PN-ABX-404

AgEnt 91-95

Part II

Three day workshop for medium and small scale entrepreneurs in the agri business sector (vegetable and fruit) on production and sales strategy

13th to 15th June 1995
Kurunegala

HOW TO IMPROVE YOUR BUSINESS

CASE STUDY

Prepared by

The Financial Advisors
USAID Funded Agro-Enterprise Project

AgEnt

The Agro-Enterprise Development Project
Colombo, Sri Lanka

June 1995

HOW TO IMPROVE YOUR BUSINESS
CASE STUDY

Mrs. Perera loves to cook. Her neighbors and friends consider her jams to be some of the best they have ever tasted. Mrs. Perera thinks that making jam for sale would be a good idea. She decides to start a jam making **business.** She thinks she can sell 20 jars per week. Mrs. Perera pays all of the family bills and takes care of the family finances. She keeps accurate records, likes people, and is well known in the area. Her husband has a job of long standing, in Matara, and the family has no debt. They built and own the house they live in. She is going to prepare a **business plan,** and we are going to go through the steps with her.

Management

Mrs. Perera needs to answer several questions concerning her ability to **manage:**

- Does she know how to produce good jam? (everyone likes)
- Is Mrs. Perera willing to do the work? (loves to cook)
- Is she willing and able to keep records and manage the finances of a business? (keeps records and handles finances)
- Is she willing to do the work of selling her product? (knows and likes people)
- Should she limit production to the amount only she can produce, or should she hire help?
- Is Mrs. Perera willing to take the risk of her business failing? (husband works, no debt)

Mrs. Perera has determined from her analysis of **management** that she is suited for the enterprise.

Marketing:

Every business must have a market for it to succeed. Marketing is not simply selling. **Marketing** includes knowing your costs of production and your **ability to deliver** products that people want to buy.

- Who should Mrs. Perera try to sell to? (neighbors, rest house, etc.)
- What kind of jam should she try to sell? (seasonal supply of raw material)

- At what price should she sell? (competition, cost of production)

- Can she deliver the product? (husband travel to Matara daily; neighbors)
  Costing and Pricing

Costing and Pricing

Costing is the way you calculate how much each individual product costs you to produce and sell. You need to know in detail what it costs to make a product. Many small and even large businesses get into trouble because they do not know their costs.

There are two types of costs

- Direct costs and
- Indirect costs

Direct costs are the cost of those items which become part of the products which you produce.

Indirect costs are the costs of all the other items which you need in running your business.

How to Calculate the Direct Costs

- Direct Labour Cost

Step 1: You take the monthly wage bill for the production workers.

3 Workers x Rs.1,750/-

Total monthly wage bill — Rs. 5,250

Step 2: Calculate total yearly wage bill
Rs.5,250 x 12 months — Rs.63,000

Step 3: Calculate the total number of hours worked by the production workers.
8 hours x 22 days x 12 x 3 workers — 6,336 hrs

Step 4: Calculate the hourly labour cost

$$= \frac{63,000}{6,336}$$

=Rs.9.94 per hr

Step 5: Estimate the number of hours needed to make a bottle of Jam.
- 02 hours per bottle

Step 6: Now calculate the direct labour costs for the bottle of Jam
2 hours x Rs.9.94 = Rs.19.88

Direct Material Costs

Calculate all the materials and parts used in manufacturing a bottle of jam using the following format.

Item	Quantity (grm)	Cost per grm	Cost per bottle
Sugar			
Fruits			
Preservative etc			
Total Direct Cost			Rs.20/-

Total Direct Cost for one bottle

Rs.20/- + Rs.19.88 = Rs.39.88

How to Calculate the Indirect Costs

Estimate the cost for the following items for the year.

Rent	Rs.-
Power, Electricity, Fuel etc	Rs.6000
Telephone	Rs.100/-
Maintenance of equipment	Rs.1,000/-
Salaries of office Staff, Cleaners etc	-
Selling cost	Rs.6,000/-
Interest on Loan	-
Total Indirect Cost	Rs.13,100/-

Production Plan

She plans to produce and sell 20 jars of jam per week.

Total production per year.

20 x 4 x 12 = 960 jars

Therefore her indirect cost per jar is

$$\frac{\text{Rs.13,100}}{960} = \text{Rs.13.65}$$

Total cost per jar is

Rs.39.88 + Rs.13.65 = Rs.53.53

Pricing

Now that she knows the cost, she has a basis for setting her price.

The price she sets should cover:

- Her direct costs;
- Her Indirect cost and a
- Reasonable profit

Mrs. Perera could add a 30% on to her costs as profit.

Total cost per bottle	= Rs.53.53
+ 30% profit	= Rs.16.06

Selling price	= Rs.69.59
	======

Say Rs.70/-

This is the price she wants to sell her product but it might not be the price she can get. She can check the market price which say is Rs.80/- per bottle. Therefore she is in a good position. She can even raise her price and be sure of selling her jam at a profit.

Estimating Sales

She can now estimate her yearly sales

Estimated no of bottles	= 960
x Selling price per bottle	= Rs.70/-
Estimated sales	Rs.67,200

Estimating Direct Costs per year

Total Direct Cost per bottle	= Rs.39.88
x estimated No. of bottles	= 960
Less Total Direct Cost	= Rs.38,284.80
= Gross Profit	= Rs.28,915.20
Less estimated Indirect Cost per year	Rs.13,100.00
Net profit	Rs.15,815.20

The Business plan shows that she estimates that she will make a net profit of Rs.15,815.60 during the 12 months.

This plan has a most important use. It is used to control the operation of your business.

Mrs. Perera has estimated the profitability of her business but now she has to estimate her financial needs.

Financial

Money is essential to the operation of a business. Mrs. Perera must have **money** to purchase fruit to make into jam, to buy jars, sugar, and the like.

- How much money does Mrs. Perera need to start? (must prepare a budget; see tools)
- How can she prepare a budget? (she has determined her costs and projected income; she transfers this information to a budget)
- Where will she get the needed money? (banks should lend; has collateral and knows people that might co-sign)
- How much should she borrow? (only what she needs)

Mrs. Perera has established the direction she wants her business to take. Her **financial** analysis has shown her how much money she will need and when. She must now determine how to keep her business on track.

Control

Accurate records of the activities of a business provide a means of **control.** Every business must be monitored and evaluated to make sure that it is moving in it's intended direction and that it is in good health. Methods of assuring **control** are an essential part of a business plan. Tools that are used include a **record of accounts, budgets, profit and loss statements,** and **financial statements.**

- Does Mrs. Perera need an accountant? (probably not; she likes to keep records)
- Does the business have a direction?(yes; she prepared a budget for finance)
- Can she use basic tools to monitor her business? (she keeps good records and has learned to budget)

Summary

Mrs. Perera has now completed a basic business plan. She has assessed her ability to **manage.** She has determined her costs as well as her ability to sell jam by the efforts spent on **marketing.** She knows where the money is coming from because of her **financial** analysis. She knows she must keep records and learn how to use certain tools in order to maintain **control.** We have been involved, but she prepared her own business plan.

It is good to discuss your plan, but remember: **only you can prepare your business plan.**

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BUSINESS PLANNING FOR THE SELF EMPLOYED

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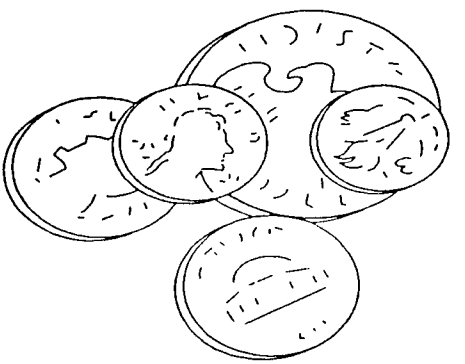
Business Planning For The Self Employed



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Business Basics

What is a Business?

If you produce more than you consume, and convert the excess to money by selling it, you are doing business.

A business is an activity that produces goods or provides services for a profit. A business can start as a very small operation but however small or large the business is, the principles used in management are the same.

What is the ultimate goal ?

The primary goal of a business is to make money. Profit assures it will survive. Therefore profit is the lifeblood of a business. Business people must keep this basic principle in mind. Business people must avoid decisions based on emotion.

The following examples are emotional decisions that may lead to profit reduction or loss.

- continuing employees that are not productive.
- purchasing equipment that is not essential.
- entering into ventures with friends who are unsuitable for business a enterprise.

Benefits of doing successful business.

Businesses provide employment and generate money.

In turn the money flows back into the community and multiplies. Doing business results in a person becoming self employed, thereby increasing the buying power of his/her family.

Expansion of a business provides employment for the unemployed, improves the country's economy and raises the standard of living of its people.

Elements of Business : Management and Money.

Management :

Management involves the planning, operation, and control of a business. Bad management leads to the failure of a business. Planning of a business provides the means of its survival. It provides a structure and a framework that will serve as a guide for making day to day decisions.

Business Planning:

- **Purpose of a business plan.**

1. Helps you to understand your business.
2. It sets goals and objectives and promotes growth.
3. It acts as a control device in the management of a business.
4. Performance standards are established.
5. Helps to train personnel.
6. Helps in obtaining outside capital.

- **How does it help you ?**

The business plan acts as a management tool to

1. Define the goals and outline the strategies of the business.
2. It reduces risk.
3. Limits surprises.
4. Increases the chances of obtaining outside capital to fund growth.

CRITICAL AREAS OF A BUSINESS PLAN

In order to correctly develope a business plan, you must ask and answer a series of questions essential to the success of a business:

MARKETING	Who will buy what you produce? How will you deliver what you sell? At what price do you need to sell for a profit?

MANAGEMENT	Do you know how to produce the product you have selected? Are you willing to take the risk? Are you willing to do the work? Can you supervise the business and the people? Do you have the discipline to be in business?

FINANCIAL	How much money does it take for the project? Where will the money come from? Will the banks lend to you? Can you offer collateral? Can you find a co-signer?

CONTROL	Do you keep records? Do you have a budget? Do you prepare a profit and loss statement? Do you prepare a financial statement?

Only YOU can develope YOUR business plan!

TOOLS

Included with this package are sample forms for:

- **Budget**

  A budget should be prepared for each enterprise, such as eggs, curd, etc. Then total them to form a master budget. The budget should be for a twelve month period. Actual cost or income can be compared to the budget to help measure progress.

- **Profit and loss**

  Remember, you are in business to make a profit. Your profit and loss statement will show how you are doing. They should be prepared twice a year.

- **Financial statement**

  Your financial statement shows you where you are financially at any given time. Progress in your business can be demonstrated by comparing financial statements.

FINANCIAL STATEMENT

DATE _____

ASSETS

CASH	
STOCKS	
DEBTORS	
INVESTMENTS	
INVESTED IN CROPS	
LIVESTOCK	
CURRENT ASSETS	

LAND	
BUILDINGS AND IMPROVEMENTS	
EQUIPMENT	
FIXED ASSETS	

TOTAL ASSETS _____

LIABILITIES

DUE BANKS	
CREDITORS	
CURRENT PORTION TERM LOANS	
INTEREST PAYABLE	
TAXES DUE	
CURRENT LIABILITIES	

LAND DEBT	
EQUIPMENT DEBT	
DEFERRED LIABILITIES	

TOTAL LIABILITIES _____

NET WORTH _____

TOTAL _____

SIGNATURE _____

Item	Jun 1995	Dec 1995	Jun 1996	Dec 1996
Sales				
Sales - Other Items				
Total Sales				
Expenses				
Feed				
Litter				
Oil				
Salaries and Wages				
Rent and Rates				
Electricity				
Utilities				
Interest				
Vehicle Lease/Hire Charges				
Local Govt. Charges				
Others - Specify				
OTAL EXPENSES				
ET PROFIT				
Other Expenses				
ving Expenses				
rm Loan Payments				
hers - Specify				
TAINED				

SAMPLE BUDGET

INCOME	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	TOTAL
Egg sales													
Spent bird													
TOTAL													
COSTS													
Feed													
Medicine													
Utilities													
Labour													
Supervisor													
Misc													
Chicks													
TOTAL													
NET													