# **Tool 1 – Identifying Business Opportunities**

* A business opportunity in a given location (block or district) is one where:
* there is a need that is unmet for potential **customers** inside that location, or
* there is a possibility of catering to needs of **customers** who are from outside that location, or
* there is a possibility that the **revenues and profit** allow the person to earn desired sum of money over a period of time
* **capabilities** required to conduct a business activity are available within the area
* the area has potential for sufficient availability of **capital** to operate a business
* Let us first understand the basic demography of the area. List the information from a verified source for the following points:

|  |  |
| --- | --- |
| **Demographic Details** | **Population** |
| Total population |  |
| Male population |  |
| Female population |  |
| Total population (split population by age groups) |  |
| Age group 1 |  |
| Age group 2 |  |
| Age group 3 |  |
| Age group 4 |  |
| ….. |  |
| Nature of occupation (split population by occupation) |  |
| Occupation 1 |  |
| Occupation 2 |  |
| Occupation 3 |  |
| ….. |  |
| Income level (split by income groups) |  |
| Poorest of poor |  |
| Poor |  |
| Lower-middle income |  |
| Middle income |  |
| High income |  |
| Population by caste |  |
| Caste 1 |  |
| Caste 2 |  |
| Number of tourists arriving in the area per year |  |

* **Authentic sources of information may include BDO office, BPM office, Panchayat office, and DIC**
* To identify business opportunities in a given area, the following factors need to be examined. These factors form the basis for identifying a certain basket of businesses within a location that one can use to further evaluate opportunities
* As the first step, list the local commodities available in the area, along with their quantities and months / seasons of availability
* Commodity based resources (surplus from agri-products after own-consumption):
* Tree / forest-based products (honey, fruits, vegetables, etc.):
* Livestock (bee-keeping, milk, etc.):
* Spices:
* Other raw material:
* Next, list all the tourist attractions in the area. Also mention the type of existing enterprises and the enterprises that can be set-up in tourist destinations. Tourist attractions may include:
* Historic value (palace, forts, caves)
* Religious value (temples, mosques)
* Scenery (lake, waterfalls, lakes, gardens, hills)
* Wildlife (reserve forest/safari tours)
* Picnic (boating, playground)
* Marketplace (mandis, haat, bazaar)
* Special food items (dal-baati, litti-chokha, etc.)
* Highways / roads, etc.
* Any other potential tourist spot

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| **Tourist attractions** | **Tourist Footfalls (high / medium / low)** | **Available enterprises** | **Potential enterprises** |
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* Now, mention the artisanal skills (and other skills) available in the area. Skills may include basket weaving, pottery / clay toys, wooden toys, stitching, bangle making, making medicinal products, etc. You may also mention the number of households engaged in each activity and if they have received any training to acquire / enhance their skill

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| **Skills (acquired / innate / artisanal)** | **Number of Villages** | **Number of Households** |
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* Mention the local festivals in the area and the types of products and services that are used and sold

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| **Festival** | **Products and services used** | **Products and services sold** | **Business opportunity - Which products are used but not sold in adequate quantities** |
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* You may also look at the products and services produced by the Community Based Organisations (CBOs) in the area and consider clustering / standardising them

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| **Products / Services produced by CBOs** | **Name of Village** | **Number of households / units** | **Can a cluster be formed (Yes / No)** |
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* Let us look at hotspots in the area and understand the products / services in demand and supplied. Hotspots may include railway stations, bus-stops, schools, hospitals, etc.

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| **Hotspot** | **Products / services demanded by people** | **Products / services sold in the area** | **Business opportunity for products / services demanded but not sold** |
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* Let us also consider the products and services which have a demand in the block but are purchased from outside the block

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| **Products and Services purchased from outside the block** | **Can this be produced within the block? (Yes / No)** |
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* We can also consider institutions available in the area. They may have food / stationery or any other needs that can be serviced through enterprises

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| **Institutions** | **Needs of Institutions** | **Are these needs being serviced (Yes / No)** | **If no, is there a business opportunity? (Yes / No)** |
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* The next step is to mention the schemes and projects implemented by various government departments in the area and mention the type of enterprises that can be set up under each scheme. Schemes may include Swachh Bharat Mission, construction of road, bridge, dam, subsidy for nutrition of mothers and children

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| --- | --- |
| **Government scheme** | **Potential enterprises** |
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* Once the potential business opportunities have been listed, let us evaluate them against various demographic parameters. You may tick the cell(s) where the business opportunity may fit:

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| **Business Opportunities** | **Male population** | | | **Female population** | | | **Occupation** | | | | | | **Households by Income groups** | | | | | **Markets outside the area** | **For tourists** | **For government schemes** | **Does the business have enough customers?** |
| Age group 1 | Age group 2 | Age group 3 | Age group 1 | Age group 2 | Age group 3 | Occupation 1 | Occupation 2 | Occupation 3 | Occupation 4 | Occupation 5 | …. | PoP | Poor | Lower middle-income | Middle income | High income |
| *Pottery* |  |  |  |  |  |  |  |  |  |  |  |  |  | *x* | *x* |  |  | *x* | *x* |  | *Yes* |
| *Dal Mill* |  |  |  |  |  |  |  |  |  |  |  |  |  |  | *x* |  |  |  |  |  | *No* |
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* From the above table mention all the business opportunities that have a customer base to serve…
* Now, let us examine these business opportunities against 4Cs – **C**ustomers and competition; **C**ost and profit; **C**apabilities; and **C**apital – to arrive at a short-list of feasible business opportunities for the given location:

*(if both columns are yes, the opportunity may be selected for further analysis, if both columns are no, the opportunity should be discarded. If one column is yes, and one is no, the CRPs-EP should discuss and take a decision)*

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| --- | --- | --- | --- |
| **Customers and Competition** | | | |
| Business Opportunities / potential products / services ↓ | Is this product / service in high demand in the area?  (Yes / No) | Is this need fully addressed by available businesses? (Yes / No) | Feasible business for the area? (Yes / No) |
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* The feasible business opportunities may be subject to the next C – Capabilities. The following matrix may be referred to for deciding on feasible business opportunities:

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| --- | --- | --- | --- |
| Is the skill needed to develop the product / provide a service available in the area? (Yes / No) | If the skill is not present, is it easy or difficult to learn?? (Easy / Difficult) | Are there enough people available in this location who can be trained to help run the business? (Yes / No) | Feasible business for the area? (Yes / No) |
| Yes | - | - | Yes |
| No | Easy | Yes | Yes |
| No | Easy | No | No |
| No | Difficult | Yes | CRP’s decision |
| No | Difficult | No | No |

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| --- | --- | --- | --- | --- |
| **Capabilities** | | | | |
| Selected business Opportunities / potential products / services ↓ | Is the skill needed to develop the product / provide a service available in the area? (Yes / No) | If the skill is not present, is it easy or difficult to learn?? (Easy / Difficult) | Are there enough people available in this location who can be trained to help run the business? (Yes / No) | Feasible business for the area? (Yes / No) |
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* The business opportunities selected should be subject to further analysis

*(if the potential earning from the business is likely to be below the minimum wage – based on available information – the business opportunity may be discarded. However, if the CRPs-EP are unsure about the earning potential of the business, the opportunity should be selected for further analysis)*

|  |  |  |  |
| --- | --- | --- | --- |
| **Cost and Profit** | | | |
| Business Opportunities / potential products / services ↓ | What is the minimum wage in the area? | Is the entrepreneur likely to earn an income higher than the minimum wage? (Yes / No) | Feasible business for the area? (Yes / No) |
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* The selected business opportunities should be analysed based on last C – Capital.

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| --- | --- | --- | --- |
| **Capital** | | | |
| Business Opportunities / potential products / services ↓ | Does this business type here run on cash or credit? (Cash/ credit) | How much is the maximum amount that is given as loan in this area? At how much interest? | In case the loan amount is insufficient for an individual, can this business be run as a group? (Individual / Group / Both) |
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* Besides the 4Cs, the CRPs also need to consider the environment in which the businesses would operate. Environment factors may include political, economic, social, technological, legal, local environment (weather / climatic) conditions. Some enterprises may have to be weaned out if the larger business environment is unfavourable. Business environment may be analysed in the following table:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Environment** | | | | | | | |
| Business Opportunities / potential products / services ↓ | **Political** (Favourable / unfavourable) | **Economic**  (Favourable / unfavourable) | **Social**  (Favourable / unfavourable) | **Technological**  (Favourable / unfavourable) | **Legal**  (Favourable / unfavourable) | **Environment**  (Favourable / unfavourable) | **Feasible business for the area?** (Yes / No) |
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* Based on the above analysis, the CRP-EP may short-list feasible business opportunities in the given area. Please note that the list is only indicative
* The entrepreneur may choose a business from this list or may also propose a business apart from this list. Each proposed business opportunity must go through a viability analysis (tools 2-12) to select the business for the entrepreneur
* Additionally, the CRPs-EP may also mention the clusters that exist in the area. Secondary sources such as http://clusterobservatory.in/clustermap/m1.php, SFURTI Clusters List, Innovation Clusters; <http://www.dcmsme.gov.in/schemes/InnovationClusters4May2011.pdf> may be referred to for listing the clusters. Viability assessment could be conducted to understand the possibility of incorporating more members in the cluster or improving the financial performance of the cluster

# **Tool 2: Select the Right Product / Service for the Business**

* Discuss with the entrepreneur and choose a business idea for which she would like to invest time, money, and effort for preparing a business plan. Write the business idea and proposed name of the business in the space below:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

* Discuss with the entrepreneur and decide the name of the business

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

* The first step, now, is to understand the types of customers who will come to business and what products they will buy. Remember, there can be four broad categories of customers that the entrepreneur will be able to cater to. They are:

1. Individuals
2. Retailers or nearby shops
3. Wholesalers
4. Institutions and other businesses

Taking a cue from the above categorisation, list the types of customers who will come to the entrepreneur’s shop in the following format:

| **Table 2.1: Possible Customers Types for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **S.No** | **Possible Customer Types** |
| 1 |  |
| 2 |  |
| 3 |  |
| 4 |  |
| 5 |  |

* Having listed the types of customers, write down what each customer group will expect from the entrepreneur’s business in the following format:

| **Table 2.2: Needs of Possible Customers Types for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **S.No** | **Possible Customer Types** | **Customer Needs** |
| 1 |  | * A * A * A * A * A |
| 2 |  | * A * A * A * A * A |
| 3 |  | * A * A * A * A * A |
| 4 |  | * A * A * A * A * A |
| 5 |  | * A * A * A * A * A |

* Having listed the customer types, you should find out which types of customers should the entrepreneur be focussing on. Begin by noting how much money each customer type is likely to spend in the shop, how frequently they will purchase, and are there any seasonal fluctuations. Visit the competitors in nearby areas and make use of your experience to fill the details in the following format:
* **The answer under ‘Will the Entrepreneur be Able to Serve the Customer Type’ will have to be taken by the entrepreneur on the basis table 2.2 and on columns B to E in table 2.3**

| **Table 2.3: Understanding Potential Customers Visiting \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Customer Type** | **How often do the customers purchase (Frequency)** | **How many customers purchase in the mentioned frequency** | **Amount spent by customer type in one visit (Rs.)** | **Seasonal Fluctuation** | **Analysis of Customer Type**  **(put ✓ or × against each reason)** | **Will the entrepreneur be able to serve the customer type** |
| **A** | **B** | **C** | **D** | **E** | **F** | **G** |
|  |  |  |  |  | * This customer type will give us enough revenue * There will not be additional costs to serve the customer type * This customer type will not require any additional time to be served |  |
|  |  |  |  |  | * This customer type will give us enough revenue * There will not be additional costs to serve the customer type * This customer type will not require any additional time to be served |  |
|  |  |  |  |  | * This customer type will give us enough revenue * There will not be additional costs to serve the customer type * This customer type will not require any additional time to be served |  |
|  |  |  |  |  | * This customer type will give us enough revenue * There will not be additional costs to serve the customer type * This customer type will not require any additional time to be served |  |
|  |  |  |  |  | * This customer type will give us enough revenue * There will not be additional costs to serve the customer type * This customer type will not require any additional time to be served |  |

Lists the all customer types the entrepreneur will cater to:

1. A
2. A
3. A
4. A

* After selecting the types of customers the entrepreneur can service, list the products and services that the entrepreneur would have to produce and / or purchase. Use the information mentioned in tables 2.2 and 2.3

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| --- | --- | --- |
| **Table 2.4: Understanding Products / Services to Sell in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| **Items to Produce** | **Trading Items** | **Services** |
|  |  |  |
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* Having listed the products / services, it is important to consider the nearby competition:
  + Are there any competitors who are providing the same products / services as the entrepreneur?
  + If there is existing competition, will the entrepreneur be able to provide services better than them or at the least same as them?

If there is no competition, the entrepreneur should select the product / service. However, if there is competition, then you must consider if the entrepreneur will be able to provide products / services better than her competitors. If the entrepreneur is confident of her ability to provide them better than the competition or at least similar to the competition, then the product / service should be selected, otherwise it should be rejected.

* **If the entrepreneur has no competition for the product / services, select the same at once. However, if there is existing competition, the entrepreneur must be able to say if she can provide the product / service better or at least comparable to her competitor:**
  + **If she will be able to provide the product / service better or at a comparable standard, then you must select the product / service**
  + **If she will NOT be able to provide the product / service better or at a comparable standard, then you must reject the product / service**

| **Table 2.6: Analysing Existing Competition** | | | |
| --- | --- | --- | --- |
| **Product / Service** | **Is there existing competition?** | **Can the entrepreneur provide products / services better than them or at least similar to them?** | **Is the product / service selected or rejected?** |
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Having conducted these steps, list the products / services the entrepreneur must offer in her business:

1. A
2. A
3. A
4. A
5. A
6. A
7. A
8. A

# **Tool 3: Estimate Revenue of the Business**

* Now that you have short-listed products that can be sold in the entrepreneur’s business, it is time to understand how much money the business will be able to make by selling the selected products and services.
* As the first step list the products and services that the entrepreneur will sell in her business in the table as under:
* **The list of products / services can be sourced from Step 9 in Tool 2 – “Select the Right Product / Service for the Business”**

|  |  |
| --- | --- |
| **Table 3.1: List of Products / Services Sold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **S.No** | **Products / Services** |
| 1 |  |
| 2 |  |
| 3 |  |
| 4 |  |
| 5 |  |
| 6 |  |
| 7 |  |
| 8 |  |

* Now, list down the customers that the entrepreneur’s business will cater to, the approximate numbers that will visit her business, and the amount spent by customer type in one visit in the following table. The purpose is to calculate the approximate amount each customer type will spend in the entrepreneur’s business
* **List of customer types who the business will cater to can be sourced from Table 2.e.3 in Tool 2 – ‘Select the Right Product / Service for the Business’**
* **How often do the customers purchase can be sourced from Table 2.e.3 (column B) in Tool 2 – ‘Select the Right Product / Service for the Business’**
* **How many customers purchase in the mentioned frequency can be sourced from Table 2.e.3 (column C) in Tool 2 – ‘Select the Right Product / Service for the Business’**
* **Amount spent by customer type in one visit can be sourced from Table 2.e.3 (column D) in Tool 2 – ‘Select the Right Product / Service for the Business**
* **In the following table, the time period mentioned in column E should match with the time period mentioned in column B**

| **Table 3.2: Analysing the Customers’ Ability to Pay in a Year in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **S.No** | **Customer Types** | **How often do the customers purchase (Frequency)** | **How many customers purchase in the mentioned frequency** | **Amount spent by customer type in One visit (Rs.)** | **When will they come during the year** | **Calculation for Approximate amount spent by a customer type in a year** | **Approximate amount spent by a customer type in a year (Rs.)** |
| **A** | **B** | **B** | **C** | **D** | **E** | **F = B x C x D x E** | **G** |
| 1 |  |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |  |
| 3 |  |  |  |  |  |  |  |
| 4 |  |  |  |  |  |  |  |
| 5 |  |  |  |  |  |  |  |
|  | **Total** |  |  |  |  |  |  |

* As the next step, estimate the quantity of products the customer type will purchase from the entrepreneur’s business. You can organise information for each customer type in the table below:

| **Table 3.3: Estimate of Number of Customers, and Frequency of Purchase in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | |
| --- | --- | --- | --- | --- | --- |
| **Product / Service** | **How often will the customers come to buy** | **No. of times the customer will come to buy in the time period given in column B** | **No. of Customers** | **Quantity purchased by customers in one instance** | **Number of Instances in a year (consider the information in column C)** |
| **A** | **B** | **C** | **D** | **E** | **F** |
| Customer type 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | | |
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| Customer type 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | | |
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| Customer type 3: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | | |
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| Customer type 4: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | | |
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| Customer type 5: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | | |
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* Based on the table above, calculate the number of customers visiting the entrepreneur’s business per year, their purchase quantity and finally the sales volume for the business. You can use the following table to perform calculations

| **Table 3.4: Estimating Number of Customers, Purchase Quantity, and Sales Volume for a Year for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
|  | **Number of Customers per Year**  **(No. of Customers x Instances in a Year)** | **Purchase Quantity per Customer**  **(Qty x Number of times the customer will buy)** | **Sales Volume** |
|  | **Columns C and F from Table 3.3** | **Columns D, and E from Table 3.3** |  |
|  | **A** | **B** | **C = A x B** |
| Customer type 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | |
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| Customer type 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | |
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|  |  |  |  |
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| Customer type 3: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | |
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|  |  |  |  |
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| Customer type 4: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | |
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|  |  |  |  |
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| Customer type 5: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | |
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* Based on table 3.4, consolidate the sales volume as under:

| **Table 3.5: Consolidating Sales Volume for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Product / Service** | **Customer type 1** | **Customer type 2** | **Customer type 3** | **Customer type 4** | **Customer type 5** | **Total** |
| **A** | **B** | **C** | **D** | **E** | **F** | **G** |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

* To consolidate information, extract columns A and F from table 3.5 and write them in table 3.6

|  |  |
| --- | --- |
| **Table 3.6: Products / Services Sold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with their Sales Volume** | |
| **Products / Services** | **Estimated Sales Volume** |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

* To estimate revenue, look at the competitor’s price. Use the nearest and competitor’s price to calculate revenue for the entrepreneur’s corner in the following table:

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 3.7: Revenue Estimation for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| **Products / Services** | **Estimated Sales Volume** | **Nearest Competitor’s Price** | **Revenue**  **(Sales Volume x Price)** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Total** |  |  |  |

* Now, compare the customers’ estimated ability to spend in table 3.2 and the estimated revenue from table 3.7. We do this to check if the customers can actually spend the amount of money we have estimated the entrepreneur’s business to earn.

|  |  |  |
| --- | --- | --- |
| **Table 3.8: Checking if Revenue Matches with Customers’ Ability to Pay** | | |
| **Particulars** | **Source** | **Amount** |
| Customers’ ability to pay | Table 3.2 |  |
| ±5% of customer’s ability to pay |  |  |
| Estimated revenue for the business | Table 3.7 |  |
| Does the revenue fall within ±5% of customer’s ability to pay | Yes / No |  |

* **If the estimated revenue doesn’t fall within ±5% of customer’s ability to pay, then rework table 3.3 and subsequently all tables from table 3.3 to table 3.8**

# **Tool 4: Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur**

* Now that we have helped the entrepreneur in estimating revenue for her business, we need to chart out quality standards and production process for the business. Setting standards and processes will help us in estimating costs and subsequently the profits of the business.
* We will first list the products and services the entrepreneur plans to sell in her business.
* **The list of products / services to be sold by the business can be sourced from Tool 2 – ‘Select the Right Product / Service for the Business’**

|  |  |
| --- | --- |
| **Table 4.1: List of Products / Services Sold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **S.No** | **Products / Services** |
| 1 |  |
| 2 |  |
| 3 |  |
| 4 |  |
| 5 |  |
| 6 |  |
| 7 |  |
| 8 |  |

* Before you lay down the processes for preparing products / services, it is essential to list the quality standards that they must follow in the business. Recollect from your TEAM module that quality is based on functionality, safety, and attractiveness or experience of the products in the business. Discuss these parameters with the entrepreneur and they write down the quality standards for the business in the following table
* **Quality standards should be based on customer needs mentioned in Table 2.2, in Tool 2 – ‘Selecting Right Products / Services for the Business’**

| **Table 4.2: Quality Standards for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **Functionality** | **Safety** | **Attractiveness** |
| * A * A * A * A * A * A * A | * A * A * A * A * A * A * A | * A * A * A * A * A * A * A |

* **Based on the above standards, take regular feedback from customers and take corrective actions when needed**
* Now, let us think from a production / purchase point of view. Having estimated the sales volume for each product / service to be sold in the business and prepared the quality standards to be adhered to, we need to assess the frequency of production / purchase and the subsequent batch size
* **Sales volume can be sourced from Table 3.6 of Tool 3 – ‘Estimate Revenue for the Business’**
* **You may consider the seasonal fluctuations mentioned in Table 3.3 in Tool 3 – ‘Estimating Revenue for the Business’ to determine the number of times the product / service will be produced / purchased during the year**

| **Table 4.3: Assessing Batch Size for Production / Purchase Cycle** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **S.No** | **Products / Services** | **Sales Volume per Year** | **Quantity that can be Produced / Purchased at once** | **Number of Batches to be Produced in a Year** | **Frequency of Production / Purchase [Daily / Weekly / Monthly / Yearly]** | **Batch produced in the Mentioned Frequency** |
|  | **A** | **B** | **C** | **D = B / C** | **E** | **F = D / E** |
| 1 |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |
| 3 |  |  |  |  |  |  |
| 4 |  |  |  |  |  |  |
| 5 |  |  |  |  |  |  |
| 6 |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  |
| 8 |  |  |  |  |  |  |

* List the steps the entrepreneur will follow to purchase / prepare the products / render services in her business. Uses the format in the table below:

| **Table 4.4: Process of Preparing Goods and Rendering Services and Required Equipment \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
| **Products / Services** | **Steps to Prepare the Product or Render a Service for 1 batch** | **Equipment Required** | **Raw Material Required** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

* Now, consolidate the raw material requirement for the entrepreneur’s business in the following table:

| **Table 4.5: List of Raw Materials along with their Estimates Quantity in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **List of Raw Material** | **Estimated Quantity for 1 Batch** |
| **Product 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 3: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 4: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 5: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 6: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 7: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 8: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |

* We also need to consolidate a list of equipment required for the entrepreneur’s business in the following table:

| **Table 4.6: List of Equipment Required in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **S.No** | **Equipment** | **Quantity** |
| 1 |  |  |
| 2 |  |  |
| 3 |  |  |
| 4 |  |  |
| 5 |  |  |
| 6 |  |  |
| 7 |  |  |
| 8 |  |  |
| 9 |  |  |
| 10 |  |  |
| 11 |  |  |
| 12 |  |  |
| 13 |  |  |
| 14 |  |  |
| 15 |  |  |
| 16 |  |  |
| 17 |  |  |

* Having understood the process and equipment required for each product in the business, we should now consider if the entrepreneur has the skill or if she can acquire the skill for preparing the product / rendering the service. Fills the table below in consultation with the entrepreneur:

| **Table 4.7: Analysis of Skills Required for Preparing / Procuring Products and / or Rendering Services in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
| **Product / Service** | **Does the entrepreneur have the skill to perform steps listed in the previous table?** | **Can the entrepreneur get trained?** | **Can the entrepreneur hire a helper?** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

* Having assessed the equipment and skills requirement, it is necessary to assess the time required for doing the business. Having detailed out the process earlier, discuss with the entrepreneur and arrive at the time estimates for a batch
* **‘Frequency of Production / Purchase’ can be sourced Table 4.3 (column D)**
* **‘Number of Batches in the Frequency Mentioned in Column B’ can be sourced Table 4.3 (column F)**
* **Time Required to Prepare 1 Batch can be estimated looking at the process in Table 4.4**

| **Table 4.8: Estimating Time Required for Preparing Products and / or Rendering Services in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | |
| --- | --- | --- | --- | --- | --- |
| **Product / Service** | **Frequency of Production / Purchase** | **Number of Batches in the Frequency Mentioned in Column B** | **Time Required to Prepare 1 Batch** | **Time Required by the Entrepreneur** | **Can any operation be clubbed?** |
| **A** | **B** | **C** | **D** | **E = C x D** |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |  |

* Now, check if the entrepreneur will be able to spare the required time from her schedule. Please analys the information in the following format:

| **Table 4.9: Analysing if the Entrepreneur has Sufficient Time for Running the Business** | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Daily** | | **Weekly** | | **Bi-Monthly** | | **Monthly** | | **Yearly** | |
| Is any part of the production / purchase daily? |  | Is any part of the production / purchase weekly? |  | Is any part of the production / purchase bi-monthly? |  | Is any part of the production / purchase monthly? |  | Is any part of the production / purchase yearly? |  |
| How much time will the entrepreneur require per day? |  | How much time will the entrepreneur require per week? |  | How much time will the entrepreneur require per 2 weeks? |  | How much time will the entrepreneur require per month? |  | How much time will the entrepreneur require per year? |  |
| Will the entrepreneur be able to take out as much time? |  | Will the entrepreneur be able to take out as much time? |  | Will the entrepreneur be able to take out as much time? |  | Will the entrepreneur be able to take out as much time? |  | Will the entrepreneur be able to take out as much time? |  |
| Will the entrepreneur need to hire workers? |  | Will the entrepreneur need to hire workers? |  | Will the entrepreneur need to hire workers? |  | Will the entrepreneur need to hire workers? |  | Will the entrepreneur need to hire workers? |  |
| For how many days / months the worker needs to be hired? |  | For how many days / months the worker needs to be hired? |  | For how many days / months the worker needs to be hired? |  | For how many days / months the worker needs to be hired? |  | For how many days / months the worker needs to be hired? |  |
| What is the approximate wage rate? |  | What is the approximate wage rate? |  | What is the approximate wage rate? |  | What is the approximate wage rate? |  | What is the approximate wage rate? |  |

* We have now analysed the raw material, equipment, skill, and time to produce / purchase the products / services. Now, we need to assess whether raw material, equipment, skill, and time are available with the entrepreneur to run her business. We need to do a simple analysis in the following table:
* **Availability of raw material can be estimated based on the list of raw material in Table 4.5**
* **Availability of equipment can be estimated based on the list of equipment in Table 4.6**
* **Availability of skills can be estimated based on analysis done in Table 4.7**
* **Availability of time can be estimated based on analysis done in Table 4.9**

| **Table 4.10: Analysis of the Entrepreneur’s Skills, Time, and Equipment** | | | | |
| --- | --- | --- | --- | --- |
| **Product / Service** | **Is the raw material available?** | **Is there equipment available or can equipment be purchased easily?** | **Is the skill available or can it be acquired or can workers be hired?** | **Is there time available for this activity or can workers be hired to make up for insufficient time?** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

* **If the answer to all of the above four questions – is ‘yes’, the entrepreneur may proceed with further analysis. However, if the answer to any of the four questions is ‘no’, then the entrepreneur will have to discontinue the product / service**
* **If any product / service is discontinued, please rework all tools from Tool 3 onwards again**

# **Tool 5: Estimate Costs of the Business**

* In the earlier tool, we mentioned the standards and processes for the entrepreneur’s business, which helped her in listing the raw material required in the business. We now need to make use of our findings from Tool 4, to arrive at costs for the entrepreneur’s business
* We have already estimated the revenue in Tool 3. Now, we want to check if the revenue is enough to cover the costs of the business. The first step is to identify costs in the business. But before we proceed, it is necessary to assess the income the entrepreneur wants to take home every month.

|  |  |
| --- | --- |
| **Table 5.1: Take-home Income Desired by the Entrepreneur** | |
| Amount that the entrepreneur wishes to withdraw every month from the business | Rs. \_\_\_\_\_\_\_\_\_\_\_\_ |

* Now, based on our analysis earlier, we need to assess the applicability of various cost items for the entrepreneur’s business
* **Refer to the processes detailed out in Table 4.4 and list of equipment in Table 4.6 to cross-check the applicability of costs in the business**
* **The amount mentioned in Table 5.1 may be taken as money withdrawn by owner for personal use**
* **Wages mentioned in Table 4.9 must also be considered**

| **Table 5.2: Cost Incurred by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **Costs** | **Applicability for the Business (Y / N)** |
| Raw Material |  |
| Money paid to the workers (wages / salaries) |  |
| Electricity |  |
| Transportation |  |
| Money withdrawn by owner for personal purposes / wages withdrawn by owner |  |
| Repair and maintenance |  |
| Rent |  |
| Interest |  |
| Fuel |  |
| Other cost 1: Washing powder and scrub |  |
| Other cost 2: \_\_\_\_\_\_\_\_\_\_\_\_\_ |  |
| Other cost 3: \_\_\_\_\_\_\_\_\_\_\_\_\_ |  |
| Other cost 4: \_\_\_\_\_\_\_\_\_\_\_\_\_ |  |
| Other cost 5: \_\_\_\_\_\_\_\_\_\_\_\_\_ |  |

* List all costs applicable in the business and classify them as fixed and variable costs
* **Under exceptional cases, money paid to workers may be considered as a variable cost**

| **Table 5.3: Classification of Costs in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **Costs** | **Fixed Every Month (Fixed Cost)** | **Can Vary Depending on Number of Units Produced / Sold** |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

* Let us first estimate the fixed costs per month. Lists all fixed costs in the business and then makes an estimate in the following table:
* **Money withdrawn for personal purposes can be sourced from Table 5.1**
* **To convert monthly estimate into annual estimate, multiply the monthly estimate by the number of months the business is operational. If the business is operational for 12 months, hence, the monthly estimate has been multiplied by 12**

| **Table 5.4: Estimation of Fixed Costs in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **Costs** | **Monthly Estimate** | **Annual Estimate** |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Total** |  |  |

* We now need to estimate costs that vary depending upon the units produced or variable costs for the entrepreneur’s business. For this, we first calculate the number of batches of products / services the business will have to produce / purchase
* **Total Number of Batches in a Year can be sourced from Table 4.3 (column D) of Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’**

| **Table 5.5: Number of Batches per Year in \_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **Product / Service** | **Total Number of Batches in a Year** |
|  | **Table 4.3 (column D)** |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

* After calculating the number of batches, refer to the earlier analysis and list the quantity of raw-material that estimated batch-wise for products in the business. Use the table below to arrive at the total raw material required per year for each product / service
* **Estimated Quantity for 1 Batch can be sourced from Table 4.5 in Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’**

| **Table 5.6: Estimating Quantity of Raw Material Required for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
| **List of Raw Material** | **Estimated Quantity for 1 Batch** | **Number of Batches per Year** | **Total Quantity Required per Year** |
| **A** | **B** | **C** | **D = B x C** |
| **Product 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Product 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Product 3: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Product 4: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Product 5: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Product 6: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

* Now, consolidate the list of raw material and their quantities in the following table to calculate total raw material required as two products might use the same raw material.

| **Table 5.7: Consolidated Quantities of Raw Material required per year for each Product / Service in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **List of Raw Material** | **Product 1** | **Product 2** | **Product 3** | **Product 4** | **Product 5** | **Product 6** | **Total Raw Material** |
| RM 1 |  |  |  |  |  |  |  |
| RM 2 |  |  |  |  |  |  |  |
| RM 3 |  |  |  |  |  |  |  |
| RM 4 |  |  |  |  |  |  |  |
| RM 5 |  |  |  |  |  |  |  |
| RM 6 |  |  |  |  |  |  |  |
| RM 7 |  |  |  |  |  |  |  |
| RM 8 |  |  |  |  |  |  |  |
| RM 9 |  |  |  |  |  |  |  |
| RM 10 |  |  |  |  |  |  |  |
| … |  |  |  |  |  |  |  |

* Now, mention the cost per unit of each raw material. You can survey the market and find out the average prices for each raw material.

| **Table 5.8: Estimation of Raw Material for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
| **List of Raw Material** | **Estimated Quantity per Year** | **Average Cost per Unit** | **Cost per Year** |
| **A** | **B** | **C** | **D = B x C** |
| RM 1 |  |  |  |
| RM 2 |  |  |  |
| RM 3 |  |  |  |
| RM 4 |  |  |  |
| RM 5 |  |  |  |
| RM 6 |  |  |  |
| RM 7 |  |  |  |
| RM 8 |  |  |  |
| RM 9 |  |  |  |
| RM 10 |  |  |  |
| … |  |  |  |
| **Total** |  |  |  |

* As the final step, compile the entrepreneur’s fixed and variable costs for the year to arrive at the total cost for her business:

|  |  |  |
| --- | --- | --- |
| **Table 5.9: Estimation of Total Cost for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| **Cost** | **Source** | **Amount** |
| Fixed Cost | Table 5.4 |  |
| Variable Cost | Table 5.8 |  |
| **Total Cost** |  |  |

# **Tool 6: Estimate Profit of the Business**

* We have now estimated the revenue and costs of the entrepreneur’s in previous tools. We now need to calculate the profit of the business. If our business is making a profit, we can move on to next tools. However, if our business is incurring a loss, then we need to find a way to make the business profitable or reject the business idea. This tool will help us in the same
* **Revenue can be sourced from Table 3.7 from Tool 3 – ‘Estimating Revenue for the Business’**
* **Total Cost can be sourced from Table 5.9 from Tool 5 – ‘Estimating Cost of the Business’**

|  |  |
| --- | --- |
| **Table 6.1: Calculating Profit for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **Cost** | **Amount (Annual)** |
| Revenue |  |
| Total Cost |  |
| Revenue – Total Cost |  |

* **If business is earning a profit, i.e revenue is more than the total cost, then the idea can be considered for further analysis**
* **If the business is incurring a loss, i.e revenue is less than the total cost then, the following steps must be considered:**
  + **Increase Revenue**
    - **Increase Price**
      * **If the entrepreneur and MEC think that the business offerings can demand a higher price than the competitors, then work out Tool 9 – ‘Set Price for Products / Services’ and calculate revenue in Tool 3 – ‘Estimate Revenue for the Business’ using the prices. Subsequently rework Tool 6 – ‘Estimate Profit of the Business’**
    - **Increase Sales Volume**
      * **Consider adding new customer types and additional products in Tool 2 – ‘Select Right Products / Service for the Business’ and subsequently rework Tool 3 – ‘Estimate Revenue of the Business’, Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’, Tool 5 – ‘Estimate Cost of the Business’, and Tool 6 – ‘Estimate Profit of the Business’**
  + **Decrease Cost**
    - * **Identify a supplier for purchasing raw material and negotiating lower prices with the supplier. Tool 8 – ‘Create Inventory Plan for the Business’ may help in selecting a supplier**
      * **Look for cheaper alternatives / substitutes for raw material**
      * **They can also think about reducing wastage, and costs such as rent, electricity, fuel, and salaries, if possible**
  + **Consider doing both – increasing revenue and decreasing cost**
  + **If after repeated changes, the business is not profitable, reject the business idea**

# **Tool 7: Create Sales Plan for the Business**

* The next step, now, is to create a sales plan. Sales plan will help the entrepreneur plan for her inventory and produce as per requirement. It will also help her establish the method of sales, quantity of sales per month, and in framing the credit policy for her business.
* List the customer types that the entrepreneur will cater to in her business and then identify the method of sales for each customer type. Use the following format to do so:
* **Customer types for the business can be sourced from Table 2.3 of Tool 2 – ‘Select the Right Product / Service for the Business’**

| **Table 7.1: Sales Method for Customer Types in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Customer Types** | **Directly to consumers –door to door sales** | **Directly to consumers – own outlet** | **Selling to retailers or shops** | **Selling to wholesalers** | **Selling directly to institutions or other businesses** | **Selling through exhibitions / fairs** |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

* After identifying the various sales method, re-write the yearly sales volume decided earlier
* **Sales volume per year for the business can be sourced from Table 3.6 of Tool 3 – ‘Estimate Revenue of the Business’**

| **Table 7.2: Products / Services Sold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with their Sales Volume** | |
| --- | --- |
| **Products / Services** | **Estimated Sales Volume** |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

* The next step is to distribute the estimated sales volume in the different sales method. Uses the format below for the same.
* **The estimated sales volume in table 7.3 (last column) must match with the estimated sales volume in table 7.2**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 7.3: Estimation of Sales Volume by Sales Method for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | |
| **Products / Services** | **Directly to consumers –door to door sales** | **Directly to consumers – own outlet** | **Selling to retailers or shops** | **Selling to wholesalers** | **Selling directly to institutions or other businesses** | **Selling through exhibitions / fairs** | **Estimated Sales Volume (Total for all Sales Methods)** |
| **Percentage of Sale** |  |  |  |  |  |  | **100%** |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

* The next step is to break the sales volume into monthly targets. Consider seasonal fluctuations mentioned earlier to arrive at the month-wise sales targets
* **Please take seasonal fluctuations into consideration while preparing the sales plan for the entrepreneur.**
* **A few factors that contribute to seasonal fluctuations are: availability of raw material, harvest season in villages, festivals, etc.**
* **You may consider the seasonal fluctuations mentioned in Table 3.3 in Tool 3 – ‘Estimating Revenue for the Business’ and determine the month-wise sales plan**
* The next statement is to calculate the entrepreneur’s average sales on a monthly basis. Present the information in the following table:

| **Table 7.4: Sales Plan for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Directly to consumers – home visits** | **Directly to consumers – own outlet** | **Selling to retailers or shops** | **Selling to wholesalers** | **Selling directly to institutions or other businesses** | **Selling through exhibitions / fairs** | **Total** |
| **Product 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | |
| Total |  |  |  |  |  |  |  |
| Jan |  |  |  |  |  |  |  |
| Feb |  |  |  |  |  |  |  |
| Mar |  |  |  |  |  |  |  |
| Apr |  |  |  |  |  |  |  |
| May |  |  |  |  |  |  |  |
| Jun |  |  |  |  |  |  |  |
| Jul |  |  |  |  |  |  |  |
| Aug |  |  |  |  |  |  |  |
| Sep |  |  |  |  |  |  |  |
| Oct |  |  |  |  |  |  |  |
| Nov |  |  |  |  |  |  |  |
| Dec |  |  |  |  |  |  |  |
| **Product 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | |
| Total |  |  |  |  |  |  |  |
| Jan |  |  |  |  |  |  |  |
| Feb |  |  |  |  |  |  |  |
| Mar |  |  |  |  |  |  |  |
| Apr |  |  |  |  |  |  |  |
| May |  |  |  |  |  |  |  |
| Jun |  |  |  |  |  |  |  |
| Jul |  |  |  |  |  |  |  |
| Aug |  |  |  |  |  |  |  |
| Sep |  |  |  |  |  |  |  |
| Oct |  |  |  |  |  |  |  |
| Nov |  |  |  |  |  |  |  |
| Dec |  |  |  |  |  |  |  |
| **…and so on** | | | | | | | |

* Having finalised the sales plan, the next step is to decide on the credit policy that the entrepreneur will adopt

|  |  |
| --- | --- |
| **Table 7.5: Decision to Sell on Credit for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| The business will have no sales transactions on credit |  |
| The business will have at least one sales transaction on credit |  |

* **If the business will have credit sales, then proceed to next steps. If the business plans to sell all products / services on cash, then the tool to develop sales plan ends here**
* Since the entrepreneur decides to sell on credit, we need to frame a credit policy. Use the following framework to organise the policy decisions.

| **Table 7.6: Credit Policy for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Directly to consumers – home visits** | **Directly to consumers – own outlet** | **Selling to retailers or shops** | **Selling to wholesalers** | **Selling directly to institutions or other businesses** | **Selling through exhibitions / fairs** |
| **Who will the business give credit to?** |  |  |  |  |  |  |
| **For how long the business will give credit?** |  |  |  |  |  |  |
| **What percentage of monthly revenue will be on credit?** |  |  |  |  |  |  |
| **Will there be periods in a year when no credit is given or extra credit is given?** |  |  |  |  |  |  |

# **Tool 8: Create Inventory Plan for the Business**

* We will now make use of the sales plan to prepare an inventory plan for the entrepreneur’s business
* Re-write the raw material required for the entrepreneur’s business already prepared in Tool 3
* **The list of raw material and the estimated quantity for 1 batch can be sourced from Table 4.5 from Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’**

| **Table 8.1: List of Raw Materials along with their Estimates Quantity in ­­­­­­­­­­­­­­­­­­­­­­­\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **List of Raw Material** | **Estimated Quantity for 1 Batch** |
| **Product 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 3: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 4: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 5: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |
| **Product 6: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
|  |  |
|  |  |
|  |  |

* Look at the sales plan prepared earlier and assess the amount of raw material required per month in the business. In this step re-write the estimated sales volume for the entrepreneur’s business
* **The month-wise sales plan can be sourced from Table 7.4 (total column) in Tool 7 – ‘Create Sales Plan of the Business’**

| **Table 8.2: Sales Volume for Products Sold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| Product 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 4 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 5 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 6 |  |  |  |  |  |  |  |  |  |  |  |  |  |

* Re-write the batch size for each product to be produced in the table below:
* **The batch size can be sourced from Table 4.3 (column F) in Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’**

| **Table 8.3: Batch Size for Producing / Purchasing Products Sold by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **S.No** | **Products / Services** | **Estimated batch size to be produced / purchased for the given sales volume** |
|  | **A** | **F** |
| 1 | Product 1 |  |
| 2 | Product 2 |  |
| 3 | Product 3 |  |
| 4 | Product 4 |  |
| 5 | Product 5 |  |
| 6 | Product 6 |  |

* The next step is to calculate the number of batches to be produced per month.
* **Divide the values in Table 8.2 with those in Table 8.3**

| **Table 8.4: Estimation of Number of Batches to be Produced / Purchased per Month in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| Product 1 | Batches |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 2 | Batches |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 3 | Batches |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 4 | Batches |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 5 | Batches |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 6 | Batches |  |  |  |  |  |  |  |  |  |  |  |  |

* After finalising the number of batches, mention the quantity of raw material to be purchased in months of production / purchase
* **Multiply the values in Table 8.1 with those in Table 8.4**

| **Table 8.5: Calculation of Raw Material Required per Month in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| **Product 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| RM 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Product 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| RM |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **…and so on** | | | | | | | | | | | | | |

* As the next step, calculate the total quantity required per month for each raw material. Base your calculation on Table 8.4

| **Table 8.6: Raw Material Required per Month in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| RM 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 4 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 5 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 6 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 7 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 8 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 9 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 10 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| … |  |  |  |  |  |  |  |  |  |  |  |  |  |

* You now have to consider the availability of raw material per month in the market. Along with that, mention if the raw material is available in abundance or if its quantity is limited

| **Table 8.7: Availability of Raw Material Required per Month for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| RM 1 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 2 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 3 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 4 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 5 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 6 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 7 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 8 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 9 |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 10 |  |  |  |  |  |  |  |  |  |  |  |  |
| … |  |  |  |  |  |  |  |  |  |  |  |  |

* We now have to plan for those raw material which were either not available or available in limited quantities. Write the quantity of raw material required from table 8.6 and estimates availability of raw material that you think will be available in limited quantity for the entrepreneur to buy at the preferred price (as mentioned in table 8.7)

| **Table 8.8: Understanding Raw Material Availability per Month for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Jan** | | **Feb** | | **Mar** | | **Apr** | | **May** | | **Jun** | | **Jul** | | **Aug** | | **Sep** | | **Oct** | | **Nov** | | **Dec** | |
|  | Required | Available | Required | Available | Required | Available | Required | Available | Required | Available | Required | Available | Required | Available | Required | Available | Required | Available | Required | Available | Required | Available | Required | Available |
| RM 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| … |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

* Calculate the quantity of raw material that the entrepreneur will have to arrange for in advance
* **The net requirement is the difference between the required raw material and available raw material**

| **Table 8.9: Net Requirement in Months with Limited Availability / Scarcity in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Difference = Required – Availability)** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** | **Total** |
| RM 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| … |  |  |  |  |  |  |  |  |  |  |  |  |  |

* Looking at Table 8.7, 8.8, and 8.9, you must answer the following questions:
  + Can the entrepreneur produce the product every month as per the production plan?
* **The entrepreneur will be able to produce as per the production plan if all cells in Table 8.8 are 0 or positive**
  + In case the entrepreneur is able to produce as per her production plan, will she have:
    - Enough money to purchase raw material on a regular basis?
    - Enough space to store the raw material?
    - Enough time to purchase raw material as required?
    - If the answer to all three questions is ‘yes’, proceed to the next section in Tool 8. However, if the answer to any one question is ‘no’, then address the specific problem
  + In case the entrepreneur is unable to produce as per her sales plan, answer the following questions:
    - Which raw material has seasonal fluctuations in availability?
    - Can the entrepreneur purchase the raw material when it is available and store it as
      1. Raw material
      2. Work-in-progress
      3. Finished goods
* The revised purchase plan will be as under:

| **Table 8.10: Final Quantity to be Purchased** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| RM 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 4 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 5 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 6 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 7 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 8 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 9 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 10 |  |  |  |  |  |  |  |  |  |  |  |  |  |

* You also have to support the entrepreneur on selection of the right supplier for purchasing raw material. Consider the following questions:
  + Identify the suppliers in the market and find out their prices of raw material
  + Understand if the suppliers will give raw material on credit
  + If the suppliers are not giving any credit, will they give a lower price for cash purchases?
* **The entrepreneur must understand the priority in each case (price, quality, and credit period) and wisely choose the supplier**
* **If the cash and credit prices of raw material are the same, you must urge the entrepreneur to purchase on credit**
* Thus, you should assess every supplier on the following terms before identifying the most suitable supplier to purchase raw material. Collecting and analysing this information in the following table:

| **Table 8.11: Choosing Suppliers** | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Supplier 1** | **Supplier 2** | **Supplier 3** | **Supplier 4** | **Supplier 5** | **Supplier 6** | **Supplier 7** | **Supplier 8** |
| **Raw Material 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | |
| Name of Supplier |  |  |  |  |  |  |  |  |
| Price |  |  |  |  |  |  |  |  |
| Quality |  |  |  |  |  |  |  |  |
| Credit Period |  |  |  |  |  |  |  |  |
| **Raw Material 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | |
| Name of Supplier |  |  |  |  |  |  |  |  |
| Price |  |  |  |  |  |  |  |  |
| Quality |  |  |  |  |  |  |  |  |
| Credit Period |  |  |  |  |  |  |  |  |
| **Raw Material 3: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | |
| Name of Supplier |  |  |  |  |  |  |  |  |
| Price |  |  |  |  |  |  |  |  |
| Quality |  |  |  |  |  |  |  |  |
| Credit Period |  |  |  |  |  |  |  |  |
| **…and so on** | | | | | | | | |

# **Tool 9: Set Price for Products / Services: Instructions for Using the Tool**

* The next step is to decide the price of the products / services sold in the business. To start with, list down the products and services that the entrepreneur plans to sell in her enterprise
* **The list of products / services can be sourced from Table 4.9 in Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’**

| **Table 9.1: List of Products / Services Sold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **S.No** | **Products / Services** |
| 1 |  |
| 2 |  |
| 3 |  |
| 4 |  |
| 5 |  |
| 6 |  |
| 7 |  |
| 8 |  |

* To price products and services produced and sold in the business, the entrepreneur must understand the quality of her offerings in comparison to her competitors. The entrepreneur can demand a higher price if her products and services are better than her competitors. However, in case her offerings are not at par with those of her competitors, she must charge a lower price.

To compare the quality of her offerings to those of her competitors, re-write the quality standards set for the business previously

* **Quality standards of the business can be sourced from Table 4.2 in Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’**

| **Table 9.2: Quality Standards for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **Functionality** | **Safety** | **Attractiveness** |
| * A * A * A * A | * A * A * A * A | * A * A * A * A |

* Discuss with the entrepreneur and decide the two closest competitors for the business. Next, compare the business’s quality against those of the competitors and assesses the overall quality standard / competitiveness of the business with respect to each competitor based on conventions stated below:

| **Case No.** | **Functionality** | **Safety** | **Attractiveness / Experience** | **Combined Competitiveness** |
| --- | --- | --- | --- | --- |
| 1 | Better | Better | Better | Better |
| 2 | Better | Better | Same | Better |
| 3 | Better | Better | Worse | Better |
| 4 | Better | Same | Better | Better |
| 5 | Better | Same | Same | Better |
| 6 | Better | Same | Worse | Same |
| 7 | Better | Worse | Better | Better |
| 8 | Better | Worse | Same | Same |
| 9 | Better | Worse | Worse | Worse |
| 10 | Same | Better | Better | Better |
| 11 | Same | Better | Same | Better |
| 12 | Same | Better | Worse | Same |
| 13 | Same | Same | Better | Better |
| 14 | Same | Same | Same | Same |
| 15 | Same | Same | Worse | Worse |
| 16 | Same | Worse | Better | Same |
| 17 | Same | Worse | Same | Same |
| 18 | Same | Worse | Worse | Worse |
| 19 | Worse | Better | Better | Better |
| 20 | Worse | Better | Same | Same |
| 21 | Worse | Better | Worse | Worse |
| 22 | Worse | Same | Better | Same |
| 23 | Worse | Same | Same | Worse |
| 24 | Worse | Same | Worse | Worse |
| 25 | Worse | Worse | Better | Worse |
| 26 | Worse | Worse | Same | Worse |
| 27 | Better | Better | Better | Better |

|  |  |  |
| --- | --- | --- |
| **Table 9.3: Analysis of Existing Competition on Quality Parameters** | | |
|  | **Competitor 1** | **Competitor 2** |
| **Quality Parameters** | **Entrepreneur’s Business vs Competitor 1** | **Entrepreneur’s Business vs Competitor 2** |
| Functionality |  |  |
| Safety |  |  |
| Attractiveness |  |  |
| **Overall** |  |  |

* **If the entrepreneur is better than both competitors, then the entrepreneur can set the price of the product higher than both competitors**
* **If the entrepreneur is better than a one competitors and worse than the other, the entrepreneur can set the price of the product between the available price ranges**
* **If the entrepreneur is worse than both competitors, then the entrepreneur should set a lower price for her product**
* **If the entrepreneur is better / worse than a competitors and at par with the other, the entrepreneur can set the price of the product between the available price ranges**
* **If the entrepreneur is at par with the competitors, the entrepreneur should set the price of the product equal to that of the competitors or lower than them to compete**
* Conclusion from the above analysis is: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Now, list the prices of both competitors and help the entrepreneur set prices for her offerings based on their analysis above:

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 9.4: Setting Price for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| **Products / Services** | **Competitor 1 Price** | **Competitor 2 Price** | **Entrepreneur’s Price** |
|  | \_\_\_\_\_\_\_ as / than Competitor 1 | \_\_\_\_\_\_\_ as / than Competitor 2 |  |
| Product 1 |  |  |  |
| Product 2 |  |  |  |
| Product 3 |  |  |  |
| Product 4 |  |  |  |
| Product 5 |  |  |  |
| Product 6 |  |  |  |

* Feeds in the actual prices of products / services in Table 3.7 in Tool 3 – ‘Estimate Revenue of the Business’ to find out the actual revenue of the business as under:

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 9.5: Actual Revenue for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| **Products / Services** | **Estimated Sales Volume** | **Price** | **Revenue**  **(Sales Volume x Price)** |
| Product 1 |  |  |  |
| Product 2 |  |  |  |
| Product 3 |  |  |  |
| Product 4 |  |  |  |
| Product 5 |  |  |  |
| Product 6 |  |  |  |
| **Total** |  |  |  |

* It is now time to check the profit the entrepreneur’s business is making after revising the revenue. She feeds the actual revenue earned by the business in Table 6.1 in Tool 6 – ‘Estimate Profit of the Business’ to calculate the profit

|  |  |  |
| --- | --- | --- |
| **Table 9.6: Calculating Profit for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| **Cost** | **Source** | **Amount (Annual)** |
| Revenue | Table 9.5 |  |
| Total Cost | Table 6.1 |  |
| Revenue – Total Cost |  |  |

* **If the profits are within admissible limits, the CRP-EP should proceed to the next tool**
* **However, if the profits are not within admissible limits, then the CRP-EP must consider the following:**
  + **Is there scope of increasing prices without improving the quality**
    - **If this is the case, re-work Tool 9**
  + **Is there a possibility of reducing cost with given quality**
    - **If this is the case, re-work Tool 4, Tool 5, Tool 6, and Table 9.6 in Tool 9**
  + **Is there a scope to improve quality and increase prices**
    - **If this is the case, re-work Tool 4, Tool 5, Tool 6, and Tool 9**
* **If the answer to all three questions is no, then the business idea must be dropped**

# **Tool 10: Estimate Fixed Capital Needs of a Business: Instructions for Using the Tool**

* Having selected products and services for the business, estimated revenue, costs, and profits, and prepared sales and inventory plan, you must now consider estimating fixed capital requirements for the business.
* As the first step, re-write the equipment needed for the business
* **The equipment required in the business can be sourced from Table 4.6 in Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’**

| **Table 10.1: List of Equipment Required in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **S.No** | **Equipment** | **Quantity** |
| 1 |  |  |
| 2 |  |  |
| 3 |  |  |
| 4 |  |  |
| 5 |  |  |
| 6 |  |  |
| 7 |  |  |
| 8 |  |  |
| 9 |  |  |
| 10 |  |  |

* The next step is to find the price of new and second-hand equipment as well as think about the possibility of taking the equipment on rent. You will have to visit the market and consult a few shopkeepers. You can fill the information in the following format:
* **Mention the best price after comparing it across different brands, locations, agencies**

| **Table 10.2: Prices of New and Second-Hand Equipment Required in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | |
| --- | --- | --- | --- | --- |
| **S.No** | **Equipment** | **Price of New Equipment per Unit** | **Price of Second Hand Equipment per Unit** | **Rent per Month per Unit** |
| 1 |  |  |  |  |
| 2 |  |  |  |  |
| 3 |  |  |  |  |
| 4 |  |  |  |  |
| 5 |  |  |  |  |
| 6 |  |  |  |  |
| 7 |  |  |  |  |
| 8 |  |  |  |  |
| 9 |  |  |  |  |
| 10 |  |  |  |  |

* Since the entrepreneur is starting a new business, she may take the equipment with more investment on rent. If her business picks up in subsequent months, she can purchase new or second-hand equipment. The next step is to find out which equipment can be rented and which equipment will have to be purchased.
* **The calculation of rented equipment will be taken up in Tool 11 – ‘Estimate Working Capital Needs of a Business’**

| **Table 10.3: Understanding Equipment to be Rented or Purchased in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
| **S.No** | **Equipment** | **Purchase (🗸)** | **Rent (🗸)** |
| 1 |  |  |  |
| 2 |  |  |  |
| 3 |  |  |  |
| 4 |  |  |  |
| 5 |  |  |  |
| 6 |  |  |  |
| 7 |  |  |  |
| 8 |  |  |  |
| 9 |  |  |  |
| 10 |  |  |  |

* **The calculations of renting the equipment will be considered in the working capital tool.**
* Write down the final list of equipment to be purchased along with their amounts
* **Rate can be sourced from Table 10.2 above**
* **Units can be sourced from Table 10.1 above**

| **Table 10.4: Final List of Equipment to be Purchased in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | |
| --- | --- | --- | --- | --- |
| **Equipment** | **Type**  **(New / Second Hand)** | **Rate** | **Units** | **Amount** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| **Total** |  |  |  |  |

* Next, consider the deposits that need to be made for the rented equipment / premises

|  |  |
| --- | --- |
| **Table 10.5: Deposits to be made for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **Type of Deposit** | **Amount** |
|  |  |
|  |  |
| **Total** |  |

* Next, consider the licenses that need to be obtained by the entrepreneur to run her business and the amount she needs to spend on acquiring the same.

|  |  |
| --- | --- |
| **Table 10.6: Licenses to be Obtained for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **Type of License** | **Amount** |
|  |  |
|  |  |
| **Total** |  |

* Next, consider the amount the entrepreneur would be spending on electrification of the rented premises and making water supply arrangements, renovations, and other modifications.

| **Table 10.7: Cost for Setting up Amenities in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **Amenities** | **Cost Incurred** | **Total** |
| **Electrification Charges** |  |  |
| **Charges for Water Facility** |  |  |
| **Amount spent on Renovation / Modification / Maintenance** |  |  |
| **Others** |  |  |
| **Total** |  |  |

* Also consider the trainings that the entrepreneur would have to go through to be able to provide the goods and services to her customers. She revisits the earlier tools to find out the trainings that she requires.
* **The trainings required by the entrepreneur can be sourced from Table 4.7 in Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’**

| **Table 10.8: Trainings to be Undertaken by the Entrepreneur** | |
| --- | --- |
| **Type of Training Required** | **Amount** |
|  |  |
|  |  |
| **Total** |  |

* After estimating the amount to be spent on equipment, security deposits, licenses and training, the next step is to calculate the amount of fixed capital required in the business.

| **Table 10.9: Estimating Fixed Capital for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **Particulars** | **Source** | **Amount** |
| Amount to be spent on equipment | Table 10.4 |  |
| Amount to be spent on security deposits | Table 10.5 |  |
| Amount to be spent on licenses | Table 10.6 |  |
| Amount to be spent on amenities | Table 10.7 |  |
| Amount to be spent on trainings | Table 10.8 |  |
| **Fixed Capital Required in the Business** |  |  |

# **Tool 11: Estimate Working Capital Needs of a Business: Instructions for Using the Tool**

* Having estimated fixed capital in previous tool, it is now time to estimate the working capital required in the business.

Recollect that the working capital formula she had studied in the TEAM module:

|  |
| --- |
| Working capital needed for this period = (a) Expected cash outflow for this period – (b) Expected cash inflow for this period – (c) Opening cash balance for this period – (d) Last period’s accounts receivable to be collected in this period + (e) Last period’s accounts payable to be paid in this period |

For making the calculations easier, reorder the formula in the following way:

|  |
| --- |
| Working capital needed for this period = (a) Expected cash outflow for this period + (e) Last period’s accounts payable to be paid in this period – (b) Expected cash inflow for this period – (d) Last period’s accounts receivable to be collected in this period – (c) Opening cash balance for this period |

Based on the formula mentioned above, we will break the calculation into three parts:

* Part A = Total Cash Outflow = (a) Expected cash outflow for this period + (e) Last period’s accounts payable to be paid in this period
* Part B = Total Cash Inflow = (b) Expected cash inflow for this period + (d) Last period’s accounts receivable to be collected in this period
* Part C = (c) Opening cash balance for this period

Thus, in the end, you can derive the working capital by using the following formula:

Working capital needed for this period = Part A – Part B – Part C

**Part A: Calculation of Total Cash Outflow**

The cash outflow for the entrepreneur’s business will comprise the following:

* Payments towards fixed cost
* Payment for purchase of raw materials
* Last period’s accounts payable to be paid in this period
* We will now calculate the fixed cost for the entrepreneur’s business for a period of 12 months
* **The annual fixed cost incurred by the business can be sourced from Table 5.4 in Tool 5 – ‘Estimate Costs of the Business’**

|  |  |
| --- | --- |
| **Table 11.1: Estimation of Fixed Costs in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **Costs** | **Monthly Estimate** |
|  |  |
|  |  |
|  |  |
|  |  |
| **Total** |  |

* Recollect any equipment that was decided to be taken on rent.
* **The list of rented equipment can be sourced from Table 10.3 from Tool 10 – ‘Estimate Fixed Capital of a Business’**
* **The per month rent of hired equipment can be sourced from Table 10.2 from Tool 10 – ‘Estimate Fixed Capital of a Business’**

|  |  |
| --- | --- |
| **Table 11.2: Estimating Rent for Equipment for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **Rented Equipment** | **Rent per Month** |
| Table 10.3 | Table 10.2 |
|  |  |
|  |  |
|  |  |
| **Total rent for equipment** |  |

Hence, the total payment of fixed costs incurred by the business per month can be calculated as under:

|  |  |  |
| --- | --- | --- |
| **Table 11.3: Estimating Total Fixed Cost payments for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| **Particulars** |  | **Amount per Month** |
| Fixed cost calculated earlier | Total from Table 11.1 |  |
| Rent for equipment | Total from Table 11.2 |  |
| **Total payments of fixed costs per Month** | |  |

* Now that we have calculated fixed costs incurred per month by the business, we must now calculate raw material cost for the business. Based on available information, re-write the quantity of raw-material to be purchased every month
* **The amount of raw-material required by the business month-wise can be sourced from Table 8.10 in Tool 8 – ‘Create Inventory Plan for the Business’**

| **Table 11.4: Raw Material Required per Month in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| RM 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 4 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 5 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 6 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 7 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 8 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 9 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 10 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| … |  |  |  |  |  |  |  |  |  |  |  |  |  |

* Now, re-write the cost of raw material as stated earlier:
* **The rates of raw-material required by the business can be sourced from Table 5.8 in Tool 5 – ‘Estimate Costs of the Business’**

| **Table 11.5: Re-writing Raw Material Cost for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **List of Raw Material** | **Average Cost per Unit** |
| RM 1 |  |
| RM 2 |  |
| RM 3 |  |
| RM 4 |  |
| RM 5 |  |
| RM 6 |  |
| RM 7 |  |
| RM 8 |  |
| RM 9 |  |
| RM 10 |  |
| … |  |
| **Total** |  |

* Based on information mentioned above, calculate the month-wise spent on raw material for the business. Multiply the quantity in table 11.4 and rates in table 11.5

| **Table 11.6: Calculating Cost of Raw Material to be Purchased by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| RM 1 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 2 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 3 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 4 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 5 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 6 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 7 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 8 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 9 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| RM 10 | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| … | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |
| **Total** | Rs. |  |  |  |  |  |  |  |  |  |  |  |  |

* We now need to calculate the last period’s accounts payable to be paid in the current month. For this, we need to first look at the credit policy of the suppliers.
* **The terms of credit of the suppliers can be sourced from Table 8.11 from Tool 8 – ‘Create Inventory Plan for the Business’**

|  |  |  |
| --- | --- | --- |
| **Table 11.7: Credit Terms by Suppliers to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| **Raw Material** | **For how long will the business give credit?** | **What percentage of raw material will be on credit?** |
| RM 1 |  |  |
| RM 2 |  |  |
| RM 3 |  |  |
| RM 4 |  |  |
| RM 5 |  |  |
| RM 6 |  |  |
| RM 7 |  |  |
| RM 8 |  |  |
| RM 9 |  |  |
| RM 10 |  |  |
| … |  |  |

* To calculate working capital, we must take worse-case scenario for the entrepreneur’s business. The worst case for any business will be when the entrepreneur has to pay for her raw-material upfront, with no credit period at all. This means, the entrepreneur will always need to have the cash required to pay for her raw-material purchases.

Even though some of our suppliers do provide credit, we consider no credit purchases from suppliers for calculation of working capital. Since there will be no credit purchases, the entrepreneur will now make all purchases in cash and will not have any accounts payable. Hence, the last period’s accounts payable to be paid in the current month will be 0

* Hence, we have now calculated all three components required to calculate total cash outflow for the entrepreneur’s business.

| **Table 11.8: Month-wise Total Cash Outflow for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | |
| --- | --- | --- | --- | --- |
| **Month** | **Fixed Costs Paid During the Month** | **Raw Material Cost paid in Cash** | **Last period’s accounts payable to be paid in the current month** | **Total Cash Outflow** |
|  | **11.3** | **11.6** |  |  |
|  | **A** | **B** | **C** | **D = A + B + C** |
| Jan |  |  |  |  |
| Feb |  |  |  |  |
| Mar |  |  |  |  |
| Apr |  |  |  |  |
| May |  |  |  |  |
| Jun |  |  |  |  |
| Jul |  |  |  |  |
| Aug |  |  |  |  |
| Sep |  |  |  |  |
| Oct |  |  |  |  |
| Nov |  |  |  |  |
| Dec |  |  |  |  |

**Part B: Calculation of Total Cash Inflow**

The cash inflow for the entrepreneur’s business will comprise the following:

* Cash Sales
* Last period’s accounts receivable to be collected in this period
* Other Income for the business
* As the first step under Part B, we need to calculate monthly revenue for the entrepreneur’s business. Look at the sales plan prepared earlier and decides to re-write information in the following table:
* **The sales quantity per month for each sales method can be sourced from Table 8.2 in Tool 8 – ‘Create Inventory Plan for the Business’**

| **Table 11.9: Sales Volume for Products Sold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| Product 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 4 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 5 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 6 |  |  |  |  |  |  |  |  |  |  |  |  |  |

* Re-write the price of each product / service as estimate in Tool 9
* **The prices of product / service can be sourced from Table 9.5 in Tool 9 – ‘Set Price for Products / Services’**

| **Table 11.10: Final Price of Products / Services to be Sold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **Products / Services** | **Prices in Entrepreneur’s Business** |
| Product 1 |  |
| Product 2 |  |
| Product 3 |  |
| Product 4 |  |
| Product 5 |  |
| Product 6 |  |

* Based on information in the tables above, calculate the month-wise revenue for the entrepreneur’s business
* **Multiply the quantity in table 11.9 and prices in table 11.10**

| **Table 11.11: Revenue Earned per Month by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (in Rs.)** | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| Product 1 |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 2 |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 3 |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 4 |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 5 |  |  |  |  |  |  |  |  |  |  |  |  |
| Product 6 |  |  |  |  |  |  |  |  |  |  |  |  |
| **Total** |  |  |  |  |  |  |  |  |  |  |  |  |

* After calculating total sales from the business, calculate the amount of cash sales generated by the business. Check if the entrepreneur has a policy for giving credit to her customers. In case she does, we need to look at the terms set in the credit policy
* **Refer to Table 5.6 in Tool 5 – ‘Create Sales Plan for the Business’ to check if the business has a policy of giving credit. If the business doesn’t have a policy to give credit to customers, move to calculation of other income for the business**
* If the entrepreneur has decided to give credit, we need to estimate the cash sales and last period’s accounts receivable to be collected in the current month. Refers to the policy in Tool 5 and re-writes the information as under:
* **Refer to Table 7.6 in Tool 7 – ‘Create Sales Plan for the Business’ to check the amount of revenue the entrepreneur plans to give out on credit**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 11.12: Credit Terms for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | | |
|  |  | **Directly to consumers –door to door sales** | **Directly to consumers – own outlet** | **Selling to retailers or shops** | **Selling to wholesalers** | **Selling directly to institutions or other businesses** | **Selling through exhibitions / fairs** |
| **For how long the business will give credit?** | **A** |  |  |  |  |  |  |
| **What percentage of monthly revenue will be on credit?** | **B** |  |  |  |  |  |  |
| **What percentage of monthly revenue will be in cash?** | **100-B** |  |  |  |  |  |  |

Like we did while calculating total cash outflow for the business, consider the most unfavourable terms for calculation of working capital. Looks at the credit policy mentioned above and write the most unfavourable terms in the following table:

* **To identify the most unfavourable terms, look at the longest credit period, the maximum percentage of monthly sales which will be given on credit, and the minimum percentage of monthly sales which will be in cash**

| **Table 11.13: Most Unfavourable Credit Terms for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| For how long will the business give credit? | A |  |
| What percentage of monthly revenue will be on credit? | B |  |
| What percentage of monthly revenue will be in cash? | C |  |

* Having calculated total sales and identified most unfavourable terms of lending to the customers, calculate the month-wise cash sales and the last period’s accounts receivable to be collected in the current month. Use the following format to do so:
* **If the number of days of credit, as mentioned in Table 11.13, i.e between 1 and 15, then the credit recovery will start from the current month**
* **If the number of days of credit, as mentioned in Table 11.13, i.e between 16 and 45, then the credit recovery will start from the second**
* **If the number of days of credit, as mentioned in Table 11.13, i.e more than 46, then the credit recovery will start from the third month**

| **Table 11.14: Estimation of Cash Sales and Period and Amount of Collection of Credit Sales for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** | **Total Sales** | **Cash Sales** | **Credit Sales** | **Collection of Credit Sales**  **(Consider credit period mentioned in Table 11.13 in Row A)** | | |
|  | **Table 11.11** | **Table 11.13 (Row C)** |  | **Current Month: Less than or equal to 15 days** | **Second Month: More than 16 but less than or equal to 45 days** | **Third Month: More than 46 days** |
|  | **A** | **B** | **C = A - B** | **D (consider column C)** | **E (consider column C)** | **F (consider column C)** |
| Jan |  |  |  |  |  |  |
| Feb |  |  |  |  |  |  |
| Mar |  |  |  |  |  |  |
| Apr |  |  |  |  |  |  |
| May |  |  |  |  |  |  |
| Jun |  |  |  |  |  |  |
| Jul |  |  |  |  |  |  |
| Aug |  |  |  |  |  |  |
| Sep |  |  |  |  |  |  |
| Oct |  |  |  |  |  |  |
| Nov |  |  |  |  |  |  |
| Dec |  |  |  |  |  |  |

* We now have to calculate other income for the entrepreneur’s business to be able to arrive at the total cash inflow per month. Recollect that the other income is the amount that the business earns from sources which are not a part of its routine operations. Prepare the following table and think about the income the entrepreneur might earn from these sources

|  |  |
| --- | --- |
| **Table 11.15: Estimating Other Income earned by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **Type of Income** | **Earnings per Month** |
| Interest received |  |
| Commission received |  |
| Any other income \_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |
| **Total** |  |

* We have now calculated all three components required to calculate total cash inflow per month for the business:

| **Table 11.16: Month-wise Cash Inflow for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | |
| --- | --- | --- | --- | --- |
| **Month** | **Cash Sales** | **Last period’s accounts receivable to be collected in this period** | **Other Income** | **Total Cash Inflow** |
|  | **Table 11.14 (Column B)** | **Table 11.14 (Columns D to F)** | **Table 11.15** |  |
|  | **A** | **B** | **C** | **D = A + B + C** |
| Jan |  |  |  |  |
| Feb |  |  |  |  |
| Mar |  |  |  |  |
| Apr |  |  |  |  |
| May |  |  |  |  |
| Jun |  |  |  |  |
| Jul |  |  |  |  |
| Aug |  |  |  |  |
| Sep |  |  |  |  |
| Oct |  |  |  |  |
| Nov |  |  |  |  |
| Dec |  |  |  |  |

**Part C: Calculation of Opening Balance and additional Working Capital needed**

* To estimate the opening cash balance in the business, calculate the cash surplus / deficit per month from business operations. For this, consider total cash inflows and outflows calculated earlier in the tool

| **Table 11.17: Calculating Cash Surplus / Deficit Per Month for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
| **Month** | **Cash Inflow** | **Cash Outflow** | **Cash Surplus / Deficit** |
|  | **Table 11.16 (Column D)** | **Table 11.8 (Column D)** |  |
|  | **A** | **B** | **C = A - B** |
| Jan |  |  |  |
| Feb |  |  |  |
| Mar |  |  |  |
| Apr |  |  |  |
| May |  |  |  |
| Jun |  |  |  |
| Jul |  |  |  |
| Aug |  |  |  |
| Sep |  |  |  |
| Oct |  |  |  |
| Nov |  |  |  |
| Dec |  |  |  |

* We now have to think about calculation of opening balance. Since the entrepreneur’s business is new, she has no existing cash-in-hand. However, an existing business may have some cash-in-hand in the beginning of the period. We must write the existing cash amount in the existing business and then add the cash surplus / deficit calculated in the previous table for the first month. This will give us the closing cash balance for that period. This closing balance will then become the opening balance for the next period.

Perform the calculations in the table below:

* **In case of an existing business, the first month in column A in the following table will report the existing cash balance in the business**
* **Closing balance of current month will become opening balance of next month, i., closing balance for Jan will become the opening balance for Feb, and so on**

| **Table 11.18: Calculating Opening Balance for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
| **Month** | **Opening Balance** | **Cash Surplus / Deficit** | **Closing Balance** |
|  |  | **Table 11.17 (Column C)** |  |
|  | **A** | **B** | **C = A + B** |
| Jan |  |  |  |
| Feb |  |  |  |
| Mar |  |  |  |
| Apr |  |  |  |
| May |  |  |  |
| Jun |  |  |  |
| Jul |  |  |  |
| Aug |  |  |  |
| Sep |  |  |  |
| Oct |  |  |  |
| Nov |  |  |  |
| Dec |  |  |  |

* The next step is to write the negative closing balances in the table below:

| **Table 11.19: Working Capital Required for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| --- | --- |
| **Month** | **Closing Balance** |
|  | **Table 11.18 (Column C)** |
| Jan |  |
| Feb |  |
| Mar |  |
| Apr |  |
| May |  |
| Jun |  |
| Jul |  |
| Aug |  |
| Sep |  |
| Oct |  |
| Nov |  |
| Dec |  |
| **Minimum Amount = Working Capital Required for the Year** |  |

* If the closing balance is negative, the lowest of these negative balances will be taken as the working capital needed for the first year. If all closing balances are positive, the entrepreneur will still have to provide a cushion and provide for working capital needed for the first year. In this case, the working capital needed for the first year can be 15-days of outflow of the month with the highest cash outflow
* Hence, the total capital required for the entrepreneur’s business can be calculated as under:

| **Table 11.20: Calculating Total Capital Requirement for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| --- | --- | --- | --- |
| **Particulars** | **Source** |  | **Amount** |
| Fixed Capital Required in the Business | Table 10.9 | A |  |
| Funds required for meeting Working Capital needs in the first year | Tool 11 | B |  |
| **Total Capital Required in the Business** |  | **C = A + B** |  |

* It is now time to assess the source of capital and the amount of loan the entrepreneur would need. Assess the capital that the entrepreneur can contribute. The remaining amount will have to be taken as a loan
* **Total capital required in the business can be sourced from Table 11.20 (Row C)**
* **Total contribution by owner(s), loan amount required and duration of loan need to be obtained by discussing with the entrepreneur**

| **Table 11.21: Estimating the Amount of Loan for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **Particulars** |  | **Amount** |
| Total Capital Required in the Business | A (Table 11.20) |  |
| Total Contribution by Owner(s) | B |  |
| Loan Amount Required | C = A - B |  |
| Duration of Loan | D |  |
| Interest % (worst-case) | E |  |
| Total amount to be repaid after completion of loan duration | F = C x [(1 + E)^D] |  |
| Total interest amount to be repaid | G = F - C |  |
| Loan repayment for one year | H = C / D |  |
| Interest repayment for one year | I = G / D |  |

# **Tool 12: Prepare Business Plan for a New Business: Instructions for Using the Tool**

* The next tool is about preparing the business plan. Refer to the business plan format you learnt in the TEAM module and match them with the components that they have dealt with in the previous tools.

**Part A: Summary of Business Operations**

|  |  |
| --- | --- |
| **Table 12.1: Basic Details of the Business** | |
| Name of the Owner  (if multiple owners, write all the name) | To be obtained from the entrepreneur |
| Number of Workers / Employees | To be discussed with the entrepreneur |
| Interested Business | To be obtained from the entrepreneur |
| Contact Information | To be obtained from the entrepreneur |
| Owner’s Relationship to the SHG | To be obtained from the entrepreneur |
| Name of the Self Help Group | To be obtained from the entrepreneur |
| Name of the Village Organisation | To be obtained from the entrepreneur |
| Name of the Cluster Level Federation | To be obtained from the entrepreneur |
| Name of the Business | To be obtained from the entrepreneur |
| Location and Address of the Business | To be obtained from the entrepreneur |
| Address of the Owner(s) | To be obtained from the entrepreneur |
| Gram Panchayat, Block | To be obtained from the entrepreneur |
| Aadhar Number (of any one member) | To be obtained from the entrepreneur |
| Nature of Business | * Seasonal * Perennial |
| Type of Business | * Production * Trading * Service * Mixed |
| Major Products / Service | Table 12.4 |

|  |  |  |
| --- | --- | --- |
| **Table 12.2: Summary of Financial Statements** | | |
|  | Year 1 | Year 3 |
| Revenue | Table 12.12 | Table 12.12 |
| Gross Profit | Table 12.12 | Table 12.12 |
| Net Profit | Table 12.12 | Table 12.12 |
| Net Profitability | Table 12.12 | Table 12.12 |

| **Table 12.3: Summary of Business Parameters** | |
| --- | --- |
| Ownership Structure | To be discussed with the entrepreneur |
| Number of Owners | To be obtained from the entrepreneur |
| Total Owners’ Equity | To be discussed with the entrepreneur |
| Fixed Capital Required | Table 12.6 |
| Working Capital Required | Table 12.7 |
| Loan required | To be discussed with the entrepreneur |
| Interest Rate | To be discussed with the entrepreneur |
| Loan Repayment Period | To be discussed with the entrepreneur |

**Part B: Understanding Objective of the Business**

|  |  |
| --- | --- |
| **Table 12.4: Objective of the Business** | |
| Entrepreneur’s Expected Income (Profit + Wages) from the Business (monthly/yearly) | Table 5.1 from Tool 5 – ‘Estimate Costs of the Business’ |
| Main Products/ Services | |
| 1. Table 4.9 from Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’ | |
|  | |
|  | |
|  | |
|  | |

**Part C: Customer Segmentation**

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 12.5: Understanding Customers** | | | |
| **S. No** | **Customer Segment** | **Size Of Segment** | **Products For The Segment** |
|  | **A** | **B** | **C** |
|  | Table 3.2 from Tool 3 – ‘Estimate Revenue of the Business’ | Table 3.2 from Tool 3 – ‘Estimate Revenue of the Business’ | Table 3.3 from Tool 3 – ‘Estimate Revenue of the Business’ |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Part D: Capital Overview**

| **Table 12.6: Fixed Capital Required by the Business** | | | |
| --- | --- | --- | --- |
| **Fixed Assets** | **No Of Units** | **Per Unit Cost** | **Total Cost Per Asset** |
| A. Fixed Assets |  |  |  |
| Table 10.4 from Tool 10 – ‘Estimate Fixed Capital Needs of the Business’ |  |  |  |
|  |  |  |  |
|  |  |  |  |
| B. Other Assets |  |  |  |
| Table 10.5, Table 10.6, and Table 10.7 from Tool 10 – ‘Estimate Fixed Capital Needs of the Business’ |  |  |  |
|  |  |  |  |
|  |  |  |  |
| C. Working Capital Margin |  |  |  |
| Table 11.19 from Tool 11 – ‘Estimate Working Capital Needs of the Business’ |  |  |  |
| Total |  |  |  |

|  |  |
| --- | --- |
| **Table 12.7: Working Capital Required by the Business per Year** | |
| Working Capital Required for the Year | Table 11.19 from Tool 11 – ‘Estimate Working Capital Needs of the Business’ |

|  |  |
| --- | --- |
| **Table 12.8: Capital Required by the Business** | |
| Fixed Capital Required by the Business | Table 12.6 |
| Working Capital Required by the Business | Table 12.7 |
| Total Capital Required by the Business |  |

|  |  |
| --- | --- |
| **Table 12.9: Source of Capital** | |
| **Particulars** | **Amount** |
| Investment by Owners | To be discussed with the entrepreneur |
| Loan Required | Source: To be discussed with the entrepreneur  Amount: Table 12.8 – Investment by Owners |
| Subsidy, Grants, if any | Source:  Amount: |

**Part E: Sales Plan and Credit Policy of the Business**

| **Table 12.10: Sales Volume for Products Sold in the Business** | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Items** | **Unit** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| Table 8.2 from Tool 8 – ‘Create Inventory Plan for the Business’ | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

| **Table 12.11: Credit Policy of the Business** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Directly to consumers –door to door sales** | **Directly to consumers – own outlet** | **Selling to retailers or shops** | **Selling to wholesalers** | **Selling directly to institutions or other businesses** | **Selling through exhibitions / fairs** |
| Table 7.6 from Tool 5 – ‘Create Sales Plan of the Business’ | | | | | | |
| **Who will the business give credit to?** |  |  |  |  |  |  |
| **For how long will the business give credit?** |  |  |  |  |  |  |
| **What percentage of monthly revenue will be on credit?** |  |  |  |  |  |  |
| **Will there be periods in a year when no credit is given or extra credit is given?** |  |  |  |  |  |  |

**Part F: Projected Financial Statements of the Business**

The entire section needs to be calculated

| **Table 12.12: Projected Profit and Loss Statement for the Business** | | | | |
| --- | --- | --- | --- | --- |
| **Particulars** | | **Year 1** | **Year 2** | **Year 3** |
|  | |  |  |  |
| Revenue | Total Revenue | Table 9.5 | Calculate | Calculate |
| Direct Costs | Cost of raw material | Table 5.8 | Calculate | Calculate |
| Cost of transportation | Table 5.4 | Calculate | Calculate |
| Amount withdrawn by owner for personal use | Table 5.4 | Calculate | Calculate |
| Wages paid to labour | Table 5.4 | Calculate | Calculate |
| Maintenance of fixed asset | Table 5.4 | Calculate | Calculate |
| Cost of Fuel | Table 5.4 | Calculate | Calculate |
| Other Cost | Table 5.4 | Calculate | Calculate |
| Total Direct Cost |  |  |  |
| **Gross Profit (Total Revenue – Total Direct Cost)** |  |  |  |
| **Gross Profitability (Gross Profit / Revenue)** |  |  |  |
| Indirect Costs | Cost of transporting finished goods | Table 5.4 | Calculate | Calculate |
| Salary | Table 5.4 | Calculate | Calculate |
| Cost of rent | Table 5.4 | Calculate | Calculate |
| Rent of equipment | Table 11.2 |  |  |
| Cost of electricity | Table 5.4 | Calculate | Calculate |
| Cost of water | Table 5.4 | Calculate | Calculate |
| Cost of posters / pamphlets | Table 5.4 | Calculate | Calculate |
| Interest paid on loan | Table 12.9 | Table 12.9 | Table 12.9 |
| Depreciation | Calculate | Calculate | Calculate |
| Total Indirect Cost |  |  |  |
| **Net Profit (Gross Profit – Total Indirect Cost)** |  |  |  |
| **Net Profitability (Net Profit / Revenue)** |  |  |  |

| **Table 12.13: Projected Cash Flow Statement for the Business** | | | | |
| --- | --- | --- | --- | --- |
| **Particulars** | | **Year 1** | **Year 2** | **Year 3** |
|  | |  |  |  |
|  | Opening Balance |  | Closing Balance | Closing Balance |
| Cash Inflows | Cash invested in the business by owners | Table 12.9 | Calculate | Calculate |
| Cash from loans taken | Table 12.9 | Calculate | Calculate |
| Cash sales | Table 11.16 | Calculate | Calculate |
| Amount paid by debtors | Table 11.16 | Calculate | Calculate |
| Interest amount received | Table 11.15 | Calculate | Calculate |
| Rent received | Table 11.15 | Calculate | Calculate |
| Total Inflow |  |  |  |
| Cash Outflows | Cash paid for raw material | Table 11.8 | Calculate | Calculate |
| Cash paid towards rent | Table 5.4 and 11.2 | Calculate | Calculate |
| Cash paid towards electricity | Table 5.4 | Calculate | Calculate |
| Cash paid towards water bill | Table 5.4 | Calculate | Calculate |
| Cash paid for transportation | Table 5.4 | Calculate | Calculate |
| Cash paid for fuel | Table 5.4 | Calculate | Calculate |
| Amount withdrawn by owner for personal use | Table 5.4 | Calculate | Calculate |
| Cash paid towards wages | Table 5.4 | Calculate | Calculate |
| Cash paid towards salary | Table 5.4 | Calculate | Calculate |
| Other costs | Table 5.4 |  |  |
| Cash paid for posters / pamphlets | Table 5.4 | Calculate | Calculate |
| Interest paid on loan | Table 12.9 | Calculate | Calculate |
| Security deposit paid | Table 9.9 | Calculate | Calculate |
| Cash paid for purchase fixed assets | Table 9.9 | Calculate | Calculate |
| Loan amount repaid | Table 12.9 | Calculate | Calculate |
| Amount paid to creditors | Table 11.8 | Calculate | Calculate |
| Total Outflow |  |  |  |
|  | Closing Cash Balance (Opening Balance + Total Cash Inflow – Total Cash Outflow) |  |  |  |

| **Table 12.14: Projected Balance Sheet for the Business** | | | | |
| --- | --- | --- | --- | --- |
| **Particulars** | | **Year 1** | **Year 2** | **Year 3** |
|  | |  |  |  |
| Assets | Opening Balance of Fixed Assets | 0 | Closing Balance | Closing Balance |
| (+) Fixed assets purchased during the period | Table 10.4 |  |  |
| (-) Fixed assets sold during the period | 0 |  |  |
| (-) Depreciation during the year | Table 12.15 |  |  |
| Closing Balance of Fixed Assets |  |  |  |
|  |  |  |  |
| Opening Accounts Receivables | 0 | Closing Balance | Closing Balance |
| (+) Credit sales during the period | Table 11.16 |  |  |
| (-) Amount paid by debtors | Table 11.16 |  |  |
| Closing Accounts Receivables |  |  |  |
|  |  |  |  |
| Opening Balance of Security Deposits | 0 | Closing Balance | Closing Balance |
| (+) Security deposit paid during the period | Table 9.9 |  |  |
| (-) Security deposit returned | 0 |  |  |
| Closing Balance of Security Deposits |  |  |  |
|  |  |  |  |
| Closing Cash Balance | Table 12.13 | Closing Balance | Closing Balance |
|  | Total Assets (Sum of closing balances of all assets) |  |  |  |
|  |  |  |  |  |
| Liabilities | Opening Accounts Payables | 0 | Closing Balance | Closing Balance |
| (+) Credit Purchases | Table 11.8 |  |  |
| (-) Amount repaid to suppliers | Table 11.8 |  |  |
| Closing Accounts Payables |  |  |  |
|  |  |  |  |
| Opening Loan Balance | 0 | Closing Balance | Closing Balance |
| (+) New loans taken | Table 12.9 |  |  |
| (-) Loans repaid | 0 |  |  |
| Closing Loan Balance |  |  |  |
|  |  |  |  |  |
| Owner’s Equity | Opening Balance of Owner’s Equity | 0 | Closing Balance | Closing Balance |
| (+) Cash added in the business during the period | Table 12.9 |  |  |
| (-) Capital withdrawn | 0 |  |  |
| Closing Balance of Owner’s Equity |  |  |  |
|  |  |  |  |
| Opening Balance of Retained Earnings | 0 | Closing Balance | Closing Balance |
| (+) Net profit for the period | Table 12.12 |  |  |
| Closing Balance of Retained Earnings |  |  |  |
|  | Total Liabilities (Sum of closing balances of liabilities and owner’s equity head) |  |  |  |

* The components not calculated in the previous tools are the projected financial statements for three years. Go the available information from the previous tools and calculates the financial statements for the first year.
* Depreciation can be calculated as under:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 12.15: Calculation of Annual Depreciation** | | | | | | | |
|  |  | **Asset 1** | **Asset 2** | **Asset 3** | **Asset 4** | **Asset 5** | **Asset 6** |
|  | **Table 10.4** |  |  |  |  |  |  |
| Purchase of fixed asset | A |  |  |  |  |  |  |
| Useful life of the asset | B |  |  |  |  |  |  |
| Depreciation per year | C = A / B |  |  |  |  |  |  |
| Number of years depreciation charged so far | D |  |  |  |  |  |  |

* Calculates Profit and Loss Statement, Cash Flow Statement, and Balance Sheet for the first year from the information available from the previous tools

| **Table 12.16: Projected Profit and Loss Statement for the Business for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |
| --- | --- | --- |
| **Particulars** | | **Year 1** |
| Revenue | Total Revenue |  |
| Direct Costs | Cost of raw material |  |
| Cost of transportation |  |
| Amount withdrawn by owner for personal use |  |
| Wages paid to labour |  |
| Maintenance of fixed asset |  |
| Cost of Fuel |  |
| Other Cost |  |
| Total Direct Cost |  |
| **Gross Profit (Total Revenue – Total Direct Cost)** |  |
| **Gross Profitability (Gross Profit / Revenue)** |  |
| Indirect Costs | Cost of transporting finished goods |  |
| Salary |  |
| Cost of rent |  |
| Rent of equipment |  |
| Cost of electricity |  |
| Cost of water |  |
| Cost of posters / pamphlets |  |
| Interest paid on loan |  |
| Depreciation |  |
| Total Indirect Cost |  |
| **Net Profit (Gross Profit – Total Indirect Cost)** |  |
| **Net Profitability (Net Profit / Revenue)** |  |

| **Table 12.17: Projected Cash Flow Statement for the Business** | | |
| --- | --- | --- |
| **Particulars** | | **Year 1** |
|  | Opening Balance |  |
| Cash Inflows | Cash invested in the business by owners |  |
| Cash from loans taken |  |
| Cash sales |  |
| Amount paid by debtors |  |
| Interest amount received |  |
| Rent received |  |
| Total Inflow |  |
| Cash Outflows | Cash paid for raw material |  |
| Cash paid towards rent |  |
| Cash paid towards electricity |  |
| Cash paid towards water bill |  |
| Cash paid for transportation |  |
| Cash paid for fuel |  |
| Amount withdrawn by owner for personal use |  |
| Cash paid towards wages |  |
| Cash paid towards salary |  |
| Other costs |  |
| Cash paid for posters / pamphlets |  |
| Interest paid on loan |  |
| Security deposit paid |  |
| Cash paid for purchase fixed assets |  |
| Loan amount repaid |  |
| Amount paid to creditors |  |
| Total Outflow |  |
|  | Closing Cash Balance (Opening Balance + Total Cash Inflow – Total Cash Outflow) |  |

| **Table 12.18: Projected Balance Sheet for the Business** | | |
| --- | --- | --- |
| **Particulars** | | **Year 1** |
| Assets | Opening Balance of Fixed Assets |  |
| (+) Fixed assets purchased during the period |  |
| (-) Fixed assets sold during the period |  |
| (-) Depreciation during the year |  |
| Closing Balance of Fixed Assets |  |
|  |  |
| Opening Accounts Receivables |  |
| (+) Credit sales during the period |  |
| (-) Amount paid by debtors |  |
| Closing Accounts Receivables |  |
|  |  |
| Opening Balance of Security Deposits |  |
| (+) Security deposit paid during the period |  |
| (-) Security deposit returned |  |
| Closing Balance of Security Deposits |  |
|  |  |
| Closing Cash Balance |  |
|  | Total Assets (Sum of closing balances of all assets) |  |
|  |  |  |
| Liabilities | Opening Accounts Payables |  |
| (+) Credit Purchases |  |
| (-) Amount repaid to suppliers |  |
| Closing Accounts Payables |  |
|  |  |
| Opening Loan Balance |  |
| (+) New loans taken |  |
| (-) Loans repaid |  |
| Closing Loan Balance |  |
|  |  |  |
| Owner’s Equity | Opening Balance of Owner’s Equity |  |
| (+) Cash added in the business during the period |  |
| (-) Capital withdrawn |  |
| Closing Balance of Owner’s Equity |  |
|  |  |
| Opening Balance of Retained Earnings |  |
| (+) Net profit for the period |  |
| Closing Balance of Retained Earnings |  |
|  | Total Liabilities (Sum of closing balances of liabilities and owner’s equity head) |  |

* To calculate projections for second and third year, you can increase revenue and costs by 10-15% and as a conservative measure add a 2.5% increment to costs

| **Table 12.19: Projected Profit and Loss Statement for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | |
| --- | --- | --- | --- | --- |
| **Particulars** | | **Year 1** | **Year 2** | **Year 3** |
|  | |  |  |  |
| Revenue | Total Revenue |  |  |  |
| Direct Costs | Cost of raw material |  |  |  |
| Cost of transportation |  |  |  |
| Amount withdrawn by owner for personal use |  |  |  |
| Wages paid to labour |  |  |  |
| Maintenance of fixed asset |  |  |  |
| Cost of Fuel |  |  |  |
| Other Cost |  |  |  |
| Total Direct Cost |  |  |  |
| **Gross Profit (Total Revenue – Total Direct Cost)** |  |  |  |
| **Gross Profitability (Gross Profit / Revenue)** |  |  |  |
| Indirect Costs | Cost of transporting finished goods |  |  |  |
| Salary |  |  |  |
| Cost of rent |  |  |  |
| Rent of equipment |  |  |  |
| Cost of electricity |  |  |  |
| Cost of water |  |  |  |
| Cost of posters / pamphlets |  |  |  |
| Interest paid on loan |  |  |  |
| Depreciation |  |  |  |
| Total Indirect Cost |  |  |  |
| **Net Profit (Gross Profit – Total Indirect Cost)** |  |  |  |
| **Net Profitability (Net Profit / Revenue)** |  |  |  |

| **Table 12.20: Projected Cash Flow Statement for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | |
| --- | --- | --- | --- | --- |
| **Particulars** | | **Year 1** | **Year 2** | **Year 3** |
|  | |  |  |  |
|  | Opening Balance |  |  |  |
| Cash Inflows | Cash invested in the business by owners |  |  |  |
| Cash from loans taken |  |  |  |
| Cash sales |  |  |  |
| Amount paid by debtors |  |  |  |
| Interest amount received |  |  |  |
| Rent received |  |  |  |
| Total Inflow |  |  |  |
| Cash Outflows | Cash paid for raw material |  |  |  |
| Cash paid towards rent |  |  |  |
| Cash paid towards electricity |  |  |  |
| Cash paid towards water bill |  |  |  |
| Cash paid for transportation |  |  |  |
| Cash paid for fuel |  |  |  |
| Amount withdrawn by owner for personal use |  |  |  |
| Cash paid towards wages |  |  |  |
| Cash paid towards salary |  |  |  |
| Other costs |  |  |  |
| Cash paid for posters / pamphlets |  |  |  |
| Interest paid on loan |  |  |  |
| Security deposit paid |  |  |  |
| Cash paid for purchase fixed assets |  |  |  |
| Loan amount repaid |  |  |  |
| Amount paid to creditors | - | - | - |
| Total Outflow |  |  |  |
|  | Closing Cash Balance (Opening Balance + Total Cash Inflow – Total Cash Outflow) |  |  |  |

| **Table 12.14: Projected Balance Sheet for \_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | |
| --- | --- | --- | --- | --- |
| **Particulars** | | **Year 1** | **Year 2** | **Year 3** |
|  | |  |  |  |
| Assets | Opening Balance of Fixed Assets |  |  |  |
| (+) Fixed assets purchased during the period |  |  |  |
| (-) Fixed assets sold during the period |  |  |  |
| (-) Depreciation during the year |  |  |  |
| Closing Balance of Fixed Assets |  |  |  |
|  |  |  |  |
| Opening Accounts Receivables |  |  |  |
| (+) Credit sales during the period |  |  |  |
| (-) Amount paid by debtors |  |  |  |
| Closing Accounts Receivables |  |  |  |
|  |  |  |  |
| Opening Balance of Security Deposits |  |  |  |
| (+) Security deposit paid during the period |  |  |  |
| (-) Security deposit returned |  |  |  |
| Closing Balance of Security Deposits |  |  |  |
|  |  |  |  |
| Closing Cash Balance |  |  |  |
|  | Total Assets (Sum of closing balances of all assets) |  |  |  |
|  |  |  |  |  |
| Liabilities | Opening Accounts Payables |  |  |  |
| (+) Credit Purchases |  |  |  |
| (-) Amount repaid to suppliers |  |  |  |
| Closing Accounts Payables |  |  |  |
|  |  |  |  |
| Opening Loan Balance |  |  |  |
| (+) New loans taken |  |  |  |
| (-) Loans repaid |  |  |  |
| Closing Loan Balance |  |  |  |
|  |  |  |  |  |
| Owner’s Equity | Opening Balance of Owner’s Equity |  |  |  |
| (+) Cash added in the business during the period |  |  |  |
| (-) Capital withdrawn |  |  |  |
| Closing Balance of Owner’s Equity |  |  |  |
|  |  |  |  |
| Opening Balance of Retained Earnings |  |  |  |
| (+) Net profit for the period |  |  |  |
| Closing Balance of Retained Earnings |  |  |  |
|  | Total Liabilities (Sum of closing balances of liabilities and owner’s equity head) |  |  |  |

# **Tool 13: Create Posters / Leaflets for the Business**

* Here you will learn to develop marketing communication for the business.
* As a first step, decide the customer groups to target. Ask the entrepreneur to refer the list prepared earlier on the customer groups to analyse which consumer group to target. Then, consult with the entrepreneur to assess and identify the groups to be targeted for communication.
* **The target customer groups can be sourced from Table 2.e.3 in Tool 2 – ‘Select the Right Product / Service for the Business’**

|  |  |  |
| --- | --- | --- |
| **Table 13.1: Understanding Need for Communication** | | |
| **Target Customers** | **Why Should the customer group be targeted?** | **Should the communication be targeted at this customer group right now?** |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

* After deciding on the target group / groups for communication, it is important to write the objective of the marketing communication. This will help you focus on the main message of the communication

|  |
| --- |
| **Table 13.2: Deciding Objective of Marketing Communication** |
|  |

* It is now appropriate to list all customer groups that the communication seeks to target and write their needs
* **The customer groups to be targeted for communication can be sourced from table 13.e.1**
* **The needs of target customer groups can be sourced Table 2.e.2 in Tool 2 – ‘Select the Right Product / Service for the Business’**

|  |  |
| --- | --- |
| **Table 13.3: Listing Needs of Target Customers** | |
| **Target Customers** | **Customer Needs** |
|  |  |
|  |  |
|  |  |
|  |  |

* Now combine needs of all target customer groups at one place and also write other products / services that the business provides
* **Look at the final list of products / services from Table 4.e.9 in Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’ and compare it with the customer needs in Table 13.e.3. The products sold by the business that are not essential needs of the customer category (from table 13.e.3), will be mentioned in ‘Other Products / Services Provided by the Business’**

|  |  |
| --- | --- |
| **Table 13.4: Consolidating Needs of Target Customers and Mentioning Other Needs Satisfied by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ( name of the business)** | |
| **All Needs of Target Customer Groups** | **Other Products / Services Provided by the Business** |
|  |  |

* Check at this stage if the competitors satisfy the needs of the customers and if they satisfy the need better than your business
* **‘Analysis of Existing Competition on Quality Parameters’ can be sourced from Tool 9 – ‘Set Price for Products / Services’**

| **Table 13.5: Analysis of Existing Competition on Quality Parameters** | |
| --- | --- |
| **Quality Standards** | **How does the Entrepreneur Fair with respect to her Competitors (Better / Same / Worse)** |
|  |  |
|  |  |
|  |  |

* Now determine the message which is most likely to meet the objective of the communication, as stated in Table 13.e.2. Note down the points to be put in the message in the following table in consultation with the entrepreneur.
* Consider communicating those messages in which the competitors fare worse or same compared to the entrepreneur’s business.
* **Look at quality standards mentioned in table 4.e.2 in Tool 4 – ‘Set Quality Standards for the Business, Define Product / Service Delivery Process, and Assess Capabilities of the Entrepreneur’ and identify the key points to be included in the message for communication**

|  |
| --- |
| **Table 13.6: Deciding Points to be put in the Communication** |
| **Objective:**  **What message(s) will meet the objective:** |

* After deciding on the points to be included in the message, you have to decide the medium of communication. Recall the various media available to communicate the message, such as demos, leaflets, posters, getting satisfied customers to recommend entrepreneur’s business, getting locally influential person(s) to recommend entrepreneur’s products and services, and getting articles published in local newspapers.
* Prepare the following table to understand the relevance, cost, and reach for each medium for the target group. Based on the parameters, the enterprise consultant and the entrepreneur can make an assessment of the communication medium to be used.

| **Table 13.e.7: Analysing Appropriateness of Communication Medium for the Target Segment** | | | | |
| --- | --- | --- | --- | --- |
|  | **Relevance**  **(Yes / No)** | **Reach**  **(High / Medium / Low)** | **Cost**  **(High / Medium / Low)** | **Should this medium be chosen?** |
| Signboard |  |  |  |  |
| Demo |  |  |  |  |
| Leaflet |  |  |  |  |
| Poster |  |  |  |  |
| Getting satisfied customers to refer us to others |  |  |  |  |
| Getting locally influential person to recommend product |  |  |  |  |
| Advertisement in newspapers |  |  |  |  |

Discuss with the entrepreneur and based on costs, reach, and relevance of each communication media, decide on communication media for the message.

* Once you and the entrepreneur decide to use poster/leaflet for communication, it is essential to note important details that are necessary to include in the media, which will eventually lead to meeting your communication objective.

In consultation with the entrepreneur, note down the information in the table below:

| **Table 13.8: Important Details to be Included in the Poster / Leaflet** | |
| --- | --- |
| Important Message |  |
| Call to Action (What we want the customer to do) |  |
| Mention items / details required by law |  |
| Address of the Business / Contact details of the Entrepreneur |  |

* **Please keep in mind the literacy levels of audience while deciding on pictures and words to be used in the communication**

Based on the above information, design a poster to be put up in the nearby institutions. Also design leaflets that can be distributed to the students.

# **Tool 14: Keep Records of the Business**

* Discuss with the entrepreneur and help the entrepreneur use the data of the business in creating financial statements that will help track and analyse the entrepreneur’s business performance
* Lists down all records that a business can maintain and chooses from amongst them, those that are applicable for the entrepreneur’s business.

|  |  |
| --- | --- |
| **Table 14.1: List of Records to be Maintained for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |
| **Records** | **Applicability for the Entrepreneur’s Business** |
| Business Profile Sheet | Yes |
| Capital and Assets Register | Yes |
| Day Book | Yes |
| Performance Tracking Sheet | Yes |

* Educate the entrepreneur on the different books of records to be maintained for the business and explain the importance of maintaining them regularly. The following points will help provide a background

| **Table 14.2: Orientation to be Imparted to the Entrepreneur** | | | |
| --- | --- | --- | --- |
| **Records** | **Usefulness** | **Frequency** | **Person Responsible** |
| Business Profile Sheet | The purpose is to record the basic details of the business, such as name, location, type, capital invested etc. | One-time | Name of CRP-EP |
| Capital and Assets Register | The purpose is to record changes in what business owns (assets) and what it owes others (liabilities) | As and when capital transactions take place | Name of CRP-EP **OR** Name of the Entrepreneur |
| Day Book | The purpose is to record daily transactions of business including income and expenditure | Daily | Name of the Entrepreneur |
| Performance Tracking Sheet | The purpose is to consolidate information from all registers mentioned above at one place for a particular period | After a fixed period | Name of CRP-EP |

* Help the Entrepreneur fill out the Business Profile Sheet with the required information in the sheet. A sample of Business Profile Sheet is attached at the end of the tool.
* Introduce the Entrepreneur on the format of the Capital and Assets Register. Fill in the details of the first few capital transactions undertaken by the business.
* The transactions would typically include:
* Purchase of fixed assets,
* Security deposit for rented premises and cylinder

| **Table 14.3: Format of Capital Register** | |
| --- | --- |
| **Particulars** | **Time period** |
| **(dd/mm/yyyy – dd/mm/yyyy )** |
| Purchase of fixed assets |  |
| Sale of fixed asset |  |
| Security deposit paid |  |
| Security deposit returned |  |
| Capital withdrawal (in case an owner resigns) |  |

* Now, help the entrepreneur with those entries that should be maintained in the Day-Book, as appropriate to the nature of the business

| **Table 14.4: Choosing Fields for Day-Book** | |
| --- | --- |
| **Fields** | **Applicability** |
| Date |  |
| Cash Sales |  |
| Credit Sales |  |
| Raw Material Purchased in Cash |  |
| Raw Material Purchased in Credit |  |
| Amount Received from Debtors |  |
| Cash Added to the Business |  |
| Amount Paid to Creditors |  |
| Advance Paid to Suppliers |  |
| Transportation Expense |  |
| Wages |  |
| Other Expenses |  |
| Cash Withdrawal by the Owner for Personal Use |  |
| Loan Taken |  |
| Loan Amount Repaid |  |
| Interest Amount Paid |  |
| Electricity / Fuel Expense |  |
| Repair and Maintenance |  |
| Rent |  |

* Help the entrepreneur with the Day-Book format by filling in the first few transactions
* **CRP-EP must visit the entrepreneur’s business for the next 3-4 days to check if she was updating the day-book regularly**
* Lastly, explain the PTS sheet to the entrepreneur. Even though it is the CRP-EPs responsibility to fill the sheet, it would be good to orient the entrepreneur on the same. Based on the records in the Day Book, fill the PTS sheet as under

| **Table 14.6: Format of PTS Sheet** | |
| --- | --- |
| **PT Sheet for period (dd/mm/yyyy – dd/mm/yyyy)** | |
| **Particulars** | **Amount** |
| Cash Sales | Rs. |
| Credit Sales | Rs. |
| Raw Material Purchased in Cash | Rs. |
| Raw Material Purchased in Credit | Rs. |
| Amount Received from Debtors | Rs. |
| Cash Added to the Business | Rs. |
| Amount Paid to Creditors | Rs. |
| Advance Paid to Suppliers | Rs. |
| Transportation Expense | Rs. |
| Wages | Rs. |
| Other Expenses | Rs. |
| Cash Withdrawal by the Owner for Personal Use | Rs. |
| Loan Taken | Rs. |
| Loan Amount Repaid | Rs. |
| Interest Amount Paid | Rs. |
| Electricity / Fuel Expense | Rs. |
| Repair and Maintenance | Rs. |
| Rent | Rs. |
| Purchase of fixed assets | Rs. |
| Sale of fixed asset | Rs. |
| Security deposit paid | Rs. |
| Security deposit returned | Rs. |
| Capital withdrawal (in case an owner resigns) | Rs. |

Template of the Business Profile Sheet

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1 | Name of the business | | | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_­­\_\_\_ | | | | | | | | | | | | | | | | |
|  | | | | | | | | | | | | | | | | | | | | |
| 2 | When did you start the business (date / month / year) | | | | | \_\_\_\_\_\_\_ /\_\_\_\_\_\_\_\_\_\_ /\_\_\_\_\_\_\_\_\_ | | | | | | | | | | | | | | |
|  | | | | | | | | | | | | | | | | | | | | |
| 3 | Who owns the business? (tick any one option) | | | | | | | | | | | | | | | | | | | |
|  | a | Single owner | | | | ⬜ | | | | | | | | Male / Female | | | | | | |
| b | Group business, how many people are there in the group | | | | ⬜ | | | | | | | | Male \_\_\_\_\_\_ / Female \_\_\_\_\_\_ | | | | | | |
|  | | | | | | | | | | | | | | | | | | | | |
| 4 | Mention details of the entrepreneur(s) involved in the business | | | | | | | | | | | | | | | | | | | |
|  | Name of the entrepreneur | | Date of Birth | | Annual Family Income | | | Education | | | Aadhar Card | | NREGA card | | Religion | | | Caste | | SECC TIN |
|  | |  | |  | | |  | | |  | |  | |  | | |  | |  |
|  | |  | |  | | |  | | |  | |  | |  | | |  | |  |
|  | |  | |  | | |  | | |  | |  | |  | | |  | |  |
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|  | |  | |  | | |  | | |  | |  | |  | | |  | |  |
|  | | | | | | | | | | | | | | | | | | | | |
| 5 | Mention the CBO details of the entrepreneur(s) involved in the business | | | | | | | | | | | | | | | | | | | |
|  | Name of the entrepreneur | | Name of SHG | | | | Name of VO | | | | | Name of CLF | | | Name of GP | | | | Name of village | |
|  | |  | | | |  | | | | |  | | |  | | | |  | |
|  | |  | | | |  | | | | |  | | |  | | | |  | |
|  | |  | | | |  | | | | |  | | |  | | | |  | |
|  | |  | | | |  | | | | |  | | |  | | | |  | |
|  | |  | | | |  | | | | |  | | |  | | | |  | |
|  | | | | | | | | | | | | | | | | | | | | |
| 6 | Mention details of trainings attended by entrepreneur(s) | | | | | | | | | | | | | | | | | | | |
|  | Name of Entrepreneur | | GOT | | | | | | | EDP | | | | | | | Skill Training | | | |
|  | |  | | | | | | |  | | | | | | |  | | | |
|  | |  | | | | | | |  | | | | | | |  | | | |
|  | |  | | | | | | |  | | | | | | |  | | | |
|  | |  | | | | | | |  | | | | | | |  | | | |
|  | |  | | | | | | |  | | | | | | |  | | | |
|  | | | | | | | | | | | | | | | | | | | | |
| 7 | Date of Viability Check | | | | |  | | | | | | | | | | | | | | |
| 8 | Date of Business Plan Preparation | | | | |  | | | | | | | | | | | | | | |
|  | | | | | | | | | | | | | | | | | | | | |
| 9 | Mention details of the place of the business | | | | | | | | | | | | | | | | | | | |
|  | a | Name of the village **OR** town | | | |  | | | | | | | | | | | | | | |
| b | Name of the block | | | |  | | | | | | | | | | | | | | |
| c | Name of the district | | | |  | | | | | | | | | | | | | | |
|  | | | | | | | | | | | | | | | | | | | | |
| 12 | Mention bank details of the business | | | | | | | | | | | | | | | | | | | |
|  | Name of the Bank | | | | | | | | Branch | | | | | | | Account No. | | | | |
|  |  | | | | | | | |  | | | | | | |  | | | | |
|  |  | | | | | | | |  | | | | | | |  | | | | |
|  | | | | | | | | | | | | | | | | | | | | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 13 | How do you sell your product OR service OR goods (trading)? (you can select more than one option, if applicable) | | | | | | |
|  | a | From a fixed shop OR building | | ⬜ | | | |
|  |  | In the main market | | In the smaller market (other than the main market) | | Is the only business in the area |
| National Highway | ⬜ | | ⬜ | | ⬜ |
| State Highway OR Major Road | ⬜ | | ⬜ | | ⬜ |
| Village Road | ⬜ | | ⬜ | | ⬜ |
| Lane | ⬜ | | ⬜ | | ⬜ |
| b | From a movable shop | | ⬜ | | | |
|  |  | In the main market | | In the smaller market (other than the main market) | | Is the only business in the area |
| National Highway | ⬜ | | ⬜ | | ⬜ |
| State Highway OR Major Road | ⬜ | | ⬜ | | ⬜ |
| Village Road | ⬜ | | ⬜ | | ⬜ |
| Lane | ⬜ | | ⬜ | | ⬜ |
| c | Sell directly to bulk buyer | | ⬜ | | | |
| d | Sell in haat / mela / exhibition | | ⬜ | | | |
|  | | | | | | | |
| 14 | How many competitors does your business have? | | | | |  | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 15 | Give details of the fixed assets (machinery, equipment, building, utensils, furniture, livestock, etc.) purchased for the business | | | |
|  | Date of Purchase | Name of the Asset | Number | Total Cost (Rs.) |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Total | | |  |
| 16 | How much capital did the owner(s) invest in the business? (if the owner’s contribution is in kind, please write its money value) | | | |
|  | Owner’s Name | | Amount | |
|  |  | |  | |
|  |  | |  | |
|  |  | |  | |
|  |  | |  | |
|  |  | |  | |
|  | | | | |
| 17 | Grant received by the business, if any | |  | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 18 | Write the details of the loans taken | | | | | |
|  | Source | When did you take the loan (month / year) | Loan amount taken (Rs.) | For how many months is the loan taken | Balance amount to be repaid | Subsidy Received  (Rs.) |
| Community Enterprise Fund (CEF) ⬜ |  |  |  |  |  |
| Bank ⬜  Bank and Branch Name  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  SHG ⬜  Informal Sources ⬜ |  |  |  |  |  |
| Bank ⬜  Bank and Branch Name  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  SHG ⬜  Informal Sources ⬜ |  |  |  |  |  |

# **Tool 15: Checklist for Starting a Business**

1. Decide business type
   1. Sole proprietorship
   2. Partnership
   3. Producer organisation
   4. Producer company
2. Define roles and responsibilities of owner(s) and worker(s)
3. Revisit sales plan and make it realistic for 6-months and estimate cash-flow
4. Get possession of premises
   1. Rent agreement
   2. NOC from competent authorities, if required
5. Open separate bank account of your business
6. Get necessary licenses
   1. Profession Tax Registration, if applicable
   2. Shop Act License
      1. Proprietorship licence (udyog aadhar)
      2. Partnership (udyog aadhar – partnership and attach partnership deed)
   3. Permission from local authority
   4. Licenses specific to state and business
7. Buy equipment
   1. Contact vendors
   2. Get quotes
   3. Rent or buy decision
8. Furnish the shop
9. Ensure supply of water, power, etc. in the shop
10. Publicity – Get the board outside the shop ready, print and distribute leaflets and posters, print business cards (if required)
11. Decide if the business needs insurance and take an insurance policy if required
12. Purchase stationery for maintaining regular day-book records

# **Tool 16: Financial Statements for an Ongoing Business**

* Consider the PTS sheet prepared at the end of a time period. Let us map the impact of each item in the PTS sheet on the three financial statements – cash flow, profit and loss account, and balance sheet.

| **Table 12.1: Impact of Business Transactions on Financial Statements** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Cash Flow** | | **Profit and Loss** | | **Balance Sheet** | |
| **Particulars** | **Inflow** | **Outflow** | **Revenue** | **Cost** | **Assets** | **Liabilities** |
| Cash Sales | X |  | X |  |  |  |
| Credit Sales |  |  | X |  | X |  |
| Raw Material Purchased in Cash |  | X |  | X |  |  |
| Raw Material Purchased in Credit |  |  |  | X |  | X |
| Amount Received from Debtors | X |  |  |  |  | X |
| Cash Added to the Business | X |  |  |  |  | X  (Owner’s Equity) |
| Amount Paid to Creditors |  | X |  |  | X |  |
| Advance Paid to Suppliers |  | X |  | X |  |  |
| Transportation Expense |  | X |  | X |  |  |
| Wages |  | X |  | X |  |  |
| Other Expenses |  | X |  | X |  |  |
| Cash Withdrawal by the Owner for Personal Use |  | X |  | X |  |  |
| Loan Taken | X |  |  |  |  | X |
| Loan Amount Repaid |  | X |  |  | X |  |
| Interest Amount Paid |  | X |  | X |  |  |
| Electricity / Fuel Expense |  | X |  | X |  |  |
| Repair and Maintenance |  | X |  | X |  |  |
| Rent |  | X |  | X |  |  |
| Purchase of fixed assets |  | X |  |  | X |  |
| Sale of fixed asset | X |  |  |  |  | X |
| Security deposit paid |  | X |  |  | X |  |
| Security deposit returned | X |  |  |  |  | X |
| Capital withdrawal (in case an owner resigns) |  | X |  |  | X |  |

* Use the following format to prepare the profit and loss account for the entrepreneur’s business. Let us look at the format and the information requirement to prepare the financial statement

| **Table 12.2: Format of Profit and Loss Statement (with data sources)** | | |
| --- | --- | --- |
| **Particulars** | | **Amount** |
| Revenue | Revenue from Cash Sales | Available from PTS Sheet |
|  | Revenue from Credit Sales | Available from PTS Sheet |
|  | **Total Revenue** |  |
| Direct Costs | Cost of raw material (cash) | Available from PTS Sheet |
|  | Cost of raw material (credit) | Available from PTS Sheet |
|  | Cost of transportation | Available from PTS Sheet |
|  | Amount withdrawn by owner for personal use | Available from PTS Sheet |
|  | Wages paid to labour | Available from PTS Sheet |
|  | Maintenance of fixed asset | Available from PTS Sheet |
|  | **Total Direct Cost** |  |
|  | **Gross Profit (Total Revenue – Total Direct Cost)** |  |
|  | **Gross Profitability (Gross Profit / Total Revenue)** |  |
| Indirect Costs | Cost of transporting finished goods | Available from PTS Sheet |
|  | Salary | Available from PTS Sheet |
|  | Cost of rent | Available from PTS Sheet |
|  | Cost of electricity | Available from PTS Sheet |
|  | Cost of water | Available from PTS Sheet |
|  | Cost of posters / pamphlets | Available from PTS Sheet |
|  | Interest paid on loan | Available from PTS Sheet |
|  | Depreciation | Calculate |
|  | Total Indirect Cost |  |
|  | **Net Profit (Gross Profit – Total Indirect Cost)** |  |
|  | **Net Profitability (Net Profit / Total Revenue)** |  |

* As evident from the above table, all items, except depreciation can be sourced from the PTS sheet. Let us now look at the format that can be used for calculating depreciation.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 12.3: Calculating Annual Depreciation** | | | | | |
|  |  | **Asset 1** | **Asset 2** | **Asset 3** | **Asset 4** |
| Purchase of fixed asset | A |  |  |  |  |
| Useful life of the asset | B |  |  |  |  |
| Depreciation per year | C = A / B |  |  |  |  |
| Number of years depreciation charged so far | D |  |  |  |  |

* **If the ‘number of years depreciation charged so far’ is equal to the ‘useful life of the asset’, it means that the entire amount of depreciation for that asset has been charged over the years, and no depreciation may be charged henceforth**
* The next step aster preparing profit and loss statement is to prepare cash flow statement. Let us look at the format and the information requirement to prepare the financial statement

| **Table 12.4: Format of Cash Flow Statement (with data sources)** | | |
| --- | --- | --- |
| **Particulars** | | **Status** |
|  | **Opening Balance** | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| Cash Inflows | Cash invested in the business by owners | Available from PTS Sheet |
| Cash from loans taken | Available from PTS Sheet |
| Cash sales | Available from PTS Sheet |
| Amount paid by debtors | Available from PTS Sheet |
| Interest amount received | Available from PTS Sheet |
| Rent received | Available from PTS Sheet |
| Amount received from sale of fixed asset | Available from PTS Sheet |
| **Total Inflow** |  |
| Cash Outflows | Cash paid for raw material | Available from PTS Sheet |
| Cash paid towards rent | Available from PTS Sheet |
| Cash paid towards electricity | Available from PTS Sheet |
| Cash paid towards water bill | Available from PTS Sheet |
| Cash paid for transportation | Available from PTS Sheet |
| Amount withdrawn by owner for personal use | Available from PTS Sheet |
| Cash paid towards wages | Available from PTS Sheet |
| Cash paid towards salary | Available from PTS Sheet |
| Cash paid for posters / pamphlets | Available from PTS Sheet |
| Interest paid on loan | Available from PTS Sheet |
| Cash paid for purchase fixed assets | Available from PTS Sheet |
| Loan amount repaid | Available from PTS Sheet |
| Amount paid to creditors | Available from PTS Sheet |
| Advance paid to suppliers | Available from PTS Sheet |
| Security deposit paid | Available from PTS Sheet |
| **Total Outflow** |  |
|  | **Closing Cash Balance (Opening Balance + Total Cash Inflow – Total Cash Outflow)** |  |

* Unlike the profit and loss statement, all information required to prepare the cash flow statement is available from the PTS sheet.
* Let us now look at the third and the final financial statement – balance sheet. Below is the format and the source of data for each item in the balance sheet.

| **Table 12.5: Format of Balance Sheet (with data sources)** | | |
| --- | --- | --- |
| **Particulars** | | **Status** |
| Assets | Opening Balance of Fixed Assets | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| (+) Fixed assets purchased during the period | Available from PTS Sheet |
| (-) Fixed assets sold during the period | Available from PTS Sheet |
| (-) Depreciation during the year | Available from Table 12.3 |
| Closing Balance of Fixed Assets |  |
|  |  |
| Opening Balance of Advance paid to Suppliers | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| (+) New advances paid | Available from PTS Sheet |
| (-) Purchases made against advances | Available from PTS Sheet |
| Closing Balance of Advance paid to Suppliers |  |
|  |  |
| Opening Accounts Receivables | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| (+) Credit sales during the period | Available from PTS Sheet |
| (-) Amount paid by debtors | Available from PTS Sheet |
| Closing Accounts Receivables |  |
|  |  |
| Opening Balance of Security Deposits | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| (+) Security deposit paid during the period | Available from PTS Sheet |
| (-) Security deposit returned | Available from PTS Sheet |
| Closing Balance of Security Deposits |  |
|  |  |
| Closing Cash Balance | Available as closing balance from Cash Flow Statement |
| Total Assets (Sum of closing balances of all assets) |  |
|  |  |  |
| Liabilities | Opening Accounts Payables | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| (+) Credit Purchases | Available from PTS Sheet |
| (-) Amount repaid to suppliers | Available from PTS Sheet |
| Closing Accounts Payables |  |
|  |  |
| Opening Loan Balance | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| (+) New loans taken | Available from PTS Sheet |
| (-) Loans repaid | Available from PTS Sheet |
| Closing Loan Balance |  |
|  |  |
| Owner’s Equity | Opening Balance of Owner’s Equity | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| (+) Cash added in the business during the period | Available from PTS Sheet |
| (-) Capital withdrawn | Available from PTS Sheet |
| Closing Balance of Owner’s Equity |  |
|  |  |
| Opening Balance of Retained Earnings | Available as closing balance from the last statement. Opening balance will be 0 for a new business |
| (+) Net profit for the period | Available from Profit and Loss Statement |
| Closing Balance of Retained Earnings |  |
|  | Total Liabilities (Sum of closing balances of liabilities and owner’s equity head) |  |

# **Tool 17: Checklist for Improving a Business**

| **#** | **Problem** | **Possible Causes** | **Proposed Action** | **Reference to TEAM Module** |
| --- | --- | --- | --- | --- |
| ***If business is making profits that are lower than expected or incurring losses*** | | | | |
| 1 | Revenue is too low | Not enough sales | * Tool 2 - Review customer types * Tool 2 - Review products sold in the business * Tool 4 - Review quality of products / services sold * Tool 8 - Review available inventory * Tool 9 - Review prices in comparison to competitors | * Customers and their Types - TEAM A2a * Selecting Products / Services for Business - TEAM A2a * Quality of Products and Services Offered - TEAM A2a * Planning inventory, capacity and supplier credit policy - TEAM A2b * Competitors - TEAM A2a; Verifying the Price - TEAM A2c |
| Prices are low | * Tool 9 - Review prices | * Verifying the Price - TEAM A2c * Steps for Setting the Price - TEAM A2c |
| 2 | Not enough customers | Mismatch between products and customer preferences | * Tool 2 - Select right target customers segments and product * Tool 4 - Review quality of products / services sold | * Profiling Customers; Selecting Products / Services for Business - TEAM A2a * Quality of Products and Services Offered - TEAM A2a |
| Location of shop is not correct | * Tool 7 - Review / explore new sales channels | * Typical Sales Methods Used by Businesses - TEAM A2d |
| Not enough publicity | * Tool 13 - Review communication strategy | * Creating Communication for the Business - TEAM A2a |
| Shop not open at the right time | * Tool 4 - Review entrepreneur's availability of time and possibility of hiring workers | * Using capabilities (skills, equipment, and time) for making/buying products and for getting ready to provide services - TEAM A2b |
| 3 | Not making enough quantity of products | Sales forecasting is not right | * Tool 7 - Review sales / production plan | * What is a Sales Plan - TEAM A2 |
| Not enough cash to purchase raw material | * Tool 11 - Review working capital required | * Calculation of working capital - TEAM B2b; Managing working capital - TEAM B2c |
| Raw material is unavailable | * Tool 8 - Review inventory planning | * Planning inventory, capacity and supplier credit policy - TEAM A2b |
| Not enough equipment to produce | * Tool 4 - Review availability of equipment | * Using capabilities (skills, equipment, and time) for making/buying products and for getting ready to provide services - TEAM A2b |
| 4 | Raw material cost is high | Supplier charging high price | * Tool 8 - Review selection of suppliers | * Planning inventory, capacity and supplier credit policy, TEAM A2b |
| Not buying at the right time | * Tool 8 - Review when to purchase | * Scheduling tasks in the business; Planning inventory, capacity and supplier credit policy - TEAM A2b |
| 5 | Transportation cost is high | Frequent trips to the market | * Tool 4 - Review purchase volume and frequency * Not explored enough options for transportation * Explore options to store | * Impact of Inventory on Customer responsiveness, TEAM A2b |
| High transportation charges | * Explore pooling of resources with other producers / entrepreneurs |  |
| 6 | Interest charges are high | Lack of funding alternatives | * Review alternate lines of credit |  |
| Repayment schedule not corresponding to cash inflows | * Re-negotiate terms with the creditor (Tool 8) |  |
| Inability to repay loan on time | * Tool 11 - Estimate working capital required * Inculcate repayment discipline | * Calculation of working capital - TEAM B2b; Managing working capital - TEAM B2c |
| 7 | Unable to close orders | Not offering good terms to customers | * Tool 7 - Review credit policy to customers * Offer discounts | * Giving credit in the business - TEAM A2d * Discounts - TEAM A2c |
| Not being able to provide right quantity at right time | * Sales plan and backward scheduling | * What is a Sales Plan - TEAM A2d * Scheduling - TEAM A2b |
| Product quality poor / rejections | * Tool 4 - Review quality standards | * Quality of Products and Services Offered - TEAM A2a |
| Poor communication skills | * Ask someone to help with communication (Tool 13 – creating posters and leaflets) |  |
| 8 | Not generating enough cash | Too much credit sales | * Tool 7 - Review credit policy | * Giving credit in the business - TEAM A2d * Discounts - TEAM A2c |
| No timely recovery | * Tool 7 - Review credit policy and adhere to it | * Giving credit in the business - TEAM A2d |
| No / low credit from suppliers | * Tool 8 - Review selection of suppliers | * Planning inventory, capacity and supplier credit policy - Taking Credit from Supplier and Controlling Price - TEAM A2b |
| Costs are high | * Tool 5 - Review costs * Tool 8 - Review selection of suppliers | * A different way to look at the costs - Fixed and Variable Costs - TEAM B2d * Planning inventory, capacity and supplier credit policy - Taking Credit from Supplier and Controlling Price - TEAM A2b |
| ***If business is making profits as planned but the entrepreneur wants to earn greater profit*** | | | | |
| 8 | Not generating enough cash | Too much credit sales | * Tool 7 - Review credit policy | * Giving credit in the business - TEAM A2d   Discounts - TEAM A2c |
| No timely recovery | * Tool 7 - Review credit policy and adhere to it | * Giving credit in the business - TEAM A2d |
| No / low credit from suppliers | * Tool 8 - Review selection of suppliers | * Planning inventory, capacity and supplier credit policy - Taking Credit from Supplier and Controlling Price - TEAM A2b |
| Costs are high | * Tool 5 - Review costs * Tool 8 - Review selection of suppliers | * A different way to look at the costs - Fixed and Variable Costs - TEAM B2d * Planning inventory, capacity and supplier credit policy - Taking Credit from Supplier and Controlling Price - TEAM A2b |