

# Unit 16

## Business Plan Formulation



### General Objective

After studying this Unit, you should be able to help participants in your training session to provide an overview of the relevance and methodology of a business plan in a micro enterprise.

### Specific Objectives

This Training Unit will help you to enable trainees to:

- Prepare a simple business plan of a selected enterprise;
- Describe all aspects of business – technical, financial, marketing; and commercial, which are related to the selected enterprise;
- Identify the various resources required in terms of people, machinery and money; and
- Describe the relevance of estimating the profitability and learn to calculate this at a proposed level of production.

### Planning

<b>Time</b>	:	Three hours
<b>Training Methodology</b>	:	Case study, group exercise and participatory discussions
<b>Training Materials</b>	:	Case study on “Kalahandi Masala”, posters on case, chart papers, markers, business plan proforma
<b>Trainer’s Preparation</b>	:	Read the case study and be ready with the calculations required for filling out the business plan proforma.

### Background Material

#### Introduction

A business plan is a blueprint of an enterprise. Before the actual launch of an enterprise, it is important that the women’s groups prepare a business plan to know clearly:

- What is it that they are going to produce, or offer as a service;
- Determine the process of production;
- Decide the quantity and type of product/services to be produced;
- Enlist resources required for the enterprise;
- Identify the market and develop marketing strategies;
- Assess the required capital; and
- Estimate the profit expected.

### Need for Business Plan

A business plan is necessary to ensure success. It enables potential women entrepreneurs to perceive and mobilize all resources well in advance. Finally, it gives the women the much-needed confidence that they can produce, can sell the product/service, and can earn a profit.

### Preparation of Business Plan

For the preparation of a Business Plan, information is collected from various sources. Market survey yields information related to customers, competitors, existing prices in the market. Besides, the potential women entrepreneurs need to collect information related to the production process, raw materials, machinery and equipment, sales and cost prices etc.

Preparation of this plan involves information under the following seven major categories:

1. **General information about proposed enterprise:** This includes information related to individuals and/or the group owning the enterprise, location and type of enterprise, and a brief description of product/service.
2. **Production Details:** Under this all products/services to be produced/offered are listed. The production process or lists of activities to be carried out are described. Also the quantities/numbers of products are recorded.
3. **Required Resources and their Sources:** This lists the various resources like raw materials, machinery and equipment, and other utilities which may be required to set up the enterprise.
  - Raw materials include materials for production, packaging and testing and are described in terms of their type, quantity, value, and source of availability.
  - Machinery and equipment are described in terms of type, number, capacity, price including taxes and freight, installation and erection costs.
  - Utilities represent power, water, electricity, petrol, diesel or any other fuel required for the production. Facilities like phone, fax, Internet are also included here. Air conditioning and refrigeration facilities that may be required are also noted. These are described in terms of their estimated consumption, price and installation charges.

4. **Market and Marketing of Product:** This refers to all information collected during the process of market survey. It normally includes information on prospective customers, competitors, prevalent prices, packaging, location of market, nature and extent of demand, and estimated sale.
5. **Capital for Enterprise and Cost of Product:** Under this category the total investment required for setting up and running an enterprise are estimated. These are represented in terms of capital cost and working capital. Such a process helps in determining the final cost of product.
  - **Capital Cost:** This refers to one time costs needed to meet the cost of land, building, machinery and equipment, furniture and fixtures, fire fighting equipment, power connection and electrification, cost of providing utilities, and initial spare parts.
  - **Working Capital:** This is an important area requiring special attention. The enterprise functions consist of a series of cycles in which the cash is invested in raw materials, variable and fixed costs and is returned to the enterprise in the form of cash only after sales realization. This cyclic operation repeats perpetually. Working capital assessment consists of assessing the delay at each stage of the operating cycle and the amount of finance required. The sum total of this assessment is the total working capital requirement. The basis for assessment of working capital requirements are the amounts required for raw materials (stocking, lead time procurement, buffer stock), finished goods (stocking, packing time, mode of despatch, inspection time), bills (period of credit provided) and operating expenses for one month.
  - **Cost of Product:** This is estimated on the basis of fixed and variable cost. The total cost for the enterprise is estimated on the basis of capital cost and working capital. This portion of the Plan indicates the source of the total cost.
6. **Estimates of profit:** All the expenses involved in production, marketing, and administration are estimated. As a general rule of thumb, marketing expenses are calculated at 3% of the sales revenue generated. All expenses are deducted from total sales to obtain profit. Based on profit estimates, “the point of no profit no loss” which is also known as “break even point” is estimated.
7. **Balance sheet:** A balance sheet is drawn as part of the Business Plan. The whole exercise can be practiced by using the proforma of business plan provided with this Unit.

### Procedure

#### Step 1

After explanation of the steps involved in preparation of Business Plan, participants are divided into smaller groups of 3-4 women each. Each group is given a copy of the case study on “Kalahandi Masala”. You may like to read out the case with the help of a prepared chart in case the participants are not literate. Each group is asked by you to fill out the details in the proforma from the data given in the case. You can then help the groups in picking out the relevant data.

*Step 2*

Participants of all groups reassemble. You can display the business plan proforma (both words and picture) on a chart. This is done by you involving all participants. For each item you seek response from participants and finally you read out the Kalahandi Masala case to illustrate and also calculate the figure if needed. You and the participants can prepare the plan jointly.

*Step 3*

Participants are then assisted to calculate the profitability of the enterprise. In case the return is less than the desired level, they are counselled to adjust or determine the minimum volume of production and sale. The plan is modified accordingly.

**Processing**

- As the trainer, you explain all steps involved in preparation of the plan.
- Every step must involve discussions.
- As the trainer, you must ensure that the participants understand both the ‘why’ and ‘how’ aspects of each item in the proforma
- Participants are encouraged to search for the answers to each item mentioned in the proforma.
- When calculations are involved, the trainer does these with the help of participants.
- Major findings under each head should be summarized by the trainer and repeated for better understanding.

Once the participants have assimilated the various steps involved in the preparation of a Business Plan, and if time permits, another three hours may be spent on developing a business plan for the enterprise that the participants wish to initiate. You can assist them on the basis of data obtained through a survey. Then you can counsel them again on the importance of profitability of the proposed enterprise. Proper interpretation of profitability and its relation to costing, pricing and volume of production needs to be made by you.

The entire session is in the nature of an exercise and practice. Emphasis needs to be laid on practicing the skill of preparing a business plan.

**Business Plan Proforma**

**General Information**

1. Proposed Enterprise/Income generating activity .....
- .....
2. Name/s of individual/group members owning the enterprise .....
- .....
- .....

3. Age, sex and education of owners/promoters .....  
.....  
.....
4. Skills available with owners/promoters .....  
.....  
.....
5. Proposed location of the enterprise .....  
.....
6. Type of enterprise
  - Individual Ownership
  - Informal Group
  - Registered Group
  - Cooperative
  - Any Other Form

**Product and Production Details**

7. Brief Description

Products/services	Activities

8. Proposed Quantity of Production

Sl No.	Items to be produced	Quantity/Number per month

**Required Resources**

9. Machinery and equipment required

Sl No.	Machinery/Equipment. Name, Capacity, Type	Price+ Taxes + Freight	Number required	Total	Source

10. Raw Materials Required for Production, Packaging, Testing

SI No.	Name of Item	Quantity required Monthly/Annually	Total Value Monthly/Annually

11. Utilities Required

SI No.	Utility	Quantity required Monthly/Annually	Total Value Monthly/Annually

12. Sources of Obtaining Raw Material

Raw Materials	Sources

Market and Market Details

13. Proposed Sale Price of the Product/Service .....

.....

.....

14. Quantity of Products/Service proposed to be sold

SI No.	Products/Services	Quantity to be sold Monthly/Annually	Sales Amount Monthly/Annually

15. Brief description of customers to whom the product/service is proposed to be sold .....

.....

.....

16. Reasons/Purpose for which the customers would buy this product/ service .....
- .....
- .....
17. Brief mention of the expected or existing competitors of the product/ service .....
- .....
- .....
18. Brief description of proposed methods and strategy for selling, distributing and promoting product/services .....
- .....
- .....

**Cost and Capital for the Enterprise**

**19. Working Capital**

Sl No.	Items	Total Value per month
1.	Cost of raw materials	
2.	Production/Manufacturing Cost	
	i Utility Cost	
	ii Labour Cost	
3.	Administrative Cost – Pay	
4.	Miscellaneous Cost	
	i. Selling Cost	
	ii Other Cost	
	<b>Total</b>	

**20. Cost of Project**

- a. Capital Cost \_\_\_\_\_
- b. Working Capital Requirement \_\_\_\_\_
- c. Any Other \_\_\_\_\_
- \_\_\_\_\_
- Total \_\_\_\_\_

## 21. Source of Funds

### a. Loan

How Much	From Whom	How and When will it be paid	Security that can be offered

b. Grant \_\_\_\_\_

c. Group's Investment \_\_\_\_\_

d. Any other \_\_\_\_\_

Total \_\_\_\_\_

## 22. Profitability

a. Sales (Yearly) \_\_\_\_\_

b. Working Capital (Annual from Point 19) \_\_\_\_\_

c. Depreciation on Machinery Equipment  
(10-15% as the case may be) \_\_\_\_\_

d. Interest on Loans (if any) \_\_\_\_\_

e. Gross Profit {a – (b+c+d)} \_\_\_\_\_

In case of Group enterprise, Profit per group member is calculated by dividing Gross Profit with the number of members. \_\_\_\_\_

## 23. Balance Sheet

How the Money is used (Assets)	Where the Money Comes From (Liabilities)
Case	Loan or Grant
Stocks	Group's Investment
Equipment	Others
<b>Total</b>	<b>Total</b>

**Kalahandi Masala  
(Spices Grinding Unit)**

Five women Malati, Sunita, Kajol, Runa and Saraswati belonging to village Bolba in Kalahandi district, jointly decided to start a small unit of grinding “Masala” – Turmeric and Chilly Powder.

They all are in their thirties, illiterate except Saraswati who recently picked up reading and writing, belongs to the scheduled caste and their annual family income is less than rupees twelve thousand (below poverty line).

Turmeric and chill are locally grown in abundance. Drying and grinding of spices indigenously is a common family practice of the area.

Six months ago these women met a social worker of a local Voluntary Organization who talked to them about the possibility of having income generating activity by organizing them into groups. They formed a group of 20 women and decided to raise common resources – ‘Rojgar Nidhi’ (fund for income Generation Activity) by contributing atleast rupees twenty per month per person. They have also received Grassroots Management Training (GMT), which empowered them to select and plan a microenterprise. They want to earn Rs. 200 each as wage per week besides share in profit.

Out of 20, these five women decided to form a sub-group to start a Masala Grinding Unit. They were assured a loan of Rs. 2000/- from the Rojgar Nidhi at interest rate of Re. 1/- per month per hundred. They think they can raise another Rs. 2000/- from their family sources. For purchase of pulverizer/grinder the local SC Corporation has agreed to give Rs. 9,000 as grant. The local bank officer told them that those who have received GMT can be given loan with 12% interest.

As part of the GMT, these women went to the district town to conduct a market survey. They found that many shopkeepers are ready to buy turmeric powder and also chill powder. four of them promised to buy more than a quintal every week. They informed that last year the price for turmeric powder varied between Rs. 25/- to Rs. 30/- per kg. And that for chilly powder between Rs. 40/- to Rs. 45/-. They were further informed that they will get 50 paise extra per packet if they supplied the item in polythene bags of 250 gms and 1 kg.

Shopkeepers told them that people within and outside the state prefer Haldi (Turmeric) powder from Kalhadi since it has a special flavour and a bright colour. For this reason, these women decided to name their unit and the product as “Kalahandi Masala”.

One of them, Sunita has a covered Varandah of 20 ft x 10 ft size, which she is offering free of cost as a common place of work. They recollected that the minimum and maximum prices for raw turmeric and raw chilli last year varied between Rs. 12.5 to Rs. 15 and Rs. 25 to Rs. 30 respectively. Because of the time and money limitation they decided to produce 10 to 12 kg. each of turmeric and chilli powder every day. They decided to produce on six days and one day they would go to the market to sell their product.

Saraswati and Runa went to the city to find out the details of machinery and equipment. They selected a 2 Hp pulverizer/grinder for Rs. 6,000/- that was

capable of grinding 20 kg. an hour. Besides the cost an additional amount of Rs. 420/- was the tax and Rs. 580/- had to be paid for installation of the machine. They also selected a heater, which cost Rs 500 to seal the plastic bags. These plastic bags were available for Rs. 25/- per 250 gms and consisted of approximately 100 bags. They also selected a balance for weights of Rs. 500/-.

Village Bolba has electricity and they can get connection to use their grinder. For this they had to pay Rs. 250 per month. They know that there are 3-4 groups in the vicinity who are regularly producing turmeric powder. However, none of them is producing both turmeric and chilli powder. Similarly, none of them are packaging it in polythene bags of 250 gms., 500 gms. and 1 kg. There is a tempoo available that can be used for transporting the raw material and finished product in the market. The group has to pay an additional Rs. 300/- per month for both these activities.

Before launching, these women are busy preparing their business plan which will give them a clear picture of the activity they wish to carry out. This would also give them a base to calculate the resources required, marketing strategy to be followed and the profitability the Unit is going to yield.