

Start Your Waste Recycling Business

A TECHNICAL STEP-BY-STEP-GUIDE OF HOW
TO START A COMMUNITY-BASED
WASTE RECYCLING BUSINESS

Start Your Waste Recycling Business Business Manual



INTERNATIONAL LABOUR
OFFICE

Start Your Waste Recycling Business

Business Manual

October 2007

This Training Material is based on a training package that was originally produced in 2001 for the Sustainable Lusaka Programme by a task force of the International Labour Organization:

Adapted by Royal Business Consult Trust, Harare Zimbabwe



International Labour Office
Norfolk Rd, Mt Pleasant
Arundel Office Park
PO Box 210 Harare, Zimbabwe
Telephone: +263-4-369805-12
Fax: +263-4-369813

Copyright is vested in the International Labour Organization. Nevertheless, short excerpts may be reproduced without authorization, on condition that the source is indicated. For permission to use or reproduce the contents of this training material, contact ILO on the address above

CONTENTS

1. THE BUSINESS PLAN

What is a Business Plan	4
How a Business Plan can help in starting a Business Activity	4
Contents of the Business Plan	4

2. DESCRIBE YOUR BUSINESS IDEA

What is a Business Idea	7
-------------------------	---

3. DEVELOP YOUR MARKETING PLAN

What is Marketing	11
Do Market Research	11
Make a Marketing Plan	14

4. DEFINE THE FORM OF BUSINESS

The different forms of business	24
---------------------------------	----

5. ASSIGN BUSINESS TASKS

How to identify and assign business tasks	31
---	----

6. COST YOUR SERVICES

What is costing	34
Why is costing important	34
Types of costs	34
How to cost your services	35

7. CALCULATE YOUR REQUIRED START-UP CAPITAL

What investments do you need	45
What working capital do you need	45
Types and sources of start-up capital	50

8. PLAN YOUR FINANCES

What is financial planning	54
The Sales and Cost Plan	54
The Cash Flow Plan	58

9. MANAGE YOUR FINANCES

What is financial management	62
The record book	62
Other records	64
The Profit and Loss statement	65

10. GET STARTED

What is an Action Plan	67
How an Action Plan can help you	67
Your Action Plan	68

1. THE BUSINESS PLAN

WHAT IS A BUSINESS PLAN

To think of a business idea itself is the first step. If you have a feasible business idea and seriously think about starting a business then you need to collect certain information and make plans to see if the new business will be profitable and if you should take the risk to start. There is need to match oneself through personal attributes for the business idea one is thinking about. Structuring your ideas and the information you collect in a systematic manner, and putting it down in writing and translating the ideas into financial sense is called making a Business Plan.

Making any plans or adjustments to the business idea has to be reflected throughout the business plan itself at any point in time. This makes the business plan realistic and up to date.

HOW A BUSINESS PLAN CAN HELP IN STARTING A BUSINESS ACTIVITY

A Business Plan helps you to

- decide if you should start your business or not
- organize your ideas so that you will start and run your business in the best way
- present your business idea to a lending institution such as a bank to get a loan for your business.

This manual helps you to prepare a business plan for your proposed business. The accompanying booklet contains the Business Plan you will complete for your business idea. When you have completed your Business Plan, you should be able to estimate if your business idea is viable and profitable. If you decide to go ahead and start your business, you will have a plan for how to do it.

CONTENTS OF THE BUSINESS PLAN

A Business Plan covers all the important aspects to be considered before starting a business. It is a guide for you to follow so that you do not overlook when preparing for your new business. Chapters 2 to 8 and chapter 10 in this manual

each cover one part of the Business Plan. Chapter 9, which deals with basic financial management, is not part of the Business Plan. Still, it has been included in this manual because you will need some knowledge about financial management from the first day of operating your business.

This is the beginning of a new way of doing things. The various approaches in working to find information result in the same information, which enables you to write up your business, plan.

When you have worked through all the chapters you should be able to:

- Make your own Business Plan
- Start your own business.

These are the main parts of the Business Plan:

- **Your Business Idea**

Businesses in any economic sector are based on an idea. It is a business idea about what products or services you are going to provide; where and how you are going to sell and who you are going to sell to. Chapter 2 helps you to think about your business idea and to write it down in the first part of the Business Plan.

- **The marketing plan**

When thinking of business you have to plan in detail how you are going to market your products or services. Marketing is everything you do to find out who your customers are and what they need and want. In your marketing plan you are required to write down the details of what products or services you are going to sell, what prices you are going to charge where your business is going to be located and how you are going to promote your products or services and mobilize the potential customers. Chapter 3 helps you to think about your marketing plan and to write it down in your Business Plan.

- **Form of business**

There are different forms you can choose to pursue your business activity. They all have advantages and disadvantages and which form you choose depends on your personal situation and objectives or the characteristics of your group and your group objectives respectively. Chapter 4 explains the different forms of businesses and helps you decide which form suits you best.

- **Tasks of group members**

You need to think about who is going to perform which task in your business. What skills and experiences are needed to produce your products or provide your services? Do you have to hire any employees? Chapter 5 helps you to look at all the tasks that will be performed in your business and decide who will carry them out.

- **Costing**

To be able to set your prices and make financial plans, you need to calculate the costs of your products or services. Chapter 6 shows you how to do costing for your business.

- **Start-up capital**

Start-up capital is the amount of money you need to start your business. You need money for equipment, materials, rent, wages, etc. Chapter 7 helps you to calculate how much start-up capital you need before you can start your business.

- **Financial planning**

All businesses need to plan for the future. Chapter 8 helps you to plan both your profits and your cash flow for your new business.

This manual contains two more chapters that are not directly linked to the Business Plan but of vital importance for you to get your business up and going:

Financial management

As indicated before, financial management is not part of the Business Plan. Still, you need to know some basics of financial management to run your business properly from the first day. Chapter 9 assists you to set up a simple record keeping system and to produce a monthly profit and loss statement.

Getting started

Chapter 10 introduces an Action plan that assists you to put the Business Plan in practice and to implement it step by step until you have got your business started.

2. DESCRIBE YOUR BUSINESS IDEA

WHAT IS A BUSINESS IDEA

Every business comes out of an idea. Businesses are started by men and women who see that people want to buy a particular product or a service. When you discover a business opportunity you need to develop your thoughts into a business idea. A business idea is a short and precise description of the basic operations of the business. Your business idea will tell you:

- **What** product or service your business will sell
- **Who** your business is going to sell to
- **How** your business is going to sell its products or services
- **Which** need your business will fulfill for the customer.

What

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

Who

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

How

How are you going to sell your product or service? A manufacturer or service operator can sell in many different ways. For instance, a service operator can go to the customer to deliver a service (e.g. a plumber who is called in to clear a gutter), or, expect the customer to come to a workshop or office to receive a service (e.g. a hairdresser). A manufacturer can, for example, sell either to customers or to retailers.

Which

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

Your product or service must offer something 'special' for the customers to come to your new business. They must need and want your product or service. Many entrepreneurs make a mistake to think that because their business is introducing a new product or service, there must be demand for it. But because the product or service is new does not mean that there is demand for it. Make sure that there is a demand for your product or service.

Below is an example of Busonga Paper Tech who have developed a business idea in waste paper recycling and processing of stationery. The group will accompany you throughout the Manual and show you how they started their own business activities.

BUSONGA PAPER TECH

Brief Background

Waste management in the city of Monasa had deteriorated in 2004. The local authorities were running out of space and resources to manage waste. In some parts of the city waste was remaining uncollected for many months. This was creating a health hazard for the local community who themselves were not sure of how to dispose of waste or recycle it. In realization of the plight in the city of Monasa, a local environmental organization called Health Care started training the local households on the management of waste including some of the ways to reuse waste material that is recyclable. Busonga village community decided to register a Trust called Busonga Environment Trust. The Trust was encouraging the community to be part of the clean up including planting trees around to rehabilitate the surroundings. However after encouraging the community to clean up and collect litter, there was a problem of how to dispose of the litter. This motivated a group of six men and women to form a Community Based Enterprise to recycle Waste. Considering the different types of recyclable waste that was available in the local households and the local industrial site, which included, paper, plastic, bone and cloth, the group chose to focus on paper.

The group set down to develop a business plan for their intended business. Follow their example in developing your own business plan for your intended business in Waste recycling.

Brief description of the waste being recycled

The group chose to focus on paper waste, including cardboard but excluding plastic. In choosing the type of waste to focus on the group was guided by the facilities they had for storing waste for processing. Though the group had wished to be allocated land by the local authority this had not materialized and they had to use a backyard for one of the members' house. Waste paper was easy to store in the backyard than other organic waste. The group described their business idea as follows:

Business Idea
<i>Name of Business</i> Busonga Paper Tech
The business is going to <i>(write on the applicable line)</i> 珀 Produce the following product or products Produce special paper and use it to make CD boxes, Gift boxes, and folders, picture frames, photo albums and diaries.
珀 Provide the following service or services
<i>The customers will be:</i> The local community households, gift shops, stationery shops, workshop organizers and tourists
<i>The business will sell in the following way:</i> The products will be produced per order and delivered to the customers. A few products will be made for individual customers who will buy from the production site.
The business will satisfy the following needs of the customers: Communities will enjoy a cleaner environment; households need special products for decorating their houses, tourists need special products for souvenirs, gift shops and stationery shops need products for resell to their customers.

For a start, they write down the business idea in the business idea form of the business plan.

Access to Raw Materials

The group further realized that for their business to succeed they needed a constant supply of raw materials. They identified the following as the key sources for the waste paper; households and local business people. The group considered that it was easy to use paper that was separated at source since they were not going to

collect all the household waste. In this regard they chose to work with households that had received waste management training. The households would separate the waste for collection by the group for recycling. In return the households would receive a small token for their wastepaper. This cost would be included in the calculation of their costs later.

Busonga Paper Tech also approached the local businesses in their community to request to collect waste paper for recycling. The group agreed to collect waste from the community once a week and store in their business site for processing.

YOUR BUSINESS PLAN

Now turn to your own Business Plan. Specify your own business idea by filling in the Business Idea Form in the Business Plan.

3. DEVELOP YOUR MARKETING PLAN

WHAT IS MARKETING?

Marketing is everything you do to find out who your customers are and what they need and want. It is how to satisfy them by

- Providing the products or services they need
- Setting prices that they are willing to pay
- Getting your products or services to them
- Informing and attracting them to buy your products and services.

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

Marketing never stops. All the time you are running your business you should listen to your customers' wishes and give the customers good service.

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

DO MARKET RESEARCH

Starting from your business idea you must now learn more about your customers and competitors through market research. From experience and from developing your business idea you know quite a lot about your market. But the more you know the better it is so you probably need to find out more from other sources. Here are some examples of how you can find out more about your customers and competitors:

- **Talk** to potential customers, ask them, for example:
 - What products or services they want to buy
 - What quality they expect from those products or services
 - What they think about your competitors
- **Study** your competitors businesses. Find out
 - What type of products or services they provide
 - What prices they charge

- How they attract customers to buy
- **Ask** suppliers and business friends
 - What they think about your business idea
 - What they think about your competitor's products or services.

BUSONGA PAPER TECH

The group decided to visit the intended customers to find out what they wanted from products made out of waste paper. The group realised that they did not have direct competitors using the waste paper material but there were other bigger companies that produced similar products commercially. However there was no competition for the specialized paper produced from a combination of recyclable waste. This is how they wrote the information in their market research section of their business plan:

Market Research			
1	2	3	4
Products	Customers	Needs and preferences of customers	Competitors
Conference Folders	NGOs, Development agencies, Government, hotels	They need the folders to be personalized to include logos and company address. The products are usually bought in bulk.	Marvo company which produces files that can be used instead of folders, other printing and stationery suppliers, imported products from Dubai and South Africa.
Gift boxes, picture frames and CD boxes, diaries	Individuals Gift shops and stationery shops	Want a utility product that is decorative in nature. Picture frames must be easy to hang on the wall. A decorative product for the middle class person. Artistic designs and variety of options for sizes.	Individual carpenters in the locality, down town Chinese shops with imports Cooper products, wood products and cloth products from local manufacturers. However competitors have high prices and do not make products to customer specifications.

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

- In column 1, you specify the product(s) or service(s) you want to provide
- In column 2, you describe the customer(s) for your product(s) or service(s). Who are they?
- In column 3, you write down the needs of the customers that the product or service will satisfy. Also, list particular preferences that customers have about the product or service, where they want to buy it and how they want to buy it.
- In column 4, write down the important information you have found out about your competitors.

Market Research			
1	2	3	4
Product or Service	Customers	Needs and wants of customers	Competitors

YOUR BUSINESS PLAN

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

MAKE A MARKETING PLAN

In your marketing plan you think about how to market your services. One way of organizing your marketing plan is to follow the four P's of marketing. The four P's are:

- **Product/Services**, which means what product or services you are going to sell to your customers
- **Price** which means what price you are going to charge
- **Place** which means how and where you are going to reach your customers
- **Promotion**, which means how you inform your customers about your products or services and how you attract your customers to buy them.

In your market research you collected information about your customers and what they need. Use that information to plan how to satisfy your customers' needs for each of the four Ps.

PRODUCT

Product/Service means what goods or services you are going to offer to your customers. You have to decide what kind of products or services to offer and the quality. Remember, customers buy products or services that will satisfy their needs and wants.

Product or service also means the range of products or services you offer, the way it is packaged. Include all the unique features of your product. Customers buy goods and services to satisfy different needs. Customers buy, for example:

- Manure from a business that produces compost because they want healthy plants and more productivity from their soil.
- A plastic bucket to carry water for bathing or laundry
- Crafts for decoration and for a reminder of places they have visited
- Treatment service from a doctor when they are sick and need medical help.

When you understand your customers' needs and wants you can decide what products or services to provide.

BUSONGA PAPER TECH

Marketing Strategy

As a marketing strategy the group decided that it would do personal selling and design products according to customer specification. In addition the products will be produced per order and not in bulk. The group decided to emphasise the environmental friendliness of the products and its contribution to the well being of the community.

After agreeing on this strategy Busonga Paper Tech completed their marketing Plan starting with the product specification, price, place and promotion. Busonga Paper Tech considered the key decoration appropriate for the products they were offering to their customers and defined the key product features. This is how they presented it in the business plan.

Marketing Plan Product		
	Range of Products	
	1. Folders and diaries	2. Gift boxes
Quality	Special paper with organic colours from leaves, grass and tree barks	Firm surface and special paper from elephant dung
Colour	Combination of White, Brown and company logo colours	Cream and brown
Size	To fit A 4 size paper and A 5 size paper for the diaries	Two sizes: <ul style="list-style-type: none">• 20cm x 5 cm x 10 cm• Cube 10cm x 10cm x 10cm
Packaging	Plastic and khaki cover wrap to keep clean	Plastic wrap and small boxes

Busonga Paper Tech writes down the information about their planned products in the product service section of their Business

YOUR BUSINESS PLAN

Complete the Marketing Plan form in your Business Plan specifying your product features.

PRICE

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

- Know your costs
- Know how much customers are willing to pay
- Know your competitors prices.

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

BUSONGA PAPER TECH

Busonga Paper Tech found out during their market research that their customers were willing to pay slightly less than what the competition was charging. This was on condition that the products will be made out of waste material.

Busonga Paper Tech fills in that information into the Price form of their Marketing Plan. They have not yet calculated what it costs them to produce the products. As a result they cannot complete all the sections of the price form now. They will complete the gaps later when they have calculated the cost of their products properly.

In order to encourage bulk purchases on the folders and diaries, Busonga Paper Tech decided to offer a 5% discount as well as a 7 days payment term for bulk purchases. The Price Form of the Marketing Plan for Busonga Paper Tech is shown below.

Marketing Plan Price		
	Range of Products	
	1. Folders and diaries	2. Gift boxes
Cost	t.b.c*	t.b.c*
How much customers are willing to pay	1,500,000	450, 000
Competitor's Price	1,300,000	500, 000
Price	t.b.c*	t.b.c*
Reasons for setting this price	t.b.c*	t.b.c*
Discounts will be given to the following customers	5% Discount will be given to bulk orders of more than 100 units	No discounts to be offered
Reason for giving discounts	To encourage bulk orders and provide incentive for cooperate clients	N/A
Credit will be given to the following customers	7 days payment after date of delivery	No credit offered
Reason for giving credit	To make it convenient for the companies to pay for goods received	N/A

YOUR BUSINESS PLAN

Complete the Price Form in your Marketing Plan to the extent you have the information already available. Then put the form aside. When you have calculated the cost of your product/service properly (chapter 6 of this manual) take the form out again and complete the remaining sections.

PLACE

Place means where your business will be located. The location of the business is often very important for manufacturers especially proximity to the raw materials. Sometimes, like in the case of a waste recycling business, the manufacturer needs to be located at a place that is near the raw materials. If this is not possible, the

business owner needs to develop a collection network structure to ensure the business has sufficient raw materials. In order to decide on the location of the business, the business owner needs to prepare a map of the area showing the location of the waste and the markets. Location is also important for service operators because their business premises need to be at a place that is convenient for the customers.

If your business is not located where your customers are, you need to find ways to get your products to where it is easy for customers to buy. This is called distribution. Choose between direct distribution, retail distribution and wholesale distribution. Direct distribution is when you sell your products directly to the consumers from your factory, retail distribution is when you sell your products to retailers who then sell them to the end users and wholesale distribution is when you sell to wholesalers who will then sell to retailers and finally the product is sold to the end user.

BUSONGA PAPER TECH

Busonga group is aware that they need a big area to store the waste collected from households as well as the businesses in the locality. The group is also aware that accessing a site from the local authority has not been easy in the last 2 years. As a result they decide to find a working space for the immediate and then request for an allocation of land from the local authority. In addition the group considers a place close to the source where they are collecting the waste. The group wrote their place form in the Marketing Plan as follows:

Busonga Paper Tech fills the information in the Place Form of their Marketing Plan.

Marketing Plan Place

Location:

The business will be located at one of the members' house, which has a large back yard as well as an open space behind which can be used without formal approval. The business will erect a shade for housing the equipment for processing.

The business will approach the local authority and request a piece of land to store their waste collected from the different sources.

The location is chosen for the following reason:

The place is near the households, which collect and separate waste and it is near the industries that produce substantial amount of paper waste.

There is sufficient space to store the collected waste that will meet the production needs of the business

The premises have access to water as well as electricity.

They also considered that renting was cheaper than building or buying their own premises since they did not have a lot of money to invest in the business

YOUR BUSINESS PLAN

When you have decided about the location and distribution network of your business, fill in the information in the Place Form of the Marketing Plan in your Business Plan.

PROMOTION

Promotion means informing and attracting your customers to buy your products or services. To do this you first need to make people know and understand the nature of the product or service you intend to start providing. So you need to mobilise the community and then use advertising and sales promotion to promote the business.

- **Community Mobilisation** - Mobilisation simply means to create awareness. To make people aware of something, community mobilisation is a technique for creating awareness in the community. It is a technique used to send a specific message to a certain target group for fulfilling a certain objective.

Waste recycling is a new business activity in the local communities. To be successful in recycling waste you need the cooperation of the community to be able to channel the waste to you. Waste recycling by individual groups is also new to the people in the community who are your target customers. Waste recycling requires that collected waste is separated into different types, glass, plastic, organic waste and zinc. Community support in accumulating and grading of waste is critical. Also remember that the community is paying for waste collection services and might be confused why your business should benefit from the waste.

The business community can be an important market for your products. It is important that they appreciate the objectives of your business and its role in contributing to a cleaner environment.

To meet this challenge especially with regard to the community you want to be serving:

- It is a must to win the community to accept accumulating and separating waste especially paper.
- It is good to continue winning more waste suppliers and ensure losing none.
- It is necessary to win the community to accept a small token for their waste instead of selling to bigger companies.

- The customers who are waste producers should be made to see the reason why they should separate their waste and keep the paper for your business.
- Generally, the community has to be made to co-operative and participate in waste collection and grading, a token payment may be necessary as an incentive.

To achieve all this, people in the community in your area of operation need to be mobilised in order to participate fully in waste management. The techniques used in community mobilisation are very similar to the one used in advertising.

The table below shows various techniques or methods, which are used in community mobilisation. Their effectiveness depends on the situation and each method has advantages and disadvantages:

METHOD/ TECHNIQUE	ADVANTAGES	DISADVANTAGES
Seminars, Workshops and Training	<ul style="list-style-type: none"> • Participatory • Exchange of ideas and experience • Direct message to the target group • Easy to assess 	<ul style="list-style-type: none"> • Expensive • Few participants
Plays, Drama, Dances, Drums and Songs	<ul style="list-style-type: none"> • Draw attention of the target group • Large group of people 	<ul style="list-style-type: none"> • Not participatory • Only those interested in plays, Drama etc will receive the message
Meetings	<ul style="list-style-type: none"> • Face to face participatory • Exchange of experiences • Easy to assess 	<ul style="list-style-type: none"> • Few people only those who attend meetings
Use of religious and local leaders, influential people	<ul style="list-style-type: none"> • Direct contact to target group 	<ul style="list-style-type: none"> • More effort required to get participation
Others: (Specify)		

- **Advertising** is giving information to your customers about your products or services and how it meets their needs so as to make them more interested in buying your products or services. Advertising spells out the advantages of using a certain product or service. In most cases, advertising comes at a cost. For example, if you decide to put up a sign promoting your business, you will have to pay for the materials to construct the sign first. The table below shows some methods, which are used in advertising. Each method has advantages and disadvantages:

METHOD/TECHNIQUE	ADVANTAGES	DISADVANTAGES
Posters, Sign Posts, catching phrases, brochures	<ul style="list-style-type: none"> • Not very expensive • Stay longer 	<ul style="list-style-type: none"> • One way (not participatory) • Only those who can read and are interested will be reached • Risk of misinterpretation
Public announcements (megaphone)	<ul style="list-style-type: none"> • Draw attention to a large population 	One way (not participatory)
Others: Specify		

- **Sales Promotion** these are activities you do to promote sales such as organizing competitions in schools. Your business can work with local businesses to sponsor some of the prizes that can be won in the competitions. Another form of sales promotion is publicity, which is free promotion. For example, a good story about your business on the radio gives you good publicity. Word of mouth is one form of publicity. Word of mouth means that people tell others what they think about you, your business and what you sell. Word of mouth is probably the most common way new customers find out about your business

What kind of promotion you use depends on what you are selling. It is also important to consider the cost of promotion you plan to do. In your Business Plan

you should describe each of the different types of promotion you plan to use, and estimate how much they will cost.

BUSONGA PAPER TECH

As a Community Based Enterprise, Busonga Paper Tech recognizes that to be successful they needed the community to accept them as a preferred collector of paper waste. In addition they wanted the community to be aware that processing of paper waste had economic as well as social benefits for the community. Though the local community was a possible market, the group realized that their bulk buying would come from NGOs and other conference organizers who were in support of Waste management initiatives.

In addition, Busonga Paper Tech recognized that they did not have a big budget to support promotional activities and decided to focus on a low cost promotional strategy. This involved visiting the key stakeholders and informing them of the company and the values that it was standing for. In addition the group members would seek authority to make brief presentations about the services and products that it was producing. The group then decided to produce a sample of each product that it took to the gift and stationery shops. The group also agreed to put small wooden signs at public places in the community to read: **We Turn Your Waste Paper to Money!**

Marketing Plan Promotion		
Advertising		
<i>Type of advertising</i>	<i>Details</i>	<i>Costs</i>
Sign posts	10 wooden signs	2,000,000
<i>Samples</i>	<i>2 Folders</i>	<i>500,000</i>
	<i>2 Diaries</i>	<i>400,000</i>
	<i>2 Gift boxes</i>	<i>200,000</i>
<i>Promotional</i>	<i>Meeting with local leaders to get their support</i>	<i>1,000,000</i>

Sales Promotion		
<i>Type of Publicity</i>	<i>Details</i>	<i>Cost</i>
<i>Word of mouth</i>	<i>Door to Door visits to potential customers</i>	<i>None</i>
<i>Clean environment School competition</i>	<i>The group would launch a clean environment school promotion where the school with the cleanest environment will receive books and equipment</i>	<i>1,000,000 prices will be donated by other businesses</i>

YOUR BUSINESS PLAN

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

4. DEFINE THE FORM OF BUSINESS

THE DIFFERENT FORMS OF BUSINESS

There are a number of forms of business to choose from. They all have their advantages and disadvantages. Before you can make a decision you must ask yourself the following question:

- Are you starting the business activity with the objective of making a profit or do you want to sell a product or a service at a price that covers all your costs and pays you a salary but does not involve any profit margin?

The answer to that question is very important. If you plan to offer products or services with a profit interest in mind, then you should choose one of the various forms of profit-oriented business.

The choice of the form is important and can make a difference in:

- The cost of starting and registering the business
- The simplicity of starting and registering the business
- The financial risk the business runs
- The way decisions are made in the business and
- The taxation of business profits.

Think about which aspects are most important to you, and choose the form of business according to that. The following forms of business are common and will be presented in this chapter:

- Community Based Enterprise
- Partnership
- Cooperative

Community Based Enterprise

A Community Based Enterprise (CBE) is a business set up by residents in a particular community to encourage self-help activities. Its purpose is to mobilize local resources to improve the quality of life through collective self-help. A Community Based Enterprise is a profit-oriented business and offers a service with a profit interest. To operate in a sustainable manner, a Community Based Enterprise aims to recover all costs of its operations through its sale of products or services. But a Community Based Enterprise is allowed to make a profit and to redistribute it to its members as an addition to their salaries.

To establish a CBE, the members have to make an agreement on:

- What line of business the CBE is going to be involved in
- How the profit or loss is going to be divided among the members
- Duties of each member.

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

Community Based Enterprise members are a source of a diverse number of skills, which are needed by the business. CBE membership can also be one way of finding enough capital to start the business. A CBE must have the capacity to coordinate the various interests of its individual members. To achieve this, each CBE should institute a democratic and transparent management team.

Legal Registration Requirements for Registering a Community Based Enterprise

In Zimbabwe there are two instruments for registering a business entity, the Companies Act and the Cooperatives Society Act. Registering a CBE is like registering a limited company or a cooperative depending on the number of people involved in the business. Registration as a cooperative should be sought if there are more than 10 people in the business and if less than 10 people but more than seven people, provisional registration can be granted. To be registered as a company, the directors should not be more than seven. In the case of a partnership, the owners of the business need to develop a partnership agreement, which stipulates how the partners will interact with the company.

In addition to registering a limited company, you will need a license to run your business, to register for sales tax or value added tax, and if your business has employees you should probably register for income tax. Different local authorities depending on the type of business issue these licenses. For instance, municipalities and Ministry of Health.

Partnership

If two or more people decide to run a business together they can form a partnership. An upper limit of 20 partners in a partnership is the current regulation.

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

Partners can be an advantage if the business needs various skills and experience. Partners can also be one way of finding enough capital to start the business; all partners share the responsibility for the debts of the business. If you have one or more partners your own risk is reduced because all the partners have the risk. But if the other partners have no money, you might have to pay all the business debts yourself.

The business profits are divided between the partners according to the partnership agreement and each partner is individually taxed on his or her share of the profits.

Legal Registration Requirements for Registering a Partnership

Legally, a partnership is registered through the Registrar of Companies situated in Century House East, Corner Angwa Street and Mandela Avenue. A minimum of two directors and a maximum of twenty directors can form a partnership. According to the Company Act in Zimbabwe, a partnership can operate without a legal registration. However such partnership will still require licenses or permit to operate the business. To legally register a partnership the business owners need to follow the following steps:

1. Company Name

The partners complete a name search form CR21 that can be purchased from local bookshops.

The sample CR21 form is presented below:

Form No. C.R. 21

**The Companies Act
(Chapter 24:03)**

Application for Search as to Availability of Name

**To:
The chief Registrar of Companies,
P. O. Box CY 177
Causeway**

I/We _____

Of _____

Hereby make application for a search to be conducted as to the availability of the following name (alternative names should be given in order of preference in case name found to be unacceptable).

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

Presented for filing by _____

In regard to this application the following information is submitted:

1. The dominant business or object of the company will be/is _____
2. The names and addresses of persons connected with the company as directors/Members are (a) _____
3. The company will be operating from (b) _____
4. The company will be/is a subsidiary of a foreign company namely (c) _____
5. The reasons for the proposed change of name are(d) _____
6. (e) _____

The fee of Z\$200 includes reservation of the name for a period of one month.

Signed _____

This _____ day of _____, 20 _____

Notes:

2. Partnership Agreement

The partners starting a partnership draw the partnership agreement and should cover issues like what line of business the partners are going to be in, how the profit or loss is going to be divided by the partners and duties of each partner. The agreement does not have to be in writing to be valid, but to avoid future misunderstandings; you should always make sure that it is.

The registrar of companies will require the partners to submit a Memorandum and Articles of Association together with the physical location and postal address of the registered office. Assistance in drafting the Memorandum and Articles of Association is provided by lawyers and consultants at a fee.

Cooperative

A cooperative is formed by a number of people who decide to work together for a common purpose. The common purpose can be economic gain or providing certain services for the members of the cooperative. These services can, for example, be marketing services or supply of raw materials. All the members of the cooperative have one vote each when making decisions, but often they appoint a management committee to handle the day-to-day operations of the cooperative.

Legal Registration Requirements for Registering a Cooperative

A cooperative must be registered with the authorities. It is complicated and takes long time but is normally not very expensive. The financial risks are normally not very high for the members of the cooperative. Their personal liability for the cooperative's debts is limited to what they have paid into the cooperative as capital. The cooperative itself is taxed for the profits. The profit is then divided among the members, for which they pay tax according to the tax laws in the country.

Individuals, who want to register a cooperative, are trained by the Ministry of Youth to enable them to appreciate the enabling Act, which is the Cooperative Societies Act Chapter 24:05. The group is then assisted by the same ministry to develop its own by-laws using sample generic bylaws as a guide. The members then prepare internal regulations or code of conduct and a member profile as well as the management profile.

Once documentation is in place the members pay a registration fee of Z\$5,000.00 into the Central Cooperative Fund Bank. A certificate of registration is then issued. Registered cooperatives require licensing by the local municipality and

Ministry of Health for compliance with health standards and other municipal regulations.

Other

Two other common forms of business exist that you might want to know more about, even though they might not be immediately applicable to the purpose of community based groups like you that are planning to undertake a business activity.

- **Sole proprietorship.** If registered as a sole proprietorship, the business will be owned by an individual, not a group. That individual will have the authority to make all decisions about the business. The procedures to start a sole proprietorship are simple and the cost is low. The owner of the business might need a license to operate. He or she might also need to register for sales tax or value-added tax, if he or she has employees, these must be registered for income tax purposes.

A sole proprietorship is an easy and cheap form of business to start. But is it also the most risky, because it has no limited liability as compared to a limited company meaning that the owner is personally responsible for all the debts of the business. If the business fails to pay its debts, the creditors can make the owner pay with his or her private or even make him or her to sell all private belongings to pay off the debts. The owner pays tax on business profits.

- **Limited company.** A limited company is owned by one or more owners called shareholders. There can be one or more owners who are all working in the business. There can also be both owners who are working in the business and investors who are not active in the business but are still owners. To start a limited company, you draft a Memorandum and Articles of Association of your planned enterprise and file this document together with the proposed name of your business with the Registrar of Companies, or a similar authority. The Registrar of Companies issues a certificate of incorporation, which means that your limited company is now formed.

The biggest advantage of a limited company is probably the smaller risk to each shareholder. As a shareholder you only risk losing the money you put into the business as share capital. In a limited company, the shareholders are not personally responsible for the debts of the business. A limited company, however, is quite complicated and expensive to form. You should always seek assistance, probably from a lawyer, to help you decide if it is the right form for your business and to form the limited company. The company itself is taxed for the profits. The shareholders can be paid a salary from the company,

this is taxed as a salary. The shareholders can also be paid share of the company's profit, called a dividend, for which they pay tax according to the tax laws in the country.

BUSONGA PAPER TECH

Busonga Paper Tech decided to form a Community Based Enterprise whose activities will be solely run and managed by the group members themselves. They consult the local Government administrative office and the City Council for advice. The group was advised on the steps to take in registering their company. The group decided to register as a Cooperative with profit as the main motive followed by contributing to the community's well being. They realized that only registered cooperatives can enter into contracts and that there was limited liability.

They then approached the Ministry of Youth for training as cooperative members. The group was introduced to the cooperative by-laws and basic requirements for working as a cooperative. After the training the group completed the necessary forms with the assistance of the same ministry, paid the required fee of ZWD5, 000. This cost of registration was included in the cost of their products. The registration certificate was then issued.

YOUR BUSINESS PLAN

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

5. ASSIGN BUSINESS TASKS

HOW TO IDENTIFY AND ASSIGN BUSINESS TASKS

To identify the various tasks to be performed in your business, and to allocate these tasks, follow these four steps:

- 1 List the tasks that have to be performed to supply the planned product or service
- 2 Discuss that list and conclude which skills are required to execute these tasks
- 3 List the business partners, if any, and their individual skills
- 4 Assign the various tasks to the business partners with appropriate skills.

Often you will find that you and your business partners do not possess all skills and strength required to execute the various tasks at hand effectively. For instance, you might not have the technical expertise to repair the equipment of your business in case of a breakdown. In this case, you will have to look into the possibility of hiring other people that have the necessary skills.

When you decide to hire staff it is important to describe exactly what kinds of skills are required. Unskilled workers may be suitable for some jobs, but other jobs might need staff with special skills.

Sometimes, the people you hire will be members of your family. This is common and it often works well. But it is important that the family members you hire have the needed skills and are not hired just because they are family members. When identifying tasks that needs to be performed and also the duration for performing those tasks, the following factors needs to be taken into consideration:

Equipment and mode of transportation

The equipment determines the speed with which paper waste can be collected and transported to your business site. If you are using a pushcart you take longer to move waste to the location than when you are using a tricycle. In addition if you have a large cart you are likely to carry more waste than when you are using a small cart.

The type of equipment used for processing paper and the production of the items determines the amount of productivity per worker. For instance labour intensive equipment is slower in production than an automated process.

Housing styles

The amount of waste generated will depend on the density of the houses for example, in a street where houses are built close to each other, the amount of waste generated will be higher than in a street where houses are built a distance apart.

Waste generation rates

Different households generate different amounts of waste. Normally the waste generation in a household can be measured by considering how much waste each person generates per day and multiplying it by the number of people in that household. This means therefore that in households where there are many people, the waste generation rate is higher than households where there are fewer people. This in turn means that in areas where households have more people, there is more waste to be collected than in areas where households have fewer people.

The type of waste generated depends on the type of products used by households. For instance a neighborhood with schools, offices will generate more paper waste than areas with less of educational and office activities.

Skills and Experience of the partners in the line of business

Skilled and experienced workers are likely to work faster than unskilled and less experienced workers. In estimating the amount of work that each partner will need to carry, consider his or her level of experience and skill.

BUSONGA PAPER TECH

Busonga Paper Tech has learnt about paper recycling from a local NGO promoting environment issues in the country. The group members sit down to make a list of the various tasks involved in offering a collecting of waste paper, shredding it and processing to paper into products. They also outline the skills necessary to perform these tasks.

They agree that Mr. Munyara and Mr. Sithole will be responsible for collecting the paper waste from households and the industrial sites. The collection would be done using tricycles, which the group plans to purchase.

Mr. Simbo and Mrs. Ndlovu will be responsible for processing the paper through monitoring the vat machine and the Beater machine whilst Mr. Munyara and Mrs.

Maenda will man the second vat machine and mould screen. Mr. Simbo and Mrs. Maenda will monitor the drying process. The group considered that Mrs. Ndlovu was good in quality control, hence she was assigned to grade the final paper and store appropriately. Marketing and selling and maintenance of records were allocated to Mr. Simbo and Mrs. Munyara respectively. The other group members would support the marketing efforts.

However for the purposes of costing the group treats the business of producing paper products from processed paper as a business unit. The staff involved in the unit is as detailed in the Staff form below:

STAFF			
Tasks of group members			
Tasks	Required skills and experience	Performed by	Pay (Per month)
Folder designing, cutting patterns, marketing and selling	Designing experience and stationery experience Marketing and sales management	Mr. Munyara	ZW\$10, 000,000
Gluing and placing designs	Stationary production experience	Mr. Sithole	ZW\$10, 000,000
Finishing, quality control and maintenance of records	Stationery production experience, quality control and business management skills	Mr. Simbo	ZW\$ 5,000,000

YOUR BUSINESS PLAN

Turn to the staff section of your Business Plan. Fill in the tasks required and skills needed to perform them. Assign these tasks to group members with appropriate skills. If you need to hire staff to perform certain skills, specify what qualifications these employees need and how much you will pay them per month.

6. COSTING YOUR PRODUCTS AND SERVICES

WHAT IS COSTING

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

WHY IS COSTING IMPORTANT

Costing helps you to

- Set prices
- Reduce and control costs
- Make better decisions about your business operations
- Plan for the future.

TYPES OF COSTS

Different businesses have different costs. But all businesses have two types of costs:

- direct costs
- indirect costs.

Direct costs are all costs that are directly related to actual process of providing your service or producing the products for sell. There are two types of direct costs:

- direct material costs
- direct labour costs.

Direct material costs are all the money you spend on the parts and materials that become part of, or are directly related to the products or services you make or sell. To be counted as a direct material costs, the amount of materials must be easy to calculate and the costs of the materials must be big enough to add a considerable amount to the total direct material costs.

Direct labour costs are all the money your business spends on wages, salaries and benefits for the people who are directly involved in the production of your products or supply of your services. The time spent on making the product must

be easy to calculate and the cost of direct labour must be big enough to add a considerable amount of the total direct labour costs.

Indirect costs are all other costs that you incur while providing your services, for example rent, interest on loans, wages and salaries of staff not in production, insurance, licenses water charges and electricity. Indirect costs are normally not directly related to one particular product or service. One indirect cost that you might not be immediately familiar with but that is of high importance to know and factor into your calculation are indirect costs resulting from depreciation.

HOW TO COST YOUR PRODUCTS AND SERVICES

To calculate the total costs for any product or service your business makes or sells you need to understand the different types of costs. Total costs of making a product or providing a service is calculated as follows:

$$\boxed{\begin{array}{c} \text{Direct material} \\ \text{Costs} \end{array}} + \boxed{\begin{array}{c} \text{Direct labour} \\ \text{costs} \end{array}} + \boxed{\begin{array}{c} \text{Indirect} \\ \text{costs} \end{array}} = \boxed{\boxed{\begin{array}{c} \text{Total costs} \end{array}}}$$

To cost your products and services properly, you must follow the four steps described below:

Step 1: Calculate Direct Material Costs

Calculate the costs of all materials:

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

The products that you have identified to be produced from recycled materials will require other raw materials in order to make the product complete. Whilst you will not be charged for the waste material though you will need to pay a token payment, you will need to buy the additional raw materials. It is important for you to know the costs for these additional materials if they are significant to enable you to appreciate the cost of your product.

1. Raw material

Write down the different types of raw materials needed to make your product or that are consumed in the provision of a service in column 1 of your product costing form.

2. Buying costs

In column 2, write down the cost of buying one unit of the raw material

3. Quantity per item

In column 3, write down the quantity required to make one item or provide a service

4. Total

Add up the total costs of each of the raw material to get the total direct material costs for each product.

BUSONGA PAPER TECH

Through training received from the a consultant provided by Health Care, the group had learnt about the important of setting profitable prices for their products based on the cost of production. The group set down to calculate the total costs they incur in the production of the different products. Their *direct Materials costs* included the cost of recycled paper, cost of Chipboard, glue, decorators.

Direct material costs for producing a conference folder

The group sales each sheet of finished paper for ZW\$50,000. This cost is factored in as a direct raw material cost in the production of the different items in the business. A folder needs two sheets of paper. They also need chipboard which costs ZW\$600 000 per square meter. Each folder requires half a square meter of chipboard. The cost of glue though part of the product was considered two small, it will be added in the indirect costs. Pictures for decorating the folder are bought at ZW\$30,000 each and two pictures are required for the decoration for each folder.

This is how they put the information in the product costing form:

Product: Conference Folder			
Direct Material Costs per Item			
1	2	3	4
Raw Material	Buying Costs x	Quantity Per Folder =	Costs Per Item
Cost of paper	50,000/ sheet	2 sheets	100,000
Chipboard	600,000/sq m	0,5 sq ms	300,000
Decorations	30,000/ packet	2 packets	60,000
Total			460,000
			Z\$460,000
			Direct materials cost per item

Step 2: Calculate Direct Labour Costs

Within your Community Based Enterprise there are members who work directly in the production of the goods or provision of the service. For you to know the total cost of your product you need to know how much it costs you in labour costs to produce the product or provide the service.

Busonga Paper Tech group realized that there are some of them who work directly in the production of the folders and their labour costs are direct. For instance in the production of a folder there is cutting, folding, application of glue, writing the inscriptions until the folder is made into a product. The cost of time spent on these activities is considered as direct labour cost. The labour costs for the other members who are not involved in production will be treated as indirect costs.

The group completes the labour cost form as follows:

1. The name of each person working in the business

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

3. How much each person gets paid per month

4. How many hours each person works in production per month

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

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

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

Labour Costs Form			DIRECT LABOUR COSTS		INDIRECT LABOUR COSTS	
1	2	3	4	5	6	7
Group Member	Total Working hours per month	Total Monthly pay	Hours in production per month	Pay for time in production	Hours not in production per month	Pay for time not in Production
Mr. Munyara	160	10,000,000	80	5,000,000	80	5,000,000
Mr. Sithole	160	10,000,000	80	5,000,000	80	5,000,000
Mr. Simbo	80	5,000,000			80	5,000,000
Total			160 hrs	10,000,000	240hrs	15,000,000

Direct Labour Costs per Hour

$$\frac{\text{Total Pay for Time in Production From column 5}}{\text{Total Hours in Production per Month From column 4}} = \frac{10,000,000}{160\text{hrs}} = \boxed{\text{ZWS}62,500}$$

Direct Labour costs per hour

Calculate the direct labour costs per hour

The group uses the bottom part of the Labour Costs Form to calculate the direct labour costs per hour for the business. Their direct labour costs per hour are: ZW\$10,000,000/160hrs =ZWD 62,500.00.

The direct labour costs per hour tell you how much your employees who work directly in production cost your business each hour. You need this information to calculate the direct labour costs for each product your business makes or each service your business provides.

Calculate direct labour costs per item

To do costing you must know the time it takes to make each item and the direct labour costs per hour. Then you can use the Product Costing Form to work out the direct labour costs per item.

The Busonga Paper Tech group estimates that it takes about 30 minutes to produce a folder. They produce many folders at the same time, but if they divide the time it takes to make one batch of folders they get thirty minutes.

The number of man-hours is the total amount of time you need to make one item or produce one service. The time each person works on the item or service is added up to get the total number of man-hours.

The group knows that

- It takes 30 minutes to make one folder, which is 0,5 hours
- The direct labour costs for one hour are ZW\$62,500

So, by multiplying 0, 5 hours by ZW\$62,500 they calculate that the direct labour costs for one folder are ZW\$31,250. This is how they fill in their Product Costing Form:

2. DIRECT LABOUR COSTS PER ITEM		
ACTIVITY	TIME PER ITEM (MAN-HOURS)	
Patten design	10 minutes	
Cutting	5 minutes	
Gluing	5 minutes	
Decorations	10 minutes	
	30min=0,5 hours	62,250
	x	=
Total	Direct Labour Costs per Hour	ZW\$31,125
		Direct labour cost per hour

Step 2: Calculate Indirect Costs

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

To arrive at your indirect costs you need to make a list of all other costs that your business incurs in a month, other than the costs you put as direct material and direct labour costs for instance electricity, water, telephone including transport. Divide the total indirect costs by the number of products that you produce in a month to get the total indirect costs per item.

The indirect cost form gives you information on all the indirect costs your business has.

Busonga Paper Tech filled in their Indirect Cost Form as below:

Indirect Cost Form	
Indirect costs per month (in Zimbabwe Dollars)	
1. Transport	3, 000,000
2. Operation and maintenance	3, 861,114
3. Indirect labour	15, 000,000
4. Stationery	1, 000,000
5. Marketing	1, 000,000
5. Consumables	3, 000,000
6. Depreciation	1,138,886
7. Rent	1, 000,000
	29, 000,000

From the labour Costs Form, total of column 7

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

Different businesses have different indirect costs. Work out how much money your business normally spends for each indirect cost every month.

Costs that you do not pay every month

The indirect cost form shows indirect costs per month. Your business may have some indirect costs that you do not pay every month for example insurance, licenses and stationery. For these costs divide the cost by the number of months the item is used. For example if a business pays insurance of ZW\$1,000,000, the monthly cost would be $ZW\$1,000,000/12$ which is ZW\$83,333.

Depreciation

Depreciation is the loss in value of your business equipment and is a cost to your business. Only depreciate equipment that is expensive to be bought and that you

expect to use for more than one year (e.g. cash till). Equipment that is very cheap to replace and tears off in less than 12 months will usually not be depreciated but is considered a consumable and listed as such under indirect costs.

To calculate your monthly costs for depreciation, divide the total costs of each piece of equipment by the number of years you expect to use it. The result indicates the depreciation costs per year for the piece of equipment. To reach at the depreciation cost per month, you divide that figure again by 12 (months of the year). The result indicates the depreciation per month of that piece of equipment. Add up the depreciation per month of each piece of equipment that you have bought, and you reach at the total depreciation cost per month.

To give an example, imagine you have bought a cash till for the equivalent of 1, 500 000 and you expect to use it for five years. Then, the yearly costs for depreciation of that cash till would be 300 000.

$$\frac{1,500,000}{5 \text{ years}} = 300,000 \text{ per year}$$

Finally, the monthly costs for depreciation of the cash till would be the equivalent of about 25 000.

$$\frac{300,000}{12 \text{ months}} = 25,000 \text{ per month}$$

Calculation of Depreciation for Busonga Paper Tech

The following is the depreciation form for the equipment of Busonga Paper Tech

Depreciation Form			
Depreciation per month			
Item	Cost Price	Product Life Span	Depreciation per month
3 Storage Cages	5,000,000 per cage	36 months	416,666
3 Vat Machines	2,000,000 per vat machine	36 months	166,666
Beater Machine	6,000,000	48 months	125,000
2 Mould Screens	500,000 pear mould screen	24 months	41,666
2 Wet and dry presser	1,000,000	36 months	55,555
Hand tools (scissors, rulers etc)	4,000, 000	12 months	333,333
Total			1,138,886

Calculate indirect costs per item

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

These costs need to be shared by each product the business makes.

To calculate the indirect cost for one item Busonga Paper Tech calculates the indirect costs per hour for all the items the business makes. To work out the indirect costs per hour they:

- Divide the total indirect costs per month
- By the total hours in production per month

Then they:

- Multiply the total time per item
- By the indirect costs per hour

Step 4: Calculate the total costs per product or service supplied

Finally add all the costs of raw materials, direct labour costs and indirect costs to get the total cost of making a product or providing a service.

Busonga Paper Tech added up all the amounts from 1-3 to get the total cost of making a folder.

Step 1 Calculate	Step 2 Calculate	Step 3 Calculate	Step 4 Add up			
Direct Material Costs 460,000	+	Direct Labour costs 31,125	+	Indirect Costs 90,625	=	Total Costs 581,750

Busonga Paper Tech now know that it costs them ZWD581, 750 to make a conference folder. They will use the same process to calculate the cost of the other products like CD boxes.

NB: Add a profit margin and calculate your final price

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

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

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

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

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

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

But caution! You must make a careful cost-benefit analysis before you embark on a major marketing drive, because if you plan to market your service aggressively, you are likely to incur higher costs for promotion. This, in turn, will increase your total costs and again reduces your profit margin.

Remember, if you plan to operate your service business as a Community Based Enterprise, you will aim at maximizing the profit margin that you earn on each product produced or service supplied.

PRODUCT COSTING FROM for Busonga Paper Tech

Product: Conference Folders

1. DIRECT MATERIAL COSTS PER ITEM

1	2	3	4
Raw Material	Buying Costs per unit	Quantity Per Item	Costs Per Item
Cost of paper	50,000/ sheet	2 sheets	100,000
Chipboard	600,000/board	0,5 board	300,000
Decorations	30,000 /packet	2 packets of beads	60,000

Total

ZW\$460,000

ZW\$460,000

Direct material cost per item

2. DIRECT LABOUR COSTS PER ITEM

ACTIVITY	TIME PER ITEM (MAN-HOURS)
Patten design	10 minutes
Cutting	5 minutes
Gluing	5 minutes
Decorations	10 minutes

30min=0,5 hrs

x 62,250

= ZW\$31,125

3. INDIRECT COSTS PER ITEM

INDIRECT COSTS PER HOUR

TOTAL INDIRECT COSTS PER MONTH
(From Indirect Costs Form)

ZWD29, 000,000

= 181,250

TOTAL HOURS IN PRODUCTION
(From labour cost form)

160hrs

Indirect Costs per Hour

0, 5 hours

x 181,250

= 90,625

Total Time Per Item

Indirect Costs Per Hour

Direct costs per item

4. TOTAL COSTS PER ITEM

ZW\$ 581, 750

The group transfers this information to their Business plan.

YOUR BUSINESS PLAN

Turn to Costing section of your Business Plan and complete the Costing forms. When you have calculated the cost of your products and services, fix the price and fill in the Price form of the Marketing Plan.

7. CALCULATE YOUR REQUIRED START-UP CAPITAL

Start-up capital is the money you need to start your business. It is absolutely necessary that you know how much start-up capital you need and where you will get it before you go ahead and start providing your services. You will need start-up capital for

- Capital investments
- Working capital.

WHAT INVESTMENTS DO YOU NEED

A capital investment is when you buy an asset that has a high value and lasts for a long time. Some businesses can start with a low level of investment while others must invest a lot before they can start. For example, if you decide to produce plastics you need machinery to process the product but if you intend to produce crafts from plastic waste you might require just tools like needles, scissors etc.

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

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

- Business premises
- Equipment.

Business premises

You will need some kind of premises to work from. In the case of your Community Based Enterprise you will need land to operate from and some structures to house production units. Business premises can be a whole building or just a small room. In the Place Form of the Marketing Plan in your Business Plan, you decided on the kind of business premises you need.

Now its time to look in more detail at what you need. You need to decide whether you should

- Construct the premises
- Buy the premises
- Rent the premises
- Running your business from home.

Constructing your own premises can be the best option if your business has specialized demands on the building or the location of the building. You will however require a lot of capital. Waste recycling demands space for collecting the waste raw material. The sit needs to be accessible. The business will however require some working space for the processing.

Buying an existing building can be faster and simpler if you find an appropriate building in a suitable location. An existing building may often have to be changed to suit your business needs, Buying your own building requires a lot of capital.

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

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

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

<p>We will</p> <p><input type="checkbox"/> Construct our own premises <input type="checkbox"/> Buy premises <input type="checkbox"/> Rent premises <input type="checkbox"/> Work from home</p> <p>Because:</p> <p>_____</p> <p>_____</p> <p>_____</p>

Equipment

Equipment is all the machines, tools, workshop fittings, vehicles, office furniture, etc, that you need to make products or supply your services. Some service operators will require heavy investment in equipment, others not. It is very important to know what kind of equipment you exactly need before starting the business and to choose the right type of equipment. Even for service providers that only need very little equipment, it is important to carefully think about what you need. The products that you need to make and the infrastructure available in the selected business premises will determine the required equipment.

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

In the long term, leasing is an expensive way to get access to equipment. Over time you will pay more to lease the equipment than it would have cost you to buy it. The advantage is that you do not have to get any start-up capital for the investment. If you decide to lease equipment you will not have to calculate any capital investment for equipment but add the lease payment to the required working capital.

WHAT WORKING CAPITAL DO YOU NEED

You normally run your business for some time before any money comes in from sales. Working capital is the money you need for these expenses. Because you need the money from the start, it is included in the amount of start-up capital you need. You must calculate how much working capital you need. The amount depends on how long it will take before money starts coming in from sales and how much stock you need.

Some businesses will need enough working capital to cover all costs for three months, others maybe only for one month. You must estimate how long it will take before your business will get money in from sales. It will usually take longer than you think before your sales start, so plan to have more working capital than you think you need.

You will need working capital to cover:

- Stock of raw materials

- Promotion
- Wages
- Rent
- Other costs

Stock of raw materials

Manufacturers and Service operators like you might need material inputs to produce and supply their service. For example if you intend to produce plastic containers from waste, you will need the recyclable plastic waste and chemicals.

Your CBE must estimate the stock of materials you need to make your products or provide your service until your customers start paying. Remember, if your business sells the products or services on credit it will take even longer before cash comes in from sales. So you may need to buy stock a second time from your start-up capital.

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

Promotion/Community Mobilisation

You need to promote your services when you start your new business. The promotion will require working capital. In Chapter 3 of this Manual you have planned your promotion and mobilisation and you have already estimated the costs.

Wages and salaries

If you employ staff, you will have to pay them wages even during the start-up period. You may need to pay yourself for living costs as well. In Chapter 5 you estimated how many people you will employ. To calculate your start-up capital for wages and salaries you must estimate your monthly cost for wages and salaries and how many months you will need to pay wages from your start-up capital before the business get enough money from sales.

Start-up capital for wages and salaries	=	Monthly cost of wages and salaries	X	Number of months before sales will cover costs
--	---	---------------------------------------	---	--

Rent

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

Start-up capital for rent	=	Monthly rent	X	Number of months before sales will cover your costs
------------------------------	---	--------------	---	--

Leasing

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

Other costs

There will be a number of other costs to pay during the start-up period, for example electricity, stationery, interest, registration and licenses. You might also want to insure your equipment, e.g. against theft. Forecast all your costs during the start-up period. You made forecasts of all these indirect costs in Chapter 6.

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

BUSONGA PAPER TECH

Busonga Paper Tech estimates that it will take them about two months to get their products supplied regularly in the market. Below is their calculation of the required start-up capital.

REQUIRED START-UP CAPITAL	
Investments	
• Business Premises	
Putting up a shade for processing	10,000,000
• Equipment	
Storage Cages 3x 5,000,000	15,000,000
Vat Machines 3x 2,000,000	6,000,000
Beater Machine	6,000,000
Mould Screens 2x 500,000	1,000,000
Wet and dry presser 2x 1,000,000	2,000,000
Hand tools (scissors, rulers)	4,000,000
Working Capital	
Stocks of raw materials	20,000,000
Promotion	10,200,000
Wages and salaries	60,000,000
Rent	2,000,000
Other costs	10,000,000
Total Start-up capital	146,200,000.00

This is equipment required to make paper and process the different products

Rent is for two months

Other costs like stationery and consumables

Busonga Paper Tech plans to raise the start up capital form two sources. Health Care has a facility for donating equipment to groups who start waste recycling businesses. The group also plans to get a loan for working capital from a local development institution which have an interest free loan facility.

TYPES AND SOURCES OF START-UP CAPITAL

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

The most important types of start-up capital are:

- Owner's equity
- Loans
- Grants.

Owner's Equity

Equity or owner's contribution means the private money you put into your business. If your business fails you will lose that money. Even though equity is a risk for you, investing your own money in the business makes the business less risky. This is because capital from equity will put less pressure on the business than borrowed money. There is less pressure because you do not have to make repayment or pay interest in fixed dates like you have to do if you borrow money.

Investing your own money in your business is a risk but it shows that you believe in our own business idea. If later you are going to borrow some money for start-up capital, it shows your creditors that you have enough faith in your business idea to risk your own savings; some lending institutions will even demand that you invest some of your own money in the business.

Community Based Enterprises can agree on an equity contribution of each of the members towards the start-up capital of the business.

Loans

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

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

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

1. A well thought through and clear business plan with a business idea that the lending institution believes in. An unclear Business Plan will make a bad impression and make it difficult for the lending institution to form an opinion about your business idea.
2. The lending institution will probably also need some kind of collateral for your loan. Collateral means the security that the lending institution has for the repayment of your loan. If you cannot repay the loan, the lending institution has the right to take possession of the collateral instead. The reason why the

lending institution needs collateral is that if your business fails and there is no money to repay the loan, the collateral can be sold by the bank to cover the loan.

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

- Banks
- Government credit scheme
- Non-government credit scheme
- Other sources

Banks

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

It is not easy to get a loan from a bank, because they have strict requirements. If you know what the bank's requirements are and why they have them it will increase your chances of getting a loan. A bank normally has two major requirements

- A viable business idea presented in a well thought through business plan
- Some kind of collateral.

Government credit schemes

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

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

Non-government credit scheme

A number of non-governmental organizations run their own credit schemes for small businesses. Often they work in similar ways as government credit schemes, but they are sometimes restricted to certain groups of entrepreneurs, for example women or returning refugees. These organizations can also give you assistance in other ways. When you apply for a loan with a non-government credit scheme, again you will be expected to produce a Business Plan. Sometimes you will be required to complete a loan application form specifically used by the organization. You should be able to transfer most of the information from your own Business Plan to that loan application form.

Other sources

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

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

Grants

Governments and non-governmental organizations sometimes give grants for potential entrepreneurs to start small businesses. It is often the same organizations that run credit schemes, which give grants. A grant is an allowance that a government or an organization gives to support small business creation in the country. Even to apply for a grant, you will be expected to complete some kind of Business Plan to demonstrate how you plan to use the money.

BUSONGA PAPER TECH

Busonga Paper Tech plans to raise the start up capital from two sources. Health Care has a facility for donating equipment to groups who start waste recycling businesses. The group also plans to get a loan for working capital from a local development institution which have an interest free loan facility and is payable within one year.

YOUR BUSINESS PLAN

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

8. PLAN YOUR FINANCES

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

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

- That you do not run out of cash
- That you break even (or: if you run a commercial enterprise, that you make a profit).

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

WHAT IS FINANCIAL PLANNING

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

Follow these two steps to plan and monitor the financial situation of your business:

- Make a Sales and Costs Plan
- Make a Cash Flow Plan.

A SALES AND COST PLAN

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

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

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

- Forecast your sales for each month of the first year
- Forecast your costs for each month of the first year
- Complete your Sales and Cost Plan.

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

Forecasting your sales is the most important part of making a Sales and Costs Plan. Without good sales there can be no profit. Make a sales forecast for each month of how many of each service you are likely to sell. For the first month of the year, take the sales projection that you made in Chapter 6 of this manual when you cost your goods or services. Then, work your way forward from these figures.

Step 2: Forecast your total costs for each month of the first year

Now forecast the costs of your business for each month of the first year. Forecast separately the direct material costs, direct labour costs and indirect costs of your business. The various types of costs are explained in Chapter 6 of this manual. Chapter 6 also shows you how to calculate these costs. Remember that some of your costs, the so-called variable costs are likely to increase (or decrease) together with your sales. If you sell more goods and services, you are also likely to need more material input, more employees etc. Other costs, the so called fixed costs will remain the same, whether or not you are selling more or fewer goods and services; for example, if you employ a security guard to protect your premises, his salary will remain unchanged by increased sales.

To forecast your costs in the first month of the year, look into the Costing section of your Business Plan. There, you have costed the direct material costs, the direct labour costs and the indirect cost for the first month in business. Work your way forward from this figures, increasing or decreasing cost inputs in direct relation to the projected sales.

Step 3: Complete your Sales and Costs Plan

When you have completed your forecast of sales and costs, then you can fill in your Sales and Costs Plan. Use these forecasts to calculate what the gross and the net profit are likely to be for your business in the first year.

BUSONGA PAPER TECH

Before they start their business operations the group decides to plan for their finances as per the advise of their business trainer. The first plan they produce is the Sales and Costs Plan.

Mr. Munyara, who is responsible for record keeping, leads the process of estimating the total income from the sale of products for the first year in business. He was asked to do most of the work because he has dealt with a sales and cost plan before.

Estimate total sales per month

Busonga Paper Tech considered that they had a unique paper product, which had opportunity to attract customers. Further more their folders were appealing and could be sold to a number of institutions running seminars and conferences. From their market research the group made the following estimates:

1. Conference organizers were estimated to be about 30 institutions out of which at least five organize conferences and seminars each month. The group estimated that they could be able to sale to two conference organizers every month with each organizer buying a minimum of twenty folders.
2. Gift Shops would buy the jewelry box and CD boxes. The city of mimosa has a total of 20 gift shops. The gift shops, which had indicated that it could buy the products, were 5. It is estimated that each shop would buy 15 products of each type every month.
3. Institutions buying diaries were estimated to be 20 but these would likely buy diaries at the beginning of the year. A total of 100 diaries would be sold a year.
4. Individual buyers were likely to buy picture frames and it is estimated that 15 picture frames would be sold every month.

They used this information to prepare a sales and costs plan presented on the next page:

The Sales and Cost Plan of Busonga Paper Tech *(all figures in millions)*

Year: 2008

DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
SALES	67,900	84196	84196	84196	84196	84196	84196	118700	118700	118700	178000	275900	1,383,076
Direct material costs	25,600	31744	31744	31744	31744	31744	31744	44760	44760	44760	67140	104067	521,551
Direct labour costs	10,000	10,000	10,000	10,000	10,000	10,000	12,000	12,000	12,000	12,000	12,000	12,000	132,000
Gross profit	32,300	42452	42452	42452	42452	42452	40452	61940	61940	61940	98860	159,833	729,525
Indirect costs	33,000	35,000	35,000	35,000	35,000	38,000	38,000	38,000	38,000	38,000	40,000	40,000	443,000
Net Profit/(Loss)	(700)	6,452	6,452	6,452	6,452	4,452	2,452	23,940	23,940	23,940	58,860	119,833	282,525

Notes

1. **Sales:** Busonga Paper Tech estimates their sales based on the sales estimates made during the costing session. However they realize that demand for their products is likely to increase by 24% in February, 41% in August, 50% in November and 55% in December. November and December increases are due to an increased demand for gift boxes for Christmas presents and diaries for the coming year.
2. **Direct Material costs:** These are expected to increase proportionate with the increase in sales.
3. **Direct Labour Costs:** Direct labour costs are forecast to increase in by 20% July when there is a nation wide wages adjustment. Busonga group has agreed not to change the salaries of those not in production.
4. **Net profit:** The business is not expecting to make much profit in the first year, but plans to expand production in the second year to increase its profitability
5. **Indirect costs:** Increase in February, June and November due to more traveling, delivering expenses and stationery costs

YOUR BUSINESS PLAN

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

A CASH FLOW PLAN

A Cash Flow Plan is a forecast which shows you how much cash you expect to come into your business and how much cash you expect to go out of your business each month. The Cash Flow Plan helps you make sure that your business does not run out of cash at any time.

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

- You have to buy materials before you sell anything. This means that cash goes out before cash comes in
- If you give credit to your customers you do not get paid immediately. You often have to buy more goods or materials before these credit customers pay you
- You need cash to buy equipment. The equipment will help the business to make profit in the future. But you usually have to pay cash for the equipment now, before you have earned that profit.

To understand how to make a Cash Flow Plan, study the example of Busonga Paper Tech below:

BUSONGA PAPER TECH

To make sure they do not run out of cash when they start their waste recycling business, Busonga Paper Tech prepares a Cash Flow Plan covering the first 12 months of their business operations.

An example for the first year of the Cash Flow Plan of Busonga Paper Tech is shown below:

CASH FLOW PLAN

YEAR: 2008

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
1 Cash at the start of the month	Nil	98,332	100,777	103,222	105,667	108,112	110,567	111,022	128,133	145,244	162,355	211,907	1,385,338
2 Cash in from sales	61,110	82,567	82,567	82,567	82,567	82,567	82,567	115,249	115,249	115,249	172,070	266,110	1,340,439
3 Any other cash in	146,200	0	0	0	0	0	0	0	0	0	0	0	146,200
4 TOTAL CASH IN	207,310	180,899	183,344	185,789	188,234	190,679	193,134	226,271	243,382	260,493	334,425	478,017	2,871,977
5 Cash out for direct material costs	25,600	31,744	31,744	31,744	31,744	31,744	31,744	44,760	44,760	44,760	67,140	104,067	521,551
6 Cash out for direct labour costs	10,000	10,000	10,000	10,000	10,000	10,000	12,000	12,000	12,000	12,000	12,000	12,000	132,000
7 Cash out for indirect costs	27,861	29,861	29,861	29,861	29,861	32,861	32,861	32,861	32,861	32,861	34,861	34,861	381,332
8 Cash out for planned investment in equipment	37,000	0	0	0	0	0	0	0	0	0	0	0	37,000
9 Loan repayment	8,517	8,517	8,517	8,517	8,517	8,517	8,517	8,517	8,517	8,517	8,517	8,517	102,204
10 Any other cash out	-												
11 TOTAL CASH OUT	108,978	80,122	80,122	80,122	80,122	80,112	82,112	98,138	98,138	98,138	122,518	159,445	1,168,067
12 CASH AT THE END OF THE MONTH	98,332	100,777	103,222	105,667	108,112	110,567	111,022	128,133	145,244	162,355	211,907	318,572	1,703,910

To make their Cash Flow Plan, Busonga Paper Tech has followed the 12 steps in the plan. Steps 1-4 are for CASH IN. Steps 5-10 are for CASH OUT. Look at each step for January, the first month in business for Busonga Paper Tech:

- Step 1:** **Cash at the start of the month:** This is the amount of cash Busonga Paper Tech expects to have in the cash box. Since Busonga Paper Tech has no equity, they fill in the amount in Nil in the section.
- Step 2:** **Cash in from sales.** This is cash sales during the month of January. Busonga Paper Tech looks at their Sales and Cost Plan to find the forecast for cash sales in January. If by any chance there were credit sales made in January and the actual cash for such sales is received in February or March then that figure will be included will be included in the amount of cash received from sales in the month in which the actual cash is received. They estimate that 10% of sales will be on credit each month.
- Step 3:** **Any other cash in:** This is the amount of cash Busonga Paper Tech forecast for January from any other source such as a loan from a bank or a grant. As agreed in their planning section, Busonga Paper Tech will receive part of their working capital needs as a loan. Busonga Paper Tech specified their working capital needs and equipment in the Start-up Capital Form in the Business Plan. A total of Z\$ 146,200 is required. They fill that amount in.
- Step 4:** **Total cash in:** Busonga Paper Tech adds up all the Cash In amounts from Steps 1, 2, and 3.
- Step 5:** **Cash out for direct material costs:** This is the amount of cash Busonga Paper Tech forecast the business will pay out in January to buy materials needed to finance the production process. In a situation whereby the company buys materials on credit, the figure for such sales will be considered in the month in which the actual cash payment is made out to its creditors.
- Step 6:** **Cash out for direct labour costs:** This is the amount of cash Busonga Paper Tech forecast the business can expect to pay out in January to pay wages for employees directly involved in the collection of waste from the households. They find the amount in their Sales and Cost Plan.
- Step 7:** **Cash out for indirect costs:** This is the amount of cash Busonga Paper Tech forecast the business will pay out in January for indirect costs. They look at their Sales and Cost Plan to find the amount (depreciation is subtracted from the indirect costs figure in the cash flow plan because it is not part of the cash flow plan since it does not involve any movement of cash. Depreciation like all other provisions is just a book record which does not involve the actual movement of cash.).
- Step 8:** **Cash out for planned investment in equipment:** Busonga Paper Tech writes down the amount of money that they will spend on buying equipment.
- Step 9:** **Loan repayment:** This is where Busonga Paper Tech will write down their loan repayments. Their loan is interest free, so they write down only the principal amount. They plan to pay back the loan in 12 months

- Step 10:** **Any other cash out:** This is where Busonga Paper Tech writes down any cash used, e.g. for the registration of the CBE and stocks of materials. They look at the required start-up capital form and fill in the amount.
- Step 11:** **Total cash out:** Busonga Paper Tech adds up all the cash out amounts from Step 5-10. This is the total cash amount that Busonga Paper Tech expects to go out of the business during January.
- Step 12:** **Cash at the end of the month.** Busonga Paper Tech subtracts the total cash out from the total cash in to get the amount left in the cash box at the end of January. Cash at the end of the month is cash at the start of the next month. Busonga Paper Tech can see from the Cash Flow Plan that they will not run out of cash in their operation, at least if everything goes according to plan

YOUR BUSINESS PLAN

Now follow the same steps to make your own Cash Flow Plan for the first year of your business in the Business Plan.

9. MANAGE YOUR FINANCES

When you have completed chapters 1 to 8 of this manual, then you should have completed a first draft of your Business Plan by now. You should be ready to go ahead with finalizing that Business Plan, and implementing it, after agreeing on an Action Plan of who is going to do what by when; Chapter 10 of the manual will introduce you to such an Action Plan.

You are very close now to be ready to start a business, but to prepare you better for the first day of your business operations, you need to acquire one more management asset: How to manage your finances properly right from the start. Managing your finances properly from the first day of running a business is very important. If you loose control over the money going in and out of your business in the beginning, it will be very painful to regain that control later. Without proper management of your finances, the risk of business failure increases.

WHAT IS FINANCIAL MANAGEMENT

Financial management has many aspects. Some large companies run entire departments with multiple employees to manage their finances. For your purposes as a business starter, it is enough to do three things if you want to manage your finances. You should

- Maintain a record book
- Make a monthly profit and loss statement
- Compare your profit and loss statement with your Sales and Cost Plan.

THE RECORD BOOK

The record book is where you write down all the transactions in your business. A transaction is any exchange of money for a product or service. For example, a customer paying a hairdresser for a haircut is transacting money against a service.

Money comes in and goes out of the business through transactions. Money comes in mainly through the sales of goods or services. Money goes out of a business to meet material costs, labour costs and indirect costs. In your record book you write down how much money your business received and how much money was paid out. Accurate records help you to find out if your business is doing well or bad.

- If it is doing well, your records will tell you. They assist you in finding ways of doing even better. For example, if your records tell you that a particular

good is selling very well, you can stock it in higher quantity to have it always on ready supply. Your customers will appreciate it.

- If your business is doing badly your records can tell you why, and assist you to solve the problem. For instance, your records will indicate to you if one of your customers has failed to pay their account in time. Having specified the problem you can work on it.

To understand better how to fill in such a record book, study the example of Busonga Paper Tech below:

BUSONGA PAPER TECH

Busonga Paper Tech is exercising how to fill in a record book. For exercise purposes, they consider the following transactions to be made in the sixth month of their business operations.

01/06	Balance brought forward from the previous month
01/06	Payment of 5 loads of waste paper collected from community
02/06	Rent paid to the landlord
04/06	Stationery bought by Mr. Munyara
10/06	Money transfer from the bank account to the cash box
14/06	Chipboards, glue and decorators bought for making folders
14/06	Transport for community meeting
16/06	Received payment for 20 folders sold to Keep Well NGO
17/06	Received payment from sale of 10 CD boxes from Smart Shop
28/06	Money transfer from the bank account to the cash box
29/06	Wages and salaries paid for group members
30/06	Payment of telephone bill
30/06	Payment of electricity

Here is how Busonga Paper Tech fill in these transactions into their Record Book

Date	Details	Voucher No	Cash			Bank			Sales	Direct material costs	Direct labour Costs	Indirect Costs
			IN	OUT	BALANCE	IN	OUT	BALANCE				
01/06	B/F				2,000			10,000				
01/06	Payment for waste	340					1,500	8,500		1,500		
02/06	Rent	341		1,000	1,000							1,000
04/06	Bought Stationery	342		1,000	0							1,000
10/06	Bank to cash box	343	3,000		3,000		3,000	5,500				
14/06	Bought glue etc	344		500	2,500							500
14/06	Transport	345		500	2,000							500
16/06	Sales	346				26,000		31,500	26,000			
17/06	Sales	347	2,000		4,000				2,000			
28/06	Bank to cash box	348	7,000		11,000		7,000	24,500				
29/06	Wage	349		5,000	6,000						5,000	
29/06	Wage	350		5,000	1,000						5,000	
30/06	Telephone	351					500	24,000				500
30/06	Electricity	352					400	23,600				400
									28,000	1,500	10,000	3,900

OTHER RECORDS

Business transactions need to be recorded in a form that is easy to follow and use for financial management. Some of your customers will buy goods and services on credit, especially retailers. It is the responsibility of the CBE to bill the customer for services rendered and goods delivered. Make sure that you document any sales transaction in writing. You can either issue a receipt or, alternatively, keep a daily cash record.

- If your business sells a few, expensive products or services, use a receipt book. Everytime you sell something for cash, write a receipt for the customer, give the customer the top copy and keep the other copy in the Receipt book
- If your business sells many, less expensive products or services, use a daily cash record. Every time, you sell something for cash, immediately write down the item and amount in the daily cash record.

At the end of each day, when the business is closed, fill in the Record Book by using

- The copies of the receipts issued or the daily cash record to record money coming in the business and
- The receipts, invoices and other vouchers you got when you paid out money to others. Make sure that you get a receipt each time you pay out money!

Sometimes, your customers will pay their open bills only at the end of the month (or when they get money).

If you deal with this kind of customer, you should keep a customer account record. In the customer account record, you keep a list of all your customers that buy goods or services without immediately paying for it. Behind each name, you record when the customers bought what and if they still have to pay for it. As soon as payment is received, you note down the final completion of the transaction as 'cash in' in the daily cashbook and close the open account in the customers account record. In case of Busonga Paper Tech a customer accounts record for coporate customers like Stationery shops could look as follows:

Customers' Accounts Record

Customer: Seiko Stationery
 Address: 189 Tongora Street, Harare
 Telephone: 794678
 Credit Limit: ZWD10, 000,000

Date	Details	Quantity	Credit sale	Amount paid	Balance	Signature
16/05	Conference folders	5	ZWD6,500,000		ZWD6,500,000	S. Moyo
25/05	Diaries	4	ZWD1,600,000		ZWD8,100,000	S. Moyo
31/05	Payment			8,100,000		S. Moyo
					0,00	Maenda

THE PROFIT AND LOSS STATEMENT

A Profit and Loss Statement helps you to calculate if your business is making a profit or a loss. Every business should do a Profit and Loss Statement at the end of every financial year. You can also calculate your profit and loss more often, for example

- After a month
- After three months
- After six months.

The more often you calculate your profit and loss, the sooner you will know if your business has problems. Then you can do something about the problems before it is too late.

You can follow these steps to do a Profit and Loss Statement:

1. Open your record book and add up separately the total sales and the total costs of your business in the chosen time period (one month, six months, and twelve months).
2. Break the total costs of your business into material costs, labour costs and indirect costs
3. Fill in the sales and costs figures. Subtract material and labour costs from total sales to know your gross profit. Subtract the indirect costs from your gross profit to reach your net profit

If your actual net profit is below the projected net profit, you are likely to have a problem with your business. Compare the actual and the projected profits over a period of several months to establish a trend. If your actual profit continues to be below the project profit, then you must act decisively and either increase your sales volume or reduce your costs. Otherwise, your business runs risk to become unprofitable.

Example of a Busonga Paper Tech Profit and Loss Statement

Busonga paper Profit and loss A/C for the half year ended 30-06-07

Details	ZW\$
Sales	414, 000, 000
Cost of Sales	
• Purchase of Raw materials	153, 600, 000
• Direct Labour	60, 000,000
Total Direct Costs	213, 600, 000
Gross Profit	200, 400, 000
Indirect Expenses	
• Salaries and wages	30, 000, 000
• Rent	40, 000, 000
• Electricity	20, 000, 000
• Transport	40, 000, 000
• Loan repayment	20, 000, 000
Total Indirect Costs	150,000,000
Net Profit / Loss	50, 400, 400

10. GET STARTED

When you have worked through all chapters of this manual then you should have completed a draft Business Plan by now. Your Business Plan forms probably will still have some blank spaces and you will need to seek further market information and time to complete them. There are many things to do and a lot to think about.

To structure the various things to do and to think about to complete the Business and start implementing it afterwards, it might be useful if you prepare an Action Plan first. When you have completed all the sections of your business plan fill in the executive summary that summaries your business idea, marketing, form of your business, the products and services you provide as well as the start up capital you require to finance your business.

WHAT IS AN ACTION PLAN

An action plan is like an agenda, where you write down what you plan to do by when and how.

HOW AN ACTION PLAN CAN HELP YOU

An action plan helps you to organize your thoughts and to structure your planned activities in a logical and effective manner. With the help of an action plan, you avoid doing things twice and make the best out of your time.

An action plan, furthermore, helps you to control at any point in time if your are on track towards starting your own business.

An action plan, finally, helps to avoid a lot of confusion among group members planning to start a business activity. If every group member has a written plan of what he or she is expected to do, and can expect other group members to do, co-operation of all parties in the implementation process tends to be more effective.

YOUR ACTION PLAN

Use the Action Plan Form on the next page to organize yourself. Fill in everything you need to do under each heading, who you should contact and when you will do it.

ACTION PLAN

Action	Contact	When
Product		
Price		
Place		
Promotion		
Define the Form of Business		
Assign Business Tasks		

Action	Contact	When
Costing		
Required Start-Up Capital		
Sources of Start-Up Capital		
Plan Your Finance		
Managing Your Finances		

**Every business comes out of an idea.
The Business Plan and the accompanying Start Your Business Manual are for you who have a business idea and are thinking of starting your own business. The Manual will help you organise your thoughts and get together the information you need.**

The Business Plan covers all the important aspects to be considered before starting your business. When you work through the Start Your Business Manual and fill in your Business Plan you will, for example:

- **Think through your business idea**
- **Make a marketing plan**
- **Calculate how much start-up capital you need**
- **Make financial plans**

When you read through the Manual and completed your Business Plan you will be able to decide if you should start your new business or not. If you decide that starting is a good idea, the Business Plan will be the plan for how to start

