

Community Development Strand

Unit 2: Integrated Community Development Projects

Module: 2.3 Small Business Development



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Unit outline

Unit	#	Modules
Unit 2 Integrated Community Development Projects	2.1	Participatory Development (Core)
	2.2	Integrated Projects (Core)
	2.3	Small Business Development (Core)

Icons



Read or research



Write or summarise



Activity or discussion

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Module 2.3: Small Business Development

Rationale

It seems that starting a small business is the easy part of business development. Keeping it going is not so easy. This module will continue from the previous module where you were shown how to establish and implement a community development project. Small business development will look at ways a suitable community project can be developed into a successful income generating business. Aspects of business management will be taught, such as marketing, keeping records, understanding profit and loss, buying and selling. You will be expected to be able to write a simple business plan.

You will be taught ways in which to encourage entrepreneurs in their communities. It is not possible to teach in depth all the necessary skills for setting-up and running a business nor is it likely that these skills can be mastered by one person. The basics of entrepreneurship will be covered and references and network opportunities identified to enable you to further your knowledge.

Objectives

By the end of this module you will be able to:

- Describe the characteristics of a successful business owner.
- Develop a marketing plan and a feasibility study.
- Appreciate the work involved in preparing a business plan
- Explain about the legal responsibilities of business owners
- Plan to make a profit
- Plan for start-up money and organise an ideal location
- Demonstrate the importance of promotion
- Maintain accurate records of sales, expenditure and profit

References

Melanesian Trust (1999). *Melanesian Trust Awareness Packets Manual No 2*. Author

Liklik Buk Information Centre (1997). *Liklik Buk. A Rural Development Handbook Catalogue for Papua New Guinea*: UNITEC

Muckleburgh, A. (1992). *Economics for the Developing Nation. Book 1*. Longman

Fellows, P, Franco, E and Rios. W (1996). *Starting a small food processing enterprise*. Intermediate Technology Publications

International Labour Organisation (1997). *Start your Business Programme*. Author

Sirilli, E (1999). *Ripples from the Zambezi –Passion, entrepreneurship and the rebirth of local economies*. New Society Publishers

Topic 1: Income Generating Projects

Objectives

By the end of this topic, you will be able to:

- Describe the characteristics of successful business owners
- Discuss what it takes to be an entrepreneur
- Develop and grow a business idea
- Carry-out a marketing plan and feasibility study.

Scope

This topic examines what it takes to be a successful business person. It looks at the notion of an entrepreneur and the type of thinking and planning that takes an idea and turns it into a business. Basic marketing – getting to know who the customers are and what the customers want is introduced through a marketing plan.

Characteristics of successful business owners

The success of any business depends largely on the business owner's personal characteristics, skills and financial situation. Before deciding to start or support a potential business, you need to think honestly about yourself or the entrepreneur wanting assistance to be sure that you or they are the right type of person. They will need to be motivated and committed to start a successful business. If you are assisting them don't motivate them! They must have the **passion** to want to start a business.

Remember:

**“If people don't ask for help, leave them alone!” and
“Never initiate anything”**

Why is this good advice? List five reasons.

What is an entrepreneur?

Almost anyone can be an entrepreneur, but some people are better at operating a business than others. Different levels of entrepreneurial skills are needed, depending on the level of technology and the environment in which the business operates. An entrepreneur is someone who has a dream and goes that extra distance to make it happen. An entrepreneur must have the passion to make things happen. When you recognise such a person, take on the role of a facilitator and assist them to realise their potential.

 **2.3 Activity 1**

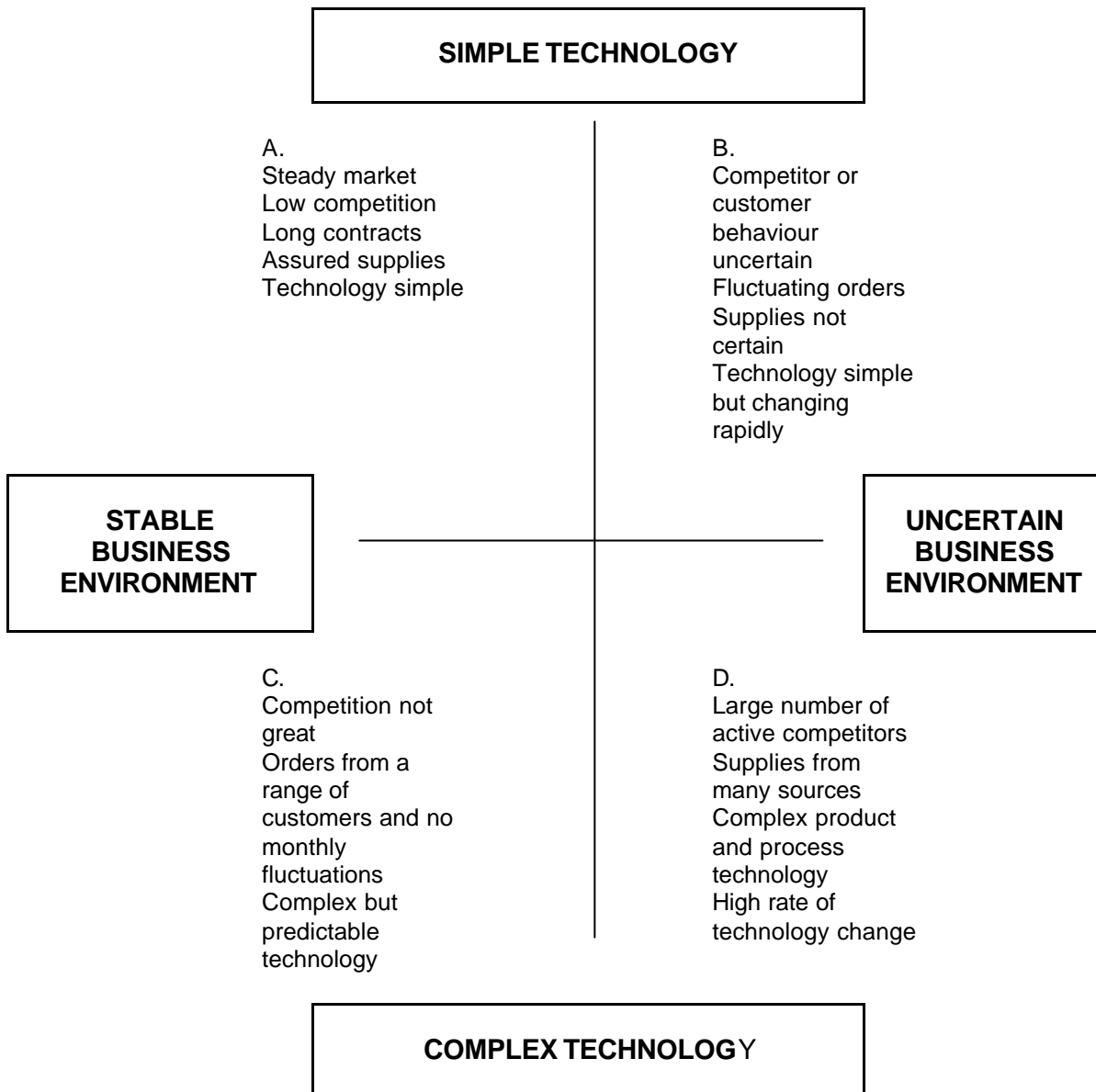
Do you consider yourself to be an entrepreneur?

Answer the following simple quiz to see whether you are the sort of person that could set up and operate a business.

	YES	NO
1. I think that a routine pattern of life with regular working hours suits me best		
2. I have always thought and acted by myself		
3. Some days I seem to achieve nothing		
4. It is not good to start something unless you are going to finish it		
5. I am happier when I do not have to rely on other people		
6. I often feel that I am a victim of events that I cannot control		
7. In any bad situation I always get something good from it.		
8. It is important to me that people recognise my success.		
9. I am not too ambitious so that I can avoid being disappointed		
10. I am prepared to take risks only after I have thought of all the possible consequences		
11. When I talk to a senior person I do not usually say what I mean.		
12. People often tell me that I am good at understanding their point of view.		
13. The amount of money that I earn is more important than how hard I work to earn it.		
14. I usually work later than I planned.		

To evaluate your score see final page in Glossary

The diagram below examines the entrepreneurial skill and technology levels. All businesses involve taking risks and potential entrepreneurs need to be aware of these risks as well as the potential rewards.



Source: 'Starting a small food processing enterprise' Intermediate Technology Publications.



2.3 Activity 2

Look carefully at the diagram; list some examples of complex technology and simple technology in businesses?

For each type of business suggested A, B, C and D think of examples of local businesses.

Entrepreneurs usually have some basic ideas about a good income-generating project. Usually these will be projects they are really interested in. Many of these may be based

on their own experience of where they live. Often ideas come from seeing others producing or selling something and then trying to copy them. When someone has an idea for a small business he / she will often try to start up straight away without having clearly thought about the different aspects involved in actually running a business. This 'hit and miss' approach often results in failure during the first or second year of the business.

To reduce this risk of failure it is necessary first to decide whether this idea is feasible. This involves doing a short **market survey** and will usually involve producing a **feasibility study** and possibly a **business plan**. A feasibility study is a good way of working out the likely success of a business on paper before scarce resources are spent in actually getting started.

A business idea

A successful business starts from a good idea. A good business idea is essential to avoid later disappointment and loss of your money.

Imagine that you have decided to start an income-generating project by yourself, or with a group. What kind of project do you want to start? What kind of work do you want to do? There are many types of businesses, but most can be described as being retail, wholesale, manufacturing, service, agriculture or forestry. To make a business successful, make sure that you have considered every aspect of your planned business.

A good business must have two parts

1. An opportunity; and
2. The ability of the entrepreneur to take advantage of the opportunity.

Businesses survive by providing goods and services that help people meet their needs and solve their problems. Think about the problems people experience in meeting their needs or solving their problems.

Approach the task in the following ways:

- **Problems you have experienced yourself** – Think of the problems that you have experienced when trying to buy products and services locally
- **Problems at work** – When working for another organisation, you may have noticed problems in getting your work done because of poor services or lack of materials
- **Problems experienced by other people** – Learn a lot about people's needs and problems by listening to what they complain about.
- **What is missing in your community** – Study the community to find out what services are missing.

People's problems and unmet needs provide clues about the opportunities for new businesses. Entrepreneurs see opportunities for new businesses in other people's problems

It is important that the entrepreneur, thinks small when he / she plans to start a business.

If you
think
you can
or think
you can't,
you're
right.

Henry Ford

Who was Henry Ford and what do you think this quote means?

Skills

Everyone has skills which can assist their entrepreneurial ventures. Recognising your own skills and the skills others have may be an important step in finding the right business venture.

Remember “ Successful people love what they do; they are passionate about it. They excel because there is no distinction in their minds between work and play, working and living.”

List some of the skills women have and encourage others for men and women

Example of skills many women have skills in:

- Cooking
- Preserving food
- Growing fruit and vegetables
- Raising livestock
- Sewing and repairing clothes
- Making traditional handcrafts

Many women already make money with these skills. Other women try to use these skills in income-generating projects but have problems with marketing or money.

There are hundreds of possible small businesses in the Papua New Guinea.

How can you support a money-making opportunity for your community or yourself?

As a community business facilitator

1. Find people who have a good idea and the passion to grow it into a business. These people need to be self motivated and committed.
2. Listen and discuss to find out about the person, ask what they have done about their idea, what skills they have. How determined are they to start the business? Find out what the level of commitment is.

Remember: “**The quality of the person will determine the quality of the business**”

3. Analyse the idea, find out about its potential within the limits of the information given to you by the entrepreneur. Find out what finances the person has to invest? Everyone complains about having not enough money – that’s why they want to start a business.

Remember: “ **Bad management kills companies not lack of finance**”

4. Find out what management skills the person has, there are three areas of activities that need to be taken care of:
 - The technical skills necessary to produce the goods or services one wishes to sell
 - The ability to market ones goods or services
 - The ability to financially manage one's affairs.

If one of these areas is missing a business will never succeed.

To assist an entrepreneur, the facilitator needs to find which of these business activities the entrepreneur can take care of, and which areas would need support. Very few people can manage all three areas by themselves.

5. Help the person find resource people (at least two others) who can form a business team. Become an advocate for the entrepreneur and convince one or two other people with the skills to become interested in the project.
6. Present the person with a blank model business plan. Ask the entrepreneur to start thinking about which parts of it he /she would feel excited to complete. The entrepreneur will quickly identify areas of competence, and you will then be able to identify areas where support is needed and suggest that a team be assembled to write the best business plan they can produce.

Further things to be aware of as a community facilitator for small business entrepreneurs:

If you arrive in a community and you start doing things, the community will identify you as an expert, as someone who is there to 'develop' them. They will become spectators, watching you doing things to them and for them.

- Don't ever initiate anything
- Don't ever motivate anybody
- Don't get involved in lending money

Never play power games with community people, avoid being identified as a power figure

 **2.3 Activity 3**

The advice given above has proven successful. What do you think about it? What are the possible dangers of initiating an income generating project?

If you have to motivate someone into a business, what does that say about their and your interest in the business?

Other things you can encourage entrepreneurs to do include:

- Encourage them to ask for advice from one of the government officers who look after small businesses.
- Have them look around at the resources available in their village (things like timber, clay, pandanus, fertile gardens, seas full of fish reefs with, coral and shells, etc.). Can they use any of these resources to make or grow things to sell?
- They can look around them at the kinds of things people buy in the stores. Could they make any of these things better or cheaper and sell them?
- They can look around for things which are in short supply or are hard to get in their area. Could they make them and sell them?
- You could encourage them look at import statistics. These statistics are put together, usually each year, by the government. They tell you what things are brought into Papua New Guinea each year from countries overseas. The figures tell you how many of each thing is brought in, and the total amount of money spent on each thing. The statistics cover everything from cars and agricultural machinery to eggs, clothes and biscuits. If a lot of money were spent overseas on something you or they could make, perhaps this would be a good money-making project.

Before you start or support any kind of project, you must think very carefully about these things. You need a good idea to help you make money. But you must also have a good market for the goods or the services, which your project provides.

2.3 Activity 4

Research to find the small business support agencies that exist in Papua New Guinea. Look for opportunities for:

- Training and funding

Look for government agency support as well as non-government support.

Marketing and feasibility study

Any business needs customers. The market consists of the people who might want to buy your products or services, together with others who might become customers in the future.

Your business must attract people who need to buy what you have to offer. There will be competitors trying to sell similar products or services. Before starting a business, you must know your customers and competitors.



Start with the customer

Assuming that you have an idea for a product or service, the first thing to do is to find out from potential customers what level of demand there is for the product or service (or what is the market for the product or service). A simple market survey should be carried out by talking with people who you might expect to buy the product or service.

Market research

This should be a short exercise so as to keep the costs low. In-depth market research is not necessary in most situations. From the information gathered from the potential customers you can work out the total demand for the product or service.

There are many questions to be asked:

- Who are the different types of customers for your potential business? List the products or services you plan to provide and note the types of customers you would expect.
- What products or services do the customers want?
- How much are customers willing to pay for each product or service?
- How often do they buy or need the service and how much do they buy?
- Are the people interviewed really representative of all potential customers?
- How many potential customers are there in total?

It might be useful to ask potential customers about where they buy a particular product or service now, what packaging they prefer, what is good or bad about the quality of the product or service and what would they like to change about it. You also need to think about how the product is going to be sold and what the competitors are doing.

Sample market survey questionnaire for a potential furniture business

1. Name: _____
2. Sex: male female
3. Status: married single
4. Occupation: wage earner subsistence farmer
5. How long have you been in this area?
 1 yr 2yrs 3yrs 4yrs more than 4yrs
6. What type of house do you live in? P SP BM






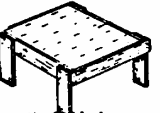
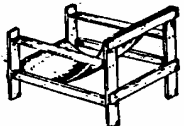

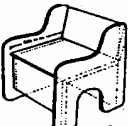
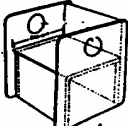
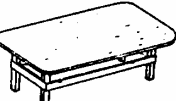

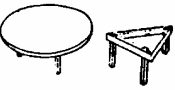

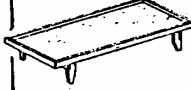
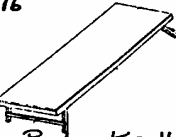
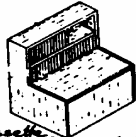
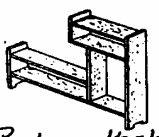
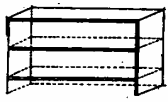
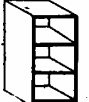
7. Which of these furniture items are in your house?
8. Here are some furniture designs and prices (show the designs) Indicate which of these you might buy if they were available.
9. Are there any other items of furniture you would like to buy?

Type	Yes	No
Stools		
Chairs		
Tables		
Beds		
Shelves		
Coffee tables		

- 1.
- 2.

Interviewer _____

Date _____

1  Stool K8/10	2  Stool K10/11	3  Stool K8/10	4  Stool K11/12	5  Stool K13/14
6  Small Table/ Stool K13/14	7  Armchair K20/30	8  Folding Chair K12/16	9  Box Chair K15/20	10  Box Chair K15/20
11  Dining Table K18/25	12  Coffee Table K13/14	13  Coffee Table K8/10	14  Coffee Table K10/12	15  Bed K50/60
16  Bed K50/60	17  Cassette and Radio Stand K25/30	18  Bookcase K25/30	19  Bookcase K25/30	20  Bookcase K10-12

 **2.3 Activity 5**

Think of a business opportunity or a small income-generating project that could be viable in your community. Use the Sample Market Survey Questionnaire for a potential Furniture Business as a model to help you design your own market survey.

Share it with your peers.

Know your competitors

Readings



Market or capitalist economies

Command economies are characterised by direct control of the economy by the state. At the other extreme is an economic system known as capitalism, which is based on the market and the free interaction of demand and supply. Decisions concerning the basic economic problem are made in the market without anyone individual or group, or even the government, sitting down and deliberately planning what should be done with the nation's resources. There is no central control and no individual or group can dominate decisions relating to production and distribution. The process described by Adam Smith as the 'invisible hand of the market' will, its supporters believe, result in the most efficient allocation of resources.

In market economies all resources are owned by individuals or groups of people. The desire to make a profit and the ability of anyone to gain wealth provides the motivation for people to co-operate, take risks and use resources to produce goods and services. All people have the freedom to choose how they will use resources, the type of work they will do, and what type of goods and services they will consume. All people have equal access to knowledge about the availability of goods and opportunities for production and employment. Finally, pure capitalist economies are characterized by perfect competition and minimal government involvement in the economy.

Source: Muckleburgh, A. (1992). *Economics for the Developing Nation. Book 1*

Papua New Guinea A variety of economic systems

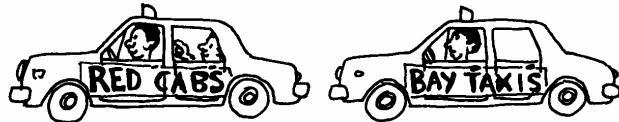
Papua New Guinea has just about the full range of economic systems within the one economy. Within Papua New Guinea there are a large number of communities that in part or whole rely on subsistence or barter as their method of production and distribution. There are also many small producers of cash crops, and manufacturing companies that operate very much in a market economy.

The government is very involved in the economy, spending over KI billion each year through its budget. The government has responsibility for much of the infrastructure such as transport and communications. The government is involved in the production of goods and services. The government regulates the economy through the use of measures such as price control and minimum wages legislation. In addition it attempts to plan economic development through a series of ongoing development plans.

Papua New Guinea is a very good example of a dual economy, with traditional and modern activities working side by side. Papua New Guinea is very dependent on agricultural and mineral exports. Problems of rural-urban drift and unemployment are increasing economic burdens. Despite these problems, however, there has been a considerable improvement in the standard of living of Papua New Guineans in recent years.

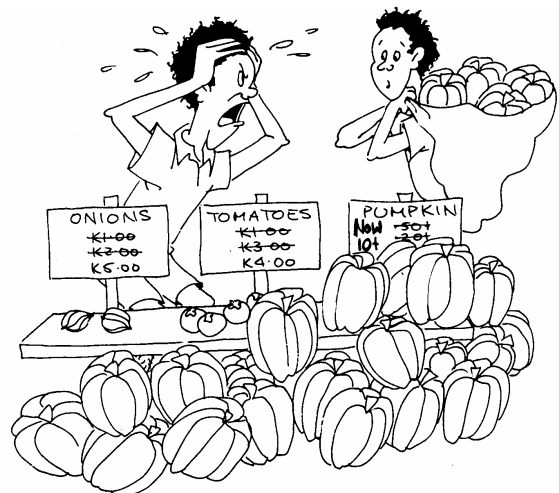
Source: Muckleburgh, A. (1992). *Economics for the Developing Nation. Book 1*

Any new business will probably have to compete with existing businesses that provide the same or similar products or services. Competitors are very important to the success or failure of a new business, and you should know:



Competition between firms

- Who is producing or selling similar products or services?
- Where are the competitors?
- What is the quality and price of their products?
- What offers or incentives if any do they give to retailers?
- What can you do to make the new product or service better?
- Why would a customer change to buy the new product?
- What are competitors likely to do if a new product is introduced?



From the information collected you will start to get a picture of the characteristics, strengths and weaknesses of your likely competitors.

2.3 Activity 6

What do people mean when they describe Papua New Guinea as a dual economy? What are some of the implications of this for the Government of Papua New Guinea?

How can competition benefit consumers?

Often capitalism creates monopolies – what is a business monopoly and what are the dangers for consumers?

Marketing plan

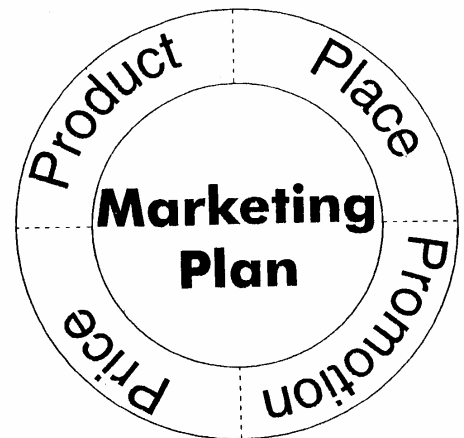
With the information about your customers and competitors, you can prepare a marketing plan. The four 'Ps' of marketing are:

A well-prepared marketing plan will include sections on each of the above. The aim is for your business to capture a share of the total market.

Product (or service)

The product is what you plan to sell to customers. Important considerations include:

- Type of product, quantity, colour and size, quantity, packaging
- The service to be offered and possible repair and spare parts to be provided



Price

To set prices, you must know:

- Costs
- What customers are willing to pay, and
- Competitors prices

Place

Where is your business going to be located? For retail or a service business location is very important.

Promotion

Promotion is about informing and attracting the customers to buy your product.

If the business idea seems promising, the entrepreneur then has to find out if she / he is capable of producing the product or providing the service in the required amounts and at the correct quality and price. It is also necessary to find the equipment, materials and

other resources needed to provide the service or product. A labour force may need to be trained and finance obtained. Finding out about these things is known as doing a *feasibility study*.

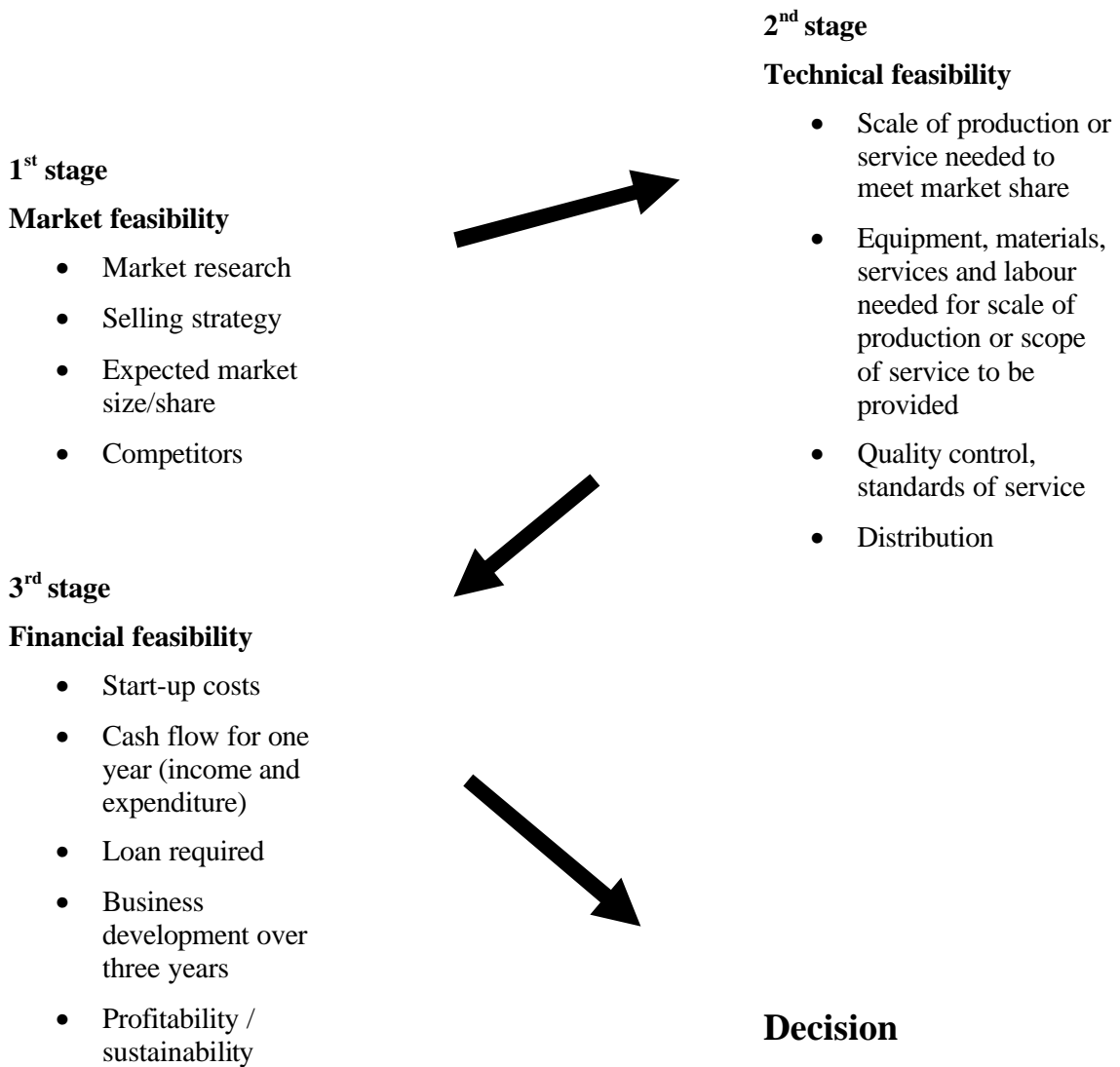


Feasibility study

The general procedure for conducting a feasibility study is to:

1. gather information
2. analyse it
3. use the analysis to plan the business

The following diagram shows that a feasibility study has three components; a feasibility study gives you the opportunity to think through what the business will involve in practice, to identify likely problems and to give you the confidence to go ahead.



2.3 Activity 7

Read the following income generation proposal and design a simple feasibility study to test its viability.

For each of the three stages of the feasibility study ask probing questions which together form your feasibility study.

In terms of business advertising how could the owner of this guesthouse improve her image?



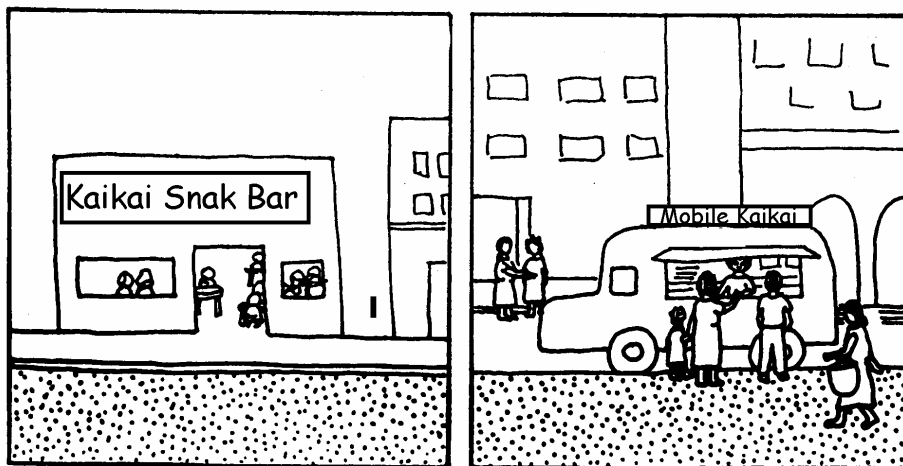
Mobile Kaikai Bar

In the past everyone in PNG lived in villages. People spent most of their time near their homes. Today people still live in villages but more and more people live near towns and cities. At the same time people spend more time away from their homes – to work, to travel or for entertainment.

When people are way from home they usually cannot cook for themselves. So they buy takeaway foods from kaikai bars. Sometimes they have trouble finding these takeaway food shops.

The people who own restaurants and takeaway food shops must wait for customers to come to them. If their business is not in the right place then they will not do well.

This proposal is to set up a Mobile Kaikai Bar that can move from place to place where the customers are.



Mary's story

Mary is a very skilled sewer. She learned many things by herself, but she also has some experience from working in dress factories.

In 1997, Mary had an office job but she knew that she would like to have her own business. She found another woman as a partner and they opened a small dress shop in Lae. Mary's partner did a lot of the sewing and stayed in the shop all day to sell to customers.

After work each day, Mary would go to the shop to cut out patterns and to do all the management work for their business. They were quite successful, but there was a lot of work. Too much for one person. When Mary's husband was sent overseas to work, Mary went with him and the shop closed.

Think of the problems which the women had and which led to the shop closing. List these.

When they came back to Papua New Guinea, Mary and her husband were sent to Alotau, and Mary did not have a job. Soon she was tired being at home all the time and

of having no money to spend on her family. She thought about it for a while, then decided to start sewing again.

What was motivating Mary to start a business?

Mary is an entrepreneur, what is an entrepreneur and what are characteristics of an entrepreneur?

“I said to my husband: ‘Give me K100 and I will pay you back in two weeks time’. He wasn’t sure, but he lent me the money anyway!”

With the K100 Mary bought materials, set up her sewing machine in the garage and sewed for two weeks. Then on pay-Friday she put everything into a basket and went out to the offices, bank and stores in town. “I’m not too shy” Mary says.

“I just walked in and said to some of the girls: ‘Anyone want to buy any dresses?’ and quite a few of them did. On the first day I sold everything and I had K350 in my pocket. I gave the K100 back to my husband- who was a bit surprised - and had \$250 left to buy some more materials.”

What were the advantages in Mary not immediately setting-up a shop to make and sell her dresses?

Mary worked for a year like that. All week she sewed at home, and on Fridays she would put everything in a basket, get the bus to town and sell to anyone who wanted to buy. She said, “I knew I had to get my customers on pay-days when they had money in their pockets to spend.” So Mary found out when each big place had its pay-day, and on different days would go to the airport or the hospital, the government offices or to the businesses in town.

After a year, Mary's husband was transferred back to Lae. Mary decided to carry on her business there. She got in touch with old friends and on pay-days would go out to see them at lunchtime with a basket of clothes to sell. The word soon got around, and Mary began to sell everything quite quickly. Soon she was taking two baskets of clothes and she could still sell everything she made.

Mary's customers were always pleased with the clothes they had bought - they liked the patterns and the materials, and said that the work was good. The clothes were not expensive and word of Mary's business was spreading all the time. Mary is sure that ‘word of mouth’ is very important to a small business. The best way to get a new customer is through an old customer who likes what she has bought.

List some of the reasons which help explain Mary's success.

In 2001, she had so much work that she hired an assistant to help with the sewing and to stay at work all the time so that Mary could get out more often to buy fabrics and to sell. Later the same year, she hired another girl to sew. Now, Mary still does all the cutting, buying and selling and all the management; the two girls do most of the sewing, although they still need some training and supervision.

It was very hard work carrying two heavy baskets of clothes around town but Mary knew it was cheaper and more efficient to sell this way than to pay rent for a shop. Then at the end of 2001, Mary went to talk to the bank about borrowing money so that she could buy a small van. If she had her own transport she knew that many things in her business could improve. The bank could see from Mary's account that her business had a good record and that Mary was a reliable businesswoman, so she was given a three-year loan to buy a minibus. Although paying for the loan and the petrol is not easy, the van still costs much less money than renting a shop. And now Mary can get around town much easier, get to more customers and she can even travel to Madang and up the Highlands highway.

What factors would the bank consider before agreeing to give Mary a loan?

“They don't have much time to come to town to buy things, but they still like to spend some of their money on a nice dress,” Mary says.

She makes clothes to suit every kind of taste and shape - thin and fat, tall and short, modern and traditional, young and old. Mary makes a lot of Sunday clothes too, and dresses for special parties and feasts.

Mary works out the prices for her clothes by adding up her costs, and adding on some profit for herself. She also checks with the stores in town to see what prices they charge. “If my prices are lower, I can always do good business”

She keeps her book-keeping records very carefully so that she always knows what is going on with her money.

Papua New Guineans, like all Melanesians, have big hearts. “But you cannot have too big a heart if you are in business”, Mary says. “You can't give things to your family all the time or you'll have nothing. But they understand that I have responsibilities with my business.” Mary tries hard to keep her family and her business separate.

“It doesn't pay to be shy if you are in business.” Mary knows that her business is successful because she is prepared to go out and find her customers, and to sell to them wherever she can. “People used to laugh a little at me with my baskets, but I didn't mind. I knew that I had money in my pocket from my basket of clothes. Now things are going very well.”

If you were to sum-up Mary's success in a few words what would they be?

 **2.3 Activity 8**

What do you think of Mary's story?

- Does Mary's story give you some ideas for your own income-generating project?
 - Perhaps you could talk about this with your family or friends.
 - What opportunities exist to sell goods in your area?
 - What possible services are needed in your area?
 - Who would be the likely customers for the goods or services?
-

Marketing is very important to your income-generating project. You must sell as much as you can. That means that you must find customers who want to buy from you. You can look for them instead of waiting for them to look for you.

When the results of the study are organised and written down, it is known as a *business plan*. If a loan is needed, the funding agency (donor) or bank will usually need a simple business plan to show that you are serious about the work and have thought about likely problems. This gives the funders more confidence that their loan will be repaid.

Topic 2: Preparing a Business Plan

Objectives

By the end of this topic, you will be able to:

- Write a business plan
- Describe and explain the legal responsibilities of a business owner
- Approach and organise the right people needed for a business
- Plan for profit
- Develop strategies for product promotion, distribution and selling
- Maintain business records efficiently and accurately.

Scope

Through this topic you will learn the significance of a business plan and be able to develop one for an income-generating project. Areas such as legal responsibilities and staffing are covered because they are important in general business development. It is recognised that many small businesses are so informal as to not require these aspects. Keeping accurate financial and business records will be dealt with.

What is a business plan

A business plan has the following functions:

- It is the basis of a loan request
- It shows that you (the entrepreneur) have thought seriously about the business and how it will develop.
- It is a working tool to help you plan for the future.

Generally a business plan helps you to clarify and focus your ideas and to make the mistakes on paper rather than in the operation of the business. When the plan is complete it shows that a successful business is possible and it should make you, the entrepreneur more confident about success.

The main considerations when preparing a business plan are:

- Make the plan as easy to understand as possible by using simple language
- Include as much detail as possible and if necessary do thorough research first.
- Look outwards from the business to judge what competitors will do and how the business will develop to become sustainable.

 **2.3 Activity 9**

What do you think sustainability in a business means?

How to write a business plan

1. *Start with an introduction*

This summarises what the product or service is, why the business is a good idea and who the customers are. Give some basic information, for example the name and address of the business, the owners and workers, their qualifications and experience

2. *Description of the business*

This section gives a brief but detailed description of what your business will do. It is a statement about the product or service you are going to sell. Explain what is special about your product or service.

3. *Market assessment*

Describe how you are going to market the product or service. Who are your customers? Where are they and what are their needs? How big is the market, both in size and value? Is demand growing or falling? Who are the competitors and what are they likely to do if you start your business? What are their strengths and weaknesses?

What is the value of the market over a year and what is your share?

4. *Selling plan*

How will you distribute and sell your product or service?, What promotion you will use, what the competitors do, what the product cost will be, prices to be charged, the location of your business and the method of distribution to be used. Explain why your methods will be successful.

5. *Business organisation*

This section describes how you will organise your business. It covers the legal form of the business, the staff needed and your business responsibilities.

6. *Business finances*

In your business plan it is important to calculate sales, costs and profits as well as the start-up capital needed. What finance will you need to start the business and operate it for one year (include profit and loss cash flow). How much of your own resources will be put into the business? What size of loan will be needed and what is it needed for? What security will you be able to offer on the loan?

7. *Plans for the future*

What are your objectives in running the business? How will you achieve them? What do expect to happen over the next three to five years? (include a cash flow forecast.)

Legal responsibilities

Every business in Papua New Guinea has a legal form that must comply with laws and regulations. The legal form of a business affects:

- Costs of starting and registering the business
- Ease of starting the business
- Financial risks of the owner
- Possibilities of having partners
- Decision making in the business
- Taxation of business profits.

There are different types or forms which business can take, each form of business has its own advantages and disadvantages. You must think of those aspects that are most important to your business.

In selecting the form of business that is best for you, there are many matters to think about. Seek assistance in choosing the legal form and registering your business. There are government or non-government organisations established to support small businesses and provide advice and assistance.

At times, your bank can give advice. Do not let anyone persuade you to select one form until you fully understand the reasons and the effect of this form on your business.

There are advantages and disadvantages in each form of business. You must think about your business and the factors important for you. Consider the following:

Sole proprietor

You are the owner with authority to make all decisions about the business. A sole proprietor does not normally have to apply to the national authority that registers businesses. The procedure is simple and the cost is low. You might need a licence. If there are employees, there will be a need to register for income tax purposes.

This is the easiest and cheapest form of business to start and the most risky. You will be responsible for all the debts of the business. If the business fails, you will pay with your savings or by sale of personal assets.

In a sole proprietorship, the owner pays the tax on business profits. The profit is calculated and the owner must pay the tax on this profit.

List several types of sole propriety businesses that are common around the local community

Partnerships

If a number of people plan to run a business, they can form a partnership. The regulations for starting and running a partnership are slightly more complicated than those for a sole proprietor. To bring partners into your business, you cannot have a sole proprietorship. There can be an upper limit to the number of partners.

A partnership has to apply to the authority that registers businesses. The procedures are quite simple and the cost is low. The partnership starts when partners agree to run a

business together. They sign a partnership agreement. It does not have to be in writing to be valid. To avoid misunderstandings, you should always make sure that a written agreement is made. The partnership agreement should cover the following matters:

- The line of business to be run
- The division of profit or loss between the partners
- Duties of each partner

Partners are owners of the business and make all decisions about the business together, unless other arrangements have been made in the partnership agreement. If one partner makes an agreement on behalf of the others, it is normally binding and requires the other partners to accept the decision.

Partners can be useful if they have skills and experience that you do not have. This can be a way of finding enough capital to start the business. All partners share the responsibility for the debts of the business. With one or more partners, your risk is reduced because all partners share the risk. If your partners have no money, you might have to pay all debts yourself.

Profits are divided between the partners. Normally, each partner is individually taxed on the share of the profits.

Limited companies

A limited company is owned by one or more shareholders. Large businesses commonly use this legal form. All the owners of the company might work in the business. At times there are owners working in the business and others who are investors and not active.

A **Certificate of Incorporation** is issued as the official authority for the formation of your limited company. A limited company places a smaller risk on each shareholder. You only risk losing the money you put into the business as share capital. Shareholders are not personally responsible for the debts of the business.

Another advantage might be that a limited company is often seen as stable and reliable. This can be useful in dealings with creditors, suppliers and customers.

If there are many shareholders decision making can be complicated. They will appoint a board of directors responsible for the business who can appoint one or more managers to run the business. With few active shareholders this does not have to be a problem. The shareholders board of directors and managers can be the same people. The company is taxed on the profits. Shareholders can be paid a wage from the company and taxed as a personal wage. Shareholders can be paid dividends from the company on which tax is due.

Co-operatives

Co-operatives are another form of nationally owned businesses in Papua New Guinea. There have been many successes and many failures. Co-operatives are a kind of company considered by the law to have assets and liabilities separate from those of the people who share in its ownership. Like a company co-operatives have limited liability and pay company taxes.

A co-operative is different from a company. It is owned and democratically managed by the people who use its services. Consider the following examples:

- A housing co-operative is owned and managed by those living in the houses not by some absentee landlord.

- A fishery co-operative is owned by the people who catch the fish.
- A taxi co-operative is owned by the people who drive the taxis.
- An insurance co-operative is owned by those who take insurance.
- A credit union is owned those who use the service.

Business groups

A Business Group is a legal form of business existing only in Papua New Guinea. The idea has been adopted because of our traditional background. It is considered simpler and more appropriate for customary groups involved in business activities.

The following points may be made about business groups:

- The only people who can become members are those bound by traditional laws of the customary group. A person who is not Papua New Guinean cannot be a member. Business Groups must have at least three (3) members with at least three (3) committee members, authorised to sign documents and make decisions on behalf of the group.
- Business groups must have a written constitution. The Registrar must be informed of any changes in the committee members or proposed changes in the constitution. The Group must send a copy of their statement of assets and liabilities to the Registrar once every year.
- Committee members have an unlimited liability but ordinary members have no liability.
- Disputes must be settled by the Dispute Settlement Authority according to the traditional or customary laws of the group.
- Business Groups do not have to distribute all profits but dividends paid to members are considered personal income and taxed accordingly.
- Written records and accounts must be kept for tax purposes.
- Business groups enjoy total or partial tax holidays for five (5) years, depending on the circumstance. Business groups must lodge annual tax returns at 25% of the profits made by the business group.

Overview of business types

	Sole proprietor	Partnership	Limited company	Co-operatives	Business groups
Simplicity of setting-up	Do not always have to be registered but if a business name is to be used it must be registered.	Normally has to be registered	Has to be registered	Co-operatives are inexpensive to set-up and assistance is available from the Department of Co-operatives	Simpler than co-operatives
Number of owners	Only one	At least two	At least two	At least two members	At least three members
Financial responsibility of the owners for the business' debit	Unlimited personal responsibility by the owner for all debts.	Unlimited personal responsibility by all the owners for all debts.	Company directors are responsible for the decisions they make in running the business.	Similar to a company	Unlimited personal responsibility for committee members. No personal responsibility for ordinary members.
Decision making	All decisions are made by the owner	Decisions are made jointly by all owners unless agreed otherwise.	Shareholders appoint a board of directors who run the business	Decision making by the members who are the owners	Decisions by the committee.
Taxation	The owner is taxed on income	The owners are taxed individually on their share of the business income	The company pays tax on profits	Co-operatives only pay taxes on profits retained by the co-operative	Similar to a company.

2.3 Activity 10

Please discuss in pairs which forms of business you would recommend for the following types of businesses. Prepare short notes backing up your decision for a discussion with the whole group afterwards.

1. John Baure is a plumber who is going to run his own business. He will employ four former workmates. They will do mainly repair and maintenance jobs for two real estates in town, and other opportunity jobs. John owns a pick-up car, and the money in his Interest Bearing Deposit will be enough to purchase any further equipment and materials needed to get the business going.

2. Ten taxi drivers in Rabaul and Kokopo like to equip their taxis with radio and to link themselves to one office. The office is supposed to answer customers phone calls around the clock and to delegate by radio the required service to the next taxi available in that area.

3. Henao John, Kundi Peter and Rei Kila are business people and friends, working in Lae, Popondetta and Alotau. They feel for a long time that the transport service along the Morobe Coast up to Oro and Milne Bay Province is insufficient. Therefore they decided to set up a regular boat service between Alotau and Lae. According to their survey there is enough demand to run two smaller cargo and passenger boats and one fast passenger boat profitably. The boats certainly will be major investments. The three people have some money to invest, they also believe that they will be able to raise money from the some coastal business people who are very interested in these shipping services. They intend to get the additional funds needed from their banks.

Look at each of these people, each engaged in a small business activity. Complete the following activities:

Identify the business activity and the type of business according to the categories identified above. Be able to justify your choices.





Business responsibilities

All business owners have responsibilities which include lodging annual tax returns, paying taxes, obeying labour laws and getting trading or operating licences and permits.

Legal responsibilities

As the business owner, you have to learn about the legal requirements that affect your business. The following are some common legal responsibilities of businesses in Papua New Guinea.

Lodging annual returns

Every registered business must satisfy the Companies Act as required by the Office of the Registrar of Companies at the Investment Promotion Authority (IPA). Different forms of business are required to meet certain requirements.

Propriety limited company

The company must lodge annual returns. Directors must fill in the forms where appropriate. These have to be lodged each year with the Registrar of Companies of Investment Promotion Authority.

Business groups

The business group must lodge a statement of assets and liabilities each year. Business names must be renewed every three years.

Lodging tax returns

All forms of business must lodge a Tax Return each year. Once registered, the business must lodge a Tax Return, regardless of whether or not the business is in operation. If the business has not been trading, it is required to lodge a Nil Tax return. The Tax Office makes an assessment on the accuracy and honesty of the information and how much tax the business should pay.

The following Tax Return Forms are used in Papua New Guinea:

- Form A – used by an individual whose taxes were not properly taxed
- Form B – used by Sole Proprietors and Partnerships and their partners
- Form C – used by companies – as defined under the Companies Act.

The Tax Returns must be lodged by 28th February in the following year. If lodged after this date, there could be a penalty

Paying taxes

The following are the various types of taxes that the Government of Papua New Guinea collects:

- Income Tax
- Customs duties
- Excise duties
- Natural Resources Tax
- Export Tax
- Telephone Tax
- Sales Tax
- Land Tax

Company income tax

Companies are taxed directly because they have a legal existence separate from the owner. The taxation rate on the taxable profit is at present at a flat rate of 25 percent. Company tax on K100 is K25.

The following are defined as companies and a flat rate of 25% is applied on profits is payable:

- Proprietary limited companies
- Youth groups
- Business groups
- Associations
- Land group
- Joint ventures

Wages and salaries tax

Under the Salary and Wages Tax Law of Papua New Guinea, the Group Employers have the following obligations:

- The business must be registered as a Group Employer.
- The right amount of tax has to be deducted from employees' wages each fortnight.
- The Taxation Office must be paid by the seventh day of each month, the amount deducted during the previous month.

Certificate of Compliance

The Taxation Office issues Certificates of Compliance to businesses that follow and comply with all the taxation requirements. If the business does not have a Certificate of Compliance, the owner cannot enter into work contracts.

Businesses affected

The following businesses have to apply for a Certificate of Compliance:

- Cleaning services, including cleaning of buildings, offices, roads, parks, and sporting venues;
- Security services;
- Advertising services;
- Entertainment of any kind;
- Sign writing services;
- Professional services, *or* services as an adviser, manager or consultant.
- Road transport of any goods or materials;
- Building and construction, including repairs, painting, fitting of built in furniture and any other building or construction activity;
- Repair *or* maintenance of any motor vehicle *or* any motor vehicle component, including painting and panel beating;
- Construction of any items of joinery that will become a fixture in the building;
- Architectural services

Also included are all payments for the hire and leasing of plant and equipment, including all forms of motor vehicles.

 **2.3 Activity 11**

What is income and business taxation?

What percentage of your teaching income will you pay in taxation?

What does the government do with the revenue collected through taxation?

Why is a certificate of compliance needed by some businesses?

Labour laws

If your business employs staff, you have the full responsibility to find out about the labour laws and regulations. A number of areas are covered below:

Minimum wages- The Minimum Wages Determination Board sets the minimum wage payable in Papua New Guinea.

Public holidays- All employees are entitled to full days pay for all declared public holidays. In Papua New Guinea, there are ten public holidays each year.

Annual leave- An employee is entitled to 15 consecutive working days annual leave on full pay after 12 months continuous service.

Sick leave- If entitled to sick leave and served a company for more than 6 months, an employee is entitled to be paid sick leave at the rate of six days in each year. A medical certificate has to be produced. If an employee is not entitled to sick leave, does not produce the medical certificate and fails to inform the employer, he/she is not entitled to leave pay.

Maternity leave - This is not compulsory. If the staff member has been employed, by the business for not less than 108 days for 12 months, the employee can be given no more than six (6) weeks.

Paternity leave - This is not compulsory. If the employer decides to grant a paternity leave, one week is common.

National Provident Fund (NPF) - Companies that have more than 25 employees are required by law to contribute 5% of the employees' fortnightly pay and 7% - by the company to NPF. Companies with fewer than 25 employees can voluntarily contribute for the benefit of their employees.

Occupational safety and health - All businesses or organisations involved in dangerous tools, machinery, equipment, chemicals or drugs must comply with industrial safety and standards regulations

Other allowances - Other allowances may include housing allowances and travel expenses to the home. These are not compulsory. It is up to the employer to decide what benefits are provided.

By now you should be happy with your business idea. You need to look at the financial matters vital to the success of the new business.



Finances

Start-up costs

Start-up capital is the total cost involved in buying or converting a building, buying equipment, registering the business, training staff, buying materials. In other words it is the total cost of getting established. These should all be calculated to determine whether the owner's money (termed 'equity') would be sufficient to start the business. If not a loan may be required.

To estimate start-up expenses, make a list of all payments that will have to be made. Visit a similar business and check what resources are held. They may even advertise their costs. Remember to check the different suppliers to find the best source of these items.

Using a small bakery business we can illustrate start-up capital in the following way:

A small bakery –what’s needed to get started?

The following is a list of all the things that might be needed to start a small bakery business.

1. Premise
2. Tools and machinery (oven, mixer, rolling pins, bowls, boards, knives, scales)
3. Fixtures and fittings (tables, shelving, partitions, counter)
4. Raw materials
5. Cash to pay for pre-start expenses.
6. Cash to keep business going for first three months.

The assets listed 1-3 are called fixed *capital assets*.

The items 4-6 are often overlooked when people plan a new business – they are called *working capital*.

Bakery fixed capital assets

The entrepreneurs who wish to start a bakery do not have to buy land and a building. Their house is in a good location to the market and they plan to start working from there. A front room opening onto the main road will be converted into a small shop.

Item	Cost (Kina)
1. Tools and machinery	3 000
2. fixtures and fittings	400
Total start-up fixed capital needed	3400

Working capital

Working capital consists of money needed for:

- All those items used by your business, such as sold in a shop or manufactured in a factory and supplies used in your business;
- Day-to-day expenses that keep the business going while you wait for customers to pay. Customers do not always pay straightaway. Many larger customers, such as hotels and retail shops usually expect to buy on credit and not pay until a month later. You would have to plan for this and have enough money to keep your business going in the meantime.

You will be able to finance part of your working capital costs from your profits. However, it will take some time before you are able to establish yourself in the market place and make profits.

From time to time, you will be able to determine your working capital needs by preparing a Cash Flow Forecast. To establish your initial working capital, calculate the money you will need to:

- Buy the initial stock of materials
- Pay expenses to be made during the first three months after starting up.

These items to be purchased with working capital can be seen in the Profit and Loss Plan. Some costs only need to be paid once. Others like depreciation are 'non cash' costs and are not included. You can only estimate the money to pay running costs for about three months.

Bakery working capital for 3 months		
Basic raw materials need bought before the business can start. The owners estimate that these will cost about K400. Using their Profit and Loss Plan they are able to estimate their start-up capital needs.		
	Item	Cost for 3 months Kina
1.	Pre-operating raw materials	400
2.	a. Raw materials (K400 per month)	1200
	b. Maintenance (K25 per month)	75
	c. Wages (labour) (K250 per month)	750
	d. Utilities (K300 per month)	900
	e. Advertising (K100 per month)	300
	f. Insurance (K660 for the year)	660
	g. Business license (K350 for the year)	350
Total start-up working capital needed		K4635

2.3 Activity 12

Are the following fixed or working capital items?

motor vehicle stock in a bookstore wages for a carpenter
cloth for a sewer a computer

Operating costs

The costs involved in providing a service or producing a product can be divided into fixed costs (those costs that have to be paid if nothing is produced or sold) and variable costs (those which change according to the amount of service provided or goods produced) these costs should be calculated in advance assuming a scale of production

or sale of services from the share of market demand. If a loan is taken, the costs of repayment should be included in the fixed costs.

Example of daily production costs and income for a small bakery business.

Estimated operating costs if producing at full capacity of 2000 loaves per month	
<i>Fixed costs</i>	K per month
Rent	Nothing working from home
Wages/Labour (permanent + owner's salary)	500
Insurance	55
Maintenance/repair (building and equipment)	25
Loan repayment (includes interest)	20
Depreciation	21
Business licences	30
Sub-total	651
<i>Variable costs</i>	
Raw materials	400
Packaging	120
Transport	20
Utilities (gas, electricity, water, etc)	300
Advertising	100
Sub-total	940
Total costs	1591
Income (at K0.80 per loaf)	1600
Gross profit (income - costs)	9

Price setting

The correct price is important to be able to enter the market and to sell the product or service at a profit. To establish the right price it is necessary to consider the total costs involved in delivering the product or service to customers and the competitors' prices (note that this calculation should include the profit expected by the wholesaler or retailer).

The selling price should be continually reviewed as production costs may vary with, for example, availability of raw materials or labour, and variable customer demand. The price of the product should allow the entrepreneur and distributors to make an adequate profit and still have a good demand for the product.

The scale of production is initially estimated from information about the expected market share - sales. When the costs of production and expected income are calculated it is then necessary to see whether the '**breakeven point**' has been achieved. This is the production level at which the total costs will equal the total income if everything produced is sold. Production levels should not fall below this point. It is possible to operate at this point for a short time without making a profit. Production levels must always be above this point for the business to be profitable and for workers and owners to receive an income.

To calculate the breakeven point of production, the costs need to be separated into fixed and variable costs. The following equation can be used to determine the level of production required to break even.

$\frac{\text{Fixed costs}}{\text{Revenue} - \text{Variable costs}} = \text{Production level at breakeven point}$
--

2.3 Activity 12

Read the following information on production costs and income for a small Jam making business.

Calculate the: fixed costs sub-total, variable costs sub-total, total costs, Income, Gross profit and finally calculate the 'breakeven point.'

Jam Business – Production costs and income for 200 pots of strawberry jam	
Fixed costs	Kina
Rent	6
Labour	45
Insurance	0.9
Maintenance	7.8
Loan repayment	3.9
Interest charges	2.7
Depreciation	1.2
Business licence	0.8
Sub-total	?
Variable costs	
Raw materials	55.8
Packaging	66
Transport	13.5
Utilities	27.3
Labour (temporary)	54
Advertising	21
Sub-total	?
Total costs	?
Income (at K0.6 per pot)	?
Gross profit (income - costs)	?

Cost plus mark-up pricing

Add the costs involved in making your product or service. Add a percentage margin to get the selling price. This method is suited to manufacturers and service providers. If your business is operating efficiently, this method should give a selling price competitive in your area.

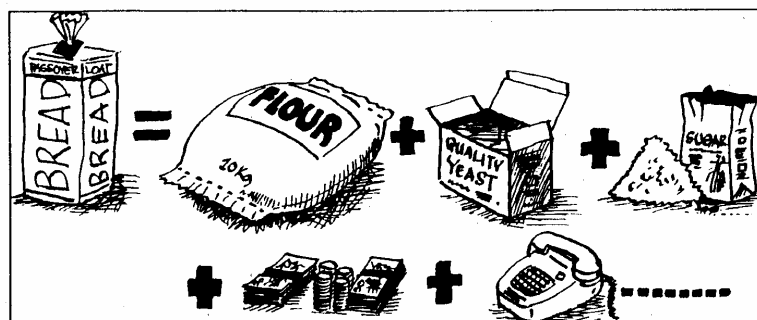
How to estimate your costs

For a new business, estimating costs is not easy. The best way is to look at a similar business and see what types of costs are involved. Each business will have a different list of cost. Common examples of costs are as follows:

- Materials
- Office stationery and postage
- Rent
- Utilities
- Maintenance
- Bank charges
- Insurance
- Wages and other employee benefits
- Advertising
- Legal and accounting
- Fuel
- Depreciation
- Telephone
- Business licences

As mentioned above all businesses have two types of costs. There are costs that do not change and include rent, insurance and business licenses. These are called **fixed costs**. Others are those that increase as production or sales increase, such as the cost of materials. These are called **variable costs**.

Material costs are those for the products or services you sell. In estimating your costs you need to take care to identify both variable and fixed costs. Your material costs will always be a variable cost. But if there are other variable costs, you need to realise that these will change as sales grow.



Depreciation

Depreciation is the business cost that takes into account the 'wearing out' of assets such as equipment, tools and vehicles. It is a non-cash expense of a business but it is still a cost. We need only to calculate depreciation for assets with a long life.

Based on the Papua New Guinea Income Tax Act, the following Depreciation Rates are applicable to most small businesses.

Income Tax Act, depreciation rates – prime cost method.

Asset	Depreciation rate (per annum)
Tools and equipment	7.5%
Motor vehicles	20.0%
Office furniture	7.5%
Retail building	2.0%
Factory building	7.5%
Land	None

2.3 Activity 13

Calculate the depreciation of the following assets over a three year period:

- An office building valued at K38 000
- A Toyota Utility valued at K72 000

David's Gate Business – an example of cost estimating

From his market research he thinks that eventually he will be able to make and sell a maximum of 10 gates per month.

David estimates that:

- The welder will get a wage of K150 per month and the assistant K70 per month
- During one month working full-time they are able to make ten gates
- The costs of materials for one gate is K230; and other business costs are:
 - Insurance K110 per year
 - Electricity K45 per month
 - Telephone K50 per month
 - Business license K120 per year
 - Office running costs K55 per month
 - Advertising K50 per month
 - Depreciation on equipment K15 per month

- Maintenance K25 per month
- David's wage of K200 per month. He will work as the salesperson and manager.

What is the total monthly operating cost?

Calculate the cost of making one gate.

If David's mark-up is 25% what is the selling price of each gate?

Competitive pricing method

This method involves finding out what other businesses in your area are charging for the goods and service you will be selling. Make sure that your prices are competitive. If you decide to charge more than your competitors, you need to be sure that you can do a better job in meeting customer needs.

Profit and loss statement

To find out how well your business is really doing, you need to calculate the profit. Only then will you have an accurate idea of whether or not you are making money. Profit is the sales revenue less the costs to run the business.

A profit and loss statement shows income and expenditure over a fixed period. It shows money earned and used over that period.

2.3 Activity 14

Calculate the profit for a person thinking of starting a bookstore who estimates that:

During the year they will have sales totalling K65 000

The wholesaler has charged K38 000 for the purchase of the books to be sold.

The operating expenses of the business for the year will be K4750

Estimate the profit for a person planning to start a manufacturing business who estimates that:

They will have sales totalling K32 000

Material costs K8500

Labour costs K3250

Other costs K2800

Profit and loss plan

Based on the example used earlier of a small business making bread here is an example of a Profit and Loss Plan

For the first three months the expected costs have been reduced because the business is not expected to be operating at full capacity.

Bakery profit and loss plan							
	June	July	Aug	Sept	Oct	Nov	Dec
Sales revenue	1100	1100	1100	2200	2200	2200	2200
Costs							
Labour	250	250	250	500	500	500	500
Insurance	660						
Maintenance	25	25	25	25	25	25	25
Loan interest repayment	20	20	20	20	20	20	20
Depreciation	21	21	21	21	21	21	21
Business license	350						
Raw materials	400	400	400	500	500	500	500
Packaging	120	120	120	120	120	120	120
Transport	20	20	20	20	20	20	20
Utilities (gas, electricity, water, etc)	300	300	300	300	300	300	300
Advertising	100	100	100	100	100	100	100
Total costs	2206	1256	1256	1606	1606	1606	1606
Profit (Before tax)	(1106)	(156)	(156)	594	594	594	594

Cash-flow forecast

From this information the entrepreneur will see when there are profitable months or when a loss is expected. For example, sales may fall at certain times of the year and the price of raw materials may increase, especially just before the harvest season.

Once the forecast is made for the first year, a similar one is made for the next two years to reflect the expected development of the business. This should take into account increases in price, changes in sales and the action of competitors.

In most businesses, cash is received and paid out every day. Successful business owners plan for this flow. Cash flows are often difficult to make for the following reasons:

- Some sales maybe on credit and cash for these comes some months after the sale. In completing your marketing plan you need to decide on a credit policy for your business.

- Some business costs are ‘non cash’ such as depreciation of equipment and vehicles.
- Some cash payments do not represent costs, such as the payment of an asset such as a vehicle. The asset will be depreciated later as a cost or the repayment of a loan. However the interest on a loan is a cost.
- Some cash that you receive may be the result of disposing of an asset, for example selling a vehicle or machine. This type of cash does not represent sales.

The following is an example of a cash flow forecast for the small bakery business.

Bakery Cash Flow Plan							
	June	July	Aug	Sept	Oct	Nov	Dec
1.Cash at the start of the month	2850	320	225	130	460	1065	1670
2.Cash sales	825	825	825	1650	1650	1650	1650
Cash from credit sales		275	275	275	550	550	550
3.Loan (Bank)	1650						
Loan (Wantok)	1000						
4.Total cash in	6325	1420	1325	2055	2660	3265	3870
5.Cash purchases (materials)	800	400	400	500	500	500	500
6.Cash paid for credit purchases							
Maintenance	25	25	25	25	25	25	25
7.Wages	250	250	250	250	250	250	250
Utilities	300	300	300	300	300	300	300
Advertising	100	100	100	100	100	100	100
Insurance	660						
Business license	350						
Loan interest	20	20	20	20	20	20	20
Loan principal	150	150	150	150	150	150	150
8.Equipment	3400						
9.Total cash Out	6005	1195	1195	1595	1595	1595	1595
10.Cash at end of month	320	225	130	460	1065	1670	2275

1. Cash at the start of the month – This is the amount of cash you expect to have in your cash register plus the amount in your bank account at the beginning of the month. The amount of cash at the beginning of any month is the same as the amount at the end of the previous month.
2. Cash sales – If any of your sales will be on credit, the cash will not come in during the month of sale. Only include the amount of cash you will actually get in this month
3. Cash from credit sales – This shows the cash expected from goods sold on credit.
4. Add up all the Cash In amounts from 1,2 and 3 for each month.

5. Cash purchases – This is the amount of money expected to be spent on raw materials each month.
6. Cash paid for credit purchases – This shows the cash expected to be paid for goods bought on credit.
7. Wages – This shows the cash expected to be paid for wages.
8. Equipment purchases – This is the money needed to buy any fixed assets.
9. Total cash out – Add up the Cash Out amounts. This is the total amount of money expected to go out of your business for that month.
10. Cash at end of month – Subtract the Total Cash Out from the Total Cash In to get the amount of cash you expect to have at the end of the month.

Use the Cash Flow Forecast to check if your first estimate of working capital was correct. Remember that the estimate for working capital was considered for the first three months of expenses. This is not always the case and will depend on the type of business. You will only need enough working capital to make sure that you do not run out of cash.

Item	Profit and Loss Plan	Cash Flow Forecast Plan
Depreciation	Included	Not included
Cost of buying fixed assets	Not included	Included
Loan interest	Included	Included
Loan Principal	Not included	Included
Owner's equity	Not included	Included
Owners drawings	Not included	Included
Sales	Record sales (credit and cash) in the month the order is placed	Record sales in the month the order is received.

2.3 Activity 15

Complete this table by summarising the major differences between these two planning forms.

Item	Profit and Loss Plan	Cash Flow Forecast
Depreciation		
Cost of buying fixed assets		
Loan interest		
Loan Principal		
Owner's equity		
Owners drawings		
Sales		

Source and application of funds

Having determined the money needed, you have to work out how to raise the finance. This money must be used to:

- Pay for everything needed before the start of trading
- Support the business before profits are high enough to cover expenses.

You should already have estimated the amount of money available to start your business.

2.3 Activity 16

List three things you can do if you do not have sufficient funds?

Where can borrowers get the money they need for a small business?

Borrowing money from a wontok (relative or friend)

Borrowing money from a wontok is a common way to start a business. However if you do this and your business fails, they will lose their money. This can create bad feelings and could be dangerous to your health. Before borrowing any money from a wontok give them a copy of your business plan and give them regular reports on the progress of your business.

Applying for a business loan

To apply for a loan from a bank or other financial institution, you usually have to complete an application form. Attach a copy of your Business Plan to the document.

Banks usually require some security to cover the loan. This maybe met partly by the assets to be bought with the loan. Town lands and buildings may also be seen as reasonable security. Financial institutions will not lend 100 percent. They always want to ensure that the value of the assets is more than sufficient to cover the loan and unpaid interest.

In borrowing money to start a business, it is necessary to convince the lender that you:

- Really need the money and are clear about the assets to be used as security
- Have examined other costs and types of assets and
- Can repay the total amount including interest from expected future profits.

In preparing to approach potential lenders, the following steps can increase your chances of getting a loan:

- Make an appointment
- Be prepared to answer any questions about your business. You must show that you understand your business well.
- Have additional copies of your business plan available
- Be prepared to discuss security of personal and business assets.
- Ask about when you can expect a reply to your request. If there is to be a delay, inquire about additional information you may need to provide.

If your application is rejected, find out the reason. Common reasons for loans being declined include:

- Your business idea may be considered too risky
- You may not have offered sufficient collateral
- Your reasons for the loan may have been unclear or unacceptable to the lender
- You did not appear confident, enthusiastic, committed, well informed or realistic enough in your business objectives
- Your business plan may have been incomplete.

Record keeping

For small businesses it is usually enough to have the following record books:

- For recording money: cash book, sales book, account book (or ledgers for transactions and salaries), bank statements and chequebook.
- For recording production details: stock book, production book, purchase book, delivery book.

A small enterprise can use an account book and a cash book as a simple accounting system. In the account book the entrepreneur keeps a daily register of all the income and expenses of the enterprise, together with any sales or purchases using credit. It does not

matter whether the money goes in or out but the transaction should be registered. The cash book registers just the amount of money that comes in and out. This book records the amount of cash available to buy raw materials, to pay bills or other business expenses.

Types of records

The size and nature of your business will determine the types of records you need to keep.

Cash book

This book records all cash transactions, money coming into and going out of the business. It reveals the running cash balance at any time.

Daily sales book

The sales book is a record of all daily cash and credit sales. It helps the business owner to know the total sales made during any period.

Account books

There are two basic types of accounts books:

- **Accounts Receivable Record (Customer Accounts Record)**
This is a record of people or businesses with goods purchased on credit. It shows how much credit has been given
- **Accounts Payable Record.** People who sell goods to a business on credit are called creditors. This record keeps track of how much is owed on credit.

Stock record (inventory record)

Every business keeps some stock, also called inventory. This stock is worth money and so by maintaining an accurate inventory of stock you have a record of what is selling well or slow moving.

Asset register

This register keeps track of the fixed assets and the value of each.

What are the likely fixed assets in a small business?

Staff (employees) record

This is a record of the number of people the business employs, when they started, their positions, salaries and any benefits that go with the positions.

Glossary

Action plan	A logical set of steps for achieving a goal.
Advance	A loan
Assets	Items of value owned by an individual or a company. Current assets include things such as cash, trading stocks and debts owed by customers; fixed assets include items such as land or machinery.
Bad debts	Debts which a business cannot recover from customers. Such debts are written off when the owner no longer believes they will be repaid.
Balance sheet	A financial statement that records business assets, liabilities and capital of a business. The value of assets must always be equal to the value of liabilities and capital.
Bankrupt	A person legally declared unable to pay his/her debts.
Budget	A plan giving details of expected income and expenditure during a specific period of time.
Business group	A form of small business consisting of persons belonging to the same group or tribe.
Capital	The assets of a business. Fixed capital includes things such as land and machinery. Working capital refers to money required for normal running expenses, e.g. buying stock and paying wages. Capital can also refer to the money invested in a company.
Cash flow	The amount of money a business has in relation to the payments it has to make.
Cash Flow Forecast	A plan which shows expected income and expected payments over the months ahead.
Compound interest	Interest that is added to the principal amount. Calculation of interest is then based on the sum of these two.
Consumer price index (CPI)	An index which attempts to measure annual inflation
Costing	Calculating the cost of producing something. Costs will include direct costs, e.g. material and labour; indirect costs, e.g. overhead costs, and capital costs, e.g. use of machinery.
Credit	Money that has been made available through loans. The purchasing or selling of goods or services that are paid for at a later date
Depreciation	The decrease in value of an asset over time
Entrepreneur	A person who organises a business undertaking, assuming the risk for the sake of profit.
Equity	The owners contribution to her /his own business. This will usually be money, but may include other assets, e.g. land or equipment
Excise duty	A tax imposed on domestically produced goods such as tobacco and alcohol

Flat-rate loan	A loan where the borrower pays the same amount of interest throughout the life of the loan – even when most of the loan has been repaid.
Goodwill	A business's good name or reputation with the public. Goodwill is considered an asset that adds to the value of the business.
Income tax	Tax paid by individuals and businesses on income earned.
Insurance	A contract which provides protection to businesses against loss or damage suffered
Interest	Payment for the use of money borrowed, payment received for money lent.
Liability	Money owed by a business to a creditor.
Limited liability	A provision ensuring that the owners or shareholders of a business are not personally responsible for the debts of the company.
Market	Any place or process involved with the exchange of goods or services
Marketing	
Mark-up	An additional amount (expressed as a percentage) which is added to the cost price of a good or service to cover business expenses and make a profit.
Minimum wage	The lowest wage which employers can legally pay their employees
Money	Anything that is generally accepted in payment for goods or services
Net assets	The value of a business's total assets, less what it owes to creditors
Net value	The value of all assets of a business, less its liabilities
Overdraft	Overdrawing of a bank account, e.g. withdrawing more money from an account than is actually in it.
Principal	The amount of money borrowed
Profit margin	The profit earned by selling a product /service – expressed as a percentage of the cost price
Security	Something that can be turned into cash. Usually required by banks when applying for a loan.
Stock	Goods that are actually available in shops, warehouses and ready for use. Also called inventory and merchandise.
Stock control	
Taxation	Compulsory payments made by individuals, companies and other organisations to the government