

Setting up a ...
Biblically Based Business;
a proven guide in using God's principles
to build successful small businesses

Workbook 1
Version 1.5

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Michael Clargo

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www.reconxile.org

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Note: The material in this guide has been developed as an outworking of our Christian faith, but it has been written to benefit all those in need, whatever their belief system. We are therefore pleased to work with sincere and caring followers of all faiths or none. We hope that this proven resource will be of some use in your own efforts to push back against the tragic consequences of global poverty, and that you will bear with the spiritual reflections which are, for us as Christians, an integral part of our insight and understanding.

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Reconxile is a Christian organisation who take 2 Corinthians 5:18 as their inspiration and seek to work out their ministry in practical ways through building reconciliation between: people and their dreams; the dispossessed and the economy; organisations and their potential; in the earnest hope of enabling individuals to reclaim their identity and build steps to their reconciliation with the creator who gave it to them.

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1. Introduction

Hello, and may God's blessings be upon you.

This book is a short and simple guide to setting up a small business.

It was written for people who live in countries where there is a lot of poverty, and therefore for people who may not have had a lot of schooling. Primarily, it is written to help and guide people who would like to set up a small business to earn money so that they, their families, and maybe some of their friends and neighbours can live and eat, and send their children to school. But it can be read by anybody who would simply like to understand the basics of setting up a successful business, for whatever reason.

Do you want to know how to set-up a successful business? Do you want to set up your own small business? Or do you have a friend who you would like to help?

If you do, then this book is written for you, and we hope and pray that it will help you to set up a good business and save you from the pain and sadness of having your business fail.

Setting up a business is not difficult, but it is hard work, and it does need you to think about things carefully. Jesus had a business before the three years of His public ministry, and many of His disciples had businesses before they were called away by Him. Saint Paul used his business to help him spread the gospel. People have been setting up businesses for thousands of years, many of them with no schooling at all. Some have succeeded, some have failed. Those who have succeeded followed a few important rules, either by accident or by planning, and those who failed, often did not follow those rules. If we want to succeed, it is very important that we learn from their experience.

Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity and are able to turn both to their advantage

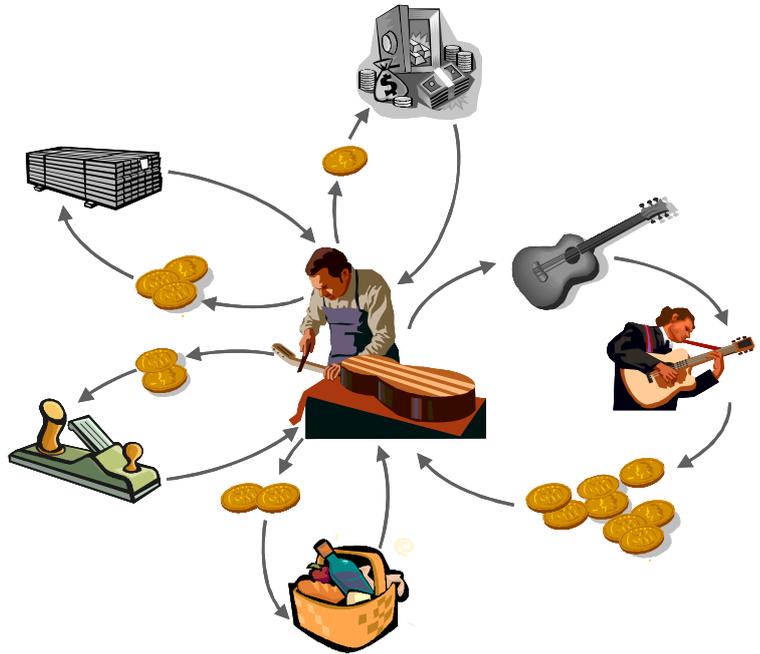
Victor Kyam,
American Businessman

The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can't find them, make them.

George Bernard Shaw
English Writer

What we can learn is, that those who succeeded in business:

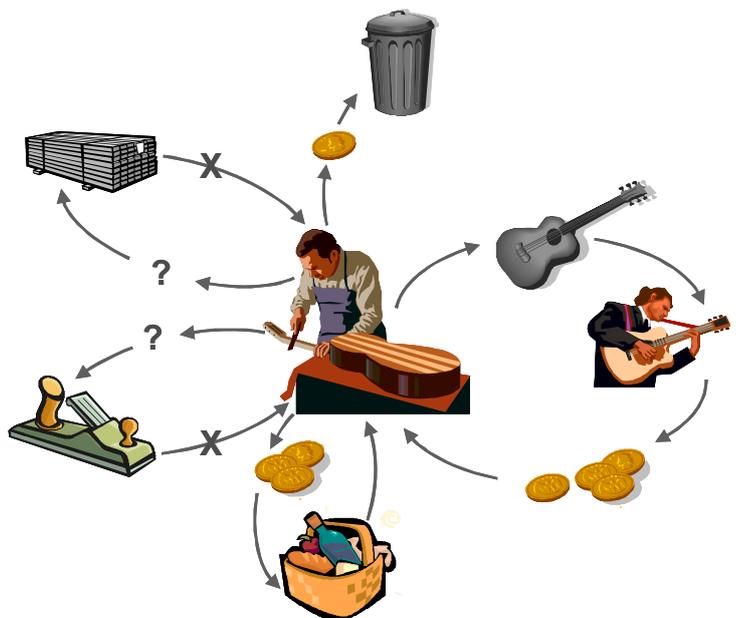
1. Made something or did something that people wanted so much that they were happy to pay for it
2. Did it well enough, often enough, that people came to them to buy it from them, rather than going to someone else
3. Made it or did it in such a way that, even though it cost them some of what people paid for it, they always had a little left over
4. Took care of the bits left over, and ensured they not only paid for food and shelter for themselves and their families, but also for replacing all the tools they were using in their business, usually with newer and better ones



And those who failed in business, failed to do one or more of these things, either at the beginning, or at some point later on.

At its heart, business is that simple!

This book will help you to think through and plan your business to make sure that you do not fail on the four points listed above.



But it is often the case that people’s first idea for their business does not work out – they have a good idea, but they cannot make it succeed on every one of the four points. This is common and usual. People who are in business, are often in business on their third or fourth idea. Their first few ideas failed. For the more fortunate ones, their ideas failed at the planning stage, before it had cost them too much. But you will meet people who are on their third or fourth business – their first and second businesses failing after they had put a lot of effort and money into them.

But now those people are successful, they have learned from their failures, and not been put off. And that brings us on to another important point. Successful business people are ‘resilient’ – ‘resilient’ means that when they have been knocked over, they pick themselves up, they dust themselves down, and they start all over again.

Please do not be discouraged if the first business idea you work on through this guide does not work out. In our experience this is very likely. The guide may need to be used a number of times before you come up with the right business idea for you. You too will need to be ‘resilient’. But the guide will help you to make sure that your early failures are only on paper, in the pages of this book, where at worst it will cost you time and thinking. In real life, such failures would cost you hard work, money, sleepless nights, and embarrassment. Jesus expects us to think our business projects through carefully before we try them out in real life – his words recorded by Saint Luke (chapter 14, verses 28 and 29) say: “If one of you is planning to build a tower, you sit down first and work out what it will cost, to see if you have enough money to finish the job. If you don’t, you will not be able to finish the tower after laying the foundation; and all who see what happened will laugh at you.”



Exercise 1

Who do you know who has a successful business?

.....

Why is it successful?

.....

Was it their first idea?

.....

Who do you know who has failed in a business?

.....

Why did they fail?

.....

What have they learned about making a successful business?

.....

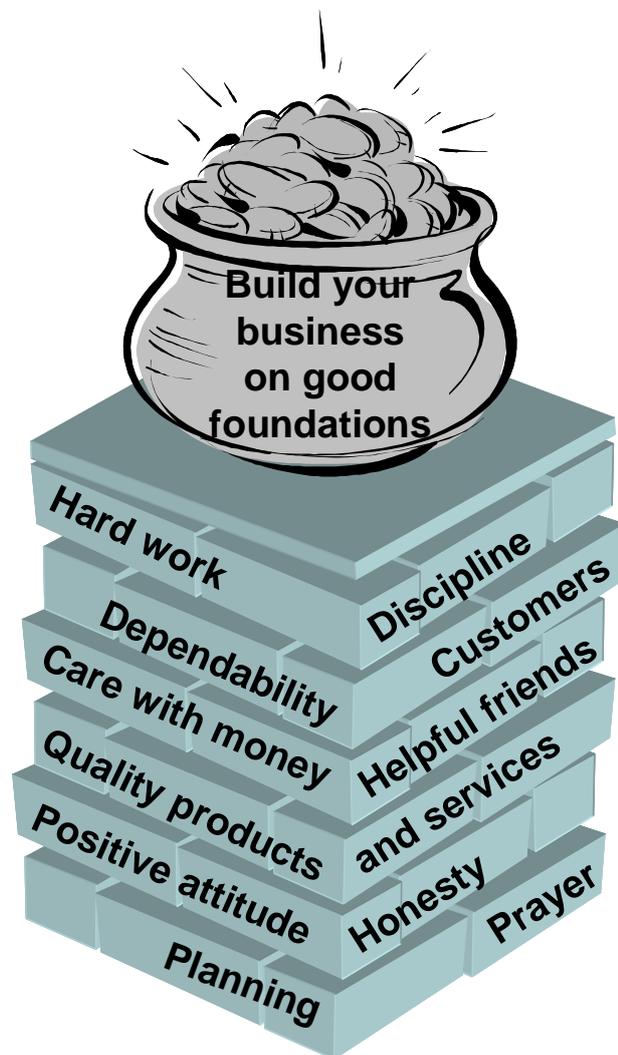
So that is what this book is about. It is about planning to build a business, a business which is strong, and with good foundations, that people will admire. We hope that it is written for you. And we offer up our prayers that the book will help you to think through and set up a successful business that will help to feed and sustain you, your family, and your friends.

But for the guide to be effective in developing your understanding of business, it is very important that you commit yourself to doing the exercises, like the one on the previous page. We know that people often want to avoid this, but we know from experience that doing the exercises makes all the difference in really learning what you need to set up your own small business. Please do not be concerned about getting things wrong a first – the most important thing is that you have a go.

We have written this guide, and provided it for you to use, with only one purpose and for only one reason: Our purpose is to pull people out of poverty, and our reason is because God has blessed us by sending people to help us on our business journey too.

We have then only one request of you – that, once your own business is successful, you too help someone else, currently in poverty, to set up their own business.

May our God who can do immeasurably more than we can think or imagine bless you, sustain you and uphold you through this time.



Chapter Summary

Chapter 1: Introduction

Provides an overview of what is important in setting up a successful business, and explains how to use the book to help you to set up your own business.

Chapter 2: What will my business be?

Helps you to think through what a business actually is, and to think about the sort of business you want to set up and what products or services you want it to sell.

Chapter 3: How will I sell my products or services?

Looks at what makes customers buy some things and not others, and how to present your business to them in a way which will encourage them to buy from you.

Chapter 4: Planning your product or service

Explains the steps to planning out your business, and helps you to think through how you will provide the customers what they want, and what people and tools you need to do that.

Chapter 5: Making the figures add-up

Helps you to check whether your business plan will make you rich or poor, and to think through what you need to change in your plan to make your business make money.

Chapter 6: So now you are in business?

Provides some very basic guidelines and principles on running your business after you have set it up.

Appendices

Includes some additional guidance including a number of basic business ideas, sources of microfinance, and a blank business planning form which you can use to seek investment in your idea.

2. What will my business be?

The first question you need to answer is “What will my business do?”

To be successful, businesses have to do things that somebody else wants enough that they are willing to pay for it. These things tend to be either things we call ‘products’ or things we call ‘services’ or sometimes a little bit of both mixed in together.

A product is something you can touch and see and hold, which you can make or grow, and which you can simply pass on to someone else in the time it takes to blink an eye (and get paid for it) – for example: bananas, shirts, cakes, chairs, bricks.

A service is where you do something for someone else; where you provide effort and skill to do work for other people (and get paid for it) – for example: transporting them (like a taxi service), cleaning for them, mending things for them.

Your business can either provide ‘products’, or it can provide ‘services’. But:

1. Someone has to want what you provide, and want it enough that they are willing to pay for it
2. You have to have the ability and ‘resources’ (resources are the tools, buildings, and bits and pieces) to provide what people want, when they want it, & how they want it
3. You have to be happy, or at least content, to provide whatever it is that you do provide – it should not be something that you feel bad about doing (for example things that are against the law or that hurt another person in some way)



Exercise 2: What examples of products can you think of?

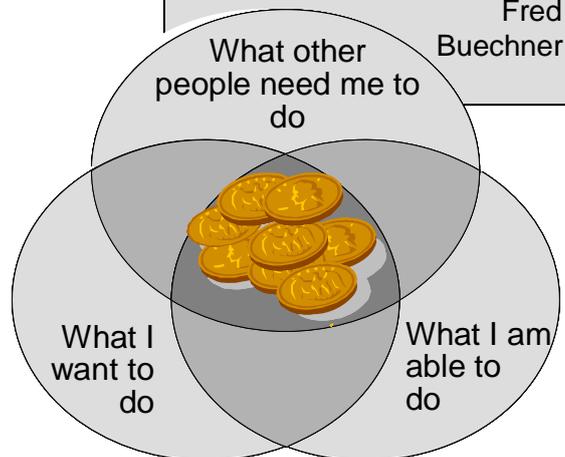
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And what examples of services can you think of?

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.....

The place God calls you to is the place where your deep gladness and the World's deep hunger meet.

Fred Buechner



Before we leave this list, I would like to make a very important point. The point is about the difference between a business and a charity. A business has to make money; it has to have income to survive, while a charity can do things for people who have no money, and who are unable to give that income. Because they have no income from their work, charities need to get their money from donations, and at some point that money has had to come from successful businesses – businesses that know they have to charge money for what they do. Without businesses that are disciplined about getting the right level of income for their work, charities could not exist or survive. Charities are dependent on businesses being 'businesslike'.

The reason I make this point is not to deter you from charity – the Lord calls us to be charitable – but to urge you to separate your charitable decisions from your business decisions. You can only be charitable to the extent that your business gives you the money to be charitable. Your business can only give you the money to be charitable if you make sure it gets paid for its work. By keeping these two things separate, business thinking and charity thinking, I promise you that you will increase, not reduce, your ability to be charitable. While Jesus was on Earth he did not feed all the poor or heal all the lame – He kept his focus on his first task; to do the business of His Father who sent Him (to reconcile man to God), and He was charitable only to the amount He could afford to be without damaging that business. If He had not done so, we would all be worse off. If you do not apply the same discipline to running your own business, those you seek to help will also be worse off, in the long run.

So, although you will probably find this difficult, I urge you to go back through your list and cross out all of those needs that people cannot afford to pay you for. But please pray for those needs, and if God moves your heart, move them to a new list of what you want to give back once you do have a successful business.

The story of Samuel

Samuel was a good man, and from a young age he had an interest in boats. It used to upset him that local fishermen would scrap their boats rather than repair them. So he decided to set up in business, buying broken boats, repairing them, and then selling them back to people. He borrowed \$500, and with that money he bought a broken boat for \$100, spent \$400 on the parts he needed, and then sold the repaired boat for \$1500.

With his \$1500 he paid back the loan, and bought another broken boat and the parts to repair it, and sold that boat also. He now had \$1500 and the tools he needed, and he owed nothing.

But his daughter needed medicines, his brother owed money for his children's schooling, and his sister was getting married and needed some money. He was a very kind man, and so he did everything he could for them. With the \$200 he had left, he bought his next broken boat, but did not have the money to buy the spares he needed. That was two years ago, and the broken boat is still broken. His wider family still needs more money, but Samuel is not in a position to give it to them – he is struggling to feed himself and his children.

So what is the moral of the story?

Read Ecclesiastes 3, and think about this: Samuel had a good business, a generous business, a business which had its own needs for survival – its own seasons of sowing and reaping. At the right season, it would have given Samuel all he needed. If it had a voice it would have pleaded for its own survival, for patience, for the fact that the money belonged to the business and not yet to Samuel. But the only voice it had was Samuel's – its creator and guardian – and Samuel was not listening.

Within the list that remains, and particularly among those items on the list that you have circled, we hope will be your idea for your new business. We cannot select that idea for you – you have to select it for yourself. We suggest you do this through further prayer and discussion with your friends. Prayerful discussion with those who care about you will not ensure your choice will automatically be successful in worldly terms (although God may use it to teach you something – Romans 8:28 “All things happen for the good of those who love the Lord”) but what it will ensure is that your work life need not be separated from your spiritual life. Business brings with it difficult decisions and a number of temptations (“The love of money is the root of all evil” 1 Timothy 6:10) and it will be easier for you to maintain close harmony with God if your business does not continually put you in the position of having to make a choice between doing what will be good for your business, or doing what would be good for God. There are many people in the world who have made the choice to grow rich at the cost of their spiritual life, but “What profits a man if he gains the whole world, but loses his soul?” (Mark 8:36) – before you leap to copy other ‘richer’ business people, consider the real price that many of them have paid for their wealth.

As you work through the rest of the book, you are likely to find you have to return to this chapter from time to time, to pick up another business idea. Probably because your earlier ideas didn’t work out as you began to plan them into businesses, but just possibly because your first business is really successful, and now you want to start up another one.



Exercise 6:

Think about the choices you have made:

Did you feel led in any particular way toward or away from these choices through prayer?

.....

What do your friends say about your choices?

.....

What do you really want to do, and why?

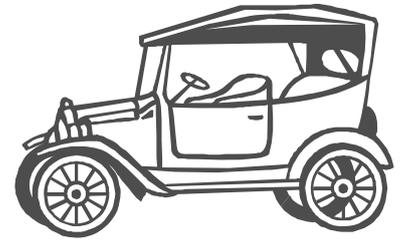
.....

Will God be happy with that choice?

.....

3. How will I sell my products or services?

Henry Ford, the person who started the Ford Motor Car Company, once said: "Build a better mouse trap and people will beat a path to your door". What he meant was 'good products sell themselves'. I wish that were true. My own experience is that, even if you have the best product in the world, you need to place it in the middle of a busy highway with lots of flags around it, and even then most people are likely to avoid you and complain about the space you are taking up.



To be fair to Henry Ford, once they know you have the best product; once they have bought your product for the first time, they may well beat that path — but the question is "How do you get them to know – How do you get them to make that first buy?"

To sell your products and services requires two things:

1. That your product or service really is 'better'
2. That enough people know your product or service really is 'better'

So what do we mean by 'better'? We mean that your product or service meets the needs of your customers more than the products or services of anybody else.

Pause for a minute, and think about what you buy, who you buy it from and why you buy it from them (all of the reasons) – make a list – then look at your list, and see what you think is 'better' as a customer. Get some of your friends to make a list and see what they think is 'better' when they are customers. If you and your friends choose who to buy from in this way, then it is likely that other people will too – including the people who will be your customers.



Exercise 7: What do I buy?

 Who do I buy it from?

 Why do I buy it from them?

 What would cause me to buy it elsewhere?

 What do I mean by 'better' in this case?

For most customers, better means:

1. More consistently (more reliably) – people find that your product or service meets their need equally well, each and every time that they use it – it is never less than good
2. More completely – people find that your product or service meets more of their needs and wants than anybody else’s product or service
3. More economically – it costs less (overall) for people to use your product or service than for them to use somebody else’s product or service – this could be because your offering is cheaper, but it could also be because it does more, or because it is easier for them to buy
4. More conveniently – people can get your product or service at the times they need them, and in the place they need them, without going out of their way
5. More enjoyably – people find that the experience of buying your product or service from you is something that brightens up their day and makes them feel good about themselves
6. More ... – what else do you have on your list that you want to add to this?

Your product or service does not have to be better than your competitors’ products or services on all of these things at once (‘competitors’ are the other people who are also selling the same products or services) BUT it does have to be better on enough of them to be seen as better overall – and the better it is, the more successful you are likely to be.



Exercise 8:
How can you make your product or service to meet your customer’s needs:

More consistently? 

More completely? 

More economically? 

More conveniently? 

More enjoyably? 

And better in any other way?

Please feel free to continue on a separate sheet of paper.

Better Boda Boda Taxis

- Clean and looks safe
- Helps with my bags
- Knows where to go
- Comfortable seat
- Not smelly
- Not noisy
- Polite driver / friendly
- There when needed
- Avoids bumps
- Reasonable prices
- Someone I know
- ...

The first step for you, is to work out exactly how good your product or service has to be to be 'better'. To do this you need to talk to your (soon to be) customers, and you need to look carefully at your competitors. We call this step: 'Market Research'.

Let us start by understanding very clearly who will be your customers? The following questions will help you to think this through – please use them to think carefully about your customers. Use each question to try to widen your thinking and open your mind to new ideas. Use the questions also to spot where your first ideas may be unrealistic, and where you may need to find easier or more simple answers.

Please note: The exercise on the preceding page helps you to understand what 'better' means for you. But harsh experience has taught us that it does not always mean 'better' to our customers. We will do similar exercises later in this chapter, but only after you have spoken to your customers about them. It is their view that will determine your success.

Write down a list of your answers for each question:

1. Whose needs will your product or service be fulfilling? Who are all the people who have this need? Is there anything common about them – What is your 'customer profile'? (A customer profile is a word picture that describes your most likely customers – for example the customer profile for this book is 'English speaking Africans, both male and female, who are hard working and determined, probably poor, and probably in a church with a supportive pastor')
2. Which of these people do you think are the most likely customers for your product or service, and why?
3. How far away from your place(s) of business do they live or work? Do other people with the same need live or work further away? What 'geography' (areas on a map) will your customers come from?
4. How do they currently have their needs met? From whom or where do they get what they need – and in what way?



Exercise 9:

Whose needs will your product or service be fulfilling?

.....

.....

.....

Which are the most likely customers for your product or service?

.....

.....

.....

What 'geography' (areas on a map) will your customers come from?

.....

.....

.....

How do they currently have their needs met?

.....

.....

.....

Please feel free to continue on a separate sheet of paper.

This last question will help you to identify your 'competitors' – the people who currently meet the needs of your customers. They may do so poorly, but the truth is: they are in business, and you are not – so they must have got some things right; there must be some experience that they have that you can learn from – and it is normally a lot cheaper to learn from somebody else's experience than from your own.

Experience is a hard teacher – She gives the test first, and the lesson afterwards!

Source unknown



Step two then, is to identify all of your competitors, and to understand what they have already learned. Start by making a list of the people who currently meet those needs of your customers that you want your product or service to meet. And then go out & seek to learn what they have learned.

If possible, go and watch them at their place of work, and look for the things that make them successful. See if you can answer the following questions by watching them work:

1. How do they appear to get their customers to talk to them – what do they do to make themselves known (attract customers)?
2. How do they treat their customers when they are speaking to them – what do they talk about, and what do they say that seems to convince their customers to buy from them?
3. What is similar about different competitors' products or services, and how do they differ?
4. What can you see or hear that might be a clue as to why some of your competitors are more successful than others? Is it because of differences in the products or services (and if so, what differences?) or is it because of differences in how they deal with the customers and provide their products or services? (And if so, what?) Or is it both?
5. Who would you buy from, and why?

**Exercise 10:
General Competitor Research**

Who are your competitors?

.....
.....
.....

How do they attract customers?

.....
.....
.....

How do they treat their customers?

.....
.....
.....

Similarities between competitors?

.....
.....
.....

Differences between competitors?

.....
.....
.....

Clues to success?

.....
.....
.....

Please feel free to continue on a separate sheet of paper.



will cost you a lot if you have to relearn it through your own experience.

When you have a complete list of your customers, and what they see as 'better', use this to help you to describe exactly what your product and service needs to be like if it is to bring 'enough' customers to you and make you successful.

What do we mean by 'enough'? To answer this, we need to think about how big the market is for your product, (usually referred to as the 'Total Accessible Market') and what fraction of it you will need to make your business work (usually referred to as your 'Market Share').

The box on the right is designed to help you to think this through. However, you are likely to need to revisit your answers when you have completed Chapter 5 (page 33) – once you have a clearer idea of what 'revenue' you need, and how quickly you need it.

Terms & Conditions

When you think through your sales growth, bear in mind that you may not be paid at the point you deliver your service – understand the terms and conditions that you will need to work with, and adjust your sales growth accordingly >>>

Exercise 13: Calculating the Market

1. Total Accessible Market

How many customers (roughly) are there for your product or service in the areas you can physically serve?

How many times a month do they tend to buy your product or service (from you or your competitors)?

How much do they spend on the product or service each time, on average?

How much is the total market worth in your area per month?

(All three numbers above multiplied together)

2. Market Share

How much money do you need coming in every month to make your business work? *(This is called your revenue, and you may need to revisit your answers to this section once you have completed Chapter 5 – but for now, simply try to take a rough guess at it)*

What proportion is this of the total amount the market is worth per month? %

(Multiply the number above by 100 and divide it by the last number in part 1)

3. Competition

How many competitors are serving the same areas as you will be serving?

What proportion of the market does each competitor have currently? %

(This is likely to be a range, but you may not actually know the answer – in which case, simply divide 100 by the number of competitors to get a rough average)

How realistic is it that you will be able to get the share of the market you need?

4. Expected Sales Growth

How do you see your sales increasing over the first six months to achieve your market share?

1	2	3	4	5	6
.....

Take a large piece of paper, and turn it so that it is wider than it is long, then split your paper into four equal columns by drawing three lines down the page. In the leftmost column of the page, list out all of the steps that you will need to go through in the process flow for your own business. Don't worry if a process step needs more than one line to write it out clearly, because you will almost certainly need to continue this over several sheets of paper

Process Step			
Allow the biscuits to cool			
Pack the biscuits			
Load the packed biscuits...			
Deliver the packs of biscuits			

Tip: It is important that you identify all of the steps in your process flow, so go over it a number of times, and even act it out, to make sure that you are not missing anything. Get your friends to help you – they will enjoy helping you to act it out – and don't treat any question as silly, because it could be the most important thing that you haven't thought of.

When you write down the steps in your process flow, keep your writing to the left-hand column of the page, because you will need to leave space to the right of each step (in the other columns) for the next task that you are going to do.

And that task is to think through, for each step of your process, what you need to produce the 'better' product or service that your customers need. To do this, label the three columns to the right of your process steps:

1. Doing 'better'
2. Tools and equipment
3. People and skills

Process Step	Doing 'better'	Tools & Equipment	People & Skills
Allow the biscuits to cool		Rack of shelves & wire trays	
Pack the biscuits	Do not chip or break	Packing table	Careful Packer
Load the packed biscuits...		As above	As above
Deliver the packs of biscuits	Deliver on same day as cooked	Boda boda with large	Driver

Tip: If you can observe your competitor's businesses, or if you know someone who has observed them, understanding their process flow may help you to develop your own.

Now take out your list of what your customers mean by 'better' (see page 20) and for each process step that you have written down, consider what you will need to do in that step to make your product or service 'better' in the ways that you have

described. Write your answer in the column headed 'Doing better' beside the process step. (If you would like to think through this step in more detail, an alternative way of doing this, called QFD, is explained briefly at the back of this book)

The next step is to think through what 'tools and equipment', and what 'people and skills' you will need to do that process step as well as you have described, and write the answers to this in the last two columns, also in line with the process steps.

Exercise 15: >>

cost twice as much as ‘a good biscuit’. Anything you can do to produce ‘better’ with simpler, cheaper or fewer tools, equipment and people will make your business more likely to succeed. And in some countries, where electricity is not supplied continuously, you will need to think seriously about using tools & equipment that don’t rely upon electricity to work.

When you have refined your list down to what you really need, the next step is to think through where you will operate and keep it all – you need to consider what space, buildings and supplies (including electricity & water) that you will need.

And now the biggest step of all, you need to **plan** it all out. You need to work out where it is all going to be, how you are going to get it all together, and how you are going to get it running.

Did you know God has a plan? Our salvation is so important to Him that he worked it all out in advance. Now you might think that if our almighty, omnipotent, and all-seeing God takes the trouble to plan what is important to Him, he might just expect us to plan those things that are important to us? I’ll take that as a ‘yes’ then!

You need to make a list of everything you need to do to set up the business, prepare any buildings you might need, obtain and put in place the tools and equipment, recruit and train the workers, buy your first lot of supplies, attract the attention of your customers, and sell them your first batch of products or services.

To plan this out, we have created a table on the next page, and to help you think of everything you need to do to set up your business, we have prepared some questions below:

1. Where are you planning to house your business?



Exercise 17:

Initial Planning Questions

Where can I get the facilities (e.g. premises) & tools & equipment I need?

.....

Who will I need to help me operate & run my business? Where will I find them?

.....

Who will I get my supplies from? And do I need to have a back-up?

.....

Actions	Dates	\$
Buy framework & bricks	1 May	135
Build oven at back of shed	9 May	0
Build rolling table from 2 trestles & board	2 May	60
Buy mixing bowl & spoon	1 May	85
Buy trays	3 May	48
Build shelves for cooling	4 May	20
Modify Boda Boda	7 May	150
Train baker	3 Jun	30
...		

5. Making the figures add-up

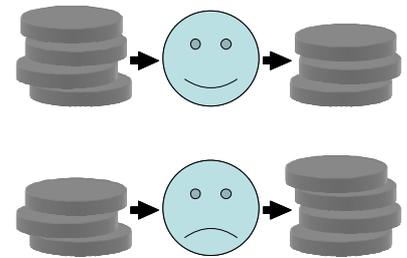
Mr Micawber, a famous character of the popular 19th Century novelist Charles Dickens, had a very simple, but essential view of business. In the film 'David Copperfield' he outlines his thoughts something like this: "Income: twenty shillings, expenditure: nineteen shillings and sixpence, result: happiness. Income: twenty shillings, expenditure: twenty shillings and sixpence, result: misery!"

In short, for our businesses to succeed, 'income' (the money coming in) must be more than 'expenditure' (the money going out). It is so simple a principle that it is easily overlooked – at a cost of many businesses, and the misery of many people. Never forget Mr Micawber!

In this section we look at whether income will be more than expenditure for your own business. We do it on paper (it is much cheaper that way). And we do it to ensure that you set off with a business that can work in terms of 'finance'.

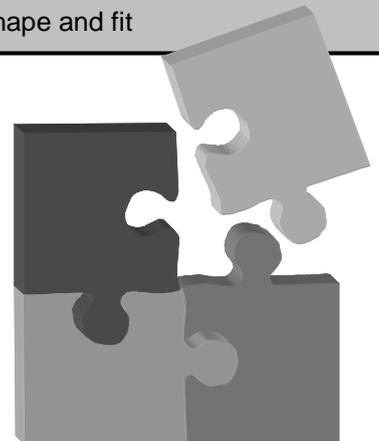
Finance can be a little difficult at first, because of all the different types of money that there are in a business, but it is very important that you understand it and get it right if your business it to succeed. More businesses fail because people do not understand and control their finances than for any other reason.

Working through the finance of your business is a bit like working on a jigsaw puzzle where you have to 'whittle away' (see explanation on the right) at the pieces in order to get them to fit together. When you first go through this chapter, it is quite likely that the pieces won't fit together at all, and you will have to go back through the chapter a number of times, adjusting each of the pieces as you go, until they make a complete picture with no gaps. If you can make a complete picture with no gaps, then you stand a good chance of your business succeeding, but if you cannot, then you will probably need to go back to chapter two and pick another idea to work through.



'Finance' is the business way of talking about all the different types of money that relate to your business – cash, loans, income, expenditure, & the like

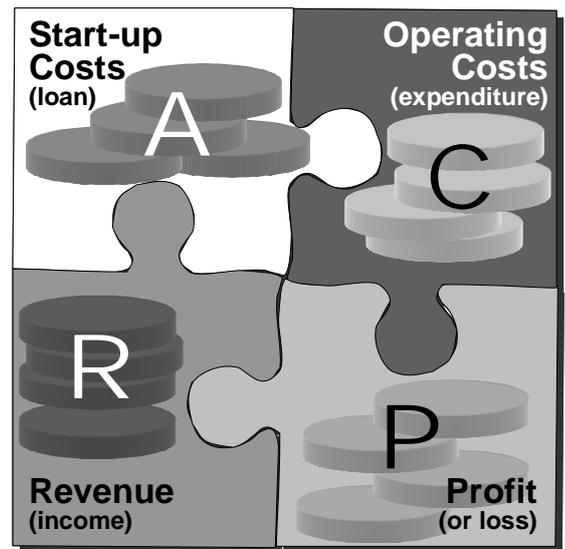
'Whittle' is to carve something out of wood, usually taking small cuts with a knife to get the right shape and fit



There are four main pieces to your jigsaw puzzle – four things that will determine whether your business is likely to make money or not; whether your business is what we call ‘viable’.

The four pieces are:

1. Your start-up costs (A): These are the costs of setting up the business before any product can be made and before any service can be delivered. They include your initial set-up costs (the figure you calculated at the end of the last chapter), and any additional money you need to operate up until you start getting money in from your customers. In most cases these will be covered by a loan of some sort – either from a friend, or from a micro-finance organisation, or from a bank – which will need to be repaid out of your profits.
2. Your operating costs (C): these are the monthly costs to your business of making product or delivering service – it is everything you spend, every month, simply to stay in business.
3. Your revenue (R): this is the monthly income into your business from people paying you for your products or services
4. Your profit (P): this is the money you have left over after you have received all of your revenue, and paid all of your costs out of it. If it is a minus number (your costs are bigger than your revenue) we call this a loss – and it is bad news for your business



Exercise 22: The Accountants Puzzle

Three friends booked into a hotel room – on checking in they shared the cost of 30 dollars equally and went up to their room. One of the friends was later stopped by the hotel owner, who told him – sorry, I overcharged you for the room – the cost is actually 25 dollars – here is your five dollars change. This left the friend a puzzle – how could he split five dollars between three people perfectly fairly. In the end, he told his friends that the room was actually three dollars cheaper and gave them a dollar back each.

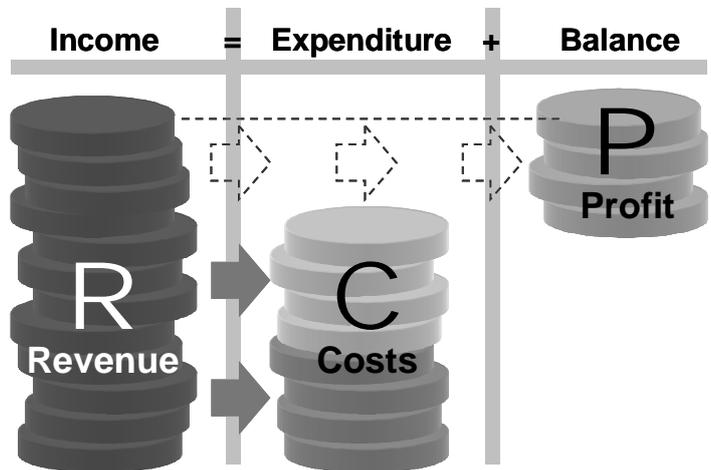
So now the tricky bit. Each of the three friends spent nine dollars on the room – three times nine is twenty seven, add on the two dollars the first friend pocketed, brings us up to 29 dollars – but they originally paid 30 dollars, so where did the extra dollar go?

Think about it for a while ...

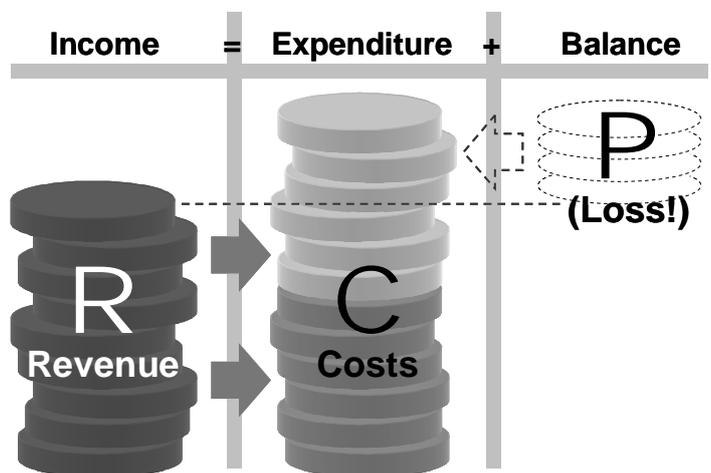
(The answer lies in not mixing up revenue & expenditure)

Finance is not complicated, but it is easy to get lost in it. To help you find your way about this section, we are using letters (such as the A, C, R and P on the previous page) so that you can more easily see where the various figures come from and what they relate to.

To be viable, your revenue (R) must be 'significantly' more than your operating costs (C). What we mean by 'significantly' is that the money left over after you have paid your costs out of your revenue should be at least enough to cover your monthly loan repayments in respect of your start-up costs (A). Think of it as something like the parable of the talents (Matthew 25:14-30) – where you need to use the money that you have been given (loaned) to make more money than you started with.



If your revenue (R) is less than your operating costs (C) you will be making a loss, and this will drain any money that you have until you are no longer able to meet your costs (or your loan repayments), and then you will go into debt, be unable to buy what you need, and your business will collapse. (See the diagram on the right) This is a deeply unpleasant experience and should be avoided if at all possible.



You might be able to see from the pictures above, that your costs do not have to go up a lot, or your revenue to go down by much before your profit disappears and your business is in trouble. This is why understanding and controlling your business finances is so important.

Let us start by working through your business idea, bit by bit, and see how things will work out for you. But please don't be alarmed if when you first work things out, it comes out as



a loss – this is usual, and can often be put right by some of the ‘whittling’ of the jigsaw puzzle pieces we referred to earlier.

Let us start with the nice piece; revenue (R).

To think this through you will need to identify what we call a ‘basic unit of

sale’ or ‘unit’ for short – this is likely to be one item of product (for instance a pack of biscuits, or a kilogramme of fruit, or a shirt), or one average delivery of service (for instance an average length taxi ride, or cleaning an average room, or a term of tuition for one student).

Next you have to estimate how many of these ‘units’ you expect to sell each month, and how much you expect to sell each ‘unit’ for.

This is where your ‘market research’ will be useful – in particular the work on page 21 – what did you learn from speaking to customers and observing competitors that will guide you on quantity and price? How many ‘units’ were your competitors selling per hour, or per day, and how much were they being paid? And in your conversations with customers: how many do you think would buy from you, how often, and at what price?

Use your ‘market research’ to think through how many ‘units’ you expect to sell each month, and the price you expect to sell them for, and write your answers to these questions in the box on the right. Please note, if your business provides a number of products or services (for instance, a retail shop) you may need to do this for each item, and then add the results for Revenue (R) all together. Remember this is only our first pass – we may need to revisit this to ensure we get all the jigsaw pieces of our business finances to fit properly.



Exercise 23:

My ‘basic unit of sale’ is:

U

.....

My selling price will be:

W

My monthly sales quantity will be:

Q

Our monthly revenue (R) will be our selling price multiplied by our monthly sales quantity ($R = W \times Q$):

R

Revisiting Market Share:

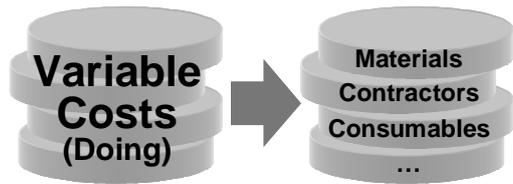
Check back to page 21 to make sure that you relate the revenue you calculate here with the market share you calculated there

time staff in this list.

When you have finished your list, add up all of your monthly 'fixed' cost figures, and write the total in the box on the right – this will be your fixed operating costs per month; the money you will have to find each and every month simply to keep the business going.

Exercise 26:
 My total fixed costs per month will be:
F

To calculate your variable costs (V), there are a number of steps. Firstly we need to understand how much each 'unit' will cost us to make. Then we need to adjust this to take account of the likely wastage and spoilage we will get. And then we will multiply this number by the number of units we intend to sell each month to find our monthly variable cost (V).



To start, make a list of all of the things you need to pay out, over and above the fixed costs, for each 'unit' of production or service. This would include any materials or items or goods used up in the production of the item or the delivery of the service, such as flour (if baking) or detergents (if cleaning) or petrol (if taxiing) or contract labour (if paid per piece of work). Once again, a sheet like that on the next page will help.

Variable cost item	Price	Units	Cost per unit
Flour (5kg bag)	\$6	30	\$0.20
Sugar (1kg bag)			

To calculate the 'cost per unit', make sure you divide the total cost of the item by the number of 'units' that item will cover. For instance, if you buy detergent in 5 litre bottles at \$30, and cleaning an average room (one 'unit' of service) consumes about 25 ml, then each 5 litre bottle will cover about 200 average rooms (units), and the cost per unit is therefore \$30 divided by 200, which equals \$0.15 (or 15 cents).

Further support on the maths involved in this section can be found in the 'Maths for small businesses' booklet, which can be downloaded free of charge from the Reconxile website: www.reconxile.com

Note: Sometimes costs can be part fixed and part variable. For instance, electricity may be necessary to light your business whether you are serving customers or not, but you may also consume more electricity when you are working on serving customers, for instance to power ovens or machines.

For simplicity, and if the amount of money is relatively small compared with the other costs, you might want to ignore this and consider it all as fixed or variable (depending on which the biggest part is), but if the amount of money concerned is fairly large, you should consider splitting it up into what is consumed in 'being' and what is consumed in 'doing'.

as in the case of offering free school places to a proportion of students (for example, those with disadvantaged backgrounds). However it is important that you record G as only the 'saleable' units in every 100, because you will need to apportion your costs of producing 'waste', whether intentional or not, over the saleable units.

3. Divide the cost per hundred 'units' (H) you calculated in step 1 by the number of good 'units' per hundred (G) you calculated in step 2 to arrive at a more realistic cost per 'unit'

Use the box on the right to calculate out these numbers. You can now calculate your likely variable costs per month (V) by multiplying the real costs per unit figure you wrote in the line (X) by the monthly sales quantity you wrote on page 33 (Q).

It is very important that you consider all of the costs, both fixed and variable – anything you overlook can quickly turn what looks like a 'viable' business into one which quickly fails. Things that often get forgotten are maintenance costs, replacement costs, legal costs, security/insurance costs, marketing and publicity costs, costs of offering discounts on products or services, and waste costs. It is always worth looking back over your figures (and getting a friend to help you) to see if there is anything you have missed out – if you have missed anything out, simply update your figures and carry on.

You can now calculate your operating costs by adding your fixed costs (F) to your variable costs (V). $(C = F + V)$



Exercise 29:
My 'ideal' cost for making 100 units is:

H $(100 \times I)$

The number of 'saleable' units (those you expect to sell at full price) I expect out of every hundred is:

G

My realistic costs per unit then is my costs for producing one hundred divided by the number of 'good' units that I can sell:

X $(H \div G)$

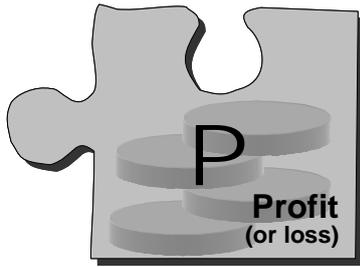
My variable costs per month will be:

V $(X \times Q)$

Note: For a worked example, please see the next page ...>>>

Exercise 30:
My operating costs per month will be:

C $(F + V)$



And now the important test. Is your business idea 'viable'? Do we need to adjust the various jigsaw puzzle pieces of our model to make them fit. (Remember that if this is your

first pass through, not to be alarmed if they do not fit – it is very likely that you will need to do some 'whittling' before they do)

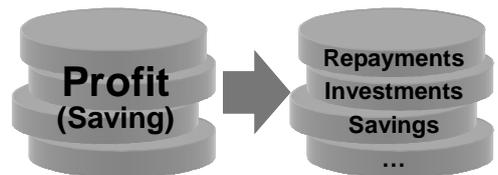
Your 'operating profit' (P) holds the answer to the question of whether your business idea is viable – it is your monthly revenue figure (R) less your monthly operating costs (C). Take your monthly revenue figure (R), and subtract your monthly operating costs (C) and write the number in the box on the right. ($P = R - C$)



Exercise 31:
My operating profit per month will be:

P $(R - C)$

If your answer is a positive number, then that is a good start. But it is not enough for the answer to simply be positive – your profit needs to pay for your loans (amongst other things) and we will cover that very shortly.

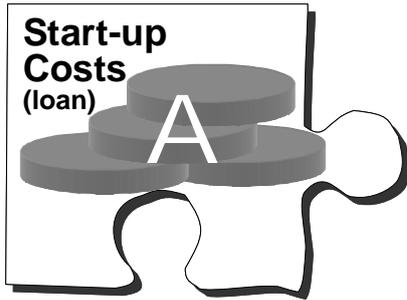


If your answer is a negative number, you need to look at how you can reduce your costs (C) or increase your revenue (R).

Worked example of variable costs:

In our biscuit factory, each biscuit produced (good or bad) costs us 2.3 cents (\$0.023) in terms of raw ingredients, fuel and contract labour etcetera. Out of every day's production of five hundred biscuits produced, an average of fifteen get broken, one tray (of about 20 biscuits) in every fifty gets over-cooked, and about two packs (of ten biscuits) in every forty go stale before they can be sold.

This means that for every 100 biscuits, costing \$2.30 in total (**H**), an average of three get broken, two get burned, and five go stale (if you do the maths), which leaves 90 as saleable (**G**). If 90 good biscuits cost us \$2.30 to produce, each biscuit realistically costs us \$2.53 (**X**). We sell 900 packs of ten biscuits a month (9000 biscuits), which means our variable costs are \$230 per month.



At the very least, your operating profit needs to be more than the amount of money you need per month to cover your loan repayments and pay back the capital and interest of

your start-up costs (A). So how much will this be?

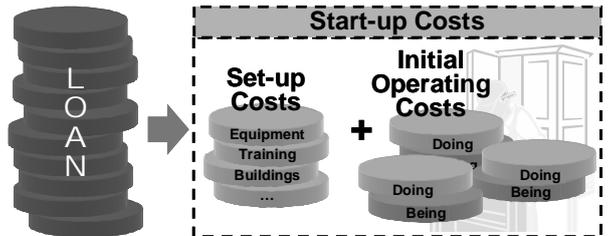
Your loan repayments will depend on a number of things – the amount of money you borrowed, who you borrowed it from, how long you have borrowed it for, the interest you are being charged, and how the repayments are calculated.

If you are working through this guide for the first time, it is likely that you will not yet know the answer to many of these questions – but there are some basic steps that we can work through which will help to guide you.

The first step is to work out exactly what you need to borrow – to work out your start-up costs. Your start-up costs (A) are built up out of two things: your set-up costs (which we calculated in the last chapter) and your initial operating costs: the money your business needs to ‘be’ (‘fixed’ costs) and to ‘do’ (‘variable’ costs) until you can cover these costs by what your customers are paying you.

To work out your start-up costs (A) you need three main pieces of information – the first two from your plan from chapter 4: your total set-up costs (S) and the time (in months) it will take you from first getting your loan to first getting paid by your customers (T), the third from your calculation of your monthly operating costs (C) in this chapter.

Your start-up costs (A) are then your operating costs per month (C) multiplied by the time in months (and/or fractions of a month) to first customer payment (T), all added to your set-up costs (S). $A = C \times T + S$. Use the box on the right to work this out for your business.



Note: If you have a slow ramp-up to the revenue figure you used in page 33 (see page 21) – e.g. it takes several months to increase to that value – your start-up costs may be bigger than you have calculated because your initial revenue will not cover your costs. To adjust for this, replace the value T in your calculation with the time (in months) it takes to reach your Break Even Point (See page 42)



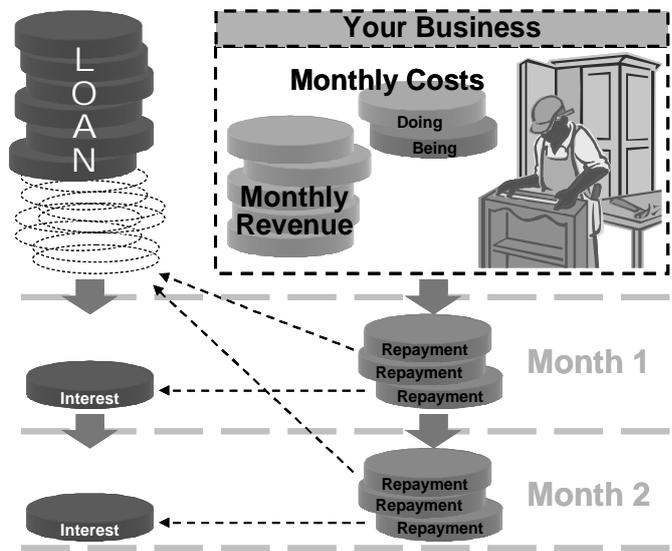
Exercise 32:
How much I need to operate until the first money comes in:

C x T

My start up costs are my set up costs (S) added to the figure above:

A CxT+S

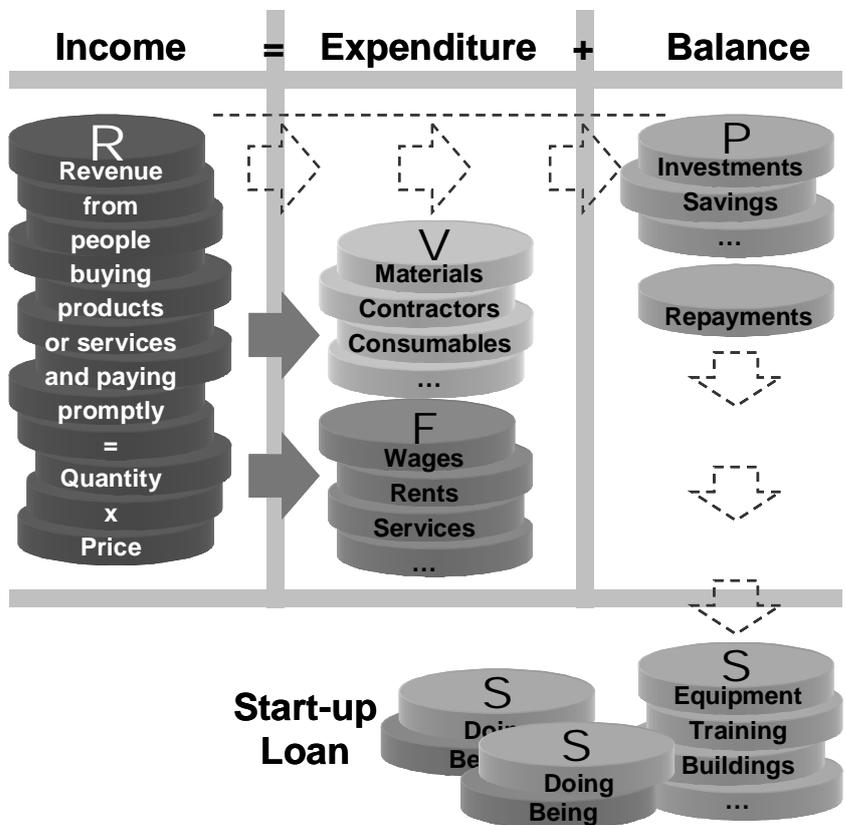
Loans are often limited in poorer parts of the world, but sometimes there are sources of micro-finance available (see Appendix). These will offer small (usually up to \$200 U.S.) short-term (usually up to 6 months) loans at a reasonable interest rate (usually about 40%). In terms of repayment, they tend to expect you to begin paying the money back within eight weeks (so you need to have your first customers pay you by then) in five equal monthly instalments, each of about one quarter of your start-up costs.



On this basis, for your business to be 'viable' under a micro-finance scheme, you need to produce a monthly profit greater than one quarter of your start-up costs. If they are not, and this is usually the case, now is the time to start whittling the pieces of your jigsaw to make them all fit together.

Let us start by looking at the different pieces of the jigsaw all in one place.

The goal of 'whittling' is to make your profits (P) greater than a quarter of your start-up costs (S) – this gives us the options of reducing (S) our start-up costs or increasing (P) our profits. In turn, increasing (P) our profits gives us the option of increasing (R) the revenue we obtain from our customers, or reducing (V) the costs of *doing* our work or reducing (F) the costs of *being* a business.



At this point, you should have a breakdown of each of these things, and all you need to do is work through each one to identify item by item where you might improve things. The following points may help you to do this:

1. Increasing the revenue (R) we get from selling our products or services can be achieved by selling more, or selling the same but at a higher price. Think through where you might find further customers, or what you might offer those customers that will make your product or service more valuable to them, and therefore worthy of a higher price (but remember to check out your conclusions by 'market research')
2. Reducing the costs we expend on producing our products or services (V) can be achieved by reducing the amount of wastage, or by increasing the efficiency of your labour (utilising their time better to get more of the work done), or by negotiating discounts for the materials and supplies you are using
3. Reducing the costs we expend on simply staying in business (F) can be helped by only employing the full-time staff you need, by not renting premises or equipment that is more expensive than you need, and by keeping non-production activities to a minimum
4. Reducing the amount we needed to borrow to set-up in business (S) can be achieved through borrowing or repairing equipment and premises wherever possible, by only training people in the essentials (the key things they need to do their job), and most importantly by keeping the time between taking up the loan, and the first customer payment to an absolute minimum.



Exercise 33:

What ideas do you have for:

Increasing the Revenue (R)?

.....
.....
.....
.....
.....

Reducing the costs of 'doing' (V)?

.....
.....
.....
.....

Reducing the costs of 'being' (F)?

.....
.....
.....
.....

Reducing the costs of setting up (S)?

.....
.....
.....

Reducing time to get money in (T)?

.....
.....

Please feel free to continue on a separate sheet of paper.



With this in mind, we encourage you to go back through your figures, keep your costs to a minimum, do things as quickly as possible, borrow and repair wherever possible, buy only what is essential and only hire (or contract) the people you need and can trust. Through perseverance we hope that you can whittle the pieces of your own jigsaw puzzle until they fit.

One key piece of information that you will find useful, both in getting your business to be 'viable' and in subsequently ensuring that it remains viable, is something called the 'break even point'. The break-even point is the minimum quantity of product or services that you need to sell (at the planned price) in a month, to cover all of your costs and ensure that your loan repayment is met. To calculate the break-even point, subtract the 'real variable costs per unit' (X) from the selling price (W) and divide this figure into the fixed costs per month (F) added to one quarter of the start-up costs (A). The answer is the number of units you need to sell per month (without discount) to cover your fixed costs: $B = (F + A \div 4) \div (W - X)$. Knowing this number is very useful to work out how practical it will be to be 'viable' (can you really produce and sell that many units every month?) and to making sure you manage the business into profit (are we really producing and selling that many units every month?).

If through whittling the figures in this section, you can deliver a 'viable' business, you can proceed on to the next chapter (although you might want to spend a bit more time double checking things in this one, just to make sure, and perhaps looking for where you can adjust things to make even more profit). But if you cannot make things fit, this might be a good time to return to Chapter 2 and select your next business idea.

Exercise 34: What is my Break Even Point during my start up period:

How much money do I get from each unit:

Selling price per unit
W

Less real costs per unit: —

X

Total is: =

$Y = (W - X)$ _____

What are my fixed outgoings each month?

My monthly fixed costs
F

Added to likely loan repayments: +

$A \div 4^*$

*based on typical levels of repayments

Total is: =

$Z = F + (A \div 4)$ _____

How many units do I need to sell each month to cover the outgoings (the second grey shaded number above, labelled (Z), divided by the first grey shaded number above, labelled (Y):

Break Even Point =

$B = Z \div Y$ _____

Note: Look back at your expected sales growth on page 21 and determine at which month you will reach your Break Even Point (remember to convert from quantity to value to do this). If your Break Even occurs more than one month after your first sale, you may need to adjust your start-up costs (see Page 39) to reflect this. To be cautious, you can replace T with the time to Break Even, but this may require too big a loan, in which case you might take the risk of an average between the two.

Before we leave the area of finance however, we need to look at three very important issues. The first concerns cash-flow, the second concerns raising the finance to start up your business, and the third concerns reinvestment to keep it going.

Turnover is vanity!
 Profit is sanity!
 But cash is reality!

Simon Lasky
 Colchester TBG

Cash-flow is money remaining after you have received your income (revenue) and paid your outgoings (costs), and it is the lifeblood of your business – when it runs out, your business dies. For this reason, you need to map out, month by month, what your income and outgoings are, and what your cash situation will be. Watch out very carefully for situations where you receive money late or pay out money early – either of which can create a fatal gap in cash flow. The appendix contains a detailed sheet for you to map out your cash flow, but as a basic exercise, use the box on the right to think through your monthly finances, and remember that you will likely have to pay for supplies before you can do your work before you can get paid.

Exercise 35: Basic cash-flow analysis

Month	1	2	3	4	5	6
Opening balance						
Income						
Expenditure						
Loan Repayment						
Closing balance						

Write down how much income (I) you plan to get for month 1 etc. under each month (see page 20), and also how much you plan to spend (E).

In 'Opening balance' (O) for month 1 write down how much cash you are starting your business with. And under 'closing balance' (C) write down how much will be left at the end of the month. $C = O + I - L - E$. The opening balance for each subsequent month is the closing balance for the previous month, and the closing balance for each month is always $C = O + I - L - E$ for that month. If C becomes negative, you need to look at either a bigger initial loan, or spending less and/or later, or getting paid more and/or earlier.

Remember that your profit, after fixed and variable costs, needs to be able to do three things: 1. Meet your loan obligations (whatever they may be) 2. Enable you to maintain "capital" equipment 3 Enable you to re-invest in more equipment/property/people/stock etcetera to grow your business!

Jamie MacAlister
 Colchester TBG

The money you use to do this comes from your start-up finance (after you have paid for any equipment etcetera) and you need to negotiate a loan which will cover it, or adjust the scale of your business so that it can be covered by the loan you can get. The Developing World now has many thousands of businesses willing to loan sums of money to small start-up businesses like yours – you can find out how to contact them in the appendix. In practically all cases they will ask for a business plan to build their confidence that you know what you are doing. A template for a business plan can be found in the appendix at the back of this guide, and it

6. So now you are in business?

If you have reached this far, and worked through all of the earlier chapters, then being in business should simply be a matter of putting your plans into action shouldn't it? So what are you doing sitting here reading this?

Starting a business is a leap of faith, but it can be really quite frightening. Reading more about the subject will not help. It is time to get things moving. And to pray.

Please know that our prayers are with you – we really want you to make a success of this, and we pray that this time may be a time of tremendous blessing for you, your family, your friends, and your church.

But you could be reading this in the hope that we might be telling you how to run your business. And indeed we will, but in a different book. We have deliberately kept this book as short as possible in order to make it less frightening to the person just starting off – however there is a lot more to say to you once your business is off the ground, and we have written another small book called 'Running your own small business' to help those people who have just started out.

But for those of you who have just started out, and who have not yet had the opportunity to read 'Running you own small business' we would just like to put forward the following points which might help you:

1. Do not get your business finances confused with your personal finances.
2. Your business needs cash to operate – if as the owner, you decide to take some of the wealth out of the business, only take money out of profits, never out of the business's operating funds
3. Your customers are the only reason your business survives – treat them with respect and care

4. Give God a place of honour in your business. The devil will always try to challenge you in ways that tempt you to squeeze God out, but you can fight this by making God a full partner in all your decisions
5. Maintain values in business that will make God pleased to be associated with your business
6. Treat your employees with respect. They do not deserve to be in poverty; pay them as you would wish to be paid
7. Keep your 'process flows' and your plans updated to reflect all that you are currently doing and intending to do. God has a plan that He keeps to and there is a lesson there for all of us
8. Keep your financial record up to date at all times – if you do not know whether you are making a profit, then it is likely that you soon won't be
9. Always use some of your profits to find ways to improve your business and to find new ways to attract more customers to your business

In God we trust!
(All others pay cash!)
American saying

On the following pages we have included some appendices to help you with thinking through your business, planning it out, and getting a start-up loan. The appendices are:

1. **Businesses that might work in economically developing countries** – a basic list of business ideas
2. **Service Examples** – Relating to Chapter 4
3. **QFD for small businesses** – a tool to help you to think through how your process steps can be used to provide 'better' products and services
4. **Sources of Finance** – Outlining where you might look for sources of start-up loans in your area
5. **Business Plan** – a planning form to use when applying for a start-up loan

7. Appendices

Businesses that might work in economically developing countries:

The following list of businesses is not intended to be all of the businesses that might work for you – but we hope that it will make you think about what business you might be interested in running.

Bakers	Balloon Flights	Wind power windmills
Cake and biscuit bakers	Cosmetics	Carpentry/joinery
Caterers	Web developers	Roofing & Scaffolding
House or office cleaners	Lino & flooring supply	Secretarial agency
Gardeners	Sound equipment hire	Milk, cheese and yoghurt production
Greetings card makers	Accountants / business support	Architects, surveyors & building design
Fruit and vegetable sellers	Therapists / massages / footcare	Washing & ironing service
Farmers (crops & animals)	Sellers of spare mechanical parts	Recruitment agency
Bee Keeping / Honey sellers	Newspapers / advertising	Poster printing
Brick makers	Water testing	Sports coaching
Tile makers	Tour guide / Excursions	Tutoring / schooling
Stove makers	Furniture repairs	Water treatment
Tailors / Clothes makers	Golf courses	Well boring/digging
Batik artists / Cloth dyers	Irrigation Engineering	Travelling theatre
Computer repairers	Security guards	Wheelchair hire
Paper makers	Tent/marquee making/hire	Window tinting
Car repairers	Mat & rug making	Juice making
Taxis	Painting & decorating	Furniture recovering
Driving schools	Pest control / fumigation	Manicurist
Signwriting	Mosquito net treatment	Wedding services
Builders	Photography	Funeral services
Vehicle hire	Dress & clothing patterns	Toy production
Air-conditioning & fan hire	Pottery & ornaments	Soap production
Plant & Equipment hire	TV and Electrical repair	Candle production
Childcare services	Cafes & Restaurants	Carpet weaving
Hairdressers	Removals & storage	
Road repairs	Solar water heaters	

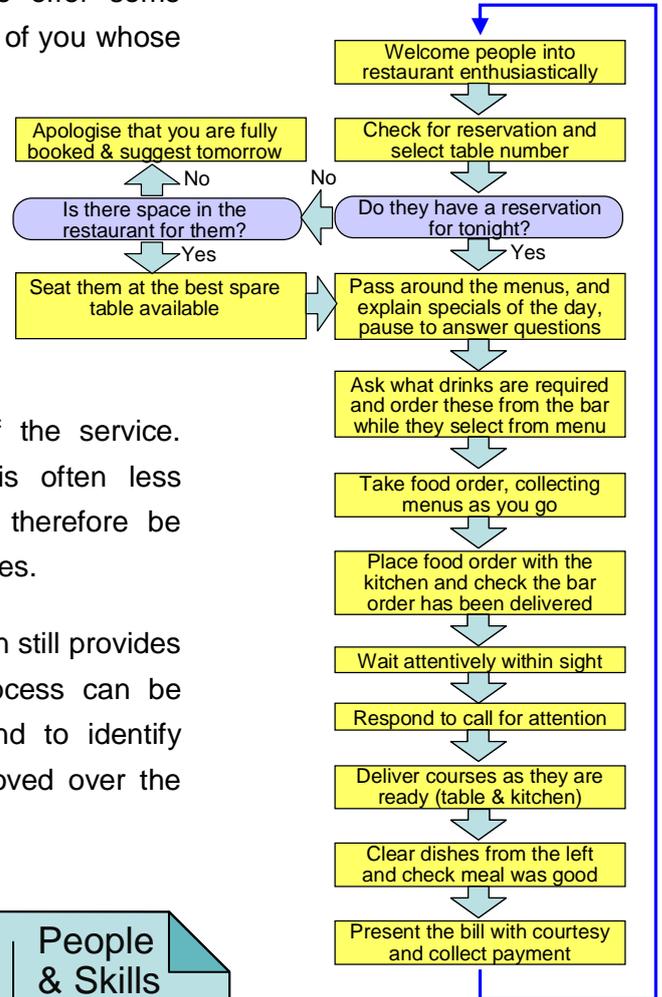
Service Examples for Chapter 4

Most of the examples used as illustrations for Chapter 4 were heavily biased toward production rather than service.

In this section of the appendix we want to offer some equivalent service focused examples for those of you whose business is more service oriented.

One important thing to note about how services vary from production is that the process is often more flexible, with decision points which switch the flow in a number of different ways depending on what is required. Also, there may be a number of different process flows for different parts of the service. The reason for this is that the process is often less constrained by capital equipment, and can therefore be adapted easily to whatever the customer requires.

However, mapping the process as best you can still provides tremendous opportunity to see how the process can be better adapted to the customers' needs, and to identify places where quality of service can be improved over the competition, as the example below shows:



Process Step	Doing 'better'	Tools & Equipment	People & Skills
Welcome enthusiastically	Offer an initial refreshment	Hot towels & iced aperitifs	Natural & courteous manner
Select table number	Give table preferred	Log of preferences	
Explain specials	Remember clearly	use blackboard	Enthusiasm for food
...
Present bill with courtesy	Make it appear as a gift	Tie with ribbon and chocolates	Arrangement skills

Page 3

QFD for small businesses

In Chapter 3 we looked at how the needs of the customer, in terms of what they describe as 'better', can be thought through in terms of what you need to do at each process step to ensure the result really is what the customers want.

QFD is a tool which helps you to do this in more detail – its initials stand for Quality Function Deployment:

- Quality is what the customer means by 'better'
- Functions are the steps in your process
- Deployment means (in this case) making sure the 'Functions' do all that they can to ensure 'Quality'

The tool is in the form of a grid. Down the left hand side of the grid: the rows represent all of the different customer requirements – what they mean by 'better', Along the top: the columns represent all of the process steps that you need to deliver your product or service (& ensure that it is 'better').

The squares in the grid then provide a way to map each of the steps in your process onto the 'Better' they need to make happen (or could help make happen). We use three symbols for this: A bullseye symbol means that the customer requirement cannot be met at all without taking a lot of care over this process step. A triangle symbol means that this process step can help to meet that customer requirement if we take extra care over it. A circle symbol means that the process step is more important than a triangle, but less important than a bullseye.

The grid helps us to think through what we need to do in each process step if we are to stand the best chance of meeting our customer's needs better than the competition.

For more information on QFD visit www.tesseract.com.

Customer Requirements for 'Better' (Chapter 2)	Process Steps (Chapter 3)				
	Buy & measure out ingredients	Mix ingredients into the biscuit dough	Roll out the dough and cut out biscuits	Place biscuits on trays in the oven	Bake biscuits in the oven
Tastes good – has a nice biscuit flavour	●	△			○
Crisp when I bite into it but doesn't crumble	○	●	△		○
Not too small or too big – right size for a snack			●	△	
Can be bought from a shop nearby where I live					
Not expensive – I want to buy them cheaply	○		○	○	
Looks home-made and with interesting shapes			●		

Sources of Finance

The first source of finance you should consider for your business is your own savings, or money that you can raise from any surplus items that you can sell. And the second source you should consider is your family and friends, and their savings. The reason for this is that the interest rates on small loans in the developing world are very high, and you will find this a considerable burden on your business through the first few months. Borrowing from family and friends can save you a considerable amount of money, which you can share with them as a repayment of their kindness.

A second alternative are the savings and loans schemes that are growing swiftly in many parts of the Developing World. The schemes charge high interest rates, but there are no additional charges (unlike many banks and microfinance schemes) and the interest goes back to the 'community'. Much more on this can be found on the website www.vsla.net but in essence, the savings and loans schemes are set up by local communities of up to 35 people, who each bring their savings together, loan out to members of the scheme, and each share in the profits. The schemes elect their own officers, make their own byelaws and set their own loan terms.

Banks are difficult because they are usually not geared up to deal with the small loans that you are likely to be considering (or eligible for).

The primary alternative to family funding or savings and loan schemes are the Microfinance institutions. These appear to range from institutions set up to help the poor to those which appear more inclined to exploit them. But to be fair the administrative costs of microfinance are very high compared to the value of most loans, and these administrative costs are covered by the interest rates charged.

Information on Microfinance organisations in your region can be found through www.microfinancegateway.org.

Business Plan

A business plan is a single document which sets out clearly what you are planning to do as a business, how you are planning to do it, and why it is viable.

Any organisation which you approach to lend you money for your business is almost certainly going to want to see a business plan – partly for their own sake; to give them confidence that their loan is reasonably safe, but partly also for your sake; they don't want to see you under the burden of a debt that you cannot repay.

But whether the lending organisation needs to see your business plan or not, you yourself want the confidence that your business will succeed, and that you will be able to repay the loan – and so a business plan is a useful document for you too.

Over the next seven pages, you have the opportunity to develop your own business plan – or rather to collect all of the exercises you have done through the guide into a business plan – because if you have completed the exercises for the business you want to proceed with, you already have done your business plan, and all that remains is to pull it neatly into one document.

On the business planning sheets which follow, we have tried to help you to find the information you will need by cross referencing the pages in the guide where you will find the information that you need. These cross references appear as little black boxes in the lower right corner of each section.

If you need further business plans, these can be downloaded free of charge from www.reconxile.com, or alternatively, you are welcome to photocopy the sheets in this guide before you use them.

Note: Please do not let the fact that you have developed a business plan make you over-confident. Your plan could indicate that you have thought through a successful business, but it could also indicate that you have thought through an unsuccessful business, but forgotten some key costs or been optimistic on revenues and other things. Please show your plan to a number of friends who you can trust and who are willing to challenge you on your numbers. In that way, you can build real confidence that you have a business that will work.

BUSINESS PLAN

Business Plan

Answering the questions set out in this business plan will help to ensure that you think through all of the most important decisions in setting up your business, and that your business will be on a firm foundation for success. It will also help you to communicate your ideas to those people who you may need to approach for a start-up loan. Many of the answers can be taken from the exercises undertaken in "Setting-up your own small business" which can be downloaded free of charge from www.reconxile.com. Numbers in black squares relate to the relevant pages of that particular business guide.

Please reprint this form as required which is also available from www.reconxile.com

Full Name

Contact details

Address

Phone Email

Experience/qualifications

These do not need to be formal qualifications, but can be any experience you have that will help you to understand your business and what it will be like to run it.

Brief description of the intended business

In brief outline, who is involved in your business, where will the business be located, and what will the business be doing – what product or service will you be selling?

Are there any legal arrangements regarding set-up of the business?

14

Why do you want to set up this business?

Please explain why you are committed to setting up this business and what you hope to achieve through it.

13

Have you read and completed the exercises in 'Setting-up your own small business'?

Yes / No

What is most important for you to get right in your business?

Please list and explain what you believe are the main things that you need to do well in order to make your business successful?

1.

2.

3.

4.

6

20

What are your variable costs per unit of sale?	Variable cost item	Number of units it covers	Price	Unit cost	
<i>Include things like contractors charges, supplies etc. – anything that will be used up in actually doing the work, producing the product, and serving the customer.</i>	.....	.....	.....	.....
<i>List each item on the right, together with how many units of production it covers, how much is charged for that item (price) and what this works out as a cost per unit of production.</i>	.....	.....	.....	.....
<i>Add up the total cost per unit of production at the bottom, then adjust it with your estimate of 'yield' (Yield is how many good units you are likely to produce per hundred – recorded as a percentage).</i>	.....	.....	.....	.....
<i>For full explanation, see 'Setting-up your own small business'</i>					
					Total variable costs per unit (I):
					Expected yield (G%):
					Adjusted variable costs per unit (= Ix100/G):.....
Expected profit & Break Even Point					36
<i>See 'Setting-up your own small business' to calculate these.</i>	Expected profit per month:				38
	Break even point:				42
	Notes on how these were calculated:				
				
				
				
				
What is your funding plan?	.....			
<i>Outline here the total money you will need to set-up your business and how this was calculated?</i>	.....			
<i>Outline also what other sources of funding are available to you, and the amounts involved</i>	.....			
<i>Finally list what remains to be borrowed and the terms you want to borrow the money on.</i>	.....			
	.....				39
References	.....			
<i>What past history do you have of loans and repayments?</i>	.....			
<i>What is your past experience of business & this particular market?</i>	.....			
<i>Who will act as references to you character on these?</i>	.....			

Cash flow forecast

List all of your sources of income on the right, including loans, revenue from sales, and any other money coming in to the business that you can think of. Then in the plan columns under each month, write down how much you expect to get in that month from the various sources of income, and total it at the bottom.

List all of your outgoings on the right, including salaries, supplies, consumables, rent, rates, loan repayments, contract payments and any other costs you can think of. Then in the plan columns under each month, write down how much you expect to pay out that month to all of the various outgoings.

Subtract your outgoings from your income, to calculate each months cashflow

The starting cash position is the cash that you started the business with at the beginning of month 1

Cumulative cashflow at the end of month 1 is your starting cash position plus month 1 cashflow

For months 2 to 6 add the cash flow for the month to the cumulative cashflow for the previous month to calculate the cumulative cashflow for the month

43	Month 1		Month 2		Month 3		Month 4		Month 5		Month 6	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Sources of Income: 31												
.....
.....
.....
.....
Total Income:
Outgoings 33												
..... 34
.....
.....
.....
.....
.....
.....
.....
Total Outgoings:
Cashflow this month												
Starting cash position												
Cumulative cashflow												
Notes:

