



Youth Training and Employment
Partnership Programme Ltd.



International Labour Organization
Subregional Office for the Caribbean

SYB

**Start Your Business manual
for potential entrepreneurs**



An adapted edition for Trinidad and Tobago

Start Your Business manual for potential entrepreneurs

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International Labour Organization
Subregional Office for the Caribbean
and the
Youth Training and Employment Partnership Programme Ltd.

ILO's Start and Improve Your Business (SIYB) package. SIYB is a system of interrelated training packages and support materials for small-scale entrepreneurs with limited previous exposure to management training. The product range for small-scale entrepreneurs covers: Generate Your Business Idea (GYB), Start Your Business (SYB) and Improve Your Business (IYB).

The SYB programme is for people who have a concrete 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 assists in the creation of viable small scale businesses by enabling potential entrepreneurs to carry out the steps to start their own business.

The SYB Materials consist of a Manual and a Business Plan booklet. The manual explains the steps to follow in starting a business. The Business Plan booklet is filled in by the entrepreneur as he or she works through the Manual. As soon as the business has started the entrepreneur could improve his or her business management methods through the Improve Your Business (IYB) programme.

The original edition of this work was published by the International Labour Office Start and Improve Your Business (ILO-SIYB) Regional Project Office, Harare, under the title "*Start Your Business (SYB) Manual for potential entrepreneurs*" and is reproduced by permission.

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Foreword

The International Labour Organization (ILO), Subregional Office for the Caribbean and the Youth Training and Employment Partnership Programme (YTEPP) Ltd are pleased to be associated with this joint publication which is intended for use by students of YTEPP's entrepreneurial programme. It aims to assist potential entrepreneurs through the process of starting a business, especially if it is their first attempt.

This publication is an adapted version of the original publication that was produced by the ILO's Start and Improve Your Business (SIYB) Regional Project Office, Harare, Zimbabwe and which has been widely used for the ILO's 'Start and Improve Your Business' training programme in different parts of the world. It is widely recognized that enterprise development in the formal economy is critical for creating decent work.

The idea to adapt the publication was borne out of a Start Your Business (SYB) 'training of trainers' workshop, which was conducted by the ILO Subregional Office for the Caribbean in December 2006 for small business trainers in Trinidad and Tobago, including those of YTEPP. The SYB manual and the associated SIYB Business Game were used to deliver that training, which was facilitated by Karl-Oskar Olming, an ILO Enterprise Development Specialist who was seconded from ILO Headquarters to the Subregional Office in Port of Spain.

Recognizing the value and relevance of the SYB part of the training to YTEPP's entrepreneurial training programme, officials of YTEPP asked the ILO to produce an adapted version for Trinidad and Tobago. This adapted version will now provide a suitable student's manual to complement YTEPP's entrepreneurial training programme, in which the SIYB Business Game is already being used.

We would like to extend our gratitude to Theresa Frederick and Stalin Jones for their invaluable work in adapting the original version.

Finally, we would like to express our sincere appreciation to Christo Cave, Director, Entrepreneurial Development Support Services and Karl-Oskar Olming for their tireless efforts in turning the idea into a reality. They provided invaluable guidance and carried out a review of the final output. Without their drive and enthusiasm, this publication would not have been possible.

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HOW TO USE THIS SYB MANUAL?

IN THIS MANUAL YOU WILL FIND:

- **Stories about potential entrepreneurs.** Compare these examples with your own business. Learn from their stories the way to start your business.
- **Practical exercises.** Do the exercises in order to develop your own business plan step by step.
- **Different types of boxes.** Each type of box shows you one kind of information. These boxes help you to use the information to the largest extent possible.



EXERCISE

When you see this hand, the box gives an exercise for you to do.



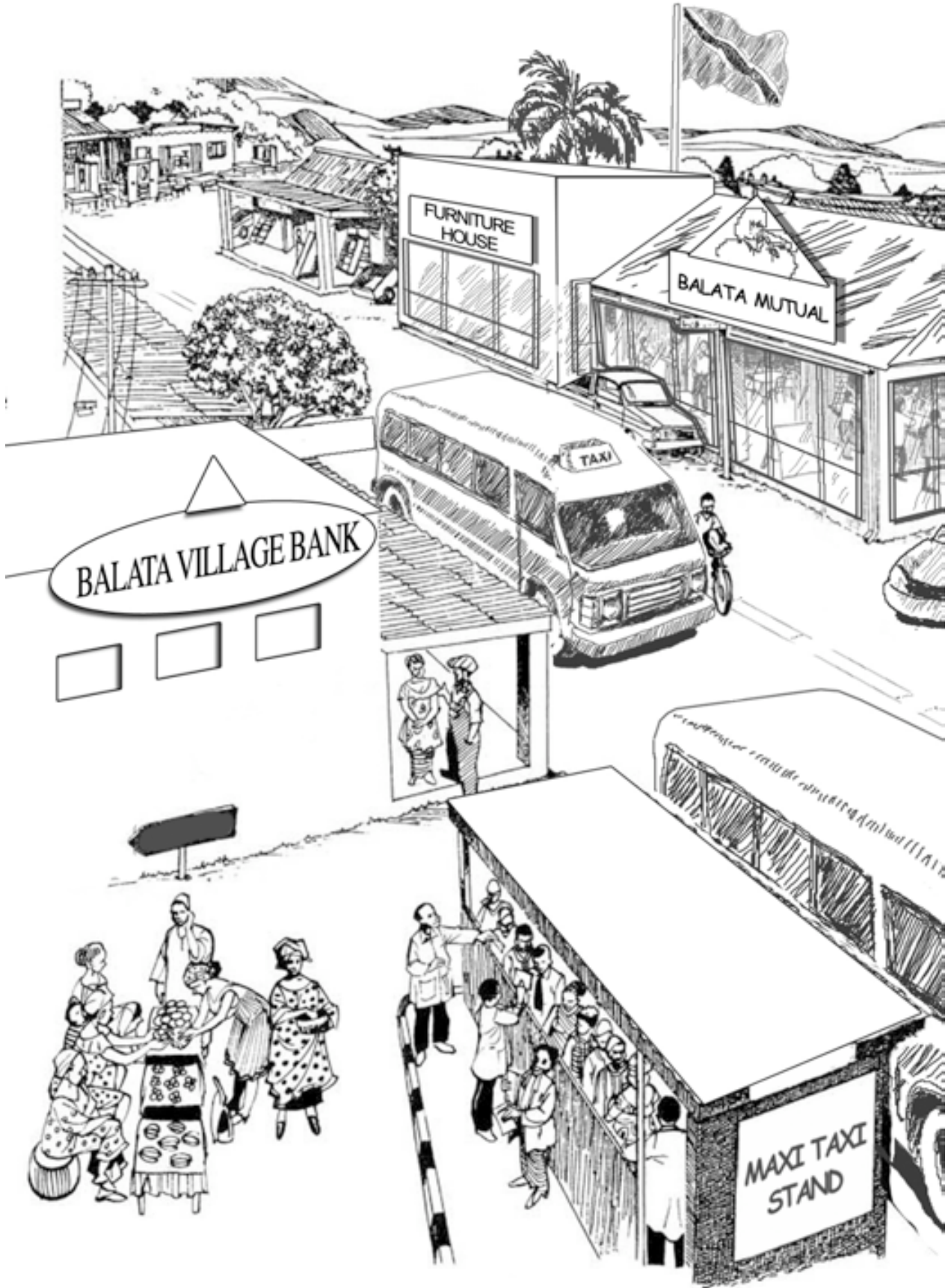
When you see this question mark, the box asks you questions about your own experiences.



When you see this star, the box tells you something which is extra important for you to remember.



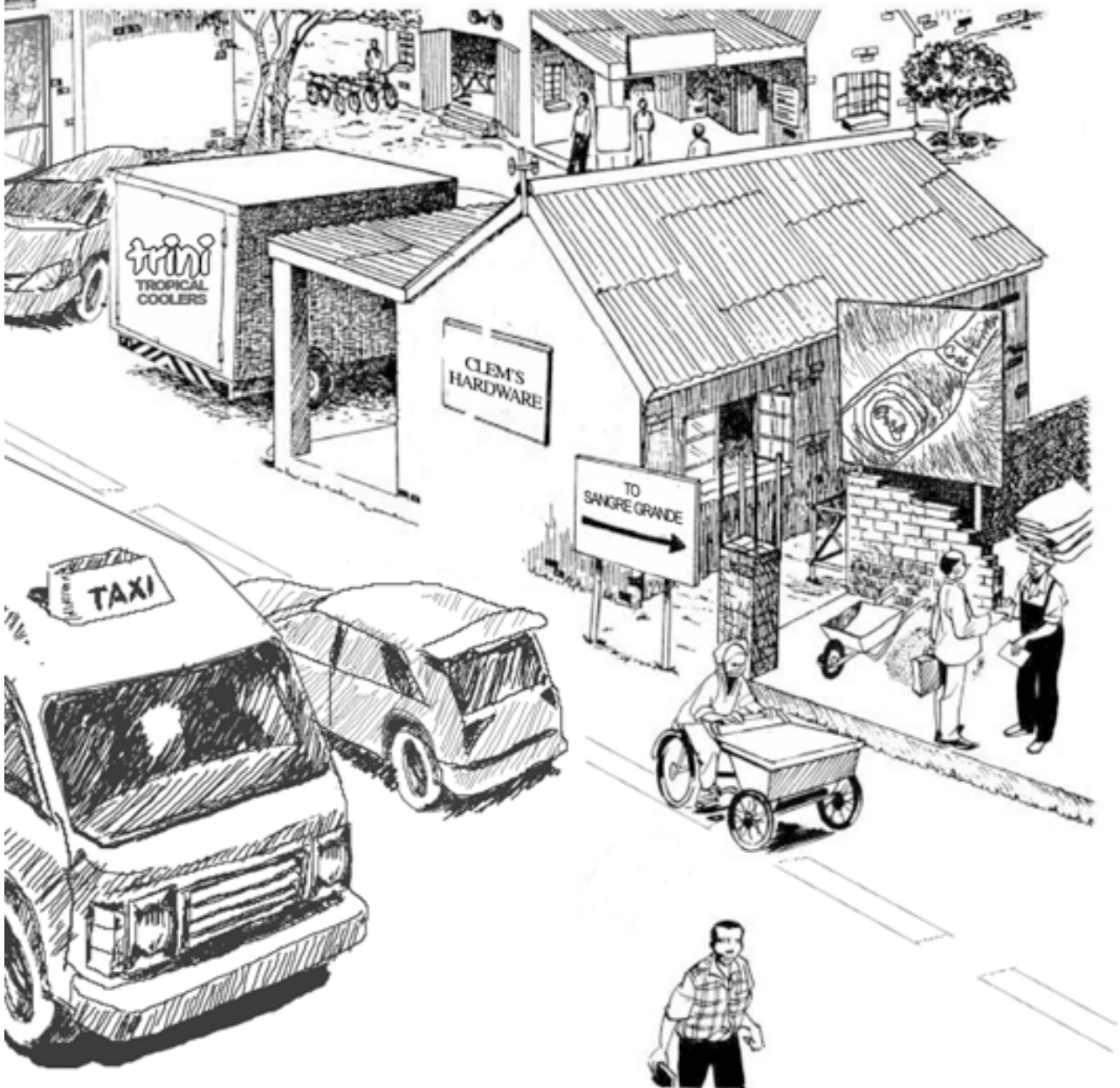
When you see this arrow, the box tells you where to find more information about the subject in other manuals.



A business community

All the examples in the SYB manual come from Balata, not far from Sangre Grande, a main town in the North East of Trinidad. Balata is not a real place but Balata's small businesses have the same problems as real ones do.

Business people in Balata share their problems and give advice to each other. They want their business and their community to grow, to create more jobs and become more prosperous. As the community prospers, sales increase and business grows. Business people here are thinking of starting their own business organization.



1. STARTING THE BUSINESS

How to get started?

If you are seriously thinking about starting your own business, you should have a clear idea about what business you want to start. Everybody who starts a new business will need to prepare a business plan first.

Most business plans are normally written documents that spell out all ideas about a future business. Writing your own business plan will help you to clarify what products or services you want to sell, who your customers will be, what they will be willing to pay and how much it will cost you to provide them with your products or services.

The business plan will also ensure that you think about organizing yourself and the staff that you may eventually employ. Finally it will remind you of your legal responsibilities as a business owner. You are the boss and you are responsible for all successes or failures.

Look at the following two persons:

Mr. Bethel wants to start a hardware store in Balata but does not seem to be that confident.

Will people from Balata and the farmers nearby buy from me or will they continue to buy from hardware stores in the other villages as they now do?



Mrs. Khan works in a bakery and she wants to start a bakery of her own in Balata. She seems extremely confident as there is no modern bakery in the village yet.

A business starts with a business idea

A successful business starts with a good business idea. The description of your business idea is therefore the starting point for your business plan. Before you can plan your new business start-up, you need a detailed description of what your business will do and how it will operate.

However, while you are preparing your business plan in detail you will be able to see where the strengths and weaknesses are in your business idea. As you develop your business plan you will see how your original business idea can be improved in different aspects.

It is extremely important to validate the business idea that you choose by testing the idea as much as possible. You should therefore talk about your business idea with relatives and friends. Let people ask questions and do not try to defend your business idea too much. Let people make their comments and suggestions and try to get the best out of these. Make notes of what people say, so that you could always digest these afterwards. Keep these notes together in one notebook and read them several times. Also try to read about subjects related to your business idea.

Make sure that you exploit the information available using all resources. For example, the Internet is a very important tool for finding all kinds of information by simply typing those



Listen to Friends

Talk to people in your neighbourhood about your business idea.

Read

Find articles about topics you need to improve on.

Make notes

Look at business people around you and ask them what they did to succeed.

Surf the internet

Look on the internet for useful information for your business idea.

keywords that relate to your business idea. Do not be afraid of spending too much time “surfing” on the Internet. It is now that you will have time. When your business takes off you will probably not have time for that anymore.

As soon as you feel that you have turned your business idea inside out, do a SWOT analysis on your business idea to see how developed your idea is.

How a business plan can help in starting a business

As soon as you are clear about your business idea, you need to collect detailed information and do some calculations to be able to see if the new business will be profitable and if you should really take the risk to start it. Lack of proper planning and preparation is one major cause for the high rate of failure among new businesses.

A business plan helps you to:

- **Decide** if you should start your business or not. Starting a business will change your life completely. Therefore you need to make sure that you take the right decision. The business plan will help you make the right judgement.
- **Organize** your ideas so that you will know how to start and run your business in the best way. The business plan follows a standard sequence of relevant topics and it will therefore help you to be clear on what you want.
- **Present** your business plan to a lending institution such as a bank for obtaining a loan for your business. By preparing the business plan yourself, you will be able to answer most questions they may ask.

This manual will help you to prepare a business plan for your proposed business and assist you in making a decision about whether to start or not. It will guide you in presenting the plan better and help you with an action plan to actually start the business.

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 to 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.

Steps in developing a business plan

A business plan covers all important aspects to be considered before starting a business. It is a guide for you to follow so that you do not overlook important aspects when preparing for your new business. The next chapter will cover, step by step, each part of the Business Plan. When you have worked through all the steps you should be able to complete your own Business Plan.

The following are the main steps for writing an effective Business Plan:

Step 1 Describe your business idea

All business plans are based on one single business 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 you are going to sell it to and how you are going to sell it to them.

Step 2 Prepare your 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 and how much they are willing to pay. Marketing is about knowing how to reach and satisfy your customer while making a profit with your business.

Step 3 Estimate your sales

As soon as you know your customers and products or services better and you know how to get these to your customer, you will be able to estimate your monthly sales (in volume and value). These sales estimates form the basis for all further calculations about costs and the profit the business will make.

Step 4 Know how much to buy and to produce

When you know your sales plan, you should be able to work out your production plan and subsequently be able to calculate what materials and services you need, how much you need and when you need it.

Step 5 Decide what and how many staff you need

Based on your business idea and your sales plan you will now need to think about the staff you need for this business. What skills and experience are needed? How many workers do you need? Of course you will then also need to find out how much you need to pay for salaries and salary costs (including your own).

Step 6 Identify the fixed assets you need to acquire

Most businesses need certain land, buildings and equipment to be able to produce or to provide the intended services effectively. Fixed assets are those items that will last longer than one year and their value is reduced over the lifetime of the asset. This reduction in the value of fixed assets is called depreciation.

Step 7 Know your costs and plan for profit

The previous steps have provided you with most information about the costs you will incur by running your business. You will now need to complete and summarize the costs, in order to plan for profit. By making a cash-flow plan you make sure that any shortfalls in finance will be avoided as these will negatively affect your business performance and the planned profit.

Step 8 Calculate your product costs and set your prices

To be able to set your prices correctly, to plan for the best possible profit margin and not just passively respond to prices set by your competitors, you need to estimate the cost of your products or services as accurately as possible.

Step 9 Estimate your start-up capital and your loan requirement

Start-up capital is the financial resources you need to start your business. You need money for fixed assets, but you also need money to cover your expenses during the first two or three months after the business has started, as very little money is coming in yet. When you know how much start-up capital you need, you make sure that the full amount is available. If your financial resources are insufficient you decide about how much of the required start-up capital should be obtained through loans.

Step 10 Choose the legal form and know your responsibilities

There are different legal forms to choose for your business. They all have advantages and disadvantages and which form 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. When you run a business you also have additional legal responsibilities. The manual will help you to understand the legal requirements and obligations that apply to the form of business you choose.

The executive summary

The executive summary is the first page of your business plan and gives an outline of your future business. It contains some of the most 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 when opening your business plan!

An action plan for starting

As soon as you have gone through the SYB training you will be confident in taking the necessary steps in finding the missing information, completing your business plan and doing everything possible to actually get started (if you decide to do so). For this you will find guidance in the third chapter of this guide.

Summary

.....

This manual assumes that you have made the decision that you want to be an entrepreneur. It will not help you to assess yourself as an entrepreneur, but it will help you to develop a business plan for the business idea that you have in mind. Once you have finished developing the business plan yourself, it will provide you with guidance to actually get started.

The first chapter shows that a concrete business idea is the starting point for your business. Without a business idea you cannot develop your business plan. And by writing a business plan you will be able to do three things:

- Decide whether you should continue with the business idea
- Organize your thoughts in a well-structured manner
- Present your business plan to banks and other financial institutions

The business plan will be presented and written in clear steps. The last step is to prepare an executive summary for quick reference.

You need to find a lot of additional information about your business idea. Your trainer can link you immediately to some of the resource people who have the right answers to your questions. The internet could also provide you with this, but it is sometimes difficult to find the correct information on the Internet.

After completion of your business plan you will need to prepare your action plan for actually starting the business. You will find out more about this in the last chapter of this manual.

.....

2. DEVELOP YOUR BUSINESS PLAN

When you develop your business plan you will need to go through some essential steps. Although all businesses have their own specificities, these steps are more or less the same for most small businesses: whether you produce goods, provide services or sell goods. You will need to find clear answers about what you will do, how you will sell, how many you will sell, what you will need, what it will cost and how you will get everything organized.

The Business Plan proposed, covers the ten steps mentioned in the previous chapter. These steps are put in a logical order for you. You go one by one. But as you go forward you will always need to think again about the previous steps, asking the following questions:

1. Are the assumptions you used before still the same as you use now?
2. If you made new assumptions and decisions later, to what extent will the details in previous steps need to change because of these?

This means that you need to be prepared to go back to previous steps regularly. This is to make them consistent with the last steps carried out. At the end of each step you will find a box helping you to fill in your Business Plan. It will also help you to improve those steps that you already worked out.



VAT may apply differently to different items or not apply at all. As you start working through the Business Plan you will normally work in amounts that do not include VAT. You will only include the VAT amounts once you start to prepare your cash-flow plan in step 7.4. So, make sure that you always get information about the VAT amounts or that you are able to work out the actual figures with and without VAT.

STEP 1. DESCRIBE YOUR BUSINESS IDEA

In the previous chapter we showed you how important it is to start with a concrete business idea and that the first step for developing your Business Plan is to describe the business idea selected by you. Subsequently you could try to strengthen the business idea as you go along.

Fill in your business idea form

What needs to appear is:

- The name of the business
- The type of business you will run
- What the business will supply
- Who its customers will be
- How the business will satisfy their needs
- How the business will reach the customers

Finally indicate what motivates you to retain this business idea. Your motivation for this idea could be based on the following:

- Your keen interest for the chosen sector
- The opportunities it provides for securing your income
- The personal development it could give you
- Other reasons

Look at how Mr. Bethel and Ms. Khan have described their business ideas:

<p>BALATA HARDWARE</p> <p>Mr. Bethel has just completed his studies and he intends to start his own business.</p> <p>During his studies he has worked part-time as a salesman in a hardware wholesale shop in the big town of Sangre Grande. In his work, he has come in contact with many owners of hardware stores. He lives in a small town called Balata, 10km from Sangre Grande. Mr. Bethel's business idea is to start a hardware store in Balata.</p> <p>Mr. Bethel has thought carefully about his business idea and collected information about the possible customers in and around Balata.</p>	<p>1. Business Idea</p> <p>Name of the business: Balata Hardware</p> <p>Type of business:</p> <p><input type="checkbox"/> Manufacturer <input type="checkbox"/> Service operator <input checked="" type="checkbox"/> Retailer <input type="checkbox"/> Wholesaler</p> <p>This business is going to: supply hardware articles and agricultural equipment.</p> <p>The customers will be: other businesses in Balata such as carpenters, builders and farmers in the neighbourhood of Balata.</p> <p>The business will satisfy the following needs of the customers: the hardware will supply its customers with hardware articles and basic and reliable equipment; farmers need equipment at the right time without too much time and money spent on transport.</p> <p>The business will sell in the following way: the customers will come to the shop to buy.</p>
<p>1. Business Idea</p> <p>Name of the business : Fresh Bread Bakery</p> <p>Type of business:</p> <p><input checked="" type="checkbox"/> Manufacturer <input type="checkbox"/> Service operator <input checked="" type="checkbox"/> Retailer <input type="checkbox"/> Wholesaler</p> <p>This business is going to: produce and sell loaves of bread, bread rolls.</p> <p>The customers will be: all people living in Balata as well as general dealers and caterers in Balata</p> <p>The business will satisfy the following needs of the customers: Private customers who need a closer place to buy bread. General dealers who need to sell fresh bread to their customers. Caterers who need bread to serve with their meals.</p> <p>The business will sell in the following way: Bread will be delivered to general dealers and caterers. Other customers will buy from a shop at the bakery.</p>	<p>FRESH BREAD BAKERY</p> <p>Mrs. Khan has lived in Balata all her life. She works full-time in a bakery in the town of Sangre Grande, 10km from Balata. Mrs. Khan always wanted a business of her own.</p> <p>Ms. Philips is a friend of hers. She also lives in Balata where she works part-time in a general store doing buying, stock control, administration and selling. She has talked to Mrs. Khan about starting a business in Balata.</p> <p>They have both saved money. Mrs. Khan knows all the processes of baking and Ms. Philips masters business management well enough. Their idea is for both of them to start a bakery in Balata.</p>



To what extent are you able to describe your business idea well?

BUSINESS PLAN

Think through your own business idea. The business idea will provide you with the starting point for developing your Business Plan. The following steps for writing your business plan are based on this business idea.

Strengthen your business idea

Now that you have thought through and written down your business idea you can strengthen it. Before you go any further, find out whether your idea is strong enough and whether it has the full potential of a competitive and profitable business by carrying out a SWOT analysis. Alternatively you could develop your business plan further and re-adjust your business idea as you proceed in the business plan. The risk is that if your business plan is too rough you may have to change a lot in the business plan because of assumptions that proved to be inaccurate. We will first look at the SWOT analysis.

Do a SWOT analysis

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

1. Complete a SWOT analysis. If you have already done this before, do it again to revisit your earlier assumptions.
2. All aspects in your SWOT analysis will not have the same importance for your new business. 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.
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 (think about how these could affect your clients, competitors, the turn-over and profit of your business). See how the strengths and opportunities identified by you could develop your business better and quicker. But also think about how weaknesses and threats could lead to too big a risk or actual loss of the business.
4. Compare your business idea with what potential competitors are doing. How are they dealing with their opportunities, threats, strengths and weaknesses? How could you do better?
5. Now decide how to strengthen your business idea (if you want to continue at all) by asking the following questions:
 - Will you need to focus on certain products or services?
 - Will you need to target certain clients better?
 - Will you need to work on a better quality product?
 - Will you need to add certain services?
 - Will you need to be more different from your competitors.
 - With whom would it be wise to work together, etc.?



Before you actually do the analysis, what do you think would be the possible result of a SWOT analysis on your own business idea?

Have a look at how Mr. Bethel and Mrs. Khan do their SWOT analysis:

SWOT ANALYSIS	
IDEA : Hardware	
Inside the business	
<p style="text-align: center;">STRENGTHS</p> <p>1 Strong negotiation skills *</p> <p>2 Market knowledge *</p> <p>3 Marketing skills</p> <p>4 Trust from suppliers *</p> <p>5 Good reputation amongst future clients *</p>	<p style="text-align: center;">WEAKNESSES</p> <p>1 Insufficient start-up capital</p>
Outside the business	
<p style="text-align: center;">OPPORTUNITIES</p> <p>1 Balata is expanding and the demand is increasing *</p> <p>2 There is no hardware in Balata *</p> <p>3 The Sangre Grande hardware does not offer quality tools for agriculture *</p>	<p style="text-align: center;">THREATS</p> <p>1 Second hand dealers offer their products on the Monday market</p> <p>2 Customers could buy at Sangre Grande's hardware where prices are lower *</p>
Are there more strengths than weaknesses?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Are there more stars (*) for strengths than for weaknesses?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Are there more opportunities than threats?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Are there more stars (*) for opportunities than for threats?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
How will I handle the identified weaknesses and threats?	
I really need to offer the quality people expect	

To test his business idea Mr. Bethel made a SWOT analysis. He fills in the SWOT analysis form and marks with a star (*) the most important strengths, weaknesses, opportunities and threats according to him.

For example, Mr. Bethel's knowledge of the market and his skills in negotiating are considered as very important assets for his business. Mr. Bethel marks these with a star (*).

His marketing skills are also to be considered as strengths, but these will be less important for the success of the business than his market knowledge, for example. He does not mark the Marketing Skills with a star (*).

Mrs. Khan and Ms. Phillips have made a SWOT analysis too in order to test their business idea. They marked with a star (*) the strengths, weaknesses, opportunities and threats that are very important for the success of the business they want to start.



SWOT ANALYSIS	
Business idea : Bakery/ Catering service	
Inside the business	
<p style="text-align: center;">STRENGTHS</p> <p>1 Experience and training in bread baking *</p> <p>2 Knowledge about future clients and network *</p> <p>3 Start-up capital partially available</p> <p>4 Passion for this business</p>	<p style="text-align: center;">WEAKNESSES</p> <p>1 No management skills *</p> <p>2 Need for additional loan</p>
Outside the business	
<p style="text-align: center;">OPPORTUNITIES</p> <p>1 The village is expanding *</p> <p>2 Absence of catering service in Balata *</p> <p>3 Increasing demand amongst businesses in Balata *</p>	<p style="text-align: center;">THREATS</p> <p>1 The Tang bakery in Sangre Grande has a very good reputation *</p> <p>2 Traditional bread producers in Balata</p>
Are there more strengths than weaknesses?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Are there more stars (*) for strengths than for weaknesses?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Are there more opportunities than threats?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Are there more stars (*) for opportunities than for threats?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
How will I handle the identified weaknesses and threats?	
I will need to obtain a loan; I will also need to do an active promotion of the products and quality I offer	

BUSINESS PLAN

Now carry out a SWOT analysis on your own business idea and refine the description of your business idea in your Business Plan. Take the following five 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.
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 one or more stars (★), as not all aspects you write 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.
 - Are there more strengths than weaknesses?
 - Are there more ★ for strengths than for weaknesses?
 - Are there more opportunities than threats?
 - Are there more ★ for opportunities than for threats?
4. Compare your business idea with what potential competitors are doing. As you did your SWOT analysis you must have compared your business with that of others in the same market. Look again at the opportunities and threats you have been describing. Which ones have a direct relation with your competitors? Where do you see your business having better opportunities? Where could you work on reducing threats for the business by better understanding what competitors do? How could you improve the identity of your business? Whom do you believe you could collaborate with? Finally, you should be able to list the advantages you have compared to other businesses. These could be that you should focus and specialize on just one or a few products or groups of clients, even if others are well-positioned. They, in the end, should also try to concentrate on other products or services. Which are your comparative advantages that you would like to explore and exploit more?
5. Think carefully about everything that you have written in the SWOT analysis and decide how your business idea could be improved. Also decide whether you still want to continue with this business idea.

Make your decision

- I will continue with this business idea and will go to the next step for writing the business plan.
- Before I continue I will first make this business idea better.
- I will give up this business idea completely and I will start formulating a new one.
- I will give up going into business.



To what extent is your original business idea getting better?

STEP 2. PREPARE YOUR MARKETING 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.

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.

Your marketing starts with a clear business idea. But now you need to learn more about your customers and competitors' attitude towards your business idea. Do this through market research. Your market research will provide you with important information to make a marketing plan.

STEP 2.1 MARKET RESEARCH AND SEGMENTATION

Starting from your business idea (that you reinforced in Step 1) you must now learn more about your customers and competitors through market research.

Market research

From 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 able to design your marketing plan. Here are some examples of how you can find out more 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.

Observe 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 to 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".

Market segmentation

All 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 with clear and distinguishable characteristics and decide on which groups you will serve. This is called market segmentation. There are many ways to divide the customer spectrum of your business in groups. You can segment your customers by age, gender, income, usage rate, price sensitivity and a wide range of other segmentation variables. The variables must allow you to distinguish segments with distinctly different (heterogeneous) buying behaviour, and the customers within the segment should have similar patterns, e.g. similar or identical buying behaviour. The variables must allow you to distinguish segments that are large enough to justify the effort of developing a distinctive marketing strategy for this group.

Follow these four steps in your market segmentation:

1. Survey the market and divide it into client groups (market segments).
2. Understand the characteristics for each of the market segments.
3. Evaluate the attractiveness of each market segment.
4. Select the most attractive ones.

The three columns in the Market Research and Segmentation form will guide you to summarize your findings as follows:

1. In column 1: you describe the potential customers for each selected market segment.
2. In column 2: you identify needs and preferences of customers within each market segment. How will your product(s) or service(s) satisfy them? List particular preferences that the customers have about the product or service, where they want to buy, how they want to buy and how much they are willing to pay.
3. In column 3: you write down the important information you have found out about your competitors.

Market research and segmentation

	1	2	3
Market segment	Identification of potential customers	Needs and preferences of customers	Analysis of competitors

Mrs. Khan and Ms. Philips have always lived in Balata and they know most of the traders and caterers of the town. They talk with them about the quality of bread and the services they need.

They also discuss with their friends to understand their needs and expectations.

The nearest bakery to Balata is "Golden Girls" in Sangre Grande, 13 km away. Mrs. Khan and Ms Philips try to find out as much as possible about this bakery.

When they finished their market study they put the results in the table on the right.

Mr. Bethel goes around in the region and talks with farmers to know their needs better. He also discusses with carpenters, builders and handymen of Balata.

2.1 MARKET RESEARCH AND SEGMENTATION

Market segment	1 Identification of potential customers	2 Needs and preferences of customers	3 Analysis of competitors
1	Supermarket	The two types of breads suggested are enough for them. It is important for them to have fresh bread delivered twice daily	Only one bakery "Golden Girls"
2	Caterers	The two types of breads suggested are enough for them. It is important for them to be supplied with fresh bread at desired times (early in the morning and in the afternoon).	Located in the heart of Sangre Grande (13 km from Balata) High price. Does not deliver to its customers
3	Individuals	They generally buy bread at the supermarket where they do their shopping. When they only need bread they prefer to go to the bakery in order to buy fresh bread. They occasionally buy some home-made bread.	Sells small breads, cakes, biscuits and round loaves

2.1 MARKET RESEARCH AND SEGMENTATION

Market Segment	1 Identification of potential customers	2 Needs and preferences of customers	3 Analysis of competitors
	Small farmers of the region	Agricultural materials such as fertilizers, seeds, spades, hoes, pesticides. They are simple and cheap tools. Fertilizers should be available in a given period. Since customers have to come from far away everything should be available	"Clem's" hardware" High price is not always aware of new things Does not sell every Agricultural equipment
	Builders, carpenters, black smiths and sometimes individuals	A wide choice of tools of good quality for every professional group. They need a reliable supplier for all simple material. Only the simple materials are available in stock. Special materials can be ordered but they need a hardware manager to give them advice about their material	"The hardware of Sangre Grande" Low price Large range of products Far from the customers of Balata



The only competitor in Balata is "Clem's" Hardware", but Mr. Bethel also has to think about the hardware shop of Sangre Grande. All his potential customers go there for their shopping. Mr. Bethel collects as much information as possible about his competitors. He takes note of the outcome of his market survey. His experience as a salesman of a hardware also helps him to fill in the column related to needs and preferences of his customers.

Make a marketing plan

In your marketing plan you think about how to market your products or services. One way of organizing your marketing plan is to describe the four Ps of the marketing mix. The four 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 inform your customers about your products or services and how you attract your customers to buy them.

In your market research you collected information about your customers and what they need. Use that information to plan how best to reach your customers. All four P's of your marketing plan are equally important and must meet the needs of the customers.

Much of the information in your Marketing Plan may not be complete. As you continue to work through the steps for writing your business plan, you will collect more information that you can use to update and improve it.

The Marketing Plan you come up with is most important as it gives you all the necessary information for your Monthly Sales Plan (Step 3).

STEP 2.2 MAKE A MARKETING PLAN: PRODUCT

A product, to start with, 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. The description of your product also indicates 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 (and when). 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
- Cable TV satisfies a need for news and entertainment.

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

Mrs. Khan and Ms. Philips will sell only two products: loaves of bread and bread rolls.



They enter the information on these two products in their marketing plan :

2.2 MARKETING PLAN

PRODUCT

	Product, service, range of products	
	<i>Loaves of bread</i>	<i>Bread rolls</i>
Quality	<i>Wheat flour, fresh, always available</i>	<i>Wheat flour, fresh, always available</i>
Colour	<i>White</i>	<i>White</i>
Size	<i>Normal size-same size as the breads of the bakery « Golden Girls »</i>	<i>Normal size-same size as the breads of the bakery « Golden Girls »</i>
Packaging	<i>Plastic bags</i>	<i>Plastic bags</i>
Spare parts	--	--
Repairs	--	--

2.2 MARKETING PLAN

PRODUCT

	Product, service, range of products	
	<i>Farm implements</i>	<i>Tools</i>
Quality	<i>Basic quality for keeping prices low</i>	<i>Very good quality.</i>
Colour	--	--
Size	--	<i>What is most common.</i>
Packaging	<i>As these are supplied</i>	<i>As these are supplied</i>
Spare parts	<i>When required</i>	<i>A little stock of spare parts of those items that are needed most. Other to be ordered when required.</i>
Repairs	--	--



STEP 2.3 MAKE A MARKETING PLAN: PRICE

The price means how much you will charge your customers for your products or services.

After you have found out what customers are willing to pay for the products and services you intend to sell, you will then have to find out what competitors are asking for the same products and services. By knowing the competitors highest and lowest prices you will get an idea about what prices you could charge. These prices will help you to set your tentative prices and estimate your sales value for the year (Step 3).

However, these prices cannot yet be fixed as long as they have not been based on your real 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. This will happen as you work through Step 8.

At this stage, just gather all the information you can and decide on your competitive price.

So, to set your prices you have to:

- Know how much your potential customers are willing to pay.
- Know your competitors' prices and identify the highest and the lowest prices in the market for products and services offered to your potential customers.
- Know your costs.
- Know whether the product you make has its price controlled by the government

In your Business Plan you will describe what final price you will charge for your product or service and why.



Mrs. Khan and Ms. Philips studied the prices of the bakery "Golden Girls" and they think that the best way to compete is to set low prices. A low price is important for mini marts and cafes.

Mrs. Khan and Ms. Philips know that the customers are ready to pay the price quoted by "Golden Girls. They think they can sell the bread rolls at \$0.95 to mini marts and cafes, at \$1.05 to private customers and loaves of bread at \$6.20 to mini marts and cafes and at \$6.40 to private customers. They enter these prices in the section "Price" of their Marketing Plan.

2.3 MARKETING PLAN

PRICE

Product, service or range of product:

1. Loaves of bread 2. Bread rolls

The clients are willing to pay :

\$7.10 \$1.15

Prices quoted by competitors

- Highest \$7.10 (for shop customers) \$1.15 (for shop customers)
- Lowest \$6.80 (prices set for mini marts and cafes) \$1.05 (prices set for mini marts and cafes)

My prices : \$6.75 (in mini marts and cafes) \$1.00 (in mini marts and cafes)
 \$7.00 for shop customers \$1.10 for shop customers

My cost price (from step 8) : Not yet known Not yet known

My final price : Not yet known

Reason for setting these final prices : It is important to offer a low price to mini marts and cafes. This low price can be kept thanks to a small range of products (which implies low production cost).

2.3 MARKETING PLAN

PRICE

Product, service or range of product:

1. Farm implements
2. Tools

The clients are willing to pay :

<i>Farmers need basic equipment at the lowest price.</i>	<i>Carpenters, builders and others are ready to pay a higher price for tools of a good quality and a wide range of product.</i>
--	---

Prices quoted by competitors:

- Highest
- Lowest *No hardware in the region quotes low prices but the prices quoted in Sangre Grande are lower than those in Balata*

My prices : *I will try to keep my prices between those of Sangre Grande and those of Balata*

My cost price (from step 8) :

My final price :

Reason for setting these final prices :	<i>I will supply a complete range of basic agricultural equipment and I will make sure I have equipment available in stock. Price is not my main strength to compete with others.</i>	<i>I will suggest a good range of products and will provide good services. Price is not my best way to compete with others.</i>
---	---	---



Mr. Bethel has also analyzed the price of his competitors. The prices of the hardware shops in Sangre Grande are slightly lower than those of "Clem's hardware" of Balata because they sell in large quantities.

The best way to compete with the other hardware shops is not the price but the range of products offered. As compared to the hardware in Sangre Grande, the one that Mr. Bethel wants to start will be located in a more accessible place.

See on the left, how he fills in the section "price" of the marketing plan.

STEP 2.4 MAKE A MARKETING 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 in the first place low costs of premises and easy access to all kinds of supplies (including energy, human resources, etc.). This often requires good roads.

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 them. This is called distribution. Choose between direct distribution, retail distribution and wholesale distribution. Not all businesses always need to sell to the final buyers.

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.

Ask yourself the following questions:

- Why is the location important for my customers?
- What location is best for my customers?
- What location is important for operating my business well? For example: are my suppliers to be considered when choosing my location? Can I still make a good profit if I choose to be close to my customers?
- What are the advantages and the inconveniences of possible locations?
- Based on which reasons will I finally choose the place?

The place to be chosen for the bakery “Fresh Bread” is very important, because it must be near to its customers. Mrs. Khan and Ms. Philips have a clear idea of the place where they are going to set up their bakery. They also have a clear idea of the way they are going to sell their bread. See below, how they fill in the section “place” of the marketing plan.



2.4 MARKETING PLAN

PLACE

Location :

The premises are : rented owned by me to be constructed
 other (please specify)

The location of the proposed business can be described as follows :

We will rent a shop at the main road of Balata, opposite « Basdeo's Cafe » at « Raymond's market ». It is close to the bus stop

This location is chosen for the following reasons :

*It will be convenient for the customers
 Near the mini marts and near the cafe so as to be able to supply them quickly at a cheaper price.*

This location has the following advantages and inconveniences:

Strategic location, but with high rent.

Monthly cost of this location is :

\$1,500.00 This cost includes : *Renting*

Mr. Bethel thinks he has found a good place for his hardware store. It is located in the neighbourhood of Balata, near the customers. He mentions the intended place in the section "place" of the marketing plan

2.4 MARKETING PLAN

PLACE

Location :

The premises are : rented owned by me
 to be constructed other (please specify) :

The place of the business can be described as follows :

I intend to rent a place around Balata. This place is located near the store "Furniture House" and "Balata Metal", two possible customers.

This place was chosen for the following reasons :

The rent is cheap far from the town and the place is near the possible customers.

This place has the following advantages and disadvantages :

Strategic location but high rent

Monthly cost : \$700.00

This costs includes : *Renting*



STEP 2.5 MAKE A MARKETING PLAN: PROMOTION

Promotion means 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.

But for all businesses good business promotion starts in the first place through the good “word of mouth” about your business. It is extremely important that people talk positively about your business, your product(s) or service(s). This will normally bring in most of your customers. Therefore your products or services and you as a sales person need to be good. However, word of mouth can also be bad for your business and can damage your business reputation if your business is not meeting the customers’ expectations. It will take a long time to restore a good reputation again. So think about it and try to describe in your Business Plan how you will influence the good “word of mouth” about your business.

What kind of promotion you choose depends on what you will sell and how you want to attract your customers. Do not be afraid to spend some of your financial resources on promotion. However, it is also important to know the cost of the promotion you plan to do. In order to limit these costs set your budget for promotion and look at it as an investment in your business. If done well, promotion should pay itself back with time. Be aware that you may eventually be disappointed if it does not have the immediate effect you expect from it.

Describe in your Business Plan each of the different methods of advertising and sales promotion you plan to use (like flyers, special prices, credit sales to reliable customers, discounts, etc.) and estimate how much you should spend on these.



Have you set a budget for promotion and does the cost of your planned promotion go within the limits of the budget?

Mrs. Khan and Ms. Philips intend to visit all the mini marts and cafes of Balata in order to sell them their bread. They will also use other methods of promotion. They put all that in the promotion section of the Marketing Plan of the bakery.

2.5 MARKETING PLAN

PROMOTION

Type of advertising	Details	Cost
Sign board on the wall	Sign Board with the notice « Fresh Bread Bakery ». Thus the customers will know that they can buy bread there.	\$800.00
Small sign boards at the entrance	Small boards will be put near the door in order to show products and prices	\$250.00
Individual mail	We will print flyers and business cards to inform all the mini marts and cafes of Balata about the opening of the bakery.	\$500.00
Type of sales promotion	Details	Cost
Free delivery	We will supply all the mini marts and cafes of Balata.	\$600.00/ month



For Mr. Bethel it is important to make the hardware store known to possible customers. He plans to spend an important amount of money at the beginning for the promotion of his store.

Mr. Bethel has filled in the section "promotion" in the marketing plan as follows.



2.5 MARKETING PLAN

PROMOTION

Type of advertising	Details	Cost
Sign board on the building	A board with the indication « The Hardware of Balata » will inform the customers	\$1,500.00
Publicity in the local press	Five advertising inserts in the local press at the opening of the store.	\$500.00
Advertising brochure	Brochures will be distributed to inform possible customers and farmers about the products on sale in the store.	\$600.00
Type of sales promotion	Details	Cost
Grouping of products	The store will be divided into two sections : agricultural implements and tools	No additional costs
Product demonstrations	Different products will be promoted through demonstrations in front of the building to convince clients about the quality	No additional costs (done with staff)

STEP 3 ESTIMATE YOUR SALES

When you have gotten all the information for your Marketing Plan, you can start working out a Sales Plan for your products or services for the first 12 months.

If you have no experience with your future market, you can use the following approaches to estimate sales better:

1. **Comparison with similar business:** try to find out how much your competitors sell and compare your business resources, skills and market opportunities with those of your competitors. Estimate your sales taking the differences into account.
2. **Field testing:** in a small way, test your products and services to see how much you can sell. You could also start your business as a small activity (even as a part-time activity) and slowly build it up. This is only suitable for businesses that do not need big investments in fixed assets nor large amounts of initial stock.
3. **Advance orders** (with the intent to buy): use this method if your business is likely to have only a few customers. Remember that a written commitment to buy has much more weight than a verbal agreement!
4. **Conducting a survey:** interview a sample of your potential customers about their habits. Make sure that your sample represents your likely customers. In general, your first survey design should always be tested on relatives or friends. Analyze the results and decide whether the answers give the information you need for estimating your sales.

Estimation of sales is for many the most important part of the Business Plan preparation. Only sales bring in the money and make your business work. Without good sales, there can be no profit.

Most people tend to overestimate their sales. Try to be realistic when estimating your sales. Moreover, as you are starting a new business, it is recommended that you should not expect too high sales in the beginning. To be on the safe side, you should estimate your sales lower than you expect. Too high an expectation results in stock that does not move (and may deteriorate), staff that cannot be productive (and risk losing work motivation), money that is tied up, etc. All these will immediately result in losses for your business.

Sales forecast and sales value

A realistic forecast of your sales is extremely important. All other business decisions you have to make concerning the workshop, investments, staff, finance, etc., depend on the estimated sales. This is expressed in an estimated sales value and is the quantity you plan to sell multiplied by the tentative sales price (Coming from Step 2.3).

Mrs. Khan and Ms. Philips have forecasted their sales for the first year of their business. As they have already quoted an estimated sales price of their products (Step 2.3) they can estimate the total sale value of all the products. Here is the monthly sales plan (without VAT) of the Fresh Bread Bakery for the first six months.

The first month they plan to sell 1,040 loaves of bread to traders.

Amount of the total sales value for the first month for the 1,040 loaves of bread to traders

Quantity x Unit Price

Total sum of sales values for all products.

3. MONTHLY SALES PLAN (without VAT)

Month	1	2	3	4	5	6	...
Product / Service / Range of products 1 : Loaves of bread (traders) Price : \$6.75							
Quantity	1,040	3,120	4,160	5,240	7,800	7,800	...
Sales value	7,020	21,060	28,080	35,370	52,650	52,650	...
Product / Service / Range of products 2 : Bread rolls (traders) Price : \$1.05							
Quantity	3,200	7,200	9,600	14,400	17,600	17,600	...
Sales value	3,360	7,560	10,080	15,120	18,480	18,480	...
Product / Service / Range of products 3 : Loaves of bread (private customers) Price : \$7.00							
Quantity	360	2,600	4,000	5,000	6,000	6,000	...
Sales value	2,520	18,200	28,000	35,000	42,000	42,000	...
Product / Service / Range of products 4 : Bread rolls (private customers) Price : \$1.10							
Quantity	1,000	1,800	3,000	3,750	4,800	4,800	...
Sales value	1,100	1,980	3,300	4,125	5,280	5,280	...
Total sales value of all products							
Sales value	14,000	48,800	69,460	88,615	118,410	118,410	...



Mr. Bethel has also filled in the monthly sales plan for the first year of his hardware store (without VAT). He estimated the sales of all the products he intends to sell, for example hammers, screwdrivers (big and small models), pairs of pliers (big and small models) in the range of tools and hoes, and spades, fertilizers, seeds and pesticides for agriculture equipment.

Below you find a part of the sales plan for the first six months.

3. MONTHLY SALES PLAN (without VAT) page 1							
Month	1	2	3	4	5	6	...
Total sales value carried over from previous page (in case there are more than four products)							
Sales value	-	-	-	-	-	-	-
Product / Service / Range of products 1 : <i>Hammer</i> Price : \$40.00							
Quantity	9	12	16	22	28	28	
Sales value	360	480	640	880	1,120	1,120	
Product / Service / Range of products 2 : <i>Screwdriver (big)</i> Price : \$20.00							
Quantity	11	17	23	28	35	35	
Sales value	220	340	460	560	700	700	
Product / Service / Range of products 3 : <i>Screwdriver (small)</i> Price : \$12.00							
Quantity	15	18	23	29	37	37	
Sales value	180	216	276	348	444	444	
Product / Service / Range of products 4 : <i>Pliers (big)</i> Price : \$30.00							
Quantity	22	27	32	37	44	44	
Sales value	660	810	960	1,110	1,320	1,320	
Total sales values for all products (for this and previous pages)							
Sales value	24,886	30,793	35,910	42,678	49,735	49,735	

STEP 4 PRODUCTION AND PURCHASE PLAN

As you have projected your sales for the next 12 months you will now be able to estimate what it will take to produce these products or services. In this step you will first find out how many products or how much services to produce. Secondly you will find out when and how much of input materials you will need to reach the estimated sales value.

Your total production for the next 12 months should be quite close to what you plan to sell during the same period. However, you may produce some goods well before (even months before) you sell them. This means that you store goods and that your production plan can differ from your sales plan and therefore need to be worked out separately and managed well.

If you want to start a retail or wholesale business, your purchases will be all **finished goods** you buy to resell. These will often be bought in large quantities long before you start selling them.

If you want to start a manufacturing business, your purchases will mostly be **raw materials**. These go directly into a product, such as wood, metal sheets, metal bars, textiles, leather, plastics, etc.

There are **other materials** that may not directly go into one single product or service like nails, screws, glue, welding electrodes, welding gas, etc. You will have to estimate these as well. As a service provider you will mainly have to purchase these kinds of materials.

The Fresh Bread Bakery will have to determine the quantity of raw materials it needs in accordance with the sales forecast for the production of its products. Mrs. Khan and Ms Philips have identified flour and the yeast as raw materials as well as salt and vegetable oil, but:

- it is difficult to calculate the quantity of salt and vegetable oil necessary to make the bread
- the cost of salt and vegetable oil necessary for making one bread is not very significant.

Mrs. Khan and Ms. Philips then decided that salt and oil do not appear under raw materials but rather under other materials.

At Step 3 the bakery determined the quantity of loaves of bread it will sell during the first 6 months. They need 0.5 kg of flour and 100g of yeast per loaf of bread. This means that for the first month, they will need 492.5 kg of flour.

Quantity of loaves of bread	x	Necessary quantity of flour per loaf
1,400	x	0.5

Which means (considering the price of \$4.50 per kg of flour) that during the first month they have as total purchase value for flour the sum of \$9,540.

Mrs. Khan and Ms. Philips entered these figures in the production and purchase plan of the bakery. Here is the way it is laid down for the first six months of the year for the product 1 and 3: Loaves of bread (sold to retailers and directly to consumers):

4.1. PRODUCTION AND PURCHASE PLAN Product 1 & 3 (No VAT included)
For manufacturers and service operators

Product 1 and 3: <i>Bread loaves</i>							
Month	1	2	3	4	5	6	...
Production plan (taking into account sales plan minus stock) in number of items to be produced or supplied :							
Quantity	1,400	5,720	8,160	10,240	13,800	13,800	
Purchase of raw materials (in accordance with production plan) :							
Type of raw material = <i>Flour</i>	Quantity needed per item = 0,5 kg			Unit price = \$4.50/kg			
Quantity	700	2,860	4,080	5,120	6,900	6,900	
Purchase value	3,150	12,870	18,360	23,040	31,050	31,050	
Type of raw material = <i>Yeast</i>	Quantity needed per item = 0,0125 kg			Unit price = \$50.00/kg			
Quantity	18	72	102	128	173	173	
Purchase value	875	3,575	5,100	6,400	8,625	8,625	
Total purchase value of raw material for product 1 and 3							
Total	4,025	16,445	23,460	29,440	39,675	39,675	

Here is the combined quantity of loaves of bread for retailers and private customers.

This is the necessary quantity of flour to produce the 1,400 loaves of bread.

They do the same thing for the raw materials of the product 2 and 4: "bread rolls" which are again, flour, yeast but with different quantities per item.

In addition, Mrs. Khan and Ms. Philips determined in the same way the quantity of the other materials (salt and vegetable oil) they need for the production of all the products (loaves of bread and bread rolls):

4.5 PRODUCTION AND PURCHASE PLAN All products (no VAT included)
For manufacturers and service operators

Quantity of salt needed during the first month to produce loaves of bread and bread rolls.

Other raw materials required (needed for different products and services)							
Month	1	2	3	4	5	6	...
Purchase of other raw materials (according to production plan) :							
Type of raw material = <i>Salt</i>	Unit price = <i>\$1.00/kg</i>						
Quantity	5	7,2	12,3	16,4	16,4	16,4	
Purchase value	5	8	12	16	16	16	
Type of raw material = <i>Vegetable oil</i>	Unit price = <i>\$13.00/l</i>						
Quantity	42,3	50,6	60	80	100	100	
Purchase value	550	658	780	1,040	1,300	1,300	
Total purchase value of other materials							
Total	555	665	792	1,056	1,316	1,316	

As all businesses (without exception) will need to purchase materials well in advance, good planning of your production and/or purchases is extremely important. Service and manufacturing businesses need a **Production Plan** that summarizes all production and purchases (Step 4.6). Retail and wholesale businesses just need a **Purchase Plan** (Step 4.7).

Production and purchase plans give us all information about when and what to produce and/or what to purchase for this production. It provides an estimation of the total value of all your material input. This is:

- “Total purchase value” of finished goods for retailers and wholesalers
- “Total purchase value of raw materials for all products and services” for manufacturers and service operators; this total purchase value covers purchase values for unfinished products and all other materials needed for the production of your goods or services.

Mrs. Khan and Ms. Philips compiled the figures from Step 4.1 to 4.5 in the production plan summary sheet for all products (summarizing production volumes and purchase values):



4.6 PRODUCTION AND PURCHASE PLAN : All products (no VAT included)
For manufacturers and service operators

Month	1	2	3	4	5	6	...
Product / Service / Range of products 1 & 3: <i>Loaves of bread</i> (step 4.1)							
Production Volume	1,400	5,720	8,160	10,240	13,800	13,800	
Purchase Value	3,150	12,870	19,360	23,040	31,050	31,050	
Product / Service / Range of products 2 & 4: <i>Bread rolls</i> (Step 4.2)							
Production Volume	4,200	9,000	12,600	18,150	22,400	22,400	
Purchase Value	1,890	4,050	5,670	8,168	10,080	10,080	
All other materials : <i>Salt and Vegetable oil</i> (Step 4.5)							
Purchase Value	555	666	792	1,056	1,316	1,316	
Total purchase value of raw materials for all products and services							
Total	5,595	17,586	25,822	32,264	42,446	42,446	

The hardware of Balata is a retail business and as such Mr. Bethel as retailer simply needs a purchase plan for retailers in order to plan for his purchases of materials. His purchase plan is as follows:

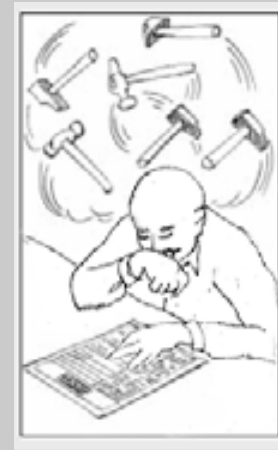
4.7 PURCHASE PLAN: All products (no VAT included) Page 1
For retailers and wholesalers

Month	1	2	3	4	5	6	...
Product 1 : Hammer Unit : Unit price : \$25.00 / Hammer							
Quantity	9	12	16	22	28	28	
Purchase value	225	300	400	550	700	700	
Product 2 : Screw driver Unit : Big Unit price : \$11.00 / Screw driver							
Quantity	11	17	23	28	35	35	
Purchase value	121	187	253	308	385	385	
Product 3 : Screw driver Unit : Small Unit price: \$6.00 / Screw driver							
Quantity	15	18	23	29	37	37	
Purchase value	90	108	138	174	222	222	
Product 4 : Pair of pliers Unit : Big Unit price : \$18.00 / Pair of pliers							
Quantity	22	27	32	37	44	44	
Purchase value	396	486	576	666	792	792	
Product 5 : Pair of pliers Unit : Small Unit price:\$10.00 / Pair of pliers							
Quantity	29	38	45	52	63	63	
Purchase value	290	380	450	520	630	630	
Product 6 : Spade Unit : Unit price:\$40.00/spade							
Quantity	22	28	31	34	50	50	
Purchase value	880	1,120	1,240	1,360	2,000	2,000	
Product 7 : Hoe Unit : Unit price : \$35.00 / Hoe							
Quantity	17	21	26	32	39	39	
Purchase value	595	735	910	1,120	1,365	1,365	
Product 8 : Fertilizer Unit : Kilo Unit price: \$5.00 /kg							
Quantity	75	96	108	121	134	134	
Purchase value	375	480	540	605	670	670	
Product 9 : Seeds Unit : Kilo Unit price : \$20.00/ kg							
Quantity	195	211	232	264	290	290	
Purchase value	3,900	4,220	4,640	5,280	5,800	5,800	
Product 10 : Pesticide Unit : Kilo Unit price: \$40.00 / kg							
Quantity	19	25	32	41	50	50	
Purchase value	760	1,000	1,280	1,640	2,000	2,000	
Total purchase value of all products							
Total	15,332	18,032	21,014	25,006	29,128	29,128	

Every hammer will cost Mr. Bethel \$25

This is the number of hammers Mr. Bethel will buy the first month.

This is the purchase value of 9 hammers that Mr. Bethel will buy during the first month.



STEP 5 DECIDE WHAT STAFF YOU NEED

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. If you employ staff you will need skills to manage them. You should set objectives for your staff, encourage and motivate them to be productive, supervise them and pay them correctly. You should also follow the laws and regulations which apply to the labour market.

Recruiting staff

The productivity of your business will, to a large extent, depend on the people you employ and the way they are managed by you. The selection of your staff will therefore greatly influence the results of your business. Your productivity and profits will be higher when you recruit the right people for the right job.

You will not need full time employees for every task, but as the tasks will need to be carried out by someone in the business, decide who will be responsible for each task. Make sure that you as the owner can handle all tasks. This will help you to understand your employees, to step in when needed, and eventually to reduce your costs.

When you decide to hire staff, it is important to describe exactly what skills and qualifications are required. Unskilled workers may be suitable for some jobs, but other jobs might need staff with special competences or a certain experience.

So, the first thing you do is to make sure that you know what work is to be done, how much time is to be spent on it and what skills and experience are required. You make a **job description** for every position in writing by doing the following:

- 1: Describe the kind of work (tasks, responsibilities and position).
- 2: Estimate the amount of work involved.
- 3: List the qualifications, skills and attitudes needed.

Then select the right people by identifying possible candidates or by advertising the job. Some candidates may be promoted heavily by your friends or family: focus on what they are able to do and what they know – not on who they know! Interview qualified applicants and choose the best person. As soon as you know who to recruit, make a **written contract**. Make sure that the contract corresponds with the labour law and regulations. Examples of these contracts can be obtained from labour offices, employers' organizations, chambers or private advisors.

As soon as you have recruited your new workers, prepare and think through an **induction programme** to ensure that a new worker quickly settles, understands your business, the tasks and responsibilities and your expectations.

Mrs. Khan and Ms. Philips do not know much about business management, but both of them are ready to work hard in order to learn what they need to know.

According to their partnership agreement Mrs. Khan will be responsible for the making of the bread and the store and Ms. Philips will be in charge of: buying, stock management, administration and selling to mini marts and cafes.

Their business will be small scale and they don't intend to have many employees, but they will need some help. Mrs. Khan will need someone to help her selling the bread. They will also need someone to deliver the bread to stores and cafes in town. The deliveryman will also perform other tasks when necessary.

As soon as they decide on the employees they need to recruit, Mrs. Khan and Ms. Philips fill in the organization chart in their Business Plan.



5.1 ORGANIZATION STRUCTURE

Tasks and responsibilities will be assigned as follows :

Tasks and responsibilities	Position	Staff
Make and sell bread in the store	Baker	Mrs. Khan
Take charge of the buying, stock control, administration and services as wholesaler	Manager and seller	Ms. Philips
Help in the making and the selling of bread	Baker 's assistant	Full-time employee
Deliver bread to mini marts and cafes of Balata and perform other tasks as required.	Delivery-man	Full-time employee

5.1 ORGANIZATION STRUCTURE

Tasks and responsibilities will be shared as follows:

Tasks and responsibilities	Position	Staff
Responsible for buying, stocks control, administration and sales in the store	Manager and seller	Mr. Bethel
Help to sell in the store	Shop assistant	Full-time employee

Mr. Bethel intends to start a small business. He will be in charge of all tasks related to management, including book keeping. He will take care of stock management and sales.

He intends to start with only one assistant. If this is not enough, he will recruit another assistant later when he can afford this financially.

Mr. Bethel fills in the organization structure chart in his business Plan.





Specific information (including laws and rules) on employment matters can be found in the Labour Laws, which can be obtained from local offices of the Ministry of Labour and Small and Micro Enterprise Development. They can give you information on employee's rights and on how to make a contract.

Business and family

Your family and close friends are often a most important support for the business. Consider the following:

- Your family and friends are important in providing the moral support needed to start your business.
- You may obtain guarantees and perhaps some of your start-up capital from members of your family and friends.
- Family members and friends may easily step-in when you run into start-up problems (lack of financial resources and/or personnel).
- Family members and friends may help you to get in contact with important customers and suppliers.

Many small businesses involve family members and relatives of close friends as employees. If you want to employ family members or relatives of close friends as staff, you must think about possible problems and make clear "rules", for example:

- All personal matters should be kept separate from the business.
- Members of the family and relatives of close friends who are employees should be treated the same as any other staff member. They should be paid the same wage and have the same opportunities for training and career promotion as other staff.

To benefit from your family and relations, you should remember this advice:

- Make your family and relatives understand that you want your business to be self-sustained and that you will not depend on the support from family and friends forever.
- Make your family and friends understand that the business is yours and that their influence on business decisions should be limited.
- Keep the money of your business well separated from your private money and from the money of your family.
- Educate your family members and friends on the basic business principles and explain that money that comes in the business is to make the business run and to pay for its costs.

If you maintain good and constructive relations with your family and friends, you can count on them as good ambassadors for your business. This will help your business towards improved productivity and higher profits.

Staff costs

For your business plan you should know the costs of all staff in your business (including yourself). The staff will be paid a gross salary that includes the monthly payment they will receive (net salary) and the amount that you will pay on behalf of your staff directly to different institutions (NIS, health insurances, etc.).

$$\boxed{\text{GROSS SALARY}} = \boxed{\text{NET SALARY}} + \boxed{\text{OTHER STAFF CONTRIBUTIONS}}$$

Besides the gross salary, you as an employer will also need to contribute amounts additional to the total amount of gross salaries you pay. These staff costs (employer's contributions) will need to be paid by you. In addition, remember that you may have to pay relief workers for staff on vacation or away on sick leave. Your total staff costs are therefore:

$$\boxed{\text{TOTAL STAFF COSTS}} = \boxed{\text{GROSS SALARIES}} + \boxed{\text{OTHER EMPLOYER'S CONTRIBUTIONS}}$$

In the case that you will run your business as a sole proprietorship you will not pay yourself a formal salary because the profit of the business will be considered as your income. But do fix a monthly payment for yourself (which is an advanced payment based on the estimated profit). This will help you to manage your personal expenses. Without fixing your own payment, it will be difficult to manage your business expenses and those of your family members. If you don't do this, you may eventually run at a loss, because of unchecked expenditure out of cash.

When you recruit staff for only part of the year, estimate this cost as a fixed monthly cost for the full year. This works as follows: you take the full amount you will pay during the year and you divide this by 12. This monthly average will be used in your sales and costs plan (Step 7.2). However, when you work out your cash flow plan (in Step 7.4), take the exact time of payment of your staff and yourself into consideration.

As you work out the staff costs you will have to distinguish between the following contributions:

- Gross salaries for your staff (and yourself); this is called "gross" as the employer will need to withhold what they are expected to pay in as the workers' part for some compulsory contributions (**workers' contributions**). This gross salary includes all contributions imposed by the labour laws. In Step 10 you will further discover your legal obligations.
- Employers will normally have to make additional contributions (based on gross salaries of all staff). This is called the **employers' contribution** on salaries.
- In the case of sole proprietorship, the full profit of your business is considered as your personal income based on which you will pay income tax. In this case you don't pay yourself a formal salary, but you still need to pay your own contributions to different institutions for health surcharge, insurances, etc. These are the **owner's contributions**.

After determining the salary of every employee Mrs. Khan and Ms. Philips calculate the staff costs they need to pay to different institutions.

Look at how Fresh Bread Bakery filled in Step 5.2 of the Business Plan for its needs on personnel and the cost it involves.

5.2 STAFF REQUIREMENTS AND COSTS				
Position	Qualification	Gross salary per month	Employer's contribution	Contract duration
<i>Baker</i>	<i>Skills in bread making</i>	\$4,000	\$200	12 months
<i>Manager and seller</i>	<i>Skills in management</i>	\$4,000	\$200	12 months
<i>Baker assistant</i>	<i>Interest for bread making</i>	\$3,000	\$150	12 months
<i>Delivery agent</i>	<i>No particular qualifications</i>	\$2,000	\$100	12 months
Total monthly salary costs		\$13,000	\$650	
		\$13,650		

The contributions of the owners of Fresh Bread Bakery (which in this case amounts to 5% of the gross salary per month) are \$650. When we add this amount to the total gross salaries (\$13,000) it gives \$13,650 per month as total staff costs.

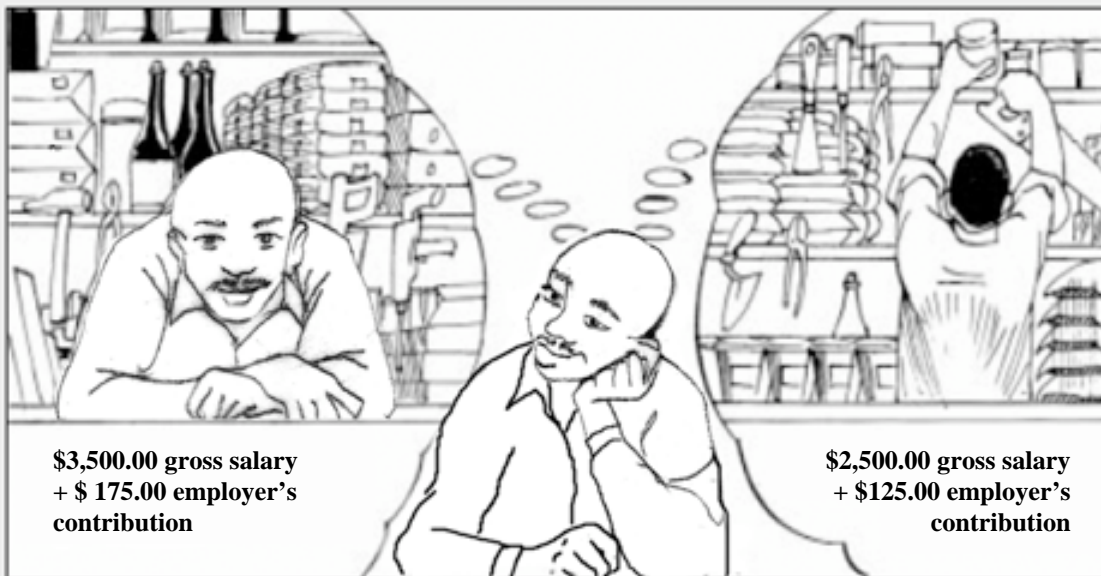


5.2 STAFF REQUIREMENTS AND COSTS

Position	Qualification	Gross salary per month	Employer's contribution	Contract duration
<i>Manager and seller</i>	<i>Capacity in management and selling</i>	\$3,500	\$175	12 months
<i>Shop assistant</i>	<i>Interest for selling hardware articles and agriculture equipment</i>	\$2,500	\$125	12 months
Total monthly salary costs		\$6,000	\$300	
		\$6,300		

Mr. Bethel determined his salary and the salary of his assistant. He calculated the staff costs and what he needs to pay to various institutions.

He filled in Step 5.2 of his business plan.



STEP 6 DECIDE WHAT FIXED ASSETS YOU NEED

This step is about identifying the Fixed Assets you need to make to carry out the production and sales as foreseen. Fixed Assets could be the following:

- Purchase of land
- Purchase of buildings
- Renovation of existing buildings
- Purchase of equipment (such as machines and vehicles)
- Purchase of furniture and office equipment
- Business start-up Fixed Asset (such as licenses etc.)

What these Fixed Assets have in common is that they represent a substantial cost and their use will be for **several years**. They will lose a part of their value each year. This is called **depreciation**. Fixed Assets normally lose value since they are used. The loss in value of all Fixed Assets is called depreciation and is an annual cost to your business. For your Business Plan you will need information about the total costs of all Fixed Assets and the first year's depreciation value.

Purchase of land and buildings

Purchase

If applicable to you, this will probably be your heaviest Fixed Asset, but you depreciate the Fixed Asset over a long time (10-20) years. After this period you should have written off the full cost of the Fixed Asset. A purchase of a building will make your costs go up, but it might be more cost effective than renting a building. In some cases the property also goes up in value which is important if you plan to sell your business one day.

Renovation

As you start your business you may also decide, instead of buying, to renovate a building. The costs of renovating should be spread out over a number of years so that they can be made affordable to your business. As such they also add to your business costs.

When you know in more detail what kind of premises you require, you will need to decide whether you should:

- construct** the premises
- buy** the premises
- rent** the premises
- run the business **from home**

Construction of your own premises can be the best option if your business has special requirements with regard to the building or the location of the building. However you will need a lot of capital and it often takes a long time to build.

Buying an existing building can be faster and simpler if you can find an appropriate building in a suitable location. An existing building may often have to be modified to suit your business needs. Buying your own building and adapting it to your business needs might require a lot of capital.

Renting the business premises needs less capital than constructing or buying. It is also more flexible because it is easier to change location if you are renting. But it is not as secure as owning your own premises. You may have to spend money to make changes to the building to suit your business needs.

Running your business from your home may be the cheapest option. It can be a good way to start, until you see that your business is successful. Separating business from family can be difficult if you are working from home.

You can still go back and change the “Place” section in your Marketing plan, after considering the above mentioned factors, which are important and most likely have major financial implications. However, remember that if you cannot sell your products it does not matter that you have low costs.

Factor	Important	Unimportant	Financial consequences
<i>Size of premises</i>			
<i>Possibility to expand</i>			
<i>Specific layout to suit the business</i>			

Purchase of equipment

If you need to purchase equipment you first have to decide what technology to use and then choose the machines and other equipment accordingly. To know whether the equipment is relevant for your business you need to calculate the costs of a unit produced with the equipment. If it will be too high you should consider other equipment. Specialized machinery is often costly and is only justified if the number of products will be big enough or the price high enough. This also applies to the purchase of a vehicle. If the total turn-over of the business does not justify the purchase of a vehicle, you do better by renting one when needed or by subcontracting transport services.



Make sure that you will have sufficient space for your machines and to park your vehicle. This is to avoid unnecessary damage, to enable you to work in a logical order and for your staff to work under safe conditions.

Business start-up Fixed Asset

Some business start-up costs are to be considered as Fixed Assets. These cover business registration, training (including your current SYB training), paying consultants and advisers and eventually licenses. These costs can also be written off spread over a number of years.

Other purchases under Fixed Assets

Other purchases could be many (such as furniture and more important office equipment). Here you will not include office stationery. These are consumables for the year and will need to be added to your annual costs. This also applies to small tools you need and that are considered to be too small for depreciation. The percentages for depreciation are often fixed by the Inland Revenue Division.

Mrs. Khan and Ms. Philips have worked hard to estimate the Fixed Assets necessary to start the Fresh Bread Bakery. They have examined every fixed asset item needed. They also collected information about which of the Fixed Assets should be depreciated.

The oven is the only item that needs to be depreciated. The license, the less costly equipment and small tools have finally not been considered as Fixed Asset items to be depreciated. All these other items will therefore be covered under various costs (step 7.1).

Look at how Mrs. Khan and Ms. Phillips calculated the depreciation of the oven. The oven will cost \$30,000 and they intend to use it for 5 years. the yearly depreciation of the oven is TT\$6,000.00

$$\frac{\$30,000}{5 \text{ years}} = \$6,000 / \text{year}$$

The bakery has prepared the depreciation form to allow to write down the amount of depreciation per year and to see the balance that is still to be written off.

The monthly depreciation for the oven will be \$500

$$\frac{\$6,000}{12 \text{ months}} = \$500 \text{ per month}$$

6.1 FIXED ASSETS (1st year) (in TT\$)

Type of Fixed Asset	Purchase date	Purchase costs (no VAT incl.)	VAT	First year's depreciation
1- Oven	2007	\$30,000	\$4,500	\$6,000
2- Registration		\$3,000		
3- Equipment		\$4,000	\$600	
4- Small tools		\$2,500	\$375	
Total for the year :		\$39,500	\$5,475	\$6,000
Monthly depreciation all Fixed Assets 1st year:				\$500

6.2 DEPRECIATION FORM (No VAT included)

Fixed Asset item 1 : <i>Oven</i>		
Purchase date : 2007		
Purchase costs : \$30,000		
Years of use : 5 years (Percentage: 20 %)		
Yearly depreciation : \$6,000		
Monthly depreciation 1st year : \$500		
Year	Yearly depreciation	Balance still to be written off
1 2007	\$6,000	\$24,000
2 2008	\$6,000	\$18,000
3 2009	\$6,000	\$12,000
4 2010	\$6,000	\$6,000
5 2011	\$6,000	\$0



It has not been easy for Mr. Bethel to estimate the required Fixed Assets for the acquisition of his stock, various equipment and small tools he will need to operate his business.

He thinks that his own capital will cover the Fixed Assets and initial stock purchases for at least the first two months of his business operations.

On the right is the Fixed Asset estimation that Mr. Bethel came up with. Note that he did not include his initial stock in the Fixed Asset list.

The only Fixed Asset items he will have to depreciate are the metal shelves and his business furniture.

6.1 FIXED ASSETS (1st year)

Type of Fixed Asset	Purchase date	Purchase costs (no VAT incl.)	VAT	First year's depreciation
1 Furniture and metal shelves	2007	\$5,000	\$750	\$1,250
2 Registration	2007	\$2,500		
3 Other equipment	2007	\$2,000	\$300	
4 Small tools	2007	\$800	\$120	
Total for the year :		\$10,300	\$1,170	\$1,250
Monthly depreciation all Fixed Assets 1st year:				\$104

6.2 DEPRECIATION FORM (no VAT included)

Fixed Asset item 1 : <i>Furniture and metal shelves</i>		
Purchase date :		2007
Purchase costs :		\$5,000
Years of use : 4 yrs		(Percentage: 25 %)
Yearly depreciation :		\$1,250
Monthly depreciation 1st year :		\$104
Year	Yearly depreciation	Balance still to be written off
1 2007	\$1,250	\$3,750
2 2008	\$1,250	\$2,500
3 2009	\$1,250	\$1,250
4 2010	\$1,250	\$0

Mr. Bethel calculates the depreciation of the equipment in his store. These are all covered under furniture and metal shelves.

The furniture and metal shelves will cost him \$5,000 and he intends to use them for 4 years. The yearly depreciation will be \$1,250:

$$\frac{\$5,000}{4 \text{ years}} = \$1,250.00 \text{ per year}$$

The monthly depreciation for furniture and metal shelves will be :

$$\frac{\$1,250.00}{12 \text{ months}} = \$104.12 \text{ per month}$$

STEP 7 ANALYZE THE BUSINESS COSTS AND PLAN FOR PROFIT

In the previous steps you have collected a lot of information about costs that your future businesses will incur. It is now time to make sure that you summarize all costs and that you are able to cover them. You also need to see whether you are able to make a good profit. Knowing your costs helps you to control them, plan for expenditures and if possible to increase your profit. So make sure:

- that you will make a profit
- that you never run out of cash (make sure that you can carry out the necessary expenditures)

This seventh step will help you to oversee all your possible costs. It further helps to prepare your sales & cost plan on the basis of which you then decide how to make a better profit (by keeping the costs low and pushing the sales up).

In this chapter you will also establish how much VAT money you will pay based on your sales and how much will be deducted from this based on your purchases and Fixed Assets.

Finally you will make sure that your cash flow will remain positive, so that it will not stop you from paying suppliers and meeting your obligations for paying in the VAT money collected by you.

This seventh step can now be divided into the following four important sections:

- 7.1 Know your business costs and taxes
- 7.2 Plan for profit
- 7.3 Know your VAT situation
- 7.4 Do your cash-flow plan (with 7.5 as part of your cash-flow plan allowing to focus on various business costs and taxes as specified in 7.1)

Before you start your business you plan for both profit and a positive cash flow. When you have started you should monitor the sales and costs as well as your cash flow closely. Prepare yourself in such a way that everything will be going more or less as you planned for. If anything starts going wrong, be ready to take action to sort out the problem immediately.

For new businesses it is quite normal that it takes some time before money from sales starts coming in. During this start-up period the business is very vulnerable. You may need additional financial resources and you must keep a very close eye on the financial situation of your starting business.

Cost categories

Before we deal with Step 7.1 we will first review all cost categories that we have seen already and that we will still see in the next sections: we have seen how you can estimate your costs for materials (purchases), staff (salaries) and Fixed Assets (depreciation). In this

chapter you need to work out all other business costs; these are called various business costs and these do not include capital costs and cost of borrowing. It is only in Step 9.1 that you will estimate your loan requirement and that you will determine the capital costs/borrowing costs that will come with obtaining a loan.

We regroup all your business costs in the following five cost categories:

- Purchase of raw materials and finished goods
- Salaries
- Depreciation
- Various business costs
- Capital costs

Finally there will be tax on profit.

Purchase of raw materials and finished goods

Depending on the volume you decide to produce and/or sell you will need raw materials and/or finished goods for the business. Step 4 has helped you to establish these costs (as purchase value of raw materials and finished goods).

Salaries

You will need to plan for the costs of your staff and yourself according to the legal requirements and obligations. These are gross salaries and employer's contributions. These costs have been worked out in Step 5. These do not include the staff recruitment costs (as these will come under various business costs; see below).

Depreciation

In Step 6 you have worked out the annual or monthly depreciation of your Fixed Assets for the first year of running your business. There are also Fixed Assets that may lose their total value in the first year. These will then fall under various business costs (see below).

Various Business Costs

These will be introduced below (see Step 7.1 of this chapter).

Capital costs

To make sure that you have the required financial resources (start-up capital) for Fixed Assets and money to make the business work during an initial period (working capital) you may need a loan. With a loan will come costs for borrowing money. This is what we call capital costs. These will mostly consist of interest, but could also cover related insurance and other banking costs. You will find out more about your capital requirements and capital costs in Step 9.

Tax on profit

The last category of business costs is the tax you will need to pay on your profit. By estimating your sales and all other costs you will be able to estimate your profit and the tax on profit you will be expected to pay. You will normally only pay taxes based on your profit and not on most of your business costs. In Step 10 you will discover which tax policy applies to your type of business (company tax) and yourself (income tax).

STEP 7.1 VARIOUS BUSINESS COSTS

Various business costs cover all costs other than material costs, salary costs, depreciation and capital costs. These are usually many and very different types of costs. To make sure that you will not forget any of the various business costs, you could check whether the following list applies to your business:

Costs related to the premises

You will need to think carefully about all costs related to the place and premises you will work from (as you decided in Step 2.3). These costs are normally monthly and are:

- Rent
- Water, electricity, gas, fuel, etc.
- Services (regular cleaning, maintenance, etc.)

If the premises are a place of your own, you could consider (renting) it to yourself in order to separate the business from the family. Money coming in from rent will allow you to do the necessary maintenance and repairs of the place.

Larger Fixed Assets in the workplace and buildings will have to come under depreciation. Such costs will be spread over a number of years and not appear under various costs.

Transport costs

In your Marketing Plan (Step 2.3) you made some decisions about how to distribute your products and services. This normally means that you will have costs for transport:

- How will you reach your client from your business location?
- How will your products and services get to your customers?
- How will raw materials get to you?

The decisions you make will have a price and will come under various costs.

Business promotion costs

Your decision about ways to promote your business and your products will give rise to another cost component (advertisements, sign posts, etc.). Discounts and credit sales can to some extent be considered as a promotional tool and help you to sell better (see step 2.5).

The value of **discounts** authorized by you will need to be considered as a cost under your business promotion. You projected your sales value based on the initial sales price, but you could sell some for less to attract customers. Budget a maximum amount of discounts in order to control this cost element. You should not give discounts if you have doubts about whether the business can afford it and if it is likely that it will not bring you better sales. On the other hand, the nature of your products may also require discounts at certain times in order to avoid losses (especially in the case of perishable goods).

Sales on credit are very common but extremely dangerous. You need the money as much as the customer does. Selling on credit is to be avoided as you will never be sure whether all the money will really come back. In some cases credit sales can win you some reliable customers. However, you could always limit the total value of credit sales by fixing the maximum amount of your sales on credit. A certain percentage of this amount of sales on credit may never be paid, but allowing for this service may still help you to sell much better to others. So it is best then to consider this amount as a cost factor and to avoid exceeding it.



Why would you offer discounts in your business? And why would you allow for credit sales in your business?

Staff recruitment costs

In step 5.1 you worked out the costs for recruitment of staff. These may be coming from putting an advertisement in the newspaper(s). The costs could also come from bringing the candidates in for interviews (transport and lunch costs).

Note that all salaries and staff costs related to monthly pay will directly fall under staff costs (salaries or labour costs) and will not be discussed in this section.

Small Fixed Assets (such as tools and licenses)

Your business (like all other businesses) will certainly need small tools and equipment. These are small Fixed Assets and by law you cannot depreciate these costs. Many of these will even recur every year. The full costs of these will be part of your business costs for the year and will therefore come under this section of various business costs. Too many of these costs will quickly make your product or service too expensive and make you run at a loss.

Insurances

Do not avoid paying insurance in order to save money. All businesses run risks and some of these you absolutely need to cover (such as theft, accidents and fire). Some may even be obligatory for your business. Some insurance could be included in your loan arrangements. So make sure to decide whether these costs will come under capital costs or under various business costs (depends on the nature of the insurance). Find out more about your insurance obligations in Step 10.

Costs related to communication and administration

As a business person you will need to be able to communicate and be reachable by clients, suppliers, institutions, etc. No business can function well without having a telephone. To provide a high level of service or in order for you to find information quicker you could consider investing in a cellular phone and get connected to the Internet (get yourself an e-mail address!).

The following are often considered as the costs for communication and administration:

- Telephone, fax and internet services
- Office consumables (paper, ink, etc) for administration and communication
- Copying and other reproduction costs
- Relevant magazines and books.

Various taxes

There are many forms of taxes that may apply to your business. Depending on the circumstances you will also need to budget for these. These may be taxes for: owning land and buildings, vehicle registration and inspection, etc. Note that these have nothing to do with tax on your profit and VAT (Value Added Tax).

We will introduce you separately to the principles of VAT which is not to be considered as a cost item. This will be done in Step 7.3, and then we will also start to talk about your cash flow.

Mrs. Khan and Ms. Philips have estimated the various costs of Fresh Bread Bakery for the first year of activity. Note that the costs for the first year will be different from the next as it includes costs which will occur only at the start of the Bakery.

The costs for the first month include equipment, promotion, costs related to staff recruitment, registration and small tools. Below is the forecast for the first months of Fresh Bread Bakery:

7.1 VARIOUS BUSINESS COSTS (no VAT included)

Every month the bakery will pay rent

These are small Fixed Asset items for which the costs have to be recovered by the first year of business operations (see step 6.1). These could be spread out over 12 months.

For all Products / Services / Ranges of products						
Month	1	2	3	4	5	6
Various business costs (<u>not</u> costs for raw materials, salaries, maintenance and capital)						
<i>Rent</i>	1,500	1,500	1,500	1,500	1,500	1,500
<i>Electricity</i>	300	300	300	300	300	300
<i>Gas</i>	250	250	250	250	250	250
<i>Water</i>	150	150	150	150	150	150
<i>Equipment</i>	150					
<i>Publicity</i>	1,500					
<i>Staff recruitment</i>	200					
<i>Insurance</i>	1,000	1,000	1,000	1,000	1,000	1,000
<i>Transport (free delivery)</i>	600	600	600	600	600	600
<i>Telephone</i>	400	400	400	400	400	400
	0					
<i>Other (small tools)</i>	100					
Total	6,150	4,200	4,200	4,200	4,200	4,200

Mr. Bethel also made an estimation of the various business costs for the first year of the Balata Hardware shop. Below are the results for the first 6 months:

7.1 VARIOUS BUSINESS COSTS (No VAT included)						
For all Products / Services / Ranges of products						
Month	1	2	3	4	5	6
Various business costs						
<i>Rent</i>	700	700	700	700	700	700
<i>Electricity</i>	200	200	200	200	200	200
<i>Water</i>	50	50	50	50	50	50
<i>Equipment</i>	400					
<i>Publicity</i>	2,600					
<i>Staff recruitment</i>	50					
<i>Insurance</i>	600	600	600	600	600	600
<i>Telephone</i>	400	400	400	400	400	400
<i>Other (small tools)</i>	100	100	100	100	100	100
Total	5,100	2,050	2,050	2,050	2,050	2,050



STEP 7.2 PLAN FOR PROFIT (SALES & COSTS PLAN)

Based on summarizing the different groups of business costs you will now be able to calculate the full costs of your business operations month by month and to compare these with your monthly sales forecast. By comparing the two you will be able to see whether you are making enough profit during and at the end of the year.

If you are not making profit you are making a loss. Many starting businesses make a loss during the first year and some even during their second year. If you know that this will occur in your business you need to plan for it.

This Step 7.2 is about planning for profit. For this you will need to prepare your sales and cost plan month by month. You normally do your Sales and Costs Plan at the start of the business and well before you start every new year.

Making the Sales and Costs Plan is often the most important step of preparing your business plan: it shows you the possible profit that you could make as a result of all decisions you tentatively made in the previous steps. You can expect that your profit will be realistic only if you got your sales, production and costs forecasts from the previous steps realistically done.

Since all businesses will be very vulnerable for anything that might not go as expected (especially in the beginning), be careful when you do your Sales and Costs Plan. Rather forecast costs to be higher than you think they will be and the sales lower than you think they will be. This way you will make sure that your business can survive even if things do not go as well as you hoped for.

Go back immediately to previous steps if you believe that you might have been too optimistic about sales or costs.

What is in the Sales and Costs Plan?

A Sales and Costs Plan shows the sales, costs and profit your business is likely to have each month and for the full year. What is new in the Sales and Costs Plan is to talk about profit (and loss). All other details will be brought in from the steps that you have already worked through.

Profit and loss

A profit occurs when your sales are higher than (>) all your business costs:

$$\boxed{\text{Profit}} = \boxed{\text{Sales}} > \boxed{\text{Costs}}$$

When your costs are higher than (>) your sales the profit is negative and we call that a loss:

$$\boxed{\text{Loss}} = \boxed{\text{Costs}} > \boxed{\text{Sales}}$$

Gross and net profit

We distinguish gross profit from net profit. Gross profit is when you have only subtracted your material costs from your sales. Net profit **before taxation** is the profit you will have after you have considered all your other business costs.

Net profit **after taxation** is the profit that is left after your business has paid tax on the net profit before taxation.

As you run the business, subsidies for running costs may be available (e.g. the Government of Trinidad and Tobago's On the Job Training Programme) that will help your business to succeed. These subsidies reduce your staff costs, your materials costs, etc. This is to be considered as an additional income for your business and is normally intended to help you to keep your prices lower or to make it more feasible to employ people. **Subsidies on Fixed Assets** could exist as well (like subsidies for paying (part of) your equipment). These do not appear in the Sales and Cost Plan and will only be dealt with when we discuss a simple balance sheet in Step 9.4.

Changes in material stock value

Most starting businesses will still have to purchase their full stock of raw materials and finished goods. Some starting businesses however may have materials before the business starts. This may happen if you take over a business (like the flour in the bakery or the finished goods in a retail shop that you take over, etc.). This means that you may have an **initial stock**. Using part or all of your initial stock should also be considered as a materials cost factor, because having these reduces your need for making certain purchases.

The stock of your raw materials and finished goods left at the end of the year is your **final stock**. This final stock can only be zero if you obtain supplies that will give exactly what you need for the year. But you want to start the next year with an initial stock which is your final stock of the previous year. Therefore you will need to estimate your final stock if your initial stock of raw materials at the start of the next year is relatively important.

With stock carrying over you need to show that the total purchase value of these materials should not be considered as a full cost to the business for this first year.

However, be careful with stock carried over as it will also bring risks as it can get damaged or lost. Depending on the nature of the raw materials and finished goods you may need to cater for stock losses by estimating your final stocks at lower levels.



If there is any cost involved in storing goods this will of course be a cost component to your business and will come under operating costs (storage or warehousing) for the current year.

Ms. Philips already knows how to make a Sales and Costs Plan and takes charge of the major part of the work. Mrs. Khan makes sure she understands the plan very well.

The sales of Fresh Bread Bakery will be low during the first months, which is normal for a business that has just started. Moreover, the first months are the moments of high costs that come with starting the business. In the case of a bakery the gross profit during the first two months will not be sufficient to cover all costs. Their net profit is positive starting from the third month.

Ms. Philips and Mrs. Khan have also calculated the tax on the net profit in accordance with the rate implemented in the country. In their case, the tax on profit is 25% of the net profit (before taxation). They calculated the tax on profit they will have to pay, considering the loss they made during the first two months. To have clear plans they estimate and write all these amounts month by month in their Sales and Costs Plan.



7.2 SALES AND COSTS PLAN (No VAT included)

Total sales value for the first month. This was estimated in Step 3

Total purchase value for raw materials (flour, yeast, oil and salt) for the 1st month. Amount established in Step 4.6

The gross profit is here the total sales value minus the purchase value. For the 1st month $14,000 - 5,595 = 8,405$

The net profit is clearly negative for the first month. This means that the bakery plans to run at a loss during the first month. Since net profit is negative during the first month, tax on profit will be zero

For all products						
Month	1	2	3	4	5	6
Total sales value (step 3) and subsidies						
+ Sales value	14,000	48,800	69,460	89,615	118,410	118,410
+ Subsidies	0	0	0	0	0	0
Total purchase value of raw materials (step 4.6)						
- Purchase value	5,595	17,586	25,822	32,264	42,446	42,446
- Initial stock value	0	0	0	0	0	0
+ Final stock value	0	0	0	0	0	0
Gross profit	8,405	31,214	43,638	57,351	75,964	75,964
All other costs						
- Labour costs	13,650	13,650	13,650	13,650	13,650	13,650
- Depreciation	500	500	500	500	500	500
- Various costs	6,150	4,200	4,200	4,200	4,200	4,200
- Capital costs	686	686	686	686	686	686
Net profit	-12,581	12,178	24,602	38,315	56,928	56,928
Taxable	0	-402	24,602	38,315	56,928	56,928
Personal Allowance	10,000	10,000	10,000	10,000	10,000	10,000
- Tax on profit (25%)	0	0	3,651	7,079	11,732	11,732
Net profit (after taxation)	-12,581	12,178	20,952	31,237	45,196	45,196

Tax only starts accumulating from the third month. Before that the total sum of loss and profit is negative and hence no taxes can be paid.

7.2 SALES AND COSTS PLAN (No VAT included)

For all products						
Month	1	2	3	4	5	6
Total sales value (step 3) and subsidies						
+ Sales value	24,886	3,0793	35,910	42,678	49,735	49,735
+ Subsidies	0	0	0	0	0	0
Total purchase value of raw materials (step 4.7)						
- Purchase value	15,332	18,032	21,014	25,006	29,128	29,128
- Initial stock value	0	0	0	0	0	0
+ Final stock value	0	0	0	0	0	0
Gross profit	9,554	12,761	14,896	17,672	20,607	20,607
All other costs						
- Labour costs	6,300	6,300	6,300	6,300	6,300	6,300
- Depreciation	104	104	104	104	104	104
- Various costs	5,100	2,050	2,050	2,050	2,050	2,050
- Capital costs	800	800	800	800	800	800
Net profit	-2,750	3,507	5,642	8,418	11,353	11,353
Personal Allowance	5,000	5,000	5,000	5,000	5,000	5,000
- Tax on profit (25%)	0	0	160	854	1,588	1,588
Net profit (after taxation)	0	3,507	5,481	7,563	9,765	9,765

Mr. Bethel also planned his sales and costs for the first year. He filled in his Sales and Costs Plan as presented on the left.

His plan indicates a loss for the first two months, which is normal as he will make big Fixed Assets and estimate that his sales will still be relatively low until the 5th and 6th months.

He plans his business carefully and according to the plan it will only start building up an accumulated net profit (taxable) by the 9th month.

STEP 7.3 PREPARE YOUR VALUE ADDED TAX (VAT) FORM

Your business is paying VAT to the supplier when you get goods and services delivered from your registered supplier. Your customers on the other hand are paying VAT to you if you are a registered company yourself. For the VAT that you had to pay to your supplier, you can normally claim the VAT back. In turn you will have to pay all VAT that your customers paid to you.

The difference between the VAT collected by you from your customers and the VAT that you can claim back is what you will have to pay to the Board of Inland Revenue. Sometimes you can claim VAT; it happens when the VAT of what you have sold is lower than the VAT of what you have bought. If your business is doing well you will normally have to pay, but if your business had to incur many start-up (or other) costs for the business or is not selling well you may expect a VAT refund. A VAT refund is therefore extremely important when you start your business. You may need to have a bank account if you want to claim your VAT return.

To summarize the two possibilities:

A: If the VAT collected by you is more than the VAT to be claimed by you, you will pay:

$$\boxed{\text{VAT collected}} > \boxed{\text{VAT to be claimed}} = \boxed{\text{VAT payable}}$$

B: If the VAT to be claimed is more than the VAT collected, you claim a VAT credit:

VAT to be claimed	>	VAT to be collected	=	VAT credit or refund
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Period for VAT refund

Your VAT situation is normally presented to the Board of Inland Revenue once every two months (during the following month) If you need to pay you will normally have to pay as soon as you submit your VAT returns. If you claim a VAT refund you will need to allow one or more months before the money is placed in your bank account.

To estimate these VAT payments may be extremely important for you as a business starter as you will have to pay a lot during the start-up (like Fixed Assets for which you have to pay the VAT to your supplier!). You will only start collecting VAT as sales start taking off. By knowing these VAT calculations you can avoid having unpleasant surprises as by law you are expected to pay VAT based on your actual sales.

Ms. Philips and Mrs. Khan can now fill in their VAT form so as to know the amount of VAT they will be expected to collect from their clients (on top of sales value estimated in previous sections). They will be expected to pay this amount to the receiver after deducting the VAT they can claim (as they will be expected to pay these VATs to their suppliers). VAT is set at 15% of the sales value and 15% on all purchases of goods and services. They are now able to make their monthly calculations for the first year.

The bakery will not pay VAT as their product (bread) is zero rated. They will claim all VAT paid on items purchased.

7.3 VAT RECORD							
Month	1	2	3	4	5	6	...
VAT on sales							
VAT @ 15 %	0	0	0	0	0	0	0
VAT @ 0%	0	0	0	0	0	0	0
A : VAT to be collected :	0	0	0	0	0	0	0
VAT on supplies							
Purchases	0	0	0	0	0	0	0
Fixed Assets	5,475						
Rent	0	0	0	0	0	0	0
Electricity	45	45	45	45	45	45	45
Gas	38	38	38	38	38	38	38
Water	23	23	23	23	23	23	23
Equipment	23	0	0	0	0	0	0
Publicity	225	0	0	0	0	0	0
Recruitment services	30	0	0	0	0	0	0
Insurances	150	150	150	150	150	150	150
Transport	90	90	90	90	90	90	90
Telephone	60	60	60	60	60	60	60
Other VAT to be claimed	15	15	15	15	15	15	15
B : VAT to be claimed :0	6,173	420	420	420	420	420	420
To be reported in cash-flow projection (step 7.4)							
VAT Payable (A > B)	0	0	0	0	0	0	0
VAT Credit (A < B)	6,173	420	420	420	420	420	420
To be paid to receiver	0	0	0	0	0	0	0

In the same way Mr. Bethel fills in the VAT form of the "Balata Hardware"

7.3 VAT RECORD

Month	1	2	3	4	5	6
VAT on sales						
VAT @ 15%	3,733	4,619	5,387	6,402	7,460	7,460
VAT @ 0%						
A : VAT to be collected	3,733	4,619	5,387	6,402	7,460	7,460
VAT on purchases						
Purchases	2,300	2,705	3,152	3,751	4,369	4,369
Fixed Assets	1,170					
Rent	105	105	105	105	105	105
Electricity	30	30	30	30	30	30
Water	8	8	8	8	8	8
Equipment	60					
Publicity	390					
Recruitment services	8					
Insurance	90	90	90	90	90	90
Telephone	60	60	60	60	60	60
Other VAT to be claimed	15					
B : VAT to be claimed :	4,235	2,997	3,445	4,043	4,662	4,662
To be reported in cash-flow projection (step 7.4)						
VAT Payable (A > B)	0	1,622	1,942	2,358	2,799	2,799
VAT Credit (A < B)	502	0	0	0	0	0
To be paid to Board of Inland Revenue		1,120		4,300		5,597

According to his planning, Mr. Bethel will build up a VAT credit of \$502 for the first month of the business operations.

By the end of the first 2 months his VAT credit will be gone and he will pay \$1,120 of VAT to the Board of Inland Revenue.

At the end of the second two month period he will pay \$4,300 to the Board of Inland Revenue and \$5,597 at the end of the third 2 month period.

STEP 7.4 YOUR 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 every month. The Cash Flow Plan helps you to make sure that your business does not run out of cash at any time.

The consequences of running out of cash can be disastrous for a business. You will not be able to secure your stock of raw materials and subsequently to produce as much as you planned for. You may also not be able to pay your staff and suppliers on time, you may lose customers as you are not able to provide the expected goods or services, etc. Because of this you may start to cut costs where you should not (like firing people and buying low quality materials). People will soon lose confidence in you and your business.

During the start-up period your business can run with a loss for a while because you can use your start-up capital to pay for costs in the beginning. But when the start-up capital is finished your business must reach the expected sales level, otherwise it will run out of cash.

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 decide to give credit to some of your customers you will normally not get paid immediately. You often have to buy more goods or materials before these credit customers pay you. Because of the credits you may not have sufficient financial resources for such purchases.
- Some customers may promise to pay you but may finally decide differently and will/can not pay you as they had planned. Certain products may therefore end up selling for less than forecast, reducing your sales value while costs are still the same.
- Imagine that you need cash to buy equipment. This investment will help the business to make profit in the future. But you usually have to pay cash for the equipment now, before you have even started to produce or sell.



In a cash flow plan all details (sales and expenditures) will appear as values that include the VAT amounts. This is because VAT money is coming in with your sales and goes out with your expenditures. Separate lines have been included in the cash-flow plan because you have to pay VAT on your sales to the Board of Inland Revenue but you can deduct the VAT amounts you paid to your suppliers.

To make your Cash Flow Plan, follow the steps as described on the following pages.

To make sure that they do not run out of cash when they start their bakery, Ms. Philips and Mrs. Khan made a 12-month Cash Flow Plan. Let's look at all steps that they followed to establish line by line their cash flow plan for "Fresh Bread Bakery".

CASH-FLOW PLAN FRESH BREAD BAKERY

We first have a look at the money coming in (starting from Line 2 as the first line is reserved for "Cash at the start of the month", which will be explained later):

Cash in :

		Month	1	2	3	4	5	6
CASH IN	2 Cash sales		14,000	48,800	69,460	89,615	118,410	118,410
	3 Credit sales							
	4 VAT collected on sales		0	0	0	0	0	0
	5 Subsidies		0					
	6 Loans		74,222	8,000				
	7 Any other cash in		12,000					
	8 TOTAL CASH IN		100,222	56,800	69,460	89,615	118,410	118,410

Line 2 Cash in from cash sales:

This is the money coming in from cash sales month by month. They look at their Sales and Cost Plan (Step 7.2) to find the forecast for cash sales every month (which originally comes from the Sales Plan in Step 3).

Line 3 Cash in from credit sales:

This is cash coming in from sales on credit during each month. They remember when discussing their marketing plan that they would not yet agree to sell on credit (as the business is only starting).

Line 4 Cash in from VAT on sales:

This is the money coming in as VAT on sales that they copied from their VAT record month by month (Step 7.3). Bread is Zero Rated, hence no VAT collected.

Line 5 Cash in from subsidies:

This is the money coming in from subsidies for start up costs, Fixed Assets and running costs. They requested a subsidy for the purchase of the oven, but this has still not been approved. Even if they will get it, they still do not know when they will receive it in their account. So, in their prudent planning they chose not to mention it.

Line 6 Cash in from loans:

This is the amount that Fresh Bread Bakery expects to obtain as loan of \$74,222 from a bank even before the business will start. During the second month they may expect a loan of \$8,000 from the family of Mrs. Khan.

Line 7 Any other cash in:

These are all other amounts of cash that Fresh Bread forecasts to receive during the year. In this case these are the own capital contributions of the owners, Ms. Khan and Ms. Philips, with a total amount of \$12,000 (each of the two associates contributes \$6,000).

Line 8 TOTAL CASH IN:

They add up all the amounts listed under Cash In (Line 2 to 7). This is the total cash Fresh Bread Bakery expects to come into the business month by month during this first 6 months.

Now we have a look at the money going out:

Cash out:

		Month	1	2	3	4	5	6
CASH OUT	9 Purchases		5,595	17,586	25,822	32,264	42,446	42,446
	10 Fixed Assets		44,975					
	11 Various business expenses		6,150	4,200	4,200	4,200	4,200	4,200
	12 VAT on supplies		6,173	420	420	420	420	420
	13 Staff		13,650	13,650	13,650	13,650	13,650	13,650
	14 Loan repayments		2,680	2,680	2,680	2,680	2,680	2,680
	15 VAT payable to Board of Inland Revenue		0	0	0	0	0	0
	16 Cash out for own use		4,000	4,000	4,000	4,000	4,000	4,000
	17 TOTAL CASH OUT		83,223	42,536	50,772	57,214	67,396	67,396

Line 9 Cash out for purchases:

This is the amount of money Fresh Bread Bakery forecasts that the business will need to pay month by month to buy raw materials as planned for. They find these amounts in their Sales and Cost Plan (Step 7.2). They indicate the VAT amounts on supplies under Line 12.

Line 10 Cash out for Fixed Assets:

Fresh Bread Bakery will need to pay to the supplier of the oven before the end of the first month. In Line 10 they fill in the amount of money that does not include VAT. They make sure that the VAT amount going out on the purchase of the oven is included in Line 12 (VAT on supplies). How to include VAT on Fixed Assets was explained in Step 7.3.

Line 11 Cash out for various costs:

This is the amount of money Fresh Bread Bakery expects to pay month by month for various costs other than purchases, Fixed Assets, labour and finance. These include payments for rent, water, electricity, business publicity, etc. Mrs. Khan and Ms. Philips copy the monthly various costs from the table they prepared in Step 7.1. Like for purchases and Fixed Assets they put VAT amounts on supplies of other goods and services equally under Line 12.

Line 12 Cash out for VAT on supplies:

This is the amount of VAT money to be paid to the suppliers on top of all business purchases for which the law on VAT applies. Mrs. Khan and Ms. Philips simply copy the monthly totals of "VAT on supplies" from their VAT record (Step 7.3). For the purchase of flour, yeast, salt and vegetable oil as well as expenses for rent and water they do not expect to pay any additional VAT.

Line 13 Cash out for staff:

This is the amount of money Fresh Bread Bakery forecast the business will pay out every month to pay wages and other salary costs for all people working in the business. They find the monthly amounts in their Sales and Cost Plan (Step 7.2). These were already decided upon in Step 5 (Staff costs).

Line 14 Cash out for loan repayment:

This is the amount of money Fresh Bread Bakery expects to pay as the monthly loan repayment. Contrary to the Sales and Cost Plan, this sum also includes capital repayment (besides the finance costs, which are composed of the interest and the insurance coming with the loan).

Line 15 Cash out for VAT to be paid to the Board of Inland Revenue:

This is the amount of VAT money that Fresh Bread Bakery has to pay at the end of each quarter. Mrs. Khan and Ms Philips found this figure to be \$0 since bread is "Zero rated" and no VAT is collected on sales.

Line 16 Cash out for own use:

This is the amount of cash Fresh Bread Bakery forecast the business can expect to pay out to the owners. This should not happen if the business pays a proper salary to the owners, which is the case. However, because of the start-up and transport difficulties, Ms. Philips and Mrs. Khan agreed to allow themselves \$4,000 each to meet personal expenses each month.

Line 17 TOTAL CASH OUT:

They add up all the Cash Out amounts from line 9 to 16. This is the total cash amount Fresh Bread Bakery expects to go out of the business during these months.

Based on the totals in Lines 8 and 17 Mrs. Khan and Ms. Philips are now ready to make their Cash-flow Plan:

Monthly cash-flow:

Month	1	2	3	4	5	6
1 Cash at start of month (A)	0	16,999	31,263	49,951	82,352	133,365
8 Total Cash in (B)	100,222	56,800	69,460	89,615	118,410	118,410
17 Total Cash out (C)	83,223	42,536	50,772	57,214	67,396	67,396
18 Cash-flow (B-C)	16,999	14,264	18,688	32,401	51,014	51,014
19 Cash at end of month (A+B-C)	16,999	31,263	49,951	82,352	133,365	184,379

Line 1 Cash at the start of the month:

This is the amount of money available at the beginning of the month. Mrs. Khan and Ms. Philips count on receiving loans and their own contributions (as owners) during the first month of the business. The cashbox is therefore still empty on the day they start.

Line 18 Cash-flow:

This is the total amount of money Fresh Bread Bakery plans as money coming in and going out month by month. Mrs. Khan and Ms. Philips have planned in such a way that the cash-flow is positive for each month. Planning for a positive cash-flow helps them to slowly build up their financial reserves.

Step 19 Cash at the end of the month:

This is the amount of cash Fresh Bread Bakery forecast to have available in the business at the end of each month. This amount they carry over to the beginning of the next month (A or Line 1). This amount should never be negative (as is their case) as it will block the business operations because of a shortfall of cash.

Mrs. Khan and Ms. Philips decided to obtain a loan from the bank and from Mrs. Khan's family to avoid such shortfalls. They have found solutions to avoid shortage on cash. This will ensure a permanent positive cash-flow and a normal business operation.



When establishing your cash-flow plan try to use the figures already worked out in the previous steps of your business plan. The time of making the actual expenditures may differ from the moment these costs were indicated in your Sales and Cost Plan (like having to pay for your registration many months before your business actually starts, or receiving part of the money for sales to your customers only the next month). So once you have established your Cash-flow Plan you can see how you have to negotiate payments or to seek additional financial resources to cover the shortfalls.

See below how Mr. Bethel has established the cash flow plan for his hardware shop. With his own capital (\$30,000 before starting) and the loan he wants to obtain he makes sure that his cash-flow remains positive. He has also not forgotten to show the VAT amounts he worked out in Step 7.3. The hardware shop is even able to face unexpected events that may arise during the start-up period.

7.4 CASH-FLOW PLAN (VAT included)

Month		1	2	3	4	5	6	...
A : CASH AT START OF MONTH		0	50,835	53,360	58,020	65,456	77,713	
Cash in	• Cash sales	24,886	30,793	35,910	42,678	49,735	49,735	
	• Credit sales	0	0	0	0	0	0	
	• VAT collected on sales	3,733	4,619	5,387	6,402	7,460	7,460	
	• Subsidies	0	0	0	0	0	0	
	• Loans	35,084						
	• Any other cash in	30,000						
B : TOTAL CASH IN		93,703	35,412	41,297	49,080	57,195	57,195	
Cash out	• Purchases	15,332	18,032	21,014	25,006	29,128	29,128	
	• Fixed Assets	11,470						
	• Various business expenses	5,100	2,050	2,050	2,050	2,050	2,050	
	• VAT on supplies	4,235	2,990	3,437	4,036	4,654	4,654	
	• Staff	6,300	6,300	6,300	6,300	6,300	6,300	
	• Loan	1,267	1,267	1,267	1,267	1,267	1,267	
	• VAT to be paid to Board of Inland Revenue	0	1,629	1,950	2,366	2,806	2,806	
	• Any other cash out							
C : TOTAL CASH OUT		47,939	33,629	37,505	42,695	48,053	48,053	
CASH-FLOW (B-C)		45,764	1,783	3,792	6,385	9,142	9,142	
D : CASH AT END OF MONTH		45,764	47,548	51,340	57,725	66,866	76,008	

STEP 8 COSTING OF PRODUCTS & SERVICES

When you have estimated all your business costs you are ready to establish the real costs of all the products and services you sell. By establishing your cost per product you can then set your final selling price by adding a profit margin which you need to build up financial reserves, for Fixed Assets to grow the business and to eventually make some profit for the owners. Once finished with this Step 8, you will then need to return to Step 2.3 of the Marketing section to adjust the price based on these new insights. You can either set your prices lower as you want to be competitive and your calculations show that you will still cover your costs, or you will need to set your prices higher as your initial prices did not cover your costs nor did they cater for profit.

STEP 8.1 SINGLE PRODUCT COSTING

For all entrepreneurs selling one single product

Those entrepreneurs producing and/or selling only one 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”. To know the cost 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 summarized as follows:

$$\boxed{\text{Product Cost (PC)}} = \boxed{\text{Total Costs (TC)}} / \boxed{\text{Sales Volume (SV)}}$$

STEP 8.2 MULTIPLE PRODUCT COSTING

For retailers and wholesalers

Retailers and wholesalers buy to resell. The cost price of each item is not only its **Purchase Price (PP)**, but also includes a part of all other costs the business incurs.

By completing the Business Plan so far, you, retailer or wholesaler, have generated sufficient information to be able to estimate the cost price of all the products you sell. In Step 4.7 you have estimated for 12 months the **Total Purchase Value (TPV)** of all products you will resell. Secondly you have worked out all business costs in Step 7.2, giving you the **Total Costs (TC)** before taxes for the full year.

The calculation you need to do now for getting the **Product Cost (PC)** of each item you will sell is simply the following:

$$\boxed{\text{Product Cost (PC)}} = \boxed{\text{Purchase Price (PP)}} \times \frac{\boxed{\text{Total Costs (TC)}}}{\boxed{\text{Total Purchase Value (TPV)}}$$

The Total Costs (TC) divided by the Total Purchase Value (TPV) of all products will actually give you the multiplier (TC/TPV) that you will use to find out the cost price for each item (all values without VAT).

To calculate the total cost for each of his articles Mr. Bethel must calculate the multiplier he will use. He therefore takes all the costs of the business for the year from Step 7.2 (\$423,416) and divides this figure by the total purchase value estimated for the year (\$312,428). These two values do not include VAT.

8.2 PRODUCT COST ESTIMATION (No VAT included)	
First year's business costs (from step 7.2):	
Total purchase value (TPV) :	312,428
Salaries :	75,600
Depreciation :	1,250
Various costs :	27,650
Capital costs :	6,508
Total Costs (TC) :	423,416
Multiplier = TC / TPV : 1.355	

The multiplier (TC/TPV) that he will use to know the cost price of every product is 1.355. Example: the purchase price of a hammer for Mr. Bethel is \$25.00 (without VAT). To know the cost of the hammer he must multiply \$25.00 by the multiplier (1.355, which gives him \$25.00 x 1.355 = \$33.88. This is the price for which he will need to sell the hammer in order to cover all his costs. In Step 8.4 he will decide at what price to sell his hammer in order to make profit. Next are all cost prices Mr. Bethel calculated for his products:

Product	Purchase Price (PP)	Cost Price = (CP = PP x 1.355)
<i>Hammer</i>	25.00	33.88
<i>Screwdriver (Big)</i>	11.00	14.91
<i>Screwdriver (Small)</i>	6.00	8.13
<i>Pair of pliers (Big)</i>	18.00	24.40
<i>Pairs of pliers (Small)</i>	10.00	13.55
<i>Spade</i>	40.00	54.21
<i>Hoe</i>	35.00	47.44
<i>Fertilizer (1 kg)</i>	5.00	6.78
<i>Seeds (1 kg)</i>	20.0	27.11
<i>Pesticide (1 kg)</i>	40.00	54.21



STEP 8.3 MULTIPLE PRODUCT COSTING

For manufacturers and service operators

If you are a manufacturer or service operator who will sell more than one product or service, you will need to go through the following section of this Step 8.3. This step helps to estimate more accurately the cost price of each product or service that you will sell.

If you are a manufacturer or a service operator and if you have not yet finalized your sales prices, multiple product costing will help you to:

- Set your prices better for each of your products or services
- Know how to control and eventually to reduce costs for better profit
- Make better business decisions for the future.

This costing exercise for manufacturers and service operators involves the following calculations:

1. Know all your business costs
2. Distinguish direct from the indirect costs
3. Link product with the direct cost components
4. Distribute your indirect costs on all products
5. Estimate total costs per type of product
6. Estimate the costs of one unit

1: Know all your business costs

As you have forecasted all business costs for the year you will be able to fill in the first column of your product cost estimation. You can also fill in the information about all other indirect costs (Depreciation, Various Business Costs and Finance Costs) in the second column. This table shows on the bottom of the same column the total costs for the year. This is of course 100% of your total costs that you need to recover from selling the different products. The question is now what part out of these total costs are linked to which product. Before you can answer this question you will first need to understand the difference between direct and indirect costs (see next operation in this section).

2: Distinguish direct from indirect costs

For doing multiple-product-costing you will need to distinguish between two types of costs:

- Direct costs (DC)
- Indirect costs (IC)

Direct costs are all those costs that are directly related to only one type of product or service your business makes or sells. Indirect costs are more general and cannot be related to one product or service of your business. We distinguish two types of direct and indirect costs:

Direct and Indirect Material Costs (DMC and IMC)

Direct Material Costs are all those costs your business spends on raw materials and spare parts that become part of, or are directly related to, the products or services you make or sell.

To be considered as Direct Material Costs, the volume or units of material that goes into a product must be easy to calculate and the cost of the material must be important enough to add a considerable amount to the total value of direct material costs. If not, such material costs will be considered as indirect costs.

You can find the necessary information about the purchase value of direct material costs product by product in Step 4.6.

Mrs. Khan and Ms. Philips consider the cost for the raw materials, flour and yeast, as Direct Material Costs (DMC). They look for the amount in the section "Purchase of raw materials" (according to the production plan) of the Step 4.6. The cost of salt and oil is too insignificant to be considered as direct material cost. They are therefore considered as indirect material costs.

Direct and Indirect Labour Costs (DLC and ILC)

Direct Labour Costs are all the costs your business spends on wages and benefits for the people who are directly involved in the production of your products or services. The time spent on making one or the other product must be easy to estimate. If it is not clear how much time is spent on each of the products or services you should rather consider these salary costs as indirect costs.

Example: If you produce two goods and most of your time goes into the first product you may consider to bring this labour cost fully under the first product as a direct labour cost.

You can find the necessary task information and salary costs as you worked these out in Step 5.1. Mrs. Khan and her assistant will be directly involved in the production of bread. Their salaries are considered as direct labour costs as they expect that they will spend all their time making rolls and loaves.. On the contrary, neither Ms. Philips nor the person who delivers can be considered as a Direct Labour Cost (DLC) as they don't work directly in the bread production or the catering service. Their labour costs will be considered as Indirect Labour Costs (ILC).

Other Indirect Costs (IC) are all those other business inputs that are needed for running your business and that are not covered under materials and labour. Indirect Costs are not directly linked to one particular product or service. Indirect costs are therefore called overheads or overall business expenses. The yearly totals on other Indirect Costs (as these are Depreciation, Various Business Costs and Capital Costs) can be taken directly from your Sales and Costs Plan (as you worked these out in Step 7.2).

3: Link each product with its direct costs element

As you have distinguished your Direct Material Costs (DMC) from your Indirect Materials Costs (IMC), you can now estimate which part of your Direct Materials Costs goes directly under which product (use the information from your production plans).

For the Direct Labour Costs you will need to know who will work on which product most of the time. Remember: this exercise is about estimating your costs as accurately as possible and it is not about knowing exactly what the costs will be. Therefore try to estimate well and if this appears too difficult to do, you will need to reconsider whether to bring this part of the labour costs under the Indirect Labour Costs.

	ALL PRODUCTS	PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4
DMC	20 000	2 000	8 000	5 000	5 000
DLC	20 000	16 000	2 000	1 000	1 000
DIRECT COSTS / DC	40 000	18 000	10 000	6 000	6 000

4: Distribute your indirect costs

All indirect costs (Indirect Materials Costs, Indirect Labour Costs and all other Indirect Costs) will now need to be divided amongst the different products. You can do this based on two different keys for such distribution. You have to choose one of the following:

- A. Same distribution as the Direct Material Costs (DMC), which is the purchase value of raw materials or finished goods (to be differentiated from other material costs); the justification for this option could be that your production process is largely driven by the raw materials input compared to labour input.
- B. Same distribution as the Direct Labour Costs (DLC), which are those salary costs that can directly be related to one or another product; the justification for this option is that your production process or service process is labour intensive than material intensive.

How this distribution will work is demonstrated in the following examples:

A Direct Material Costs (DMC) used for distribution of the indirect costs

	ALL PRODUCTS	PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4
DMC	20 000	2 000	8 000	5 000	5 000
<i>Key for repartitioning of all Indirect Costs</i>	<i>100%</i>	<i>10%</i>	<i>40%</i>	<i>25%</i>	<i>25%</i>
		↓	↓	↓	↓
INDIRECT COSTS (IC)	10 000	1 000	4 000	2 500	2 500

B Direct Labour Costs (DLC) used for distribution of the indirect costs

	ALL PRODUCTS	PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4
DLC	20 000	16 000	2 000	1 000	1 000
<i>Key for repartitioning of all Indirect Costs</i>	<i>100%</i>	<i>80%</i>	<i>10%</i>	<i>5%</i>	<i>5%</i>
		↓	↓	↓	↓
INDIRECT COSTS (IC)	10 000	8 000	1 000	500	500

As we can see from the example the results of Table A and B are quite different. Your choice depends on how you think that the indirect costs are best distributed and recovered. Try both methods on your own business plan and see the effects on your cost price. If you are a manufacturer you will normally use Direct Materials Cost as the cost allocation method, but as a service operator you will rather opt for Direct Labour Costs (as raw materials are often rather insignificant).

Mrs. Khan and Ms. Philips have chosen to use Direct Materials Costs (DMC) as the key for distributing all Indirect Costs.

Based on their production and purchase plan (Step 4.6) they have estimated the total purchase value of all raw materials at \$420,835. The Direct Material Costs for the purchase of raw materials for all products out of this is \$407,238 and the Indirect Material Costs (which are under "All other materials") are estimated at \$13,597.

The total annual purchase value of raw materials directly related to the production of loaves of bread is \$306,820 (taken from step 4.6 as well). For finding the percentages for distributing the indirect costs per product (bread loaves and bread rolls) they divided 306,820 by 407,238. Bread loaves take a share of 75.3% in the Materials Costs, which means that the rolls take 24.7%.

Thus, for Fresh Bread Bakery they came up with the following distribution key for Indirect Costs, which is based on Direct Materials Costs:

Product	Total purchase value of raw materials for one type of product (direct costs)	/	Total purchase value of raw materials for all products (direct costs)	x	100%	=	Key for repartitioning the indirect costs
<i>Loaves of bread :</i>	<i>306,820</i>	<i>/</i>	<i>407,238</i>	<i>x</i>	<i>100%</i>	<i>=</i>	<i>75.3%</i>
<i>Bread rolls :</i>	<i>100,418</i>	<i>/</i>	<i>407,238</i>	<i>x</i>	<i>100%</i>	<i>=</i>	<i>24.7%</i>

5: Estimate total costs per product

When you have estimated and distributed all costs you will be able to estimate the total costs of producing a range of products during the year. These are all composed by Direct Material Costs (DMC), Direct Labour Costs (DLC) and all Indirect Costs (distributed according to material or labour input). In the first case all Indirect Costs (IC) are distributed based on Direct Materials Costs (DMC) and in the second, based on Direct Labour Costs (DLC):

A Direct Material Costs (DMC) used for repartitioning of the indirect costs

	ALL PRODUCTS	PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4
<i>DMC is the key for repartitioning IC</i>	100%	10%	40%	25%	25%
DMC	20 000	2 000	8 000	5 000	5 000
DLC	20 000	16 000	2 000	1 000	1 000
IC	10 000	1 000	4 000	2 500	2 500
Total annual costs	50 000	19 000	14 000	8 500	8 500

B Direct Labour Costs (DLC) used for repartitioning of the indirect costs

	ALL PRODUCTS	PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4
<i>DLC is the key for repartitioning IC</i>	100%	10%	40%	25%	25%
DMC	20 000	2 000	8 000	5 000	5 000
DLC	20 000	16 000	2 000	1 000	1 000
IC	10 000	8 000	1 000	500	500
Total annual costs	50 000	26 000	11 000	6 500	6 500

6: Estimate costs of one unit

Now you have a full overview of the annual costs for a range of products either based on Direct Material Costs or Direct Labour Costs. The last operation is simply to divide the annual cost figures by the production volume for each product. This will give you the cost price per unit. You have worked out your production volume in step 4.6. You are able to recover all your costs based on using just one key and then making sure that you sell each product for more than the cost price. Based on Direct Material Costs, the following table will be the final result:

	ALL PRODUCTS	PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4
Total annual costs	50 000	19 000	14 000	8 500	8 500
Production volume		100	200	100	50
Cost price per unit		190	70	85	170

To be on the safe side, you could also consider using both keys and then taking the highest cost figures from both tables: in the example below Product 1 is taken from the second table (based on Direct Labour Costs) and Product 2, 3 and 4 from the first table (based on Direct Materials Costs). The total annual costs you will recover are now 57.000 instead of the 50.000. The following table is the result:

	ALL PRODUCTS	PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4
Total annual costs	57 000	26 000	14 000	8 500	8 500
Production volume		100	200	100	50
Cost per unit		260	70	85	170

PRODUCT COST ESTIMATION FOR “FRESH BREAD BAKERY”

To illustrate how a manufacturer estimates the cost prices, we use Fresh Bread Bakery as an example. Mrs. Khan and Ms. Philips used the information from table 4.6 in their business plan.

8. PRODUCT COST ESTIMATION (No VAT included) For manufacturers and service operators with more than one product

				<i>Loaves of bread</i>	<i>Bread rolls</i>
Key for repartitioning of all indirect costs :		100 %	=	75.3%	+ 24.7%
Material Costs	9 310 000	Direct	407,238	= 306,820	+ 100,418
		+ Indirect	13,597	= 10,244	+ 3,353
Labour Costs	163,800	Direct	100,800	= 75,944	+ 24,856
		+ Indirect	63,000	= 47,465	+ 15,535
Depreciation		Indirect	6,000	= 4,521	+ 1,479
Various costs		Indirect	6,150	= 4,634	+ 1,516
Capital costs		Indirect	625	= 471	+ 154
Total annual costs :			597,410	= 450,099	+ 147,311
Production volume (in units) :				135,920	223,150
Cost price per unit :				\$3.31	\$0.66

Purchase value of all other materials (IMC)

Indirect material cost

Salary costs for people not directly linked to the production of bread. (ILC).

24.7% of the capital costs will be covered by the sales of bread rolls.

These cost prices are to be included in the marketing plan (step 2.3)

STEP 8.4 SETTING PRICES TO MAKE A PROFIT

If you sell all planned products or services at the product cost you will in principle recover all your costs. Of course, you need to set your prices of your products, services or group(s) of products higher than your product cost to cater for:

- Profit (with profit you are able to reward yourself and your associates for the original investment and to reinvest in both equipment and employees)
- Capital requirements for business growth
- Loss in sales value (if prices happen to be lower than you planned for)
- Waste (some of your raw materials or finished products could spoil or become obsolete)
- Any other unexpected events (you should have some additional savings to cater for unexpected events that may harm your sales; this could be because of illness, death, crisis, etc.)

Mrs. Khan and Ms. Philips study their price section in the Marketing Plan again.

They thought they could sell the bread rolls at \$1.00 to supermarkets and restaurants, at \$1.10 to private customers and loaves of breads at \$6.75 to supermarkets and restaurants and at \$7.00 to private customers.

As they fill in their product costs they realize by now that the sales prices they had in mind are well above their product cost.

They decide not to change the prices they used in their sales plan of the business plan and to use these as their final prices.

If needed they know that they can set their prices still lower.

2.3 MARKETING PLAN

PRICE

	Product, service or range of product:	
	1. Loaves of bread	2. Bread rolls
The clients are willing to pay :	\$7.10	\$1.15
Prices quoted by competitors or imposed price policy :		
• Highest	\$7.10 (for shop customers)	\$1.15 (for shop customers)
• Lowest	6.80 (prices set for supermarkets and restaurants)	\$1.05 (prices set for supermarkets and restaurants)
My prices :	\$6.75 (in supermarkets and restaurants)	\$1.00 (in supermarkets and restaurants)
	\$7.00 for shop customers	\$1.10 for shop customers
My product cost (from step 8) :	\$3.31	\$0.66
My final price :	See 'my prices'	
Reason for setting these final prices :	It is important to offer a low price to supermarkets and restaurants. This low price can be kept thanks to a small range of products which implies low production cost.	

STEP 9 ESTIMATE YOUR CAPITAL REQUIREMENTS

Start-up capital is the money you need to start your business. It is absolutely necessary that you know how much start-up capital you need and when you will get it. This should be well in time and before you go ahead and start up your business. You will need start-up capital for:

- Large Fixed Assets
- Small Fixed Assets like tools, licenses, etc.
- Working capital

Capital for Fixed Assets

The total capital for Fixed Assets your business needs are normally divided into the following categories:

- Land
- Buildings
- Equipment
- Miscellaneous

Land and buildings

You will need a business location and premises to work from. It can be a building for your factory or shop. It could also be a small room to work from. If you can work from home to start with it will reduce your capital requirement for Fixed Assets. In Step 2.4, under the place section, you decided where your business needs to be. In Step 6.1 you looked more in detail at the financial side of the chosen premises, including the land and the buildings.

Equipment

In step 6.1 you found out what equipment your business needs. The need for equipment is normally biggest for manufacturers and some service operators. Even for businesses that only need very little equipment it is important to carefully think about what you need, as most Fixed Assets will tie you up financially for several years.

Instead of buying equipment you can sometimes lease it. Leasing is like renting. The leasing company will lease the equipment to your business for an agreed time period. You will pay a monthly lease, just like paying rent. This way you do not need start-up capital to buy the equipment, but just the funds to pay the lease on a monthly basis.

Leasing however is a more expensive way to get access to equipment. Sometimes you may pay more to lease the equipment than it would have cost you to buy it. Some lease agreements could end by you owning the equipment.

If you decide now to lease equipment rather than to buy you must change your Business Plan. Take the machines out of Fixed Assets (Step 6), consider it as part of your various business costs (Step 7.1). This will then increase the need for additional working capital for the lease payments. You will also need to correct your cost estimates and cash flow plans.



What would in your case be the advantage for you to lease your equipment instead of buying?

Miscellaneous: capital for tools and licenses

There are many expensive items that you need to purchase at the start of the business and that may last for a couple of years. If these smaller Fixed Assets cannot be depreciated over the years (as the law does not allow to do so) we can still list them under Fixed Assets (Step 6.1), but they have to be mentioned again under various costs (Step 7.1), as they will not be depreciated and as they need to be considered as costs to your business for the first year. You will of course need sufficient capital to purchase these items (like Fixed Assets). You will need to consider whether you really need everything and whether you could not wait one or more years before purchasing them (as they may become a heavy burden for your first financial year). Examples of these smaller assets items are little tools and permits or licenses.

Working capital

You will normally need to run your business for some time before sufficient money comes in from sales. Manufacturers must produce before they can sell. Some service operators have to buy materials before they can start to provide their services.

Many businesses must spend a lot of money on promotion before they get customers. Wages, rent, etc. have to be paid during this time. Therefore you will need working capital for these running costs and expenses.

Some businesses will need enough working capital to cover all costs for six months. Others may only need to cover three months. So you must estimate how long it will take before your business will get sufficient money in from sales. It will usually take longer than you think before your sales start picking up, so plan to have sufficient working capital for at least a couple of additional months without sales.

You will normally need working capital to cover:

- Purchase of a stock of raw materials and finished goods
- Promotional expenses
- Wages
- Rent
- Insurances
- Other costs

Remember that if you decide to give credit to the customers that it will take even longer before cash comes in from sales and that you will then need to buy stock a second time with your start-up capital.

STEP 9.1 ESTIMATE REQUIRED START-UP CAPITAL

You may need to borrow money for making the necessary Fixed Assets, buying tools and licenses and to assure you will have sufficient working capital. It is therefore important that you work out your need for borrowing. By estimating your need for start-up capital, you can avoid having too much (costly) or too little (negative cash flow) capital for starting your business.

Mrs. Khan and Ms. Philips worked hard to estimate the amount of capital they needed to start up Fresh Bread Bakery. They re-examined every amount in their business plan by obtaining estimates and quotations from suppliers, builders, etc.

They think they need a period of two months before the sales are really able to entirely cover the running costs. This is why they have considered that they will need to ensure working capital for the first two months of activities. They did not forget to include the VAT amounts in all figures. Here is the estimation of the amount of the required initial capital

9.1 REQUIRED START-UP CAPITAL (VAT included)					
FIXED ASSETS			WORKING CAPITAL (for the first two months)		
Equipment to be depreciated (step 6.1) :					
<i>Oven</i>	+	34,500	Purchase costs :	+	28,197
Miscellaneous not to be depreciated :					
License	+	0	Salaries :	+	13,650
Equipment	+	4,600	Capital costs :	+	1,250
Small tools	+	2,875		+	
Registration	+	3,000		+	
A : Total capital for initial Fixed Assets:	=	44,975	B : Total working capital required :	=	49,247

START-UP CAPITAL REQUIRED (A + B)	
94,222	

The capital required for the oven is: purchase price (\$30,000) + VAT (\$4,500):

These various costs include all various costs (as these were listed in Step 7.1) for the first two months, with the exception of those various costs already covered under miscellaneous / small Fixed Assets on the opposite side). The VAT amounts are included, wherever applicable (step 7.3).

Now Mrs. Khan and Ms. Philips know they will need \$94,222 to start their bakery and to secure its functioning for the first two months.



The Start-up Capital Required is based on the same figures as the Cash-out part of your Cash-flow Plan. It is presented in a different format to demonstrate why a loan may be required. A major difference between the estimated Start-up Capital and the Cash-flow for the same period is the capital repayment on a loan. This amount has to appear in the Cash-flow Plan but cannot be part of the Start-up Capital. However the financial costs coming with a loan should be included.

As we saw from the Fresh Bread Bakery example, you will need to work out your own requirement for start-up capital based on the information already available in your business plan:

- Fixed Assets: use the information from Step 6.1 (you can differentiate between small Fixed Assets and those that will be depreciated);
- Various costs: use the information from Step 7.1; you can deduct the various costs for small Fixed Assets from the total various costs;
- With the information in your Sales and Cost Plan (Step 7.2) you will have the required information about expected expenditures for purchases, salaries and capital costs;
- For your VAT information you should check your VAT record (Step 7.3).
- The Cash-Out part of your Cash-flow Plan (7.4) should guide you in making your decision about the number of months you need to cover, in case sales start coming in later. Do not consider the capital part of the installment.

Mr. Bethel thinks that he will need two months before the sales can cover the entire costs. He knows he will need a certain time before the customers know about his store. During this period the start up capital will need to cover all costs. Here is the way Mr. Bethel evaluated the required start up capital for the Balata Hardware Store :



9.1 REQUIRED START UP CAPITAL

INVESTMENT			WORKING CAPITAL <i>(for the first two months)</i>		
Equipment to be depreciated (step 6.1) :			Purchase cost	+	33,364
<i>Furniture & shelves :</i>	+	5,750	Salary costs	+	12,600
Miscellaneous not to be depreciated :			Various costs	+	7,150
<i>Other tools</i>	+	920	Financial costs	+	500
<i>License</i>	+	0		+	
<i>Equipment</i>		2,300		+	
<i>Registration</i>	+	2,500		+	
A : Total capital for initial Fixed Assets:	=	11,470	B : Total working capital required :	=	53,614

START-UP CAPITAL REQUIRED (A + B)
65,084

STEP 9.2 SOURCES FOR START-UP CAPITAL

When you have estimated how much start-up capital you need for your new business, the next question is: Where do you get that capital from? You will need the full amount at the start because the money is for initial Fixed Assets and working capital to cover your first months of operation. It is therefore important that you do not start setting up your business until you have secured all the start-up capital that you need.

The most important forms of start-up capital are:

- What you have: Owner's equity
- What you can borrow: Loans
- What you can get: Grants

Equity (own capital)

Equity or owner's contribution means your own capital you put into your business. If your business fails you will lose that money. Owner's equity is called **risk capital**, because you as the owner risk your money on the business.

Even though equity is a risk for you, investing your own money in the business makes the business less risky. This is because capital from equity will put less pressure on the business than borrowed money. There is less pressure because you do not have to make repayments or pay interest on fixed dates like you have to do if you borrow money from a bank.

Investing your own money in your business is a risk but it shows that you believe in your own business idea. If you are going to borrow some money for start-up capital, your own invested capital shows your creditors that you have enough faith in your business idea to risk your own savings on it. Most lending institutions will insist that you invest a certain amount of your own money in the business.

Whatever form of business you start, you will have to invest some of your own money. For example, a limited company has a share capital, which is money that comes from owners.

To reduce the risk in your new business it is good to have some money to invest in it as owner's equity. If you have savings to invest in the business but still hesitate to do so, it might be a sign of your own doubts in your business idea. You should then go back and evaluate your business idea again to make sure that you really believe in it enough to risk your own money in the business.

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 this business. A partner or associate may not be working in the business, but could just invest his or her money in it. If you find a partner willing to invest in the business you should generally not let the partner own half or more of the business, because you will then lose the right to make important decisions regarding the business.

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 installments 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 installments on the loan.

The more you borrow, the more you have to pay in interest and installments. This will always be difficult for a new business and it is normally better to borrow as little as possible to start your business.

Most lending institutions have two major requirements when you approach them to apply for a loan:

1. A well thought through, clear and profitable business plan.

This is what the lending institution is looking for. Without a profit your business will not be able to pay interest or to repay the loan. It will be difficult for the lending institution to form an opinion about the intended business if your business plan is unclear. Some lending institutions require that you fill in their own loan application form. With the step-by-step work done you should be able to transfer most of the requested information from your Business Plan into that form.

2. Collateral for your loan as a security for loan repayment.

If you cannot repay the loan, the lending institution has the right to take possession of your collateral instead. The business premises can be used as collateral if you own them. Machines and other equipment in your business can in some cases be accepted as collateral. If you do not have any of these, you may also use your home or that of somebody else as collateral. This is a big risk which you must think through carefully. Use the form below to decide what collateral you can offer to the bank:

Type of collateral	Tick if available	Details
Land		
Buildings		
Business assets (like machines)		
Fixed deposit		
Shares or bonds		
Any other personal guarantees		

Sources of loans

Here are the different sources you can try when you need a loan or a credit to start your business.

Banks

Banks are an important source of loans for businesses. It is their business idea to lend money to people and businesses. Some banks have small business units where you can go to when you apply for a loan. These units are used to dealing with small business people and know the special conditions that small businesses work under.

Government credit schemes

Many governments have introduced credit schemes for entrepreneurs who want to start small businesses. These credit schemes are often run by government organizations or parastatal organizations that exist in order to support small businesses in different ways.

You may not need collateral for these government loans, but the requirements for your business plan are just as strict as with the banks. In most cases the organizations that run the credit schemes can assist you in completing your business plan. They may also be able to assist you in other ways, for example by providing training.

Other sources for loans and credits

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 installments 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.

Credit Unions

For many years, Credit unions in Trinidad and Tobago have been a source of funding for small businesses. Loans are granted for such items as machinery, equipment etc.

Grants and subsidies

Some governmental and non-governmental organizations have funds available to give grants or special subsidies to entrepreneurs. This grant or subsidy is generally meant for small business creation and improvement. The grant often has a specific purpose:

- To reduce the initial or running costs of a business (like loan subsidies, subsidies to recruit personnel or waivers of taxes) or
- To assist in purchasing a piece of equipment (capital investment).

The first reduces the start-up costs and as such reduces your costs of running your business during the first year. It should be noted that the risk with these subsidies is that you may overestimate the real business performance. The second form of subsidy strengthens the business capital and will as such be reflected in the balance sheet (more about the balance sheet in Step 9.3).

Mrs. Khan and Ms. Philips believe they will not need important start-up capital for their bakery. They have saved money to start the business and can invest \$12,000 of their own capital in the bakery.

The bank has confirmed that it is possible to obtain a loan to cover the remainder of the initial capital they need. They intend to apply for \$74,997 and expect that they will need to pay back the loan in 3 years with an interest rate of 10%.

The bank will accept the oven as collateral for the loan. Here is what they wrote in their business plan.

9.2 SOURCES OF START-UP CAPITAL

START-UP CAPITAL REQUIRED

C : Start-up capital required (from step 9.1) : = 94,222

SOURCES OF START-UP CAPITAL

Owner's immediately available own capital :
Mrs. Khan et Ms. Philips + 12,000

Likely borrowings from friends and family:
Mrs. Khan's family + 5,000

Other source : *Mrs. Khan's sister (if needed)* + 3,000

Loan required : *Bank (3 years at 10%)* + 74,222

D : Start-up capital to be secured : = 94,222

(C - D MUST BE ZERO)

9.2 SOURCES OF START-UP CAPITAL

START-UP CAPITAL REQUIRED

C : Start-up capital required (from step 9.1): = 65,084

SOURCES OF START-UP CAPITAL

Owner's immediately available own capital :
Mr. Bethel 30,000

Likely borrowings from friends and family:
 + _____

Other source : _____ + _____

Other source : _____ + _____

Loan required : *Bank (3 years at 10%)* + 35,084

D : Start-up capital to be secured: = 65,084

(C - D MUST BE ZERO)

Mr. Bethel has also evaluated his start up capital. He applied to the Balata Village Bank for a loan of \$51,684 which he will pay back the same way as Mrs. Khan and Ms. Philips in 3 years with a rate of 10%.

The bank has already accepted his furniture, metal shelves and his stock as collateral. The rest of the money necessary for the start of the business will come from his private savings. According to his calculations he will need to make available \$5,000.

STEP 9.3 LOAN REPAYMENT SCHEDULE

Obtaining a loan is for most businesses essential for getting started. A loan therefore needs to be estimated well: not too much as borrowing costs money and may be difficult to repay; but also not too little as you may not be able to meet what the business needs. It will also be hard to modify your loan contract with the bank or to apply for another loan.

As a business starter you will of course be extremely happy if you obtain the loan you need. But the next step is to manage this loan well. You will have to repay regularly and in most cases you will have to pay a fixed amount every month. If the loan provider is a bank they will expect you to pay without any failure. If you do not, they may first make you pay heavy penalties and if you still do not meet the contractual arrangements it may finally mean the end of your business and your business aspirations, as the bank can seize your business collateral.

If your loan provider is a close relative or a friend the pressure may be less, but you will still need to be as businesslike as you will be with a formal loan provider. When you agree on a loan it is important to agree on a loan repayment schedule that you are able to commit yourself to. This will avoid your good relationships being negatively affected later on. Remember, the person willing to lend you money wants you to succeed. If you meet your commitments you can count on the same person when you need her/his support again. And if you don't, it could end your friendship and block you from obtaining further financial support in the future from this person and most likely from other close relatives.



In all cases you need to be extremely clear on the conditions of repayment right from the start, whether it is about a formal loan or a loan from a friend or family member. So, do fill in the loan repayment schedule in order to understand how the loan works and to know when you will have fully repaid your loan and all costs that come with a loan.

Useful terminology

Before requesting loans train yourself and try to be very clear on the following terms:

Loan: is the sum of money (capital) that you borrow and for which you will need a written contract that stipulates the amount and your financial obligations.

Loan provider: is the person or the financial institution (bank, micro finance institution, friend, etc.) that provides you the loan and with whom you will have a contract till you have fulfilled all your financial obligations.

Loan period: is the period running from the day you obtain the loan till the day you make your last payment (a period you agree upon with your loan provider).

Interest: interest is to be considered as a price for lending you the money. The interest should therefore also be seen as remuneration for the loan provider to provide you with a financial service.

Outstanding capital: is the part of the original loan that you have not yet repaid. Interest is calculated based on the outstanding capital.

Interest rate: is the percentage of the outstanding capital that you need to pay for continuing use of it. It is normally calculated on an annual basis.

Installment: is the total sum you will have to pay to the loan provider at each period, e.g., monthly. It could be a fixed sum that includes a sum for capital repayment, interest and insurances or be based on a fixed periodical repayment of the outstanding capital to which the interest and insurances will be added.

Amortization: is a part of your installment and only represents what you pay back on the outstanding capital.

Installment period: are the fixed periods between one repayment and the next, within which you are expected to make your next payment. An installment period is often one month, but could also be 3 months, 6 months or any other period.

Grace period: is the period between receiving the full loan and your first payment. In some cases the loan provider may agree to give you extra time for your business to establish itself well first. Instead of making your first payment after a few months you could negotiate to be free from repayments during the entire first year. Be aware that this also means that you will then pay more interest on the full amount (because of the extra time you requested).

Loan-bound insurance: with most formal loans it is possible to arrange for an insurance that will protect you and your relatives from the risks of not being able to repay the loan if you die or if you lose the physical abilities to run your business. These insurances have to be paid at the same time as your capital repayment and interest.

Capital costs: are all costs that come with the loan. These include interests, loan-bound insurances, but also all other banking costs because of transfers and late repayments of the loan.

Ms. Philips is quite used to dealing with loans and worked out a loan repayment schedule for the loan they expect to receive from their bank using form 9.3. It looks as follows:

9.3 LOAN REPAYMENT SCHEDULE

Name of the loan Provider: <i>Balata Village Bank</i>						
Total Credit sum: \$74,222 Loan period: 3 years Installment period: 1 month						
Interest rate: 10.% Grace period: None 1 st year capital costs: \$7,422.20						
Insurance policy: <i>Included (2,5 % on installment sum without insurance)</i>						
Installment period	Outstanding Capital	Installment		Capital repayment	Interest	Insurance
Month 1	74,222	2,680	=	2,062	619	67
Month 2	72,889	2,680	=	2,062	619	67
Month 3	69,581	2,680	=	2,062	619	67
Month 4	66,873	2,680	=	2,062	619	67
Month 5	64,165	2,680	=	2,062	619	67
Month 6	61,457	2,680	=	2,062	619	67
Totals:	0	96,489		74,222	22,267	2,412

Fresh Bread Bakery will pay the bank monthly fixed installments of \$2,680, which include insurance.

Fresh Bread Bakery will have different monthly capital costs. For costing purposes they decide to work with a fixed average monthly amount of \$619 as capital costs.

After 36 months Fresh Bread Bakery will have repaid the full loan. The total capital costs would have been \$22,267

BUSINESS PLAN

To complete your business plan, it is important that you include in your capital costs, the costs of interests and loan bound insurances for the first year of your business operations. As these will be part of the costs in your Sales and Cost Plan these will obviously influence your profit level.

Also review your Cash-flow Plan for the loan you expect to obtain and the financial obligations you may have during the first year. For your Cash-flow Plan it is important to know the right figures for your monthly installments.

Paying in fixed or variable installments

When borrowing from a bank you will pay in fixed installments (as described above). But when borrowing from friends it may be easier to work out and understand a loan repayment schedule based on fixed capital repayments. Look at the following example.

Ms. Philips worked out a loan repayment schedule for the loan they will get from the parents of Mrs. Khan. She uses again form 9.3. This one looks as follows:

9.3 LOAN REPAYMENT SCHEDULE

Name of the loan Provider: <i>Mrs. Khan's parents</i>						
Total Credit sum: \$8,000 Loan period: 4 years Installment period: 1 year						
Interest rate: 4% Grace period: 1 year 1 st year capital costs: \$320						
Insurance policy: <i>Not applicable</i>						
Installment period	Outstanding Capital	Installment	Capital repayment	Interest	Insurance	
Year 1	8,000	2,320	2,000	320	-	-
Year 2	6,000	2,240	2,000	240	-	-
Year 3	4,000	2,160	2,000	160	-	-
Year 4	2,000	2,080	2,000	80	-	-
Totals:	0	8,800	8,000	800	-	-

Fresh Bread Bakery will pay the parents of Mrs. Khan yearly a fixed amount of \$2,000, to which they will add the interest of the outstanding capital.

Fresh Bread Bakery will have different yearly capital cost for this loan that only includes interests. As this amount will be less each year yearly installments

After 4 years Fresh Bread Bakery will have repaid the full loan. The total capital costs by then amounts to \$800



Unless a friend or family member wants to lend you at a low interest rate, interest rates are normally lower when borrowing from a formal financial institution (such as a bank) compared to an informal lender. But in the case of formal lending there is little flexibility. You need to be able to provide guarantees.

In the case of informal lending there is more flexibility when negotiating the loan, but if it is not friends or family lending to you, the interest rate can be quite high. As the interest is a cost to your business (capital costs) keep these as low as possible. In many cases it will therefore be best to try to find a close friend or relative. But even in that case remember to work out your loan repayment schedule and to live by it.

STEP 9.4 THE SIMPLE BALANCE SHEET

The purpose of the balance sheet is to have an overview at any point in time about what all your business capital is used for and from where it originates. This is important information for anybody who wishes to invest time, money and energy in your business.

Every entrepreneur should therefore think of presenting his or her business in a simple balance sheet. You could have this done by an accountant but you could also do it yourself. It is not as difficult as it seems, especially as you have already gathered all needed information in the previous steps of the business plan.

A balance sheet has two sides: (1) “your assets” and (2) “equity and liability”. This can be explained as “what your capital is used for” (on the left) and “where your capital comes from” (on the right). Profit will be shown on the right. Your balance sheet will show the profit you made during the first year. You could now choose to leave it in the bank (for future expenses), to buy more stock or to invest more in equipment.

Your Business Plan will guide you in working out the simple balance sheet as you start and as you forecast what the business will look like after 12 months. There could be substantial differences between the opening and the closing balance during the first year of a starting business. You may foresee that your stock and financial resources will increase substantially due to a profit made during the year (without having increased your debts).

The two sides of your balance sheet are called:

- Assets (on the left)
- Equity and liabilities (on the right)

Banks and accountants may also talk about active and passive, but it still means the same: “what is your capital used for” and “where does it originate from”.

You need a balance sheet at the start of your business and at the end of the first year of business operations. At the start of the business it will give you your balance dated by the first day of operations. This is the **opening balance**. It shows the total amounts of:

- your business Fixed Assets already bought
- the initial stock you may have,
- business capital in the bank and at home.

The total of these elements is the same amount as the total capital you possess, that you may have received as subsidies for Fixed Assets (from governmental or non-governmental institutions) and that you borrowed (from the bank and others). As you already did most of your business plan for a full year you will also have all information to estimate your balance at the end of your first business year. That is the **closing balance** for the first year of your business operations.

Showing all these elements is extremely useful for yourself and those that loaned you money. It will show the development of your business during the first year. Doing this every year gives you in the end the necessary information to compare the results of your business over the years.

With time you will understand better how to read your balance sheet and to compare different years. It is therefore important to try to understand the simple balance sheet right from the start of your business.

Assets (active):

What is your capital used for?

Fixed Assets

When you invest your capital in new items (such as land, buildings and machines) the total value of your Fixed Assets will increase.

Depreciation

Writing off a part of your Fixed Assets (loss of capital) will happen at the end of a year as you will have used the buildings and/or machines during the first year and the next. Depreciation is loss of capital and is to be deducted from the investment sum. There is no depreciation at the start of the business.

Credit repaid by Clients (Receivables)

As you run your business some of your clients may have received some of your goods or services on credit. This means that part of your capital is with them.

Your VAT credit

As you buy goods you are entitled to a VAT credit or refund. If you have a VAT credit by the end of the first year, this means that some of your capital is by then with the Board of Inland Revenue.

Bank and cash:

Some of your capital may be directly available to you as it is on your bank account or in your cashbox.

Equity and liabilities (passive):

Where does your capital originate from?

Owner's equity:

Owner's equity is the amount of money you make available to your business at the start of the business. This amount will be the same at the end of the year, unless you decide to increase the amount by transferring capital from your private capital into the account of the business. It will be increased in the next year if you make a profit.

Profit:

Profit adds to the business capital and could, in the following year(s) year, be used for increasing the business assets, like making new Fixed Assets or by increasing your stock. You could also apply it against some of your debts (if any). If no particular destination is given to your profit it will be an expansion of owner's equity. If you foresee that you will run a loss during the first year, the net profit amount will appear as a negative figure on the Balance sheet.

Subsidies on investment:

Special schemes may exist to assist entrepreneurs (like yourself) with subsidies on Fixed Assets. These kinds of subsidies (for purchase of equipment, renovation of your premises, etc.) will increase your total business capital and will have to appear in the balance sheet. In the balance sheet you should not consider subsidies on running business costs (like the subsidies you may receive for reducing salary costs). These will only appear in your Sales

and Costs Plan and as such improve your annual profit. We have seen in the above that profit appears in the balance sheet.

Liabilities:

Your business capital could originate from many sources other than your own. Bank loans and overdrafts, suppliers' credit, delayed payments (for VAT collected, salaries, etc.). In all these cases the money you use is not just yours. It is money that you borrowed and that you added to the total business capital to make the business work. Make sure that the amount of liabilities compared to your own capital is not too big as it means that the business may not be able to meet the expectations of all those supplying you with their capital. When you want to obtain a loan this is something bank managers will look at.

STEP 10 KNOW YOUR LEGAL RESPONSIBILITIES

This is the last step before completing your business plan. You know by now in detail how you see your business operating during the first year. You will invest, you will recruit people, you will need to count on your suppliers and your customers (as much as they will need to rely on you), the business collects VAT and you may build up VAT credits. Most likely you want to be eligible for a loan or some subsidies.

In other words, your business will actively operate in a business environment that needs to be transparent and regulated. It is in your interest that your business exists as a legal entity. This gives you entitlements, but also responsibilities. You need to know what these are. All depends in the first place on the form of business you choose.

So, choose the right legal form for your business (step 10.1) and based on that, check what your responsibilities are (step 10.2).

STEP 10.1 SELECT THE RIGHT FORM OF BUSINESS

Before you start, you select a legal form for your business. The choice of legal form is important and can make a difference in:

- 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.



The rules and regulations for different forms of business vary. Find out exactly what options you have and which rules and regulations apply to you before you decide what form of business you will choose.

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. You could also seek assistance from the relevant chamber, private consultant or a legal advisor. Sometimes banks have special help desks to assist you.

The different forms of businesses

There are a number of forms of business to choose from. They all have their advantages and disadvantages. Think about which aspects are most important for 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:

- Sole proprietorship
- Partnership
- Limited company

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 and administering the business are simple and the costs are low. You do not need a license to operate a business as a sole proprietor. Exceptions are e.g. if you are operating a bar selling liquor. You will need to register for value added tax (VAT) with the VAT Administration Centre if you qualify to receive VAT, and if you have employees, you will need to register for income tax purposes. It is useful to register your business, even as a sole proprietor as some funding and other agencies prefer to deal with registered businesses. In addition, in Trinidad and Tobago to access some of the government assistance, it is necessary that your business is registered.

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.

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, often around 20 partners.

You might need a license to run your business e.g. a bar selling liquor. 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 VAT Administration Centre.

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. 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 on your own. Partners can also 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, the authorities will be able to make you or other partners pay for all the business debts.

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.

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. It can also be that they are only investors, who are not active in the business. They are still the owners, but will have to appoint a manager.

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
Generals Office, Ministry of Legal Affairs.
- 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.

Selecting 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 nor tell you what the consequences are of your choice without checking different sources of information.

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
Registration	Might have to be registered	Might have to be registered	Has to be registered
Cost of starting the business	Low cost	Low cost	High cost
Simplicity of starting and administering the business	Simple	Simple	Complicated
Number of owners	Only one	At least two	One or more
Financial responsibility of the owner for the business' debts	Unlimited personal liability by the owner for all debts	Unlimited personal liability by the owners for all debts	No personal liability by the shareholders for the debts
Decision making in the business	All decisions made by the owner	Decisions are made jointly by all owners, unless agreed otherwise	Shareholders appoint board of directors who appoint manager 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 FRESH BREAD BAKERY

Mrs. Khan and Ms. Philips have become associates to start the "Fresh Bread Bakery" business together. They choose a partnership company because they do not need a huge loan. In addition, the simplicity to start this type of business is more important for them than to have the advantages of fewer risks that come with Limited Companies.

They decided to establish a written agreement in order to avoid any problems in the future. This agreement includes the following:

<ul style="list-style-type: none"> Business activity 	Bakery: producing and selling bread; selling bread from the business but also delivery to supermarkets.
<ul style="list-style-type: none"> Profit distribution 	The profits will be equally shared between Mrs. Khan and Ms. Philips as both of them work full-time in the bakery and they have agreed to a 50:50 % sharing of profit.
<ul style="list-style-type: none"> Duties of partners 	Mrs. Khan will be responsible for the baking and the store. Ms. Philips will be responsible for the administration of the business (which includes purchases, stock management and selling to supermarkets and restaurants).

And here is how Mrs. Khan and Ms Philips filled in their form 10.1 "Legal form of the business in their business plan:



10.1 LEGAL FORM OF BUSINESS

The business will operate as a:
 Sole proprietorship Partnership Limited company Other form:

Reason for choosing this form of business is :
Simplicity, low costs and no need for important loans

The owners are:

ASSOCIATE 1		ASSOCIATE 2	
Name:	<i>Mrs Zena Khan</i>	Name:	<i>Ms. Abby Philips</i>
Position in business:	<i>Baker and seller</i>	Position in business:	<i>Manager and seller</i>
Initial shares / capital:	<i>\$6,000</i>	Initial shares / capital:	<i>\$6,000</i>

Mr. Bethel thought about the type of business to choose for his hardware. He has the choice between a sole proprietorship and a Limited Company. He knows he will take more risks if he starts a sole proprietorship but the simplicity regarding formalities is convenient for him. It is also less expensive than setting up a Limited Company. He has therefore chosen to start a sole proprietorship. He writes it down in his Business Plan.



10.1 LEGAL FORM OF BUSINESS

The business will operate as a:
 Sole proprietorship

Reason for choosing this form of business is :
Simplicity, low costs, little risk (compared to limited company)

OWNER

Name:	<i>Mr. Thomas Bethel</i>
Position in business:	<i>Manager and seller</i>
Initial shares / capital:	<i>\$5,000</i>

STEP 10.2 KNOW YOUR LEGAL RESPONSIBILITIES

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. Insurance for your business will also be covered in this chapter. Some business sectors require insurance coverage by law.

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.

WHAT ARE YOUR LEGAL RESPONSIBILITIES?

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.

Employees

If your business employs staff you have to fulfill your obligations as an employer. Find out what labour law and regulations apply in general and if any special regulations apply to your line of business

The following are some of the responsibilities of the employer in Trinidad and Tobago:

The Pay-as-You- Earn System (P.A.Y.E).

The employer has responsibilities under the Pay-As-You-Earn System (P.A.Y.E). This is a system by which tax is withheld from emolument income.

The employer has to:

1. Deduct taxes from emoluments – the employer has the responsibility to deduct taxes from the emoluments (salaries, wages etc) of his employees in accordance with the P.A.Y.E. regulations each time a payment is made weekly/fortnightly/monthly.
2. Remit taxes to the Board of Inland Revenue
3. Issue pay slips to employees
4. Issue T.D.4 Certificates at the end of the year during which the tax was deducted. It shows the total emolument paid during the year and the total tax and other amounts deducted
5. Keep records of employees' earnings and tax deducted and make them available for inspection by the Board.

National Insurance System (NIS)

The payment of national insurance contributions is compulsory for employees and unpaid apprentices who are registered or eligible to be registered under the system. Payment of the contribution is shared between the employer and the employee. The employer is statutorily obligated to deduct the employee's share no later than on the date of payment of salaries/wages. The employer is responsible for remitting the total contribution to the National Insurance Board, that is responsible for the operation and administration of the country's National Insurance System.

Value added Tax (VAT)

Any person who conducts a business activity and who makes commercial supplies with a gross value in excess of \$200,000 in any twelve-month period is required to apply for registration for Value Added Tax (VAT). If the person conducting the business activity is an organization (i.e. not an individual) it is the organization that must register. The individual partners or members do not register.

Businesses should display a VAT registration certificate and show the VAT registration number on all invoices.

Some services are exempt from paying VAT and these include medical, training and educational providers that have been duly registered. Many food items are zero rated, i.e., no VAT is paid on them.

The Value Added Tax Act #37/89 requires such businesses and many organizations in Trinidad and Tobago to:

- register with the VAT Administration Centre
- collect Tax at fifteen per cent (15%) on supply of goods and prescribed services
- remit the Net VAT collected to the Cashiers unit, Inland Revenue Division
- file a VAT return.

Health Surcharge

This is a tax which is charged on income and shall be applied to the provisions of health services in Trinidad and Tobago. It is paid by every employed person who pays or is liable to pay contributions under the National Insurance Act and by individuals other than employed persons who are liable to furnish a return of income (self – employed). Exempted from paying health surcharge are those:

- Under the age of sixteen (16) years
- Sixty (60) years and over
- Whose only source of income is pension.

Health surcharge is payable at two (2) rates as follows:

- Where the monthly/weekly income is more than \$469.99/\$109.00 respectively – the rate is \$8.25 per week
- Where the monthly/weekly income is less than \$469.99/\$109.00 respectively – the rate is \$4.80 per week

Green Fund Levy is a levy on companies, partnerships and associations at the rate of 0.1% Gross Sales/Receipts. It is used for environmental purposes.

Business levy is a tax levied on companies and self-employed persons whose gross sales/receipts exceed \$200,000.00 annually and is paid quarterly at the rate of 0.2% per annum.

Licenses and permits

Many businesses will need a license from the authorities to operate. 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.

Here are some other requirements relevant to Trinidad and Tobago:

- **The Trinidad & Tobago Bureau of Standards (TTBS)** sets quality standards for inputs and finished goods.
- **The Environmental Management Authority (EMA)** requires Environmental Impact Assessments especially for large agricultural projects or in instances in which the development, etc. has the potential to have a negative impact on the environment.
- **The Occupational Safety and Health Act, (OSHA)** makes it mandatory for all employers of twenty-five (25) or more employees to prepare and have a written Safety Policy and Emergency plan that will cover first aid to injured workers and emergency procedures for fires and other emergencies.
- **Town and Country Planning Authority** approves land use, sub-division, building plans or change of use of property
- **Local Health Authorities** - approvals are required especially for food manufacturers and individuals involved in the preparation and sale of food and beverages for public consumption.
- **Food Badges** are issued to individual food handlers by Local Health Authorities.
- **The Minimum Wage**

In Trinidad & Tobago the minimum wage is \$10.00 an hour. This means that it is against the law to pay an employed person less than this wage.

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.

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
- your person, your family and your employees can be insured against accidents and medical expenses.

Mr. Bethel contacted different authorities, the tax authority and the employment service to know the conditions that apply to his business.

He also contacted insurance companies to know the prices of the required insurances for his business. He wrote all this information in his business plan.



10.2 LEGAL RESPONSIBILITIES

The accounting year will run from *01/01/07 till 31/12/07*

The accounts will be submitted to :

Latest by : *... / ... / 2007*

The following taxes apply to the business :

- *Value Added Taxes*
- *Income taxes for employees*
- *Taxes on business profit*
- *Green Fund Level for Partnership*

The following regulations apply to the employees :

- *Minimum wages*
- *Fixed working hours*
- *Leave days entitlement*
- *Sick leave entitlement*
- *National Insurance*
- *Health Surcharge- for employees and employer*

The business will need the following licenses and permits :

- Registration of business (name)*
- Health approval – food badges for employees of bakery*

The business will have the following insurance :

- Stock insurance against theft*

Mrs. Khan and Ms. Philips contacted different administrative authorities and insurance companies to know their legal responsibilities and the costs for insurances.

They wrote all information in their Business Plan. The information was more or less identical to what Mr. Bethel found out.



Summary

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This chapter helped you to understand how to complete a business plan. You were introduced to all relevant steps. You started from a clear business idea that you already had in mind. Based on this business idea you have worked through step-by-step all details of ensuring sales, calculating costs and making a good profit. The following steps are necessary to prepare a business plan.

First you prepare a marketing plan. The marketing plan will help you to choose your marketing mix resulting in good sales. Estimating sales is the next important step you will take. You summarize the sales in your monthly sales plan. This will give you the forecast of your total sales value.

After establishing the income side you find out how much raw materials you need to buy, how many and what staff you need to recruit, Fixed Assets that your business requires and any other various business expenditures you will incur. All these are business costs that you need to know and control in order to plan for profit. Note that all sales and cost calculations are done at prices that exclude the VAT amounts.

VAT will affect your business and its cash situation (cash-flow). A separate VAT form will help you to establish how much VAT has gone into your business, how much you have paid out and how much you could reclaim. The VAT form will show you whether you need to pay or whether you will receive back VAT.

All entrepreneurs, whether you are retailer, wholesaler, manufacturer or service operator, have to estimate the product cost correctly to make sure that selling prices are not only based on competitors' prices. Once the product cost has been established, a price can be set that meets the production costs and gives a profit while taking into account the prices of the competitors.

Doing the business plan is also needed for estimating the required start-up capital for your new business and for a decision about where the capital should come from.

Finally you will decide on the best legal form for your business and find out about your legal responsibilities.

Only when you have understood all these steps in writing your business plan, you will be able to make a final business plan that you can present to anyone interested in your prospective business. Chapter three will assist you in doing this.

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3 HOW TO START YOUR BUSINESS

What to do next?

Now that you have gone through all the steps of the business plan you will be able to complete a final version. But before you can actually sell your products and services for the first time you still need to go through the following ten steps in order to effectively start:

1. Collect missing information (step 11)
2. Complete your business plan and write the executive summary (step 12)
3. Evaluate your own business plan (step 13)
4. Decide whether you really want to start this business (step 14)
5. Learn how to defend your business plan (step 15)
6. Submit your business plan for a loan (step 16)
7. Register your business (step 17)
8. Organize yourself for the actual start-up (step 18)
9. Talk to relevant institutions and resource people (step 19)
10. Plan your first day of production and/or sales (step 20)

STEP 11. COLLECT MISSING INFORMATION

By now you have gone through all steps of writing the business plan. Most probably you will still need more information to finalize your Business Plan.

It is likely that you possess a lot of information about your future business. However, you still need to gather additional information in order to check your estimates and calculations in your Business Plan. Most of this information you will have to find on your own. Most refinements of the estimates and calculations you can now do by yourself. But you might still need some assistance to complete this Business Plan.

Take your time to collect the missing information, as you may not have the time to do this later. Soon you will be too busy starting and running the business. Think through what information you will need and fill in the action plan on the next pages to plan your work.

Some information, estimates and calculations may seem to be too complicated to get them right without help. It may therefore be good to know that there are always people and institutions with experience nearby. Let them assist you in reviewing the whole or parts of your Business Plan.

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

- There are often government organizations, which assist people who want to start small businesses.
- Many non-governmental organizations also assist small businesses through advice and training.
- Accountants, lawyers, business consultants and others can assist with some parts of your Business Plan.
- Lenders often give assistance to entrepreneurs who apply for a loan.

- 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 sector or line of business you plan to start can give specific advice.
-

STEP 12. COMPLETE YOUR BUSINESS PLAN

To complete your business plan you will also need to write the executive summary. This brings you back to the first page of your Business Plan. The function of the executive summary is to give an easy overview of what your business is about and where you will get your financial resources.

Based on the additional information that you collected in step 11 you will complete your final business plan. For this purpose use a clean second Business Plan booklet or compose one with just those pages you need. Work neatly, as this document is now going to be your final document that you will present to others (such as the bank).

Avoid scribbling and crossing out. Check for possible errors. Know what you want to say in the comments and keep these as short as possible.

If you are not yet ready to produce your final business plan continue working from your first booklet.

STEP 13 EVALUATE YOUR BUSINESS PLAN

Now evaluate your business plan and the preparations for your new business. After that, it is time to decide if you should start or not (Step 14). Go through the questions in the checklist below. 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/or services you will sell?	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you know who will supply your business with the technical skills?	<input type="checkbox"/>	<input type="checkbox"/>
3. Do you know who your customers will be?	<input type="checkbox"/>	<input type="checkbox"/>
4. Do you know what their needs and preferences are?	<input type="checkbox"/>	<input type="checkbox"/>
5. Have you asked potential customers what they think about your business?	<input type="checkbox"/>	<input type="checkbox"/>
6. Do you know who your competitors will be?	<input type="checkbox"/>	<input type="checkbox"/>
7. Do you know what prices your competitors charge?	<input type="checkbox"/>	<input type="checkbox"/>
8. Have you decided what prices you will charge?	<input type="checkbox"/>	<input type="checkbox"/>
9. Have you found a good location for your business?	<input type="checkbox"/>	<input type="checkbox"/>
10. Do you know how to reach your clients?	<input type="checkbox"/>	<input type="checkbox"/>

Take a few minutes break before you continue.

	Yes	No
11. Do you know how to influence the “word of mouth” effectively?	<input type="checkbox"/>	<input type="checkbox"/>
12. Have you decided what kind of promotion you are going to use?	<input type="checkbox"/>	<input type="checkbox"/>
13. Do you know how much your promotion will cost?	<input type="checkbox"/>	<input type="checkbox"/>
14. Have you planned how much you will sell?	<input type="checkbox"/>	<input type="checkbox"/>
15. Do you know your production or service level?	<input type="checkbox"/>	<input type="checkbox"/>
16. Do you know how much materials will be required?	<input type="checkbox"/>	<input type="checkbox"/>
17. Have you decided what staff you will need?	<input type="checkbox"/>	<input type="checkbox"/>
18. Do you know how you will organize your staff?	<input type="checkbox"/>	<input type="checkbox"/>
19. Have you decided what kind of Fixed Assets you will need to acquire?	<input type="checkbox"/>	<input type="checkbox"/>
20. Do you know how to depreciate these Fixed Assets?	<input type="checkbox"/>	<input type="checkbox"/>

Take another few minutes break and then continue.

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

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 a fresh.
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.

If there are still preparations which have not been made 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.

STEP 14. DECIDE WHETHER TO IMPLEMENT THE PLAN

If your step 13 score is relatively low it is better to delay starting the business. Take your time to work out the weaknesses in your business plan.

It is not only about whether your business plan is ready or not. As you wrote your business plan you have definitely thought through the details of your business idea. But now you will need to ask yourself the following five key questions:

THE FIVE ESSENTIAL QUESTIONS LIST

Answer each question by ticking yes or no

	Yes	No
1. Do I really like the business idea?	<input type="checkbox"/>	<input type="checkbox"/>
2. Do I still consider this business idea as the most interesting one?	<input type="checkbox"/>	<input type="checkbox"/>
3. Does my family want me to run this business?	<input type="checkbox"/>	<input type="checkbox"/>
4. Is it likely that my business will be profitable within what I consider as a reasonable time?	<input type="checkbox"/>	<input type="checkbox"/>
5. Is it likely that I will obtain the necessary funds for starting?	<input type="checkbox"/>	<input type="checkbox"/>

If you answer each of these questions with **yes** (in full honesty 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.



Will you pursue the idea of starting your business? And to what extent will you continue with the same business idea?

If 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.

STEP 15. DEFEND YOUR BUSINESS PLAN

Now that you have decided to start the business you will need to train yourself on how to present and defend your business plan well. If you do this convincingly then it is clear that you understand your own business plan well. It is only then that you will be able to convince others that may want to become your business partners, suppliers or bankers. Even family members may be important to your business and want to know what they are getting involved in.

After all the past preparations it is important to know: “how to obtain a business loan”. From the business plan you can read the real need for a loan. Based on this information you should do the following:

- Work through the Business Plan several times. If possible try to do this by a spreadsheet programme on the computer and see the effect of your business decisions. Remember that people who are important to you will read your business plan. If the document is to be shown to a potential investor, partner or lending institution, consider carefully the information they will want to see in your business plan.
- Check the final version of your business plan and present it in a neat way. It would be better if you can use colors, photos and graphics, but do not overdo it. Make sure that the copies you make are of good quality and straight on the paper.
- Try to make a professional presentation. If you are good with computers you could consider using it for your presentation (do this eventually with a powerpoint presentation).
- Before you make your presentation to a bank or any other important person or institution, rehearse your business plan presentation with somebody who you are sure will ask competent and difficult questions. Don't be afraid of failure at this stage. It will help you to do better when it is most important.

Also do not forget the way you plan to dress yourself when visiting the banks. Whether you want it or not, you will probably be judged as well from the way you appear and how you express yourself. So think through how you want to be seen and ask others with experience for advice.

STEP 16. SUBMIT THE BUSINESS PLAN FOR A LOAN

Now that you have completed your Business Plan and rehearsed your first presentation, take the next step and submit your Business Plan to a lender for obtaining a loan. Upon receipt of the Business Plan the lender will normally propose an appointment for a meeting with one of its staff members.

Although you may have prepared and rehearsed this meeting well, it will always be a surprise how the real meeting will develop. Most important is to be sure of yourself. Do not forget that you prepared yourself thoroughly and that nobody knows as much as you do. But you should also not be too confident as this may be perceived wrongly.

Remember that the lender needs clients like you: they will lend you money for which you pay interest. This interest is to pay their business (that of lending). But of course they want to make sure that the risk of lending you money is as little as possible. That is the reason they will ask you many questions. These questions are not only about your business idea and plan, but these will also be about other incomes, your house, your private life, etc. By asking you these questions they will find out whether and how you control your own life and your personal finance.

If they are satisfied and you have sufficient collateral, you will quickly have an answer whether you may expect a loan or not. If the answer is positive you can go ahead and plan for the actual business start-up. Congratulations!

But, if the answer is negative there is normally not much you can do other than trying another lender. But before you go to the next lender, ask why the first one has declined your request for a loan. It is likely that another lender may decline your request for the same reason. So prepare yourself even better after this first experience and do not hesitate to improve your business plan and to do another round of consultations (including family, friends, experts, etc.).

STEP 17. REGISTER YOUR BUSINESS

Depending on the kind of business you are setting up, you will need to register your business at one or more locations. All businesses will at least need to register their business with the relevant Chamber and with the Board of Inland Revenue.

You may also need to register your business at the following addresses:

- The Bureau of Standards
- National Insurance Board
- Insurance company (for customized business solutions)
- Customs, if you import or export goods and services, or if you deal with goods that are under close control for public health or environmental reasons, etc.
- Water and electricity companies (especially if you will be an important consumer - ask for customized solutions for your business)Waste collectors
- Telephone company and internet service provider
- Yellow pages

Over the years **one-stop shops** have emerged to assist starting entrepreneurs and to register them with different institutions. If this service exists close to you, this may make the business start-up much easier. In that case you may avoid going to each institution separately. The costs of this service will normally be charged to your business.

On the other end, doing all the registrations yourself will give you a much better understanding of all institutions that exist to provide you with necessary business services. These institutions have without exception been set up to provide a service to businesses, the business community or the larger community. They should not be ignored or opposed. The best way is to use these services as long as you can afford them, assuming that they are not obligatory.

STEP 18. ORGANIZE YOURSELF FOR THE START-UP

You have now done everything to make your business plan a success. Your next step is to physically prepare the business. There are many things to do and a lot to think about. How far have you come in implementing all intentions written in your Business Plan? What about starting to promote your business, organizing and cleaning your premises and its access, finding suppliers, recruiting staff, knowing where to purchase your equipment from, etc? All of this needs to be attended to and carried out according to the plan.

It is important to remain structured in your work. Be careful about changing your initial plans. You have prepared yourself thoroughly by working through the Business Plan, so by making

quick but wrong decisions you may change the logic of your plan too much and you will run the risk of ending your entrepreneurial dreams too early!

Use your business plan as often as possible as a checklist and check regularly whether you are still on track. Make additional notes in order not to forget anything you thought of along the way.

So, what did you decide about your premises? How did you intend to set your prices and satisfy your customers? Are you controlling the costs of your Fixed Assets? Did any of the experienced entrepreneurs tell you how he/she struggled to have enough working capital to cover the first month's expenditures? And how are you doing?

If you see any problems with starting up try to solve these problems immediately. But avoid being too quick and too superficial in your problem analysis. Try to understand the deepest underlying root causes to a start-up problem.

PROBLEM ANALYSIS FOR THE BUSINESS START UP

Answer the following questions to analyze your start-up problems

<p>1. What are your main start-up problems?</p>	
<p>2. What could be the underlying root causes of these problems?</p>	
<p>3. What could still be the deeper underlying root cause of these?</p>	
<p>4. How to address this deepest root cause?</p>	
<p>5. Who will address this deepest root cause (and by when)?</p>	
<p>6. What are the next steps for a successful start-up of your business?</p>	

STEP 19. TALK TO EXPERIENCED PEOPLE

The start of your business is now really close as you have successfully gone through the previous steps. You will now need to make sure that you are also doing the last things right. How will you find out that you have not forgotten anything?

Besides going back to the checklists made by you, you should not hesitate to talk to experienced and knowledgeable people. These are often people in the same line of business or your trainer. As you are getting close to starting your business, everybody can see that you are very serious about starting. Most people are normally quite willing to share their experiences. Listening to different experiences and questions will definitely help you to see things from different angles. But remember that you should never let yourself be discouraged because of the opinion of a few. The only person, who knows best whether you can do it, is yourself. But again: stay honest with yourself and do not start because you feel you can't go back.

If you are doubtful, try to understand where your doubts are coming from. Many people have started their businesses before you and most of your doubts have also been theirs. So talk to experienced people, why they succeeded but also why they failed. Learn from their real and honest experiences as they tell you about the difficulties they had starting up their own business.

You can also contact institutions that may help you further. Do not wait till you get stuck just because you want to discover everything by yourself first. When you finally need the person, this person may then also be too busy and not available for you. It is therefore important to meet the people when there is still enough time for arranging an appointment to get your last concerns cleared.

Useful resource people or institutions at this stage are:

- Experienced entrepreneurs
- Your lender who promised you the loan
- Your contact person at the Chamber

STEP 20. PLAN YOUR FIRST BUSINESS DAY

Your very last step towards the actual start-up is now planning to sell your services and products for the first time. Planning on paper is one thing, but to actually satisfy your first customer is another. Your first business operation is an exciting event, but even the first customer wants the required service. Do not forget that the real business has to start with the very first customer and that you will need to convince all your customers right from your first sales.

Planning your first day means again making a checklist and working through it systematically. Have you already imagined how your first day of business operations will be? Are you sure that you have foreseen everything? Be aware that surprises will always come from an unexpected angle.

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 new circumstances. Reassure yourself that you can count on your suppliers, employees, friends and family.

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

CHECKLIST

Write down all issues to remember, whether they are big or small

Action	By whom	By when*				Tick if completed Yes
		A	B	C	D	
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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A = TODAY

B = TOMORROW

C = THIS WEEK

D = LATER

Summary

After you have worked through all steps in writing a business plan you still need to complete every detail of it. Only after you have completed your Business Plan can you start planning for your business start-up. This chapter helped you to go through all steps to actually start the business.

First you collect all missing information to complete your business plan. You review your business plan as often as new information comes in, which may change old assumptions and estimates. When you are through with this, you add a neatly written executive summary to the Business Plan.

Then you start evaluating your own business plan. You should use the thirty questions list to make sure that you have been able to make the most important decisions for starting your business. Based on the outcome you can decide whether you really want to start the business.

If you decide to go ahead with your business there are many small hints that can help you to defend your business plan, but also improve your appearance when you discuss your business plan with interested lending officers.

You need to register your business with a number of institutions. Some are obligatory and others are optional.

Finally you need to organize yourself for the actual start-up. For that you will again need to talk to relevant institutions and resource people. Planning your first day of production and/or sales is an extremely important step as this is about running a serious business. Your first clients are as important as later clients.

Finally

You will soon need more knowledge about business management to run your business profitably. For example, you need to know more about costing to set your prices even better and to plan for better profit.

Your personal notes:

APPENDIX 1 SUPPORT AGENCIES IN TRINIDAD AND TOBAGO

NAME OF INSTITUTION	CONTACT INFORMATION	OTHER RELEVANT INFORMATION	SERVICES PROVIDED
The Marketing Department, Tobago House of Assembly	Bay 3 Tobago Cold Storage and Warehouse Facility Old Government Farm Road Shaw Park, Tobago 639-5091		Agricultural marketing and the facilitation of trade Agro-processing - frozen fruit/ peas, smoked fish etc Management of markets and abattoirs Food technology - research and quality control Post harvest technical advice and development of grades and standards. Trade in other selected products Support to Tobago Cottage Industries
National Agricultural Marketing and Development Corporation (NAMDEVCO)	SS Erin Road Debe 647-3128/3861	The vision is <i>Taking Trinidad and Tobago foods to the World and its mission is to provide the country's agro-processors and marketers with the marketing facilities, support services and regulatory framework necessary to take Trinidad and Tobago foods to the WORLD. Its business is the achievement and maintenance of a vibrant, commercially viable, sustainable agribusiness sector.</i>	<ul style="list-style-type: none"> Identifies new market opportunities both locally and abroad for agricultural and agro-industrial products. Assistance in sourcing markets abroad Training on post harvest marketing of fresh produce Assists producers with various methods of handling, packaging, storing and shipping produce.
Cooperative Credit Union League of Trinidad and Tobago (CCULTT)	Bushe Street and Southern Main Road Curepe Tel: 645-1632	Can be considered to be the national organization of Credit Unions of Trinidad and Tobago.	Primary work is as a facilitator and trainer <ul style="list-style-type: none"> Train credit unions in micro credit techniques and best practices Train individuals and groups in entrepreneurship and provide them with the necessary tools and techniques such as small business management

NAME OF INSTITUTION	CONTACT INFORMATION	OTHER RELEVANT INFORMATION	SERVICES PROVIDED
Registrar of Companies	The Ministry of Legal Affairs South Quay 625-9971	Administers the legal requirement of operating a business in Trinidad & Tobago	Registration of sole traders, partnership and companies utilizing various forms that are available at Government Printery and Rapid Print on Chacon Street, POS
Consumer Affairs Division	Agostini Compound 3 Duncan Street Port of Spain 623-3821/7741	They are a protective agency for consumer rights	Safeguarding and protecting consumer rights, education of consumers, consumer awareness, monitoring of the prices on goods
Vat Administration Centre	20 St. Vincent Street Port of Spain 623-4735/4737	Only businesses grossing annual sales in excess of \$200,000.00 eligible. Such companies must be registered	Responsible for the administration of the VAT system in Trinidad and Tobago
Town and Country Planning Division	Eric Williams Plaza Independence Square Port of Spain 627-8389	They are part of the approval process for businesses	Approval of the use of properties, building plans and structural changes, land use changes
Factory Inspectorate	Occupational Safety and Health Division Level 13 Riverside Plaza Port of Spain 623-4242/6	Ensures that factory layout and work environment is acceptable and safe	<ul style="list-style-type: none"> • Industrial health and safety management • Inspection of premises
Customs and Excise Division	Cor Abercromby Street & Independence Square Nicolas Court Port of Spain 625-3311	Administers the various tariffs on behalf of the government/imports and provides the [processing of both export and import documentations	<ul style="list-style-type: none"> • Regulations of tariffs on import/export transactions • Certification of origin of goods • Approval of import/export documentation
Board of Inland Revenue	Trinidad House St. Vincent Street Port of Spain 623-2981/1211	Responsible for the collection of taxes from individuals and corporations. Under this agency is health surcharge PAYE, corporation tax and VAT	<ul style="list-style-type: none"> • Issues BIR file numbers to individuals and businesses • Collects personal and corporate income taxes

<p>The Environmental Management Authority (EMA)</p>	<p>8 Elizabeth Street Port of Spain 628-8042/4</p>	<p>This is a statutory body established by the Government of Trinidad and Tobago to address the nation's growing environmental concerns. It was established with the enactment of the Environment Management Act of 1995 that was amended in 2000.</p>	<p>Ensures environmental standards are maintained Effluent production is kept to minimum – i.e. ensures that businesses don't send hazardous waste into the public domain Damage to the environment is minimized For large projects there must be an environmental impact assessment</p>
<p>Chemistry Food and Drugs Division – Ministry of Health</p>	<p>115 Frederick Street Port of Spain 623-2476/2477/2414</p>	<p>It is the regulatory body that enforces the following: The Food and Drugs Act The Pesticide and Toxic Chemicals Act If producing a food product for sale to the public it must be submitted for testing. The product content must be reflected on the label</p>	<ul style="list-style-type: none"> • Monitoring Foods, Drugs, Cosmetics, Medical Devices, Pesticides and Toxic Chemicals. • Provides analytical services through the following laboratories; Drug, Environment, Excise, Food, Industrial and Microbiology. • Standards and quality control, laboratory inspection and advisory services. • Health Certification for export

Courtesy the Ministry of Labour and Small and Micro Enterprise Development

