Business Start-up Training Programme

Trainee Workbook 4

Modules

14. Business Plan Preparation
15. Business Plan Evaluation
16. Business Plan Finalization
17. Business Start-up

Trainee Workbook 4

CONTENTS

14. Business Plan Preparation

Introduction

Module 14 covers the complete process of business plan preparation.

This module contains very important learning – knowledge and skills that are needed to persons who have committed to pursue entrepreneurial careers like you. Learning of this module will help entrepreneurs throughout the entrepreneurial life. In addition, the level of understanding and practicing of this learning either make or break the dream business.

However, it should be clearly noted that this trainee workbook is not meant for self-study purpose. This workbook is the fourth book of the workbook series prepared for the Business Startup Training Programme and it is a trainee-support material that should be used in the business startup training programme conducted by a competent entrepreneurship development trainer.

Since this workbook has been prepared for the potential entrepreneurs who are planning to start a business, this book contains many practical activities, exercises, self-assessments, analyses etc. Your trainer will guide you through the relevant sessions and you may refer to the relevant study components of the trainee workbook under the guidance of the trainer and carry out the activities accordingly.

If you follow the guidance properly, you will have a comprehensive business plan in your hand.

Executive Summary

1. Description of the Business

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2. Vision

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3. Mission

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4. Business Objectives

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5. Risk Management

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6. Marketing Information

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Description	Year 01	Year 02	Year 03	Year 04
Annual Break-even point				
Annual Sales Value				
Market Share				

7. Production Information

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Description	Year 1	Year 2	Year 3	Year 4
Annual capacity				
Annual capacity utilization				
Annual capacity utilization ratio				

8. Financial Information

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Description	Year 1	Year 2	Year 3	Year 4
Initial and future investment				
Sales income				
Gross profit				
Net profit				
Net assets				
Net working capital				
External debts				
Gross profit ratio				
Net profit ratio				
Return on investment				
Payback period				
Debt interest ratio				

1. Management & Organization Plan

1.1.Details of Management & Organization

<u>Details of the Entrepreneur</u>

Name of the entrepreneur :

Date of birth :

Age :

National identity card no. :

Educational qualifications :

Internship training :

Vocational training :

Vocational qualifications :

Work experience :

Business experience :

Certificates and awards received :

………………………………………………………………………

………………………………………………………………………

………………………………………………………………………

………………………………………………………………………

Personal address :

Telephone nos. – Fixed :

– Mobile :

Email :

WhatsApp :

Viber :

Imo :

Facebook :

Twitter :

Linkedin :

<u>Details of the Business</u>

Name of the business :

Legal mode of the business : (Sole proprietor / Partnership / Company)

Business registration no. :

Date of commencement of business :

Nature of the business : …………………………………………………………………

Brief description on the products : …………………………………………………………………

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……………………………………………………………………

……………………………………………………………………

……………………………………………………………………

Business address :

Telephone nos. Fixed: ……………………..

Mobile: ……………………

Email :

Web address :

WhatsApp :

Viber :

Imo :

Facebook :

Twitter :

Linkedin :

<u>Bank accounts details</u>

01 Bank and the branch :

Current account no. :

Savings account no. :

02 Bank and the branch :

Current account no. :

Savings account no. :

External Audit information

Auditor's name :

Address :

Contact details :

Company Secretary's information

Name :

Address :

Contact details :

Details of Business Consultancy Services engaged

Name :

Address :

Contact details :

Quality standards certificates obtained

:……………………………………………………………..

………………………………………………………………

………………………………………………………………

Patents / Brand names / Trade names obtained

Patents :……………………………………………………………

Brand names :……………………………………………………………

Trade names :……………………………………………………………

1.2 Description of the Business

1.3 Description of the Entrepreneur

1.4 Owner / Partners / Board of Directors

Name	NIC No.	Address	Educational Qualifications	Professional Qualifications	Professional Experience	Business Experience

1.5 Organizational Structure

1.6 Recruitment Plan

Division	Position	No. of Employees 20….	No. of Employees 20….	No. of Employees 20….	No. of Employees 20….
Management					
Marketing					
Production					
Finance					

1.7 Overall Analysis of the Employees

Division	Position	No. of Employees 20….	No. of Employees 20….	No. of Employees 20….	No. of Employees 20….
Management					
Total in the Management Div					
Marketing					
Total in the Marketing Div					
Production					
Total in the Production Div					
Finance					
Total in the Finance Div					
Grand Total					

1.8 Vision

1.9 Mission

1.10 Institutional Values

1.11 Business Objectives

Description	20…..	20…..	20…..	20…..

1.12 SWOT Analysis (Business)

Strengths

Weaknesses

Opportunities

Threats

1.13 PESTEL Analysis

Political	Economical	Social	Technological	Environmental	Legal

1.14 Risk Management

Division / Description	Risk	Risk Management Strategy			
		Elimination	Mitigation	Replacement	Acceptance

1.15. Non-current Assets related to the Management & Organization Division

Type of Asset	Total Value (Year-start)	Additions	Removals (Cost basis)	Total Value (Year-end)	Depreciation Percentage	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Type of Asset	Total Value (Year-start)	Additions	Removals (Cost basis)	Total Value (Year-end)	Depreciation Percentage	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Type of Asset	Total Value (Year-start)	Additions	Removals (Cost basis)	Total Value (Year-end)	Depreciation Percentage	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Type of Asset	Total Value (Year-start)	Additions	Removals (Cost basis)	Total Value (Year-end)	Depreciation Percentage	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

1.16. Non-current Assets related to the Finance Division

Type of asset	Total value (Year-start)	Additions	Removals (Cost basis)	Total value (Year-end)	Depreciation percentage	20…..			
						Annual depreciation	Monthly depreciation	Cumulative depreciation	Net value

Type of asset	Total value (Year-start)	Additions	Removals (Cost basis)	Total value (Year-end)	Depreciation percentage	20…..			
						Annual depreciation	Monthly depreciation	Cumulative depreciation	Net value

Type of asset	Total value (Year-start)	Additions	Removals (Cost basis)	Total value (Year-end)	Depreciation percentage	20…..			
						Annual depreciation	Monthly depreciation	Cumulative depreciation	Net value

Type of asset	Total value (Year-start)	Additions	Removals (Cost basis)	Total value (Year-end)	Depreciation percentage	20…..			
						Annual depreciation	Monthly depreciation	Cumulative depreciation	Net value

1.17. Establishment & Administration Expenditure related to the Management & Organizational Plan

	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Total													

	Item	20….	20….	20….
	Total			

1.18. Establishment & Administration Expenditure related to the Finance Division

	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Total													

	Item	20….	20….	20….
	Total			

1.19 Social Responsibility

1.20 Action Plan for Management & Organizational Plan

No.	Activity	Expenditure	Responsibility	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	20….	20….	20….

1.21 Comprehensive Action Plan

No	Activity	Expenditure	Responsibility	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	20..	20..	20..
Management & Organization Plan																		
Financial Plan																		
Marketing Plan																		
Production Plan																		

1.22 Assumptions for Management & Organization Plan

1.23 Graphical Analysis of Management & Organizational Plan

2. Marketing Plan

2.1. Industry Analysis

2.2. Market Analysis

2.3. Product Description

No.	Product Type	Selling Price	Specification	Content	Unique Selling Proposition – USP

2.4. Patents, Copy Rights, Brand Names & Trade Marks

Product Type	Patents	Remaining period for the Patent	Copyrights	Brand Names	Trade Marks

2.5. Market Segmentation

Geographic factors	District	
	Divisional Secretariat Division	
	GN Division	
	Climatic situation	
	Population density	
Demographic factors	Age	
	Gender	
	No. of family members	
	Income level of the family	
	Education level	
	Religion-wise	
	Nationality-wise	
Psychographic factors	Personality traits	
	Attitudes	
	Interests	
	Life-styles	
	Psychological influence	
	Values	

Behavioural factors	Buying habits	
	Expenditure habits	

2.6. Target Market Area

District	DS Division	GN Division

2.7. Target Customers

District	Total population / no. of families	Total market	Target market of the business	Percentage

2.8. Positioning

Product / Service	Positioning Strategies

2.9. Growth of Target Customers

Product	Area	Total no. of customers	Expected no. of customers							
			20..	%	20..	%	20..	%	20..	%

2.10 Key Customers (Expected)

No	Name of the Customer	Area		
		District	Divisional Secretariat Division	Grama Niladhari Area
1				
2				
3				
4				

2.11 Competitors' Market Share

Competitor	Competitive Product	Area	Current Annual Supply	Percent of Total Demand	Growth Ratio	Market Share			
						20..	20..	20..	20..
Total									

2.12 Sales Price Analysis of Business and Competitors

Product	……. Business Price	Competitor's Price				
		A	B	C	D	E

2.13 Total Demand and Demand for the Product

Product	20…			20…		
	Total Demand (Annual Value)	The Expected Demand for our Business (Annual Value)	Market Share	Total Demand (Annual Value)	The Expected Demand for our Business (Annual Value)	Market Share

Product	20…			20…		
	Total Demand (Annual Value)	The Expected Demand for our Business (Annual Value)	Market Share	Total Demand (Annual Value)	The Expected Demand for our Business (Annual Value)	Market Share

2.14 Competitor analysis

Factor	My Business	Competitors Name				
		A	B	C	D	E
Price						
Quality						
Customer Service						
Reliability						
Organizational Stability						
Expertise						
Good name of the Organization						
Location						
Ability to buy						
Product Appearance & Packaging						
Distribution Effectiveness						
Easy access for the Customer						
Credit Policy						
Publicity						
Total						
Priority						
After Sales Service						
Online Facilities						
Opening Hours (Business)						
Customer Care						
Customer Relations						

Excellent 10	**Very Good 08**	**Good 08**	**Average 04**	**Poor 02**

2.15 Competitors’ Strategies Analysis

Competitors	Production Strategies	Pricing Strategies	Distribution Strategies	Promotional Strategies
Competitor 1				
Competitor 2				
Competitor 3				
Competitor 4				

2.16 SWOT Analysis of competitors

	A	B	C	D	E
Strengths					
Weaknesses					
Opportunities					
Threats					

2.17 Product Life Cycle

2.18 Proposed Marketing Strategies

2.18.1. Product Strategies

Type of Product	Production Strategies	20…	20…	20…	20…

2.18.2. Price Strategies

Type of Product	Pricing Strategy				
		20……	20…….	20…….	20……

2.18.3. Distribution Strategies

Type of Product	Distribution Strategy				
		20…	20….	20…	20….

2.18.4. Promotinal Strategies

Type of Product	Promotional Strategy				
		20…	20…..	20…..	20….

2.19 Total Marketing Strategy

Type of Product	Strategy				
		20…	20…	20….	20….

2.20 Market Research & Development

Product	Research & Development 20…..	Research & Development 20…..	Research & Development 20…	Research & Development 20…

2.21 Marketing Research & Development Expenses

Product	20…..	20…..	20…..	20…..

2.22 Non-Current Assets Relating to Marketing Division

Asset Type	Total Value (Year-Start)	Additions	Deductions (To Cost)	Total Value (Year-End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Asset Type	Total Value (Year-Start)	Additions	Deductions (To Cost)	Total Value (Year-End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Asset Type	Total Value (Year-Start)	Additions	Deductions (To Cost)	Total Value (Year-End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Asset Type	Total Value (Year-Start)	Additions	Deductions (To Cost)	Total Value (Year-End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

2.23 Break-even analysis

Unit contribution

Details	
Unit sales price	
Deduct - Direct cost for a unit	
Unit Contribution	
Contribution Ratio	

2.24 Adjustment with Monthly Fixed Costs

Expenses	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed cost													
Overheads – Management Div.													
Overheads – Finance Div.													
Overheads – Marketing Div.													
Overheads – Production Div.													
Total Fixed Costs													
Loan capital payment													
Total loan capital payment													
Expected profit													
Expected saving													
Total													

Expenses	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed cost													
Overheads – Management Div.													
Overheads – Finance Div.													
Overheads – Marketing Div.													
Overheads – Production Div.													
Total Fixed Costs													
Loan capital payment													
Total loan capital payment													
Expected profit													
Expected saving													
Total													

Expenses	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed cost													
Overheads – Management Div.													
Overheads – Finance Div.													
Overheads – Marketing Div.													
Overheads – Production Div.													
Total Fixed Costs													
Loan capital payment													
Total loan capital payment													
Expected profit													
Expected saving													
Total													

Expenses	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed cost													
Overheads – Management Div.													
Overheads – Finance Div.													
Overheads – Marketing Div.													
Overheads – Production Div.													
Total Fixed Costs													
Loan capital payment													
Total loan capital payment													
Expected profit													
Expected saving													
Total													

2.25 Break-even points

Detail	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed expenses													
Break-even point – units													
Break-even point – value													
Fixed expenses based on payment of loan capital													
Units													
Value													
Fixed expenses based on loan capital payments and expected profits													
Units													
Value													
Fixed expenses, based on loan capital payment, savings & expected profit.													
Units													
Value													

Detail	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed expenses													
Break-even point – units													
Break-even point – value													
Fixed expenses based on payment of loan capital													
Units													
Value													
Fixed expenses based on loan capital payments and expected profits													
Units													
Value													
Fixed expenses, based on loan capital payment, savings & expected profit.													
Units													
Value													

Detail	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed expenses													
Break-even point – units													
Break-even point – value													
Fixed expenses based on payment of loan capital													
Units													
Value													
Fixed expenses based on loan capital payments and expected profits													
Units													
Value													
Fixed expenses, based on loan capital payment, savings & expected profit.													
Units													
Value													

Detail	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed expenses													
Break-even point – units													
Break-even point – value													
Fixed expenses based on payment of loan capital													
Units													
Value													
Fixed expenses based on loan capital payments and expected profits													
Units													
Value													
Fixed expenses, based on loan capital payment, savings & expected profit.													
Units													
Value													

2.26 Analysis of the Annual Break-even Point

Product	20…..		20…..		20…..		20…..	
	Units	Value	Units	Value	Units	Value	Units	Value

2.27 Selling Price Analysis

S/No	Product	Sales Price 20…..	Sales Price 20…..	Sales Price 20…..	Sales Price 20…..

2.28 Sales Forecast – Quantity (Monthly & Annual)

Type of Product	Selling Price	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

Type of Product	20…	20…	20…

2.29 Sales Forecast – Value (Monthly & Annual)

Type of Product	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
Total													

Type of Product	20…	20…	20…

2.30 Sales & Distribution Expenses Relating to Marketing Division

Expenses	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Advertising cost													
Show room rent													
Storage expenses													
Debt recovery cost													
Insurance													
Travelling expenses													
Cost of fuel													
Discounts given													
Legal fees													
Sales commission / Sales incentives													
Sales staff salaries													
Fixed asset depreciation - Building													
Fixed assets depreciation - Furniture & fittings													
Fixed assets depreciation - Motor vehicles													
Fixed assets depreciation - Machinery													
Fixed assets depreciation - Office equipment													
Fixed assets maintenance - Buildings													
Fixed assets maintenance - Motor vehicles													
Fixed assets maintenance - Machinery													
Research & development expenses													
Container charges													
Electricity													

Telephone													
Water													
Stationery													
Transport cost													
Rates payment													
Insurance													
Postal & stamp													
Printing cost													
Building rent													
Labour charges													
Other expenses													
Total													

Expenses	20…	20…	20…
Total			

2.31. Action Plan of Marketing Division

No	Activity	1	2	3	4	5	6	7	8	9	10	11	12	20…	20…	20…
	Production strategies															
	Pricing strategies															
	Distribution strategies															
	Promotional strategies															
	Other strategies															

2.32 Assumptions for Marketing Plan

2.33 Graphical Analysis related to Marketing Division

3. Production Plan

3.1 Production Details

3.2 Securing the Production Factors

3.3 Production Process

Photographs

3.4 Factory Layout

3.5 Calculation of Unit Cost

Format for Direct Material Cost

1 Raw Material	2 Standard Unit	3 Quantity (kg)	4 Quantity (g)	5 Unit Price	6 Value	7 Input Ratio
Total						

Format for Direct Labour Cost

1 Activities	2 Time Spent (Minutes)	3 Time (Hours)	4 Value of one Labour Hour (Rs.)	5 Total Labour Value (Rs.)

Other Direct expenses

Expenses	**Amount/Volume**	**Unit Price Rs.**	**Value Rs.**
Total Value			

Monthly Overhead Expenses

Monthly Overhead Expenditure	Value
Indirect Salaries & wages of the production section	
Non-current assets depreciation - Building	
Non-current assets depreciation - Furniture & fittings	
Non-current assets depreciation - Motor vehicles	
Non-current assets depreciation - Machinery	

Total production cost	
Total production units	
Deduct-the number of defective product units	
Net production units	
Net production ratio-(net production/total production x 100)	
Direct raw material expenses for a unit	
Direct labour expense for a unit	
Other direct expenses for a unit	
Indirect expenses for a unit	
Total production cost for a unit	

3.6 Calculation of the Production Capacity of the Business

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

3.7 Capacity Utilization

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

3.8 Material Requirement Forecast – Quantity (Monthly & Annual)

Raw material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total
Direct Raw material																																

3.9 Monthly Raw Material Requirement Forecast Plan (Monthly & Annual)

Raw material	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

3.10 Daily Material Purchasing Plan

Raw Material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Direct raw material																															

3.11 Monthly Direct Raw Material Purchasing Plan - Quantity

Raw Material	Unit Price	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

3.12 Raw Material Purchase Daily Value Plan

Raw material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Direct raw material																															

3.13 Monthly Raw Material Purchasing Plan -Value

Raw material	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

3.14 Daily Other Direct Raw Material Requirement Plan

Raw Material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total

3.15 Monthly Other Raw Material Quantity Requirement Plan

Item	Unit Price	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

3.16 Daily Other Direct Raw Material Purchasing Quantity Plan

Raw material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total

3.17 Monthly Other Direct Raw Material Purchasing Plan – Quantity wise

Item	Unit	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

3.18 Daily Other Direct Raw Material Purchasing Plan –Value wise

Raw material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Direct Raw material																															

3.19 Monthly Other Direct Raw Material Purchasing Plan –Value wise

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

3.20 Annual Direct Labour Requirement Plan

Direct Labour	No of Employee	Monthly Salary	Total Monthly Salary	No of Working Days	Man Days	Man Hours	Monthly Overtime Hours	Value of One Hour Overtime	Monthly Overtime Value	Total Monthly Man Hours	Total Monthly Direct Labour Cost	Direct Labour Cost for One Hour	Annual Total
A salary level 1													
B Salary level 2													
C Salary level 3													
Sub total													
A salary level 1													
B Salary level 2													
C Salary level 3													
Sub total													
A salary level 1													
B Salary level 2													
C Salary level 3													
Grand total													

3.21 Non-current Assets of Production Division

Type of Asset	Total Value (Year Start)	Additions	Deductions (Cost)	Total Value (Year End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Type of Asset	Total Value (Year Start)	Additions	Deductions (Cost)	Total Value (Year End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Type of Asset	Total Value (Year Start)	Additions	Deductions (Cost)	Total Value (Year End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

Type of Asset	Total Value (Year Start)	Additions	Deductions (Cost)	Total Value (Year End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

3.22 Manufacturing Account

Note	**Details**	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Direct costs														
	Direct raw material opening stock													
	Add - Monthly purchases of direct raw material													
	- Carriage inwards cost													
	Deduct - Returns of direct raw material													
	Direct Raw material stock ready for production													
	Add – Opening Stock of Work-in-progress													
	Deduct – Closing Work-in-progress													
Other Direct Raw Material Cost														
	Raw material ready for production and value of unfinished stocks													
	Deduct- Closing stock of Direct raw material													
	Direct consumable raw material cost - A													
	Other direct raw material opening stock													
	Add - Purchases of other direct raw material													
	- Carriage inwards for other direct raw material													

	Deduct - Other direct raw material returns													
	Other direct raw material stock ready for production													
	Deduct - Closing other direct raw material stock													
	Other consumable direct raw material cost - B													
	Cost of consumable materials – A+B													
	Direct Labour cost - C													
	Total Direct cost / Prime cost - A+B+C													
Production Overhead expenses														
	Indirect salaries and wages in production section													
	Non-current asset depreciation-building													
	Non-current asset depreciation-furniture & fittings													
	Non-current asset depreciation-motor vehicles													
	Non-current asset depreciation-machinery													
	Non-current asset depreciation-office equipment													
	Non-current asset maintenance -buildings													
	Non-current asset maintenance-motor vehicles													
	Non-current asset maintenance-machinery													
	Electricity													
	Water													
	Telephone													
	Stationery													
	Transport cost													

	Fuel expenses													
	Assessment rates													
	Insurance													
	Entertainment expenses													
	Postal & stamps													
	Welfare expenses													
	Building rent													
	Labour charges													
	Other expenses													
	Total Overhead expenses D													
	Total production cost - A+B+C+D													
	Total No. of production units													
	Deduct - Defective production units													
	Net units of Production													
	Net Production Ratio (Net production / total production) x 100													
	Direct raw material cost of a unit													
	Direct labour cost of a unit													
	Indirect cost of a unit													
	Total units of production													
	Total cost of production for a unit													

Note	**Details**	20….	20….	20….
Direct costs				
	Direct raw material opening stock			
	Add - Monthly purchases of direct raw material			
	- Carriage inwards cost			
	Deduct - Returns of direct raw material			
	Direct Raw material stock ready for production			
	Add – Opening Stock of Work-in-progress			
	Deduct – Closing Work-in-progress			
Other Direct Raw Material Cost				
	Raw material ready for production and value of unfinished stocks			
	Deduct- Closing stock of Direct raw material			
	Direct consumable raw material cost - A			
	Other direct raw material opening stock			
	Add - Purchases of other direct raw material			
	- Carriage inwards for other direct raw material			
	Deduct - Other direct raw material returns			
	Other direct raw material stock ready for production			
	Deduct - Closing other direct raw material stock			
	Other consumable direct raw material cost - B			
	Cost of consumable materials – A+B			
	Direct Labour cost - C			
	Total Direct cost / Prime cost - A+B+C			
Production Overhead expenses				
	Indirect salaries and wages in production section			
	Non-current asset depreciation-building			

	Non-current asset depreciation-furniture & fittings			
	Non-current asset depreciation-motor vehicles			
	Non-current asset depreciation-machinery			
	Non-current asset depreciation-office equipment			
	Non-current asset maintenance -buildings			
	Non-current asset maintenance-motor vehicles			
	Non-current asset maintenance-machinery			
	Electricity			
	Water			
	Telephone			
	Stationery			
	Transport cost			
	Fuel expenses			
	Assessment rates			
	Insurance			
	Entertainment expenses			
	Postal & stamps			
	Welfare expenses			
	Building rent			
	Labour charges			
	Other expenses			
	Total Overhead expenses D			
	Total production cost - A+B+C+D			
	Total No. of production units			
	Deduct - Defective production units			
	Net units of Production			
	Net Production Ratio (Net production / total production) x 100			
	Direct raw material cost of a unit			
	Direct labour cost of a unit			
	Indirect cost of a unit			
	Total units of production			
	Total cost of production for a unit			

3.23 Action Plan of Production Division

No	Activity	Responsibility	Expense	1	2	3	4	5	6	7	8	9	10	11	12	20….	20…	20….

3.24 Assumptions Relating to the Production Plan

3.25 Graphical Analysis of Production Plan

3. Financial Plan

4.1 Total Investment (Capital Requirement)

Item	Owner	%	Loan	%	Total	%
Fixed capital requirement						
Machinery, equipment (notes)						
Vehicles (notes)						
Furniture (notes)						
Total fixed capital requirement A						
Working capital requirement						
Raw material requirement (notes)						
Salaries (note)						
Electricity (notes)						
Total working capital B						
Summary of capital investments						
Fixed capital						
Working capital						
Total capital requirement A+B						

4.2. Loan Repayment Plan

Loan repayment plan	
Name of the bank	
Type of loan	
The method, interest rate is calculated	
Amount of loan taken	
Date of obtaining loan	
Annual loan interest rate	
Grace period for the loan	
The interest to be paid during the grace period	
Loan period	
Number of installments	
Number of installments per annum	
Date of starting payment of loan installment	

No	Year	Opening Capital Balance	Annual Interest	Annual Capital Share	Annual Instalment	Closing Capital Balance
1						
2						
3						
4						
5						

4.3 Manufacturing Account

Note	Detail	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
Direct expenses														
	Opening stock - Direct raw material													
	Add - Monthly purchases - Direct raw material													
	- Direct Carriage Inwards													
	Deduct – Purchase returns of Direct raw material													
	Direct raw material stock ready for production													
	Add - Opening Work-in-progress stock													
	Less – Closing Work-in-progress stock													
Other direct raw material expenses														
	Raw material ready for production & direct work-in-progress													
	Less - Direct raw material-closing stock													
	Cost of Direct raw materials consumed - A													
	Other raw material - Opening stock													
	Add - Monthly purchases – Other direct raw material													
	- Carriage inwards - Other direct raw material													
	Less – Purchase Returns-other direct raw material													
	Other direct raw material ready for production													
	Less - Other raw material closing stock													
	Cost of Other direct raw material consumed - B													
	Consumable material cost A+B													
	Direct labour cost C													
	Total direct cost /Prime cost A+B+C													

Production Overhead														
	Indirect salaries and wages production division													
	Non-current asset depreciation-buildings													
	Non-current asset depreciation-Furniture & fittings													
	Non-current asset depreciation-motor vehicles													
	Non-current asset depreciation-machinery													
	Non-current asset depreciation-office equipment													
	Non-current asset maintenance expenses-buildings													
	Non-current asset maintenance expenses-motor vehicles													
	Non-current asset maintenance expenses-machinery													
	Electricity													
	Water													
	Telephone													
	Stationery													
	Transport cost													
	Fuel expenses													
	Assessment rates													
	Insurance													
	Entertainment expenses													
	Postal & stamps													
	Welfare expenses													
	Building rent													
	Labour charges													
	Other expenses													
	Total Production Overhead D													
	Total Cost of Production A+B+C+D													
	Total number of production units													
	Less - Defective units													
	Net production units													

	Net production ratio (net production/total production) x 100													
	Direct raw material cost per unit													
	Direct labour cost per unit													
	Indirect cost per unit													
	Total units of production													
	Total production cost per unit													

Note	Detail	20….	20….	20….
Direct expenses				
	Opening stock - Direct raw material			
	Add - Monthly purchases -Direct raw material			
	- Direct Carriage Inwards			
	Deduct – Purchase returns of Direct raw material			
	Direct raw material stock ready for production			
	Add - Opening Work-in-progress stock			
	Less – Closing Work-in-progress stock			
Other direct raw material expenses				
	Raw material ready for production & direct work-in-progress			
	Less - Direct raw material-closing stock			
	Cost of Direct raw materials consumed - A			
	Other raw material - Opening stock			
	Add - Monthly purchases –Other direct raw material			
	- Carriage inwards - Other direct raw material			
	Less – Purchase Returns-other direct raw material			

	Other direct raw material ready for production			
	Less - Other raw material closing stock			
	Cost of Other direct raw material consumed - B			
	Consumable material cost A+B			
	Direct labour cost C			
	Total direct cost /Prime cost A+B+C			
Production Overhead				
	Indirect salaries and wages production division			
	Non-current asset depreciation-buildings			
	Non-current asset depreciation-Furniture & fittings			
	Non-current asset depreciation-motor vehicles			
	Non-current asset depreciation-machinery			
	Non-current asset depreciation-office equipment			
	Non-current asset maintenance expenses-buildings			
	Non-current asset maintenance expenses-motor vehicles			
	Non-current asset maintenance expenses-machinery			
	Electricity			
	Water			
	Telephone			
	Stationery			
	Transport cost			
	Fuel expenses			
	Assessment rates			
	Insurance			
	Entertainment expenses			
	Postal & stamps			
	Welfare expenses			
	Building rent			
	Labour charges			
	Other expenses			
	Total Production Overhead D			
	Total Cost of Production A+B+C+D			

	Total number of production units			
	Less - Defective units			
	Net production units			
	Net production ratio (net production/total production) x 100			
	Direct raw material cost per unit			
	Direct labour cost per unit			
	Indirect cost per unit			
	Total units of production			
	Total production cost per unit			

4.4 Trading, Profit & Loss account / Statement of Comprehensive Income for the Year Ending ….

Details	January		February		March		April		May		June	
Sales												
Deduct – Sales returns												
Net sales												
Less – Cost of production / Cost of sales												
Opening stock – finish goods												
Add - Production cost												
Cost of products to be sold												
Less - Closing stock												
Cost of sales												
Gross profit												
Add-other income												
Total Gross Profit												
Less:												
Administration and Establishment Expenses												
Selling and Distribution Expenses												
Finance & other Expenses												
Total Expenses												
Net Profit (Gross Profit - Total expenses)												
Gross profit ratio												
Net profit ratio												

Details	July		August		September		October		November		December	
Sales												
Deduct – Sales returns												
Net sales												
Less – Cost of production / Cost of sales												
Opening stock – finish goods												
Add - Production cost												
Cost of products to be sold												
Less - Closing stock												
Cost of sales												
Gross profit												
Add-other income												
Total Gross Profit												
Less:												
Administration and Establishment Expenses												
Selling and Distribution Expenses												
Finance & other Expenses												
Total Expenses												
Net Profit (Gross Profit - Total expenses)												
Gross profit ratio												
Net profit ratio												

4.5 Cash Flow Statement

Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Opening Balance - A													
Cash inflow (Operational activities)													
Total cash inflow (All operational activities)													
Deduct- Cash outflow (Operational activities)													
Total cash outflow (All operational activities)													
Net cashflow (Operational activities)													
Cash inflow (Investment activities)													
Total cash inflow (All investment activities)													
Deduct - Cash outflow (Investment activities)													

Total cash outflow (All investment activities)													
Net cash flow (Investment activities)													
Cash inflow (Financial activities)													
Total cash inflow (All financial activities)													
Deduct - Cash outflow (Financial activities)													
Total cash outflow (Financial activities)													
Net cash flow (Financial activities)													
Cash inflow (Other activities)													
Total cash inflow (Other activities)													
Deduct- cash out flow (Other activities)													

Total cash outflow (Other activities)													
Net cash flow (Other activities)													
Total cash inflow													
Total cash outflow													
Net cash flow													
Closing Balance													

Details	20….	20….	20….
Opening Balance - A			
Cash inflow (Operational activities)			
Total cash inflow (All operational activities)			
Deduct- Cash outflow (Operational activities)			
Total cash outflow (All operational activities)			
Net cashflow (Operational activities)			
Cash inflow (Investment activities)			
Total cash inflow (All investment activities)			
Deduct - Cash outflow (Investment activities)			
Total cash outflow (All investment activities)			
Net cash flow (Investment activities)			
Cash inflow (Financial activities)			
Total cash inflow (All financial activities)			
Deduct - Cash outflow (Financial activities)			

Total cash outflow (Financial activities)			
Net cash flow (Financial activities)			
Cash inflow (Other activities)			
Total cash inflow (Other activities)			
Deduct- cash out flow (Other activities)			
Total cash outflow (Other activities)			
Net cash flow (Other activities)			
Total cash inflow			
Total cash outflow			
Net cash flow			
Closing Balance			

4.6 Balance Sheet / Statement of Financial Position

Details	January			February			March			April		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Non-current assets												
Land & building												
Machinery												
Vehicles												
Furniture & fittings												
Equipment												
Total Non-current assets												
Fixed deposits												
Call deposits												
Current assets												
Stocks												
- Raw material												
- Work-in-progress												
- Finished goods												
Debtors												

Deduct- Provisions for irrecoverable debts												
Net debtors												
Advance payments												
Bank balance - current account												
Bank balance - savings accounts												
Petty cash balance												
Cash balance												
Total current assets												
Total assets												
Equity												
Add -												
Retained profit												
Profit for the financial year												
Profits from sale of fixed assets												
Total												

Deduct -												
Retained losses												
.Losses for the financial year												
Drawings												
Total deductions												
Total equity balance												
Non-current liabilities												
Leasing (leasing over 12 months)												
Bank loans (over 12 month installments)												
Total- non –current liabilities												
Current liabilities												
Leasing (less than 12 months)												

Bank loans (less than 12 month installments)												
Creditors												
Accrued expenses												
Bank overdraft												
Total current liabilities												
Total liabilities												

Detail	May			June			July			August		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Non-current assets												
Land & building												
Machinery												
Vehicles												
Furniture & fittings												
Equipment												
Total Non-current assets												
Fixed deposits												
Call deposits												
Current assets												
Stocks												
- Raw material												
- Work-in-progress												
- Finished goods												
Debtors												
Deduct- Provisions for irrecoverable debts												

Net debtors												
Advance payments												
Bank balance - current account												
Bank balance - savings accounts												
Petty cash balance												
Cash balance												
Total current assets												
Total assets												
Equity												
Add -												
Retained profit												
Profit for the financial year												
Profits from sale of fixed assets												
Total												
Deduct -												

Retained losses												
.Losses for the financial year												
Drawings												
Total deductions												
Total equity balance												
Non-current liabilities												
Leasing (leasing over 12 months)												
Bank loans (over 12 month installments)												
Total- non –current liabilities												
Current liabilities												
Leasing (less than 12 months)												
Bank loans (less than 12 month installments)												
Creditors												

Accrued expenses												
Bank overdraft												
Total current liabilities												
Total liabilities												

Detail	September			October			November			December		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Non-current assets												
Land & building												
Machinery												
Vehicles												
Furniture & fittings												
Equipment												
Total Non-current assets												
Fixed deposits												
Call deposits												
Current assets												
Stocks												
- Raw material												
- Work-in-progress												
- Finished goods												
Debtors												
Deduct- Provisions for irrecoverable debts												

Net debtors												
Advance payments												
Bank balance - current account												
Bank balance - savings accounts												
Petty cash balance												
Cash balance												
Total current assets												
Total assets												
Equity												
Add -												
Retained profit												
Profit for the financial year												
Additional capital												
Profits from sale of fixed assets												
Total												

Deduct -												
Retained losses												
.Losses for the financial year												
Drawings												
Total deductions												
Total equity balance												
Non-current liabilities												
Leasing (leasing over 12 months)												
Bank loans (over 12 month installments)												
Total- non –current liabilities												
Current liabilities												
Leasing (less than 12 months)												
Bank loans (less than 12 month installments)												

Creditors												
Accrued expenses												
Bank overdraft												
Total current liabilities												
Total liabilities												

4.7 Financial Ratio Analysis

- Liquidity Position
- Insolvency
- Profitability
- Efficiency

1. **Liquidity Ratios**

A. Current Ratio

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

B. Quick Ratio/Acid Ratio

$$\text{Quick Ratio} = \frac{\text{(Current Assets - Stocks)}}{\text{Current Liabilities}}$$

2. **Insolvency Ratio**

A. Gearing Ratio

$$\text{Gearing Ratio} = \frac{\text{Loan Equity}}{\text{Total Equity (Loan Equity + Owner's Equity)}} \times 100$$

B. Debt Asset Ratio

$$\text{Debt Asset Ratio} = \frac{\text{Total External Loans}}{\text{Total Assets}} \times 100$$

C. Interest Covering Ratio

$$\text{Interest Covering Ratio} = \frac{\text{Monthly Net Profit}}{\text{Monthly Loan Interest}}$$

3. **Profitability Ratio**

A. Gross Profit Ratio

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

B. Net Profit Ratio

$$\text{Net Profit Ratio} = \frac{\text{Net profit}}{\text{Net sales}} \times 100$$

C. Return on Assets Ratio (ROA)

$$\text{Return on Asset Ratio (ROA)} = \frac{\text{Net Profit (After Tax)}}{\text{Non-current Assets}} \times 100$$

D. Return on Investment Ratio (ROI)

$$\text{Return on Investment Ratio} = \frac{\text{Net Profit After Tax}}{\text{Investment}} \times 100$$

E. Payback Period

$$\text{Pay Back Period} = \frac{\text{Investment}}{\text{Net Profit}}$$

4. Efficiency Ratio

A. Stock / inventory Turnover Ratio

$$\text{Stock Turn Over Ratio} = \frac{\text{Cost of Sales}}{\text{Average Stock}}$$

B. Stock / inventory Residency Period

$$\text{Stock Residency Period} = \frac{365}{\text{Stock turnover ratio}}$$

C. Debtors Turnover Ratio

$$\text{Debtors Turnover Ratio} = \frac{\text{Net credit sales}}{\text{Average debtors}}$$

D. Debtors’ Collection Period

$$\text{Debtor Collection Period} = \frac{365}{\text{Debtors Turnover ratio}}$$

E. Creditors Turnover Ratio

$$\text{Creditors Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Creditors}}$$

F. Creditors Settlement Period

$$\text{Creditor Days} = \frac{365}{\text{Creditors Turnover ratio}}$$

4.8 Graphical Analysis of the Financial Plan

4.9 Assumptions for the Financial Plan

The comprehensive guidance to complete the above business plan is narrated from here onwards. You are requested to complete the above given business plan formats by following the below mentioned guidelines and the instructions of your trainers.

1. Management & Organization Plan

1.1.Details of Management & Organization

Details of the Management & Organization Plan fall are categorized into two parts as the details of the entrepreneur and the details of the business.

Details of the Entrepreneur

General information of the entrepreneurs are given under this part. Name, date of birth, national identity card number, educational qualifications, business experience (if any) of the entrepreneur, relevant certificates and awards received by him / her are narrated here.

Personal address and the methods by which the entrepreneur can be contacted are also included. Any person who is interested should be able to understand about the entrepreneur by reading this part.

Details of the Entrepreneur

Name of the entrepreneur		:
Date of birth		:
Age		:
National identity card no.		:
Educational qualifications		:
Internship training		:
Vocational training		:
Vocational qualifications		:
Work experience		:
Business experience		:
Certificates and awards received		:
		…………………………………………………………………….
		……………………………………………………………………
		……………………………………………………………………
		……………………………………………………………………
Personal address		:
Telephone nos.	– Fixed	:
	– Mobile	:
Email		:
WhatsApp		:

Viber	:
Imo	:
Facebook	:
Twitter	:
Linkedin	:

Details of the Business

- Basic details of the business should be given under this part. Name of the business, legal mode of the business (Sole proprietor? Partnership? Private company?) business registration number, date of the business commencement, type of the business (Manufacturing? Service? Trading?) should be essential information under this part.
- An introduction of the products manufactured / marketed or the services marketed by the business should be included.
- Business address, telephone numbers and the other contact methods including social media paths should also be indicated.
- This part should include the business bank account details with the name of the bank and the branch, and the details of the current and savings accounts.
- External auditor’s name, address, and their contact details should be given under this part if an external auditor is involved.
- If the business has been registered as a Limited Liability Company, the name, address and the contact details of the Company Secretary should be narrated under this section.
- If the business has identified any business consultancy service from whom the business obtains the consultancies whenever necessary, details of such consultants / consultancy companies (government or private) should be included here.
- It is possible that the quality standards certificates such as ISO, GMP etc. have been obtained for the products / services of the business by this time. It is vital to include a description about such standards certificates under this section.
- It is important to include the brand names, patents obtained here.

The structure of this section is given below for easy reference.

<u>Details of the Business</u>

Name of the business	:
Legal mode of the business	: (Sole proprietor / Partnership / Company)
Business registration no.	:
Date of commencement of business	:
Nature of the business	: …………………………………………………………………
Brief description on the products	: …………………………………………………………………
	……………………………………………………………………
	……………………………………………………………………
	……………………………………………………………………
	……………………………………………………………………
Business address	:
Telephone nos.	Fixed: ……………………..
	Mobile: ……………………
Email	:
Web address	:
WhatsApp	:
Viber	:
Imo	:
Facebook	:
Twitter	:
Linkedin	:

<u>Bank accounts details</u>

01 Bank and the branch	:
Current account no.	:
Savings account no.	:
02 Bank and the branch	:
Current account no.	:
Savings account no.	:

External Audit information

Auditor's name :

Address :

Contact details :

Company Secretary's information

Name :

Address :

Contact details :

Details of Business Consultancy Services engaged

Name :

Address :

Contact details :

Quality standards certificates obtained

:……………………………………………………………………

…………………………………………………………………….

…………………………………………………………………….

Patents / Brand names / Trade names obtained

Patents :……………………………………………………………………

Brand names :……………………………………………………………………

Trade names :……………………………………………………………………

1.2 Description of the Business

What is the nature of the business? What are products and services manufactured / marketed? What business values (authenticity, employment creation, non-usage of harmful component in the products / services, opportunities for investors etc.) does it have? What are the customer needs that are satisfied by the products / services? What contribution do they offer to the country? Narration under this section should answer the above questions. In addition, it is important to include all essential facts that describe the business. This should be arranged in such a way that the interested parties take a special liking to go through this section and they acquire an understanding about the business after reading this section.

1.3 Description of the Entrepreneur

How the entrepreneur is attracted to the business, specific competencies he / she possesses, his / her entrepreneurial background and future expectations, and any other relevant descriptions are narrated under this topic.

1.4 Owner / Partners / Board of Directors

This section explains the ownership information. The owner's or entrepreneur's details are given further if it is a sole proprietorship business. If it is a partnership business, information pertaining to the partners should be included. Further details of the Board of Directors should be narrated if it is a Company using the given format. Comprehensive information related to the ownership irrespective of the nature of the legal mode is paramount.

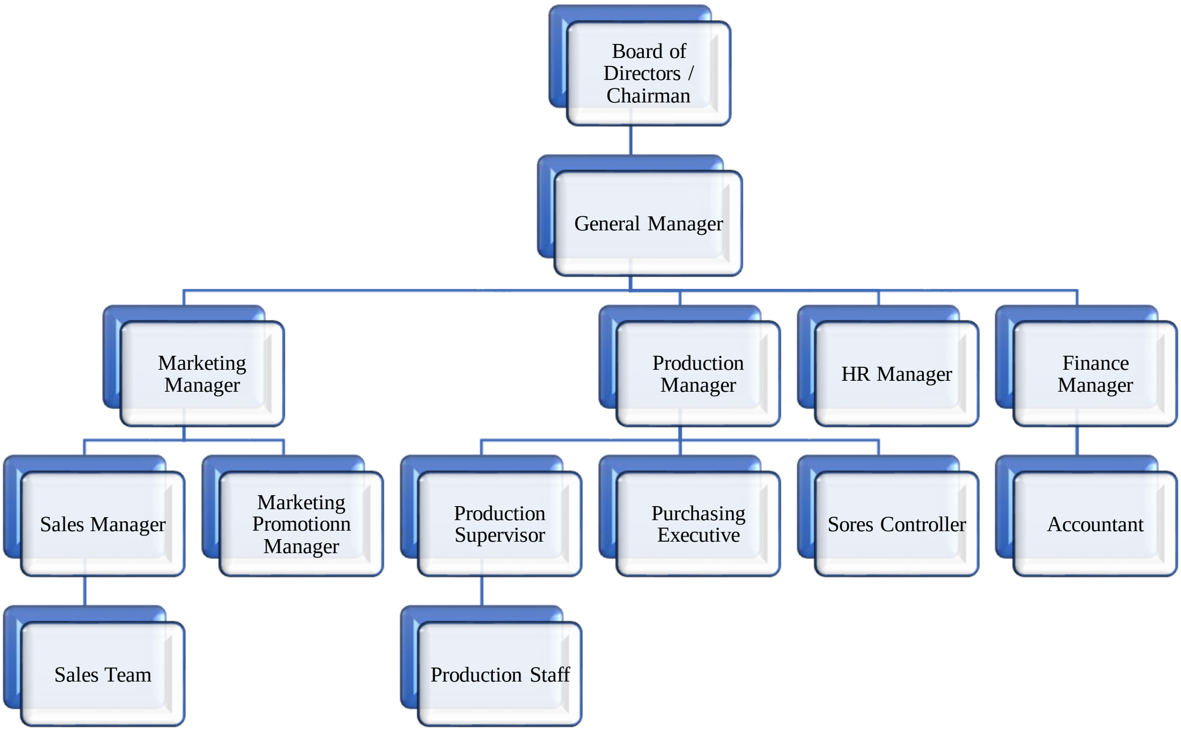
External stakeholders can get a sense of confidence or estimate about the business when the above information is included sufficiently.

Name	NIC No.	Address	Educational Qualifications	Professional Qualifications	Professional Experience	Business Experience

1.5 Organizational Structure

This section explains how the business sections and positions are structured in a hierarchical manner. The structural presentation of this arrangement clearly shows how the business sections and positions are linked in the business. Entrepreneur or any other person who refers to this section of the business plan can get a proper idea on the decision-making authoritative levels, and responsibility allocations.

Below given example depicts the organizational structure of an average Limited Liability Company.



1.6 Recruitment Plan

At the time of preparing the business plan, the entrepreneur should have a plan how to recruit the employees to the business in the future. Most likely, entrepreneur can be the only person in the business at the commencement. But, when the business operations are expanding, recruitment of employees becomes a necessity. When the business operations expand, entrepreneur will have to create different positions to carry on the business and fill those positions accordingly.

Below given format can be completed with the forecasted positions in the relevant business divisions such as management division, marketing division, production division, and finance division and the forecasted number of employees for the each division in the next four years.

Division	**Position**	**No. of Employees 20….**	**No. of Employees 20….**	**No. of Employees 20….**	**No. of Employees 20….**
Management					
Marketing					
Production					
Finance					

1.7 Overall Analysis of the Employees

The above table provides the information of the estimated number of employees to be recruited for each division in the respective year. The below table is an expanded version of the same table that gives the total number of employees in each division during the particular year. The total number of employees of the business is the total of human resources in each division.

Division	**Position**	**No. of Employees 20….**	**No. of Employees 20….**	**No. of Employees 20….**	**No. of Employees 20….**
Management					
Total in the Management Div					
Marketing					
Total in the Marketing Div					
Production					
Total in the Production Div					
Finance					
Total in the Finance Div					
Grand Total					

Special Note:

Strategic Path

From here onwards, it is essential to plan the strategic path of the business inside the Management & Organization Plan. We need to prepare the vision, mission, values and objectives of the business at this point. It depicts the strategic path of the business. Therefore, a special care has to be given in completing this section because they are directly related to the progress of the business.

1.8 Vision

The main expectation of starting a business is to reach an economic stability of higher level while providing solutions to the problems of customers. It implies that the business has a gradual journey of growth. Therefore, visualization of the progressive path of the business is vital for the entrepreneur.

The vision of a business represents how this business will be in the future after a specific number of years. Vision is the entrepreneur's dream and it can be presented in any suitable form such as forms given below.

- ✓ Representation by the entrepreneur assuming that the people / world will view my business as a business of "this level" in the future (refer to the vision of Dialog and Maliban Companies)
- ✓ Representation of the vision as the most valuable result that will be achieved by the business in the future (refer to the vision of Microsoft)

Entrepreneur, the other leaders of the business, and all employees should link themselves with the vision of the business. The vision guides the present and future decisions and activities of the business.

A vision,

- ✓ shows the direction of the business.
- ✓ should be very clear to understand.
- ✓ is purpose-driven.
- ✓ generates challenges.

- ✓ is specific.
- ✓ is sharp, and prestigious.
- ✓ inspires the stakeholders of the business.

Thus, it is paramount for you to consider all the above characteristics when you prepare the vision for your business. Since it incorporates the inspiration, prestige, "purpose-driven" nature and similar characteristics, all the employees will feel proud to take the business up to that prestigious level that is embedded ion the vision.

Visions of a few leading Companies:

"Computer on every desk and every home." (Microsoft)
(This is the vision set at the business startup by Microsoft)

"To be the undisputed leader in the provision of multi-sensory connectivity resulting always, in the empowerment and enrichment of Sri Lankan lives and enterprises." (Dialog Company)

"To be the most successful and respected biscuit company in Sri Lanka." (Maliban Biscuit Company)

Design the most suitable vision for your new business using the above guidelines and include in the business plan.

1.9 Mission

The next important statement for a business is the "Mission Statement". It is generally indicated as the mission of the business. Mission should specify how the strategic activities are done in order to realize the vision of the business. Therefore, all employees of the business – from the top to the bottom should perfectly understand the mission and work accordingly.

Vision can be presented in a short statement, but the mission statement should be more elaborative.

You can prepare the mission statement for your business by selecting and incorporating the appropriate ideas based on the nine components given below.

- Customer – Explaining who the customers are
- Market – Explaining about the market, and its geographic location
- Products / Services – Emphasizing what products / services are presented to the customers by the business
- Technology – Indicating what type of technology the business uses
- Philosophy of the business – Highlighting the priorities, beliefs, values, expectations, and ethics that will be in action when continuing the business
- Self-concepts of the business – Describing the competitive advantage, what should and shouldn't be done when competing etc.
- Members of the business – Explaining the degree of care given to the employees
- Social image of the business – Emphasizing the care extended to the social aspects, environmental matters and the community by the business
- Sustainability & the profit – Explaining the existence of the business, profit growth and the financial sustainability

Examples for mission statement of leading businesses

Example 1: Motorola

"*We are a global communications leader powered by a passion to invent and an unceasing commitment to advance the way the world connects. Our communication solutions allow people, businesses and governments to be more connected and more mobile.*"

Example 2: Maliban Biscuit Company

"To win the Hearts and Minds of Consumers by delivering food propositions with exceptional quality, safety & value whilst being environmentally & socially responsible, creating employee satisfaction and returning optimum value to stakeholders."

1.10 Institutional Values

The set of core values of the business is known as the institutional values of that particular business. When the name of a business appears in the mind, or when we see the name board somewhere, a certain list of ethical, customer-friendly, employee-friendly, environment-friendly aspects that are directly bonded with the activities or services of that business displays in our mind. Those qualities, and principles are the core values of that business. Those institutional values take precedence in the journey of the business. Institutional values build the skeleton of the culture of that business.

Entrepreneurs should understand that they together with the employees should carry out the business functions in such a way that what they identify as the institutional values at the business startup are always highlighted during the performance of the business activities. When it is done, those institutional values will have a heavy positive impact on the customers, investors, and employees resulting in the profit growth and sustainability improvement.

Proper manipulation of the values of the business affects the business image or the business personality.

Some common aspects that are identified as institutional values by many businesses are given below.

- Excellent customer service
- Social responsibility
- High quality

Example:

Institutional values of **Sri Lanka Telecom**:

- ✓ Customer care
- ✓ Reliability
- ✓ Innovation
- ✓ Responsiveness
- ✓ Team spirit
- ✓ Excellence
- ✓ Results-driven

Irrespective of the business, it is essential to identify and record the vision, mission as well as the institutional values which are more appropriate to the business during the planning process of a new business. Those three components should be included in the new business plan.

The above activity makes the marking of the strategic path of the business easy. Therefore, make it a note to include what you have identified as the institutional values of your new business at the proper place of your business plan.

In addition to the inclusion of it in the business plan, do remember that those are important aspects that should be activated continuously throughout the business after the actual commencement of the new business.

1.11 Business Objectives

Once you finalize the vision and mission of the new business, precisely designed objectives are useful in the realization of the vision and mission. Thus, we should now decide the objectives for our new business. An objective is an important result that the business expects to generate within a given time period.

There can be several results that the business expects to achieve during a given time period. Thus, we need to identify a set of objectives.

A business can have short-term objectives, medium-term objectives and long-term objectives.

They are theoretically classified as follows:

Short-term objectives	Business results that are expected to achieve within 3 years
Medium-term objectives	Business results that are expected to achieve within 3 - 5 years
Long-term objectives	Business results that are expected to achieve in 5 years or more

But, in practice, small businesses consider only short-term objectives, and long-term objectives. Practical considerations are as follows:

Short-term objectives	Business results that are expected to achieve within 3 years
Long-term objectives	Business results that are expected to achieve after 3 years

Determination of the Objectives:

Usage of the "SMART" concept is important in determining the objectives. It says that an objective should be **S**pecific, **M**easurable, **A**chievable, **R**elevant and **T**ime-bound.

- An objective should be **specific**.

  Example: "Performance improvement" cannot be considered as an objective because performance improvement is not a specific aspect. It is a broad measure that is constituted with many specific measures. "Increasing the net profit" is a specific and relevant measure. It can be an objective when the measurable, achievable, and time-bound aspects are incorporated.

- An objective should be **measurable**.

  Example: Measuring should be possible if it an objective. In the above example, the objective can be developed as, “Increasing the net profit by 5%” because of the measurable aspect is there.

- An objective should be **achievable**.

  Example: “Increasing the net profit by 5%” in the above example is achievable. Thus, the practical achievability of an objective should be considered in setting the objective.

- An objective should be **relevant**.

  In determining an objective for a business, it should be directly related to business purposes and operations.

- An objective should be **time-bound**.

  The objective that is being set should be bound to a specific time period.

  “Increasing the net profit by 5% in 2021 (as against 2020)” is a perfect objective. It has all five characteristics depicted by the word SMART.

Objectives can vary from business to business. But the objectives given in the below-mentioned table can be used in general for business startups, with suitable modifications. Objectives that are to be achieved in the next few years should be included under the “Business Objectives” of the business plan.

Description	20…..	20…..	20…..	20…..
Business Objectives				
Transforming into a Private Company				
Transforming into a Public Company				
Entering into agreements with recognized companies				
Performing co-business operations with other businesses				
Acquiring other businesses				
Recruiting funding partners / shareholders				
Obtaining authorized distribution agencies				
Diversification (related / unrelated to the business)				
Expansion of the branch network				
Establishing a computer network				
Installation of an accounting software				

Marketing Objectives				
Sales income				
Sales growth ratio				
Marketing expenses as a percentage of the sales income				
Market share				

Market distribution				
Number of customers				
Establishment of production methods				
Establishment of pricing methods				
Establishment of distribution methods	- Direct methods - Online Selling	- Direct methods - Appointing distributors - Online Selling	- Direct methods - Appointing distributors - Modern Trading - Online Selling	- Direct methods - Appointing distributors - Modern Trading - Online Selling
Establishment of business promotion methods				
Digitalization of the business				
Obtaining Quality Standard Certificates				
GMP (Good Manufacturing Practices Scheme)				
SLS (Sri Lanka Standards Institution)				
ISO 9001 (Quality System Certification Scheme)				
ISO 14001 (Environmental Management System)				
ISO 22000 & SLS 1266 (HACCP & Food Safety Management)				

OHSAS 18001 (Occupational Health & safety scheme)				
ISO 50001 (Energy Management Certification Scheme)				
ISO 26000 (Social Responsibility Requirements)				
Organic Certification Scheme				
Super Market Management Certification Scheme				
Vegetarian Certification Scheme				
Vidatha Certification Scheme				
Awards				
Awards from Provincial Chambers of Commerce				
Awards from National Chambers of Commerce				
Obtaining international awards				

Memberships				
Provincial Chambers of Commerce				
National Chambers of Commerce				
International Chambers of Commerce				

Production Objectives				
Usage of new technology				
Increasing the production capacity (units)				
Increasing the production capacity utilization (units)				
Production capacity utilization ratio				
Increasing the production staff	Refer to the attachments	Refer to the attachments	Refer to the attachment	Refer to the attachments
By-products				
Maintaining the Standard Waste Rate fixed				
Financial Objectives				
Sales income at the break-even point				
Sales income growth				
Gross profit growth				
Maintaining the Gross profit ratio at a minimum level				
Net profit growth				
Maintaining the Net profit ratio at a minimum level				
Equity / Capital				
Fixed equity / capital investment				

Working capital investment				
Owner’s total equity				
Loan Capital				
Long-term loan capital				
Short-term loan capital				
Total loan capital				
Total capital				
Gearing ratio (Standard – 60%:40%)				
Current ratio (Optimum – 2:1)				
Quick / Acid ratio (Optimum – 1:1)				
Return on investment ratio (Minimum – 20%)				
Payback period (Maximum – 5 years)				
Stock / inventory turnover ratio (Maintaining at the optimum level)				

Objectives have been classified into different categories. They are described below for easy understanding.

Business Objectives

Determination of the business objectives is a prime activity during business planning stage. We should identify what objectives we are going to achieve during the next four years through our business operations.

A. Transforming into a Private Company

Most simple and easiest way to start a business is to start as a sole proprietorship or partnership business. But, when the business progresses it will need a proper legal shape, and higher acceptance by the stakeholders. That means the necessity of transforming the business into a Private Company arises. Entrepreneur should consider this need as an objective and plan the timeframes for it.

B. Transforming into a Public Company

If the business was started as a Private Company, the next objective could be to transform it into a Public Company. Key purposes of transforming a private company into a public company are given below.

- ✓ Broadening ownership and securing additional capital through issuing shares,
- ✓ Enablement for issuing shares through registering in the share market,

C. Entering into agreements with recognized companies

In business operations, the company is compelled to enter into agreements with other recognized companies to supply own products / services to the other companies. This is the creating of institutional customers for the company.

D. Performing co-business operations with other businesses

In some cases, it is advantageous for a business to work jointly with another business in performing certain business operations.

Example: Joining with another distribution company to distribute our products,

E. Acquiring other businesses

There can be opportunities to buy another business where this acquisition can expand our business operation or eliminate an obstacle of competition. However, this should be considered only when the business we started has reached a considerable growth. Basically, if the growing business has a higher liquidity, investment in other businesses can be beneficial.

F. Recruiting Funding Partners / Shareholders

Some entrepreneurs take steps to broaden the business operations securing more capital through attracting new business partners or investors. Entrepreneur should foresee this need, if applicable at the business planning process and identify this objective.

G. Obtaining Authorized Distribution Agencies

Startup business can be expanded through obtaining authorized distribution agencies offered by reputed companies.

H. Diversification (related / unrelated to the business)

Diversification is a good strategy in developing a business. It adds a list of products / services to the product / service portfolio currently offered by the business. Those additions can be related products / services marketed at present or completely unrelated.

Example: As a shoe manufacturing company, DSI Company started producing socks and shoe polish subsequently. It is a diversification and the diversified products are related. For some strategic reasons, DSI Company started manufacturing jams under KVC brand. It is a diversification with completely unrelated products.

I. Expansion of the branch network

Expansion of branch network means the establishment of branches in the other cities or areas when the originally set up business grows.

J. Establishing a computer network

In order to improve the efficiency of the business operations, computerization of divisions and networking of them are done in almost all growing businesses. At the planning process of the business startup, the entrepreneur should look into this future need and examine whether it can be identified as an objective within the next four years.

K. **Installation of an accounting software**

At the start, the business can have a manual accounting process. But, in oder to make the operations more productive and efficient, it is always beneficial to install an accounting software.

Marketing Objectives

When identifying the objectives for the new business in the preparation of the business plan, it is essential to determine the marketing-related objectives which should be achieved during the next four years. Such objectives are included as the "Marketing Objectives" in the above given table which is a part of the business plan. Those components are sufficiently described in the Marketing Plan of the business plan. The set of marketing objectives included in the above table are mentioned again. The entrepreneur should ensure that necessary steps are taken to achieve them during the next four years.

A. Sales income
B. Sales growth ratio
C. Marketing expenses as a percentage of the sales income
D. Market share
E. Market distribution
F. Number of customers
G. Establishment of production methods
H. Establishment of pricing methods
I. Establishment of distribution methods
J. Establishment of business promotion methods
K. Digitalization of the business

Obtaining Quality Standard Certificates

The next category of the objectives covers the aspects of obtaining quality standard certificates. Possession of quality standard certificates is a powerful tool that can be used to build customer confidence about the products / services of the business.

National and international institutes that award standard quality certificates to businesses follow a rigid procedure to study, test and monitor the production process, service process, management process and documentation process of the relevant business before awarding the quality standard certificates. Thus, the information pertaining to the quality certificates obtained in this manner places a higher confidence about the relevant company / products or services in the minds of the customers.

Entrepreneur should find out what quality standard certificates are relevant to his / her own business startup. After understanding about these quality standard certificates, he / she should take steps to complete the required qualification to apply for them. It is vital to explore what benefits can be accrued for the business when these certificates are obtained.

Some of the benefits are given below.

- ✓ Creation of customer confidence
- ✓ Methodical arrangement of many operational processes
- ✓ Convenience of entering local and export markets
- ✓ Improvement of employee motivation

Let us look at some of the quality standard certificates which have national and international recognition.

A. GMP (Good Manufacturing Practices Scheme)

This certificate is applicable for the manufacturers, marketers and the suppliers of all types of food and beverages. It covers hygiene-related standards prescribed by the Consumer Protection Authority of Sri Lanka.

GMP certificate is awarded by the Sri Lanka Standards Institution and it is a compulsory requirement for the above business operators since 2019. But, the businesses which have already obtained quality standard certificates such as SLS, ISO or HACCP are exempted from the above requirement.

Areas subjected to examination and monitoring for the GMP certificate:

- ➢ Organizational layout, facilities, machinery and maintenance
- ➢ Operational control
- ➢ Cleanliness and hygiene
- ➢ Personal cleanliness
- ➢ Transportation
- ➢ Training

- Production certificates
- Insect damage management
- Waste management
- Packaging and labelling

The Process of obtaining GMP Certificate

Before certification	Applying for certificate
�	↓
�	SLSI Report on the required methodology
�	↓
�	Examining how the process complies with the given methodology
�	↓
�	Re-arranging the methodology of the sections that do not comply
�	↓
�	Performing the first audit
�	↓
�	Re-arranging according to the audit recommendations
�	↓
�	Performing the second audit
�	↓
�	Certification
�	↓
After certification	Post observation
�	↓
�	Re-assessment

<u>More details</u>:

Sri Lanka Standards Institute

No.17, Victoria Place, Elvitigala Mawatha, Colombo-08

Phone: 0112 671567 – 72

Email: slsi@slsi.lk

Web: www.slsi.lk

B. SLS Certification

SLS certification is a quality standard certification awarded by the Sri Lanka Standards Institute for a product or service. On the request of the national or international manufacturers, the institute offers this certificate according to the Sri Lankan standards. When the certificate is awarded, the business organization can use the “SLS” sybol on the products / packaging of their products. Inclusion of this symbol clearly implies that the product and the business processes have been thoroughly examined and tested for quality maintenance by Sri Lanka Standards Institute.

C. GAP Certification
D. ISO 9001 (Quality System Certification Scheme)
E. ISO 14001 (Environmental Management System)
F. ISO 22000 & SLS 1266 (HACCP & Food Safety Management)
G. OHSAS 18001 (Occupational Health & Safety Scheme)
H. ISO 50001 (Energy Management Certification Scheme)
I. ISO 26000 (Social Responsibility Requirements)
J. Organic Certification Scheme
K. Super Market Management Certification Scheme
L. Vegetarian Certification Scheme
M. Vidatha Certification Scheme

Obtaining Awards

An entrepreneur starts a business to drive it to the highest possible level. Owners of such growing businesses can contest for competitions to be the best entrepreneur / business in the area or sometimes in the country. Many benefits are linked to the award winners.

Some of the above benefits:

- ✓ Self-inspiration
- ✓ Improvement of customer confidence
- ✓ Emplyee motivation
- ✓ Attraction of investors
- ✓ Drawing of the government attention
- ✓ Business image enhancement
- ✓ Receiving financial sponsorships

Entrepreneurs therefore plan to obtain the memberships of the relevant institutions / organizations to be eligible for contesting for the below-mentioned competitions at the correct time.

A. District / Province Chambers of Commerce awards
B. National Chamber of Commerce awards
C. District / Province / National State awards
D. Sri Lanka Institute of Marketing (SLIM) awards
E. International awards

It is therefore appropriate for the startups to visualize about these inspiring and beneficial opportunities when setting up their objectives at the business planning stage. Clearly identified objectives should be included in the business plan using the given tavle.

Obtaining Memberships

There are many benefits for businesses if they get the membership in relevant institutions / organizations such as district chamber of commerce, provincial chamber of commerce, national chambers of commerce and international chambers of commerce. Eligibility to participate in business award competitions is only one benefit. Some of the other benefits are given below.

- ✓ Exclusive possibility of getting updated about the changing business world
- ✓ Opening the paths for new business relationships
- ✓ Possibility of business experiential exchange with key business operators
- ✓ Opening opportunities to participate in national / international trade exhibitions / trade fairs

This awareness is sufficient for the new entrepreneurs to understand the value of planning for future memberships, identify them as objectives and include in the business plan accordingly.

Production Objectives

A. Usage of New Technology

When the new business is growing, the necessity to make the business processes more efficient, faster and productive will arise. Then, the entrepreneur will need to change the existing technology to the new technology versions. As an example, in respect of production, the entrepreneur will need to change the initial labour-intensive production to capital-intensive production. Thus, the entrepreneur should forecast about the future needs of technology changes at the planning stage and include them as respective objectives in the business plan.

There are objectives pertaining to the production that should be achieved during the next four years. They are given with details in the production plan in the business plan. The business should be driven by the entrepreneur to achieve the below-mentioned objectives that involve calculations within the next four years.

B. Increasing the Production Capacity (Units)

C. Increasing the Production Capacity Utilization (Units)

D. Production Capacity Utilization Ratio

E. Increasing the Production Staff

Wastages during the manufacture of the main product of the business can be used to produce by-products. Focusing on such by-products is useful in many businesses because it adds to the income stream, facilitates the waste management, and helps the environmental sustainability. All these are advantages. Therefore, entrepreneurs should consider this aspect at the planning stage.

F. Maintaining the Standard Waste Rate fixed

There is a greater possibility for the waste rate at the beginning of the business to be higher than the industry standard of the waste rate. However, the entrepreneur should focus his / her attention to bring down this higher rate to the induatry norm within a reasonable period after the business commencement. More details about the waste are discussed in the production plan.

Financial Objectives

There are financial objectives that should be achieved during the first four years. They are described in the financial plan in the business plan. The business should be driven by the entrepreneur to achieve the below-mentioned financial objectives that involve calculations within the next four years.

A. Sales income at the break-even point

B. Sales income growth

C. Gross profit growth

D. Maintaining the Gross profit ratio at a minimum level

E. Net profit growth

F. Maintaining the Net profit ratio at a minimum level

Equity Capital

- **A.** Fixed Capital Investment
- **B.** Working Capital Investment
- **C.** Owner's Total Investment

Debt Capital

- **A.** Long-Term Loan Investment
- **B.** Short-Term Loan Investment
- **C.** Total Loan Investment
- **D.** Total Investment
- **E.** Gearing Ratio (Standard - 60% : 40%)
- **F.** Current Ratio (Maintenance at the 2:1 level)
- **G.** Quick / Acid Ratio (Maintenance at the 1:1 level)
- **H.** Return on Investment (ROI) – (Maintenance at the minimum of 20%)
- **I.** Pay Back Period - (Maintenance at a maximum of 5 years is better)
- **J.** Stock / Inventory Turnover Ratio (Maintenance at the optimum level)

1.12 SWOT Analysis (Business)

SWOT analysis can be done for the business as well as the entrepreneur separately. This part is associated with the SWOT analysis for the business.

SWOT is the acronym for Strengths, Weaknesses, Opportunities and Threats. SWOT analysis is used to analyse the above mentioned four aspects of a business so that the relevant strategies can be found to take the business forward. Strengths and Weaknesses of the business are internal factors while the Opportunities and Threats are external factors (that does not exist within the business). All those four factors have an impact on the success of the business.

Strengths of a business is an internal factor of the business that provide advantages for the business success. Competent management, committed employees, higher capital, financial strength, and recognized brands etc. can be quoted as examples for strengths. Weaknesses of a business always create a negative impact on the business success. Incompetent management, disengaged employees, insufficient capital, financial instability, and rejected brands etc. can be quoted as examples for weaknesses.

Opportunities available in the external environment are advantageous to the business. Expanding customer base, improved income of the customers, supportive political environment, supportive climate, and supportive economic trends are some examples for opportunities. Similarly, any external factor that acts against the success of the business is a threat. Competitor influence, government restrictions for the particular business, decreased income of the customers, energy crisis, political instability, and civil struggles are examples for threats.

In the SWOT analysis process, first those four factors are specifically identified. Next step involves the stage of designing strategies to optimally manage those four factors through maximizing benefits from the strengths, manipulating the opportunities for the highest advantage of the business, converting the weaknesses into strengths, and designing the strategies to overcome the prevailing threats.

1.13 PESTEL Analysis

PESTEL is the acronym for Political, Economic, Social, Technological, Environmental, and Legal factors which exist in the macro-environment of the business. They generate positive or negative impact on the success of the business. In PESTEL analysis, those six macro-environmental factors are clearly identified, analysed, and monitored for the benefit of the business.

When the PESTEL analysis is done for a start-up business at the planning stage, it implies that the entrepreneur has a precise concern about the macro-environmental factors and their effects on the business on which he / she is working on in the planning stage itself. When the PESTEL analysis is included in the business plan, it ensures that it is a sustainable business plan. Focusing on the main macro-environmental factors during planning, and conducting the business is an excellent quality of a promising entrepreneur.

Political Factors

Through the analysis of political factors under PESTEL, it is explored how far the government and its policies create an impact on the industry in which the business is being operated. This includes political policies, political stability, as well as trade, monetary and tax policies.

Economic Factors:

Economic factors affect the overall economy and its processes. Thus, it directly impacts on the profitability of the business. Interest rates, unemployment ratio, raw material costs, and foreign exchange rates are some of the components of economic factors.

Social Factors:

Certain social factors impose impact on specific industry or business type. Entrepreneur should identify the social factors that affect his / her business or industry where the business falls into. Through PESTEL analysis, the relevant impact level is estimated. This analysis also helps further identify customer needs. Consideration should be given to changes in family statistics, education levels, cultural trends, attitude changes, and trends in lifestyles under social factors of PESTEL.

Technological Factors:

Changes in technical developments that affect this business are explored under this factor. Trend changes in digital / mobile technology, automation, research and development etc. considered here. However, rapid development in the digital technology has been imposing considerable impact levels on all types of businesses in the world. It is essential to draw the attention on modern and ever-changing strategies related to marketing, business promotion, distribution and production.

Environmental Factors:

Analysis of environmental factors under PESTEL involves consideration of effects of the business on the environment and environmental aspects on the business. This part is becoming an important area with the increasing validity of corporate social responsibility. Climate change, recycling practices, waste management strategies, and environmental sustainability are vital constituents. Obtaining an environmental feasibility report is an important part of the business startup procedure in our country today. Entrepreneurs should conform to the government recommendations in this exercise. Environmental feasibility report is essential to start some businesses.

Legal Factors:

Any business should conform to the law of the territory. It means that the entrepreneur should have a precise understanding about the permissible and not-permissible. He / she should be vigilant on periodic regulatory changes and their impact on the business. Regulatory changes may be associated with recruitment for employment, consumer protection, health and hygiene, national and international trade monitoring and many other aspects.

Any business that starts without analysing the macro-environmental factors (i.e, without performing PESTEL analysis) will be in a great danger because macro-environmental situation is changing with ups and downs. This analysis helps the entrepreneur to foresee the future risks. Therefore, you should comprehend the importance of performing a PESTEL analysis during the business planning stage and including it in the relevant space of the business plan.

You can present the PESTEL analysis using the following table in your business plan.

Political	Economical	Social	Technological	Environmental	Legal

1.14 Risk Management

Risk Management involves following key steps:

a. Identification of risks that can surface in future when progressing with business operations, and
b. Preparing suitable strategies for mitigation of their effects on the business

In this task, risks should be identified according to the identified divisions such as management, finance, human resources, marketing, production, security, and information technology etc. Thereafter, risks mitigation or elimination strategies should be planned against each risk identified.

The validity of the business plan is improved when the “Risk Management” component is completed in the business plan. The risk management plan format given below can be used for this purpose. Main columns of the format provide spaces for the relevant division, identified risks, and the respective risk management strategies. Risk management strategies can be elimination strategies, mitigation strategies, or replacement strategies. Risks that can not be managed with these strategies are related to the “Acceptance” column, which is the last column of the “Risk Management Strategies”. If any strategy cannot be used to manage a particular risk, it is considered as an accepted risk. However, if there is anything that can be done by the entrepreneur in this regard, it should be mentioned in the “Acceptance” column. Although such risks cannot be managed, it is advantageous that at least the risk has been identified.

Risk Management Plan

Division / Description	Risk	Risk Management Strategy			
		Elimination	Mitigation	Replacement	Acceptance

1.15 Non-current Assets related to the Management & Organization Division

Type of Asset	Total Value (Year-start)	Additions	Removals (Cost basis)	Total Value (Year-end)	Depreciation Percentage	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

It is important to be aware of the meanings of the terms used. Non-current assets are business assets that can be used more than a year. Buildings, machinery, equipment etc. belong to this category. Entrepreneur may wish to invest some of personal assets of this nature in the business when starting. Those assets are included in the personal balance sheet. Similarly, he / she may purchase new assets for the new business. All these non-current assets should be included in the above table.

It should be noted that only the assets which are assigned to the business should be included in the format. Entrepreneur's personal properties such as lands and buildings etc. should not be included although they are used for business operations. Such assets are not the assets of the business. Therefore, rentals are applicable in such cases and such rentals should be marked as expenditure in the relevant templates.

Total value (year-start) is applicable only from the second year. In the first year, it can be kept blank. The column "Additions" means the new purchases of non-current assets during the year. The column "Removal" refers to any sale of non-current assets during the year where the value is marked based on the cost.

Depreciation percentage assigned for that asset is marked in the sixth column. When the value (year-end) is multiplied by the depreciation percentage, we get the annual depreciation (seventh column). Thus, the monthly depreciation can be marked in the eighth column. The next column is the cumulative depreciation. It can be calculated by adding the annual depreciation of the particular year to the total depreciation of the previous years. When the cumulative depreciation is deducted from the value (year-end), we get the net value (last column).

The above explanation clarifies how the non-current asset format pertaining to the management and organization plan can be completed. The same methodology can be used to complete the non-current assets format pertaining to the other plans such as production plan, marketing plan, and financial plan.

Some non-current assets of a business cannot be specifically assigned only to one division. It means that some non-current assets can be used in multiple divisions and the usage of such assets may be more in some divisions and less in the other divisions. Such an asset can be assigned to the division for which it provides more contribution.

Preparation plan for gathering information for the non-current asset format:

Pre-work is essential to gather information to complete the above non-current assets format. Methodical completion of pre-work can be facilitated through making a Pre-Work Plan. A specimen of this pre-work plan is given after the below guidance.

- Under one type of assets in the above format, there can be several items. As an example, under the asset titled 'vehicles', there can be several vehicles of the business. All relevant information such as vehicle types, their costs etc. can be inserted in the Pre-Work Plan format given below.
- The above explanation clarifies about the Pre-work Plan related to the non-current asset format completion pertaining to the management and organization plan. The same methodology can be used to prepare the Pre-work Plans related to the non-current assets formats of the other plans such as production plan, marketing plan, and financial plan.
- All Pre-Work Plans should be attached to the final Business Plan as annexures.

Pre-work Plan Format Pertaining to the Non-current Asset Format of the Management and Organization Plan

Assets	Unit Price	Quantity	Value	Addition	Removals (Cost basis)	Total Value	Depreciation Allocation	Life Time	Depreciation Percentage	20……			
										Annual depreciation	Monthly depreciation	Cumulative depreciation	Net value
Management & Organization Division													
Buildings													
Total													
Vehicles													
Total													
Machinery													
Total													
Equipment													
Total													
Furniture & Fittings													
Total													

1.19. Non-current Assets related to the Finance Division

Type of asset	Total value (Year-start)	Additions	Removals (Cost basis)	Total value (Year-end)	Depreciation percentage	20…..			
						Annual depreciation	Monthly depreciation	Cumulative depreciation	Net value

Only the non-current assets related to the finance division should be inserted in the above format.

1.20. Establishment & Administration Expenditure related to the Management & Organizational Plan

	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Indirect salaries / wages													
	Depreciation of non-current assets Buildings													
	Depreciation of non-current assets Furniture and fittings													
	Depreciation of non-current assets Vehicles													
	Depreciation of non-current assets Machinery													
	Depreciation of non-current assets Office equipment													
	Maintenance costs of non-current assets - Buildings													
	Maintenance costs of non-current assets - Vehicles													
	Maintenance costs of non-current assets - Machinery													
	Leasing / loan interests													
	Insurance / License fees / Environmental fees													
	Audit fees													
	Legal fees													
	Rates and Taxes													
	Social Responsibility													
	Electricity													

	Telephone													
	Security costs													
	Water													
	Stationery													
	Transport costs													
	Fuel costs													
	Refreshment expenses													
	Postal / stamps													
	Welfare expenses													
	Printing costs													
	Building rentals													
	Labour costs													
	Other expenses													
	Total													

Overheads / Overhead Expenditure

Business costs which are not directly related to a specific production of a manufacturing / service organization are called "overheads or overhead costs". Overhead costs of a trading business (wholesale or retail) are the expenses that are not directly related to purchasing of products. However, overhead costs are necessary to run the business.

Terms used for overheads in the general usage include indirect expenditure, indirect costs, and fixed costs. Similarly, in business plan preparation, they are used as follows:

- ✓ In the Management & Organization Plan – as Establishment & Administration Expenditure
- ✓ In the Finance Plan – as Establishment & Administration Expenditure
- ✓ In the Marketing Plan – as Sales & Distribution Expenditure
- ✓ In the Production Plan – as Production Overhead Expenditure or Indirect Expenditure

It can be further elaborated as follows:

1. **Expenditure that is NOT directly related to production, but indirectly related to production:**

   All expenditure that is not directly related, but indirectly related to production is included under this category.

   Examples: Factory electricity bill, factory salaries and wages, factory machinery depreciation etc.

   Indirect expenditure related to production is called Production Overhead Expenditure or Fixed Production Costs. The following formula is used to calculate the total production overhead costs (expenditure).

   Direct Expenditure (Prime Cost) + Production Overhead Expenditure = Total Production Cost

2. **Indirect expenditure that is NOT related to production whatsoever:**

   This category includes the overhead expenditure which is necessary to operate the business although they are not related to production. That component of expenditure is also called "Indirect Expenditure or Fixed Costs". They are taken into consideration when the Profit & Loss Account is prepared. During the preparation of the Profit &

Loss Account, all indirect expenditure pertaining to the business are categorized as given below.

- Establishment & Administration Expenditure
- Sales & Distribution Expenditure
- Financial & Other Expenditure

As explained above, it is important to identify the indirect expenditure related to production and indirect expenditure related to marketing separately. If this identification is not done clearly, it is impossible to identify the total production costs or sales-related overhead expenditure of the business.

The Heads of Management & Organization Division, Production Division, Marketing Division and Finance Division submit the Overhead Expenditure Estimate of their own divisions to the top management of the business organization.

Finance division should identify the overhead expenditure which are distributed among a few divisions or all divisions. Next step is to apportion the total expenditure into relevant divisions according to an agreed logical basis. Then, the Finance division can inform the relevant divisions how much is apportioned to each division.

Basis of Expenditure Distribution

Finding the share of expenditure distribution among divisions should be performed on a logical, justifiable and agreeable basis. When the basis is determined, it is possible to calculate how much of the total overhead expenditure should be apportioned as the production-related overhead expenditure, how much should be apportioned as the marketing-related overhead expenditure and so on.

The below given table explains the logical basis of apportioning different types of expenditure.

No	Description of Expenditure	Basis for Apportioning of the Expenditure
1	Electricity	Number of units used in each division
		Floor area of each division
		Number of employees of each division
		Number of man-hours (of the employees) of each division
2	Water	
3	Telephone	
4	Rent	
5	Indirect salaries	
6	Refreshment expenses	
7	Stationery	
8		
9		

When preparing the business plan, the Finance division should prepare the Expenditure Distribution Report after identifying the overhead expenditure. After obtaining the approval of the owner entrepreneur, the report should be given to the Heads of each division.

The overhead expenditure distribution chart pertaining to the non-current assets can be prepared in the following manner. It is a Pre-work document that should be attached to the business plan.

Example:

Let us assume the following data are available for a given business.

Monthly security expenditure is Rs.30,000. Total business area amounts to 5,000 sq.ft of which the Management division, and the Production divison use 500 sq.ft, and 2,500 sq.ft respectively while Finance and Marketing divisions each use 1,000 sq.ft.

Similarly, the monthly telephone expenses amount to Rs.2,000 and the number of employees of the business is 20 of which the number of employees attached to Management, Marketing, Production and Finance is 2, 5, 10 and 3 respectively.

According to this example, we have two types of expenditure (costs) with some other data. Using this information, we can prepare the Expenditure Distribution Chart as given below.

Expenditure Distribution Chart

Type of Expenditure	Calculation Basis	Total No. of Units	Expenditure (Rs)	**Management Div.**			**Marketing Div.**			**Production Div.**			**Finance Div.**		
				Share of Units	Percentage %	Expenditure (Rs)	Share of Units	Percentage %	Expenditure (Rs)	Share of Units	Percentage %	Expenditure (Rs)	Share of Units	Percentage %	Expenditure (Rs)
Security costs	Floor are used	5000	30000	500	10	3000	1000	20	6000	2500	50	15000	1000	20	6000
Telephone costs	No. of employees attached	20	2000	2	10	200	5	25	500	10	50	1000	3	15	300

Different expenses included in the overhead expenditure of Management Division are shown in the table denoted by 1.17 above. The following section provides a brief note about them and shows how they are calculated.

Pre-Work Format for Calculation of Indirect Labour relevant to the Monthly Indirect Costs / Overhead Costs

Payments made for labour which is not directly related to production are the indirect labour costs. Payments made for labourers, production assistants, production managers, security personnel of the production division, stores employees are examples in this case. Similarly, payments made to the employees attached to the management, finance and marketing divisions are also included in this category.

Calculation pertaining to the indirect labour of each division should be done in the pre-work document and then they should be inserted in the Overhead Expenditure format of the relevant division.

<u>Pre-work related to the Calculation of Indirect Labour Costs</u>

Format related to indirect labour costs calculation is given below.

Indirect Labour		**January**							**Total Salary Cost**
		Organizational Payments			**Statutory Payments**				
EPF No	**Name**	**Basic Salary**	**Allowances**	**Gross Salary**	**EPF 12%**	**ETF 3%**	**Gratuity**	**Total**	
Skilled Labour – Salary Level A									
Total									
Skilled Labour – Salary Level B									
Total									
Semi-skilled Labour – Salary Level A									
Total									
Unskilled Labour – Salary Level A									
Total									

As shown in the above format, total salary cost in relation to skilled labour, semi-skilled labour and unskilled labour should be indicated as the indirect labour costs. Further, pre-work document should be completed with monthly information and it should be presented as an attachment.

Please study the calculation of Direct Labour Costs given in the Production Plan. It clearly explains how to calculate the overtime payment and gratuity payment.

Calculation of Depreciation

Depreciation related to the non-current assets included in the monthly overhead cost should be determined. It has already been calculated in the non-current assets part of each division (management, finance, marketing and production). Their monthly total should be stated as the depreciation of non-current assets in the overhead expenditure format.

Calculation of Maintenance Costs of Non-Current Assets

Calculation of Maintenance Costs of Non-Current Assets has not been included in the business plan. But it should be included as an expenditure in the Expenditure Distribution Chart. In other words, calculation of maintenance costs of non-current assets should be done under the Pre-Work Document. In that calculation, attention should be made for the following points.

- **Vehicles:** Servicing, tyre-changing, repairing, and spare parts

  Focus should be given to forecast the relevant measurable of servicing, tyre-changing, repairing and spare parts. How frequently are they done? After how many kilometres? What are the individual costs for them?

  Example: If a vehicle is serviced once in two months at a cost of Rs.6,000, monthly cost of Rs.3,000 should be included in the relevant cage of the format. Similarly, if the tyres are changed in nine months, the cost of it should be divided by nine to get the monthly cost. It should be included in the relevant cage.

- **Machinery / Office Equipment:**

  Maintenance of the above is done within given periods as per the guidance of the manufacturer / supplier of them or the policies of the business entity. Cost calculation can be done as explained for the vehicles.

- **Buildings, Furniture & Fittings etc.:**

  Appropriate calculations can be done in the similar manner based on the policies of the business.

Interest for Leasing / Loans

In practice, as settlements after obtaining leasing facility or loan, entrepreneurs pay equal instalments to the Leasing Company / Bank. Therefore, the entrepreneur is not aware how much is the leasing / loan capital amount included in that instalment, and how much of interest component is included there. Therefore, it is essential to get a letter from the Leasing Company / Bank describing the above information together with the facility interest rate charged by the relevant body. In general, Leasing Companies / Banks are rigidly hesitant to issue a letter of this nature. However, the entrepreneur should somehow speak to the manager and get the letter.

A clear identification of this information (loan capital component and the interest component included in each instalment) is necessary in making the business plan. You may observe from the information that although the total instalment is the same throughout the period, the combination of loan capital and the interest component changes over time. Generally, during the initial period, interest component is higher and the loan capital component is lower while it is the other way during the latter period.

The interest component should be considered as the monthly interest. The next step is to apportion it to the relevant business sections.

Insurance costs (of Non-Current Assets) / License Fees / Environmental Fees

Payment of insurance fees may be made annually, semi-annually or quarterly. Irrespective of the settlement period, monthly fee should be calculated and it should be entered under the overhead expenditure. Similarly, there can be more expenditure related to insurance. As an example, for insurance of a vehicle, entrepreneur should obtain the revenue license and the emission test certificate. When overhead expenditure is calculated the above expenses should also be considered.

Example:

The vehicle insurance cost was Rs.12,500 in 2020. This is a cost for the total year. However, monthly cost of the insurance should be calculated because indirect expenditure is prepared for a month. As mentioned above, the other related expenses (revenue license fee, emission test fee etc.) should be added to the insurance cost for calculation. Let us assume that the total of the revenue license fee and the emission test fee was Rs.850.

Now, the total insurance expenditure is Rs.13,350.

Hence, the monthly insurance expenditure is Rs.1,112.50 (= Rs.13,350 / 12)

Annual Payment-based Expenditure

Payments such as audit fees, rates and taxes are generally paid annually. Such expenditure should be divided by twelve and the monthly amount should be included in the overhead expenditure.

Please have a look at the expenditure included in the Administration & Establishment Expenses related to the Management & Organization Plan (Refer 1.17 Table above). The entrepreneur should calculate those expenses and similar expenses (if any) under Pre-Work preparation and then include them in the overhead expenditure format, i.e., 1.17 Administration & Establishment Expenses related to the Management & Organizational Plan.

Allocations for Social Responsibilities

Profits-making is a key objective of a business. But, it should not underestimate the importance of contributing to the society as well. Thus, social responsibility is also a key consideration of any business, irrespective of its nature. It helps sustainability of the business.

Therefore, the business plan should include the forecasted activities to be performed for the benefit of the society with the relevant expenditure allocation. Expenditure allocation for the social responsibility should be considered as a Revenue Expenditure, and it should be shown as an Establishment & Administration Expenditure in the organization and management plan.

1.21. Establishment & Administration Expenditure related to the Finance Division

Calculation of the overhead expenditure pertaining to the Finance Division can also be performed in the way applied for the calculation of the overhead expenditure for the Management & Organization Plan. Below given table includes a set of overhead expenditure related to the Finance Division.

	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Indirect salaries / wages													
	Depreciation of non-current assets Buildings													
	Depreciation of non-current assets Furniture and fittings													
	Depreciation of non-current assets Vehicles													
	Depreciation of non-current assets Machinery													
	Depreciation of non-current assets Office equipment													
	Maintenance costs of non-current assets - Buildings													
	Maintenance costs of non-current assets - Vehicles													
	Maintenance costs of non-current assets - Machinery													
	Leasing / loan interests													
	Insurance / Licence fees / Environmental fees													
	Audit fees													
	Legal fees													
	Rates and Taxes													

	Social Responsibility													
	Electricity													
	Telephone													
	Security costs													
	Water													
	Stationery													
	Transport costs													
	Fuel costs													
	Refreshment expenses													
	Postal / stamps													
	Welfare expenses													
	Printing costs													
	Building rentals													
	Labour costs													
	Bank charges													
	Other expenses													
	Total value													

1.19 Social Responsibility

Focus of starting a business is to address a customer need while earning a profit. Thereby the production concept, product concept, and the concept of selling became key concepts used in businesses. However, evolving through the initially embraced product-centered approach to the customer-centered approach over the time, businesses today have added the marketing concept, customer concept, and social marketing concept etc. to suit the current environment.

Businesses are mushrooming everywhere, and it has been proven and globally accepted that the operating businesses consume, depreciate or distort the common resources that were available for the consumption of the living beings.

Entrepreneurial world today has understood that the businesses should be operated in such a way that they ensure the sustainability of the planet and that the selfishness woven around mere profit consciousness in doing a business threatens the very sustainability of the businesses.

In other words, without well-being of the society, well-being of a business cannot be expected. It implies that a business organization has a clear responsibility towards well-being of the society in addition to its own objective of profit-making. This situation has compelled all growing businesses to identify the most suitable social responsibility and carry out the selected social responsibility activities utilizing a manageable portion of the profit earned.

A brief description about the social responsibility activities being planned to perform by the business should be included. Relevant financial requirement should also be estimated and it should be included as a monthly overhead expenditure in the Management & Organization Plan.

1.20 Action Plan for Management & Organizational Plan

Individual Action Plans should be prepared for all four key plans of the business plan. This section is dedicated for the preparation of the Action Plan for Management & Organization Plan.

Action plan should clearly include the following parts.

- ✓ Activities that are planned in relation to the management and organization plan,
- ✓ Timeframes for them,
- ✓ Estimated expenditure of each activity,
- ✓ Responsible person for each activity,

If a particular activity is broad or complicated, it can be broken down to manageable sub-activities and included in the action plan. When the action plan is prepared in this manner, it facilitates the implementation of the planned activities in a more sound manner.

Example:

Recruitment of employees for the business is a broad / complicated activity. It can be broken down into the following sub-activities in the action plan.

Preparing the recruitment advertisements, publishing them, sorting out applications and analysing the applications received, arranging the interviews and conducting interviews,………., recruitment.

It should be ensured that the Action Plan should not include activities such as daily operational activities, maintenance activities etc. Separate Action Plans should be prepared for those daily operational activities and those action plans will be either Personal Action Plans or Action Plans of the respective sections. Lastly, the Action Plan for Operations of the business should be made.

Action plans are of utmost importance in the business planning phase. Specific attention should be made to the following specific aspect when making action plans of each section.

Opening Action Plan contains some activities related to the Management & Organization Plan. At the inception, the entrepreneur should identify the activities already completed and those not completed and not-completed activities should be entered into the action plan of the management and organization action plan. Since the entrepreneur has already identified what the business is, the action plans prepared for each division should be very practical and usable. This practical nature is absolutely essential because the action plans work as drivers for implementing the business plan.

Following tips are useful in making and using the action plans.

- ✓ This Action Plan prepared for the Management & Organization Plan guides the Management Division.
- ✓ Presenting the action plan using a Gantt Chart is very important.
- ✓ Practically, the business plan should include monthly action plans only, but before making the monthly action plans, it is essential to prepare the daily action plan. However, the entrepreneur should have the daily action plans as his / her reference guide although the daily action plans are not attached to the business plan. Entrepreneur should perform based on the daily action plans. This is common for all divisions of the business.

Usage of Microsoft Project software may facilitate the action plan preparation process.

No.	Activity	Expenditure	Responsibility	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	20….	20….	20….
	Recruitment of clerical personnel for the business																	
1	Placing advertisements in the newspapers																	
2	Analysing applications																	
3	Conducting interviews																	
4	Recruiting																	

1.21 Comprehensive Action Plan

Comprehensive Action Plan is then made by combining individual action plans prepared for different divisions (management, marketing, production and finance). Comprehensive action plan should be presented in the Management & Organization Plan. It is done so because the overall business is guided by the Management & Organization Division. General practice is that the action plan for the first year is made on monthly basis and the action plans for the subsequent years (2^{nd}, 3^{rd} and 4^{th}) are prepared on an annual basis. However, the 2^{nd} year action plan should be converted into a monthly-based action plan at least two months before the 1^{st} year-end.

The following format can be used for that purpose.

No	Activity	Expenditu	Responsib ility	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	20..	20..	20..
Management & Organization Plan																		
Financial Plan																		
Marketing Plan																		
Production Plan																		

1.22 Assumptions for Management & Organization Plan

Making assumptions become unavoidable when preparing a Business Plan. But they should be much closer to the reality. These assumptions should be indicated in the respective plan component of the business plan in order to facilitate understanding of the personnel who refer to the business plan. Such assumptions can be marked either at the place where the assumption is made or at the end of the respective plan component as a collection of assumptions made.

Assumptions made when preparing the Management & Organization Plan are indicated here.

Examples:

- ✓ Manager's salary is fixed throughout the year
- ✓ Non-current assets pertaining to the Management Division are depreciated using the Straight-Line Depreciation Method.

1.23 Graphical Analysis of Management & Organizational Plan

Quantitative factors discussed in the Management & Organization Plan are graphically presented here.

Advantages of the graphical analysis presentation:

- Easy understanding
- Convenient quick decision-making
- Easy visual comparison
- Clear presentation how it changes over time
- Easy identification of trends

Some of the possible graphical presentations:

- ✓ Growth of employees of the Management Division
- ✓ Increase of overhead costs
- ✓ Increase of annual expenditure
- ✓ Management & Organization expenditure as a percentage of sales expenditure
- ✓ Management & Organization expenditure as a percentage of the total expenditure of the business

3. Marketing Plan

3.1. Industry Analysis

The Marketing Plan starts with the analysis of the industry which the business is attached to. It is obvious that the operation of any business is affected by the relevant industry and the marketing aspect is more influenced. Therefore, accurate industry analysis is a useful component of the marketing plan. Since the collection of information pertaining to the relevant industry has been done during the business idea selection process, concept development, business analysis, market research and similar stages, industry analysis part can be completed easily.

Identifying the correct industry which the business belongs to is the first vital step. It is important to investigate into the following facts in the industry analysis.

- ✓ How strong is the industry?
- ✓ How rapidly is the industry improving?
- ✓ In which direction does it move in the face of the technology?
- ✓ How are the attitudes of the employees / potential employees towards this industry?
- ✓ What is the Industry Margin?

This section should also include an entrepreneurial analysis of the future challenges. It is professional to use the **Porter's Five Forces Model** in this analysis of the future challenges.

A brief note on the **Five Forces** and the relevant impacts / effects is given below to facilitate the completion of the industry analysis.

1. **Competition in the industry**

    - ✓ Number of competitors
    - ✓ Diversity of competitors (large scale, medium scale, small scale)
    - ✓ Concentration of competitors
    - ✓ Industry growth
    - ✓ Industry life cycle

- ✓ Differences of quality of competitors
- ✓ Product diversification of competitors
- ✓ Brand identity of competitors and the market loyalty for them
- ✓ Cost of changing a business to another business
- ✓ Supply / demand capacity changes that occur periodically
- ✓ Complexity of the information of competitors
- ✓ Barriers for withdrawal from the industry

2. Potential of new entrants into the industry

This is the potential impact by new entrants.

- ✓ Diversity of products
- ✓ Brand identity and the loyalty for them
- ✓ Convenience for distribution approaches
- ✓ Capital need
- ✓ Approach for new technology
- ✓ Inputs required
- ✓ Absolute cost advantages
- ✓ Impact of experience and knowledge
- ✓ Government policies
- ✓ Cost of shifting from one business to another
- ✓ Threats from existing businesses

3. Bargaining power of suppliers

- ✓ Number of suppliers
- ✓ Diversity of suppliers
- ✓ Concentration of suppliers
- ✓ Substitutes available for suppliers' products
- ✓ Uniqueness of suppliers' products
- ✓ Cost of shifting from one supplier to another

- ✓ Suppliers' contribution to the products / services of the industry
- ✓ Importance of the order size to the supplier
- ✓ Contribution made by the suppliers to the overall cost of the industry
- ✓ Importance of the industry for the suppliers' profits

4. **Bargaining power of customers**
   - ✓ Number of customers
   - ✓ Order size of each customer
   - ✓ Concentration of customers
   - ✓ Customer cost of shifting from one product to the other
   - ✓ Customer's ability to get information
   - ✓ Price sensitivity

5. **Threat of product / service substitutes**
   - ✓ Number of substitute products / services
   - ✓ Attraction of customers for substitute products / services
   - ✓ Comparative prices of substitute products
   - ✓ Cost of shifting to substitute products / services
   - ✓ Profitability / efficiency of the manufacturers of substitute products / services

2.3. Market Analysis

Basic guidance required to complete this section is explained below.

This space is reserved for the presentation of a summarized analysis of the market associated with this business. The entrepreneur is expected to perform a quantitative and qualitative analysis about the market this business is supposed to operate in. The market analysis should include the information such as the volume and the value of the market, purchasing trends of customers, customer behaviours exhibited during the buying process, competition, and economic environment of the market.

2.4. Product Description

A clear description of the products / services the business is expected to present to the market should be included here. The following template can be used for this purpose.

No.	Product Type	Selling Price	Specification	Content	Unique Selling Proposition – USP

Using the above template, the relevant description should be presented accurately. The content of the product, or the composition of it can be included in the content column. The entrepreneur should clearly define the Unique Selling Proposition (USP) of his / her products / services so that it can be included in the last column.

Simply, a **USP**:

1. Shows how it differs from the other competitive products
2. Explains why the customers should buy it when the other competitive options are available.

In other words, the above two aspects represent key capabilities of a USP. Different businesses define their USPs in different ways. But, finally, the USP should represent the above-mentioned key capabilities clearly. A properly defined USP can motivate customers to buy the particular product. Clever entrepreneurs position their USP well in the minds of the customers during the business / product promotion initiatives. It has the power to be the competitive advantage.

The above explanation implies the value of a USP for a business. Therefore, entrepreneurs of all levels (micro, small, medium and large) should use the USP as a tool to improve his / her business.

As an example, let us have look at the **Unique Selling Proposition of Mercedes Benz**.

"Mercedes-Benz vehicles are designed to provide owners with a world-class luxury experience."

Inclusion of some promising photos of the product / service after presenting the product description as per the given template enhances the quality of the business plan.

2.5. Patents, Copy Rights, Brand Names & Trade Marks

Product Type	Patents	Remaining period for the Patent	Copyrights	Brand Names	Trade Marks

It is possible that the entrepreneur has already obtained the patent / copyrights / brand names / trade marks for the product / service he / she intends to produce. Information pertaining to them should be included in the business plan using the above template.

Patents

Patents are applicable for innovations. Patent is a legal authority or license offered to the entrepreneur who is responsible for the innovation. This authority is given for a set period, and it gives the sole right to the innovator.

Patents is valid for a period of 20 years from the date of filing the application for the patent. But it should be renewed annually from the second year until it expires after 20 years. During the validity of the patent, the other parties do not have the legal right to manufacture, use or sell.

The patent owner has the authority to sell or transfer the patent to another person for an economic gain.

Innovator can obtain the patent from National Intellectual Property Office of Sri Lanka by submitting the duly filled application issued by that office and making the relevant payment. It is compulsory to attach a comprehensive document that gives complete details of the innovation. Intellectual Property Office will then verify if the request conforms to the requirements prescribed in the Intellectual Property Act.

Details of the National Intellectual Property Office of Sri Lanka:

Address	Contact Information
National Intellectual Property Office of Sri Lanka "Samagam Medura", 3rd Floor, No.400, D.R.Wijewardene Mawatha, Colombo-10	Phone: 0094-112 689 368 Fax: 0094-112 689 367 Email: nipos@sltnet.lk

Copy Rights

This is the legal rights given to the creator for his / her literary and artistic works. The rights are of two forms as follows.

1. Economic rights
   These rights include the right to reproduce, sell, rent, distribute, communicate to the public, and translate.

2. Moral rights
   Moral rights are the right to claim the authorship and right to oppose distortion or mutilation of the work.

Applicable products / services are books, computer programmes, articles, oral material such as speeches, and lectures, stage drama, teledrama, musical products, films, arts, paintings, and photographic creations. Copyrights are valid for databases and translation materials also.

<u>Special Note</u>:

There can be business cases where a business has transferred the authority to another business organization to earn income using its assets. If it is a production business, the second party should make a payment to the owner company based on the number of units produces. As an example, consider a quarry rented out to a company A by the owner company on a long-term agreement. Company A is required to pay a pre-determined amount of money to the owner company for each cube of stone extracted from the quarry for sale. Since the relevant payment is directly linked to the production, Company A should show it as a royalty fee under other direct expenditure.

The treatment for the Royalty Fee based on sales can be as follows:

(a) Deducting from sales when preparing the Trading Account, or

(b) Indicating as a sales and distribution expenditure when preparing the Profit & Loss Account.

However, (a) is more logical.

Trademark

These are visible signs used to differentiate a product / service of an entrepreneur from another entrepreneur is considered as a Trademark / Service mark. A trademark is related to a product while the service mark is related to a service.

There are two more types of marks, namely Certification Marks and Collective Marks. Certification mark is granted to the original owner of a product / service when he / she certifies as to the origin, material and production method etc., and the collective mark is a mark serving to distinguish the origin or any other common characteristic of the product / service of different companies which use the Mark under the control of the registered owner.

Functions of a Trademark / Service mark:

- ✓ Distinguishes products / services of its owner from those of others
- ✓ Indicates the source of the products / services

- ✓ Individualizes the products / services of the owner
- ✓ Enables the owner to reach the customers
- ✓ Helps the customers to make the choice in the market.

Importance of obtaining trademarks / service marks:

It is vital to attach an identity to a set of products / services in the competitive market for many reasons. Customers can easily distinguish the products / services of such a business. If the products / services are of inferior quality such manufacturers / entrepreneurs may not obtain legal identity for those inferior products / services. It means that obtaining trademarks / service marks has an implication about the quality / reliability.

The registration of the marks gives its owner exclusive right to use, assign and licence the mark. These rights can be easily enforced effectively through civil or criminal court procedure or both. Owner entrepreneur of the mark can restrain others from using the mark or a mark deceptively resembling his / her mark. Owner entrepreneur is even entitled to claim damages for violating trade mark rights.

Validity period:

The registration is valid for a period of 10 years from the date of application. It is renewable on the payment of the fee for further periods of 10 years.

Brand Name

This is a specific name that identifies a specific company (business), product or service. A brand name differentiates the business, product or service from similar brands within a category.

Examples: Munchee, Maliban, Dialog, SirasaTV

2.6. Market Segmentation

Customers exhibit different behaviours even in buying the same product. When closely observed, it is possible to identify segments of the customers with similar behavioural patterns and needs for a particular product / service. Market segmentation means the identification of different segments for a business / product / service. Within a segment, the customer members' behaviour, and approach in relation to buying the product may have similarities. In this section, the entrepreneur should identify the relevant market segment(s) and include in the business plan.

Advantages of market segmentation are that it enables the entrepreneur to select the suitable marketing strategies, determine the appropriate marketing mix and implement focused marketing initiatives to improve the business.

The practical method of market segmentation is briefly mentioned below.

The market consists of the existing and potential customers. Customers are sub grouped according the similarities of their characteristics. Customer needs and wants, behavioural patterns and similar aspects are the components of these characteristics. Relevant information can be collected through the market research.

These characteristics have a common influence on them in making buying decisions, completing the purchase and re-purchasing.

In general, entrepreneurs perform market segmentation using the factors given in the following template.

Geographic factors	District	
	Divisional Secretariat Division	
	GN Division	
	Climatic situation	
	Population density	
Demographic factors	Age	
	Gender	
	No. of family members	
	Income level of the family	
	Education level	

	Religion-wise	
	Nationality-wise	
Psychographic factors	Personality traits	
	Attitudes	
	Interests	
	Life-styles	
	Psychological influence	
	Values	
Behavioural factors	Buying habits	
	Expenditure habits	

Preparation of marketing strategies focusing on the customers identified in a particular market segment is known "Targeting". Here, the marketing strategies aim at a selected cluster of customers out of the large customer base of the business.

2.7. Target Market Area

The geographical location which the customers of an identified market segment is confined to is called the "Target Market Area". Target market area can be a country or some countries if it is an international business. Local businesses can have provinces, districts, cities or even GN divisions as their target market areas. Target market area should be clearly included in the marketing plan.

When the target market area is included in the business plan, it provides the market location-linked information to the personnel who refer the business plan. In addition, it facilitates the entrepreneur to understand which areas should be considered for market expansion when necessary.

The below given former can be used for this purpose.

District	DS Division	GN Division
Colombo		

2.8. Target Customers

District 1	Total population / no. of families 2	Total market 3	Target market of the business 4	Percentage

After identifying the target market areas, total number of customers in those areas should be uncovered through further analysis. This information can be collected during the marketing research.

In this exercise, target market areas should be considered in units of GN Divisions, and the information related to the composition of the population should be gathered GN division-wise.

Look at the second column of the above format. The way how this information was finalized should be presented as a Pre-Work Report and it should be attached to the business plan. Format of this pre-work report is given below.

Pre-Work Report Format – Determination of the Composition of the Total Population

Population Composition							**District:**								**DS Division:**								
GN Division	Total No. of Families	Infants (Less than 1 year)			Children (Between 1 – 18 yrs)			Youths (Between 18 – 35 yrs)			Adults (Between 35 – 60 yrs)			Elders (Over 60 yrs)			Grand Total		
		Female	Male	Total	Female	Male	Total	Female	Male	Total	Female	Male	Total	Female	Male	Total	Female Total	Male Total	Total

Entrepreneurs are not required to make additional efforts to gather the above information because all these details are available with the respective Grama Niladharis. Alternatively, this information can be extracted from "Sampath Pethikada" - the comprehensive document available at the Divisional Scretariat.

The next step is to mark the number of target customers of the business in the Target Customers format (2.7 above).

The second column of the format 2.7 – Target Customers, shows the total population. But, that number will not be the total number of customers for this business. In this case, it becomes necessary to find out the total number of customers (third column – total market) and the total number of target customers of this business (fourth column – target market of the business) through a suitable calculation.

How to find the Total Market and the Target Market for a Business Startup?

This section explains a practical method that can be used to find the total market and the target market for a business startup.

The first step is to conduct market research in a sample selected from the total population of the identified target market area. Using the information gathered in this market research, the total market and the target market for the business can be calculated as explained in the below given example.

Example of a business startup based on string hopper making:

Total no. of families in the target market area is 300. Let us assume that the representative sample selected constitutes 30 families. Market research is conducted on the families who buy string hoppers in this sample. Market research reveals that 20 families out of 30 families buy string hoppers at least for one meal everyday. It also reveals that when making this purchase, a family buys at least 2 packets each containing 10 string hoppers.

Using this information, total number of customers in the area (for string hoppers), and the total market (total demand for string hoppers) can be calculated as follows.

Total no. of families in the area = 300

Sample size selected for the market research = 30

No. of families who will buy string hoppers = 20 (in the sample)

Hence, the no. of families (in the total population) who may buy string hoppers = 200

(Calculation – 20/30 x 300)

In other words, 200 families out of 300 families in the area buy string hoppers daily. That means the total no. of customers for this business is 200 families. Since a family buys at least 2 packets daily where each packet contains 10 string hoppers,

Total market for the business = 400 packets, each containing 10 string hoppers. (Calculation – 2 packets x 200 families)

We have now found the total no. of customers (200 families) and the total market size (400 packets each containing 10 string hoppers).

Next step is to find the target no. of customers for our business. This is done through performing a Test Marketing in the sample population of 20 families. Within these 20 families, by performing a Test Marketing, we examine how many families will be willing to buy string hoppers from us. Let us assume that the result of the test marketing is that 3 families indicated their willingness to buy from us. With this information, the estimated no. of families for our business can be calculated and it is shown below.

Estimated no. of families for our business = 30 families
(Calculation – 3/20 x 200 families)

This implies that 30 families from the total population in the area will buy string hoppers daily from our business.

In terms of the no. of packets of strin hoppers, our target market is 60 packets, or 600 string hoppers daily.

If we assume that the no. of working days per month is 25, the monthly estimated market is 1,500 packets or 15,000 string hoppers.
(Calculation – 60 packets per day x 25 days = 1,500 packets per month)

Additional Note:

In the above example, the total monthly market is 400 packets per day x 25 days (=10,000 packets). That is, 100,000 string hoppers. It implies that our estimated target market is 15,000 string hoppers in a total market of 100,000 string hoppers. This gives a clear picture about the total market and our market share.

2.9. Positioning

Creating and establishing a better perception about our product / service in relation to the other competitive products / services in the minds of the customer is the role of Positioning. When positioning of our products / services is done properly, the customers perceive our products / services as more reliable, better-quality products / services which are attached to a better after sales service in relation to the other similar products / services available in the market. The image we have positioned will remind the customers about more benefits and advantages associated with our products / services.

Planning the methodology how to position our products / services in the minds of the customers and how to communicate the message are very important steps for a business startup at the planning stage. Even when the homogeneous products are competing in the market, creative entrepreneurs can pick up competitively beneficial characteristics embedded in the own product for positioning purpose. It is obvious that when a startup entrepreneur uses positioning for his / her products, customer minds are already full of positioned perceptions about the competitive brands. Therefore, it is compulsory to search for innovative methods to position own products over the already positioned competitive ones in the minds of the same customers.

How to do Positioning?

- Look at from the viewpoint of the customer, not the producer or entrepreneur.
- Precisely identify the very specific benefit associated with the product / service that is capable of inspiring customers in relation to the competitors' products / services.
- Understand the position deserved in the market for the product / service.
- Study the ways the competitors have been positioned, methodologies adopted by them to position their products, their philosophy of positioning.

- Determine the positioning strategies that will differentiate your approach from that of the competitors, and complete the following template.

Product / Service	Positioning Strategies

2.10. Growth of Target Customers

There are two approaches that can be used to increase the number of target customers.

Approach 1: **Attracting a part of customers fed by the competitors in the area**

Approach 2: **Attracting a part of customers who are newly added because of the population growth**

Appropriate marketing strategies should be implemented to increase the number of customers through the above approaches. In the business planning stage, respective marketing strategies should be designed, and the expected customer growth and the resulting sales growth can be shown in the marketing plan. General practice is that a monthly or annual sales units are increased by a realistic percentage in the plan, based on the approaches given above.

Many entrepreneurs consider implementation of initiatives to increase the number of customers in the selected selling area. This approach is called **Market Penetration**. It is the practice of increasing the number of customers within the originally identified sales territory. Market penetration is an acceptable practice. Next step is the **Market Extension** where the entrepreneur takes initiatives to go beyond the original territory to attract some customers. New territory can be an adjoining area or completely new area.

It is obvious that the entrepreneur cannot do sales to all customers at the start. Possible approach is to prepare a practical plan to increase the number of customers monthly, quarterly, bi-annually or annually. This plan should be embedded in the Marketing Plan of the four year-business plans. BUT it is very vital to find out the **Break-even Point** before preparing the plan to increase the number of customers. This should be done through the calculation based on unit costing or batch costing.

Break-even point is calculated in two ways:

1. No. of units to be sold per month corresponding to the break-even point
2. Value of sales (in Rupees) to be made per month corresponding to the break-even point

The break-even point implies the no profit – no loss point. Entrepreneur should calculate how many units should be sold and how much sales should be done per month to reach the break-even point. Without knowing these figures, he / she cannot determine the number of customers to be added in addition to the existing customers. That means the break-even point should be calculated first and then the plan to increase the number of customers should be prepared.

Example:

Marked retail price of a product is Rs.40.00 and the price to the retailer is Rs.32.00. Direct cost of manufacturing is Rs.25.00 per unit. Monthly production overhead expenditure is Rs.21,000.00. In this scenario, the number of units to be sold per month and the amount of sales to be made per month for the no loss-no profit situation (break-even point) can be calculated as follows.

Step 1: Calculation of the Contribution per Unit

Selling price of a unit	- Rs.32
LESS: Direct expenditure per unit	- (Rs.25)
Therefore, the contribution per unit	- Rs.7

This interprets that one unit contributes Rs.7 to cover the overhead expenditure or fixed cost.

Step 2: Calculation of the No. of Units to be produced to meet the Break-even Point

$$\frac{\text{Fixed Cost}}{\text{Contribution per Unit}} = \frac{21,000}{7} = \textbf{3,000 units}$$ (to meet the break-even point)

Step 3: Calculation of the Sales Revenue at which the Break-even Point is met

Sales Revenue at which the breakeven point is met	= No. of Units (at the break-even point) x Unit Selling Price = 3,000 units x Rs.32 = **Rs. 96,000**

Thus, when making the plan for the growth of customers, attention should be drawn to start with a lower number of customers to cover an annual sales revenue of Rs.96,000.

This is further elaborated by continuing the above example.

In a market of 100 customers, if the monthly demand of a customer for the product is 100 units, the total monthly demand is 10,000 units. The sample selected for the market research consists only 10 customers. Thus, the monthly demand in the sample selected is 1,000 units.

When starting a business, steps should be taken to achieve at least monthly sales revenue corresponding to the break-even point, and gradually increase sales to earn desired profits.

In this example, let us assume that the entrepreneur's monthly sales target is 3,000 units which is the break-even point. Since the total monthly demand is 10,000 units, this entrepreneur is planning to supply only 30 units per customer whose actual monthly requirement is 100 units.

Thus, the no. of units to be supplied to 100 customers per month = 100 x 30 = 3,000
He / she has to start the Sales Plan with 3,000 units (minimum level to start with) in the first month. Thereafter, based on the concept of Market Penetration, marketing strategies should be designed to increase the sales among all 100 customers.

Some assumptions should be made for the above operation.
Example for the assumptions:

- Annual population growth rate in the target market area is 2%. It implies that the annual customer growth rate is 2%.
- Annual sales in each sales outlet are increased by 2% because of the above customer growth rate.

Accordingly, the increase of annual demand for each sales outlet can be shown as given in the following table.

Description	20….	20….	20….	20….
Monthly demand	100	102	104	106
Annual demand	1200	1224	1248	1272
% of increase		2%	2%	2%

Customer Growth Plan will be based on the below table.

Description	20….	20….	20….	20….
No. of customers	100	102	104	106
% of increase		2%	2%	2%

Customer Growth Plan Format

This shows how the entrepreneur expects to increase the number of customers in the coming years.

Product	Area	Total no. of customers	Expected no. of customers							
			20..	%	20..	%	20..	%	20..	%

2.10 Key Customers (Expected)

This section should include the potential/expected customers identified for the new business. The main customers, particularly the customers who will take a major share of the market will be identified here. In other words, to identify the customers who will contribute to a major portion of the expected income.

Identification of expected customers could be done on following basis.

- Test Marketing done through customers identified in market research, with their agreement.
- Forecasting based on the network developed by the entrepreneur.
- Forecasting based on the entrepreneurial knowledge of the entrepreneur, experience and customer attraction programmes

No	Name of the Customer	Area		
		District	Divisional Secretariat Division	Grama Niladhari Area
1				
2				
3				
4				

2.11 Competitors' Market Share

Competitor	Competitive Product	Area	Current Annual Supply	Percent of Total Demand	Growth Ratio	Market Share			
						20..	20..	20..	20..
Total									

Competitors means the competitive businesses who are marketing similar or allied products in the market in which we are operating. Therefore, the competitor's business activities have a direct impact on the volume of sales, profit and sustainability of our business.

It is essential to conduct an extensive study on the competitors to the business. The above format should be filled based on the market survey data. By using the competitive advantage of the expected business and marketing strategies it is possible gain advantages to surpass the competitors.

As per the format by identifying the competitors in respective areas and identifying the competitive products; finding the annual volume supplied to the market by each competitor and after totaling them the percentage contribution from each competitor should be worked out.

The total demand for competitors is calculated based on the data obtained from the sample subjected to the market survey. In that context the total segregated products purchased by the sample businesses from the competitors is the total demand for those businesses. By considering the demand for each competitor as a share of the total demand the market share for each competitor could be found.

By substituting the data based on the sample the demand of the entire market and the market share of each competitor can be calculated. Further based on the sample the monthly demand can be calculated to your expected market area.

For an example let us assume that the customers covering the identified market is 100, But assume that the market survey was done covering only 10 customers. Let us take that the monthly demand from one customer is 120 units. Then the monthly demand from the ten customers will be 1200 units. Then the total demand for the entire market can be calculated as follows.

The monthly demand in units from one expected customer = 100
The demand in units from the expected hundred customers = 120 x 100
Therefore, the total monthly demand is 12,000 units.

2.12 Sales Price Analysis of Business and Competitors

Product	……. Business Price	Competitor's Price				
		A	B	C	D	E

The price of a product or a service is factor which the customers are highly sensitive. It has a great impact in the process of buying. In deciding on the pricing, it is necessary to give attention to the competitors' pricing. Therefore, the expected prices of the business should be comparatively analyzed with the competitors' pricing. The format given below can be completed based on the data obtained in market research.

2.13 Total Demand and Demand for the Product

Calculation of the percentage supplied by the business to the total market demand is done here. This is the market segment of the business of the total market. The percentage of the market demand for the product or service relative to the total market is investigated here. It also helps to identify the possibility of expanding the market and to identify the limitations.

The market share is calculated by dividing the total annual demand for the business from the total annual market demand multiplied by hundred.

$$\text{Market Share} = \frac{\text{The Expected Demand for our Organization (annual, units)}}{\text{Total Demand (Annual, units)}} \times 100$$

As an example let us assume that the annual demand for String Hoppers in the area where our business located is 900,000 units. Also assume that the annual demand for our business is 180,000 units. Accordingly, our market share will be;

$$\text{Market share} = \frac{180{,}000}{900{,}000} \times 100 = 20\%$$

The expected demand also can be calculated using the value (Rupees) however we recommend to calculate the expected demand based on units.

Product	20…			20…		
	Total Demand (Annual Value)	The Expected Demand for our Business (Annual Value)	Market Share	Total Demand (Annual Value)	The Expected Demand for our Business (Annual Value)	Market Share

2.14 Competitor analysis

The vision of the business should be always to be ahead of the competitors. It is required for the development of the business. In this section of competitor analysis, the main objective is to compare on what state my business is in compared to the competitors. If my business is lagging behind in the competition then the strategies required to come up from that stage or if the business in a higher state, then what are the marketing strategies to maintain the level and this will facilitate to remain as a competitive organization among other competing organizations. When there are large number of competitors it is sufficient to select five strong competitors to do this analysis.

Factor	My Business	Competitors Name				
		A	B	C	D	E
Price						
Quality						
Customer Service						
Reliability						
Organizational Stability						
Expertise						
Good name of the Organization						
Location						
Ability to buy						
Product Appearance & Packaging						
Distribution Effectiveness						
Easy access for the Customer						
Credit Policy						
Publicity						
Total						
Priority						
After Sales Service						
Online Facilities						
Opening Hours (Business)						
Customer Care						
Customer Relations						

Excellent 10	**Very Good 08**	**Good 08**	**Average 04**	**Poor 02**

2.15 Competitors' Strategies Analysis

Competitors	Production Strategies	Pricing Strategies	Distribution Strategies	Promotional Strategies
Competitor 1				
Competitor 2				
Competitor 3				
Competitor 4				

The recording of competitors' strategies is done using this format. The production strategies, Pricing strategies, distribution strategies and promotional strategies should be identified through the Market research.

2.16 SWOT Analysis of competitors

	A	B	C	D	E
Strengths					
Weaknesses					

Opportunities					
Threats					

This is done to find out the competitors' strengths, Weaknesses, opportunities and threats. By further analyzing the competitors identified in the Market research the strengths and the current weakness in their business should be recognized.

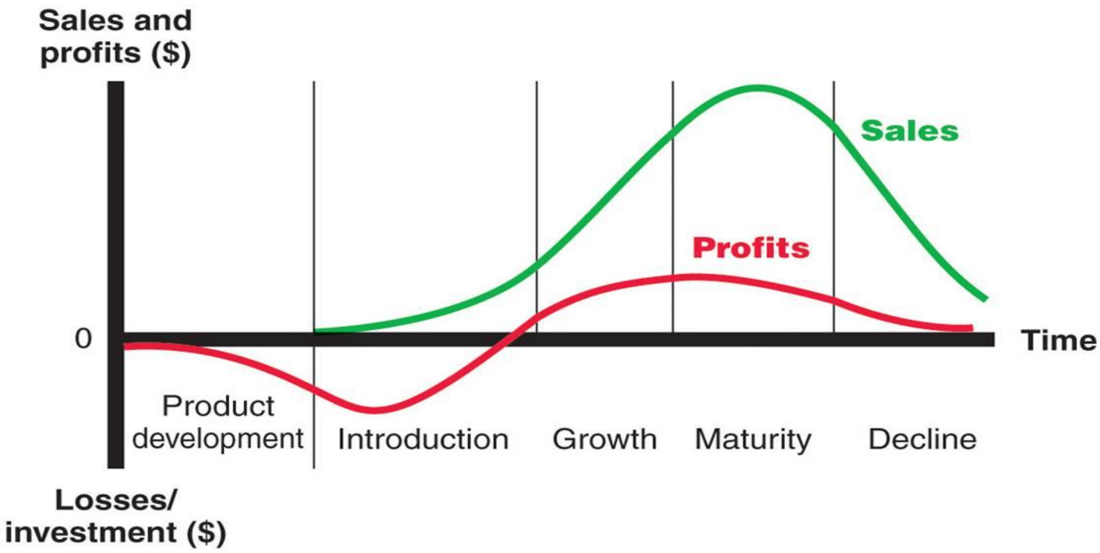
Further the threats faced are mostly common to all the businesses. The strategies adopted by the competitors and how they face such situations should be forwarded in the following format. By conducting a SWOT analysis of competitors, it is expected to see how we can face their strengths, how we convert their weaknesses to our strengths, how we can utilize the opportunities in the market to a maximum, work out the tactics to meet the strengths and open a way for strategic accesses.

2.17 Product Life Cycle

In this section of the business plan, we should record the details of the life cycle of the product. From the moment a product or service is introduced to the market, introduction stage, development stage, maturity stage and decline stage will be passed in its life path. In these different stages the sales income, and profit generated by the product or service will vary.

The life cycle is a graph indicating the changes of sales income and profit of a product or service taking place with time. The graphical picture will also depict the life span of the product or service.

A graphical presentation of a life cycle of a produce is given below.



This is calculated based on financial details. That means based on the changes in sales values and changes in profit volume. While the vertical axis will indicate the profit and sales, the horizontal axis indicates the time which could be monthly or yearly. If it is monthly, the monthly sales values and profit / loss should be marked and the points regarding sales volume and profit/loss should be joined separately. Accordingly, the life cycle is constructed for the time period considered.

Observing the constructed life cycle the status of the business could be observed. A life cycle will help to identify the behavior of the business at various stages.

Product Development Stage

In the production life cycle, the development stage is the research stage before the product is introduced to the market. It commences with the conception of a business idea. To find the investment capital, preparation of the basic prototype product, checking the basic production models, checking the productivity of the production, and strategies for launching etc. will take place. At this stage there will be no income to the business and a stage that a considerable expense will occur. The time span of this stage depends on the extent of innovation and other matters.

Introduction Stage

The introduction stage begins with launching the product first time to the market. Awareness creation by the marketing team and reaching the future customers is the introduction stage. Generally, with the introduction the sales start at a low volume and the demand is developing slowly.

Generally, this is a stage that focus should be given to advertising and marketing strategies. In many businesses while developing their brand name checking the distribution system and awareness creation among future customers are done during this stage.

Growth Stage

During the growth stage the customers accept the product and the buying will be in an increasing trend. That means the demand and the profit is gradually increasing.

Here while the market is expanding the competition also increases. During this stage every step should be taken to strengthen the marketing processes, develop the trade name and attract customers surpassing the competitors.

Maturity Stage

Maturity stage is the stage in which the high acceleration of sales is reduced and tend to maintain at a stable level. Here the business has to face severe competition which is developing. That means the competitors are acquiring a segment of our market. Therefore, it is important to give attention for the business to be more efficient and take appropriate measures from lesson learnt during the development stage. It will be necessary to renew the product mix. That means strategies such as to improve the product features, quality to capture customer attraction, to reduce the prices, change customer service, intensify distribution system should be done.

Decline Stage

Decline stage means the stage of declining sales following the maturity stage. This can happen due to intensifying already active competitors, intensifying the competition from the entrepreneurs attracting to the business. Due this reason our customers will be gradually grasped by competitors and result in dropping our sales.

At this stage the following strategies are adopted by many businesses

1. Reintroducing the product after modification
2. Suspend the production
3. Sell the business

Entrepreneurs use strategies such as implementing new sales promotion strategies, price reduction, adding new features for value addition, explore new markets, business name promotion and change packaging to extend the life cycle.

2.18 Proposed Marketing Strategies

The marketing strategies expected to be followed at each stage of the production life cycle should be included in the business plan. The marketing strategies should be organized based on the marketing mix, 4Ps (Product, price, place and promotion). The variables of a marketing mix behavior from the seller's point of view and from the customer's point of view is depicted in the diagram below. It is customary to indicate relative to the sellers as P4, and buyers as C4.

Sellers (P4)		**Buyers** (C4)
• Product/Item	→	Customer solution
• Price	→	Customer cost
• Place	→	Convenience
• Promotion	→	Communication

The entrepreuner should be sufficiently matured in prepartion of marketing strategies for product from the customers' angle C4, accordinly,

- ✓ The produce, product or service of the business should provide a solution to the customer's problem
- ✓ The price determined for a product or service should be considered as a cost for the customer.
- ✓ The method of obtaining the product by the customer should be made conveniet through place and distribution method.
- ✓ The customers should be effectively communicated on the product or service through promotinal strategies used by the business.

i. Product Strategies

Leaving aside the concept of producing the goods or services as per your ability, it should be considerd that the product is made as a solutions to customer's problems, in order to solve their prolems in an effective manner how to prepare the product and the production stratgies and such strategies should be indicated below.

The things that can be shown under this is that the shape, colour,quantity, quality,packaging,brand name, after sales service, responsibility, benifts etc. how to create and to change according to the time. The following model can be used.

Type of Product	Production Strategies	20…	20…	20…	20…

ii. Price Strategies

The income to the business will be brought only through the pricing variable in the marketing mix. Other variables in the mix will bring cost to the business. Therefor when the price is determined while it should be attrative to the customes it should be priced sufficient to bring profit to the business.

There are some points that should be considered before determining the pricing for a product or a service.

- The cost incurred in production of the goods or services
- Linked to the market demand and the price preferred by the customers.
- Competitors prices

Once the above factors are identified the pricing method in the business for product or service should be selected. Two pricing methods that can be adopted by a busineess are given below. They are cost oriented and market oriented methods.

1. Cost Oriented Pricing System

Three methods of pricing is given below.

- Cost based pricing method
  In this pricing method a defined percentage is added to the cost.
  For an example if the cost of a product is Rs 150 and if 10% profit is expected by the business then the price of the product is Rs 165/-(Difference between the sale price and cost is the profit)

- Cost based on the breakeven point
  That means prepare a unit price for a estimated unit , work out the direct cost for a unit, calculate the monthly fixed cost and work out the units to be sold to reach a break even point. If the sales volume is below the profit break even point then a market survey should be carried out to see whether the price can be increased.

- To determine the price to get a return on the estimated investment. In this a fixed profit percentage is added to the total monthly cost and the products are marketed. Here the total cost means the investment.

Example-

Monthly total expenses in other words the investment is Rs. 100,000/- and the return on investment is 10%. The expected number of units to be sold during the month is 5500.
The sales price is calcuted as follows.

Sales Price of a Unit = $\frac{\text{(Total Monthly Expenses + Expected Profit Ratio)}}{\text{Expected Units of Sale}}$

= $\frac{100{,}000 + (100{,}000 \text{ x } 10\%)}{5500}$

Sales Price of a Unit = Rs. 20.00

2. Market Oriented Pricing

Three methods are given below under this

- Pricing based on competitors pricing
  Pricing done based on the prices of products sold by the competitors. This is the method most frequently used.

- To offer a produc simlar to compettitors with a value addition to the product and price with a marginal incresae in price

- Offer a product similar to the compettitors product and provide a discount percentage.

Among the methods indicated above the Micro, small and medium entrepreuners are using market oriented pricing method based on competitors pricing.

By using the above pricing strategies and adopting the siutable pricing method for the business and present the same in the folowing format.

Type of Product	Pricing Strategy				
		20……	20…….	20…….	20……

iii. Distribution Strategies

The following should be considered in prepartion of the distribution strategies

- Convenience for the customers to get the products
- To be competitive with the distribution strategies of the competitiors
- Will not incurrer additional cost.

A business pass down the product to customers through distribution.There are some services done by the members of this distribution channel to the business.

- Gather data from the customers,competitiors and other activists and from the market environment.
- Stimulate the communication process for buying the products of the business and implement.
- Act as intermediary in finalizing the transaction between the business and the customer.
- Acquire resourses to be used at various stages of the distributuion channel of the business.
- Share the risks confronted in the distribution process.
- Assist to have an effective distribution channel in distributing products or services.
- Assist the business to obtain the relevant payments through banks or finacial institutes.

Distribution strategy is an important strategy. The importance is shown by including it in the marketing Mix. In the marketing mix this is indicated as Place. If a distribution channel is not available there is no definite system to pass down the product to the customers.Distribution channel is considered as the bridge linking the producer and the customer. There are two main systems of distribution channels.

1. To establish own distribution channel

Most of the micro,small and medium enterprises are using their own distribution channels. Generally the the cost of distribution is around 25% to40% of the total sales income. Some organisations allocate more than 40% for distribution. Therefore the entrepreuners should give attention to minmize the expenditure.Due to folowing strategies used by entrepreuners in building the distribution channel the distribution cost will be very high. This even could result in failure of the entire business.

- Buying vehicles using capital investment
- Obtaining vehicles using leasing facilities at high interest rates

By purchasing vehicle using the above method a large cost has to be borne. They are;

-To pay a very high interest component.

-To pay for maintaining and repairs of vehicles.

-To pay insurance premium for vehicles

-to pay drivers salaries and payment of statutory allowances

The distribution cost of the organisation become very high due to these reasons. The cost per kilo meter can be calculated by dividing that amount with the total kilometers travelled. After calculating the expenses, highring a vehcle from outside should be compared and a decision should be taken to adopt to a low cost method.

2. To link with an available distribution channel

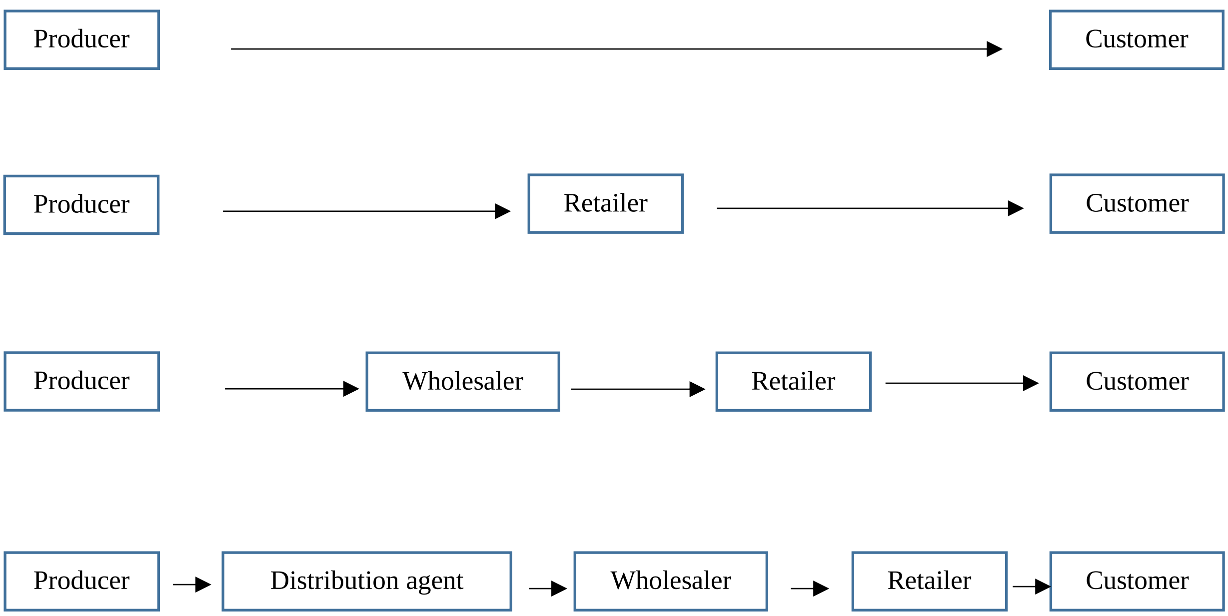
This means without investing on distribution vehicles the total distribution to be allocated to a distribution company. The responsibility of distribution and marketing will fall on the external company. Some large scale production companies seemed to be using this system.

From the above two systems which system to be adopted should be decided by the relevant production organisation. The systems should be studied seperately and after comparison of advantages and disadvantages , anlyzing the investment , the cost that will incur a decision should be taken,

Whatever the methods adopted in distribution the entrepeuner should have fair knowledge on the distribution channels. Attention should be given at the market survey to collect data on this.

In practical business world the following four distribution systems can be seen. After deciding the own destribution strategy either one system or several systems can be used.

1. Producer to customer   (This is denoted as B2C as it is business to custormer)
2. Producer to retailer
3. Producer to wholesaler- wholesaler to retailer and then to customer
4. Producer to distribution agent-Distribution agent to whole saler wholesaler to retailer and then to customer
5. Different distribution routes/systems



Having understood the above facts and obtaining the data the most suitable strategy for your organisation should be indicated in the following format.

Type of Product	Distribution Strategy				
		20…	20….	20…	20….

iv. Promotional Strategies

Promotional strategy is a marketing promotion strategy The deatails of market promotion strategies planned for products and services in your business should be included here.

What is done in promotional strategies is to create a special interest on the produts or services marketed by the business among the customers and create a special interest among them to buy.The final outcome should be buying the items. The special interest and and motivation is done through communication. What should be done to persuade, the .customers to buy products of the business. To what group this message should be targetted. What time it should be done, howmany times, what is the cost for this, after decidng them only the market promotion strategies should be planned.

In the massages of marketing promotion strategies following matters should be clealy stated.

- ✓ What is the product, what are the unique features?
- ✓ What is the customer issue that will be solved
- ✓ Why should the customer buy this product .

Through the market promotion strategies the customers should be made to feel that their needs will be fulfilled by the products or services of the business and also feel that among the other products this takes a leading position.

Few marketing strategies used in the practical business world is given below.

- ✓ Advertising
- ✓ Sales promotion
- ✓ Public relations and publicity
- ✓ Direct marketing
- ✓ Personal selling

Advetising

Awareness creation among customers with the objective of marketing the product by presenting advertisements through Radio,Television,News papers, Print media, Web Pages and Social Media.

The advertising decisions that should be taken in planning

A. Deciding the objective of advertising

The advertising objectives should be prepared based on advertising targetts. Some advertising objectives of a business are given below.

- Consumer Awareness: The purpose of such advertising campaigns is to provide customers with new information about a product that is introduced to the market for a new product for an existing product
- Motivating consumers: Creating customers preference towards the products of the business, persuade on the products and motivating to buy are the objectives of advetisements.
- Re-reminding the customers: Focussing the customers to to buy the products of the business is the objective. This is suitable when the product has moved away from the minds of people.
- Motivating customers: To reinforce that the customers are buying the the proper product is the objective of this advertisements.

B. Deciding on the cost of advertising

The budget should be decided when the advertising obectives are identified. The advertising cost should be calculated considering the factors like market competition, the cost incurred by competitors, frequency of advertising**,** product type and the class.

C. Selection and preparation of the advertising message

Should be decided how to forward the advertising message in a creative manner. Here formulating the message to be effective . Manipulating the message, cosider the social impact, moral qualities should be given attention.

D. Deciding on the media of advertising

The medium to convey the message to the targetted customers should be decided. Among the media such as News Papers, Television,Radio, Direct Mail, Magazine,Exhibitions,Telephone,Posters,Hand Books, Internet and the most suitable one should be selected logically.

E. Evaluating the advertisng effectiveness

The outcome of the advertising of the business is eveluated here. The outcome is evaluated considering the changes in sales income and number of customers compared to the cost of advertising. The objective is to find the relationship between the advertising cost and the sales,

It is important to obtain consultancy assistance to design advertising methods to suit the business objective. However the entrepreuner also should have a fair knoeledge on this.

Advetising Planning Methods

A. To plan advertising targetting a particular area or a group, this is known as "Below the line advertising (BTL)". Display Boards, Banners,Posters,Hand Bills,annoucing through loud speakers can be given as examples.

B. Advertising using the mass media, this is known as "Above the line advertising (ATL)". The message will spread to tragetted as well as to non targetted groups.Examples of ATL can be indicated as Television, Radio, News papers and Internet. Even though the direct target areas are limited some businesses are seen frequently using this method. They do that to promote the brand name of the business .

C. Some organisations use a combination of both methods. It is known as Through the-line (TTL)

Sales Promotion

All short-term incentive strategies introduced by the business to increase the quantity of goods or services that customers purchase and to attract new customers are called short term sales promotion strategies. Here coupon scheme, cash refund, discounts, free gifts of high value, trade fair, exhibition stalls, sales competition, sales person's competitions will be the main factors.

Public Relations and Publicity

Maintain good communication, relationships among not only with suppliers and intermediaries but also with the general public is feature of a growing business.

The various programs that businesses design and execute with the public to protect and promote the image of the business are activities that fall into the category of public relations. Most businesses allocate certain percentage from the promotional budget for public relations to achieve a long-term objective. The tactics used are press releases, product publicity, corporate communication' compliance with government regulations' etc.

A news that is published by any media, newspaper or any other form of promotion where the business does not incur any cost in known as publicity. Any news item published in a national newspaper on a new product or service can be sighted as an example. While it a very effective promotion method to get an opportunity is very limited for many organizations.

Direct Marketing

A business offering the products or services directly to customers without intervention of any intermediary and establishing a method for customers to buy directly is direct marketing. This is the speediest method for customer development and service provision. Market promotion letters, e-mail, Text messages, leaflets are frequently used in this process. Social media such as Face Book are frequently used.

In direct marketing access there is no personal relationship developed between the marketer and the customer.

There are four main features

- Sending the message only to the relevant person (or group). Possibility of designing the message suitable to them is a special feature in this.
- Possibility to provide updated information.
- Ability to get direct feedback from the customer.
- Ability to change the message immediately suitably based on customer feedback.

Personal Selling/ Sales Task Force

Meeting the internal or external customers, explaining about the product or service and selling is personal selling. Here there is a good possibility of developing relationships between the seller and the customer.

These salespersons will make aware of the customers on;

- ✓ Nature of the product
- ✓ Properties/Qualities
- ✓ Benefits
- ✓ Performance

Give advice and information and persuade them to buy. The factor mentioned above in the direct sales is also common to personal selling.

The Marketing strategies suitable to our business should be entered in the following format.

Type of Product	Promotional Strategy				
		20…	20…..	20…..	20….

Explained above are some product strategies, pricing strategies, distribution strategies for each element of the marketing mix known as 4P, Product, Price, Place/Distribution and promotion. They will be included in the overall marketing strategies of the product and services businesses. There are three more new components added to the marketing mix. Then P4 will become P7. The newly added three components are given below.

i. People

The human resources are main factor is in a service provision of a service providing business, because the employee are the ones directly linked to the customers. It is necessary to select a distribution is dependent on the skills and quality of the service provider.

Through the development of human resources targeted towards providing an effective service an organization culture will be developed resulting a favorable attitude among customers.

ii. Process

The operational system, in other words the activities beginning from the intention of a customer to obtain a service and to feed back is explained here in a sequence. Customer journey satisfying the customer who comes to obtain a service happens here.

These activities may be done by one person or by several people. However, the process should be prepared to satisfy the customer. That means to take alternative steps to provide an effective and more flexible service and development.

iii. Physical Evidence

The physical evidence in the sense of the word itself, is what the customer can see, or the things that are prepared to show the customers. The customer's confidence is based on what they see and hear and to develop a confidence on the service they get for the money spent.

As per the explanation above it is clear that the physical environment also has an important place.

As an example, the location of the organization, layout, interior design, branding, office background, staff, attire of the staff is the physical environment while video display, Photos, brochures and agreements also could be given as evidence.

2.19 Total Marketing Strategy

The above mentioned each marketing strategy or production strategy, pricing strategy, distribution strategy and promotional strategy can be depicted in one format of the total marketing strategy. The following format can be used for that purpose.

Type of Product	Strategy				
		20…	20…	20….	20….

After preparation of the marketing strategies as discussed above the budget should be prepared to get the maximum productivity and profitability. The budget should be prepared by giving special attention to all marketing strategies.

2.20 Market Research & Development

A business always operates in an environment of VUCA - volatility, uncertainty, and complexity and ambiguity. This VUCA situation compels businesses to conduct market researches from time to time to capture the periodic changes taking place in respect of suppliers, overall industry, and opportunities.

Based on the market research data, research and adjustments should be done to the new products to match the new market. This format can be used to indicate the expected future market research and development in the business plan.

Product	Research & Development 20…..	Research & Development 20…..	Research & Development 20…	Research & Development 20…

2.21 Marketing Research & Development Expenses

There is an expenditure involved with the above-mentioned Research and Development work. Allocation of funds will be done using the format given below.

Product	20…..	20…..	20…..	20…..

2.22 Non-Current Assets Relating to Marketing Division

Asset Type	Total Value (Year-Start)	Additions	Deductions (To Cost)	Total Value (Year-End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

A detailed description of non-current assets is given in the Management and Organization Plan. Please study it. Same way, the non-current assets relevant to the Marketing Division are recorded in the Format 2.22.

2.23 Break-even analysis

Break-even analysis is the calculation and testing of how many units of a product should be sold by the business to cover the total fixed costs incurred over a period of time. Therefore, break even analysis is used to determine the level at which sales should be made to cover the total fixed cost of the business.

The breakeven is calculated by dividing the total fixed cost by the "Contribution". The method of calculation of the Contribution is explained separately.

$$\text{The number of units required for breakeven point} = \frac{\text{Fixed Cost}}{\text{Contribution}}$$

The above answer is the no. of units relevant to the break-even point. The money value related to the breakeven point can be calculated by multiplying the no. of units by the unit cost.

Break-even Point Value = Number Units for Break-even Point x Sales Price of a Unit

How to calculate the "Contribution"?

When the Direct Expenditure of a unit is deducted from the Sales Price of the unit, we get the **"Contribution"**. The contribution signifies how much a unit contributes to cover the fixed cost over a period of time.

The surplus that remains after covering the fixed cost is the profit. Direct cost means the total cost of direct raw material, direct labor and other direct costs.

Special Note:

Although the contribution and the gross profit appear to be the same they are two different concepts.

- While the contribution is calculated in cost accounting the profit is calculated in financial accounting.
- Contribution is calculated for each and every unit separately, the gross profit is calculated for a specific period for the entire business.
- In calculating the contribution, the expenses deducted from the sales price are direct expenses in other words the variable expenses. This includes direct raw material, direct labour and other direct costs. In calculating the gross profit, from the total sales income the sales cost will be deducted and shown.
- In calculating the contribution, the direct expenses included are different from the sales cost in gross profit calculation. The following table indicate them

Calculation of Contribution	Calculation of Gross Profit
Sales price of a unit - Rs. 200	Sales price of a unit - Rs. 200
Less: variable cost - Rs. 150	Total no. of units sold (in the month) - 500
Hence, Contribution from a unit - Rs. 50	Total monthly sales - Rs. 200 x 500 = Rs. 100,000
Contribution Ratio (from a unit) = 50/200 x 100 = **25%**	Less: Value of the no. of units returned = 10 units x Rs. 200 = Rs. 2,000
	Hence, Net sales = Rs. 198,000
	Less: Sales Cost
	Production cost - Rs. 160,000
	Transport cost - Rs. 5,000
	Stock to be sold - Rs. 165,000
	Less: Closing stock (Finished goods) - Rs. 25,000
	Cost of sales - Rs. 140,000
	Gross Profit - Rs. 58,000
	Gross Profit Ratio = 58,000 / 198,000 x 100 = **29%**

- Although, the direct cost is deducted in calculating the unit contribution, in calculating the gross profit, from the total sales price direct expenses, general operational expenses, and direct expenses related to sales are also taken into account.
- Therefore, the contribution and gross profit are two different concepts.

Unit contribution

Details	Product 1	Product 2
Unit sales price		
Deduct - Direct cost for a unit		
Unit Contribution		
Contribution Ratio		

2.24 Adjustment with Monthly Fixed Costs

To find the breakeven point, one must find the amount of fixed expenses in the business. Fixed expenses mean the total of the common operational expenses in the plan. That is the total of common operational expenses of the management division, common operational expenses of accounts division, common operational expenses of marketing division, common operational expenses of production division. It should be recorded in the following format.

When the total fixed expense id divided by the contribution, the units that business should sell to reach the point where no profit or loss is incurred can be calculated which means the breakeven point. Profit targets can be prepared using following three methods based on breakeven point.

1. Adjustment of the Debt Capital with the Monthly Fixed Expenses

If a business has taken loans the interest and part of the loan capital has to be paid monthly. However only the interest component is added to the fixed expenses and the capital component is not added. Payment of capital in a loan is mandatory. Therefore, if the breakeven point is calculated after paying the loan capital component, the capital component according to the period of loan should be included in the format and the total accumulated loan capital should be found.

Then by adding the total loan component to the fixed cost and dividing by the contribution the breakeven point can be calculated including the loan capital.

$$\text{Breakeven point including the loan capital} = \frac{\text{Fixed Cost + Loan Capital}}{\text{Contribution}}$$

2. Adjustment of the Expected Profit

If even one unit is less in the expected sales of the breakeven point the business will incur a loss. The business will start making profits when the sales are above the breakeven point. In calculating the monthly sales target, the entrepreneur should decide on the profit component. The expected profit should be included in the format given below. Then in preparation of the sales target the expected profit for a month is added to fixed cost and loan capital cost and divided by the contributor gives the targeted total sales.

$$\text{Targeted total sales} = \frac{\text{Fixed Capital + Loan Capital + Expected Profit}}{\text{Contribution}}$$

3. Adjustment of Savings

If the business intends to save a definite amount of money monthly the sales targets can be worked out including that also. The target monthly sales could be worked out by adding the expected monthly saving to fixed cost, loan capital and expected profit by using the following format.

$$\text{Targeted total sales} = \frac{\text{Fixed Cost} + \text{Loan Capital} + \text{Expected Profit} + \text{Expected Saving}}{\text{Contribution}}$$

Accordingly, the format should be completed using the total monthly operational cost, total loan capital component, expected profit and expected saving

Expenses	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed cost													
Overheads – Management Div.													
Overheads – Finance Div.													
Overheads – Marketing Div.													
Overheads – Production Div.													
Total Fixed Costs													
Loan capital payment													
Total loan capital payment													
Expected profit													
Expected saving													
Total													

2.25 Break-even points

As described above, the break-even points should be calculated and recorded in the following format. By multiplying all calculated units by the selling price per unit the total value can be calculated. The objective of calculating other points apart from the break-even point is that it provides the possibility in planning targeting those points in the operational process.

Detail	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Fixed expenses													
Break-even point – units													
Break-even point – value													
Fixed expenses based on payment of loan capital													
Units													
Value													
Fixed expenses based on loan capital payments and expected profits													
Units													
Value													
Fixed expenses, based on loan capital payment, savings & expected profit.													
Units													
Value													

Although the above method can be adopted for production of one product, if the organization is manufacturing several products and marketing, the process will be different. That means they should be apportioned based on the fixed cost of the organization. The calculation of the breakeven point should be based on the apportioned fixed cost.

Calculation of the Break-even Point of an Existing Business

The fixed cost during the previous months is apportioned using contribution ratio from different products and the break-even point is worked out.

Example:

A business organization is producing three types of products. The total sales revenue during the last month is Rs. 250,000/- The details regarding the products are given below.

Product	Sales Income	Unit Sales Price	Direct Cost per Unit	Contribution from a Unit
A	125,000	150	130	20
B	80,000	200	160	40
C	45,000	180	120	60
Total sales	250,000			

Calculate the break-even point for each product, if the fixed cost is Rs 60,000.

When the percentage of sales for each item is considered;

$$A = \frac{125,000}{250,000} \times 100 = 50\%$$

$$B = \frac{80,000}{250,000} \times 100 = 32\%$$

$$C = \frac{45,000}{250,000} \times 100 = 18\%$$

Accordingly, from the total fixed cost 50% should be met by Product A, 32% by product B and 18% by product C.

From the fixed cost of Rs. 60,000

$$A = 60,000 \text{ X } \frac{50}{100} = 30,000$$

Accordingly, when divided by the contribution of A $\frac{30,000}{20}$, The number units are 1500

$$B = 60,000 \text{ X } \frac{32}{100} = 19,200$$

Accordingly, when divided by the contribution of B $\frac{19,400}{40}$, The number units are 475

$$C = 60,000 \text{ X } \frac{18}{100} = 10,800$$

Accordingly, when divided by the contribution of C $\frac{10,800}{60}$, The number units are 180

In respect of a business startup that manufacture several products:

Data pertaining to the sales percentage during the previous months are not available. In such situations, considering a proper basis, the fixed cost could be allocated.

As an example, let us consider the total no. of direct labour hours as the basis. If the product A consumes 50% of the total direct labour, 50% of the fixed cost can be attributed to the product A.

2.26 Analysis of the Annual Break-even Point

The break-even points for each & every product calculated annually should be included for the four years that business plan is being prepared**.**

Product	20…..		20…..		20…..		20…..	
	Units	Value	Units	Value	Units	Value	Units	Value

2.27 Selling Price Analysis

Selling Price Analysis shows how we estimate the selling price of products over the next four years. The price can be increased by a realistic percentage every year or the same price can be maintained, depending on the business case. If the price increases every year, relevant strategies adopted should be shown under the sales strategies. Otherwise, it should be mentioned under assumptions.

S/No	Product	Sales Price 20…..	Sales Price 20…..	Sales Price 20…..	Sales Price 20…..
	A				
	B				
	C				
	D				
	Sales Price Incremental Ratio		10%	10%	10%

2.28 Sales Forecast – Quantity (Monthly & Annual)

Sales forecasting is a plan that outlines the items and services that the business intends to sell in the future, with a daily, monthly and annual sales volume based on those items. Most of the organizations prepare the annual marketing plan and divide by twelve and give targets to marketers. But, the correct method should be to prepare it with daily targets, monthly targets and annual targets.

The below-mentioned points should be taken as vital in the preparation of a marketing plan.

1. If there are large number of product / service varieties, they should be arranged in a manageable manner using a logical basis.

If the number of product / service varieties is more than the manageable number, inclusion of all those items with individual targets in the marketing plan becomes a complicated task. In such situations, the practical approach is to select the most important items (example: products that contributes to 80% of the total turnover) using the Pareto analysis or a similar technique, and include those items with respective targets while including the total of the balance items as one category. This approach makes the task manageable and ensures that the total values are considered.

2. The sales volume should be prepared with an understanding of the period of fluctuating sales.

3. **When preparing the plan, a decision should be taken whether the sales price should be changed every year.**

4. **A sales incremental ratio should be determined for every month, when planning for six months or for the planned period.**

5. **Marketing plan can also be prepared separately based on the distribution channel.**

   Example:

   - Sales plan relevant to the Distribution Channel 1: Direct Sales
     That means the organization recruiting marketers and doing sales.
   - Sales plan relevant to the Distribution Channel 2: Sales Agents / Distributors
   - Sales plan relevant to the Distribution Channel 3: Modern Trade (via Supermarkets)
   - Sales plan relevant to the Distribution Channel 4: Online Sales

If the sales plans are prepared based on different distribution channels they should be combined to a single sales plan to include in the marketing plan.

6. If the business plan is prepared for four years, generally, the sub-plans - management and organizational plan, production plan, marketing plan, and the finance plan are prepared monthly for the first year and annually for the balance three years. However, it is necessary to prepare on monthly basis for all four years initially. When compiling the final business plan for four years, the monthly information is shown for the first year, and from the second year onwards, annual information is shown.

It is easy for an existing business to forecast sales, because an existing business has historical data on sales, market, industries etc. But for a new business since there are no historical data and there is no basis and it is not easy to forecast. In order to find a basis or a pattern, a market research should be done focusing on the target market, target customers, competitors. A forecast can be made on that basis. Please refer to the Sales Forecast format given below carefully.

The Sales Forecast is presented as two forecast plans, namely forecast on volume of sales and value of sales. Given below is the volume plan. In the “Type of Product” column different products are entered and the next column is for the sales price. From there onwards, in the respective months, the forecast monthly volume is recorded.

Type of Product	Selling Price	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

Below given 2.29 format is the Sales Value Forecast. Sales value is mentioned for each month in the format. When the sales volume recorded in the previous format is multiplied by the price, the sales value can be determined.

2.29 Sales Forecast – Value (Monthly & Annual)

Type of Product	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
A													
B													
C													
Total													

2.30 Sales & Distribution Expenses Relating to Marketing Division

Expenses	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Advertising cost													
Show room rent													
Storage expenses													
Debt recovery cost													
Insurance													
Travelling expenses													
Cost of fuel													
Discounts given													
Legal fees													
Sales commission / Sales incentives													
Sales staff salaries													
Fixed asset depreciation - Building													
Fixed assets depreciation - Furniture & fittings													
Fixed assets depreciation - Motor vehicles													
Fixed assets depreciation - Machinery													
Fixed assets depreciation - Office equipment													
Fixed assets maintenance - Buildings													
Fixed assets maintenance - Motor vehicles													
Fixed assets maintenance - Machinery													
Research & development expenses													
Container charges													

Electricity													
Telephone													
Water													
Stationery													
Transport cost													
Rates payment													
Insurance													
Postal & stamp													
Printing cost													
Building rent													
Labour charges													
Other expenses													
Total													

In the above format sales and distribution expenses that means common operational expenses of the marketing division should be recorded. A number of expenses are given and they can vary according to the type of business.

In a formal business the common operational expenses estimate for marketing division is prepared by the Marketing Manager and the common operational expenses related to the four divisions will be audited by the finance division and subsequently handed over to the marketing division.

Different expenses and how allocations are done is described under the common operational expenses plan of management and organization divisions. Complete this section after studying it again.

2.31. Action Plan of Marketing Division

Further planning of the operations related to marketing is done here. That means production strategy activities, pricing strategy activities, distribution, promotion strategy activities and sub activities related the marketing division and who are responsible for these activities and time frame should be clearly stated here. Accordingly, the defined activities should be subdivided with proper attention and understanding

No	Activity	1	2	3	4	5	6	7	8	9	10	11	12	20…	20…	20…
	Production strategies															
	Pricing strategies															
	Distribution strategies															
	Promotional strategies															

	Other strategies															

2.32 Assumptions for Marketing Plan

An introduction for assumptions is given under management & organisation plan. Similarly, assumptions related to the marketing plan also should be mentioned here.

Few examples for marketing plan-related assumptions are given below.

- Monthly sales increment occurs on a definite ratio every month.
- The competitors' sales increment also occurs on a definite ratio every month.
- Indications of the months in which the sales of products / services are increasing or decreasing.
- Assumptions pertaining to how much non-current asset value is apportioned to the marketing division, how much is the overheads related to those non-current assets, and the method of apportioning them.

2.33 Graphical Analysis related to Marketing Division

Quantitative factors discussed in the Marketing Plan are graphically presented here.

Advantages of the graphical analysis presentation:

- Easy understanding
- Convenient quick decision-making
- Easy visual comparison
- Clear presentation how it changes over time
- Easy identification of trends

Some of the possible graphical presentations:

- How the annual sales volume increases
- How the annual sales value increases
- How the annual incremental ratio of sales volume changes
- How the annual incremental ratio of sales value changes
- Representation of the marketing-related ratios

Some **Marketing-Related Ratios** are given below.

1. Ratio of Marketing Expenses to Sales Income

$$\frac{\text{Sales and Distribution Expenses}}{\text{Sales Income}} \times 100$$

This can be shown graphically for four years.

2. Ratio of Marketing Expenses to Total Revenue Expenditure

(Total revenue expenditure is the expenditure related to profit and loss account, namely, establishment and admin expenses, sales and distribution expenses, financial and other expenses)

$$\frac{\text{Sales and Distribution Expenses}}{\text{Total Revenue Expenditure}} \times 100$$

3. Ratio of each & every Expenditure (included in the sales and distribution expenditure) to the Total Sales & Distribution Expenditure

Example:

$$\frac{\text{Advertising Expenses}}{\text{Sales and Distribution Expenditure}} \times 100$$

4. Ratio of individual components of Sales & Distribution Cost to Total Revenue Expenditure

Examples:

$$\frac{\text{Advertising Expenses}}{\text{Total Revenue Expenditure}} \times 100$$

$$\frac{\text{Salary Expenses Related to Sales}}{\text{Total Revenue Expenditure}} \times 100$$

5. Gross Profit Ratio

$$\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

6. Net Profit Ratio

$$\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

7. Net Sales on Non-Current Assets

8. Ratio of Returns from Sales

$$\frac{\text{Returns}}{\text{Gross Sales}} \times 100$$

9. Contribution Ratio

$$\frac{\text{Contribution}}{\text{Sales}} \times 100$$

10. Determination the No. of Units of Sales required for the Break-even Point

$$\frac{\text{Fixed Expenses}}{\text{Contribution per Unit}}$$

11. Determination the Volume of Sales required for the Break-even Point

$$\frac{\text{Fixed Expense x Unit Selling Price}}{\text{Contribution per Unit}}$$

12. Target Area Sales as a percentage of Total Sales

$$\frac{\text{Sales in the Area}}{\text{Total Sales}} \times 100$$

13. Each Sales Rep's Sales as a percentage of Total Sales by Sales Reps

$$\frac{\text{Sales Revenue by the Sales Representative}}{\text{Total Revenue from all Sales Representatives}} \times 100$$

14. Sales by Each Marketing Strategy as a percentage Total Sales Revenue

$$\frac{\text{Sales done under Modern Trading}}{\text{Total Revenue of the business}} \times 100$$

15. Sales & Distribution Cost as a percentage of Total Sales Revenue

$$\frac{\text{Sales \& Distribution Expenses}}{\text{Total Sales Revenue}} \times 100$$

16. Credit Sales as a percentage of the Total Sales

$$\frac{\text{Credit Sales}}{\text{Total Sales}} \times 100$$

Note on the above ratio: The above ratio should not exceed 20% of the total sales. If the credit sales are more than 20% of the total sales, the business may face working capital issues.

17. Stock Turnover Ratio

$$\frac{\text{Cost of Sales}}{\text{Average Stock}} \times 100$$

Where Average Stock = $\frac{(\text{Opening Stock + Closing Stock})}{2}$

18. Income received from Debtors in a month as a percentage of the Total Credit Sales

$$\frac{\text{The income received from debtors in the relevant month}}{\text{Total credit sales}} \times 100$$

Sales progress can be depicted graphically in the marketing plan using the graphical presentations of the above ratios.

3. Production Plan

3.1 Production Details

It should be stated first whether it is labour intensive, capital intensive or a combination of both.

In the production process of the business if a higher percentage of the cost is labour then it is a labour-intensive industry. The use of machinery and equipment will be at a minimum level. Similarly, if machinery and equipment are used more and less percentage of labour is used then it is a capital-intensive industry.

While most micro industries (employees 1-9) use labour intensive systems the small and medium can be seen gradually moving from labour intensive to capital intensive

Accordingly, when preparing business plans the factors on which the business is classified as labour intensive or capital intensive should be explained clearly.

3.2 Securing the Production Factors

In the carrying out the production the way that production factors secured is described here. That means to investigate whether it is possible to obtain the raw material, labour, machinery, land and infrastructure facilities, in other words assuring the feasibility. Alternative methods also should be considered in addition to the planned supplies. Describe the details under following topics

Supply of Raw Material

Describe how raw material is obtained. That means whether the raw material is obtained from your own place, from suppliers or importing should be clearly explained.

Obtaining Labour

Whether the labour is obtained from the vicinity/neighborhood, recruiting on permanent basis or from man power suppliers, skilled labour, semi-skilled labour or unskilled labour should be described.

Obtaining Machinery

Describe how machinery will be obtained for the business. That means whether machinery will be purchased, fabricated, obtain on lease, obtain from local market or import should be described in details.

Obtaining Land

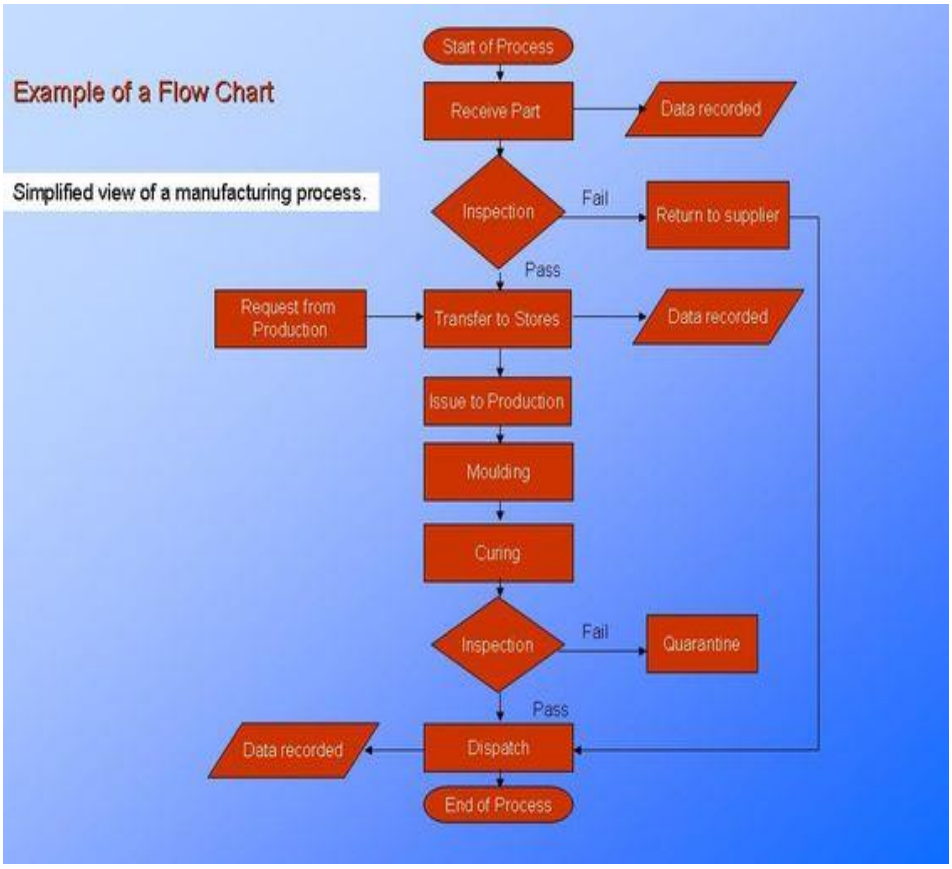
Describe the method of obtaining land required for the business whether it is obtained on lease basis or provided by the government.

Obtaining Infrastructure Facilities

Describe whether the government has provided the infrastructure for the area or infrastructure will be developed soon.

3.3 Production Process

Production process means to show step by step the conversion process starting from the production inputs to finished product. This should be shown in a flow chart.



Photographs

Include photographs related to your production

3.4 Factory Layout

A short description of the floor plan of the production factory should be included.

- Location of machinery
- Location of other equipment
- Place for raw material storage
- Location for each production process
- Location of the quality control section
- Rest rooms for employees

Items similar to the above should be included in the floor plan. It is also suitable to indicate the total floor area and the floor area for each section.

3.5 Calculation of Unit Cost

The main entry point in preparation of a business plan is to work out the cost of a unit or a batch and services produced by the business.

Here, the calculation of unit cost and group costs are two different concepts. The costing method should be selected to suit the individual business.

Unit Cost Method

The cost of production calculation to manufacture one item is the unit cost method. Sometimes it is easy to find the cost incurred for a unit depending on the type of the product. For an example it is easy to work out the cost to produce a chair, table or a trouser.

Batch Cost Method

Batch cost method means when it is difficult to identify the cost for a unit product the cost for a batch is worked out. For an example bread, buns, string hoppers etc. it is difficult work out cost for one unit. Here the cost is calculated for a batch and after calculating the cost and dividing it by the number in a batch the unit cost can be found.

To manufacture a unit product or a batch how much of direct labour cost and other direct costs and indirect cost will be incurred should be found and it is important to study further on the above four items.

1. Direct Raw Material

The expenses directly linked to production process of a product or a service is considered as direct raw material cost. That means the expenses incurred for the contents of the product or service. In a retail or a whole sale marketing organization direct raw material expenses means the cost incurred in buying the goods with the intention of selling. The following format can be used for calculating the cost in production of good or services.

Format for Direct Material Cost

1 Raw Material	2 Standard Unit	3 Quantity (kg)	4 Quantity (g)	5 Unit Price	6 Value	7 Input Ratio
Total						

- Raw material
  In the first column of the format the raw material consumed in production of a unit or for a batch of products or a service should be entered. All raw material used (whatever the quantity) for manufacturing the product should be entered here.
  Example-
  In a production entity producing string hoppers rice flour, salt, and water are used as direct raw material and all of them can be entered here.

- Standard unit
  In the third and fourth column the standard unit used to measure the raw material should be entered. It should be entered as, if it is a weight in Kilo gram or Gram and if volume in liters or milliliters, if it is a length then in feet. An important point in calculation of direct cost all direct material should be in one standard unit.

  Example- The raw material required to produce string hoppers Rice flour, Salt entered in grams or kilograms and water cannot be entered in liters. Then the water also has to be converted to grams or kilograms.

- Unit price
  What is the raw material used, the types of raw material and their units are already entered? The standard unit price is to be entered in the fifth column.

- Value
  The value of each and every raw material used to produce a unit or a batch is recorded here. It is calculated by multiplying the quantity column and unit price column.

  Quantity x Unit price = Value

- Input Ratio
  It is the ratio of each raw material consumed to produce a unit or a batch to the total amount of raw materials. It is an essential thing to calculate this for a business because

the quality standard of the product or service depends on this formula and the ratio. This formula is used by the Production Division to order raw materials when they increase production monthly or annually.

$$\frac{\text{The Weight of the Particular Raw Material}}{\text{Weight of Total Raw Material}} \times 100$$

Using the above formula, the ratio of each ingredient is entered since they are percentages the total in the ratio column should be hundred.

For Special Attention:

Attention should be given to following in calculating the cost of a unit or a batch of a product or service

1. The quantity of raw material required for a production unit/batch

2. The time consumed to produce a unit/batch

3. The total weight before production

4. The total weight after production process

5. The number of units produced by raw materials,

6. Weight of a unit before the production process

7. Weight of a unit after production process

8. The time taken to produce one unit

9. The waste ratio

10. Possible defect percentage.

11. possible number of defective units

12. The ratio of good products (Net product ratio)

13. the volume of good products (Net production)

The above data should be calculated under preliminary work and when the business plan is being prepared calculated data will be very useful.

Further elaboration as an example;

A preliminary calculation for a business producing carrot string hoppers is given below.

1. The raw material required for production unit or a batch (standard units)

Raw Material	Standard Unit	Quantity kg	Quantity g	Unit Price Rs.	Value Rs.	Input Ratio
Flour		1.00	1000	170.00	170.00	47.62%
Water		0.50	500	1.00	0.50	23.81%
Carrot		0.50	500	260.00	130.00	23.81%
		0.10	100	3.00	0.30	4.76%
			0		-	0.00%
		2.10	2100		300.80	100.00%

2. The time taken for the above production.

Activity	Time Minutes
Preparations of carrot	
Mixing of flour	
Making string hoppers	
Steaming	
Detaching	
Packing	**32**

3. Total weight before production (g) (above table) 2100

4. The total weight after production (g) 1800

(Should measure after production)

5. The units produced by the above raw material (by counting) 125

6. The unit weight before production- $\frac{\textbf{Total weight of raw material}}{\textbf{No of units produced}}$ 16.80

7. The weight of a unit after production process- $\frac{\textbf{Total weight after production}}{\textbf{No of units produced}}$ 14.40

8. Time taken for a unit Production- $\frac{\textbf{Total production time}}{\textbf{Number of units of production}}$ 0.26

9. Waste ratio

$\frac{\textbf{(Total weight of raw materials-The total weight after production) x100}}{\textbf{Total weight of raw material}}$ 14 .29%

10. Possible defect percentage
(Should be known through experience or standards) 2%

11. Possible defective units
(The percentage of defects for the units of production) 3%

12. The ratio of products of good quality
(Net production as per example) 98%

13. The volume of good quality products (Net production) 122

2. Direct Labour Cost

The cost of direct labour who are involved in the production of a product or service is called the direct labour cost. That means the salaries and wages and other payments paid to the employees in the factory contributing to the production activity comes under this.

If an organization is not producing a product or service then there is no direct cost. Example: Retail & wholesale

The following format is used in calculating the direct labour cost for a unit or a batch.

Format for Direct Labour Cost

1 Activities	2 Time Spent (Minutes)	3 Time (Hours)	4 Value of one Labour Hour (Rs.)	5 Total Labour Value (Rs.)

- Column 1 signifies the Activities which are done by the labourer or labourers from the start of the production of the product or the batch up to the end.

  Example: Mixing of flour, putting into the string hopper mat, stacking in the steamer and removing, separation from the string hopper mat, and packing.

- The time spent for each and every activity is recorded in the second column. If the time is less then, the time can be recorded in minutes, if more in hours. The total time in the time column is the time spent to produce the entire quantity. When that total time is divided by the volume of products then the time for one unit of the product can be obtained. **(The time taken for each and every unit is used in calculating the capacity utilization). Further in some products a subsequent activity can be done only after completing the previous activity, in some cases while one activity is being done simultaneously another activity can be done. The time should be calculated identifying such activities otherwise the labour cost can increase due to wrong calculations.**

- If the time recorded in the second column is in minutes it is converted to hours and entered in the third column.

- The fourth column records the hourly labour. Calculating hourly labour is done through the direct labour requirement in the business plan. The format 3.14 contains the details on direct labour and the labour cost for a unit product or a batch and hourly labour cost can be obtained by completing that format.

- In the format for calculating the direct cost for a unit the fifth column is for the total value. That is obtained by multiplying the third column, time spent hourly and fourth column hourly labour. The total of labour value means the value of labour, in other words labour cost for production of a unit or a batch.

3. Other Direct Expenses

The expenses which are not considered as direct raw material expenses and direct labour costs, but contribute directly to production come under this category. Other direct expenses are not directly reflected in the product or service, but contribute to the production.

Below given is a list of common expenses generally illustrated under “other direct expenses”.

Electricity
Fuel
Packaging material
Water
Labels
Ink
Royalty fee
Insurance of raw material
Consultancy fees

The following format is used in calculation of other direct costs for a unit or a batch.

Other Direct expenses

Expenses	Amount/Volume	Unit Price Rs.	Value Rs.
Total Value			

- The type of expenses is entered in the first column of the format.
- The amount of material required to produce one unit or batch is entered in the second column. It should be found out during the technical training or through a research.
- The standard unit should be entered in the unit price column.

- The material quantity multiplied by the unit price is recorded in the value column. The total of the value column is the total of the other direct expenses in the production of a unit or a batch.

4. Indirect Expenses

Indirect expenses are the expenses not directly related to the production. There are two types of indirect expenses.

1. Expenses not directly related to the production, but indirectly related to the production

2. Indirect expenses which are not at all related to production

The other expenses are the expenses which are not direct expenses of the production, but all the other expenses indirectly related to the production.

Example:

Factory electricity, factory salaries and wages, factory machinery depreciation.

Synonyms for indirect expenses:

Factory indirect expenses, overhead expenses, production fixed costs

Calculation of the Total Production Cost

Total Production cost = Direct Expenditure *(Primary Cost)* + Production Overheads

The expenses that can be included under the monthly production overheads is given below

Monthly Common Production Expenditure	Value
Indirect Salaries & wages of the production section	
Non-current assets depreciation - Building	
Non-current assets depreciation - Furniture & fittings	
Non-current assets depreciation - Motor vehicles	
Non-current assets depreciation - Machinery	

Non-current assets depreciation - Office equipment	
Non-current assets maintenance expenses - Building	
Non-current assets maintenance expenses - Motor vehicles	
Non-current assets maintenance expenses - Machinery	
Electricity	
Telephone	
Water	
Stationery	
Transport cost	
Fuel expenses	
Assessment rates	
Entertainment allowances	
Postal & stamps	
Welfare expenses	
Printing expenses	
Building rent	
Labour charges	
Other expenses	
Total value	

Calculation of the Indirect Expenditure for a Unit or a Batch:

Step 1:
First, we find out the value of the Indirect Production Cost per Hour. When monthly indirect expenditure (synonyms: production fixed costs, production overheads) is divided by the direct number of production hours of the month, we get the indirect production cost for an hour of the business.

$$\text{Indirect Production Cost per Hour} = \frac{\text{Total Indirect Production Cost}}{\text{Monthly Direct Production Hours (relevant to the product produced)}}$$

Step 2:
Thereafter, the indirect production cost per hour is multiplied by the direct labour time consumed to manufacture a batch of a product. The result is the expenditure for a batch or a unit.

Total production cost	
Total production units	
Deduct-the number of defective product units	
Net production units	
Net production ratio-(net production/total production x 100)	
Direct raw material expenses for a unit	
Direct labour expense for a unit	
Other direct expenses for a unit	
Indirect expenses for a unit	
Total production cost for a unit	

Special Note:

Attention should be given to the following points in calculating the production cost.

1. Production waste and waste ratio calculation

A certain amount of raw material is wasted in production of a product / service. It is important to identify accurately the places where waste can occur and work out the waste rate.

By measuring the total raw material required to produce a unit or batch (before production) and the contents of raw material of the manufactured unit after production, the waste loss can be calculated.

Waste Amount = Total weight of raw material – weight of raw material contengt after production.

Therefore,

$$\textbf{Waste ratio} = \frac{\textbf{(Total Weight of Raw Material - Weight After Production)}}{\textbf{Total Weight of Raw Material}} \textbf{ x 100}$$

There are accepted standards for waste ratio for the relevant product in the particular industry. Details about such industry norms can be obtained from business development service organizations, experts in the field, specialists etc. After calculating the waste ratio as mentioned above, it should be assessed by comparing with the industry norm of waste rate. Necessary strategies can be used if the waste ratio is higher than the industry benchmark.

2. The no. of units of products that cannot be sold (defective, unsalable products)

The identified number of damaged products should be deducted from the total units of production and the net production units can be calculated. In calculating the cost of a unit of production it should be calculated as follows.

$$\textbf{Production Cost per Unit} = \frac{\textbf{Total Production Cost}}{\textbf{Net Units of Production}}$$

Net Units of Production = Total Units of Production - No of Products Damaged.

As per the above formula in calculating the production cost of a unit by dividing by net products the cost of a unit will take a higher value. The most accurate method of calculating the cost of a unit is to divide the total production expenses from the net production units and to work out the cost per unit.

Thus, different production organizations can calculate the net production ratio which can be used to take decisions regarding the business.

$$\textbf{Net Production Ratio} = \frac{\textbf{Net Production}}{\textbf{Gross (total) Production}} \times 100$$

$$\textbf{The Damage Ratio} = \frac{\textbf{No of Units Damaged}}{\textbf{Total Number Units}} \times 100$$

3. Adjustment to the earned income in the production process.

Some products which are damaged in the production process are removed during the production process and also there are raw material which cannot be used for the production. The damaged products and raw material that cannot be used (scrap) can be sold and some income could be generated to the organization by disposing them. The income received in such a manner should be deducted from the production cost and shown in the cost. The final result here is reducing the cost of a unit product.
The calculation is given below.

$$\textbf{Cost of a Unit of a Product} = \frac{\textbf{Net Production Cost}}{\textbf{Net Production Units}}$$

Net production cost = Total production cost - (raw material dispose income + income from sale of damaged items during production)

3.6 Calculation of the Production Capacity of the Business

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

The production capacity is relevant to production organizations as well as service organizations.
If the question is asked how many units of product or service can produce in a production or service organization per day or per month, you should be aware of the following information before answering it.

1. Whether the organization is doing production using labour intensive methods, that means more labour is used relative to use of machinery for production.

2. Whether the organization is doing production using capital intensive method, that means machinery is used more relative to labour for production

Whatever the method used by the owner the monthly and annual production capacity should be calculated on some basis. Further if the production capacity is capital intensive, it is easy to calculate the production capacity. Because the manufacturers have given in writing the production capacities.

Calculation of Labour Capacity

The details of labour in the business is included in the direct labour format. The direct monthly labour hours available for production is recorded there. The maximum number of units that can be produced by using the labour hours is the labour capacity of the business.

$$\text{Production Capacity of Labour} = \frac{\text{Monthly Direct Labour Hours}}{\text{Production Time for One Unit (Hours)}}$$

It is explained here for your easy understanding. Assume that to produce one unit in a business 0.24 minutes are consumed. (The time taken to produce one unit is calculated by dividing the number of units produced by the production process from the beginning to the end of the production of one unit or a batch). According to this business, it takes 30 minutes to produce 125 units of products. Accordingly, 30 minutes' time when divided by 12, it takes 0.24 minutes to produce one unit, which is 14.4 seconds. That is 0.24 minutes' x 60 seconds = 14.4)

Accordingly, the production capacity for one hour can be calculated. It is calculated as follows.

$$\text{Hourly Production Capacity} = \frac{\text{No of Minutes per Hour}}{\text{Production Time for One Unit (Minutes)}}$$

$$\text{Hourly Production Capacity} = \frac{60}{0.24} = 250 \text{ Units}$$

Assume the production hours for day is 5 hours and calculate the labour capacity for a day.

Labour Capacity for a Day = 250 x 5 = 1250 Units

Now the monthly labour production capacity has to be calculated. Assume that this organization works for 25 days a month. Accordingly,

Labour production capacity for a month = Labour production capacity for a day x no. of working days for the month.

Labour production capacity for a month = 1250 x 25 = 32,250 Units

The maximum production capacity of the organization using the labour resources is 32,250 units.

Calculation of Machinery Capacity

In the same way, the maximum capacity of the machinery owned by the business used in the production should be calculated and entered in the table below. The entrepreneur has some idea of the capacity of the machine at the time of purchasing the machine. The total capacity of the machine can be calculated by multiplying the hourly capacity of each machine by the number of direct labor hours in the business. For example, in a business where there is a flour mixer, the manufacturer states that the machine can mix 40 kg of flour per hour. Calculate the production capacity of the machine as follows;

The amount of flour that can be mixed per hour (hourly production capacity) = 40kg

No of production hours per day = 05

Production capacity per day = Hourly production capacity **x** Number of working hours per day

Production capacity per day = 40 x 5 = 200kg

No of working days per month = 25

Monthly production capacity = Production capacity per day **x** No of working days per month

Monthly production capacity = 200kg x 25 = 5000kg.

If the number of units that can be produced from 1 kg of flour is 125, then

The units that can be produced monthly = 5000kg x 125 = 625,000 units

That means the maximum capacity of the mixing machine is 625,000 units per month.

The above labour capacity example and machine capacity example is entered in the table “expected production units” as below

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Production Units Based on Labour	32250	32250	32250	32250	32250	32250	32250	
Production units Based on Flour Mixing Machine	625000	625000	625000	625000	625000	625000	625000	

The table shows the expected production capacity of all the machinery and labor capacity of the business as described above

Capacity utilization can be calculated based on the information in the product capacity table above.

3.7 Capacity Utilization

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total

The format for capacity utilization of the Business Plan is given above. In the capacity utilization format the monthly sales volume is entered at the top of the format (Monthly sales volume should be taken from the sales forecast format. Then the maximum capacity of the calculated manpower and production machinery should be recorded separately and the capacity ratio should be calculated on the basis of sales volume.

Capacity utilization calculations should be done for all four years for which the business plan formulated. In calculating so, there is a possibility of the **expected sales exceeding** the limiting factor at a particular point. That means the capacity utilization rate will reach 100%. That means the existing limiting factor is not sufficient to increase the production further. When that stage is identified earlier the entrepreneur will have the opportunity to plan actions to face that situation. That means if the constraint factor is labor, tactics such as hiring a new employee or engaging existing employees on overtime can be done. It shows clearly how this capacity utilization calculation is useful for an entrepreneur to identify the limitation of the business and to be prepared in advance to get the maximum utilization of capacity.

The table below will give the calculation of the capacity utilization as per the example above.

Capacity Utilization

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Units of Sales	15000	15300	15606	15918	16236	16560	16891	17229	17574	17925	18283	18649	
Labour Capacity	32250	32250	32250	32250	32250	32250	32250	32250	32250	32250	32250	32250	
Capacity Utilization Ratio Based on Labour	15000/32 250 x100 46.51%	15300/32 250 x100 47.30%	15606/32 250 x100 48.40%	15918/32 250 x100 49.35%	16236/32 250 x100 50.34%	16560/32 250 x100 51.34%	1689132 250 x100 52.37%	17229/32 250 x100 53.42%	17574/32 250 x100 64.98%	17925/32 250 x100 55.58%	18283/32 250 x100 56.69%	18649/32 250x‹100 57.82%	
Mixing machine capacity	625000	625000	625000	625000	625000	625000	625000	625000	625000	625000	625000	625000	
Capacity utilization ratio based on mixing machine	15000/62 5000 x 100 2.4%	15300/62 5000 x100 2.44%	15 606/6 2500 x 100 2.49%	15918/62 5000 x 100 2.54%	16236/62 5000 x100 2.59%	16560/6 25000 x100 2.64%	16891/62 5000 x100 2.70%	17229/62 5000 x100 2.75%	17574/62 5000 x100 2.81%	17925/62 5000 x100 2.86%	18283/62 5000 x100 2.92%	18649/62 5000 x100 2.98%	

As shown in the table above, the business's sales are shown in the top column, assuming sales increase by 2% per month.
The business table shows the sales of the business in the top bar, as shown in the example table, assuming its sales growth is 2% per month. According to the current labor force calculations in the business, the maximum monthly labor capacity was calculated to be 32,250 units as entered in the second row of the above capacity utilization model.

The third row calculates the capacity utilization rate, which is 32,250 units for the month of January, but 15,000 units for sale. If 32,250 units can be produced but only 15,000 units can be sold, then the business has a negative use of labor capacity. i.e., the capacity utilization ratio is 46.51% and the utilization of the labor resources of the business is 46.51.

The above table has also calculated for machines.

3.8 Material Requirement Forecast – Quantity (Monthly & Annual)

This means how much raw material is needed to make each product for a given day, month, year, year. This Raw Materials Requirement Plan is formulated as a quantity plan and not as value plan, because most companies do not purchase monthly raw material on a monthly basis. Many organizations do not purchase raw materials at once for the following reasons.

1. Impact on the quality of the raw material, for example, if the shelf life of the raw material is about a week, it is not practical to purchase once a month.

2. Working capital difficulties arising from purchasing stocks of raw materials unnecessarily.

3. Increasing the cost of maintaining stocks for unwanted raw materials. e.g., warehouse rent, insurance costs.

The organization should take steps to minimize the above conditions and maintain stocks of raw materials at the optimum level. Many organizations manage inventory well and manage the working capital of the business well. In practice, the purchase of raw materials is based on monthly sales volumes. Management should also pay special attention to stock retention time. Inventory retention time is how long it takes for the raw material to be converted into finished goods, also, how long the organization take to sell as a finished product. Special attention should be given to these factors when formulating a raw material purchase plan. Stock retention time also varies from organization to organization. Therefore, calculate stock retention time for your organization.

Stock Holding Period

$$\text{Stock holding period} = \frac{\text{Average stock x 365 days}}{\text{Sales cost}}$$

Example - In an organization the opening stock is Rs. 140,000 and the closing stock is Rs. 120,000. The annual sales cost Rs. 380,000. The stock holding period can be calculated as follows.

$$\text{Stock holding period} = \frac{(140{,}000 + 120{,}000) / 2 * 365 \text{ days}}{380{,}000} = 125 \text{ days}$$

The requirements of raw material or finished goods plan on daily basis of should be prepared initially and later converted to monthly or annual basis. Then the purchasing plan should be prepared based on the quantity requirement plan for raw material or finished goods. This plan should be prepared considering the cash flow of the organization.

The daily raw material requirement plan should be prepared before formulating the monthly quantity requirements plan. Then decide whether to buy weekly or monthly.
When planning the number of days in a month, consider the number of days per month and the number of holidays.

Example:
Let us assume that a small-scale business uses 10kg of flour, 5 coconuts and 100g polythene as other direct raw material for its production. Also, the business treats Sundays as a holiday and therefore do not work four days a month. Prepare the Pre-Work Plan for the raw material requirement forecast plan.

Raw material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total
Direct Raw material																																
Rice flour kg	10	10	10	10	10	10		10	10	10	10	10	10		10	10	10	10	10	10		10	10	10	10	10	10		10	10	10	270
Coconuts	5	5	5	5	5	5		5	5	5	5	5	5		5	5	5	5	5	5		5	5	5	5	5	5		5	5	5	135

Assumptions: The raw material requirements do not change from month to month.

After preparing the daily raw material requirement forecast quantity plan, monthly raw material requirement forecast quantity plan can be prepared based on that information.

3.9 Monthly Raw Material Requirement Forecast Plan (Monthly & Annual)

Raw material	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Flour	270	240	270	260	270	260	270	270	260	270	260	270	3170
Coconuts	135	120	135	130	135	130	135	135	130	135	130	135	1585

3.10 Daily Material Purchasing Plan

We have prepared the daily and monthly raw material requirement plan prior to the daily raw material purchase plan. Based on the raw material requirement plan, the raw material purchase plan should be prepared. Attention should be given to following in preparation of the purchasing plan.

1. The nature of the product intended to be produced or sold

   Example: If a bakery is making cakes, eggs have to be purchased as a raw material. In addition, various other raw materials are required. Thus, all the required raw materials should be identified separately.

2. Lifespan of raw materials and goods

   If the lifespan of the ingredients is short then the lifespan of the product is also short. For an example, if the life span of eggs is two weeks, then the life span of the cake also will be same period. When purchasing raw materials, the purchase plan should be designed in such a way that the retention time of the raw material and the finished product is minimized and in the most optimal way that there is no shortage of goods and goods.

3. Attention to the financial status of the organization

4. Be fairly knowledgeable on the conditions imposed by suppliers when purchasing on credit basis.

Considering a small string hopper business, if raw materials such as flour is purchased on a daily basis, various disadvantages will have to be faced, such as having to incur daily transport costs, wasting time and losing access to discounts. Therefore, the purchasing plan should be prepared minimizing those disadvantages. In preparation of the daily purchasing plan assume that flour and coconut will be purchased on every Friday and polythene to be purchased fortnightly (for two weeks) on every Friday. The following plan is prepared based on such decisions.

Raw Material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Direct raw material																															
Flour					67.5							67.5							67.5							67.5					
Coconut					34							34							34							34					

In the example above, the fifth, twelveth, nineteenth, twenty sixth day is considered to be Friday.
When making a daily or monthly purchase plan, it should be done in two ways namely the quantity purchase plan and the value purchase plan.

3.11 Monthly Direct Raw Material Purchasing Plan - Quantity

Raw Material	Unit Price	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Flour kg	150	270	240	270	260	270	260	270	270	260	270	260	270	3170
Coconuts	60	135	120	135	130	135	130	135	135	130	135	130	135	1585

3.13 Raw Material Purchase Daily Value Plan

Raw material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Direct raw material																															
Flour kg					10125							10125							10125							10125					
Coconuts					2040							2040							2040							2040					

3.13 Monthly Raw Material Purchasing Plan -Value

Raw material	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Flour	40500												
Coconuts	8100												

3.14 Daily Other Direct Raw Material Requirement Plan

Other direct expenses include direct costs but not direct raw materials or direct labor cost, but these costs should be properly calculated and adjusted to direct production costs and purchase plan should be prepared**.** This also to be prepared on daily basis, calculated monthly and prepare other direct raw material requirement plan

Raw Material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total
Polythene (g)	100	100	100	100	100	100		100	100	100	100	100	100		100	100	100	100	100	100		100	100	100	100	100	100		100	100	100	2700

3.15 Monthly Other Raw Material Quantity Requirement Plan

Item	Unit Price	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Polythene 100g	35	2700	2400	2700	2600	2700	2600	2700	2700	2600	2700	2600	2700	31700

3.16 Daily Other Direct Raw Material Purchasing Quantity Plan

Raw material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total
Polythene (g)												1350														1350						2700

3.17 Monthly Other Direct Raw Material Purchasing Plan – Quantity wise

Item	Unit	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Polythene 100g	35	2700												

3.18 Daily Other Direct Raw Material Purchasing Plan –Value wise

Raw material	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Direct Raw material																															
Polythene					472.50														472.50												

3.19 Monthly Other Direct Raw Material Purchasing Plan –Value wise

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Polythene	945												

3.20 Annual Direct Labour Requirement Plan

The labor requirement plan should be prepared in the same way as the monthly raw material requirement plan. The raw material purchasing plan was also prepared after preparation of the requirement plan. However, in preparation of the direct labour requirement there is no need to have plan for purchasing direct labour. Because direct labor is available in the organization, the main objective of the Direct Labor Needs Plan' is to calculate the daily "monthly and annual direct labor hours", "how much is the value of direct labor hours" and the total direct labor cost. The main objective of this plan is to our daily, monthly or annual direct labour cost calculation.

Direct Labour	No of Employee	Monthly Salary	Total Monthly Salary	No of Working Days	Man Days	Man Hours	Monthly Overtime Hours	Value of One Hour Overtime	Monthly Overtime Value	Total Monthly Man Hours	Total Monthly Direct Labour Cost	Direct Labour Cost for One Hour	Annual Total
A salary level 1													
B Salary level 2													
C Salary level 3													
Sub total													
A salary level 1													
B Salary level 2													
C Salary level 3													
Sub total													
A salary level 1													
B Salary level 2													
C Salary level 3													
Grand total													

Calculation of Overtime Hours

$$\text{Value of an overtime hour} = \frac{\text{Monthly basic salary}}{240} \times 1.5$$

Here, 240 is the number of working hours per month, 30 days x 8 hours' (this is a labor standard).

1.5 means paying one and a half times the average pay for a working hour and on special holidays (Such as Poya and Christmas), overtime payment rate should be twice the basic hourly wage.

Total Salary Cost

The total salary cost is the total of basic salary, allowances and the statutory allowances. Statutory allowances include EPF, ETF and gratuity allowances.

Total salary cost = Basic salary + Allowances + EPF 12% + ETF 3% + Gratuity

Gratuity Payment

Gratuity will be entitled for an employee who has completed five years of service continuously in an organization where 15 employees or more has been employed for a period of 12 months before the date of leaving the organization**.** Both these conditions have to be satisfied for an employee to be entitled for a gratuity payment and will receive the payment at the time of leaving the organization. The employee will be entitled to half the monthly salary drawn at the last month for every year of service completed. This payment shall be made within 30 days of leaving the services.

$$\text{Gratuity Payment} = \frac{\text{Salary Drawn at the Last Month}}{2} \times \text{Completed Number of Years}$$

Even if the number of employees is less than 15, if an employee who has completed five years of service an appeal is made to the labour commissioner there is high probability giving an order by the commissioner to make the payment. Therefore, gratuity payments should be reserved irrespective of the number of employees.

Special Note:

According to the Prudence Concept in accounting, when you make financial statements, you should ensure that the assets and income are not overstated, and the expenses are not understated.

Therefore, it is necessary to identify the possible contingency liabilities and to reserve the contingency liabilities monthly or annually as an expense. The random allocations and reserve allocations thus made as expenses should include in the cash flow statement as a cash flow expense under operations and the value of that cash flow should be invested in a bank as a long-term investment. That long-term investment value should be expressed as an investment in the space between non-current assets and current assets when preparing the balance sheet. Interest earned on those investments should be credited to the reserve account without adding to the gross profit.

The allocations for reserves should be included in the owners' ownership before transferring non-current assets. Once the allocation is invested outside, it is called an accumulated fund. Under the main heading of accumulated fund, accumulated gratuity fund, contingency liability fund, depreciation accumulated fund should be recorded separately.

Examples for reserves

1. Reservations for future contingency liabilities

Examples:
- Reservations for future gratuity payments.
- Allocations for liabilities incurred in the event of legal action by employees or outsiders against the Company in the future. (As this does not apply to statutory payments and although not considered in unit costing since it is an unrealistic liability, allocation should be made when preparing a profit & loss account

2. Reservations for depreciation

Reservations for depreciation are not an actual expense of the business but in the future when buying non-current assets if there is no money in the business one has to go for a long-term bank loan. The best option to avoid that situation is to invest outside a value which is equal to the depreciation value allocated every month. The money invested outside can only be used to buy non-current assets

Gratuity also should be considered as a contingency reserve. Therefore, assuming that a person will remain in service for five years and calculated based on the annual increments, it should be shown as monthly direct and indirect salary calculation under statuary payment in the preliminary format.

$$\text{Monthly Reservation for Gratuity} = \frac{\text{The First Month Salary After Completing Five Year}}{2} \times \frac{5}{60}$$

Pre-Works Relevant to Calculation of the above mentioned Direct Labour

The preliminary work required to fill up the above format should be done and only the balances should be taken into this format. Preliminary schedule should give as an annex in the business plan.

As an example, there can be several employees under level "A" salary. Then in the preliminary work schedule these details are recorded and enter under skilled labour in the format given below.

Format for Pre-Work in Calculation of Direct Salaries

Production Division - Direct		January							Total Salary Cost
		Institutional			Statutory				
EPF No	Name	Basic Salary	Allowances	Gross Salary	EPF 12%	ETF 3%	Gratuity Payment	Total Statutory Allowance	
Skilled Labour - Salary Level A									
		1,000	100	1,100	50	10	20	80	1,180
Total									
Skilled Labour - Salary Level B									
Total									
Semi-skilled Labour – Salary Level A									
Total									
Unskilled Labour – Salary Level A									
Total									

Also, pre-work forms for the first year should be calculated monthly and given as attachments.

3.21 Non-current Assets of Production Division

Type of Asset	Total Value (Year Start)	Additions	Deductions (Cost)	Total Value (Year End)	Depreciation Ratio	20…..			
						Annual Depreciation	Monthly Depreciation	Cumulative Depreciation	Net Value

3.22 Manufacturing Account

The purpose of preparing a production account is to calculate the total production cost of goods or services produced during the month.

The following calculations are performed using this account.

I. Total direct raw material expenses
II. Direct raw material cost for a unit
III. Total other direct raw material cost
IV. Other direct raw material cost for a unit
V. Cost of consumables
VI. Total direct labour cost
VII. Direct labour cost for a unit
VIII. Total production fixed cost / indirect cost / production overheads
IX. Production fixed cost / indirect cost / production overhead cost per unit
X. Total production expenses - monthly, annually
XI. Total direct production cost per unit.
XII. Total production cost per unit

Cost of Consumables

Cost of consumables means the value of the raw materials actually expected to be used for production in a given day or month.

Primary Cost

Primary cost is calculated by adding cost of consumables to direct labour cost.

Note	**Details**	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Direct costs														
	Direct raw material opening stock													
	Add - Monthly purchases of direct raw material													
	- Carriage inwards cost													
	Deduct - Returns of direct raw material													
	Direct Raw material stock ready for production													
	Add – Opening Stock of Work-in-progress													
	Deduct – Closing Work-in-progress													
Other Direct Raw Material Cost														
	Raw material ready for production and value of unfinished stocks													
	Deduct- Closing stock of Direct raw material													
	Direct consumable raw material cost - A													
	Other direct raw material opening stock													
	Add - Purchases of other direct raw material													
	- Carriage inwards for other direct raw material													
	Deduct - Other direct raw material returns													

	Other direct raw material stock ready for production													
	Deduct - Closing other direct raw material stock													
	Other consumable direct raw material cost - B													
	Cost of consumable materials – A+B													
	Direct Labour cost - C													
	Total Direct cost / Prime cost - A+B+C													
Production Overhead expenses														
	Indirect salaries and wages in production section													
	Non-current asset depreciation-building													
	Non-current asset depreciation-furniture & fittings													
	Non-current asset depreciation-motor vehicles													
	Non-current asset depreciation-machinery													
	Non-current asset depreciation-office equipment													
	Non-current asset maintenance -buildings													
	Non-current asset maintenance-motor vehicles													
	Non-current asset maintenance-machinery													
	Electricity													
	Water													
	Telephone													
	Stationery													
	Transport cost													
	Fuel expenses													

	Assessment rates													
	Insurance													
	Entertainment expenses													
	Postal & stamps													
	Welfare expenses													
	Building rent													
	Labour charges													
	Other expenses													
	Total Overhead expenses D													
	Total production cost - A+B+C+D													
	Total No. of production units													
	Deduct - Defective production units													
	Net units of Production													
	Net Production Ratio (Net production / total production) x 100													
	Direct raw material cost of a unit													
	Direct labour cost of a unit													
	Indirect cost of a unit													
	Total units of production													
	Total cost of production for a unit													

3.23 Action Plan of Production Division

No	Activity	Responsibility	Expense	1	2	3	4	5	6	7	8	9	10	11	12	20….	20…	20….

3.24 Assumptions Relating to the Production Plan

………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………

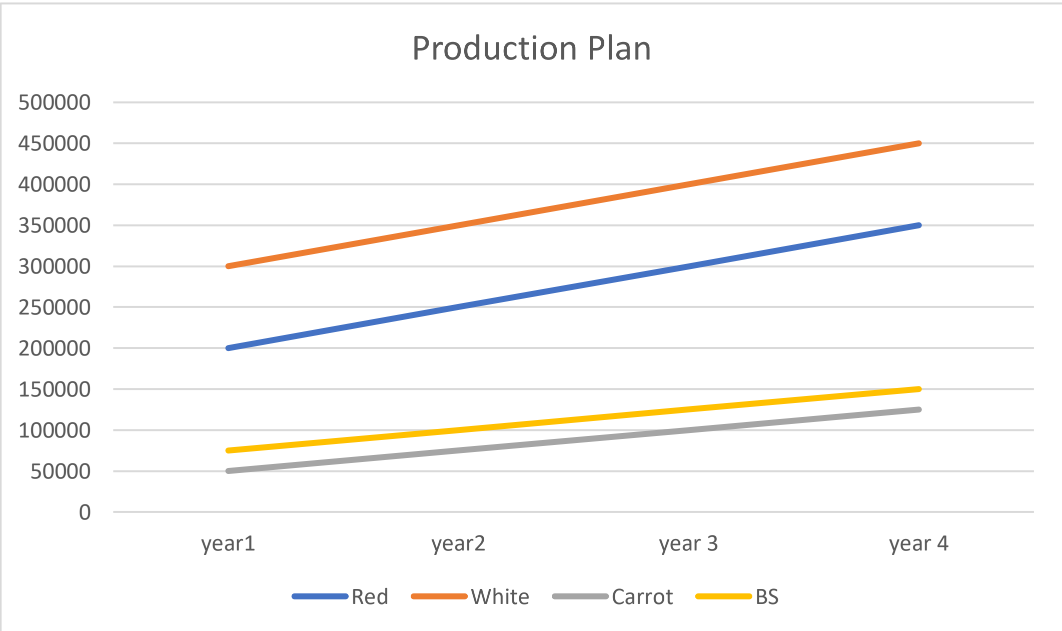
3.25 Graphical Analysis of Production Plan

- Growth of annual production units / service units

If an organization makes several types of products, it is sensible to select a number of key products and show the number of units of production per year. When graphically presented, it is easy to understand whether the no. units has an upward growth or a decline annually.

Example: The production plan has shown four types of products in a business

Type of Product	Year 1	Year 2	Year 3	Year4
Red string hoppers	200,000	250,000	300,000	350,000
White string hoppers	300,000	350,000	400,000	450,000
Carrot string hoppers	50,000	75,000	100,000	125,000
Beet string hoppers	75,000	100,000	125,000	150,000

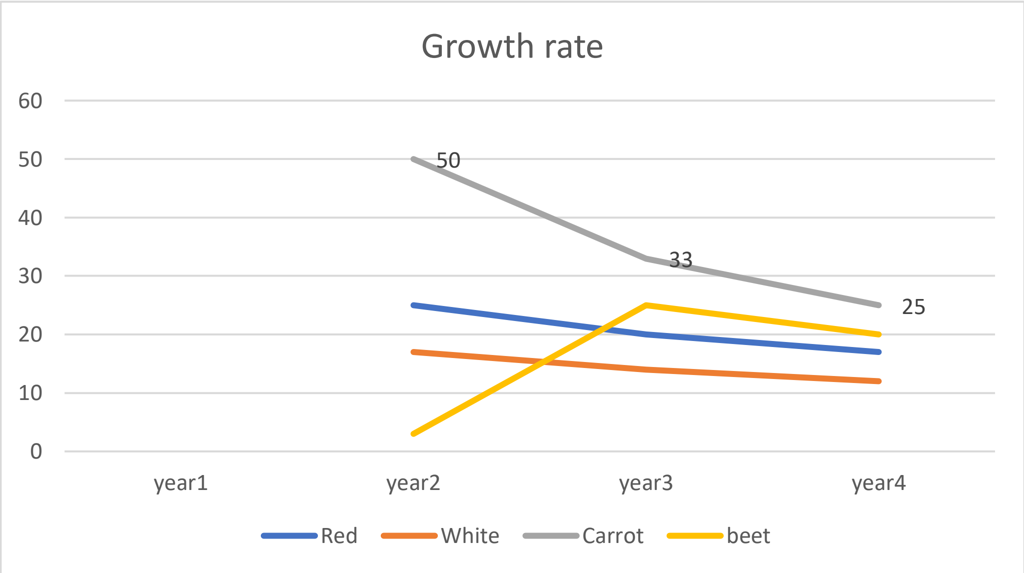


The above data can be depicted in a line chart. The annual growth rate also can be calculated using the chart. The calculation of growth rate is shown under "Annual production units/service units growth rate".

- Annual production units/service units growth rate

The annual production, service unit growth rate should be calculated as follows:

Type of product	Year1	Year2	Year3	Year 4
Red string hoppers growth rate		25%	20%	17%
White string hoppers growth rate		17%	14%	12%
Carrot string hoppers growth rate		50%	33%	25%
Beet string hoppers growth rate		3%	25%	20%



The above chart analysis shows that the number of units of production has increased every year but the annual production growth rate has come down. This is not a condition that can be approved for a business plan. This reveals that such unhealthy trends can be understood by graphical analysis presentations. After understanding, steps should be taken to modify the scenario accordingly.

Different types of contents for graphical analysis:

- Annual waste ratio analysis
- Annual direct labour hours analysis
- Annual indirect labour hours analysis
- Annual labour productivity ratio
- Annual direct raw material cost analysis for a unit

- Annual other direct raw material cost analysis for a unit
- Annual Direct labour raw material cost analysis for a unit
- Annual total direct cost for a unit analysis
- Annual total expenses analysis
- Annual total expenses for a unit analysis
- Annual total production expenses analysis
- Annual number of workers in production analysis
- Annual capacity and capacity utilization analysis

4. Financial Plan

Practical profitability and the sustainability are the key aims of starting a business. Financial plan is the most vital component of the business plan that helps the entrepreneur to identify whether the business will move towards the above key aims.

Previous parts of this book dealt with the first three components of the business plan, namely organization & management plan, marketing plan and the production plan. The fourth component of the business plan, which is the Financial Plan is compiled using all relevant financial data of the other three plans with suitable analyses.

Mainly, data and indicators relating to profitability of the organization, ownership and sustainability are elaborated in this plan.

Elaborations embedded in a financial plan:

1. Owner's equity and the amount of the debt equity
2. How much should be invested as the initial capital of the business
3. Amount of fixed capital and working capital of the business
4. Expected amount of the monthly and annual sales
5. Gross profit and the gross profit ratio
6. Net profit and the net profit ratio
7. Net cash flow of the business
8. Amount of the working capital and net working capital of the business
9. Changes in net equity (monthly and annually)
10. Changes of the ratio analysis of the business

4.1 Total Investment (Capital Requirement)

Total investment refers to the total investment made at the commencement of the business. In this section of the Financial Plan, the following details should be explained clearly.

1. How much is the fixed capital investment requirement?
2. How much is the working capital requirement?
3. How much is the total capital investment?

4. The amount invested by the owner
5. What is the debt capital required?
6. What is the percentage contribution by the owner to the total capital requirement?
7. What is the percentage invested by the owner from the total capital investment requirement?
8. What is the loan amount needed to meet the requirements of the fixed capital investment?
9. What is the percentage of loan component from the total fixed cost requirement?
10. What is the investment by the owner from the total working capital requirement?
11. What is the percentage of investment by the owner to the working capital?
12. What is the percentage contribution by the owner to the capital investment?
13. What is the percentage of loan capital from the total capital investment?

In addition to the above, attention should be given to the following, when calculating the capital cost requirement

- The loan capital requirement should not exceed 40% of the total capital requirement
- It should be aware that the banks do not give loans for working capital needs when starting a business.

Item	Owner	%	Loan	%	Total	%
Fixed capital requirement						
Machinery, equipment (notes)						
Vehicles (notes)						
Furniture (notes)						
Total fixed capital requirement A						
Working capital requirement						
Raw material requirement (notes)						
Salaries (note)						
Electricity (notes)						

Total working capital B						
Summary of capital investments						
Fixed capital						
Working capital						
Total capital requirement A+B						

4.2 Loan Repayment Plan

The nature of the loan, whether it is a long-term bank loan or leasing loan, should be mentioned in the plan. If the company has taken two long-term loans from two banks, two separate loan repayment plans should be prepared. The loan repayment plan should cover the following information.

a. Amount of loan taken
b. Date of the loan
c. The grace period given, if applicable
d. What is the interest required to pay during the grace period?
e. For how many years the loan was taken?
f. Number of loan installments
g. Annual loan interest rate
h. How the interest has been worked out
i. The date of payment of monthly loan installment
j. How much is the loan installment?
k. What is the capital component and the interest component included in the monthly installment?
l. What is the capital balance at the end of each month?

Before preparing the above loan repayment plan, it is essential that the following documents are obtained from the lending institute.

- **Loan repayment plan**

It should include the value of the loan capital and the interest on the loan, which should be included in each monthly installment. This information is needed to include in the financial expenses of the profit and loss account. Further there should be a clear understanding whether it is changing from time to time or a fixed installment system.

- **A copy of the agreement on conditions of loan payment**

Loan repayment plan	
Name of the bank	
Type of loan	
The method, interest rate is calculated	
Amount of loan taken	
Date of obtaining loan	
Annual loan interest rate	
Grace period for the loan	
The interest to be paid during the grace period	
Loan period	
Number of installments	
Number of installments per annum	
Date of starting payment of loan installment	

No	Year	Opening Capital Balance	Annual Interest	Annual Capital Share	Annual Instalment	Closing Capital Balance
1						
2						
3						
4						
5						

In preparing the above annual loan repayment plan, a monthly loan repayment plan should be prepared under the preliminary work. The format is as follows:

Installment No.	Date of Payment of Installment	Opening Loan Capital Balance	Monthly Interest	Monthly Capital Share	Monthly Installment	Closing Balance

4.3 Production Account

Note	Detail	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
Direct expenses														
	Opening stock - Direct raw material													
	Add - Monthly purchases - Direct raw material													
	- Direct Carriage Inwards													
	Deduct – Purchase returns of Direct raw material													
	Direct raw material stock ready for production													
	Add - Opening Work-in-progress stock													
	Less – Closing Work-in-progress stock													
Other direct raw material expenses														
	Raw material ready for production & direct work-in-progress													
	Less - Direct raw material-closing stock													
	Cost of Direct raw materials consumed - A													
	Other raw material - Opening stock													
	Add - Monthly purchases – Other direct raw material													
	- Carriage inwards - Other direct raw material													
	Less – Purchase Returns-other direct raw material													
	Other direct raw material ready for production													
	Less - Other raw material closing stock													
	Cost of Other direct raw material consumed - B													
	Consumable material cost A+B													
	Direct labour cost C													
	Total direct cost /Prime cost A+B+C													

Production Overhead														
	Indirect salaries and wages production division													
	Non-current asset depreciation-buildings													
	Non-current asset depreciation-Furniture & fittings													
	Non-current asset depreciation-motor vehicles													
	Non-current asset depreciation-machinery													
	Non-current asset depreciation-office equipment													
	Non-current asset maintenance expenses-buildings													
	Non-current asset maintenance expenses-motor vehicles													
	Non-current asset maintenance expenses-machinery													
	Electricity													
	Water													
	Telephone													
	Stationery													
	Transport cost													
	Fuel expenses													
	Assessment rates													
	Insurance													
	Entertainment expenses													
	Postal & stamps													
	Welfare expenses													
	Building rent													
	Labour charges													
	Other expenses													
	Total Production Overhead D													
	Total Cost of Production A+B+C+D													
	Total number of production units													
	Less - Defective units													
	Net production units													

	Net production ratio (net production/total production) x 100													
	Direct raw material cost per unit													
	Direct labour cost per unit													
	Indirect cost per unit													
	Total units of production													
	Total production cost per unit													

4.4 Trading, Profit & Loss account / Statement of Comprehensive Income for the Year Ending ….

Using the Income Statement, we can assess the operational results during the specific period for which the income statement has been prepared. Operational results are the day-to-day business activities of the business. Simply, a comparison of operational income and operational expenses can be done.

The following two objectives should be achieved through the trading, profit & loss account.

1. Calculation of gross profit through the trading account

2. Calculation of net profit through profit & loss account

Details	January		February		March		April		May		June	
Sales												
Deduct – Sales returns												
Net sales												
Less – Cost of production / Cost of sales												
Opening stock – finish goods												
Add - Production cost												
Cost of products to be sold												
Less - Closing stock												
Cost of sales												
Gross profit												
Add-other income												
Total Gross Profit												
Less:												

Administration and Establishment Expenses												
Selling and Distribution Expenses												
Finance & other Expenses												
Total Expenses												
Net Profit (Gross Profit - Total expenses)												
Gross profit ratio												
Net profit ratio												

Details	July		August		September		October		November		December	
Sales												
Deduct – Sales returns												
Net sales												
Less – Cost of production / Cost of sales												
Opening stock – finish goods												
Add - Production cost												
Cost of products to be sold												
Less - Closing stock												
Cost of sales												
Gross profit												
Add-other income												
Total Gross Profit												
Less:												
Administration and Establishment Expenses												

Selling and Distribution Expenses												
Finance & other Expenses												
Total Expenses												
Net Profit (Gross Profit - Total expenses)												
Gross profit ratio												
Net profit ratio												

Special Note:

After calculating the net profit for the year, the relevant tax should be paid based on the tax percentage. But, these tax percentages and values are changing from time to time. Therefore, it is paramount to update the knowledge on tax. Similarly, the knowledge on the Value Added Tax (VAT) to be paid based on sales and service income should be updated.

4.5 Cash Flow Statement

Cash flow can be prepared for the past as well as for the future business operations. For a business startup, the focus is given for the future. Therefore, the cash flow statement for a new business is known as Cash Flow Forecast.

Cash flow statements should be prepared under following categories.

I. Operational activities
II. Investment activities
III. Financial activities
IV. Other activities

I. Operational Activities

The expected cash transactions of the day-to-day business operations are included here. The operational activities consist of two components.

a) Cash inflow related to operational activities

   Example: Cash received through sales of products / services, cash collected from debtors, insurance compensations etc.

b) Cash outflow related to operational activities

Example: Expenses for purchase of goods / services, payment settlements made to creditors, expenses such as salaries and wages, loan interest payment, tax payments, water, electricity telephone etc.

Finally, the Net Cashflow of the operational activities is calculated.

Cash inflow from operational activities	xx
Less- Cash outflow from operational activities	(xx)
Net cash flow of the operational activities	xx

II. Investment Activities

All the investment activities related to the business are included in this section 'There are two main components of investment activities.

a) Investment activities-related cash inflow
Example: Money received by selling a fixed asset, selling long term financial assets, income from interest, dividends income.

b) Investment activities-related cash outflow
Example: Expenses involved in purchasing an asset. Purchasing of shares, debentures, treasury bills and long-term loans given to other businesses.

Finally, the net cash flow of the investment activities is calculated.

Investment activities' cash inflow	xx
Less - investment activities' cash outflow	(xx)
Net cash flow of the investment activities	xx

III. Financial activities

The cash inflow and outflow in financial activities of the business should be included here.

a) Financial activities' cash inflow

Example: income received from issue of shares and bonds, money received through short-term and long-term loans.

b) Financial activities' cash outflow
Example: loan repayment, issues of debentures

Financial activities' cash inflow	xx
Less - Financial activities' cash outflow	(xx)
Net cash flow of the financial activities	xx

IV. Other activities

All the activities other than the operational, investment and financial activities comes under this category.

This also has two components.

a) Cash inflow from other activities
Example: Grants from the government or non-government organizations

b) Cash outflow from other activities
Example: Donations

Other activities' cash inflow	xx
Less - other activities' cash outflow	(xx)
Net cash flow of the other activities	xx

The cash flow is the amalgamation of cash transactions under all the above categories.

Total Net cashflow XXX

(This value should be taken by adding the net cashflows discussed above.)

The Cashflow Statement can be presented as follows.

Opening cash balance	XXX
Add - Total net cash flow	XXX (This can be a positive or negative figure)
Closing cash balance	XXX

A specimen of a comprehensive Cashflow Statement is given in the next page.

Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Opening Balance - A													
Cash inflow (Operational activities)													
Total cash inflow (All operational activities)													
Deduct- Cash outflow (Operational activities)													
Total cash outflow (All operational activities)													
Net cashflow (Operational activities)													
Cash inflow (Investment activities)													
Total cash inflow (All investment activities)													
Deduct - Cash outflow (Investment activities)													

Total cash outflow (All investment activities)													
Net cash flow (Investment activities)													
Cash inflow (Financial activities)													
Total cash inflow (All financial activities)													
Deduct - Cash outflow (Financial activities)													
Total cash outflow (Financial activities)													
Net cash flow (Financial activities)													
Cash inflow (Other activities)													
Total cash inflow (Other activities)													
Deduct- cash out flow (Other activities)													

Total cash outflow (Other activities)													
Net cash flow (Other activities)													
Total cash inflow													
Total cash outflow													
Net cash flow													
Closing Balance													

4.6 Balance Sheet / Statement of Financial Position

Balance Sheet is the financial document which shows the relationship between assets and liabilities as at a given day. Balance Sheet is also known as the Statement of Financial Position. The details of a financial position statement (balance sheet) are given below.

Main contents:

1. Non-current assets
2. Current assets
3. Equity of the owners
4. Non-current liabilities
5. Current liabilities

The financial position statement is prepared based on the following accounting equation.

Assets = Liabilities (at a given time)

However, the term "Liabilities" consists of two components, i.e, "External liabilities" and the "Owner's Equity".

There are five common types of accounts in an organization. They are **assets, liabilities, equity, income, and expenses.** Transactions of these accounts are recorded in the common ledger and at the end of a month or year, after balancing these records, the balances are taken into a separate document. This document is named "Trial Balance".

The following financial statements are prepared based on the trial balance.

- Manufacturing Account
- Income Statement / Trading, Profit & Loss Account
- Statement of Financial Position
- Statement of Cash Flow
- Statement of Changes in Equity

From the five types given above only income and expenditure details are included in the Manufacturing, trading, profit and loss account. The other three, assets, liabilities and equities are included in the statement financial position.

Statement of financial position as at …………………

Details	January			February			March			April		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Non-current assets												
Land & building												
Machinery												
Vehicles												
Furniture & fittings												
Equipment												
Total Non-current assets												
Fixed deposits												
Call deposits												
Current assets												
Stocks												
- Raw material												
- Work-in-progress												
- Finished goods												
Debtors												
Deduct- Provisions for irrecoverable debts												

Net debtors												
Advance payments												
Bank balance - current account												
Bank balance - savings accounts												
Petty cash balance												
Cash balance												
Total current assets												
Total assets												
Equity												
Add -												
Retained profit												
Profit for the financial year												
Profits from sale of fixed assets												
Total												
Deduct -												

Retained losses												
.Losses for the financial year												
Drawings												
Total deductions												
Total equity balance												
Non-current liabilities												
Leasing (leasing over 12 months)												
Bank loans (over 12 month installments)												
Total- non –current liabilities												
Current liabilities												
Leasing (less than 12 months)												
Bank loans (less than 12 month installments)												
Creditors												

Accrued expenses												
Bank overdraft												
Total current liabilities												
Total liabilities												

Detail	May			June			July			August		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Non-current assets												
Land & building												
Machinery												
Vehicles												
Furniture & fittings												
Equipment												
Total Non-current assets												
Fixed deposits												
Call deposits												
Current assets												
Stocks												
- Raw material												
- Work-in-progress												
- Finished goods												
Debtors												
Deduct- Provisions for irrecoverable debts												

Net debtors												
Advance payments												
Bank balance - current account												
Bank balance - savings accounts												
Petty cash balance												
Cash balance												
Total current assets												
Total assets												
Equity												
Add -												
Retained profit												
Profit for the financial year												
Profits from sale of fixed assets												
Total												
Deduct -												

Retained losses												
.Losses for the financial year												
Drawings												
Total deductions												
Total equity balance												
Non-current liabilities												
Leasing (leasing over 12 months)												
Bank loans (over 12 month installments)												
Total- non –current liabilities												
Current liabilities												
Leasing (less than 12 months)												
Bank loans (less than 12 month installments)												
Creditors												

Accrued expenses												
Bank overdraft												
Total current liabilities												
Total liabilities												

Detail	September			October			November			December		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Non-current assets												
Land & building												
Machinery												
Vehicles												
Furniture & fittings												
Equipment												
Total Non-current assets												
Fixed deposits												
Call deposits												
Current assets												
Stocks												
- Raw material												
- Work-in-progress												
- Finished goods												
Debtors												
Deduct- Provisions for irrecoverable debts												

Net debtors												
Advance payments												
Bank balance - current account												
Bank balance - savings accounts												
Petty cash balance												
Cash balance												
Total current assets												
Total assets												
Equity												
Add -												
Retained profit												
Profit for the financial year												
Additional capital												
Profits from sale of fixed assets												
Total												

Deduct -												
Retained losses												
.Losses for the financial year												
Drawings												
Total deductions												
Total equity balance												
Non-current liabilities												
Leasing (leasing over 12 months)												
Bank loans (over 12 month installments)												
Total- non –current liabilities												
Current liabilities												
Leasing (less than 12 months)												
Bank loans (less than 12 month installments)												

Creditors												
Accrued expenses												
Bank overdraft												
Total current liabilities												
Total liabilities												

4.7 Financial Ratio Analysis

Financial Ratios are also called as Accounting Ratios. Financial ratios analyze quantitative data relevant to operation of the organization. The financial ratios are analyzed specially using income statements and financial position statement.

The following objectives are expected through ratio analysis.

- Liquidity position of the organization
- Profitability
- Operational efficiency
- Insolvency

The ratio analysis is done as below.

1. Liquidity Ratios

Liquidity ratio signifies how effectively the business can face short term liabilities.

Examples of Liquidity Ratios: Current Ratio, Quick Ratio (Synonym: Acid Ratio) and Cash Ratio.

a) Current Ratio

The current ratio shows the proportion between current assets of the business and its current liabilities.

Example:

Current asset is Rs. 160,000 and current liability is Rs. 40,000

Hence, the Current Ratio = $\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{160{,}000}{40{,}000} = 4:1$

This means that for a one-rupee liability, the organization has four rupees.

The optimum level for current ratio is 2:1.

If the current ratio of a business reveals a higher value, it means that the organization has non-productive assets. If the value is lower than the optimum level, affordability level of the business to meet the current liabilities is low. Therefore, a business should try to maintain the current ratio at 2:1 level for the business to be comfortable.

b) Quick Ratio or **Acid Ratio**

When calculating the Quick Ratio, current assets are considered after deducting the closing stock. When the closing stock is deducted, the balance will be cash in hand, cash at bank, postdated cheques in hand, pre payments and debtors. But in current ratio calculation, it is not deducted from current assets. This is the key difference between the current ratio and the quick ratio.

Quick Ratio is calculated as given below.

$$\text{Quick Ratio} = \frac{\text{(Current Assets - Stocks)}}{\text{Current Liabilities}}$$

The optimum value for this ratio is 1:1. This ratio examines the possibility of meeting current liabilities from the remaining assets without the stock. A ratio of 1:1 means to pay a loan of one rupee the organization has assets to pay without the stock. You should aim to maintain the Quick Ratio of the organization as 1:1.

c) **Cash Ratio**
This ratio signifies the liquidity position of the organization.

$$\text{Cash Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Liabilities}}$$

This ratio going beyond the Quick Ratio, examines the availability of money to settle short term loans. The money means the cash available in current accounts.

2. Insolvency Ratios

Loans taken by the organization is compared with its assets, equity and earnings.

Examples of Insolvency Ratios

a) **Low Gearing Ratio**

$$\text{Gearing Ratio} = \frac{\text{Loan Equity}}{\text{Total Equity (Loan Equity + Owner's Equity)}} \times 100$$

If the owners' equity is more than the loan equity, then it is a low gearing condition.

Example:
Loan equity – Rs. 50,000 and owners' equity – Rs. 150,000

$$\frac{\text{Loan Equity}}{\text{Total Equity (Loan Equity + Owner's Equity)}} \times 100 = \frac{50{,}000}{200{,}000} \times 100 = 25\%$$

b) High Gearing Ratio

This means the loan equity is higher than the owners' equity.

Example:

Loan equity - Rs 200,000 and Owner's equity - Rs 100,000

$$\frac{\text{Loan Equity}}{\text{Total Equity (Loan Equity + Owner's Equity)}} \times 100 = \frac{200{,}000}{300{,}000} \times 100 = 66\%$$

c) Debt Asset Ratio

In this ratio, total external loans are expressed as a percentage of the total assets.

$$\text{Debt Asset Ratio} = \frac{\text{Total External Loans}}{\text{Total Assets}} \times 100$$

Example:

Total external loans - Rs 150,000 and the total value of assets is Rs.200,000

$$\text{Debt Asset Ratio} = \frac{150{,}000}{200{,}000} \times 100 = 75\%$$

d) Interest Covering Ratio

This ratio signifies how many times the net profit of the organization could cover the loan interests of the loans the business has taken.

$$\text{Interest Covering Ratio} = \frac{\text{Monthly Net Profit}}{\text{Monthly Loan Interest}}$$

Example:

In a business, monthly loan interest is Rs 20,000 while the net profit per month is Rs. 40,000.

$$\text{Interest Covering Ratio} = \frac{\text{Monthly Net Profit}}{\text{Monthly Loan Interest}} = \frac{40{,}000}{20{,}000} = \text{Two times}$$

This explains that from the net profit of the organization the loan interest can be covered twice. If the number of times is higher, then the possibility of the organization to be insolvent is low. When it is lower, the possibility of the organization to be insolvent is high.

3. Profitability Ratios

These ratios shows how profits are earned through the operation of the business.

Profit Margin Ratio

There are two ratios under this category. They are Gross Profit Ratio and Net Profit Ratio.

a) Gross Profit Ratio

This ratio shows the relationship between the gross profit earned during a particular period and the net sales during that period as a percentage.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

Example: The gross profit of a business is Rs. 60,000 and the net sales during the period is Rs. 200,000.

Then, the gross profit ratio can be calculated as follows.

$$\frac{60{,}000}{200{,}000} \times 100 = \mathbf{30\%}$$

If the gross profit ratio is 30%, it implies that for each sale of Rs. 100, the business makes a profit of Rs. 30.

In general, the Gross Profit Ratio should be over 25% for a manufacturing business while for a service business it should be over 40%. In a buying and selling businesses, it should at least 10%. These values are general Gross Profit Ratio norms in the relevant sector. This is commonly known as Industry Margin. If the Gross Profit Ratio of the business is much less than the industry margin, that indicates the direct costs of the business has gone up. In such a situation the direct costs should be re-checked and immediate corrective action should be taken.

b) Net Profit Ratio

This ratio shows the relationship between the net profit earned during a particular period and the net sales during that period as a percentage.

$$\text{Net Profit Ratio} = \frac{\text{Net profit}}{\text{Net sales}} \times 100$$

Example: The net profit in an organization is Rs. 18,000 and the sales volume for the particular period is Rs. 110,000.

Then the Net Profit Ratio is,

$$\frac{18,000}{110,000} \times 100 = \mathbf{16\%} \text{ (approximately)}$$

According industry norms, in a manufacturing business, the net profit ratio should be at least 15%, for a service organization it should be at least 25% and for a buying and selling business, it should be at least 5%.

c) **Return on Asset Ratio (ROA)**

In this ratio, the net profit earned for a period is shown as a percentage of non-current assets during the same period. The ratio is calculated using the below given formula.

$$\text{Return on Asset Ratio (ROA)} = \frac{\text{Net Profit (After Tax)}}{\text{Non-current Assets}} \times 100$$

Example: The net profit after tax is Rs. 300,000 in a business and at the closing balance of the year, the non-current assets is recorded as Rs. 1,000,000.

Then, the Return on Asset Ratio is,

$$\frac{300,000}{1,000,000} \times 100 = \mathbf{30\%}$$

d) Return on Investment Ratio (ROI)

This ratio represents the net profit earned during a year as a percentage of the capital invested. The relevant formula is given below.

$$\text{Return on Investment Ratio} = \frac{\text{Net Profit After Tax}}{\text{Investment}} \times 100$$

Example: The net annual profit is Rs. 80,000 and the investment by the owner is Rs. 400,000, then ROI ratio is,

$$\frac{80,000}{400,000} \times 100 = \mathbf{20\%}$$

e) Payback Period

This provides the duration that will take to cover the investment made by an entrepreneur through profits earned in the business. It is obvious that the invested amount can be covered only by the net profit.

$$\text{Pay Back Period} = \frac{\text{Investment}}{\text{Net Profit}}$$

As per business doing standards, the payback period should be 4 years or less.

Example: In a business, the net profit is Rs. 75,000 for the first year and the initial capital was Rs. 300,000.

$$\text{Payback period} = \frac{300{,}000}{75{,}000} = \mathbf{04\ years}$$

4 Efficiency Ratios

a) Stock / Inventory Turnover Ratio

This ratio signifies that in a given period, how many times the stock is sold and how many times the stock is replaced**.** Stock turnover ratio is useful in making decisions pertaining to the pricing of products, production, sales and purchasing new stocks**.**

$$\text{Stock Turn Over Ratio} = \frac{\text{Cost of Sales}}{\text{Average Stock}}$$

$$\text{Here, Average Stock} = \frac{(\text{Opening Stock} + \text{Closing Stock})}{2}$$

Example:

In a business entity, opening stock in a particular month is Rs 75,000 and the closing stock is Rs 45,000. The cost of sales amounts to Rs 200,000. What is the stock turnover ratio?

$$\text{Stock Turnover Ratio} = \frac{200{,}000}{(75{,}000 + 45{,}000)/2} = \mathbf{3.3}$$

This means that the business entity has purchased and sold stocks three times. An increase in this turnover ratio implies the increased turnover and increased profits. All business organizations should attempt **to increase their stock turnover ratio**, because the profitability and liquidity will increase through the increased stock turnover ratio.

b) Stock / Inventory Residency Period

This is an extension of the stock turnover ratio**. Stock Holding Period,** and **Stock Retention Period** are synonyms. This ratio shows how long a stock will remain with the business.

$$\text{Stock Residency Period} = \frac{365}{\text{Stock turnover ratio}}$$

In this calculation, 365 days are considered if the period is a year, and 31 days are considered if the period is a month.

In the same example,

Stock Residency Period = 31 / 3.3 = **9 Days**

It means that on an average stock will remain 9 days in the business. When this value increases the efficiency decreases because of the stock holding cost involved. When the value decreases the efficiency increases.

c) Debtors Turnover Ratio

This shows how efficiently the debts are recovered by the business.

$$\text{Debtors Turnover Ratio} = \frac{\text{Net credit sales}}{\text{Average debtors}}$$

$$\text{Here, Average debtors} = \frac{(\text{Opening debtor balance + Closing debtor balance})}{2}$$

This is a tool to calculate the number of times the average debtors are converted into cash during a period of consideration. An increase in this value shows that the debtors' settlements are at a good level.

Example:

Net credit sales are Rs. 350,000 of a business. The debtors' opening balance is Rs. 150,000 and the closing balance is Rs 200,000 in the month of January 2019.

Then,

$$\text{Debtors Turn Over Ratio} = \frac{\underline{350{,}0000}}{(150{,}000 + 200{,}000)/2} = \mathbf{2} \text{ (for January 2019)}$$

This result implies that the credit sales have been done as twice as the average debtor value.

d) Debtor Collection Period

This ratio gives an idea of the average time taken by debtors to settle their dues. If this time period is more compared to competitor, then there is an issue of settling debts. If this collection period is short, it is good for the business.

$$\text{Debtor Collection Period} = \frac{365}{\text{Debtors Turnover ratio}}$$

The above formula is applicable if the period in consideration is a year. If the period is a month, 31 should be used instead of 365. These are the no. of days for the specific period.

In the previous example, Debtors Turnover Ratio is 2, during the month of January 2019. Therefore,

$$\text{Debtor Collection Period for that month} = \frac{31}{2} = \mathbf{16}$$

That means the debts are settled in 16 days. This ratio is important in drafting the credit policy of the business.

e) Creditors Turnover Ratio

This ratio shows how efficiently the business organization pays off its dues to its creditors.

$$\text{Creditors Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Creditors}}$$

$$\text{Here, the Average Creditors} = \frac{(\text{Opening Creditor Balance} + \text{Closing Creditor Balance})}{2}$$

In other words, this implies the no. of times of average credit represented in the net credit purchases within the period.

Example:

In 2020 January, the opening creditor balance is Rs. 221,000 and at the end of the month closing balance is Rs 305,000. If the total credit purchases during the month Rs. 321,000,

$$\text{Creditors Turnover ratio} = \frac{321{,}000}{(221{,}000 + 305{,}000)/2} = \mathbf{1.2}$$

f) Creditor Days

This ratio indicates the no. of days it takes to repay the creditors.

$$\text{Creditor Days} = \frac{365}{\text{Creditors Turnover ratio}}$$

As per the other ratios mentioned above, if the period concerned is a year, the above formula applies. If the period is a month, 365 should be replaced by 31.

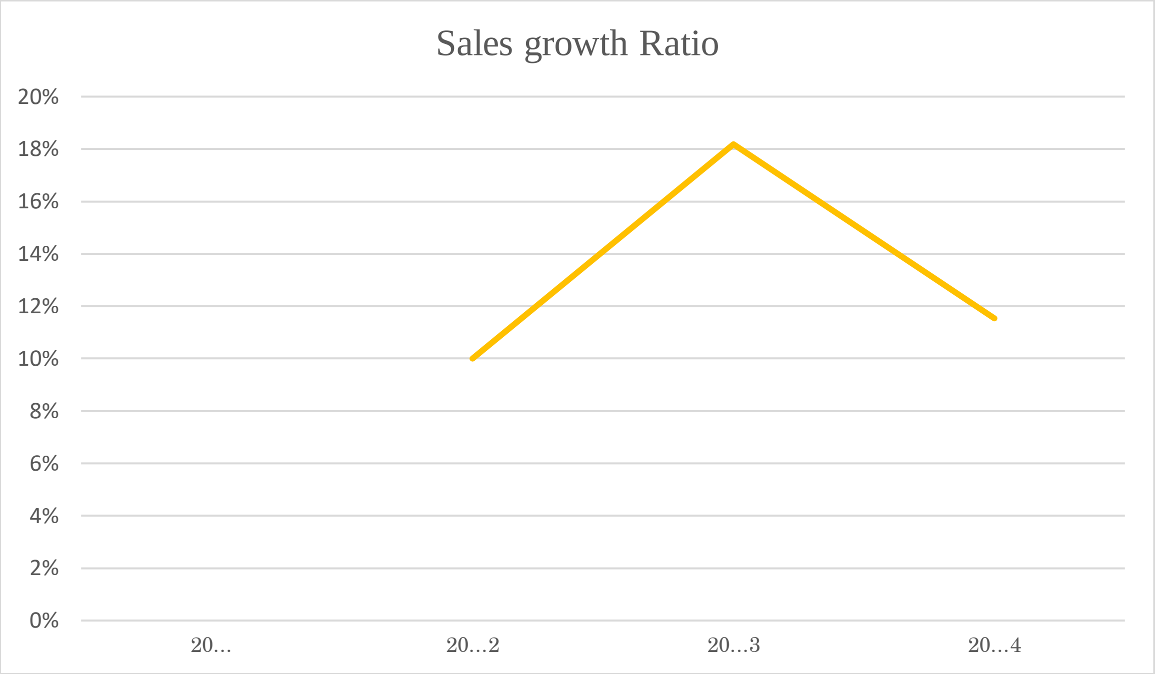
In the previous example, Creditors Turnover Ratio is 1.2 for January, 2020. Therefore,

Creditor Days = 31 / 1.2 = **26 Days**

This calculation shows that the creditors are paid in 26 days. This ratio is important in designing the business's policies on credit purchases by the business.

4.8 Graphical Analysis of the Financial Plan

a) Sales Growth Ratio



4.9 Assumptions for the Financial Plan

Financial planning is based on a number of assumptions. It is necessary to state these assumptions in the plan itself for the understanding of the business plan users. When stating assumptions in the plan, it can be mentioned immediately below the relevant part or at the end of the financial plan with references so that the relevant place can be traced by the plan user.

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Executive Summary

Executive summary is the essence or the concise summary of a business plan. It covers the summary of the four plans, namely Management and Organization Plan, Marketing Plan, Production or Operational Plan and Financial Plan.

It should include only those matters that are important to the internal or external users of the business plan. According to the accepted standards, the executive summary should be limited to two pages. The majority of business plan readers do not read the entire business plan at once. They first read the Executive Summary and if they want to study some of the information, they further go through the Business Plan for more information. Although the executive summary is shown as the first component of the business plan, the executive summary is prepared at last - after the overall plan has been prepared.

Content of an Executive Summary

1. Description of the business

- Name of the business
- Year of commencement of the business
- Special entrepreneurial skills, abilities, experience of the entrepreneur
- Details of goods and services offered
- Use of new technology
- Contribution to social, economic and environment
    - Employment generation
    - Foreign exchange earnings
    - National reconciliation
    - Environmental friendliness
    - Govt. tax benefits and incentives
    - Alignment to government policies
- Awards, certificates, patent rights and other important agreements
- Corporate Social Responsibilities (CSR) of the organization

2. Vision

Develop the vision of your business and include here.

3. Mission

Develop the mission and include here.

4. Business objectives

Only the specific business objectives should be included here.

They can include Management & Organization Objectives, Marketing Objectives, Production or Operational Objectives and Financial Objectives.

5. Risk Management

Factors recognized as risks, and the strategies taken to mitigate or avoid risks (in summarized form) should be presented.

6. Marketing Information

Marketing information should be presented with the following details:

- Target sales areas
- Target customers
- Key customers
- Main marketing strategies
- Annual sales details

Details	Year 1	Year 2	Year 3	Year 4
Annual breakeven point				
Annual sales value				
Market share				

7. Production Information

Following details should be included

- An account of the technology used (Labour intensive, capital intensive or a combination of both)
- Brief description on obtaining raw material and labour
- Annual capacities and utilization

Detail	Year1	Year 2	Year 3	Year 4
Annual capacity				
Annual capacity utilization				
Annual capacity utilization ratio				

8. Financial Information

Following details should be included here.

Profitability and Ratio Analysis:

Detail	Year1	Year 2	Year 3	Year 4
Initial & future investments				
Sales income				
Gross profit				
Net profit				
Net assets				
Net working capital				
External loans				
Gross profit ratio				
Net profit ratio				
Return on investment (ROI)				
Payback period				
Loan coverage ratio				

15. Business Plan Evaluation

We have prepared the Business Plan for our intended business. As we learnt, this business plan is the foundation of our real business which will realize very soon. In the business world, if the entrepreneur expects to raise his start-up capital through an external party such as a bank or venture financing organization, the business plan is the most important document on which they decide whether the entrepreneur deserves the financial facility. They, in fact assess the business plan to decide whether they should provide the loan or the requested finances.

Therefore, we should subject our business plan to the same test. This module- Business Plan Evaluation will take us through the test.

Module objectives:

At the end of this module, the trainees will have,

- ✓ Learnt how an external party- especially bankers evaluate a business plan to assess whether the business is a sustainable, growth-focused economic activity, and
- ✓ Got individual Business Plan evaluated by an expert panel of evaluators.

The module covers the following sessions:

The following topics will be covered

15.1 Business plan evaluation

15.2 Business plan evaluation report

15.3 Business plan evaluation by an expert team

Session 15.1 - Importance of business plan evaluation

“Lalith is an average entrepreneur who operates a small cafeteria. He does not believe in business plans. During his business career, he is facing many business-related issues. When he participated in the annual meeting of the Food Suppliers Association, he came to know that some of its members have been nominated for the final contest of best entrepreneur awards conducted by the regional chamber of commerce. Although they have reasonably successful businesses, the selection committee has evaluated their business plan before selection. When Lalith went to the bank for a bank loan for his business affairs, the bank has asked for the business plan. When attending a business seminar, the lecturer quoted many examples of world-renowned entrepreneurs who conducted their businesses on respective business plans.”

However, the Bank Manager told Lalith that the business plan given by Lalith will be evaluated by an expert team first and a decision will be taken thereafter whether to grant a loan or not. With this experience, Lalith was convinced about the importance of the business plan evaluation. Subsequently, Lalith gave up the idea of getting a bank loan and decided that the shortage of the capital need will be invested by himself. Further, he decided to get the business plan evaluated by a group of external experts due to the following reasons.

- ✓ This evaluation covers the viability of all key sections of the business.
- ✓ Business plan evaluation is the final evaluation before starting the business.
- ✓ Business plan evaluation is a very important, priority task in the process of starting a business.

We also have our business plan in our hand. If we can get our business plan evaluated using the same criteria generally used by the bankers and similar persons, we will know where we stand in terms of the acceptance of our business viability by business evaluators. We also can learn about business-related issues revealed by the business plan evaluation. Most importantly, we can finalize our business plan and move forward to start our business.

The business plan should be evaluated by experts who have special experience and sufficient knowledge. A special format is used for the purpose. Generally, during business plan evaluation, the experts / bankers give marks for key areas reflected in the business plan components.

Key Areas Evaluated in the Business Plan:

- Executive summary
- Management & Organization plan
- Marketing Plan
- Production plan
- Financial plan

Session 15.2 - Business Plan Evaluation Report

Name of the entrepreneur:

Nature of the business: (Product / Services / Trading)

Name of the business:

Telephone No.:

Institution where training was obtained:

	Detail	year 1	year 2	Year 3	Year 4	Marks allocated	Marks obtained	Special marks
1	**Details of the business (general)**					**05**		
i.	Appearance of the overall business plan					1		
ii.	Overall, spelling, grammar calculations					1		
iii.	Overall arrangement					1		
iv.	Cover page/tables/contents etc.					1		
v.	Annexures					1		
2	**Executive summary**					**04**		
i.	Management and Organization plan					1		
ii.	Marketing plan					1		
iii.	Production plan					1		
iv.	Financial plan					1		

	Detail	Year 1	Year 2	Year 3	Year 4	Marks allocated	Marks obtained	Special marks
3	Management & Organization feasibility					15		
i.	Details of Management & Organization					0.5		
ii.	Details of the business					0.5		
iii.	Details of the entrepreneur					0.5		
iv	Owner/partners/directors					0.5		
iv.	Organizational structure					01		
v.	Recruitment plan					0.5		
vi.	Overall analysis of the employees					0.5		
vii.	Vision					0.5		
viii.	Mission					0.5		
ix.	Organizational values					0.5		
x.	Business objectives					0.5		
xi.	SWOT analysis -Business					02		
xii.	PESTEL analysis					02		
xiii.	Risk management					0.5		
xiv.	Non-current assets-Management & Organization division					0.5		
xv.	Non-current assets-Financial division					0.5		
xvi.	Administration expenses Management &					0.5		
xvii.	Administration expenses Finance division					0.5		
xviii.	Social responsibility					0.5		
xix.	Action plan-Management & Organization plan					0.5		
xx.	Overall action plan of the Business plan					0.5		

xxi.	General assumptions related to Management & Organization plan					0.5		
xxii.	Graphical analysis related to Management & Organization plan					0.5		
04	Marketing plan					26		
i.	Industry analysis					0.5		
ii.	Marketing analysis					0.5		
iii.	Details of products					0.5		
iv.	Patents, ownership, publication rights/trade marks & brand names					0.5		
v.	Market segmentation					0.5		
vi.	Targeted market area					0.5		
vii.	Targeted customers					0.5		
viii.	Place /Location					0.5		
ix.	Targeted customers' growth					0.5		
x.	Targeted key customers (expected)					0.5		
xi.	Market share of competitors					0.5		
xii.	Sales price analysis of the business and competitors					0.5		
xiii.	Total demand for products and demand for the products of the business					0.5		
xiv.	Competitor analysis					1		
xv.	Competitors' SWOT analysis					2		
xvi.	Product life cycle					0.5		
xvii.	Proposed marketing tactics					2		
xviii.	Overall marketing strategies					0.5		
xix.	Market research and development					0.5		

xx.	Market research and development expenses					0.5		
xxi.	Non-current assets related to marketing division					0.5		
xxii.	Breakeven analysis					0.5		
xxiii.	Adjustments on monthly fixed costs					0.5		
xxiv.	Breakeven points					-		
xxv.	Annual breakeven point analysis					0.5		
xxvi.	Sales price analysis (annual)					0.5		
xxvii.	Sales forecast quantities plan (monthly & annual)					4		
xxviii.	Sales forecast value plan (monthly & annual)					4		
xxix.	Sales & Distribution cost related to marketing division					0.5		
xxx.	Action plan of the marketing plan					0.5		
xxxi.	Assumptions for marketing plan					0.5		
xxxii.	Graphical analysis related to marketing plan					0.5		
5	Production feasibility					20		
i.	Details of production (whether the production is labour intensive, capital intensive or a combination)					0.5		
ii.	Securing the production factors					0.5		
iii.	Production process					0.5		
iv.	Layout plan of the factory					0.5		
v.	Unit cost calculation					2		
vi.	Calculation of the production capacity of the business					0.5		
vii.	Capacity utilization					0.5		

viii.	Daily raw material quantity requirement forecast					1		
ix.	Monthly raw material requirement quantity forecast (monthly & annually)					2		
x.	Daily raw material purchasing quantity plan					0.5		
xi.	Monthly direct raw material purchasing quantity plan					0.5		
xii.	Daily raw material purchasing value plan					0.5		
xiii.	Monthly raw material purchasing value plan					0.5		
xiv.	Daily other raw material requirement quantity plan					0.5		
xv.	Monthly other raw material requirement quantity plan					0.5		
xvi.	Daily other raw material purchasing quantity plan					0.5		
xvii.	Monthly other raw material purchasing quantity plan					0.5		
xviii.	Daily other raw material purchasing value plan					0.5		
xix.	Monthly other raw material purchasing value plan					0.5		
xx.	Noncurrent assets relevant to production division					0.5		
xxi.	Production Account					5		
xxii.	Action plan-production division					0.5		
xxiii.	Assumptions regarding production					0.5		
xxiv.	Graphical analysis relating to production plan					0.5		
6	Financial feasibility							
i.	Total investment (Capital requirement)					0.5		

ii.	Loan repayment plan					0,5		
iii.	Production account					-		
iv.	Trade and Profit & Loss account/ financial statement					6		
v.	Cash flow statement					6		
vi.	Balance sheet					6		
vii.	Financial ratio analysis					5		
	a) Gross profit ratio					1		
	b) Net profit ratio					1		
	c) Return on investment					1		
	d) Payback period					1		
	e) Stock turnover ratio					1		
viii.	Graphical analysis relevant to financial plan					0.5		
ix.	Assumptions of financial division					0.5		

7	**Special matters**							
i.	Environmental impact/mitigation					0.5		
ii.	Employment opportunities creation					1		
iii.	Export opportunities					1		
iv.	Contribution to peace & reconciliation					0.5		
v.	Entrepreneurial qualities					0.5		
vi.	5 S concept implementation					0.5		
vii.	Gender equality					0.5		
viii.	Ethnic representation					0.5		
						100		

Feasibility summary

	Detail	Maximum marks	Marks obtained
1	**General business information**	05	
i.	Executive summary	4	
ii.	Management & Organization feasibility	15	
iii.	Marketing-feasibility	26	
iv.	Production/operational feasibility	20	
v.	Financial feasibility	25	
vi.	Special matters	05	
	Total	100	

2	**Appearance of the overall business plan**		
i.	Simple language	0.25	

ii.	Physical attractiveness of the business plan	0.25	
iii.	Evidence regarding the accuracy of data/information	0.25	
iv.	Relevant use of graphs /tables and charts	0.25	1

3	**Overall spelling, grammar, calculation**		
i.	Correct spelling	0.25	
ii.	Grammatical	0.25	
iii.	.Accurate calculations	0.5	1

4	**Overall setting**		
i.	Suitable for reading/ font size usage	0.25	
ii.	Line spacing sufficient	0.25	
iii.	Main title and subtitles usage	0.25	
iv.	Correct page numbering	0.25	1
5	**Cover page/content etc.**		
i.	The owners name included in the cover page	0.25	
ii.	Indicated address, telephone nos. web pages etc. in the cover page	0.25	
iii.	Included the Brand Name of the business	0.25	
iv.	Pages are accurately included in the content page	0.25	1

6	**Annexures**	1	

Name of the evaluation officer: …
Organization of the evaluation officer………………
Recommendations of the evaluation officer………………….
Date: ………………………….
Instructions for the trainer……………………………...

Session 15.3 - Business Plan Evaluation by an Expert Team

The Trainer, together with the Training Institute will organize a Business Plan Evaluation Team / Panel to evaluate the business plans prepared by trainees and submit the results through a speedy evaluation. Expert Team will evaluate each business plan using the business plan evaluation report format.

In this evaluation, if a business plan is given a total score of 75% or above, and all major component plans, especially Marketing and Financial Plans, are also given at least 75%, the relevant business plan is considered a successful business plan that would guide the business towards sustainability. But, the trainees who own such successful business plans can fine-tune their business plans using the inputs provided by the evaluators.

If the business plans have not acquired the successful level of marks, the relevant trainees should re-design the questionable parts, strategies, targets etc. accordingly fine-tuning the business plan to ensure that the business startup would be a growing, and sustainable business. The fine-tuning stage is covered in the next module.

16. Business Plan Finalization

Using the inputs received during the business plan evaluation by the experts, we should prepare the final version of the business plan under the guidance of the trainer. This is, in fact a fine-tuning process.

However, most of the trainees may be required to perform business plan finalization irrespective of their score levels. Business plans which score over 75% at the evaluation may have few finer adjustments while the others may have more re-designing, strategic changes etc.

Module objectives:

At the end of this module, the trainees will have finalized their business plans according to the inputs provided by the expert team evaluators.

Module sessions:

16.1 Preparation for the finalization of the business plan
16.2 Finalization of the business plan

TRAINEE WORKBOOK CONTENTS

Session 16.1 - Preparation for the Finalization of the Business Plan

The first part of the plan finalization stage is to prepare and plan to affect the fine-tuning to the business plan already evaluated. Considering the inputs given by the business plan evaluator team, it is necessary to prepare a list of items to be improved and corrected in the business plan, under the guidance of the trainer.

This can be performed by preparing the below-mentioned Checklist format.

Checklist:

The part / section to be improved	The nature of the changes and improvements required

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Session 16.2 - Finalization of the Business Plan

This is the second part of the business plan finalization stage. All areas that should be improved in the business plan have already been identified and taken into a checklist. Using the checklist, we need to improve and finalize the business plan precisely. It can be necessary to gather some more information to fine-tune the business plan. However, without rushing, this task should be completed taking the required time and the outcome is the final version of the business plan.

17. Starting the Business

An entrepreneur is different to the ordinary community members. They visualize, plan for work, and ensure that their visualization becomes a reality in front of them. Business opening day is a big day for the entrepreneur. He / she needs to examine all pre-work, action plan prepared for the business startup, and prepare an agenda for the business opening to ensure a methodical business startup. This module deals with those aspects.

Module objectives:

At the end of this module, the trainees will have checked their action plan for starting the business and taken all steps to start the business physically through deciding the date of start, preparing the agenda for the commencement day and completing all the other relevant tasks to start the business.

Module sessions:

17.1 Checking the action plan for starting the business
17.2 Preparation of the agenda for the date of commencement of the business

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Session 17.1 - Checking the Action Plan for Starting the Business

We have now come through a long journey starting from selecting a viable business idea upto the possession of a feasible business plan. In a few days, we will be starting our dream business. In this session, we are required to check the action plan prepared for starting the business.

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Session 17.2 - Preparation of the Agenda for the Date of Commencement of the Business

This is an individual activity for the trainees. This agenda should be carefully prepared to ensure that all the activities are done accurately, seamlessly and according to a procedure on the day of stating the business.

The action plan and agenda should be prepared at least one week before the date of starting the business. Preparation of the agenda in this manner will facilitate a trouble-free business startup.

Activities to be attended prior to starting the business

1 Fixation of the date and time of starting the business

2 Deciding who the invitees / guests should be

3 Preparation of the invitation

4 Delivering the invitation to invitees / guests

5 Preparation of the agenda for the date of opening the business

6 Arrangements for the opening religious activities - inviting priests, and making the necessary items available

7 Appointing several committees for different tasks

8 Getting ready to making a successful speech as a growth-focused entrepreneur

9 Commencing business operations with the participation of all

Best Wishes for a Successful Entrepreneurial Journey!

THE END