always have the customer and the customer's needs in mind. It is important to find out what customers want and to listen to your future customers when you work out your business idea.

It is difficult to attract customers to a new business. Your product or service must offer a solution and meet a specific need for the customers to come to your new business. If you offer many different products or services to many different kinds of customers, it is almost impossible to stand out and be noticed by new customers. If you specialise in one or a few similar products or services that you sell to a specific group of customers it is easier to meet specific needs and attract customers.

Many new entrepreneurs make a mistake of thinking that because their business is introducing a new product or service, there must be a demand for it. But just because

the product or service is new does not mean that there is demand for it. Make sure there is a demand for your product or service. The description of your business idea is therefore the starting point for your business plan. Use a variety of information sources to adjust the description of your business idea such as the internet, talking to friends and reading various articles related to your business idea.

Look at how Whatama group have described their business idea.



Whatama Group Chickens was started by a group of men and women living with HIV some of whom are orphans. Their first project was failed as the group had not adequately planned for chicken feeds as well as marketing of slaughtered chickens. They found themselves failing to pay the loan which they had to pay off using other resources, which left the group worse off. Members got discouraged and the groups disintegrated.

When an NGO came to their neighbourhood and offered training in GYBI and SYB courses, at least 10 former Whatama group members regrouped and attended the training program. They also attend a week long course offered by an NGO locally on how to rear chickens.

The training programs assisted the group to look at some lessons learnt from their previous attempt at running a chicken business. The 10 members agreed to regroup, save some money in readiness to start a chicken rearing business. They have negotiated and sealed a deal with a restaurant owner to supply 60 six week old slaughtered chickens every 6 weeks.

They plan to construct a fowl run at one of their members' premises which is easily accessible. They agreed to group themselves into five sub-groups of two members per group and take day-long turns to look after the chickens.

Business Idea

Name of Business:

Whatama Group Chickens

The business is going to *(write on the applicable line)*

• **Produce the following product or products:**

Main product:

- *Broiler chickens sold at 6 weeks old*

☐ **Provide the following service or services :**

☐ **Run the following type of shop**

☐ **Run the following type of wholesale business**

The customers will be:

Mainly contract selling to a local restaurant business owner and some to the general public

The business will sell in the following way:

- *Deliver 60 chicken every six weeks to a local restaurant*
- *On-site sales at the premises - keep some 20 chickens slaughtered for sale to the general public*

The business will satisfy the following needs of the customers:

- *Restaurant need for fresh, baby chickens for one of the popular dishes*
- *Individual catering businesses need for reasonably priced chickens for their meals*

NOTHO SPAZA SHOP SPAZA



Notho is considering running a spaza shop. In recent years, she has noticed an increase in the demand for mobile phone recharge cards, confectioneries and soft drinks as the population in her area grows. She has seen people struggling to find places where they can repair their mobile phones and buy solar chargers as their area generally does not have electricity.

During her recent trip to the city, Notho did some research and found a wholesale shop where she could order wares for her spaza shop and another place which sells mobile phone solar chargers. She also found a paraffin powered refrigerator which a local business person has agreed to lease for a small fee for her to keep soft drinks cold.

She also thinks that she might want to enrol for the two-week long cell-phone repairs course run in town since no one provides such a service in her area.

Business Idea

Name of Business

Notho spaza shop

The business is going to (write on the applicable line)

- *Produce the following product or products*
- *Provide the following service or services*
- **Run the following type of shop**
Selling supplementary grocery items including mobile phone recharge cards and other general personal effects items
- ☐ Run the following type of wholesale business

The customers will be:

The general public drawn mainly from our local area as well as passers by using the main road to access other communities

The business will sell in the following way:

Individual items will be sold to individual walk-in customers on demand

The business will satisfy the following needs of the customers:

- *Easy access to grocery items to replenish supplies*
- *Opening earlier than other big shops and closing later than other shops.*
- *Convenience of access to recharge cards and other mobile phone accessories.*

BUSINESS PLAN

Think through your own business idea and use the form in the Business Plan booklet to write it down. The business idea will guide you when you do the rest of the Business Plan.

TEST YOUR BUSINESS IDEA

Now that you have thought through and written down your business idea you need to test it. You need to know if it is a strong idea that will result in a competitive and profitable business. You can discuss your idea with friends, read more about the idea from the internet in order to collect more information about the strengths and weaknesses of your business idea. Doing a SWOT analysis is one way to test a business idea.

What is a SWOT analysis?

SWOT stands for **Strengths**, **Weaknesses**, **Opportunities** and **Threats**. When you do a SWOT analysis you think about your own business and write down all the strengths, weaknesses, opportunities and threats.

For **strengths** and **weaknesses** you look inside your business for things that you can affect yourself:

- **Strengths** are things that your business will be good at. For example, maybe you will have a better product than your competitors, the location of your shop will be very good or your staff very skilled.
- **Weaknesses** are things that your business will not be so good at. For example, maybe your product will be more expensive than your competitors, or you will not have enough money to advertise as much as you would like or you will not offer the same range of services as your competitors.

For **opportunities** and **threats** you look outside your business for things that have a potential effect on your business but are not in your control:

- **Opportunities** are things around you in the community that will be good for your business. For example, the product you intend to produce is becoming popular in the community, there is no other shop providing the same services as you in the neighbourhood or the number of potential customers because many new businesses are moving to your area. These are new markets.
- **Threats** are things around you in the community that will be bad for your business. For example, there are other businesses intending to move into your area making the same product as you, the government is enacting new laws that could have a negative effect on your business or you do not know for how long your product will be popular.

When you have done a SWOT analysis you will be able to evaluate your business idea and decide:

- If you are going to continue with this business idea and make a full Business Plan
- If you are going to make changes to the business idea
- If you are going to give up this business idea and select a new one.

Do a SWOT analysis

Follow the next five steps to evaluate your business idea through a SWOT analysis:

1. **Complete** the SWOT analysis form on page 35
2. **Mark** with a star (*) the very important strengths, weaknesses, opportunities and threats that could have a strong effect on your business and will require attention. Not all aspects in your SWOT analysis will have the same importance for your new business. Look at each aspect in the SWOT analysis and think about how important it will be for your business
3. Evaluate your business idea by thinking through the effects of those elements in your SWOT analysis that may strongly affect your future business operations. Consider how your business could take advantage of its strengths and opportunities as well as how it can minimise the effect of weaknesses and mitigate against threats.
4. Now decide if you are going to continue with your business idea.

Look at how Notho did her SWOT analysis:

NOTHO SPAZASHOP

To test her business idea Notho made a SWOT analysis. She fills in the SWOT analysis form and marks with a star (*) the most important strengths, weaknesses, opportunities and threats.

SWOT ANALYSIS	
Strengths - My business partner is an experienced retail sales person* - The shop located in a busy area* - Already have a paraffin refrigerator* - Have customer care training*	Weaknesses - Limited knowledge of costing and pricing products* - Do not have a yet have a solar lighting system *
Opportunities - Pro-youth development government policy* - Availability of funding facilities for youth entrepreneurs* - Access to business management training provided by local NGO* - Not many Spaza Shops in our area - Easy access to transport to suppliers in town*	Threats - Bigger general dealer shops in the market* - Low barriers to entry - Local authority licensing requirements - Lack of power for lighting and powering refrigerator* - Suppliers located far away- in town*



Number of strengths	4
Number of weaknesses	2
Are there more for strengths than weaknesses	☒ Yes ☐ NO
Number of (*) for strengths	4
Number of (*) for weaknesses	2
Are there more (*) for strengths than for weaknesses	☒ Yes ☐ NO
Number of opportunities	6
Number of threats	5
Are there more for opportunities than threats	☐ Yes ☒ NO
Number of (*) for opportunities	5
Number of (*) for threats	3
Are there more (*) for opportunities than for threats	☒ Yes ☐ NO
I will ☒ Continue with this business idea and make a full business plan ☐ Go back and make changes to my business idea ☐ Give up this idea completely	

Notho considers the challenges identified in the SWOT analysis table above and highlights strategies she will use to overcome the weaknesses and minimize threats.

Weaknesses	Strategies to overcome the weaknesses
Costing and Pricing	Attend Business Management course run by local NGO
Threats	Strategies to minimize threats
Lack of electricity	Acquire a solar power supply system

WHATAMA GROUP CHICKENS

Whatama Group Chickens also make a SWOT analysis to test their business idea. They mark with a star (*) the most important strengths, weaknesses, opportunities and threats.

SWOT ANALYSIS

Inside the business

Strengths

- Experienced personnel
- Members have technical knowhow of chicken rearing *
- Adequate facilities, tools and equipment *
- Member commitment to the success of the project *

Weaknesses

- Limited experience in poultry rearing *
- Limited financial resources to engage in the business on a large scale
- The group's brand is unknown in the market
- Production costs are high – ten members working on a small project *

Outside the business

Opportunities

- There is large and growing market *
- Availability of technical advice from local NGO providing technical training
- Easy access to chicken feeds and vaccines *
- Access to solar lighting *

Threats

- Compliance with local authority regulations *
- Bird flu
- Competition stiffening - a market with low barriers to entry *



Number of strengths	__5__
Number of weaknesses	__4__
Are there more for strengths than weaknesses	X Yes ☐ NO
Number of (*) for strengths	__3__
Number of (*) for weaknesses	__2__
Are there more (*) for strengths than for weaknesses	X Yes ☐ NO
Number of opportunities	__4__
Number of threats	__3__
Are there more for opportunities than threats	X Yes ☐ NO
Number of (*) for opportunities	__3__
Number of (*) for threats	__2__
Are there more (*) for opportunities than for threats	X Yes ☐ NO
I will	
X Continue with this business idea and make a full business plan	
☐ Go back and make changes to my business idea	
☐ Give up this idea completely	

Whatama group consider the challenges identified in the SWOT analysis table above and highlighted strategies they will use to overcome the weaknesses and minimize threats.

Weaknesses	Strategies to overcome the weaknesses
	Expose members (new and old) to training and refresher training on chicken rearing
	Strengthen the group's marketing plan
	Increase the scale of the project in order to reduce the cost of production per bird
Threats	Strategies to minimize threats
	Engage local authorities to endeavour to comply with regulatory requirements
	Invest in increasing production efficiencies and the quality of the bird to enhance competitiveness

Now evaluate your own business idea through a SWOT analysis. Follow the four steps.

1. Write down all the strengths and weaknesses inside your proposed business that you can think of and all the opportunities and threats outside the business. Use the form on the next page.
2. Go through all the strengths, weaknesses, opportunities and threats you have listed. Rate each one and mark the ones that are very important with *
3. Consider the challenges identified in the SWOT analysis table and highlight strategies for overcoming the weaknesses and minimize threats.

SWOT ANALYSIS

☐ INSIDE THE BUSINESS	
Strengths	Weaknesses
☐ OUTSIDE THE BUSINESS	
Opportunities	Threats

4. Evaluate your business idea.

Number of strengths:	
Number of weaknesses:	
Are there more strengths than weaknesses?	☐ Yes ☐ No
Number of * for strengths:	
Number of weaknesses:	
Are there more * for strengths than weaknesses?	☐ Yes ☐ No
Number of opportunities:	
Number of threats:	
Are there more opportunities than threats?	☐ Yes ☐ No
Number of * for opportunities:	
Number of * for threats	
Are there more * for opportunities than threats?	☐ Yes ☐ No

5. Consider each weakness and threat listed in your SWOT analysis form and propose strategies to overcome weaknesses and minimise threats.

Weaknesses	Strategies to overcome weaknesses
Threats	Strategies to minimise threats

6. Decide if you are going to continue with your business idea. The ratings in the SWOT a
7. Analysis and strategies outlined will help you. But do not only look at whether there are more * for strengths and opportunities than there are for weaknesses and threats. Think carefully about everything you have written in the SWOT analysis before you decide.

I will:

- ☐ Continue with this business idea and make a full business plan
- ☐ Go back and make changes to my business idea
- ☐ Give up this idea completely

CHAPTER 5: THE MARKETING PLAN

In the marketing plan section of your business plan you plan how you will meet the needs of the targeted customers, how you will communicate with them, the price you can sell your products for and how you can distribute your products and services. To be able to prepare the plan you need to understand your market. A marketing plan therefore provides a description of how a business will market products and services for customers to buy based on an understanding of what the customers want and need.

A marketing plan helps your business to be strategic in its marketing efforts. Small business people generally do not plan their marketing efforts which affect their overall business growth and profitability.

Your marketing plan is an important component of your business plan.

What is marketing?

Marketing is everything you do to find out who your customers are and what they need and want. It is about how to satisfy them while making a profit. And this you do by:

- providing the products or services they need
- setting prices that they are willing to pay
- getting your products or services to them effectively
- informing and attracting them to buy your products or services
- Providing after sales care and support in product usage

Marketing is an important part of starting and running a business. It does not matter how good your product or service is, if you do not market it in the right way and to the right people, only few will buy it.

Marketing never stops. All the time you are running your business you should **listen** to your customers' wishes, sell **good products** or provide **good services**, and give the customers **good service and information**.

How to make a marketing plan

Making a marketing plan starts with your **business idea**. Using your business idea as the starting point, you need to learn more about your customers and competitors through **market research**. Finally, you use the information from your market research to make your **marketing plan**.



DO MARKET RESEARCH

Starting from your business idea that you developed in Chapter 3, you must now learn more about your customers and competitors through market research. From your experience and from developing your business idea you may know quite a lot about your market. But the more you know the better will you be in designing your marketing Plan. You need to find out more information from a variety of sources.

The market for your business consists of current and or potential customers. These are people who will find value in the products or services you are offering. The table below highlights some of the key questions we need to collect about our market.

<u>Customers</u>	<u>Competition</u>
1. Who are your customers? 2. What do they do and where do they live? 3. What is important about each product –Size? Colour? Quality? Price? Delivery? What products or services can you provide to satisfy their needs and wants? 4. Are they individuals or businesses? 5. How do the customers use your products or services 6. How much do customers spend on products such as you provide? 7. Where, when and how often do they usually buy? 8. What price are they willing to pay? 9. What quantity will they buy? 10. Will the number of customers increase, decrease or stay the same in the future? 11. Why do customers buy particular products or services? Do they buy everyday commodities? Do they buy luxury products or are they simply looking for something different?	1. Who are their <u>customers</u>? 2. What <u>quality</u> of goods or services do they offer? 3. What <u>extra services</u> do they offer? 4. What <u>prices</u> do they charge? 5. Do they sell on <u>credit</u>? Do they offer any kind of <u>discount</u> (quantity, cash, seasonal, etc.)? 6. How is their <u>location</u>? 7. Are their <u>employees</u> well trained and well paid? 8. How do they <u>promote</u> the goods or services? 9. <u>How much</u> do they sell per month? 10. Who is supplying my competitors with <u>raw materials</u>

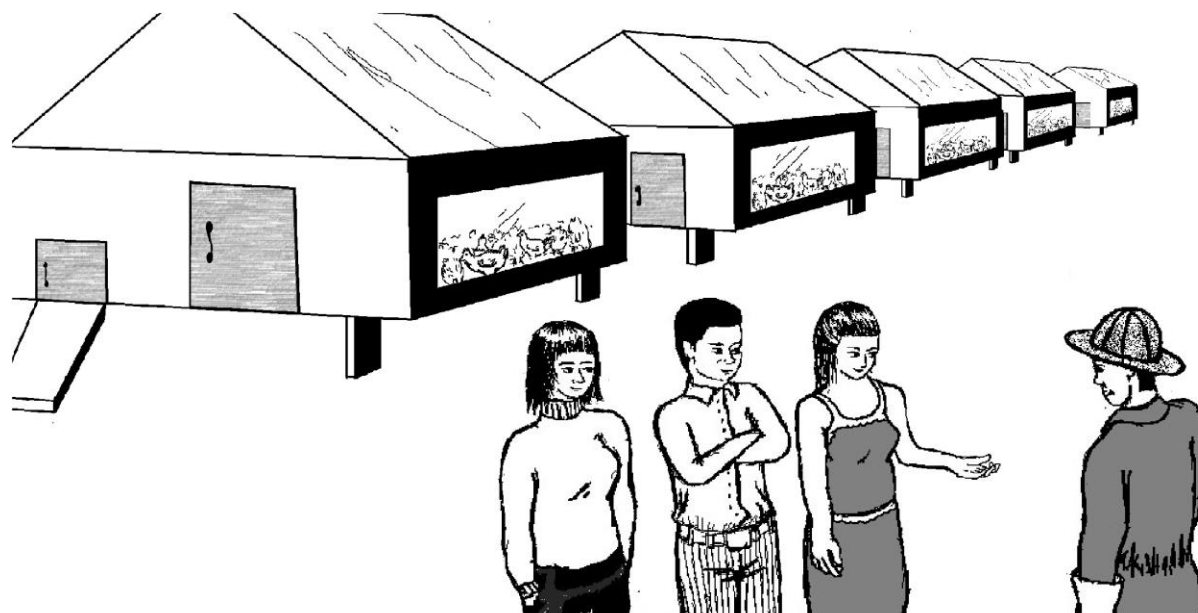
Here are some examples of how you can collect information about your customers and competitors:

- **Talk** to potential customers. Ask them, for example:
 - what products or services they want to buy;
 - what they think about your competitors
- **Study** your competitors' businesses. Find out about:
 - their products or services (for example quality and design);
 - what prices they charge;
 - how they attract customers to buy from them
- **Ask** suppliers and business friends:
 - which goods sell well in their businesses;
 - what they think about your business idea;
 - what they think about your competitors' products
- **Read** newspapers, catalogues, trade journals and magazines to get information and ideas on new products or services.
- **Surf** on the Internet to explore what others are doing and get information about your products or services, your competitors and new trends. If you do not have access to a computer, go to your nearest "Internet Café".

As you collect information about your customers remember that potential customers do not share the same needs and wants. In order to be able to provide the most adequate product or service you need to identify groups using clear and distinguishable characteristics. This could entail identifying them by age, gender, income, and decide on which groups you will serve. This is called market segmentation. Grouping your potential customers using common characteristics will enable you to collect detailed and specific information on their product preferences.

Look at how Whatama Group Chickens conducted their market research.

WHATAMA GROUP CHICKENS



When Whatama Group members have done their market research, they write down what they found out in their business plan.

Market Research			
1	2	3	4
Products	Customers	Needs and preferences of customers	Competitors
Chickens: • Live • Slaughtered whole chickens • Packs of different cuts	• Local restaurant owners • Local retail outlets • The general public in the neighbourhood • Boarding schools • Local clinics and hospitals	• Access to live broiler chickens • Small chickens are preferred to large one • Access to different chicken cuts	• Large scale commercial chicken farmers • Other chicken producers in the locality – both individuals and groups

NOTHO SPAZA SHOP



When Notho has done her market research, she writes down what she found out in her business plan.

Market Research			
1	2	3	4
Products	Customers	Needs and preferences of customers	Competitors
Washing soap & power & Bathing soap	Local residents	Conveniently accessible laundry and bathing soap.	More established general dealer shops at the shopping centre.
Confectioneries, Biscuits & soft drinks	Local residents and travellers	Accessible refreshments and supplementary confectioneries	Generally located far from the customers
Personal hygiene products: tooth paste, brushes etc	Local residents	Small size conveniently accessible personal hygiene effects	Have low prices and some items sold as combos
Batteries& Mobile phone solar chargers	Local mobile phone users	A reliable power supply system for charging their mobile phones & torches	Have a variety of goods
			Staff generally not friendly to low income customers

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

1. For column 1, you think about each product or service you will sell. For a retailer or wholesaler, maybe consider each group of similar products.
2. For column 2, you need to think about and describe the customer segments for each product or service. Who are the customers who want that product or service and are willing to pay for it?
3. For Column 3, you think about and list the needs of the customer segments that the product or service will satisfy. Also, list particular preferences that the customers have about the product or service, where they want to buy, how they want to buy and what they are willing to pay.
4. For column 4, write the important information you have found out about your competitors.

Market Research			
1	2	3	4
Products	Customers	Needs and preferences of customers	Competitors

BUSINESS PLAN

When you have done market research for your proposed business, fill in your findings in the Market Research form in the Business Plan.

MAKE A MARKETING PLAN

With information about your customers and competitors, you can prepare a Marketing Plan. One method of organizing your marketing plan is to follow the Ps of marketing. The marketing mix is therefore a tool businesses use to look at the different aspects of marketing so that they provide the right product, at the right price, and delivered in the right place.

Use the information you collected about your customers to plan how best to reach your customers and satisfy them using the five P's of marketing. In your marketing plan you think about how to market your products or services. All five P's of your marketing plan are equally important and must meet the needs of the customers.

The five Ps of the marketing mix are:

- **Product:** what products or services you are going to sell to your customers.
- **Price:** what price you are going to charge.
- **Place:** how and where you are going to reach your customers.
- **Promotion:** how you will inform your customers about your products or services and how you attract your customers to buy them.
- **People:** how you will recruit and develop unique staff competences that enables you to be different in the market

PRODUCT

A product means what goods or services you are going to offer to your customers. You have to decide what **kind** of products or services to offer, but also what **quality**, what **colour**, what **size** and so on.

However, product means more than the product or service itself. It can also mean the range of products or services you offer. Product also means how it is packaged, what spare parts you will have available, what service you will offer and what repairs you will need to carry out. Maybe there are other features about your products that make it special. Do describe them as well.

Customers buy goods and services to satisfy their different needs. For example:

- Cold drinks satisfy a need to feel cool in hot weather
- Motor vehicles satisfy a need for transport
- Auto repairs also satisfy a need for transport
- Mobile phones satisfy a need for communication, news and entertainment.
- Solar lanterns satisfy a need for light where there is no electricity

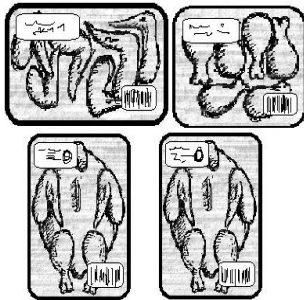
When you understand your customers' needs, you can decide what goods or services to provide.

A customer takes a decision for a product that suits his needs. To suit the needs, the product needs to fulfil a certain performance also called a standard. Increasingly

customers not only want to be ensured that the products have the quality with which they are praised but want to be ensured that no child labour was involved or that the environment is not destroyed.

In your Business Plan you should describe in detail each of your products or services (or range of products if you want to start a retail or wholesale business). Look at how Whatama Group Members described their product.

WHATAMA GROUP CHICKENS

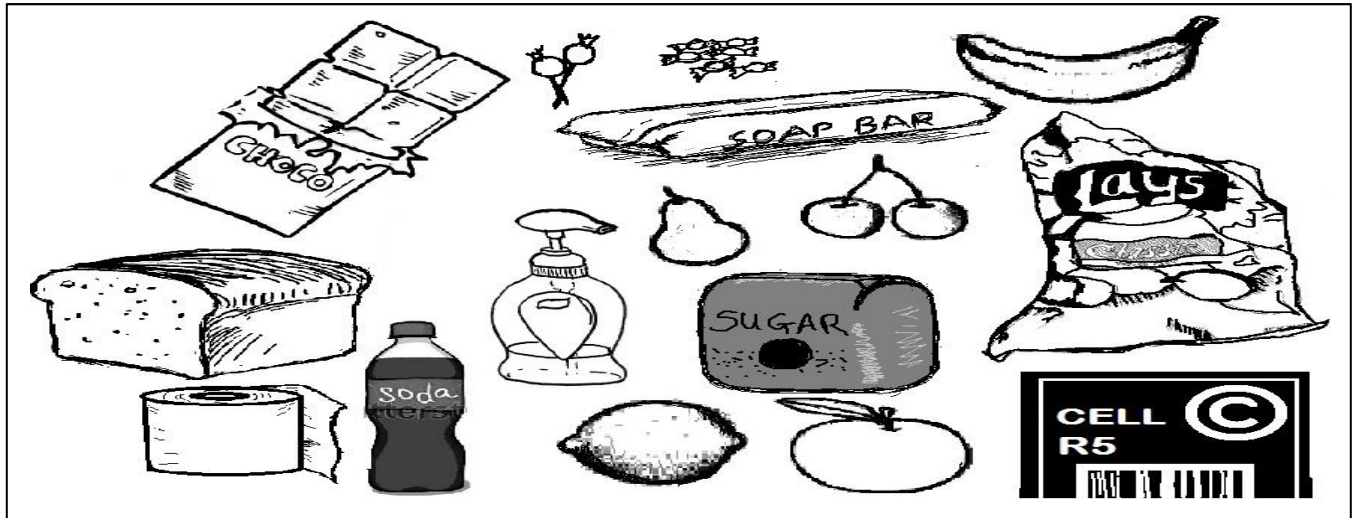


Marketing Plan

Product

Product, Service or Range of Products

	1. Live chickens	2. Dressed chickens	3. Chicken Pieces
Quality	Clean feathers chickens	Chickens cleaned with geezers packed	Cut to the right size
Colour	N/A	N/A	N/A
Size	1 kg; 1.1-1.5kg; 1.6-2.kg; 2	1 kg; 1.1-1.5kg; 1.6-2.kg; 2+kg;	1 kg; 1.1-1.5kg; 1.6-2.kg; 2+kg; special cuts
Packaging	none	Branded clear plastic chicken bags. Partly frozen to maintain freshness	Clear bags with parts specific bags e.g. thighs on their own
Certification	Health Certificate	Health Certificate	Health Certificate
Spare Parts	No	No	No
Repairs			



Marketing Plan		
Product		
Product, Service or Range of Products		
	3. Groceries and other effects	4. Mobile phone accessories
Quality	Stock popular brands	Stock recharge cards and accessories for all three network service providers

Marketing Plan		
Product		
Product, Service or Range of Products		
	1. Confectioneries	2. Personal hygiene
Quality	Stock popular bands	Popular bathing soaps, tooth pastes, body lotions & hair products
Colour	Multiple	Multiple
Size	Standard sizes as produced by manufacturers	Mainly small and medium sizes
Packaging	No	As prepared by manufacturer
Spare parts	No	No
Repairs	No	No

BUSINESS PLAN

When you have thought through and decided what products or services you will sell; fill in the Product section of your own Marketing Plan in the Business Plan.

PRICE

The price means how much you will charge your customers for your products or services. It also means what discounts you will give and if you are going to give credit. To set your prices you have to:

- Know how much customers are willing to pay
- Know your competitors prices. By knowing the competitors highest and lowest prices you will get an idea about what prices you could charge.
- Know your costs, in order to make a profit you need to know your own costs so you can set prices that are higher than your costs

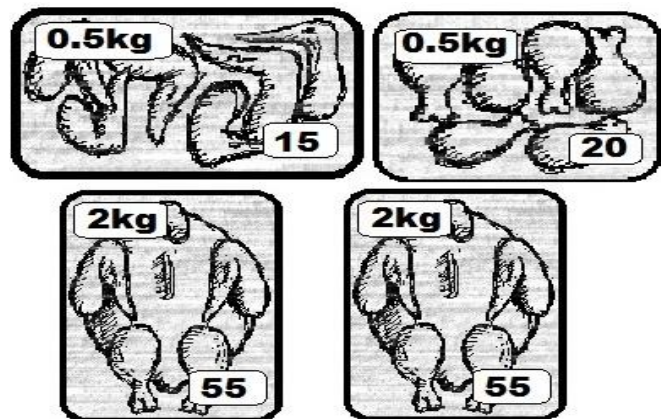
In your business plan, describe what price you will charge for your product or service. You should also write down how you decided your price, what discounts you will give and if you are going to give credit to any customers.

IMPORTANT

You have to know your own costs before you can set your prices, so you can probably not set your final prices until you have calculated your costs in Chapter 8: Costing. At this stage, gather all the information you can and decide on a probable price which you can come back and change later.

WHATAMA GROUP CHICKENS

Whatama group held discussions and interviews with potential clients and were informed of the prices the customers are willing to pay as well as the price charged by their competitors. They think that setting a lower price will be one of their most important ways of competing with other chicken producers, particularly for their retail and restaurant customers.



Marketing Plan

Price

For manufacturers and service operators

	Product or Service	
	1. Live Chickens	Dressed Chickens
Cost (Units)	25.00/kg	30.00/kg
How much customers are willing to pay	35/kg	38.00/kg
Competitor's Price	33.00/kg	36.00/kg
Price	30.00kg	35.00/kg
Reasons for setting this price	To be lower than competition and still maintain a profit margin	To be lower than competition and still maintain a profit margin
Discounts will be given to the following customers	No discounts will be given	5% Discount to the restaurants
Reason for giving discounts		To encourage bulk buying
Credit will be given to the following customers	No credit will be given	No credit will be given
Reason for giving credit		

Notho has also researched her competitor's prices. She realises that more established general dealer shops at the shopping centre generally put 40% mark up of the prices she saw at the wholesale shop in town. She knows that customers are very price sensitive. She plans to repack some of the items like sugar, flour, mealie meal and soap to smaller quantities that make it affordable for many low income people in the community. Her price will generally be lower than the 40% mark up from her competitors. She fills in the Price section in her Business Plan.

Marketing Plan		
Price		
For retailers		
	Product or Service	
	Grocery items (Units)	Mobile phone accessories (Units)
Cost	<i>I will be able to buy from wholesalers and negotiate for bulk purchase discounts</i>	<i>I will be able to buy from wholesalers and negotiate for bulk purchase discounts</i>
How much customers are willing to pay	<i>Customers are price sensitive and want basic supplies at lowest prices possible</i>	<i>Customers can pay premium prices we there aren't many suppliers in the locality</i>
Competitor's Price	<i>Competitors have a higher overhead cost structures than I have. I can undercut their prices and still make money</i>	<i>There are not many suppliers in the locality and customers are willing to pay premium prices</i>
Price	<i>Competitors have a higher overhead cost structures than I have. I can undercut their prices and still make money</i>	<i>More or less the same prices as other players in the locality as they aren't many suppliers in the neighbourhood.</i>
Reasons for setting this price	<i>Covers costs and is below competitors' price</i>	<i>Covers costs and is below competitors' price</i>
Discounts will be given to the following customers	<i>No discounts to be given</i>	<i>No discounts to be given</i>
Reason for giving discounts	<i>N/A</i>	<i>N/A</i>
Credit will be given to the following customers	<i>None</i>	<i>None</i>
Reason for giving credit	<i>None</i>	<i>None</i>

BUSINESS PLAN

When you have decided your own prices, fill in the Price section of your own Marketing Plan in the Business plan

PLACE

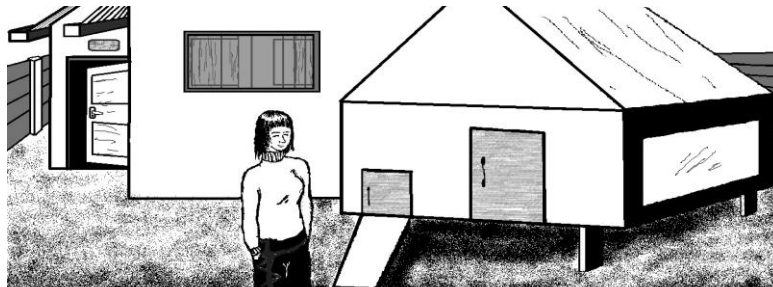
Place means your choice for where your business will be located. The location is always very important for retailers, wholesalers and service operators, because their businesses need to be at a place that is convenient for the customers. For a manufacturer, place means which method of distribution you choose for your products. Manufacturers need low cost premises which are accessible to supplies and human resources.

If your business is not located where your customers are, you need to find ways to get your products to a place where it is easy for customers to buy. This is called distribution. Choose between direct distribution, retail distribution and wholesale distribution.

WHATAMA GROUP CHICKENS

The location Whatama Group chickens is important because they need a place that is close to the source of chicken feeds and their target customers in order to minimise on transport costs.

clear about
want their
to be located
they will sell
chickens. They
Place section of
Business Plan.



They are
where they
business
and how
their
fill in the
their

Marketing Plan

Place

▪ Location

Describe the planned location of the business

The business will be located at Mrs. Wathira's residential premises

This location is chosen for the following reasons:

- Mrs. Wathira's place has space needed for the construction of the fowl run
- Is near the shopping centre from where the largest single buyer operates

▪ Method of Distribution

The business will sell to:

☒ Individuals

☒ Retailers

☐ Wholesalers

☐ Others

This way of distribution is chosen for the following reasons

Contract selling allows for guaranteed minimum sales when the chickens are ready for slaughtered and dressing which helps to keep costs low. Also, allowing some measure of walk-in customers from the local public enhances the visibility of the project in the neighbourhood

Notho knows that her business will be located in a semi-rural settlement. She thinks she has spotted a suitable location next to the hardware at the shopping centre. However, to use this place she needs authority of the local councillor who is in charge of approving land use plans in the area. She writes down her planned location in the Place section of her Business Plan.

Marketing Plan Place

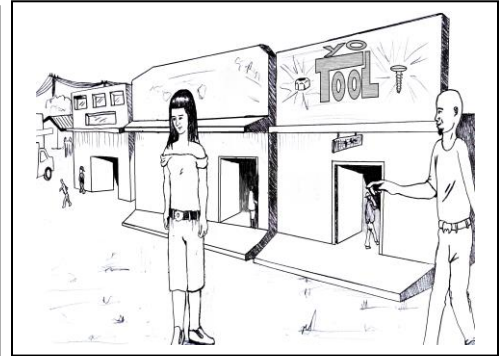
▪ Location

Describe the planned location of the business

I plan to build my spazashop next to the nearby shopping centre which has high volume of human traffic from the community and also links the community with the urban centre located some 40km away.

This location is chosen for the following reasons

It is easily accessible by residents of the community and tends to be patronised by many people including travellers using public transport to the city.



Now decide where you should locate your own business. This decision should be made for all types of businesses, but this decision is most important for retailers and service operators. Consider the following factors:

- Chosen distribution method and accessibility for customers
- Business operations for example access to raw materials and other supplies, access to energy, size and cost of required premises
- What are the advantages and the inconveniences of possible locations?
- Based on which reasons will I finally choose the place?

BUSINESS PLAN

With your answers to the above considerations to guide you, fill in your planned location in the Place section of your Marketing Plan in the Business Plan.

If you plan to start a manufacturing business, decide what type of distribution you will use and fill in your Business Plan

PROMOTION

Promotion means **informing** and **attracting** customers to buy your products or services. You can use **advertising** and **sales promotion**. Advertising is giving information to your customers to make them more interested in buying your goods or services. Sales promotion is everything you do to make customers buy, or buy more, when they have come to your business.

What kind of promotion you choose depends on what you are selling and how you want to attract customers. It is important to consider the cost of the promotion you plan to do. One effective way of promoting your business is through “word of mouth” about your business. Providing a good product or service as well as good after sales care and support for your customers will earn you a good reputation that your customers will spread around. Guard against bad publicity by maintaining a good reputation with your customers. This includes respecting the natural environment and local community as customers also look at your business whether or not it is contributing to overall sustainable development. Certification might help you in the promotion strategy to show customers that you are a responsible entrepreneur.

In your Business Plan you should describe each of the different methods of advertising and sales promotion you plan to use and estimate how much they will cost.

NOTHO SPAZA SHOP

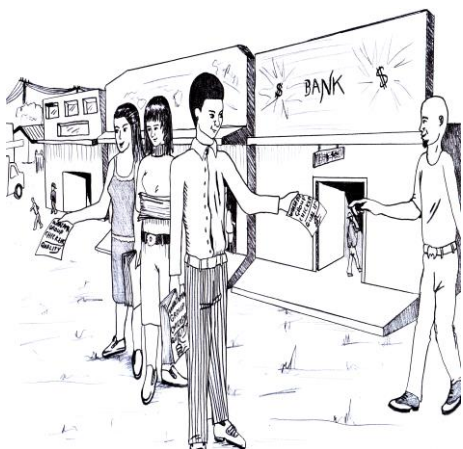
Notho plans to use persuasive and informative promotion strategy. This will make the targeted customers buy from her spaza shop. A bold poster will be placed in front of the shop with an inscription saying, “*BUY FROM NOTHO & SAVE MONEY*”. She will also use a few other methods of promotion. This is how they fill in the Promotion section of their Business Plan.

Marketing Plan Promotion		
Advertising		
Type of advertising	Details	Costs (Units)
Word of mouth (use of persuasive and informative method)	Notho plans to use her customer care skills to appeal to those patronising her shop and build a regular client base	
Leaflets	Will assist to explain the location of the business, types of products sold and the contact addresses.	40
Sales Promotion		
Type of Publicity	Details	Cost
Impressive display of wares	The wares in the spaza shop will be arranged to give an impressive look to the customers	
Demonstration	Notho will demonstrate the use of such items as solar chargers and other new products to customers	



WHATAMA GROUP CHICKENS

Whatama group plans to visit more retail shop owners at the local shopping centre, local clinic and hospital, boarding schools in the district to negotiate contracts to supply chickens on a regular basis. The group is also considering linkages with a local cattle fattening company to supply them with chicken droppings and waste from chicken dressing which cattle farmers use as ingredients when processing cattle feeds. That way, Whatama Group feels they will have contributed towards environmental friendly production processes. The group also plans to use other methods of promoting their chickens as articulated in the Promotion section of their Business Plan.



Marketing Plan Promotion		
Advertising <i>Type of advertising</i>	<i>Details</i>	<i>Costs (Units)</i>
Brochures	Giving details of the group's chicken rearing business	Estimated to cost 100.
Packaging	Dressed chickens will be packaged in branded clear plastics	Estimated cost 150
Billboard	A sizeable billboard will be erected at the local shopping centre	Not known yet
Word of mouth	Expects that our current satisfied customers will talk about the product	N/A

BUSINESS PLAN

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

People

People refer to the people outside and inside your business who are responsible for every element of your marketing efforts and producing and delivering the service or products that your customers want. The staff you recruit should have appropriate interpersonal skills, aptitude and service knowledge to provide the service that will make your business stand out. Remember that customers will make impressions of your products and services based on the employees they interact with. You will have a chance to identify the staff you required from your business in chapter 6 of the manual.

For your marketing plan you will need to:

- Set standard for services that your staff will provide for instance how they will respond to queries, how long the telephone will ring before it is answered.
- Set policies of staff development for instance how often will your staff receive training to upgrade their skills
- Set clear performance measurement standards that are linked to customer satisfaction.

The policies that you select as a business in managing people in your business will depend on the kind of business you do. Select policies that will motivate your staff and encourage productivity in your business.

NOTHO SPAZA SHOP

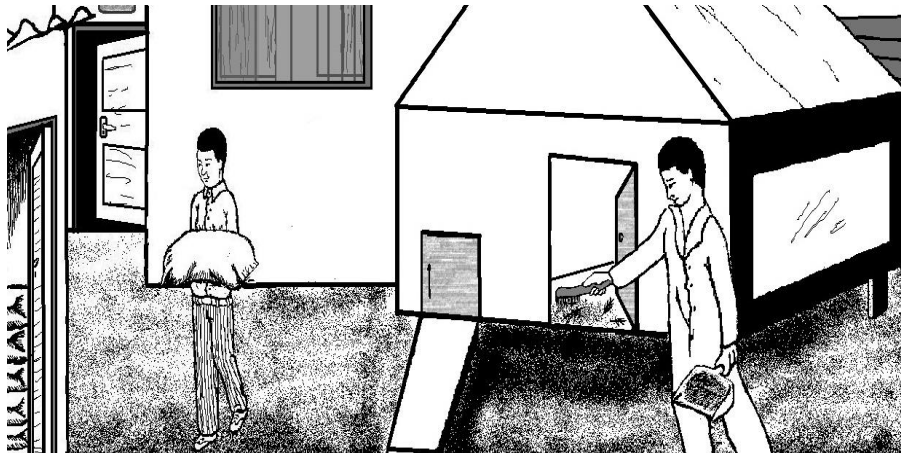
Notho is aware that the quality of service that she provides is as important as the quality of products she will get from her suppliers. She thinks through some of the ways she can make herself appeal more to her customers. This is how she completes the People section of her Business Plan.

Marketing Plan People		
Strategy	Details	Costs
Staff recruitment	Recruit qualified people with a good attitude and commitment to learning	
Product, sales and customer care training	All employees to undergo induction training covering product information, sales techniques and customer care.	Not known yet
Performance rewards	All employees to will have performance driven incentives such as annual bonuses, employee of the month award	Not Known yet



WHATAMA GROUP CHICKENS

Whatama group considers the contribution of their members to the business success. They fill in the People section of their Business Plan.



Marketing Plan People		
Strategy	Details	Costs
Recruitment of qualified personnel	The group agrees to take turns to look after the chickens in sub-groups of two with each group taking a day long shift	Share of profits
Product, sales and customer care training	They agree to continue taking advantage of local technical training and backstopping services provided by the local NGO to ensure that their members have the technical knowhow on rearing chickens	Not known yet
Community participation	Whatama group is considering employing local youth on a sales-commission basis to market their chickens.	

BUSINESS PLAN

Think about the different policies you can introduce in your business to manage your people well. When you have decided, fill in the People section of your own Marketing Plan in the Business Plan.

CHAPTER 6: TYPE OF BUSINESS REGISTRATION

Businesses need to be licensed and registered to operate legally. Even if you start your business without registering, it is important for your business to be registered. In this chapter you learn about the licenses and different ways you can register your business. As the business owner, you have to inform yourself about legal requirements that affect your business. You do not need to know all of the laws and regulations in detail, but you should know those that concern you and your business. The regulations and laws are designed to protect your business.

There are different ways of registering your business and when you register your business it becomes a legal entity. The following points will guide you in the selection for the type of business registration suitable for you.

- the cost of starting and registering the business
- the simplicity 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

IMPORTANT

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. Your trainer or mentor will assist you get information about business registration and licences.

To avoid ending up with a legal status that is not in your best interest, do not hesitate to seek assistance when you are about to choose the form of business and register your business. Often government or non-government organizations supporting small business can assist. If you are starting a large business maybe you should seek assistance from a lawyer, business development services providers, commercial/trade officers or from people already in business. Sometimes finance institutions have special help desks to assist you.

The different forms of business registration

There are a number of forms of business registration to choose from. They all have their advantages and disadvantages. Think about which aspects are most important to you, and choose the form of business according to that. The following forms of business are quite common and will therefore be presented in this chapter. These are:

- Cooperative
- Sole proprietorship
- Partnership
- Limited company

Cooperative

A cooperative is formed by a number of people usually a maximum of twenty, who decide to work together for a common purpose. Vulnerable communities can harness their resources and skills to form cooperatives that give them an opportunity to address their problems economically and socially. The common purpose can also be purely economic gain or providing certain services for the members of the cooperative. These services can for example be marketing services or 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 day-to-day operations of the cooperative.

A cooperative must be registered with the appropriate ministry or a cooperative Apex body. Forming and registering a cooperative is complicated and takes a long time, but it is normally not as expensive as starting a limited company.

Each member of the cooperative buys shares and pays for membership, profits are shared based on each member shares in the cooperative. The financial risks are normally not very high for the members of the cooperative. Their personal liability for the cooperative's debts is limited to what they have paid into the cooperative as capital, much like in a limited company.

The cooperative itself is taxed for the profits. The profit is then divided among the members, for which they pay tax according to the tax laws in the country.

In order to work together well, you need to develop a constitution that will guide you on decisions to be made and to manage member expectations. The business itself might need additional licenses in order to operate. For example if you run a spaza shop in some countries you might need a certificate of health compliance from the ministry of Health or the local municipality.

Ask your Trainer or Mentor or Support Structure to share with you specific forms that you need to complete in order to register a cooperative in your country.

Sole proprietorship

As a sole proprietor, your business will be owned by you alone and you will have authority to make all decisions about the business. The procedures of starting the business are simple and the cost is low. You might need a license to operate a business as a sole proprietor. You might need to register for Value added tax, and if you have employees, you probably need to register for income tax purposes. Check with National Revenue Authority, or mentor or support structures for tax obligations of your company in your country.

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. If the business fails to pay its debts, the creditors can make you pay with your private money or even make you sell your personal belongings to pay off the debts.

The profit of the business is considered as your income and you as owner must pay the tax on the business profit. All businesses need a business permit.

Partnership

If two or more people decide to run a business together they can form a partnership. The procedures for starting and running a partnership are similar to those for a sole proprietor. In some countries there is an upper limit to how many partners there can be in a partnership.

You need a business operating license to run your business. Your business will also need to comply with the environment health and security standards of the country of operation laws. Businesses in some countries are required to obtain an environmental impact assessment license which is issued by the national environmental management authority. The environmental impact assessment established if your business has negative impact on the environment as well as assesses your strategies to manage your business waste disposal, air pollution, noise pollution and other forms of pollution.

The procedures of 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 does not have to be in writing to be valid, but to avoid future misunderstandings; you should always make sure that it is written. The partnership agreement should, for example, cover:

- What line of business the partners are going to be active in
- How the profit or loss is going to be divided by the partners
- Duties of each partner.

The partners are the owners of the business and they make all decisions about the business together, unless they have agreed otherwise in the partnership agreement. Note that if one partner has made an agreement on behalf of the other partners, the agreement is normally binding for all partners.

Partnership can be an advantage if the business needs skills and experience which you do not have. Partners can be one way of finding enough capital to start the business. All partners share the responsibility for the debts of the business. If you have one or more

partners your own risk is reduced because all the partners share the risk. But if the other partners have no private capital available, you might have to pay all the business' debts yourself.

The business profits are divided between the partners according to the partnership agreement and each partner is individually taxed on his or her share of the profits. Your partnership will need to register for the Personal Identification Number.

Limited company

A limited company is owned by one or more owners called shareholders. There can be one or more owners who are all working in the business. There can also be both owners working in the business and investors who are not active in the business but are still owners.

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

1. The name you have chosen for your business must be approved by the Registrar of companies or a similar authority
2. After approval of the name, the Memorandum and Articles of Association for your proposed company must be drawn.
3. The Memorandum and Articles of Association are filed with the Registrar of Companies or a similar authority.
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 the **smaller risk** for each shareholder. As a shareholder you only risk losing the money you put into the business as share capital. In a limited company, the shareholders are not personally responsible for the debts of the business.

A limited company is **quite complicated** and **expensive** to form. You should always seek assistance, probably from a lawyer, to help you to decide whether you choose the right form for your business and to actually form the limited company.

Another advantage might be the way other people look at your business. A limited company is often seen as stable and reliable, which can be an advantage in contacts with creditors, suppliers and customers.

If there are many shareholders in the company, decision-making can be complicated. The shareholders will appoint a board of directors, who is responsible for the management of the business. The board of directors can in their turn appoint one or more managers to run the business. If there is only one shareholder or only a few shareholders who are all active in the business, this does not have to be a problem. The shareholders, board of directors and managers can be the same people.

The company itself is taxed on its profits. The shareholders can be paid a salary from the company, which is taxed as any salary. The shareholders can also be paid a share of the company's profit, called a dividend, for which they pay tax according to the existing capital tax laws.

A Limited company must register its own Personal Identification Number or VAT certificate which is used by authorities to identify tax payers. To qualify for VAT registration a company should attain certain levels of annual returns.

HOW TO SELECT THE RIGHT FORM OF BUSINESS

There are many issues to consider when selecting the legal form of business that is best for you. You may need assistance to select and register your business. But do not let anyone persuade you to select one form until you fully understand why you should select that form and what consequences it will have.

Since there are advantages and disadvantages with each form of business, you must think about your own business and assess which factors are important for you. For example:

- If your business will have to borrow a lot of capital to buy equipment, your business will have high debts. In this case it would be better if you do not have personal responsibility for the business debts. Maybe it is more important than being able to start your business in a simple and cheap way. A limited company would then be most suitable.
- If your business will not have to borrow a lot of capital, maybe it is more important to start your business in a simple and cheap way than to have limited personal responsibility. A sole proprietorship or partnership would then be suitable.

In the table below you can see the main differences between the three legal forms of business. Use it to assess and to add the advantages and disadvantages of each form for your own business.

	Sole proprietor	Partnership	Limited Company	Cooperative
Registration	Obtain Business Licence	Obtain business licence and Register a Partnership deed	Has to be registered and obtain business license	Has to be registered and obtain a business license
Cost of Starting a business	Limited to cost of business licence	Limited to cost of business licence and registering a partnership deed	Usually expensive: Includes legal costs, Cost of various forms Stamp duty and others	High opportunity cost and cost of buying the shares and annual membership fees
Simplicity of starting the business	Fairly simple	Simple	Complicated, required legal counsel	Complicated, required extensive training
Number of owners	Only one	At least two	One or more	At least five
Financial liability of the owner for the business debts	Unlimited personal liability by the owner for all debts	Unlimited personal liability by the owner/s for all debts	No personal liability by the shareholders for the debts	No personal liability by the members 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 agreed otherwise	Share holders appoint a board of directors who can appoint managers to run the business	Every member has one vote A management committee is often appointed to run the business

Taxation	The owner is taxed for business profits	The owners are taxed individually for their share of business profits	The company pays tax for business profits	The cooperative pays tax for business profits
----------	---	---	---	---

Other Legal Responsibilities and Insurance

In addition to registering your business, when you run a business you have legal responsibilities. These responsibilities include paying taxes, following regulations regarding employees, getting licenses and permits, following lease and other contractual agreements. Some businesses require insurance to operate. For instance, if you run a transport business you are required by law to insure your vehicles against accident and loss. If your business has employees, you are required to register for income tax and if you qualify to charge VAT you should register with the National Revenue Authority in your country.

Your business will also need to comply with the environmental health and security standards and laws of the country of operation. Businesses in some countries are required to obtain an environmental impact assessment license which is issued by the national environmental management authority. The environmental impact assessment established if your business has negative impact on the environment as well as assesses your strategies to manage your business waste disposal, air pollution, noise pollution and other forms of pollution.

It is important that your business operate in a transparent way and observe the relevant regulations. It is your responsibility to find out about the legal requirements that affect your business. You do not need to know all the laws and regulations in detail, but you should know where to get the required information and which regulations apply to you.

Taxes

You will be affected by a number of different taxes when you run your own business. Taxes are part of running a business and they apply to everyone. Your business will collect and administer some taxes for the authorities, for example sales tax or value added tax and employees' income tax. These taxes are paid by the customers and employees. Your business collects them and pays them to the authorities.

Other taxes are paid by the business itself. The most important is the tax paid on the business profits. Depending on which form of business you are running, this tax will be charged to you as the owner or to the business itself. There are also other taxes that your business will pay such as sales tax or value added tax when your business buys products or services from other businesses.

Licenses and permits

Many businesses will need a license from the authorities to operate. Your business will also be required to obtain an Environmental Impact Assessment certificate that confirms that they are in compliance with the environmental management regulations. Find out if you need a license 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

There are always **risks** involved in running a business. The types of risk vary with the type of business you are running. Risks such as a drop in the demand for your product or service are part of running a business, but other types of risks can be offset through **insurance**. If you have insurance for your business it will give you some financial security against different kinds of incidents.

It is important for you to know the insurance products available in your country that can benefit your business. You can do this by visiting an insurance company to learn of the products that are offered for businesses like yours.

The following are examples of what can be insured:

- property, machines, stock and vehicles can all be insured against theft
- property can be insured against damage caused by fire or accidents
- Employees, your family and yourself can be insured against accidents and medical expenses.

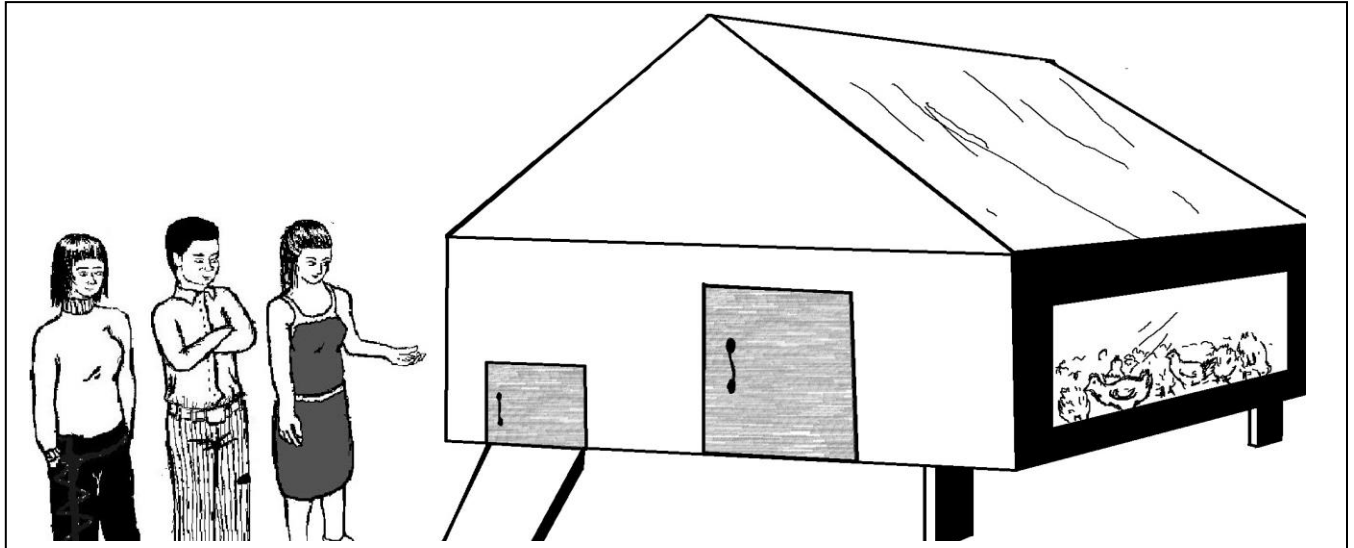
WHATAMA GROUP CHICKENS

Whatama group chickens agree that the chicken business can be run in an environmentally friendly manner. They choose to run the business as a cooperative. The Ministry of Cooperative Societies is responsible for registering and regulating the operations of cooperative societies. In order to obtain the national standards board's approval, they need to ensure that they run the business in accordance with chicken rearing industry standard prescribed guidelines. This is important for their branding and will give them a competitive advantage over others although it comes with the burden of ensuring that high production and maintenance standards are observed.

Whatama group agrees to write the Cooperative Memorandum of Understanding (MoU) and register it with the Ministry of Cooperative Societies. Their MoU includes, for example:

Line of Business	Chicken Rearing and sale of bi-products
Division of profits	Profits will be divided equally among Whatama Group's ten members since they all work in shifts in the business
Duties of Partners	All group members will be responsible for the management of the chicken rearing business. Mrs. Kalata will also assist with maintenance of the group's finance and other records given her background as a bookkeeper at the local district offices.

The group has agreed to start their business as a cooperative. They agree to get help from their mentor to further write additional sections of their constitution. They fill in the Form of business section of their business plan.



FORM OF BUSINESS REGISTRATION

The business will operate as a COOPERATIVE

The reason for choosing this form of business is that:

It is simple to start and will not require a lot of finances. The money that the partners have can be used to pay for the various licenses and assessments that are required.

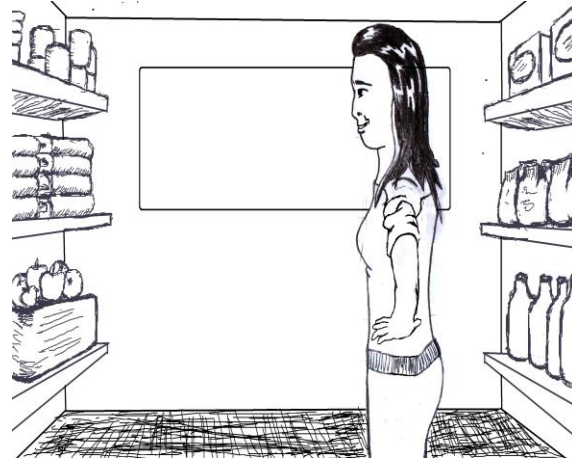
The Cooperative Members will be:

Name	Role	Skills/Relevant experience/Attributes
Priscilla Kalata	Chicken rearing and Responsible for bookkeeping	Bookkeeping experience working with district council
Janita Museni	Chicken Rearing	Working in a restaurant
Andrew Phiri	Chicken Rearing	Chicken rearing working with his mum
Sipho Nkomo	Chicken rearing and marketing	Marketing of brochures
Agnes Matalima	Chicken Rearing	Chicken rearing
Alice Watsonga	Chicken Rearing	Hard working
John Ndlovu	Chicken Rearing	Hard working
Wildah Nduna	Chicken Rearing and setting up and maintaining the structure	Construction experience
Olivia Mangwiro	Chicken Rearing	Selling skills and experience
Sandile Senda	Chicken Rearing	Chicken rearing working in the nearby farm

Whatama group recognises that its members would have learnt skills informally sometimes through observations, working with other people or through household chores. These are skills that they record for each group member.

The group also plans to encourage its members to acquire additional skills training from local business people, NGOs etc. The group will work closely with the local Ministry of

Notho has been thinking about the legal form of business registration she should choose for her shop. She is choosing between running the shop as a sole proprietor and setting up a limited company.



Notho knows that the risk is higher if she runs her business as a sole proprietor, but the simplicity of starting a sole proprietor appeals to her. It is also cheaper than registering a limited company. Notho decides to run her business as a sole proprietor and then register a limited company once the business is making profits. She writes it down in his Business Plan.

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

Name

Notho Nxumalo

Description of skills

Description of skills

Three years' experience in Sales promotion

Relevant Experience

Relevant experience

Sales management

Marketing

BUSINESS PLAN

Think through the advantages and disadvantages of each form of business. When you have made your decision, fill in the Form of business section of your own Business Plan

CHAPTER 7: STAFF

To operate smoothly your business will need to be organised well. Deciding which people to employ and the work that needs to be done is a key step to organising your business well. If your business is a cooperative you need to organise each member of the cooperative by assigning them to specific responsibilities in-line with their skills. When starting your new business you may not have the time or the skills to do all the work yourself. You will then need employees in your business.

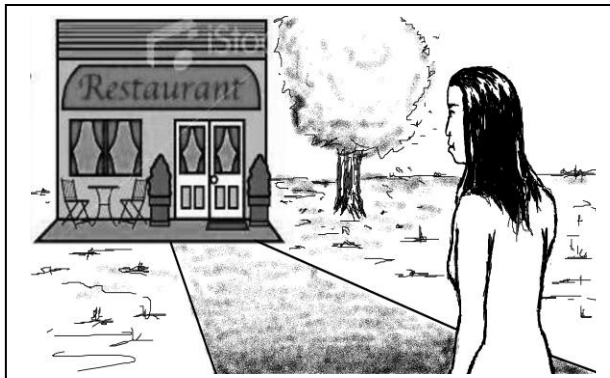
In the table below, list all the activities that your business will be involved in. For example if you are running a poultry project this will include constructing the chicken house, buying chicks and feeds, feeding chickens, administering vaccines, marketing, selling and book keeping. For each activity list the skills needed to perform the job.

Activities	Required skills	No. of staff required
e.g. buying chicks and feeds	Knowledge of poultry farming and buying skills	one

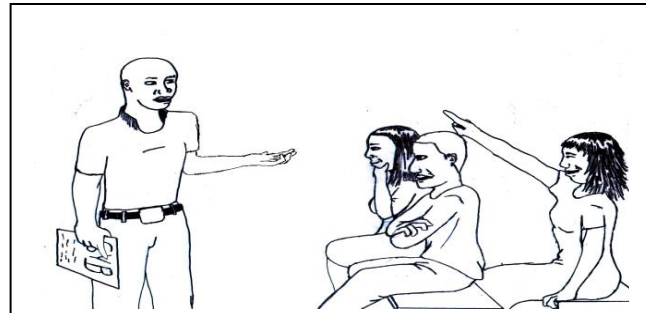
From the list above

- Decide which tasks you will not have time or skills to perform yourself or as a group
- Determine what skills, experience and other requirements you need in the staff for these tasks
- Decide how many employees are needed to perform each task. This will largely depend on the volume of activities you anticipate for your business and the time required for performing the deferent tasks.
- Which activities require part time staff? For example your group may need an extra hand to clear and change water in the fowl run.

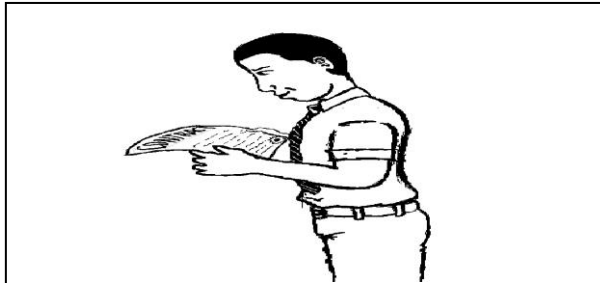
You will also need to decide if the tasks need a full time or part time employee, a skilled or unskilled employee. Unskilled workers may be suitable for some jobs, but other jobs might need staff with special competences and experience.



Remember to think about marketing and selling. Who will be responsible for promotion of the business and who will sell the products or services?



Select the right people by identifying possible candidates. Be careful to consider other softer skills such as attitude and commitment in your selection process. Interview qualified applicants and choose the best person.



Write down all agreements with employees including your family. This is called a contract. Ask each employee to sign what you have agreed as wages, working hours.

Learn about how to keep your employees happy. This improves the way they do their work. Also know the regulations on salaries and working conditions

Consider the costs associated with the staff that you have decided you require in your business. Your staff costs will include the monthly salary that you will pay to employees, payment for statutory contributions such as insurance, health, allowances. **Even when cooperative members work in the business, they need to be paid a salary for them to be able to commit time to the business and earn a living.**

Sometimes the staff you hire will be members of your family. This is common and may lead to some conflicts in some cases. It is important that the family members you employ have the needed skills and are not employed just because they are family members. Your family members employed in your business should work under the same conditions as other non family member employees.

There are however important responsibilities that the business owner will need to perform. These include developing ideas for growing the business, motivating staff to be more productive and monitoring business growth.

Staff Related Legal Responsibilities

Your business is also required to deduct Pay as You Earn (PAYE) tax from employees and make payments to the Revenue authority. Among the areas that are covered in laws and regulations are:

- Labour contract
- Minimum wage
- Working time and rest time
- Working principles
- Occupational safety and health
- Social and Health insurance
- Unemployment insurance
- Sick leave.

It is important to study the labour act for your country carefully and comply with the laws. The Labour code provides the framework on labour legislation.

This is how Whatama Group worked out their staff requirements as well as the related costs.

WHATAMA GROUP CHICKENS

Whatama group plans to start with 500 chickens. Their MoU outlines responsibilities for the different members with the group leader being responsible for the overall management of the business and liaising with the booker for purchase of feeds and vaccines. Other members will be responsible for bookkeeping, cleaning and refreshing water and feeds in the fowl run, slaughtering and marketing the chickens.

The plan is for the members to provide the requisite labour and therefore there is no need to hire labour. In future, however, when the project grows, the group has been mulling over hiring marketers that are paid on commission. Mrs. Wathira, the restaurant owner agreed to collect the chicken when they are ready. The remaining birds will then be sold on site to walk-in customers.

Mrs. Kalata, their group member will assist with booking keeping services.

Members agree to pay each other a flat rate of 5 Units per bird sold while the rest of the money is ploughed back into the project. After making the staffing decisions, the group then fill in the Staff section in their Business Plan.

STAFF				
Task	Required skills and experience	Performed by	Pay	Other contributions
Chicken rearing and Responsible for bookkeeping	Bookkeeping experience working with district council	Priscilla Kalata	300	Nil
Chicken Rearing	Technical skills in poultry production	Janita Museni	300	Nil
Chicken Rearing	Technical skills in poultry production	Andrew Phiri	300	Nil
Number of members working in the business			3	
Total salaries and other contributions			900	

NOTHO SPAZA SHOP

Notho plans to start small. She will perform all the management duties herself, including recordkeeping. She will do the buying, the stock control and the selling. She plans to start with her young sister as the only one shop assistant. If this is not enough, she will employ another assistant later on when the business can afford it. Notho fills in the Staff section in her Business Plan.



STAFF				
Task	Required skills and experience	Performed by	Monthly Pay	Other contributions
Buying, Stock control, administration and selling	Business management and selling	Notho Nxumalo	200	
Selling in the store	Some knowledge of salesmanship and customer care	I full time employee	100	
Total number of staff			2	
Total staff costs per month				300

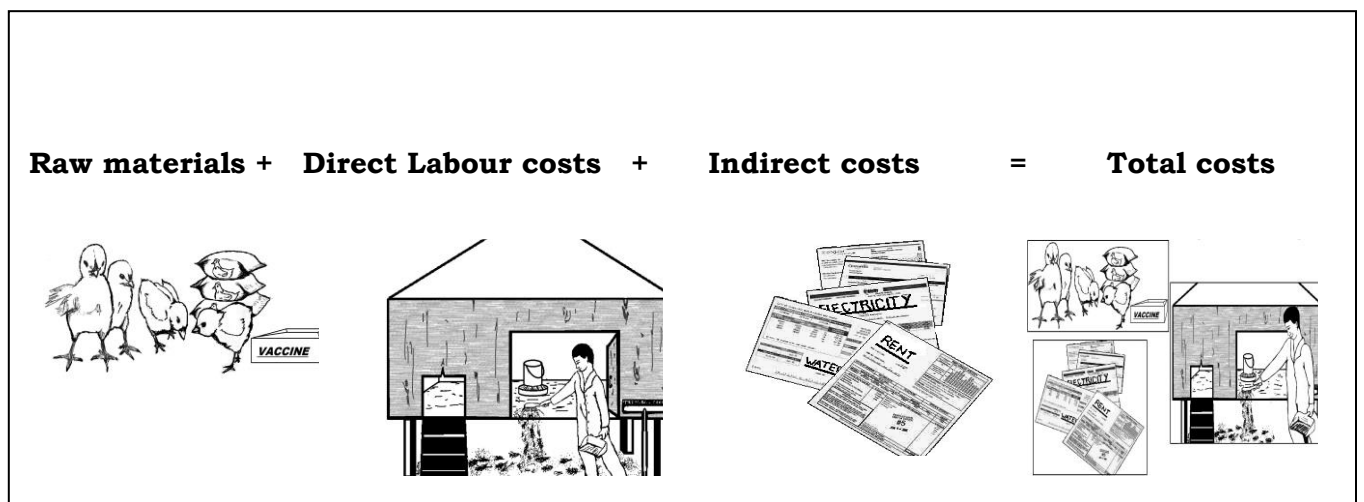
BUSINESS PLAN

Turn to the staff section of you own Business Plan and fill in the tasks you need to hire staff to perform, what qualifications each employee needs, how many employees you need to hire and how much you will pay each employee per month.

CHAPTER 8: COSTING YOUR PRODUCTS AND SERVICES

Costing is the process of looking at the amount of money your business spends on producing and selling a product, delivering a service or selling finished goods. Determining the total costs of running business requires time and effort. Entrepreneurs sometimes do not calculate the total cost of producing their products because they do not have the knowhow to calculate the profitability and viability of their business enterprises.

This chapter presents in simple terms the process of determining the costs your business incurs in producing its goods and services. The calculations are simple and easy, you need to approach the exercise with a positive attitude and a willingness to learn. When you calculate your costs of doing business you want to know how much you are paying for raw materials, for labour and other operating costs such as your telephone, water and other bills as illustrated below:



Every business has **costs**. Costs are all the money your business spends to make and sell your products or services. **Costing** is the way you calculate the total costs of making or selling a product, or providing a service.

You need to know the cost of inputs required to produce crops in a particular area you are planting or to produce a product. This information is important for you to know the returns that you get per each unit measure your business sells for example each broiler chicken sold, a pocket of potatoes. The unit cost is the cost of everything required to make and sell a product or providing a service for example labour, raw materials, communication, packaging, transport etc.

Costing helps your business to:

- set prices
- reduce and control costs

- make better decisions about business
- plan for the future

Your Business will have many different costs these include the following:

Cost Element	Description	Points to note
Materials Costs	All the inputs required to produce your product, provide a service or finished products.	These costs vary with level of production
Costs related to the premises	You will need to think carefully about all costs related to the place and premises you will work from such as Rent , Water, electricity, gas, fuel, etc and Services (regular cleaning, maintenance, etc.)	These costs are incurred every month
Marketing Costs	In your Marketing Plan you have also made some decisions about how to distribute your products and services, promotional activities and discounts that you plan to offer	
Staff costs	Recruitment and remuneration	These costs are contained in the staff section of your business plan
Small investments	Construction costs, tools, licences, insurance	Some businesses require very little investment at start whilst others require a lot of investment.
Administrative costs	Telephone, fax and internet services, transport	Some of these costs are incurred on a daily basis.

Costs are categorised into two main categories. Before you can do costing, it is necessary to understand the different types of costs a business has. Different businesses have different costs. But all businesses have two types of costs:

- direct costs or variable costs
- indirect costs or fixed costs

Direct costs are all costs that are directly related to the products or services your business makes or sells. There are two types of direct costs:

- direct material costs and
- direct labour costs.

Direct material costs are all the money your business spends on the parts and materials that become part of or are directly related to, the products or services you make or sell. For a crop farmer the cost of buying fertiliser and seed are the direct materials costs. For a retailer or wholesaler, the costs of buying goods to resell are the direct materials costs.

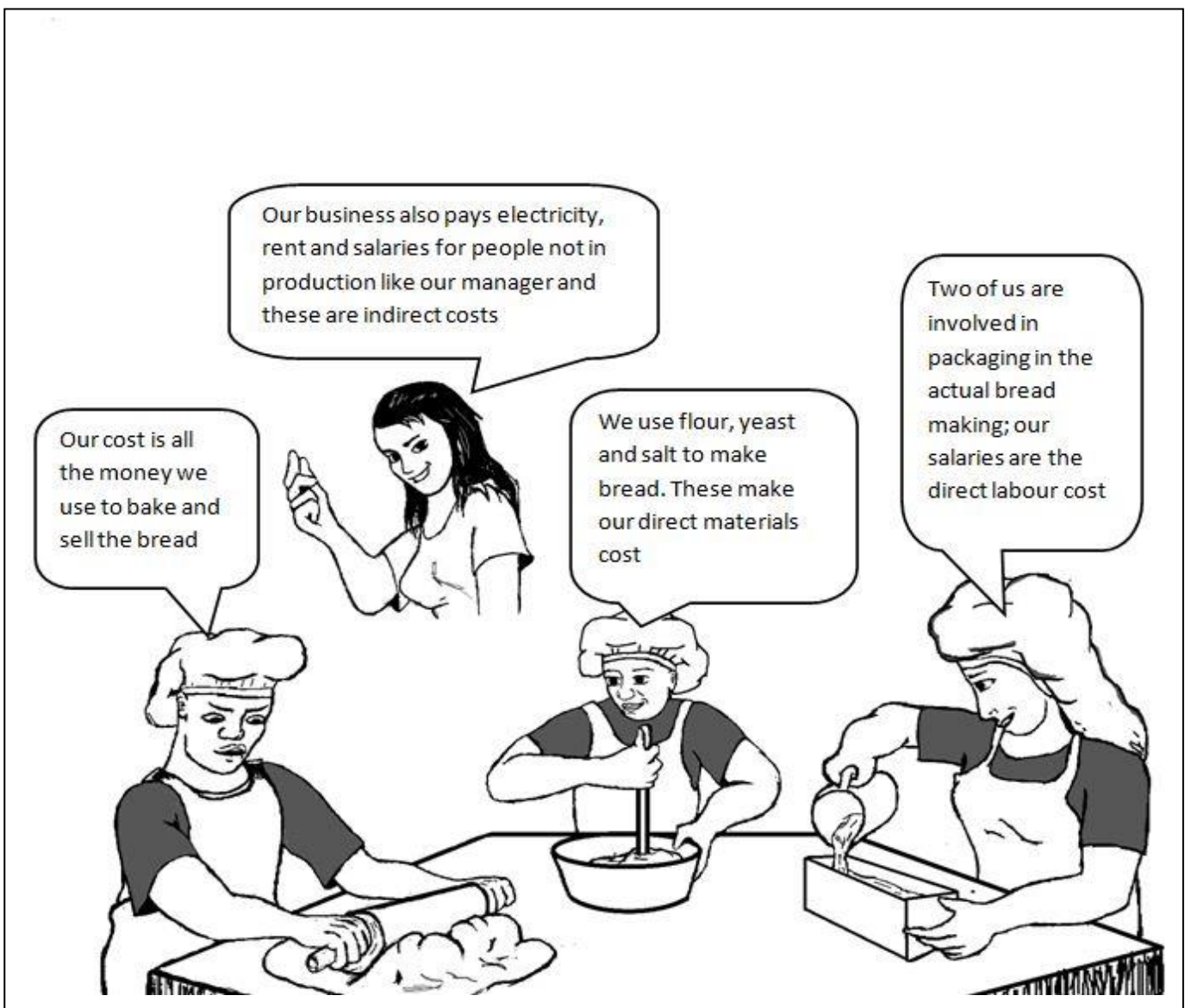
To be counted as direct material costs, the amount of material must be easy to calculate, and the costs of the material must be big enough to add a considerable amount to the total direct material costs.

Direct labour costs are all the costs your business spends on wages, salaries and benefits for the people who are directly involved in the production of your products or services. For instance you need to pay the labourers that are planning and weeding the crops.

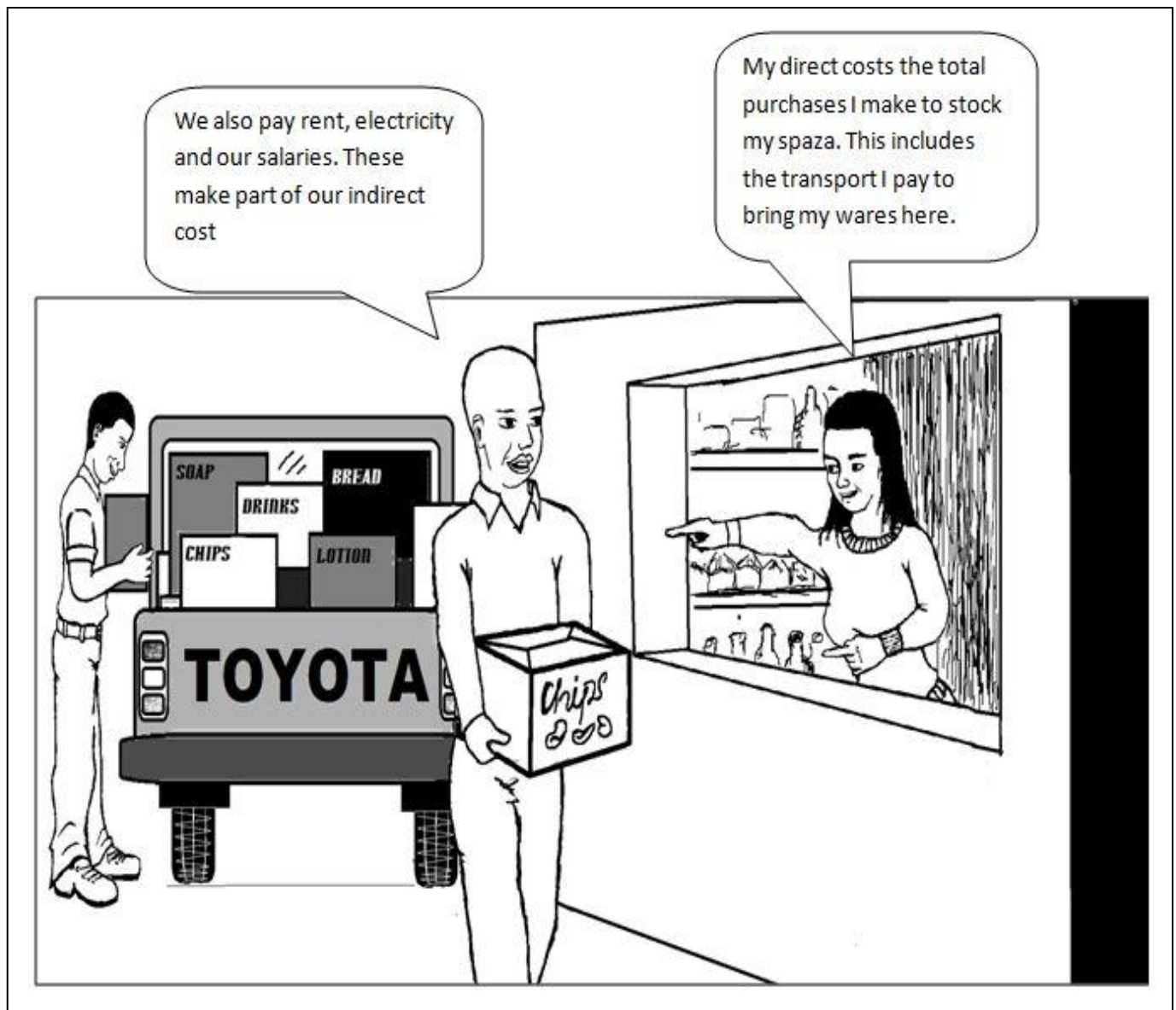
Retailers and wholesalers do not have employees working directly in making products, so they do not have any direct labour costs. For retailers and wholesalers, all salaries and wages are indirect costs.

Indirect costs are all other costs that you have for running your business, for example rent, interest on your loan and electricity. Indirect costs are normally not directly related to one particular product or service. Indirect costs are sometimes called overheads or expenses.

Costing for a Manufacturer or Service Provider



Costing for a Retailer or Wholesaler



SINGLE PRODUCT COSTING

For all entrepreneurs selling one single product

Those entrepreneurs producing and/or selling only one single product or service will now be able to estimate the cost price of one item simply by dividing the total costs of 12 months business operations by the volume of the product or service that will be sold during the same period. This is what is called “single product costing”. For knowing the cost price of one item you estimate the total costs of running the business and divide these by the number of items you plan to produce or provide. This can be summarised as follows:

Cost Per Item (CPI)

=

Total Costs (TC)

/

Sales Volume (SV)

Add up all the costs from Marketing, Staff, Administration costs and depreciation on equipment and divide by the total sales volume.

For example if you are running a poultry project, you can know the cost of each chicken by simply dividing the total costs of buying and feeding the chickens, plus your indirect costs with the total number of chickens ready for slaughter.

However if your business is selling more than one product, you will need to share the indirect costs with each item that your business sells to get the total cost of selling each item. To know the true cost of your costs for manufacturing a product, providing a service or retailing a product there is need to calculate the specific costs involved in producing a product or service. The following section presents an elaborate process of costing.

COSTING FOR A MANUFACTURER OR SERVICE OPERATOR

If you are a retailer or wholesaler, turn to Page 71

To illustrate how a manufacturer does costing we use Whatama Group Chickens as an example.

Whatama group considered the four costs related to poultry farming. These are infrastructure, equipment, costs of direct material and labour as well as indirect expenses. They know that cost of infrastructure and equipment will be added under depreciation which they will calculate later. Even though the group knows how much people are selling chickens for, they consider costing important so that they know how much it will cost them to grow and sell the chickens in order to determine their profit levels.

The Group uses two methods of costing, single product costing and a more elaborate method of determining their costs.

Basic information about the broiler chicken project

The group collected the following information from the local company supplying broiler chicks and feeds:

Day old chicks are sold at 5 units each and the group plans to grow 500 chicks for a start.

Whatama group chickens know that they will need 35kgs of *chick booster* feed which is recommended during the chicks' first week to feed the 500 birds for one week. Each chick eats 10grams per day of chick booster. Each kilogram costs 5 Units/kg making a total of 175 Units.

The chicks will be fed broiler starter in the second to fourth week consuming 60 grams per day. For the 500 chicks they will need 630kg of *broiler starter* to feed the chicks for three weeks. They work out the cost of broiler starter at 7 Units/kg to be 4,410 Units.

During the last two weeks, they know they need to feed the chickens on *broiler finisher* consumed at 90 grams per day. Their calculations show that they will need 630kg of broiler finisher. At a price per kg of 6.5 Units, the cost of broiler finisher works out to be 4,095 Units.

The total cost of feeds therefore comes to 11,555 Units – see the table below.

				TOTAL (Units)
C: Material Cost		Quantity	Cost/head	Total
	C1: Day-old chicks	500	5	2500
	C2: Feeds	Quantity (kg)	Unit cost/kg	Total cost
	Feeds 500 chicks for 1 wk <i>Chick booster</i>	35	5	175
	Feeds 500 chicks for 3 wks <i>Broiler starter</i>	630	7	4 410
	Feeds 500 chicks for 2 wks <i>Broiler finisher</i>	630	6.5	4 095
	<i>Sub-total</i>			8 680
	C3: Vaccines	500	0.75	375
	C1+C2+C3			11 555

Direct labour costs

The group knows that local farmers who run similar businesses pay fulltime employees 300 Units per month. They realise that for their 500 birds, they need the equivalent of

two fulltime employees and hence they budget 900 Units to carter for labour costs over the six-week long project. Other group members will benefit from sharing of profits.

Indirect costs

They also found out that similar businesses do not spend more than 100 Units running a generator and not more than 50 Units on water bills. They complete their indirect costs form in their business plan as follows:

Calculate the depreciation for equipment that has a high value and lasts for a long time

Whatama group premises do not have electricity but they budget the cost of running a generator and also paying a small fee to their members for the use of the same.

INDIRECT COSTS FORM	
INDIRECT COSTS PER 6 WEEKS (UNITS)	
Rent	-
Water	40
Insurance	17
Transport	100
Interest on loan	-
Indirect labour	150
Depreciation	78.75
Equipment leasing	20
Miscellaneous including	20
Fuel for the generator	100
TOTAL INDIRECT COSTS PER 6 weeks	525.25

They add up all the costs of growing and selling broiler chickens. This is 480 units (direct materials costs, direct labour costs and indirect costs). They know that the mortality rate is generally at 4%, but as a new project they expect it to be higher about 5%. This mean that they can expect to sell 480 chickens $(500 - (500 \times 0.04) = 480)$

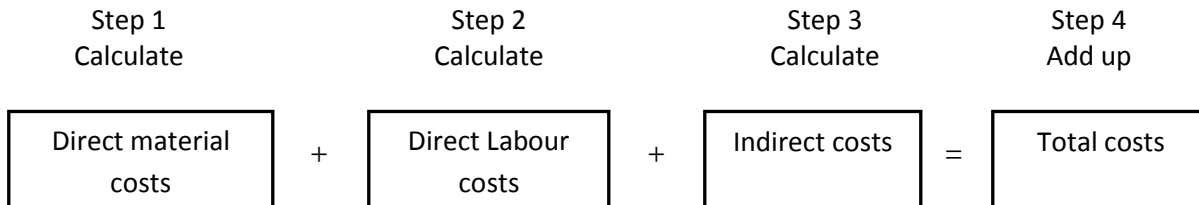
Using the Single Product costing formula they calculate their cost of producing one broiler chicken to be **27 Units**

Cost Per Item (CPI)	=	Total Costs (TC)	/	Sales Volume (SV)
27 units		12,980		480

MORE DETAILED COSTING PROCESS

This section is optional depending on the ability of the target group to apply the concepts.

If you are a service operator you follow the same steps and think about how they apply to your business.



Step 1: Calculate direct material costs

Calculate the costs of all materials:

- that become part of, or are directly related to, the product or service
- that are easy to calculate and have a big enough cost to be counted

1. Raw material

In column 1 on the Product Costing Form, Whatama group write down the different raw materials that become part of the product or service, such as feeds, chicks and vaccines. They also use water but:

- it is difficult to calculate how much water they need for one product

So Whatama group counts the water as part of indirect costs. On page 68, you can see how Whatama group included water in their indirect costs.

2. Buying costs

In column 2, Whatama group write down the cost of buying one unit of each raw material.

3. Quantity per item

In column 3, they write down how much they need of each raw material to make one chick.

4. Cost per item

In column 4, Whatama group write down the cost of each material needed to make one item. To calculate this cost, multiply the buying costs (column 2) by the quantity needed for one chick (column 3).

Total

When Whatama group have worked out the cost of each raw material they need to grow one chicken, they add up the amounts in column 4. This total gives them the total direct material cost for each chicken grown in their business.

PRODUCT COSTING FORM			
For manufacturers and service operators			
Product: <u>Chicken Broilers</u>			
1. DIRECT MATERIAL COSTS PER ITEM			
1	2	3	4
		X	=
Raw Material	Buying Costs	Quantity per chick	Costs Per Item
Day old Chicks	5	1 chick	5.00
Chick booster	5/kg	70g	0.35
Broiler starter	7/kg	1.260kg	8.82
Broiler Finisher	6.5/kg	1.260kg	8.19
Vaccines			0.75
			23.11
			X
			23.11
TOTAL			DIRECT MATERIAL COSTS PER CHICKEN

STEP 2: Calculate direct labour costs

Work out the costs of wages, salaries and benefits for the employees who work directly in the production of the product or service.

Every business needs information on all their labour costs. To help you calculate labour costs for your business, you can use the Labour Costs Form in the Business Plan. You only need one Labour Costs Form for the whole business. This is how Whatama group completed their Labour costs form.

1. The name of each person working in the business

2. The number of hours each person works in the business per six weeks

3. How much each person gets paid per six weeks

4. How many hours each person works in production per six weeks

5. How much of each person's pay is for time spent working in production

6. How many hours each person does work that is **not** in production

7. How much of each person's monthly pay is for time spent doing work that is not directly related to the production.

Labour Costs Form

			DIRECT LABOUR COSTS		INDIRECT LABOUR COSTS	
1	2	3	4	5	6	7
Employee	Total Working hours per six weeks	Total pay Per six weeks	Hours in production per six weeks	Pay for time in production	Hours not in production per six weeks	Pay for time not in Production
Priscilla Kalata bookkeeping and selling	240	450	120	225	120	225
Janita Museni production	240	450	240	450	-	-
Andrew Phiri production	240	450	240	450	-	-
Total			600	1125	80	150

• DIRECT LABOUR COSTS PER CHICK

$$\frac{\text{TOTAL PAY FOR TIME IN PRODUCTION}}{\text{TOTAL NUMBER OF CHICKS PER SIX WEEKS}} = \frac{1125}{480} = \boxed{2.34}$$

DIRECT LABOUR COSTS
PER CHICK

Calculate direct labour costs per chicken

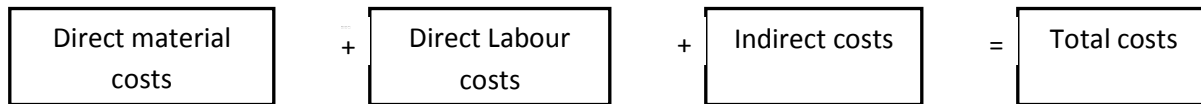
Use the bottom part of the Labour Costs Form to calculate the direct labour costs per chicken in your business.

At Whatama group the direct labour costs per chicken grown are:

$$\frac{1125}{480} = 2.34 \text{ Units}$$

Step 3: Calculate Indirect Costs

The total costs for one item are made up of direct material costs, direct labour costs and indirect costs.



Indirect costs are all other costs that you have for running your business, for example water, rent electricity, recycling, final water discharge and waste disposal, depreciation and indirect labour costs. Indirect labour is the salaries that you pay for staff that do not produce a particular product but work in support activities like administration and marketing.

To help you calculate your indirect costs per month, you can use the **Indirect Costs Form** in the Business Plan. An indirect cost form gives you information on all the indirect costs your business has. You only need one Indirect Costs Form for the whole business.

Here is the Indirect Costs Form for Whatama Group.

Calculate the depreciation for equipment that has a high value and lasts for a long time

Whatama group premises do not have electricity but they budget the cost of running a generator and also paying a small fee to their members for the use of the same.

INDIRECT COSTS FORM	
INDIRECT COSTS PER 6 WEEKS (UNITS)	
Rent	-
Water	40
Insurance	17
Transport	100
Interest on loan	-
Indirect labour	150
Depreciation	78.75
Equipment leasing	20
Miscellaneous including	20
Fuel for the generator	100
TOTAL INDIRECT COSTS PER 6 weeks	525.75

Costs that you do not pay every month

The indirect cost form shows indirect costs per month. Your business may have some indirect costs that you do not pay every month for example insurance, licenses, tools and stationery. For these costs divide the cost by the number of months the item is used. For example, Whatama pays 200 once a year for the Health certificate. So they calculate that their cost per month for Assessment is 17 Units:

$$\frac{200 \text{ units}}{12 \text{ months}} == 17 \text{ Units per month}$$

Depreciation

Depreciation is the loss in value of your business equipment and is a cost to your business. The total cost of buying the equipment is divided into the number of years you expect to use it. For many businesses costs for depreciation are high, so it is important to include depreciation in the indirect costs.

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 indirect costs.

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

- has a high value
- lasts for a long time

Estimate how long you can use the equipment for. You can:

- use your own experience
- ask suppliers
- ask other businesses using the same or similar equipment

To calculate your monthly costs for depreciation, divide the total costs of each piece of equipment by the number of years you expect to use it. The result indicates the depreciation costs per year for the fixed asset or piece of equipment. For example Whatama group chickens' chicken sheds will cost 3,450 Units and they expect to use them for 10 years.

$$\frac{3\,450}{10 \text{ years}} = 345 \text{ Units/year}$$

To reach at the depreciation cost per month, you divide the depreciation cost per year by 12 (months of the year). The result indicates the depreciation per month of that piece of equipment.

$$\frac{345}{12} = 28.75 \text{ Units/month}$$

Add up the depreciation per month for all the fixed assets and pieces of equipment that you have bought, and you reach at the total depreciation cost per month. This is how Whatama group completed their depreciation form for their broiler chicken business.

Depreciation Form			
Depreciation per month			
Equipment	Retail Price (Units)	Product Life Span (years)	Depreciation per month (Units)
Chicken sheds	3 450	10	28.75
Feederers	600	2	25
Waterers	600	2	25
Total			78.75

Calculate indirect costs per item

The total indirect costs for a business must be divided and shared by each product or service the business makes or sells. The indirect costs for one item depend on how long it takes to make that item. The longer it takes to make, the higher the indirect costs for that item.

In the Indirect Costs Form on page xxx the total indirect costs for Whatama will be 525.25 Units per month. Whatama must add a part of the 525.25 to the costs of each item the business makes.

$$525.25/480 = 1.10 \text{ Units/chicken}$$

Step 4: Add up Total Costs

Whatama have completed Step 1, 2 and 3 of costing chicken produced. They now have all the amounts they need to work out the total costs of growing one chicken. To do step 4, they add up the amounts on the Product Costing Form.

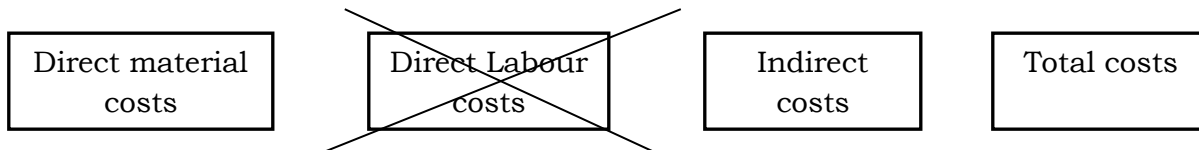
Step 1 Calculate		Step 2 Calculate		Step 3 Calculate		Step 4 Add up
Direct material costs	+	Direct Labour costs	+	Indirect costs	=	Total costs
23.11		2.34		1.10		26.55

Now Whatama know the total costs of one chicken. They follow the same steps for costing of other products.

COSTING FOR A RETAILER OR WHOLESALER

If you are a manufacturer or service operator, turn to Page 62

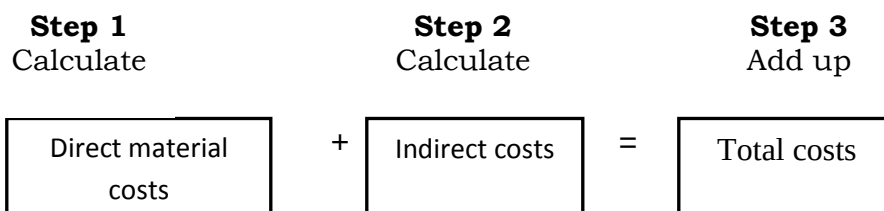
Retailers and wholesalers have the same types of costs and can normally do costing in the same way. Some costs for retailers and wholesalers are different from the costs manufacturers and service operators have:



Retailers and wholesalers:

- **Have direct materials costs:** Retailers do not make products but they need goods to sell. The costs of buying goods to resell are the direct material costs for a retailer or wholesaler.
- **Do not have direct labour costs:** They buy and sell goods made by other businesses. They often have employees assisting in the store but they do not have any employees making products. So, for a retailer or wholesaler, all wages and salaries are indirect costs.
- **Have indirect costs such as rent and electricity:** For a retailer or wholesaler, indirect costs are all other costs the business has except for the costs of buying goods to resell.

Retailers and wholesalers follow 3 steps to calculate the total costs for each product.



On page 76 you can see how Notho has filled in a Product Costing Form for her retail business.

Step 1: Calculate direct material costs

Direct material costs for a retailer or wholesaler are the costs of buying goods to resell.

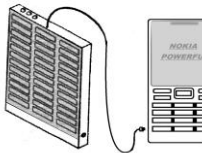
Notho calculates the direct material costs per item for the different products her spaza shop will sell. On the Product Costing Form on page 76, Notho writes the name of the product. In column 1, she writes how much she will pay for one item based on the prices she was given by her suppliers.

Step 2: Calculate Indirect Costs

Indirect costs are all other costs that you have for running your business, except for the costs of buying goods to re-sell. You can use the Indirect Costs Form in the Business Plan to work out your indirect costs.

The total indirect costs for a business should be shared by each item the business sells. In the Indirect Costs Form on page 73, the total indirect costs for Notho's spaza shop will be **1,160 units** per month. Notho must add a part of the 1160 units to the costs of each item her business sells.

Notho wants to calculate the indirect costs for one mobile phone solar charger. To do this, she works out the **indirect costs charge** for her business. She can then calculate how much to add to the direct material costs for each shopping bag to cover the total indirect costs:

	8		?		?
	Direct material cost per item	x	Indirect costs charge (%)	=	Indirect costs per item (amount to cover indirect)

The indirect costs charge is percentage that you add to each item you sell, to cover the total indirect costs.

By calculating the indirect costs charge, and adding it to each and every item your business sells, you make sure that you cover your total indirect costs.

To calculate the indirect costs charge and the indirect costs per item for every product she will sell. Notho follows these steps:

1. Calculate total direct material costs per month
2. Calculate total indirect costs per month
3. Calculate the indirect costs charge
4. Calculate the indirect costs per item.

Do the calculations for the indirect costs charge on the top part of the Product Costing Form.

1. Calculate total direct material costs per month

First Notho calculates how much money her business is likely to spend each month to buy goods to resell. She estimates this to be **5,830 units** based on the list in the Monthly Purchases Form below:

MONTHLY PURCHASES FORM			
Product	Quantity per Month	Unit Price	Total (Units)
Washing power (1kg)	100	5	500
Bread	2000	0.80	1,600
Marie Biscuits	100	0.30	30
Cooking Oil (1 litre)	20	5	100
Cell batteries (6 pack)	150	6	900
Mobile phone solar charger	100	8	800
Fresh milk (500ml)	1000	0.40	400
Sugar (1 kg)	500	3	1500
TOTAL MONTHLY PURCHASE			5,830

2. Calculate total indirect costs per month

Notho works out the total costs per month. Remember, for a retailer or wholesaler, indirect costs are all costs, except direct material costs, that you have for running your business.

Notho used an Indirect Costs Form to help her work out the indirect costs for the whole business. The Indirect Costs Form shows you all the indirect costs per month for your business. It helps you to keep all the information about indirect costs in one place.

Here is the Indirect Costs Form for Notho spaza shop.

Transport is an indirect cost to Notho because it is a small amount which is difficult to trace to any specific product

All salaries, wages and benefits for employees and owners of retail and wholesale businesses are indirect labour

Calculate the depreciation for equipment that has a high value and lasts for a long time

INDIRECT COSTS FORM	
INDIRECT COSTS PER MONTH (UNITS)	
Rent	200
Water	40
Insurance @ 300 Units per year	60
Transport	500
Interest on loan	-
Indirect labour	300
Depreciation	30
Equipment leasing	30
Miscellaneous including	
TOTAL INDIRECT COSTS PER MONTH	1,160

Different businesses have different indirect costs. Work out how much money your business is likely to spend for each indirect cost every month.

Costs that you do not pay every month

The indirect cost form shows indirect costs per month. Your business may have some indirect costs that you do not pay every month for example insurance, licenses, tools and stationery. For these costs divide the cost by the number of months the item is used. For example, Notho spaza shop pays insurance of 300 Units once a year. So they calculate that their cost per month for insurance is 25 Units

$$\frac{300 \text{ Units}}{12 \text{ months}} = 25 \text{ Units per month}$$

Depreciation

Depreciation is the loss in value of your business equipment and is a cost to your business. The total cost of buying the equipment is divided into the number of years you expect to use it. For many businesses costs for depreciation are high, so it is important to include depreciation in the indirect costs.

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 indirect costs.

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

- has a high value
- lasts for a long time

Estimate how long you can use the equipment for. You can:

- use your own experience
- ask suppliers
- ask other businesses using the same or similar equipment

To calculate your monthly costs for depreciation, divide the total costs of each piece of equipment by the number of years you expect to use it. The result indicates the depreciation costs per year for the piece of equipment. For example Notho spaza shop's fittings, furniture and cash register equipment will cost 2,000 Units and they expect to use it for 10 years.

$$\frac{2\,000}{10 \text{ years}} = 200 \text{ per year}$$

To reach at the depreciation cost per month, you divide the depreciation cost per year by 12 (months of the year). The result indicates the depreciation per month of that piece of equipment.

$$\frac{200}{12} = 16.67 \text{ per month}$$

Add up the depreciation per month of each piece of equipment that you have bought, and you reach at the total depreciation cost per month. This is how Notho completed her depreciation form for the spaza shop.

Depreciation Form			
Depreciation per month			
Equipment	Retail Price (Units)	Product Life Span (years)	Depreciation per month
Furniture and fittings	2 000	10	16.67
Total			16.67

3. Calculate the indirect cost charge

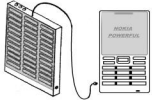
To calculate the indirect cost charge, Notho divides the total indirect costs per month (1,160) by the total direct material costs per month (5,830) and multiplies by 100. Here is NOTHO SPAZA SHOP' calculation:

TOTAL INDIRECT COSTS PER MONTH	1,160		
TOTAL DIRECT MATERIAL COSTS PER MONTH	5,830	X 100 =	19%
			INDIRECT COSTS CHARGE

Notho works out that the indirect costs charge for Notho spaza shop is 19%. It means that Notho must add 19% to the direct material costs of each product to cover the total indirect costs.

4. Calculate indirect costs per item

The indirect costs charge for Notho spaza shop is 19%. So Notho must add 19% to the direct material costs of all the goods she sells. Here is how Notho calculates the amount to add to each shopping bag to cover the total indirect costs:

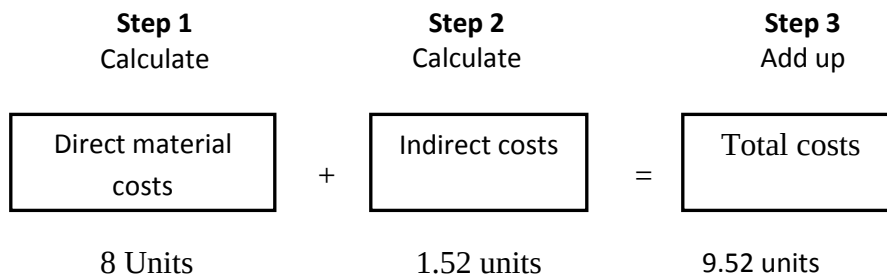
Illustration 29			
	8		1.52 Units
	Direct material costs per item	X	
		$\frac{19\%}{100}$	=
		Indirect costs charge (%)	Indirect costs per item (amount to cover indirect costs)

The indirect costs for a mobile phone solar charger are **1.52 units**. Now Notho knows that she must add **1.52 units** to each mobile phone solar charger.

Notho used column 2 of the Product Costing Form to work out the amount to be added to each product. She uses the same indirect costs charge, 19%, to calculate the amount for all the products her business will sell.

Step 3: Add up total costs

To get the total costs per item, you add up the amounts for direct material costs and indirect costs. NOTHO SPAZA SHOP now has all the information he needs to work out the total costs for a mobile phone solar charger.



On the Product Costing Form below you can see how Notho adds up the total costs for a mobile phone solar charger, and for other products:

Product Costing Form		for Retailers and Wholesalers	
INDIRECT COST CHARGE (%)			
TOTAL INDIRECT COSTS PER MONTH	1,160	=	19%
TOTAL DIRECT MATERIAL COSTS PER MONTH	5,830		INDIRECT COST CHARGE
Product	1 Direct Material Costs Per Item	2 Indirect costs per item (column 1 x Indirect Cost Charge)	3 Costs Per Item
Washing power (1kg)	5	(5 x 0.19) = 0.95	5.95
Bread	0.80	(0.80 x 0.19) = 0.15	0.95
Marie Biscuits	0.30	(0.30 x 0.19) = 0.057	0.4
Cooking Oil (1 litre)	5	(5 x 0.19) = 0.95	5.95
Cell batteries (6 pack)	6	(6 x 0.19) = 1.14	7.14
Mobile phone solar charger	8	(8 x 0.19) = 1.52	9.52
Fresh milk (500ml)	0.40	(0.40 x 0.19) = 0.076	0.50
Sugar (1 kg)	3	(3 x 0.19) = 0.57	3.57

Setting Prices for your Products or Services

When you know your total costs, refer back to the Price Form in the Marketing Plan of your Business Plan. There, you have written down how much your customers are willing to pay for the service supplied by you, and how much your competitors charge for the same service.

The final price for your product or service will be a function of these three factors:

- The total costs of your product or service
- The price customers are willing to pay for it
- The price charged by your competitors.

As a rule of thumb, the difference between the price customers are willing to pay and your total costs reflect your potential profit margin. If your total costs alone exceed the final price customers would be willing to pay, your product or service is not likely to render any profit.

The prices charged by your competitor for the same product or service can also determine your profit margin. It will be difficult for you to charge higher prices than your competitors — even if customers would be able to pay them — because they might turn to your competitors instead if they have the choice of cheaper product or service.

How much customers are willing to pay for your product or service also depends on how you market your products and services to them. If you can convince them that your products or services are of higher quality than the products or services of your competitors the customers might turn to you.

BUSINESS PLAN

Complete the costing sections in your business plan.

Important

When you have done costing for your products or service, return to the Marketing Plan and finalise the Price section.

CHAPTER 9: FINANCIAL PLANNING

Your business will spend money in buying stock or making products before money starts coming in. It is important to plan how much money is expected to come into the business and how much money is expected to be paid for business expenses. The process of describing the income and expenses is called budgeting. The plan for finances also includes a plan of how money is going to flow into and out of the business.

The process of organizing how money is going to be used in the business is called financial planning. Financial planning is done for a period of time, usually a year. Preparing a plan of how much money is expected to come into the business and how much money is expected to be paid for expenses helps you to manage your income and control expenditure.

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

- that you do not run out of cash
- that you make a profit.

Your business can run with a loss for a while because you can use the working capital from your start-up capital to pay for costs in the beginning. But when the start-up capital is finished your business must have higher sales than costs, otherwise it will run out of cash.

During the first months of business operations, you will often struggle to recover all your costs and make a profit. It takes some time before money from sales start to come in. During this time your business is very vulnerable and you must keep a careful eye on the financial situation.

PLANNING YOUR FINANCES

Before you start your business you plan for both profit and cash flow. When you have started you should monitor the sales and costs as well as your cash flow closely to make sure that everything is going as you planned, if anything goes wrong, you should take action to sort out the problem immediately.

The two important plans are you should prepare before starting your business. These are a **Sales and Costs Plan** and a **Cash flow plan**

A SALES AND COSTS PLAN

A **Sales and Costs Plan** shows the **sales, costs** and **profit** your business is likely to have each month. The Sales and Costs Plan is normally made annually. Since your business will be very vulnerable for anything going wrong in the beginning, be pessimistic when you make the Sales and Costs Plan. Rather forecast costs to be higher than you think and the sales a bit lower than you think. This way you will make sure that your business can survive even if things do not go as well as you hope in the beginning.

Look for information and use it to plan. For example, when you forecast the cost of materials or goods, ask suppliers about their prices. Do not guess.

To make a Sales and Cost Plan for the first year of your business follow these steps:

Step 1: Forecast sales for each month of the first year

Step 2: Forecast your direct material costs per item

Step 3: Calculate total direct material costs for each month of the first year

Step 4: Forecast direct labour costs per item

Step 5: Calculate total direct labour costs for each month of the first year

Step 6: Forecast indirect costs for each month of the year

Step 7: Complete your Sales and Cost Plan.

Step 1: Forecast sales for each month of the first year

Forecasting your sales is the most important part of making a Sales and Costs Plan. A realistic forecast of your sales is therefore extremely important. All other business decisions you have to make concerning the investments, staff, finance, indirect costs, depend on the estimated sales. Without good sales there can be no profit. Make a sales forecast for each month of how many of each service you are likely to sell.

1. For the first month of the year, take the sales projection that you made in Chapter 7 of this manual when you cost your goods or services and multiply it by the selling price.
2. Get the total sales for each month by adding the totals for all your products. The sale is recorded in the month when the payment is received.

Step 2: Forecast direct material costs per item.

Refer to your Product Costing form for the direct material costs per item sold by your business. Remember that:

- If you are a manufacturer or service operator, direct material costs are what your business pays for the raw materials to make the products or services you will sell.
- If you are a retailer or wholesaler, direct material costs are what your business pays for the products you buy to resell.

Make a forecast of the direct material costs per item for each product or service you will sell in your business. Retailers and wholesalers sell many products. Their forecast of direct material costs per item may be very long. A business must know the direct material costs for all their goods.

Step 3: Calculate total direct material costs for each month of the year

Now work out the total direct material costs for each month for all the products or services your business will sell.

1. Take the amounts you have worked out in Step 2 of your direct material costs per item for each product or service
2. Multiply these amounts by the number of each product or service you forecast to sell in Step 1 that your business is likely to sell each month.

3. Get the total direct labour costs for each month by adding the totals for all your products

Step 4: Forecast direct labour costs per item

- If you are a manufacturer or service operator, direct labour costs are what your business pays to employees who work to make the products or services you sell.
- If you are a retailer or wholesaler you do not have direct labour costs. All your labour costs are indirect.

Make a forecast of the direct labour costs per item for each product or service you will sell in your business.

Step 5: Calculate total direct labour costs for each month of the first year

If you are a manufacturer or service operator, work out the total direct labour costs for each month for all the products or services your business will sell.

1. Get the amounts you have worked out in Step 4 of your direct labour costs per item for each product or service.
2. Multiply these amounts by the number of each product or service you forecast in Step 1 that your business is likely to sell each month.
3. Get the total direct labour costs for each month by adding the totals for all your products

Step 6: Forecast indirect costs for each month of the first year

Indirect costs are all other costs, except direct costs, that you will have for running your business. Indirect costs are normally not directly related to one particular product or service. For example, costs for wages of employees or owners who do not work directly in the production of products or services are indirect costs.

Businesses have many kinds of indirect costs. Here are some examples:

- | | |
|-------------------|-------------------------|
| • Promotion | • stationery |
| • indirect labour | • electricity and water |
| • rent | • business licenses |
| • insurance | • interest on loan |
| • transport | • depreciation |
| • recycling | • waste disposal |
| • water sewage | |

Refer to your list of indirect costs you developed under the costing section. Add other costs if necessary. For your sales and cost plan, make a forecast for each month for each different indirect cost. Make sure that you include all the indirect costs your business will have. Get the total indirect costs per month by adding each different indirect cost.

Step 7: Complete your Sales and Cost Plan.

Now that you have made the forecasts you can use the amounts from Step 1, 3, 6 and 7 to fill in your Sales and Costs Plan. Use these forecasts to calculate what the gross profit and net profit is likely to be for your business in the first year.

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

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

NOTHO SPAZA SHOP

Notho has forecast her sales and costs for the first year in business. Notho knew how to make her Sales and Costs plan from the SYB training she attended.



The Sales and Cost plan (UNITS)													201__
DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
SALES	3000	4000	7579	7579	7579	7579	7579	7579	7579	7959	9000	9000	86012
Direct material costs	5830	5830	5830	5830	5830	5830	5830	5830	5830	6122	6122	6122	70836
Direct labour costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross profit	(2830)	(1830)	1749	1749	1749	1749	1749	1749	1749	1837	2878	2878	15176
Indirect costs	1160	1160	1160	1160	1160	1160	1160	1160	1160	1276	1276	1276	14268
Net Profit	(3990)	(2990)	589	589	589	589	589	589	589	561	1602	1602	908

This is how Notho forecast the amounts for January using steps 1, 3, 6 and 7.

Sales

Sales for January and February are expected to be low as the business needs to be known by the customers. Notho expects her sales to be fairly constant as it depends on people receiving grants every month. Generally people use the same basic grocery items every month.

Direct Materials costs

The cost of buying stocks is expected to increase by 10% at the end of the September.

Indirect Costs

Indirect costs are expected to increase in October due to increased transport costs.

Net profit is negative in January and February because of low sales. This is shown by writing the figures within brackets and means Notho will make a loss during that month. Because of the low sales in January and February, the gross profit will not cover the indirect costs.

WHATAMA GROUP CHICKENS

Whatama group prepare their Sales and Costs Plan following the suggested steps. They estimate that they won't have any sales during the first one and half months of operations. During the last two weeks of the second month they plan to sell their chickens, manure and the bags as well as prepare for taking in the next batch of chicks by beginning of the third month. Whatama group forecast their production and sales for the whole year.



The group plans to take in new chicks beginning of every other month. In a year therefore, they will have run 6 batches as detailed in the sales section in the table below.

The Sales and Cost plan(Units)												201_	
Details	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
Sales		18 680		18 680		18 680		18 680		18 680		18 680	112080
Direct Material Costs	7 460	4 095	7 460	4 095	7 460	4 095	7 460	4 095	7 460	4 095	7 460	4 095	69330
Direct Labour Costs	750	750	750	750	750	750	750	750	750	750	750	750	9000
Gross Profit	-8 210	13 835	-8 210	13 835	-8 210	13 835	-8 210	13 835	-8 210	13 835	-8 210	13 835	33 750
Indirect Costs	525.3	525.3	525.3	525.3	525.3	525.25	525.3	525.3	525.25	525.25	525.25	525.25	6303
Net profit	-8 735	13 310	-8 735	13 310	-8 735	13 310	-8 735	13 310	-8 735	13 310	-8 735	13 310	27 447

BUSINESS PLAN

Now follow the same steps to make your own Sales and Costs Plan for the first year of your business in your Business Plan.

A CASH FLOW PLAN

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 make sure that your business does not run out of cash at any time.

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

- You have to buy goods or 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. You often have to buy more goods or materials before these credit customers pay you
- You need cash to buy equipment. The equipment will help the business to make profit in the future. But you usually have to pay cash for the equipment now, before you have earned that profit.

In a cash flow plan all details (sales and expenditures) will appear as values that include the Value Added Tax amounts. If you qualify for VAT your business will collect VAT money with your sales. Your business will also pay VAT on purchases. Separate lines have been included in the cash-flow plan because you have to pay VAT on your sales to the Revenue Collection Authority.

NOTHO SPAZA SHOP

To make sure that they do not run out of cash when they start their Notho, make a 12 months Cash Flow Plan. Below is an example for the first six months.

CASH FLOW PLAN (Units)							
		JAN	FEB	MAR	APR	MAY	JUN
CASH IN	1 Cash at the start of the month	2000	3610	620	1209	1798	2387
	2 Cash in from sales	3000	4000	7579	7579	7579	7579
	3 VAT collected from Sales	-	-	-	-	-	-
	4 Any other cash in (savings)	7000					
	5 TOTAL CASH IN	12000	7610	8199	8788	9377	9966
CASH OUT	6 Cash out for direct material costs	(5830)	(5830)	(5830)	(5830)	(5830)	(5830)
	7 Cash out for direct labour costs	-	-	-	-	-	-
	8 Cash out for indirect costs	(1160)	(1160)	(1160)	(1160)	(1160)	(1160)
	9 Cash out for planned investment in equipment	(1400)					
	10 VAT on Supplies						
	11 Loan repayment						
	12 Any other cash out						
	13 VAT payable To Revenue Authority						
	14 TOTAL CASH OUT	(8390)	(6990)	(6990)	(6990)	(6990)	(6990)
	15 CASH AT THE END OF THE MONTH	3610	620	1209	1798	2387	2976

To make your Cash Flow Plan, follow the 12 steps in the plan. Steps 1-4 are for CASH IN. Steps 5-10 are for CASH OUT. Look at each step for January.

- Step 1** **Cash at the start of the month:** This is the amount of cash Notho expects to have in the cash box plus the amount of money they expect to have in their bank account when they start.
- Step 2** **Cash in from sales:** This is cash sales during the month of January. They look at their Sales and Costs Plan to find the forecast for cash sales in January.
- Step 3** **Any other cash in:** This is the amount of cash Notho forecast for January from savings. You may also get cash from a donation or grant to help you start your business.
- Step 4** **Cash in from VAT on sales:** This is money coming in as VAT on sales. Notho is not registered to collect VAT so they leave this place blank.
- Step 5** **TOTAL CASH IN:** They add up all the Cash In amounts from Steps 1, 2, 3 and 4. This is the total cash amount Notho expects to come into the business in January.
- Step 6** **Cash out for direct material costs:** This is the amount of cash Notho forecast the business will pay out in January to buy raw materials. They find the amount in their sales and Costs Plan.
- Step 7** **Cash out for direct labour costs:** This is the amount of cash the business can expect to pay out in January to pay wages for employees working in production. Notho does not have direct labour costs as she is in retail business.
- Step 8** **Cash out for indirect costs:** This is the amount of cash Notho forecast the business will pay out in January for indirect costs including salaries and wages. They look at their Sales and Costs Plan to find the amount.
- Step 9** **Cash out for planned investment in equipment:** Notho plans to buy furniture and other fittings during January. They write the amount they will pay here.
- Step 10** **Cash out for VAT on purchases:** This is the amount of VAT that the business pays to suppliers according to the applicable law on VAT.
- Step 11** **Loan repayments:** This is where the business should write down loan repayments, however, Notho plans to use her own resources so she leaves the section blank.
- Step 12** **Any other cash out:** This is cash out for other expenses.
- Step 13** **VAT payable to Revenue Authority:** This is the VAT remittances that have to be paid once a quarter to the Revenue Authority. Notho leaves this section blank.

Step 14 TOTAL CASH OUT: They add up all the Cash Out amounts from Steps 5, 6, 7, 8, 9, 10,11,12 and 13. This is the total cash amount that Notho expects to go out of the business during January.

Step 15 CASH AT THE END OF THE MONTH: They subtract the total cash out from the total cash in to get the amount left in the cash box and bank account at the end of January. Cash at the end of the month is cash at the start of the month.

WHATAMA GROUP CHICKENS

Whatama group make their 12 month Cash Flow Plan. Below is an example for the first six months.

CASH FLOW PLAN							
		JULY	AUG	SEPT	OCT	NOV	DEC
CASH IN	1 Cash at the start of the month	500	(240)	13070	4345	17655	8920
	2 Cash in from sales		18680		18680		18680
	3. VAT collected from sales						
	4 Any other cash in Savings	17252					
	5 TOTAL CASH IN	17752	18440	13070	23025	17655	27600
CASH OUT	6 Cash out for direct material costs	7460	4095	7460	4095	7460	4095
	7 Cash out for direct labour costs	750	750	750	750	750	750
	8 Cash out for indirect costs	525	525	525	525	525	525
	9 Cash out for planned investment in equipment	4650					
	10 Cash out for VAT on purchases	-					
	11 Loan repayment	-					
	12 Any other cash out	-					
	13 VAT payable to Revenue Authority	-					
	14 TOTAL CASH OUT	18000	5370	8735	5370	8735	5370
	15 CASH AT THE END OF THE MONTH	(240)	13070	4345	17655	8920	23505

BUSINESS PLAN

Now follow the same steps to fill in your own Cash Flow Plan in your Business plan.

9. REQUIRED START-UP CAPITAL

Start-up capital is the money you need to start your business. Every business needs money at the start of business. There will be bills such as salaries, water and electricity to be paid, seed and fertilizer to be purchased before any income is received. It is important to ensure that there is sufficient money to survive until the point where income exceeds expenditure. It is absolutely necessary that you know how much start-up capital you need and where you will get it before you go ahead and start setting up your business.

It is very important to establish how much start-up capital your business needs. Your cash flow plan will show you how much money you expect to come into your business and how much money you need to payout.

You will need start-up money for:

- Buying equipment and machinery which is called **capital investments**
- Money to finance business operations which is **called working capital**.

WHAT INVESTMENTS DO YOU NEED?

Your business might need you to buy equipment and machinery before money starts to come into the business. For instance in a farm you might need a tractor, in a manufacturing business you might need the processing machinery. Some businesses can however start with a low level of investment while others must invest a lot before they can start. For example, if you decide to produce plastics you need machinery to process the product but if you intend to produce crafts from plastic waste you might require just tools like needles, scissors etc. But every business needs to make some investments to operate.

To invest you need capital. This capital must be there when your start making or supplying your services and it sometimes takes several months (or years) before you have sold enough to cover the whole costs of your investment. Before you start, you must estimate how much capital you need for investments.

The capital investment you need to make can normally be divided into two categories:

- Business premises
- Equipment.

If you decide to work from home your costs of business premises will be low. If however you want to rent business premises you will need to budget for renovations, furniture and security.

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

- **construct** the premises
- **buy** the premises

- **rent** the premises
- **run** the business from your home

Decide what premises you need for your businesses. If your decision is different now from what you wrote down in the Place Form of the Marketing Plan in your Business Plan, go back to that form and change the location there. If the changed location has new cost implications for your business, go back to the Indirect Cost Form and adjust the figures accordingly.

I will			
☐ Construct our own premises	☐ Buy premises	☐ Rent	☐ Work from home
Because:			

Your business will need equipment such as machines, tools, workshop fittings, vehicles, office furniture, etc, to make products or supply your services. Some manufacturers and service operators will require heavy investment in equipment, others not. It is very important to know what kind of equipment you exactly need before starting the business and to choose the right type of equipment. Even for businesses that only needs very little equipment, it is important to carefully think about what you need.

The products that you need to make and the infrastructure available in the selected business premises will determine the required equipment. Decide whether you will buy or lease the equipment.

WHAT WORKING CAPITAL DO YOU NEED?

You normally run your business for some time before any money comes in from sales.

- Manufacturers must produce before they can sell.
- Service operators have to buy materials before they can start selling their services.
- Retailers and wholesalers must buy stocks before they can start to sell.
- Most businesses must spend time and money on promotion before they get customers.
- Businesses have to pay for wages, rent, electricity etc during the start up phase.

Working capital is the money you need to pay for these expenses. Because your business needs the money from the start, it is included in the amount of start-up capital you need. 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.

Notho plans that the relation between working capital and sales during the first three months in business will be:



You will need working capital to cover:

- stock of raw materials and finished products
- promotion
- wages
- rent
- insurance
- other costs

Stock of raw materials and finished goods

Manufacturers need raw materials for the production of goods, service operators might also need materials and retailers and wholesalers will need stock of finished goods to sell. The more you have in stock, the more working capital you need to buy the stock. Since you require capital to buy stock, you should keep your stock as low as possible.

If you are a manufacturer, to calculate how much start-up capital you need for stock you must estimate how much raw material you will need for production before you start selling and getting paid. If you are a service operator, you must estimate the stock of materials you need to provide your service until your customers start paying. Retailers and wholesalers must estimate how much stock of finished goods they need when starting the business.

Remember that if your business gives credit it will take even longer before cash comes in from sales and you will need to buy stock a second time from your start-up capital.

Start-up capital for stock if not giving credit	=	Cost of stock needed when starting the business	Start-up capital for stock if giving credit to all customers	=	Cost of stock needed when starting the business X 2
---	---	---	--	---	---

Promotion

You need to promote your services when you start your new business. The promotion you do will require working capital. In Chapter 4 of this Manual you have planned your promotion and estimated the cost.

Wages and salaries

If you employ staff, you will have to pay them wages even during the start-up period. You may need to pay yourself for living costs as well. In Chapter 6, you estimated how many employees you will need. To calculate how much start-up capital you need for wages and salaries you must estimate your monthly cost for wages and salaries and how many months you will need to pay wages from your start-up capital before the business get enough money from sales.

$$\begin{array}{ccccc} \text{Start-up capital for} & & = & & \text{Monthly cost of wages} & \times & & \text{Number of months before} \\ \text{wages and salaries} & & & & \text{and salaries} & & & \text{sales will cover costs} \end{array}$$

Rent

The rent for your business premises will normally have to be paid right from the start of your operations. The start-up capital you need for rent is calculated by multiplying the monthly rent by the number of months before you get enough money in from sales to cover your costs. In Chapter 8 you estimated your rent.

$$\begin{array}{ccccc} \text{Start-up} & & = & & \text{Monthly rent} & \times & & \text{Number of months before sales will} \\ \text{capital for} & & & & & & & \text{cover your costs} \\ \text{rent} & & & & & & & \end{array}$$

Leasing

If you are going to lease equipment, the costs for that equipment will require working capital. Estimate how much start-up capital you will need for leasing fees for each month until you can pay these costs from sales.

Insurance

Insurance policies must be paid when the business starts; you therefore need start-up capital for all insurance in the business. In Chapter 7 you calculated the cost of your insurance.

Other costs

There will be a number of other costs to pay during the start-up period, for example electricity, stationery, interest, registration and licenses. Forecast all your costs during

the start-up period. You made forecasts of all these indirect costs in Chapter 8, when you did your Sales and Costs Plan.

The start-up capital needed for other costs is the costs per month multiplied by the number of months before you get money in from sales to cover your costs.

Start-up capital for other costs	=	Other costs per month	x	Number of months before sales will cover your costs
----------------------------------	---	-----------------------	---	---

NOTHO SPAZA SHOP

Notho, asked her mentor to assist her to estimate how much start-up capital she needs to start the Spaza shop. She believes that it will take two months before the money coming in from sales will cover the money going out for costs. She knows that it takes some time before customers discover a new store. During this time her start-up capital must cover all payments.



She is not planning on giving credit. This is her estimate of how much start-up capital she needs.

Notho plans to buy furniture for the business

Rent is for three months

Other costs like stationery, and consumables etc

REQUIRED START-UP CAPITAL	
INVESTMENTS	
• Business premises	
Construction or purchase building	
Conversion or reconstruction of business premises	1400
• Equipment	
Furniture	1000
WORKING CAPITAL	
Stock of raw materials or finished goods	6830
Wages	900
Rent for 3 months at per month	600
Licence & registration	120
Electricity and water	120
Transport	1000
Other costs	30
TOTAL START-UP CAPITAL	12,000

WHATAMA GROUP CHICKENS

Whatama group also estimate how much start-up capital they need to start their business. They have reviewed every amount in their business plan after talking to suppliers, landlords, builders, etc. They think that it will take two months before sales fully cover the payments for costs. This is their estimate of how much start-up capital they need.

REQUIRED START-UP CAPITAL	
INVESTMENTS	
• Business premises	
Construction of chicken sheds	3450
• Equipment	
Purchase of feeders	600
Purchase of waters	600
Solar panels and fittings for lighting	500
WORKING CAPITAL	
Day-old chicks	2500
Stock of feeds	8680
Stock of vaccines	375
Promotion	250
Wages	600
Rent	0
Leasing – refrigerator & generator	30
Insurance and licensing	17
Other costs: electricity, water	150
TOTAL START-UP CAPITAL	17,752

The feeds are
for six weeks

BUSINESS PLAN

Turn to your own Business Plan to calculate the amount of start-up capital you will need for investments and working capital.

CHAPTER 11: TYPES AND SOURCES OF START-UP CAPITAL

When you have estimated how much start-up money you need for your business, the next question is: Where do you get that capital from? Many vulnerable people have to rely on their own money to finance business activities because they generally do not meet the collateral requirements needed to access finance. There are times however where the money required for starting a business is more than what you have.

Your business will need the full amount at the start because the money is for initial investments and working capital for the first months in operation. It is therefore important that you do not start setting up your business until you have all the start-up capital you need.

To be viable your business needs to consider a wide range of sources for start up money.

There are many sources of financing available to small farming and non farming activities. These include:

- individual financing,
- community based financing / cooperatives,
- government programmes,
- contract farming,
- commercial banks,
- NGOs and other relief and development agencies.

However, not all are appropriate to all businesses at all times. These different sources of finance carry different obligations, responsibilities, and opportunities.

Owner's Equity:

- It is important to put your own money in the business. Such financing, puts less pressure on the business for making repayments and paying interest
- Investing your own money shows that you believe in our own business idea.
- If you do not have enough money to invest in the business, you can consider finding a partner or partners who are interested in investing in the business.

Assess Your Personal Financial Situation

It is important to assess if your financial situation will help you to start a business. In addition to business skills, it is important to have enough money to start your business. You cannot expect to obtain a loan from an organization if you do not have any savings and acceptable security. You will have to use some of your own money to start a business.

Assess how much of your personal money you can use to start your business after taking care of your family expenses. You cannot use all of your private money to start the

business. If your family has no other source of income, all living costs must be paid from your savings until the business can support your family. Generally, a new business runs for at least three months before there is enough profit to pay the living costs of the owner.

You should prepare a summary of your personal financial situation. Set out the amount of money coming in, between now and the time that the new business can support your family. Plan for your new business with the money you have after you deduct your living costs. Here are the steps to prepare your Personal Budget Plan:

Step 1: Estimate how much money you have available or you may be able to raise from personal sources to invest in your new business. This may include:

- Your personal savings including any fixed deposits that you may have made.
- Salary or terminal benefits from your current job, pension fund etc.
- Any assets that you can convert into cash like shares, bonds, deposit, sale of furniture etc

Step 2: Estimate how long your business will take to generate enough money to support you and your family.

- Remember that you can only use the profits from your business to pay for personal expenses and family expenses. Very few businesses can generate profit immediately after starting.

Step 3: Estimate how much money you will need during this time to cover you and family expenses.

- This should include
 - The money you need for your basic living expenses such as food, rent, electricity, etc
 - Other financial commitments you have to meet on a regular basis such as payment of accounts, school fees etc
 - Make a contingency of other unforeseen expenses such as medical expenses.

Step 4: Decide how much money you need to keep on reserve for emergencies and as a fallback in case the business fails.

- Remember that there is always a risk of failure in business. If you depend solely on the success of the business for your personal financial security, it could create a problem for your family.

Step 5: Calculate the total amount of money you need before your business starts making a profit.

Step 6: Subtract the total in step 5 total money needed for family expenses from the total funds available in step 1 to get the amount of money you can invest in your business.

Notho worked put her budget as indicated in the illustration below:

Notho knew that she needed to allocate some money from her different income generating activities to starting the new Spaza business. She works out how much money she is expecting to come and how much money her family needs for the next two months before her business starts making money. See her budget below:

Money in:	Units
1. Savings	11000
2. Income from selling equipment	3000
Total money in:	14000
Money out (in the next 2 months)	
1. Food: 500/month x 2 months	1000
2. Utilities: 150/month x 2 months	300
3. Other expenses: 100/month x 2 months	200
4. Tuition fees for children: 250/moth x 2 months	500
Total money out:	2000
Money to start a business	12,000

He now knows that in the next two months she will have 14000 Units in total, but she can only allocate 12,000 to start a business.

Prepare your own budget using the template below:

Money In	Units
Money available now	
Other money in before you start the business	
Total Money In (A)	
Money Out (during next __ month's)	
1. Food	
2. Rent	
3. Loan repayments	
4. Electricity	
5. Telephone	
6. Transport	
7. School fees	
8. Transport	
Total Money Out (B)	
MONEY TO INVEST IN THE BUSINESS (A-B)	

Loans

To get a loan for start-up capital means that someone lends you money. You have to pay interest on a loan and you have to pay the loan back. You can pay the loan back either in instalments or all at once, depending on what agreement you make with the lending institution.

If you borrow money for start-up capital there will be more pressure on your business than if you use owner's equity. On set dates you must pay interest and instalments on the loan. The more you borrow, the more you have to pay in interest and instalments. This will always be difficult for a new business and it is normally better to borrow as little money as possible to start your business.

Whether it is an individual or a lending institution borrowing you start-up capital, they will want to know exactly what you want to use the money for and if they can be sure to get it back. If you borrow your money from a lending institution, you usually will have to comply with two major requirements:

1. A well thought through and clear business plan with a business idea that the lending institution believes in. An unclear Business Plan will make a bad impression and make it difficult for the lending institution to form an opinion about your business idea. Sometimes the lending institution will require you to fill in their own application form. You should be able to transfer most of the information from the SYB Business plan to the lending institution's form.
2. The lending institution will probably also need some kind of collateral for your loan. Collateral means the security that the lending institution has for the repayment of your loan. If you cannot repay the loan, the lending institution has the right to take possession of the collateral instead. The reason why the lending institution needs collateral is that if your business fails and there is no money to repay the loan, the collateral can be sold by the bank to cover the loan. The business premises can be used as collateral if you own it.

It is important choose a financial service provider that offers credit terms and conditions that your business can meet. This includes the interest rate and payment terms. Use the form below to decide what collateral you can offer to the finance institutions:

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

Some suppliers are keen on providing their goods and services on credit to you in order to make their own business work. For instance some companies are prepared to finance your farming activities for specific crops that they will buy from you. Retailers can also get an initial stock without immediate payment. Some only request payment as soon as you sell.

Here are additional sources you can try when you are applying for a loan to start your business.

Government Grants and Credit Programmes

Governments and international institutions from time to time have special programmes to assist vulnerable communities' access funding and other technical support. It is important to find out from relevant departments what programmes the government has for farmers and other small businesses.

The Corridor Economic Empowerment Project has designed a Corridor Economic Empowerment Innovation Fund (CEEIF). The table below summaries the CEEIF features. Additional information can be obtained through your trainers and the ILO/CEEP office in your country.

What is Corridor Economic Empowerment Innovative Fund

The Corridor Economic empowerment innovative fund is a component of The International Labour Organisation Economic Empowerment and HIV Vulnerability Reduction along Transport Corridors in Southern Africa project.

What is the CEEIF target group and how do they access funding?

The fund is primarily targeting vulnerable and marginalised members of the communities in the Transport corridors-e.g. HIV vulnerable girls and women. To access CEEIF services one has to belong to a Social Economy Organisation, like Savings and Credit Organisation, Women or Men Clubs, Business Association etc.

Loans must be for productive purposes only. Every application will be considered on its own individual merits with the following factors taken into consideration:

- | | |
|---|---|
| • Viability of proposed business venture | • Character of member |
| • Size of the loan | • Period you have saved with the SEO (if it is a SACCO) |
| • Repayment capacity of the member | • Availability of security(shares, collateral , guarantees) |
| • Loans with other financial institutions | • Member shares and deposits |
| • Loan repayment history | |

Collateral security requirements: member shares and deposits (in a SACCO) as well as the SEO savings and deposits may be used as collateral. A loan can be guaranteed by a member or non-member of the SEO

Maximum loan size: Except loans guaranteed by collateral and guarantees, the maximum available for will be up to three times the member's shareholding

What is the maximum Loan duration?

As far as possible, loans duration is to be matched to the purpose of the loan.

Loans should be repaid within six months. Loans are to be repaid weekly, fortnightly or monthly.

Membership Based Associations and Savings Cooperatives

You can also access a loan from membership based associations such as Savings and Credit Cooperative Societies (SACCOS), Village Savings and Loan Associations (VSLAs). To benefit from these you will need to be a member and buy shares in the institution. You will also be required to save a certain amount of money with institution. Some of these institutions are linked to Microfinance Banks allowing members who qualify to access larger loans.

Loans from savings cooperatives are usually designed for the benefit of their members. However, at times these cooperatives have excess money to lend to other interested persons. Find out if such cooperatives exist.

Microfinance Institutions and Banks

Microfinance institutions and some development banks have developed group lending methodologies that enable people without conventional collateral to also access loans for business. To access a loan from these institutions you are required to be part of a group. Find out about Microfinance Institutions in your area.

Visit local banks to understand the programmes they are offering for small business persons. Before you select a financial service provider ask yourself the following questions:

- What is my total capital requirement?
- Do I need a loan? What will be my equity contribution? How much is my additional loan requirement?
- Where do I get a loan fund from? What are the loan conditions?
- What type of security (collateral) am I required to present to lending institutions such as to micro finance institutions and other conventional banks?
- What are the loan terms and conditions, grace period, interest rate, repayment schedule, etc.?
- Can my business generate enough profit to cover the cost of a loan and pay loans back within the specified loan term?

Other sources

You might be able to get a loan from your family or friends. This can be a good alternative in some situations, but if your business fails and you have difficulties in paying back the loan, relationships can suffer.

Sometimes you can get a private loan from someone other than your family or friends. These loans often carry very high interest rates.

Some suppliers are keen on providing their goods and services on credit to you in order to make their own business work. An initial stock may be obtained without immediate payment. Some only request payment as soon as you sell. You could negotiate this or eventually insist on payment in instalments or at a certain date. Some suppliers are even prepared to arrange a credit scheme on your behalf. These credit schemes are often

extremely expensive, although they could help you through your start-up phase as their conditions for obtaining the credit are generally not very complicated.

NOTHO SPAZA SHOP

SOURCES OF START-UP CAPITAL

Required start-up capital	12000
Sources of start-up capital	
Owner's equity	10,000
Other sources	
____ Sale of equipment _____	____ 2,000 _____
_____	_____
_____	_____
Total (must be the same amount as required start-up capital)	
Collateral (if applying for a loan)	
1. _____ NIL _____	
2. _____	

SOURCES OF START-UP CAPITAL

Required start-up capital **17,752 Units**

Sources of start-up capital

Owner's equity (savings) 17,752Units

Other sources

Loan from _____ 0

Total (must be the same amount as required start-up capital) **17,752 Units**

Collateral (if applying for a loan)

1. _____

2. _____

BUSINESS PLAN

When you have decided on the sources of start-up capital, fill in your own Business Plan.

CHAPTER 12: STARTING THE BUSINESS

In this chapter you are taken through the steps in finalising your business plan, evaluating it and preparations for your new business. Review notes on additional information you needed to collect for each of the steps in the business plan preparation and prepare a clear action plan. The following key processes are important to ensure your business is started well.

Your trainers and mentors should be able to support you throughout the process of collecting information and finalising your business plan in preparation to start your business. The following are the key activities that you need to do:

1. Collect missing information and finalise business plan
2. Decide whether you really want to start this business
3. Are you ready to start your business
4. Organize yourself for the actual start-up
5. Plan your first day of production and/or sales

COLLECT MISSING INFORMATION AND FINALISE BUSINESS PLAN

Congratulations for working hard in preparing your business plan. You now have a lot of information about your new business, however you need to collect information to verify some of the assumptions you have been making in order to finalise the business plan. Most of this information you will have to find on your own. Most refinement of the estimates and calculations you can now do by yourself. But you might still need some assistance to complete this Business Plan.

Think through what information you will need and fill in the action plan on the next pages to help you plan your work. Do not forget that the first person understanding your business idea and business plan is your SYB trainer. Do not hesitate to contact him or her even after the training.

The following list suggests possible sources of assistance in finalising your Business Plan:

- There are often government organizations and non-governmental organizations, which assist people who want to start small businesses through advice and training.
- Business Trainers, Mentors, other Business people and others can assist with some parts of your Business Plan.
- Business associations, Chambers of Commerce and employers' organizations sometimes have small business units that can give useful assistance.

- Business people with experience and active in the value chain or the line of business you plan to start can give specific advice.

Finalise the business plan based on the additional information and prepare the executive summary. The executive summary gives an overview of your planned business activities.

EVALUATE YOUR BUSINESS PLAN

Now evaluate your business plan and preparations for your new business yourself first. After that, it is time to decide if you should start or not. Go through the questions in the checklist. Tick a yes or a no for each of the questions. If you are not sure about the question, tick no.

THE THIRTY GOLDEN QUESTIONS LIST

Answer each question by ticking yes or no

	Yes	No
1. Have you decided what products and service you are going to sell?	☐	☐
2. Do you know who will supply your business with the technical skills?	☐	☐
3. Do you know who your customers will be?	☐	☐
4. Do you know what their needs and preferences are?	☐	☐
5. Have you asked potential customers what they think about your business?	☐	☐
6. Do you know who your competitors will be?	☐	☐
7. Do you know what prices your competitors charge?	☐	☐
8. Have you decided what prices you will charge yourself?	☐	☐
9. Have you found the best location for your business?	☐	☐
10. Do you know how to reach your clients best?	☐	☐
11. Do you know how to influence the “word of mouth” effectively?	☐	☐
12. Have you decided what kind of promotion you are going to use?	☐	☐
13. Do you know how much your promotion will cost?	☐	☐
14. Have you planned how much you will sell?	☐	☐
15. Do you know your production or service level?	☐	☐
16. Do you know how much materials will be required?	☐	☐
17. Have you decided what staff you will need?	☐	☐
18. Do you know how you will organize your staff?	☐	☐
19. Have you decided what kind of investments you will need to make?	☐	☐
20. Do you know how to depreciate these investments?	☐	☐

	Yes	No
21. Do you have an overview of your total business costs?	☐	☐
22. Have you made a Sales and Costs Plan?	☐	☐
23. Have you made a Cash Flow Plan?	☐	☐
24. Are you able to adjust the selling price based on the estimated costs?	☐	☐
25. Have you calculated how much start-up capital you need?	☐	☐
26. Have you raised money for all your required start-up capital?	☐	☐
27. Have you found out what financial assistance you can get?	☐	☐
28. Have you decided which legal form is best for your business and you?	☐	☐
29. Do you know all the legal requirements for your business?	☐	☐
30. Have you decided what insurances your business will need?	☐	☐

Count the number of questions you answered with “yes”.

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 how far you have come with the preparations to start your business.

Make your assessment based on the number of “yes”
30 You are well prepared and should probably go ahead and start your business.
20-29 You should go back to those questions where you answered no and work on those aspects until you can honestly and comfortably answer yes to all these questions.
10-19 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 completely and start afresh.
0-9 It will be impossible to start your new business with such a score. You either need to choose a better business idea or you need to work on your personal skills if you really want to consider entrepreneurship as a career option. Do consider attending another GYB session.

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

When you have answered **Yes** to all the 30 questions above, it is time to go make a firm decision about actually starting the business.

ARE YOU READY TO START YOUR BUSINESS?

You need to ask yourself the following key questions about your business idea.

THE FIVE ESSENTIAL QUESTIONS LIST

Answer each question by ticking yes or no
--

	Yes	No
1. Do I really like the business idea?	☐	☐
2. Do I still consider this business idea as the most interesting one?	☐	☐
3. Does my family like me running this business?	☐	☐
4. Is it likely that my business will be profitable within what I consider as reasonable time?	☐	☐
5. Is it likely that I will obtain the necessary funds for starting?	☐	☐

If you answer each of these questions with **yes** (be honest with yourself!) you should start the business. But if you answer only one of these important questions with **no**, you may seriously consider abandoning the idea of starting the business!

Take a calculated risk! You should not make a decision that you will regret later as it will be difficult to change your decision then. Starting a business is often one of the most important decisions you can make. For most people it will normally only happen once in a lifetime. So do take sufficient time for this decision. Talk to people, be open for questions and suggestions, but decide for yourself.

If the answer is no, this is certainly a wise decision at this time. In that case there is no need for going through the next steps.

If yes, congratulations! You have made a decision based on a thorough analysis of yourself and your business idea.

ORGANIZE YOURSELF FOR THE START-UP

You have spent a lot of time planning for your business. It is important to put these plans in action as you start your business. You will need to secure the business premises, purchase the required equipment and tools, purchase the raw materials or finished goods, start marketing your products and services and employing the staff. It is important to take these initial steps guided by your business plan.

It is important to remain structured in your work. Be careful with changing your initial plans.

Use your business plan as often as possible as a checklist and check regularly whether you are still on track. Make additional notes in your plan as you get more information

about your business and the market you are serving. Anticipate problems at the start up phase and be prepared to make adjustments in the implementation process.

PLAN YOUR FIRST DAY

Make a checklist of the critical things that need to be in place by the first business day. You can never assume that everything will be exactly as you planned for. This is especially true for those actions where you are counting on other people who you do not know under these circumstances. Reassure yourself that you can count on your suppliers, employees, friends and family.

Remember, planning on paper is one thing, but to actually satisfy your first customer is another. Your first business operation is for you an exciting event, but even the first customer wants the required service. Do not forget that the real business starts with the very first customer and that you will need to convince all your customers right from your first sales.

Planning your first day is therefore something that you need to think about carefully, need to plan for and need to check time after time. So prepare and update your checklist on a daily basis.

CHECKLIST

Right down <u>all</u> issues to remember, whether they are big or small						
Action	By whom	By when*				Tick if completed Yes
		A	B	C	D	
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐

A = TODAY B = TOMORROW C = THIS WEEK D = LATE

Action plan

Action Required	Contact	When	Responsible Persons
Product			
Price			
Place			
Promotion			
Form of Business			
Staff			
Costing			
Financial planning			
Required start-up capital			
Sources of start-up capital			
Capacity Development			