
UNIT 13 MANAGING AND OPERATING A SMALL BUSINESS

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13.0 OBJECTIVES

After studying this unit, we should be able to:

- 1 Identify the challenges of operating a small business;
- 1 Explain the key factors in managing a business;
- 1 Manage the growth and downturn of the business; and
- 1 Plan for disaster management and recovery.

13.1 INTRODUCTION

Starting a dairy business is a tough task which requires your full time involvement.

This statement is true for all businesses and not only for dairy business. In order to be a successful businessman or an entrepreneur you need to possess some basic skills like planning and management to establish and run successful business.

Once you have decided that you want to own a small business, you need to fully and sincerely get to the bottom of the business, its intricacies, market dynamics etc. The initial phase of setting up a business is the toughest one. This is mainly due to absence of history since your firm is new into the business, competition from existing players, lack of trust amongst various stakeholders in the business e.g. suppliers, buyers etc., hostility from the competitors and many more reasons which are unanticipated.

When you are doing a job you are not exposed to many aspects of the business since there are well defined functions and you are a stakeholder in only part of the overall decision making in the organization. If you are a buying officer in an organization then how financial aspects of the business are handled, you are not aware of. Similarly, there would be human resource aspect, or sales management aspect which you would not be aware of. In business everything is your baby and you have to take decisions for all functions, be it, finance, human resource, production, supplies, purchasing etc.

This unit will help you make certain that you have covered all the critical aspects of becoming a successful entrepreneur. Let us discuss the important aspects of operating a small business.

13.2 CHALLENGES OF OPERATING A SMALL BUSINESS

Starting our own business can be a rewarding and exciting venture. However, we must be prepared and we must understand the basics of operating our own business. Planning is one of the most important aspects of starting a business. Proper planning is needed for success in business and, for that matter, anything we do in life. There are a wide variety of ways to put together the operations of our business so that it functions effectively and efficiently. The model that works best for us will be related to our objectives, our product or service, and our personal operational style. However, there are a number of functions that every business needs to address simply as part of doing business. Let us describe some areas with respect to starting a dairy business that we need to know about to keep our business running with minimal effort.



i. Financial Resource Management

Financial Management is the process of managing the:

- a. Financial resources – It includes accounting and financial reporting,
- b. Budgeting – Dividing costs under various heads and planning for the year
- c. Accounts Payables and Receivables
- d. Working Capital Management
- e. Insurance for a business.

Financial Resource Management - The financial management system for a small business includes both how we are financing it as well as how we manage the money in the business. All businesses require some form of financing. We need to learn and be very thorough about raising capital, borrowing money and managing the financial operations of our business.

The bookkeeping and accounting systems, recordkeeping, taxes, collecting money, insurance, budgeting, and managing risk are all part of keeping our business financially solvent. While most of us consider this the most painful part of running a business, it needs to be handled well if we plan to stay in business. Financing our business is often the critical component to success. There are a wide variety of ways this can be accomplished, depending upon the credit history of our business and how established it is in the market.

In setting up a financial management system our first decision is whether we will manage our financial records ourselves or whether we will have someone else do it for us. Bookkeeping refers to the daily operation of an accounting system and recording routine transactions within the appropriate accounts. An accounting system defines the process of identifying, measuring, recording and communicating financial information about the business.

Budgeting – Budgeting is a very important exercise to keep watch and control over our actual versus planned performance. We must be ready with the next 3 month's plan in advance to avoid any surprises. Mid course corrections, re-working of forecast numbers is a must to achieve uniformity in the cash flows.

Accounts Receivables and Payables (AR and AP) - Setting up an accounting system, collecting bills, paying employees, suppliers, and taxes correctly and on time are all part of running a small business. And, unless accounting is our business, it is often the bane of the small business owner. Setting up a system that does what we need with the minimum of maintenance can make running a dairy plant not only more pleasant, but it can save us from problems down the road.

Regular updation and follow-up are the only ways to manage AR and AP. One must try to stretch payables as long as possible without affecting one's credibility in the market and on the other hand must be alert enough to get its receivables in time as promised by the customer. A good AR and AP management system would ensure reduced working capital in the business and also reduced interest costs on working capital loans/limits taken from the financial institutions.

Working Capital Management - Although finding financing for our business is just one aspect of the overall financial management of our business, it is a critical factor for the success of many small businesses. The hardest question to answer is what kind of capital should we seek? Often we are not aware of options available to us or don't have the time to explore what is possible. Using personal or family funds to finance a business is called Boot Strapping the business. Boot strapping can involve personal investment by the founders, their family and friends and/or the owners foregoing salary.

For those of us who are looking for external financing, there are various levels available depending upon the stage of development our business is in. External funds can be raised through grants, loans, investors, mergers, going public, and selling all or part of the business.

Insurance for Business - Another area that our financial management system needs to address is risk. Any good system should minimize the risks in our business. Certainly, insurance needs to be considered not only for our property, office, equipment, and employees, but also for loss of critical employees. Clearly, financial management encompasses a number of crucial areas of our business. Take time to set them up right. It will make a significant difference in our stress levels and in the bottom line for our business.

Government Support and Financial Schemes

There are many schemes run by government of India to promote small scale enterprise. There is a separate ministry of Agriculture to look after interests of farmers. In addition, there is a ministry of Agro and Rural Industry under which Prime Minister's Rozgar Yojana (PMRY) is run for providing financial aid as well as consultancy to set-up a small enterprise. The details of the scheme can be taken from <http://ari.gov.in/pmrymain.htm> or see **Appendix 1**. Also, there is a Ministry for Food Processing Industries which provides financial assistance at very low interest rates and with huge subsidy component. To get more details please visit <http://mofpi.nic.in> or see **Appendix 2**.

List of ministries which offer various schemes, consultancy, and financial assistance to set-up a new venture is as given below:

Ministry of Agriculture

Ministry of Agro and Rural Industry

Ministry of Rural Development

Ministry of Food Processing Industries

Ministry of Small Scale Industries

Note: List of all other ministries of government of India can be taken from <http://goirectory.nic.in/exe.htm>

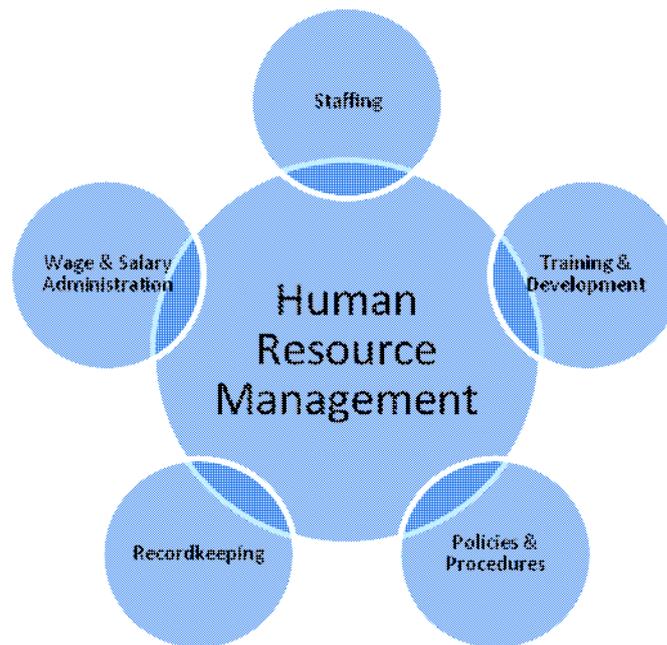
ii. Human Resource Management

Human Resource refers to the labor, physical and mental abilities that the people in our organization contribute to producing the goods and services of our business. The employees of a business are its most important asset. We need to learn how to find and manage our employees successfully. Many small businesses operate with no employees. One person handles the whole business with perhaps occasional help from family or friends. But in case of setting up a dairy plant or

Making the leap to hiring someone to help is a big one because all of a sudden we need to worry about payroll, benefits, employee insurance, and what seems like a myriad of other details. And, this does not even take into consideration the host of problems that can arise from personality conflicts and loss-of-control of all the processes in running our business.

In case of a dairy business manpower at senior level is not much needed. One can have a procurement officer, quality control officer, and a production officer to begin with. Administration etc. should be managed by self. Rest of the people would be mainly workers who one should always try to outsource. It means one should not have them on one's roles because it leads to many legal complications over a period of time due to very stringent labor laws of our country. Workers must be taken on contract through a labor contractor.

The administration of human resources involves:



Staffing involves developing personnel sources, recruiting potential employees, equal employment opportunity, hiring issues, the selection process, new employee orientation, and termination. Even in a very small set-up like milk and milk products testing lab, staffing is a critical decision. A loyal, trained, sincere person with high integrity is needed to make your business a success. A loyal and expert quality control person is an asset for a dairy plant.

Training and Development

Initial training of new workers is must. It helps them do their work faster than the normal e.g. they must know the right procedure for lifting milk can and tipping it over for fast weighing of incoming milk.

Policies and Procedures

Policies and procedures deal with instituting health and safety standards, handling of employee grievances, setting employee work hours, and worker relations. Good processes are the cornerstone of any successful business. Initially you may think that too much focus on processes delay decision making but gradually, when the business grows, one realizes the need for good systems and processes for better control and operational efficiencies. Good processes pay in the long run.

Recordkeeping

Recordkeeping involves making certain records as per labor laws governing employers, maintaining individual employee files and records of all functions, and preparing daily reports for better control over the business. Recordkeeping is a must from legal point of view. Running a business means complying with many statutory government regulations. Laws of the land must be followed sincerely and strictly.

Wage and Salary Administration

Wage and salary administration includes job analysis, preparation of job descriptions, pay surveys, compensation, employment taxes, and fringe benefits. As explained in the earlier unit Entrepreneurship and Delegation, wage and salary are very sensitive issues and need your personal attention and decision making.

iii. Logistics and Supply Chain

Any business which involves a physical product requires logistics of one sort or another to carry out its operations. Whether it's operating a small warehouse or stockroom to store, pick and pack your customer orders or arranging delivery of your products to customers, even the smallest businesses require logistics. Logistics includes all the processes required which goes from procurement of raw materials to end customer delivery of finished goods, including purchasing, inventory management, warehousing, shipping and even customer returns.

Unlike large organizations, small businesses don't have huge budgets for logistics and many people available to carry out these tasks. We need to learn about logistics to be able to do it ourselves, or hire staff that can do it for us. The size and amount of logistics activity we have will determine what type of third party arrangement we require. If we have got less than 500 cartons to ship each month, we're probably looking at packing them ourselves, or with appropriate assistance, and then shipping them direct by courier or through a local courier center. This of course assumes we have the space to carry out the packing operation and stage the cartons for shipping. If we don't, many courier centers have appropriate facilities, equipment and packing materials to assist. But in case of dairy business we need to rely on our own resources or outsource the work to a reliable contractor for carrying milk from milk procurement centers or village level societies. As we know milk is a perishable commodity. Inefficient transport service would result in heavy losses in dairy business.

Playing to win requires an agile, responsive, demand-driven supply chain that can embrace complexity and variability without compromising performance. We need to manage supply chain to synchronize cycles of demand, supply, and product - so that our supply chain can rapidly get product to customers wherever they are, and/or find new manufacturers or suppliers with the available capacity to handle pent-up demand. Whether our direction is upstream or downstream, the result is an adaptive supply chain that helps you win customers and market share while improving revenue and profitability.

iv. Marketing

Marketing is all about satisfying customer needs. We need to learn how to better understand customer needs and ways to satisfy those needs. Marketing consists

of advertising and promoting our product or service in order to sell it. Our business produces goods and services. Marketing is what lets potential customers know that they are available for sale. Sales, advertising, and public relations are each essential components of marketing and each require specialized skills and expertise. While a small business may have only one person performing all these functions under the marketing umbrella, knowledge of each area is important to develop a focused effort.

A focus on what the customer wants and needs is essential to successful marketing efforts. This customer-orientation should go hand-in-hand with your objective of maintaining a profitable volume of sales. Marketing is a creative process combining all of the activities needed to accomplish both of these objectives.

Product Identification

The process of marketing begins with discovering what product customers want to buy. Providing the features and quality customers want is a critical first step in marketing. We will be facing an uphill battle if we provide something we want to produce and then try to convince someone to buy it. Though, milk is a high consumption food item and necessary part of our daily life still it is not necessary that whatever you produce would be bought by the market. It is highly possible that the market, for which you are planning to introduce liquid milk, is already saturated due to high competition. So, you need to think of a value added product like flavored milk or perhaps ice-cream for these markets.

4 P's of Marketing

Once we have a product, we need to determine a price for the product, let potential customers know about our product, and make it available to them. The product, price, promotion, and place are often called the four 'Ps' of marketing. If we cover the four P's well, we should have no trouble achieving a fifth P, profits.

Marketing activities are numerous and varied because they basically include everything needed to get a product off the drawing board and into the hands of the customer. Marketing of any product encompasses gamut of activities like including activities such as **designing** the product so it will be desirable to customers by using tools such as market research and pricing; **promoting** the product so people will know about it by using tools such as public relations, advertising, marketing communications; and **exchanging** it with the customer through sales and distribution.

Usually, successful marketing of a product or service relies upon the coordination of several business areas. Therefore, marketing requires coordinating with everyone who plays a part in the common goal of pleasing the customer. For a small business owner who has no or few employees, this means looking at problems through a variety of lenses so that all the bases of marketing, production, financial management, and human resources are covered.

Check Your Progress - 1

1. State the four main challenges of operating a small business.

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2. What is Financial Management?

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3. What do you mean by Human Resource?

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4. Define Boot Strapping.

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**13.3 KEY FACTORS IN MANAGING A
BUSINESS**

Management is commonly considered to be the central operations of the business - Financial, Legal, Human Resources, Office Space, Equipment, and Organization, Marketing, and Production. However, mostly management is described as a combination of five processes -

1. Planning
2. Organizing
3. Staffing
4. Directing
5. Controlling



Let us see what these areas cover in the business model.

1. **Planning and Organizing:** It involves determining the appropriate objectives for the business and how those objectives would be accomplished. This is one of the most commonly skipped steps in running a small business, yet it is also the one thing that can keep us on track. Organizing structures the resources and activities of the business so that the objectives are accomplished.
2. **Staffing** involves hiring the right people to do the activities of the business, training them to do the job, and rewarding them appropriately. Even if we are the only employee of the business, there may be issues like health insurance that may be of interest to us. Remember we are part of the human resources of our firm and our needs need to be met also.
3. **Directing** is really leadership - motivating the employees to achieve the business objectives. Leadership is often considered an art, but there are a lot of tools that can help us to be better at it. You must try to be impartial and even if biasness is there in your decisions but you must appear to be unbiased to keep all employees motivated and enthusiastic. Channelizing your employee's energy in a positive direction for the fulfillment of your business objective is a great challenge. You as a leader only could see the bigger picture. You need to create it in front of your employees and make them not only appreciate it but also work towards making it a reality.
4. **Controlling** is the process of evaluation and correction that is needed to make certain that the business stays on track towards its goals. Controlling does not mean gate-keeping. The controls should be such that they prevent your employees from moving in the wrong direction which may be harmful for your business. Controls should be such that they facilitate business, impart efficiency and keep your employees alert and conscious of their duties. Too much control and monitoring is not good for the business. You must give sufficient space to your employees so that they use their own intelligence and knowledge for the betterment of your business.

i. Managing Government Bodies

way. However, government policies help create entrepreneurial boom by increasing access to capital, developing new technologies and opening new markets. We often look to the government to break up or regulate companies that appeared to be developing so much power that they could defy market forces. We also rely on the government to address matters the private economy overlooks, from education to protecting the environment. And despite our advocacy of market principles, we have used the government at times to nurture new industries, and at times even to protect Indian companies from competition.

For setting up a small dairy plant there are many local municipal and state government agencies involved for giving various sanctions and clearances. For example, pollution control board gives pollution clearance certificate without which your plant would be illegal and liable to penalties or may be closed down by authorities anytime. Take another example, equipment installed in your plant needs to strictly comply with BIS standards for proper hygiene and sanitation.

Indian Boiler Act - 1923: For installing a boiler you need to comply with the Indian Boiler Act (IBR) as prescribed by the state government. All boilers which produce steam at pressure above 3Kg/sq. cm fall under IBR act. You need to get sanction from the state industries department for installing any boiler. A boiler inspector visits dairy premises at regular intervals to check worthiness of boiler and steam pipelines. *See Appendix 3*

Factory Act - 1881: The objectives of this act are to ensure adequate safety measures and to promote the health and welfare of the workers employed in factories. To ensure that there is no random growth of factories without adequate provision of health and safety or workforce and prior approval of plans for setting-up of a factory. It regulates working conditions in factories across the country. It forces the entrepreneur to adhere to and provide basic minimum standards for safe and healthy work environment in the factory. *See Appendix 4*

At local level you need to coordinate with local police person, electricity personnel who would come for periodic checks to verify whether you are drawing load within the prescribed and allotted limits or not and many more agencies like factory inspector, labor commissioner office etc.

Another important government agency with which you need to coordinate is the Income Tax Department. It also operates through its subordinate departments, which help it to perform its responsibility on time in a better manner. We need to understand the tax policies that govern our business. We need to state our income earned as a profit or gain in our business or profession so that our income tax assessment can be done conveniently.

ii. Managing Legal Aspects

Understanding the legal issues involving tax requirements is a necessary aspect of all businesses. We need to learn about payroll taxes, employee identification numbers, income taxes, and other required taxes like central excise, service tax etc. Following the conceptual stage of starting a business, a prospective owner will move towards the actual legal formation of the business. There is much that needs to be known about forms of ownership, required licenses and business law. We don't need to have a lawyer in house, but we definitely need to make certain that all the operations of our business are legal. Some of the issues to consider are business licenses, determining the correct legal form of our business, pollution

clearance, alliance agreements, copyrights, trademarks, patents, contracts with suppliers, and employment law.

There are a wide variety of legal issues that we can face in starting our business. During various stages of business there are different issues that come up. For example, at the time of starting the issues faced by you would be different from the issues that would come up while business is a few years old. Some of the critical stages are:

- a. Starting a business – Land acquisition issues, pollution clearance issues, getting various numbers from government agencies like service tax number, PAN number etc.
- b. After starting the business i.e. doing a business – Regular filing of tax returns, coordination with labor office, filing of various government taxes etc.
- c. Getting out of business – informing company affairs office, closing firm's bank accounts, filing of final tax returns etc.

It is useful to have some expert who you can consult at regular intervals about issues that come up. Therefore, selecting a lawyer or a chartered accountant we can call when we need to is always advisable.

iii. Managing Partnership

Every business is conducted either single handedly or in association with other persons. The benefits of managing business in group and associations are numerous and hence it is a common and most desirable form of doing business. If the group has acquired a status of company, whether public or private, then it has certain privileges and advantages, which are not available to partnership firms and other associations. On incorporation, the company acquires a separate legal entity distinct from and independent of its members. Unlike a partnership firm, which has no separate legal entity, a company has a separate corporate existence.

Partnership does not necessarily mean incorporation of financial investor in company or having your friend as a stakeholder who started with you as a business partner. That is too narrow a definition of partnership in today's business environment. Partnerships are internal as well as external.

Internal partnership can be defined as relationship with your partner who legally owns a part of the business. For example, Ramesh and Ravi get into a partnership and start a firm. Ramesh owns 60% of the firm and Ravi owns remaining 40%. This is an internal partnership which is legally tenable since a formal agreement is signed and registered in the court of law.

External relationship can be defined as relationship with your vendors, suppliers and distributors who sell your product in the market. They can be termed as external stakeholders of the firm. They do not have legal ownership in the firm but they are stakeholder through a legal contract which regulates financial transactions between them and the firm. This contract only gives them right to sell your products but they do not own the firm.

Managing relationship with both external as well internal stakeholders is a tough

task. All partnerships are based on the fundamentals of mutual trust and confidence in each others capabilities.

Every business starts with good intentions and on mutual trust and confidence. Usually a partnership firm is established by two or three or sometimes four old friends or classmates with very optimism. But managing a friendship is entirely different from managing partnership. As friends you do not have conflicting interests, neither you have any selfish motive nor you see shortcoming of your friend critically. Once you get into a partnership the whole story changes. There are conflicts due to many reasons like working style, dealing with clients, overlapping authorities, ego clash etc. Financial reasons become the biggest stumbling block for any partnership to survive long term.

Entering into a partnership is very easy but getting out of it is a very cumbersome and a painful process. The separation must be handled in a very objective manner. Financial matters must not spoil your relationship built over many decades. But usually partnerships end on acrimonious note when two old time friends not only stop talking to each other but initiate legal proceedings against each other.

To manage a partnership successfully, you must:

- 1 Define each partner's role very clearly
- 1 Define each partner's share equally, in legal terms
- 1 Not encroach each others work area unless asked for by other partner
- 1 Respect each other with respect to capability, decision making, and working style
- 1 Keep full faith in each others capabilities, integrity and loyalty towards business

Check Your Progress - 2

1) What are the five processes that comprise business management?

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2) Describe the three aspects that affect business management?

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3) Describe various types of stakeholders? How are they different from each other?

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13.4 MANAGING GROWTH

One big challenge for an entrepreneur is managing rapid growth which usually comes unanticipated and you are caught unawares. To manage growing operations you need to have open mind to implement changes in processes, policies, and employee mindset.

The growth of any business is closely tied to the application of good management skills and techniques. We need to learn all that we can about sound management principles. Anticipating the next stage of business growth and planning for it, can help to minimize the surprises your business will face. Fast growth itself can help motivate employees and help project a very positive image to customers. So we need to trumpet our successes continually to both employees and customers!

When setbacks occur, we need to explain them to employees. However, we should depict them as small blips in our course to success. Everyone wants to feel like he or she is on the winning team or buying products or services from the winning team. Success does breed success. Sustaining fast growth can be tricky, though. Preserving cash, keeping people motivated, and continually finding more office space are just a few of the issues that we will encounter. The farther in advance we plan and prepare for such challenges, the more likely it is that we will be able to minimize any negative effects.

The following are a few of the growth issues that we may have to contend with.

Hiring

In dairy business there are primarily two types of hiring – one is permanent employment and the second one is contractual employment. Permanent employment is suitable for managerial people or staff personnel who would work in the administrative department or the laboratory. But for managing production operation mostly workers should be on contract to reduce financial and legal costs. In India labor laws do not encourage you to go for permanent employment. Hiring a person is much easier than firing a person from the job. You must always try to keep your salary and wage bill as low as possible.

A fast-growth business means lots of hiring. And it's very easy to underestimate the time and direct costs of hiring new people and the right people. We need to spend considerable time and effort developing job descriptions, posting help-wanted ads, sorting through resumes, conducting and arranging phone and in-person interviews, and checking references. Even if we are very busy with other issues, we can't afford to skimp on the amount of time required to conduct a careful hiring process. If we hire someone who can't perform the job satisfactorily, our business performance will most likely suffer. If we have to fire someone, we will engender bad morale and run some legal risks. Or we may hire someone who can adequately perform the task, but has an attitude problem. The hiree might want to be doing something else or working at another firm. This type of

person will not perform to his or her full potential and may quit. Either way, we will have to go through the entire time-consuming hiring process again.

Unless our organization or company is large enough to have a human resources manager, this time will be spent by us or other managers / staff, which would be the time taken out from the management of ongoing business activities. Many small businesses underestimate the out-of-pocket costs necessary to conduct an employee search. Because responses to help-wanted advertising can be erratic, firms often find themselves advertising over an extended period of time in order to attract qualified candidates - especially for more demanding positions.

It is advisable to recruit people at responsible positions through reference. The reference can be from the existing employee who enjoys your confidence or external reference from your friend circle or other reliable acquaintance.

People

While every business benefits greatly from having good people, the importance of having above-average people in a fast-growth business can't be overemphasized. Workloads will constantly be expanding and may not be predictable. New issues and problems will constantly pop up and innovative solutions will have to be implemented quickly. You will be needing people who can think on their feet, adapt well to constant change, and put in the extra hours that will be needed to get you through the unusual pressures and surprises of managing a business in upward transition. In other words, you will need people who can get excited about being a part of your growing business.

Stagnant Employees

One of the thornier issues you are going to confront in a fast-growth business is that some people, even those who are committed to your business and work hard, won't be able to adjust to the changes brought about by growth. For example, the person who supervised two people in the warehouse comfortably and efficiently when you first started out may not be able to manage a team of forty. As the business grows you need to make hard and objective assessments of your key managers/employees. You need to ask yourself - are they up to handling an increased or changing workload? Can a strong assistant, supplemental education, automation, or computerization bring a weaker manager up to speed? Do you need to bring in a more senior manager to oversee that person's work? Or do you need to make the most difficult decision of all and replace them? Even one weak employee in a key position can really drag down the performance of an entire business.

The Impact of New People

We must understand this critical aspect of a growing organization. Current employees often feel threatened by the influx of new personnel. Senior employees are likely to feel that their stature within the organization is being undermined, and less senior people may feel that they are being neglected. Before you advertise or start seeking for new positions, you should work to retain the confidence of your existing staff. You need to involve your employees in the process of structuring new positions.

If a new position will cut into the responsibilities or authority of a current employee, you need to meet with that employee privately to discuss the need for an added position and, if the employee's performance has always been satisfactory, you need to say something positive about his performance or contributions to the company. You also need to emphasize your confidence in his or her ability to continue being a positive asset to the company.

When you are interviewing candidates for new positions, you need to ensure that position of all employees who may be threatened by the new position participate in the interviewing process. This will make them feel more confident about their position within the organization and less threatened by the new employee.

Money

Fast-growth businesses burn money! Even with good profits, there will almost certainly be times when a growing business will run tight on cash as expenditures occur before related sales are realized. The dairy business with huge procurement, logistics costs and inventory or receivables will run into this situation particularly fast. However, all fast-growth businesses are going to run into plenty of unforeseen costs. A close monitoring and astute forecasting would help you avoid tight spots in the business.

Planning

The faster a business is growing or changing, the more difficult it will be to plan future expenditures or income. But still we must plan for future. Careful planning and constant updating of plans, particularly cash flow projections, is of utmost importance in a fast-growing business. While most businesses may do a major overhaul of their projections and business plan once a year, with minor updates monthly, a fast-growth business should consider completely revamping its plans, or at least its cash flow projections, several times during the year because significant deviations from what was projected occur in ongoing sales and/or expenditures.

Because fast-growth business expenses have a tendency to skyrocket faster than sales, we need to stay on top of the changes in projected cash flows. This will enable us to make timely cuts in expenses and, if necessary, slow growth so that we don't run out of money. We need to keep in mind which areas can easily run on less cash or maintain momentum even with less growth. Poor cash management has resulted in many a businesses go bankrupt. Hence, good cash management at the time of great growth is essential for sustainability of the business.

Profits and Margins

In a fast-growth business it is very easy to become excited about rapidly rising sales and lose track of profits. This is especially true when an organization shifts from a very small entrepreneurial organization to a professional organization with many managers. We need to be aware that during the transitional/growth phases several overhead expenses can mount rapidly. Increase in marginal cost of adding every unit of incremental revenue to the top-line must be closely monitored. A

close watch over these overheads is critical for success of your business. It is highly probable that increase in marginal cost of procurement will go up more than the marginal increase in contribution per liter of milk. Now, you need to ask yourself - whether the increase in overheads (vehicle cost, repair and maintenance cost etc.) justify the additional volumes or not.

Let's take an example to understand this better. Suppose you have started with 10,000 litre per day capacity chilling center. Your total procurement cost per liter of milk is Rs.13/- out of which other overheads are Rs.1/- per liter i.e. Rs. 10,000/- per 10,000 litre of milk procurement. Since demand for your milk increased and, in turn, to meet demand you increased procurement radius and added 2 new routes, say of 1000 liters/day. As a result overheads increase by Rs. 3000/- per day. Hence, the overheads per liter of milk would now be Rs. 13,500/12,000 i.e. Rs.1.13 per litre. This is higher by 13 paise compared to the earlier cost of Rs.1/- per liter. Assume your contribution per litre of milk is Rs.2/- . The additional milk should have generated Rs.2000/- extra contribution and total of Rs.12,000/-. But in reality your contribution has come down from Rs.1/- to 87 paise. Hence, the amount would come down to Rs.10,400/-. So, instead of getting Rs.12,000/- as contribution you end up gaining only Rs.400/- extra for the additional 2000 litre of milk.

Good, sustainable profit margins are essential for growth. You will need fat profit margins even if you are trying to finance growth internally. A business with a 10 percent profit margin can financially sustain twice the growth rate of a similar business with only a 5 percent profit margin. You also need to remember that fat profit margins leave more room for error. With thin profit margins even a small mistake or expense underestimation can plunge your firm into an unprofitable state.

Taxes

It is easy to underestimate the impact of taxes when planning for a growing business. We should not assume that taxes increase parallel to rise in sales. As our business becomes more profitable and grows, our tax bill will likely increase at a higher rate than anticipated because either we personally, or the company (if it is incorporated), will move into a higher tax bracket. We should also remember that the size of our quarterly tax estimates will need to increase in order to cover the total yearly increase in taxes.

Facilities

A fast-growth business may need an increasing amount of space to house additional equipment and/or personnel. For example, milk inflow to your chilling center has increased from 10,000 liters to 20,000 liters per day. Then you may need to add one more compressor and a chiller with some additional pumping capacity to manage daily operations in-time.

We could anticipate growth and lease an initial space that will accommodate plenty of future growth, but this commits us to a space larger than we need now and squanders money needlessly. Or we may find a landlord willing to rent space on a short-term basis - six months to a year - so that we can upgrade square footage with some immediacy. However, moving can be disruptive to operations. What should we do then?

Compromise! We need to try to attach an option to our lease that allows us to continue renting for renewable twelve-month periods of time after an initial two to three-year firm commitment. And simultaneously, look for a facility that has a small amount of growth space for our operations. If the overcrowding is severe, we should consider renting a separate, nearby space for one group or department until such time as we can rent a space large enough to hold all of our staff.

Some surprises in life are great, but in business, they can mean ‘make or break’. Anticipating what lies ahead is no easy task, and the best laid plans need to be flexible to reflect what is happening in the real world. That’s why clever companies treat planning as a ‘work in progress,’ keeping them on track while freeing them up to spot opportunities or risks around the corner.

The challenge for growing companies is to keep a step ahead of changing market conditions and other important variables such as new technologies. How individual companies react to future conditions often depends on which stage in the business life cycle they are in. In today’s technology driven world business lifecycles have accelerated, but good management principles still - and always will - apply.

Any business can benefit from understanding where they are along the growth curve so they can appropriately manage where they are going to next. Avoiding unpleasant surprises is what it is all about. By understanding this, we can recognize potential problems in advance and plan for them. We need to

ensure that our business is operating at its peak and predict challenges and opportunities. We also need to learn how to free up our time to concentrate on the bigger picture. In addition, we should develop a successful systems approach for our business and create a growth plan for long-term success.

13.5 MANAGING DOWNTURN

Managing downturn involves controlling, which is the process of evaluation and correction that is needed to make certain that the business stays on track towards its goals. Planning and controlling are closely linked since planning sets the goals and standards for performance and controlling essentially checks to make certain that the plan is being followed. It also provides feedback so that the plan can be revised, if needed. Often small business owners handle all these responsibilities. The important thing is to be aware that they need to be handled.

Running or managing a small business often leaves little time to keep track of national, and even regional, economic indicators that might affect our industry and our specific operation. Yet conditions such as interest rates, inflation, gross national product, stock prices and consumer confidence have direct impact on our profitability and on relationships with vendors, customers and even employees. During periods of economic decline, whether widespread or cyclical for the dairy business, entrepreneurs are most likely to bear the brunt.

However, innovative small firms can gain market share by taking it away from competitors unable to adjust to shifting market conditions. They can maintain a strong cash stream throughout the downturn, in contrast to other companies that may have liquidity problems. Also, they can become a leaner, more cost-effective

and more efficient operation, better positioned to do well when the market improves. The challenge is to be aggressive and imaginative. Entrepreneurs who survive and even prosper during hard times must be able to look beyond the present, to overcome the constraints of tradition, to see the firm from a new perspective, and to do business differently. One live example of this is Mother Dairy. Though it is a big dairy but the kind of nimbleness and foresight its management showed not only to survive but also to grow is worth a case study. Mother Dairy was initially only a liquid milk plant. Subsequently it entered into ice-creams, launched new products like Mishti Dahi, packaged curd, flavored milk etc. to develop market and in turn increase its size.

Managing Inventory

We need to watch our inventories carefully, but not hold them down so tight that we lose sales. Typically during a slowdown, there is an imbalance between slumping retail sales and bloated inventories. One possibility is converting inventories into cash. This way if sales nosedive, less of our cash is locked into unproductive assets. We also need to monitor our cash flow very diligently, and forecast it monthly to ensure that expenses and planned expenditures are in line with accounts receivable. Also, we need to make sure that our financial statements provide information that is timely, relevant and accurate. Milk and milk products are anyway perishable items hence it becomes even more important that you are not stuck with high stock of butter or flavored milk etc. since the carrying cost of inventory would be too exorbitant to manage.

Managing Overheads, receivables, space and other costs

We should try to separate the “nice to do” from the “have to do,” and eliminate nonessential expenses as much as possible. Ask yourself if a particular activity is necessary? If not, don’t do it. Also consider cutting personal spending. Reduce or stretch out debt, and build up our capital reserves. Watch the credit-worthiness of our customers, even bread and butter accounts. Remaining close to existing customers, and checking to see how they are getting on during the economic downturn, not only helps avoid unpleasant surprises but could also lead to new opportunities.

We need to get aggressive with collections. According to a study, when business is good, companies tend to become lazy about collecting receivables. This can prove dangerous in a recession.

In addition, we should strengthen our banking relationships, which include letting lenders know about the company’s financial position. This is a very important aspect of managing downturn. If, similar to many companies, we acquired space in anticipation of staff expansion that ultimately proved unnecessary, this may be a good time to sublet that space - thus reducing overhead and generating extra income.

Economic downturn is the time to be prudently aggressive in the marketplace. We need to actively seek out new business, and perhaps add a salesperson or two or an extra service to give us an edge over competition. Similarly, we should not skimp on service and quality by being understaffed. In strategizing how to build our customer base and induce current customers to raise revenues, the importance of good service cannot be overstressed, especially as their buying power or willingness to spend is lessened during tough economic times.

Historically, many businesses reduce advertising and promotional expenditures rather than slash fixed costs during hard times. However, studies have shown that those maintaining or increasing ad outlays during slowdowns wind up outselling rivals who cut back. Savvy marketers can boost sales and market share, even if the industry in which they compete is in a slump, by focusing on short-term tactical techniques such as sales and price promotions. Another mistake during recessionary times is to reduce training budgets. Training can best be conducted during slack periods, especially low-cost, on-the-job instruction and broadened skill acquisition.

We need to get employees involved in policy choices as well as tactics and implementation. To do so, we should meet with staff regularly to exchange ideas on boosting productivity and other issues. While economic downturns are admittedly difficult, and increase the obstacles small businesses face in trying to survive and grow, it is not axiomatic that companies have to slash earnings and compress market share. That recourse befalls firms that take too long to realize what must be done, or which resist change. Resourceful entrepreneurs capture the available opportunities, and take steps during today’s hard times to lay the groundwork for tomorrow’s prosperity.

Check Your Progress - 3

1. Describe the ten issues that affect growth of a business.
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2. What are the two areas that need not have a reduced budget during economic downturn?
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13.6 DISASTER PLANNING AND RECOVERY

The best time to respond to a disaster is before it happens. A relatively small investment of time and money now may prevent severe damage and disruption of life and business in the future. Every area in the country is subject to some kind of disaster - flood, hurricane, earthquake, ice storm, and landslide, to name a few. Even man-made disasters, such as oil spill, civil unrest, and fire can devastate the surrounding neighborhood and economy. Even though an area has never been damaged before, there is no guarantee that it will not happen tomorrow. A good example of disaster striking was when, a few years back, in Loonkaransar Rajasthan Cooperative Dairy Federations’ chilling center was badly affected by cloud burst. This chilling center is in a desert where chances of flood were as good as sun rising from the west. But cloud burst broke that myth and the whole area was submersed in water for almost a month.

We need to ask ourselves: what if the worst happened? How would it affect my business and my family? Would we survive if the business were closed down for weeks, months, or perhaps my entire revenue season? What can I do to make sure we survive? Be a little pessimistic now, and assume it can happen to us. To rest a little more easily in the future, we need to develop a disaster plan for our business now.

i. Designing a Plan

We need to put together a Disaster Planning Toolkit to identify the hazards we may face, plan for and reduce the impact of disasters, identify ways we might be able to keep our doors open after a disaster hits, and put together insurance, disaster supplies and the things we can do to make our business more disaster resistant.

ii. Safety and Rescue

We should always keep in mind the safety of our employees in a situation of disaster. The rescue of employees to a safer place needs to be the foremost thought in case we are hit by a disaster. We also need to develop contingency plans to remain in operation if our office, plant, or store is unusable. Could we operate out of our home or a nearby storefront? Could we quickly transport critical items such as plant machinery, equipment, and raw material etc.? Could we save replaced equipment and reactivate it in an emergency? Could we store inventory, equipment, and supplies off-site? Examine the possibilities, make a plan, and assure that we and our employees know what to do during emergency.

Keep an extra of any hard-to-replace parts or supplies on hand. Store them off-site. If this cannot be done, work with suppliers in advance to assure a secure and adequate supply. Store several days supply in a place that is not vulnerable to the same disaster as our facility. Be sure to keep this auxiliary supply up-to-date. Make upgrades now that would prevent possible future damage. Strengthening exterior walls, adding a retaining wall, or shoring up a creek bank are relatively minor projects in comparison to losing the building to flood waters.

We also need to purchase a backup generator to maintain full operations or critical functions such as refrigeration, lighting, security systems, and computer control in the event of a power failure. We need to have back-up vendors and shippers in place in case our primary ones are disabled. In addition, we need to guard against loss of our customer base by diversifying our product lines, sales locations, or target customers.

iii. Computer and Paper Files

We need to make backup copies of all critical records such as accounting and employee data, as well as customer lists, production formulas, and inventory. In addition, we need to keep a backup copy of our computers basic operating system, boot files, and critical software. We should store a copy of all vital information on-site and a second in a safe off-site location and make it a critical part of our routine to regularly back up files.

Also, we should keep invoices, shipping lists, and other documentation of our system configuration off-site so we can quickly order the correct replacement components. We need to take care of credit checks, purchase accounts and

other vendor requirements in advance so that the vendor can ship replacements immediately.

We need to protect all computer and phone equipment through power and phone lines. A power surge through a telephone line can destroy an entire computer through a connected modem. We should invest in a surge protector that has a battery backup to assure that systems keep working through blackouts. In addition, we need to maintain an up-to-date copy of phone numbers, computer and Internet logon codes and passwords, employee phone numbers and other critical information in an accessible location. Also, we need to develop an employee ‘telephone tree’ to rapidly contact employees in an emergency.

iv. Insurance Coverage

We need to review our current insurance coverage. Is it enough to get our business back in operation? Will it cover the replacement cost of vital facilities? We need to make it a regular annual procedure to review and update insurance. Also, we should remember that insurance on mortgaged property probably only covers the lender with nothing left over for us.

We should be aware of our contents insurance. Does it cover the replacement cost of critical equipment? We should also know what our insurance does not cover. Most general casualty policies do not cover flood damage. Many require additional riders for windstorm, sewer backup, or earth movement. We need to consider adding coverage for likely perils, especially flood insurance. Also, we need to consider business interruption insurance that assists us with operating needs during a period of shutdown. It may help us meet payrolls, pay vendors, and purchase inventory until we are in full operation again. Also we need to be prepared for the extraordinary costs of a disaster such as leasing temporary equipment, restoring lost data, and hiring temporary workers.

We should not assume that, just because it never happened before, it never will. Flooding patterns are changed by development: water, which runs off new streets and parking lots, may overwhelm nearby streams and surrounding land. Landslides and sinkholes may develop because of distant earth movement, natural or man-made. The creek by our building may be a tiny, placid stream that has never flooded, but a downpour may change it into a destructive torrent that destroys our building foundation. Therefore, we should always plan for the worst.

Check Your Progress - 4

1. What are the four key areas that need to be dealt with during disaster management?

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2. When is the best time to respond to a disaster and why?

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13.7 LET US SUM UP

Owning a business is the dream of many of us and starting that business converts your dream into reality. However, there is a gap between our dream and reality that can only be filled with careful planning. As a business owner, we will need a plan to avoid pitfalls, to achieve our goals and to build a profitable business. Beyond a doubt, preparing an adequate business plan is the most important step in starting a new business. A comprehensive business plan will be our guide to managing a successful business.

There are many challenges that are involved in running a small business. We need to analyse the management of finance and human resources, logistics and supply chain, and marketing to gain a proper knowledge of how the operational system works. We also need to identify the key factors, such as managing government bodies, legal aspects, and partnerships that have an overall effect on business management. In addition, we need to understand how to manage business growth and economic downturn as well as recover ourselves from any kind of disaster.

13.8 KEY WORDS

- Boot strapping** : Using personal or family funds to finance a business
- Book-keeping** : The daily operation of an accounting system and recording routine transactions within the appropriate accounts
- Financial Management** : the process of managing the financial resources, including accounting and financial reporting, budgeting, collecting accounts receivable, risk management, and insurance for a business
- Human Resource** : the labor, physical and mental abilities that the people in our organization contribute to producing the goods and services of our business.
- Logistics** : Includes all the processes required to go from raw materials to end customer delivery, including purchasing, inventory management, warehousing, shipping and even customer returns
- Planning** : Determining the appropriate objectives for the business and how those objectives would be accomplished

Staffing : Hiring the right people to do the activities of the business, training them to do the job, and rewarding them appropriately

13.9 SOME USEFUL BOOKS

Peter Wilson, Sue Bates. 2003 The Essential Guide to Managing Small Business Growth, John Wiley and Sons Inc. ISBN: 978-0-470-85051

Russell Roberts, Philip Lief Group. 101 Best Businesses to Start- The Essential Source Book of Success Stories, Practical Advice, and the Hottest Ideas, Bantam Dell Pub Group.

V. Padmanand, V.G. Patel. (2004). Managing India's Small Industrial Economy, SAGE publications India Pvt. Ltd.

Common Sence Business – Managing your small company; Steve Gottery, 2005; Harper Collins

13.10 ANSWERS TO CHECK OUR PROGRESS

Our answer should include the following points:

Check Your Progress - 1

1. Financial resource management, human resource management, logistics and supply chain, and marketing.
2. Financial Management is the process of managing the financial resources, including accounting and financial reporting, budgeting, collecting accounts receivable, risk management, and insurance for a business.
3. Human Resource refers to the labor, physical and mental abilities that the people in our organization contribute to producing the goods and services of our business.
4. Using personal or family funds to finance a business is called Boot Strapping the business. Boot strapping can involve personal investment by the founders, their family and friends and/or the owners foregoing salary.

Check Your Progress - 2

1. Planning, Organizing, Staffing, Directing, and Controlling.
2. Managing government bodies, legal aspects, and partnerships.

Check Your Progress - 3

1. Hiring, people, stagnant managers, impact of new people, money, planning, profits, profit margins, taxes, and facilities.
2. Advertising and promotional expenditures and training budgets.

Check Your Progress - 4

1. Designing a plan, safety and rescue, computer and paper files, and insurance coverage.
2. The best time to respond to a disaster is before it happens because a relatively small investment of time and money now may prevent severe damage and disruption of life and business in the future.