



International
Labour
Office

Biz-up

Self-employment skills for young people



USER'S GUIDE

Biz-up

Self-employment skills for young people

Valli Corbanese and Gianni Rosas

International Labour Office

USER'S GUIDE

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Introduction

This booklet has been developed to accompany the tool *Biz-up: Self-employment skills for young people – Facilitator’s Guide and Toolkit*. It provides an example of how facilitators can design a country-specific guide to foster self-employment skills of young people. While adapting the User’s Guide, the facilitator should take into consideration the following key points in order to meet the needs of young trainees:

- *Purpose of the Guide* – Decide whether the Guide is to be used mainly during the training workshop (to be distributed as a booklet or through separate handouts during each session) or as a stand-alone reference tool (e.g. to be distributed at the end of a group counselling session or during career development events).
- *Targeting* – Determine whether the Guide will target all youth or a specific group of young people.
- *Characteristics of the audience* – Select the best instructional methods, examples and activities in order to take into consideration gender, age, educational level, activity status (students, jobseekers, workers) of young people.
- *Content* – Identify whether all topics and sessions are relevant to both national circumstances and the needs of the target group. This will lead to the kind of revision that is required to make the content more appropriate and relevant, including any topic or session that needs to be added. Also, identify local examples that can be incorporated into the customized version of the User’s Guide.

Orientation for the user

What is this Guide for?

The overall purpose of this booklet is to provide young people with guidance for exploring self-employment options and understanding the steps involved in starting a business.

Becoming self-employed may be very rewarding, both personally and financially. However, many young people, even if they have brilliant business ideas, have difficulties in writing a business plan or launching a product or service. Raising money to finance a business may also be difficult, especially if the prospective self-employed person has no credit record or has limited work experience. Yet there are many examples of young people who do run successful businesses.

This Guide takes the reader through the various steps that help improve understanding of opportunities and challenges relating to self-employment.

Who is this
Guide for?

This tool has been designed to reach out to young persons aged between 15 and 24 who are able to read, write and to make basic arithmetic calculations.

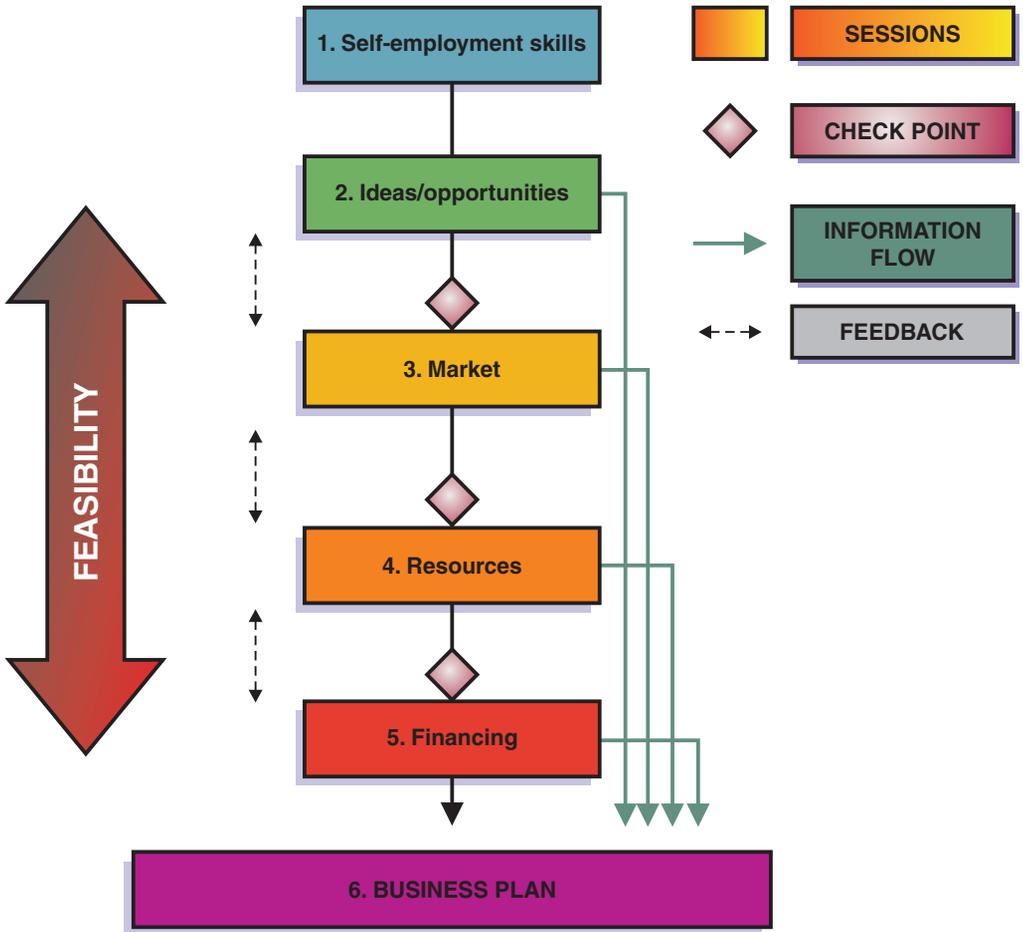
How to use
this Guide

The Guide is conceived to accompany learning activities. However, the reader can use it as reference material as well as for self-learning purposes.

The learning process starts with the self-assessment of strengths and weaknesses in relation to a set of self-employment skills and attitudes; it then proceeds with some tips on how to generate business ideas, assess their feasibility and draft a business plan.

How is the Guide structured?

This Guide comprises six chapters. The sequence and content are summarized in the flowchart below. The introductory chapter helps the reader understand key business terms and discover entrepreneurial skills. The second chapter focuses on generating business ideas, finding information and on networking. The third chapter deals with the assessment of the feasibility of business ideas and leads toward a market analysis. The fourth chapter helps the reader identify the human and financial resources needed to run the business and introduces the concept of business planning. The fifth chapter focuses on where to find and how to manage financial resources. The final chapter helps the user pull everything together in a business plan. Examples and templates are either embedded into the text or appended in the annexes. The annexes also include a glossary of business terms.



DO YOU HAVE WHAT IT TAKES TO BECOME SELF-EMPLOYED?

Chapter

1

– Do you have what it takes to become self-employed?

1. What is self-employment about?

Self-employment is concerned with the way in which people create and implement new ideas and methods to produce goods and services. The terms “self-employed”, “entrepreneur”, “business owner” identify anyone who creates his/her own earnings in the form of a business, contract or freelance activity. A self-employed person is someone who has a job or activity alone or with a small group of people, with or without paid employees.

To get a better idea of what entrepreneurship means, think about a well-known local business, a self-employment activity or a successful entrepreneur and try to describe in one sentence what they do.

Example



The *Blue Rose Bakery* bakes and packages bread and cakes for sale to the local community.



Mr. Violet is a plumber; he builds and repairs water fixtures (e.g. sinks, taps, water-pipes, bathrooms).

2. Is self-employment for you?

Before starting a business, it is worth thinking through your ideas and seeing whether you have “enterprising” attitudes. Try to answer the following questions that point to some features of enterprising people:

- Are you persistent and committed to achieving your goals?
- Are you enthusiastic and creative?
- Are you ambitious and self-confident?

The above-mentioned features are neither exhaustive nor intended to be a blueprint for becoming a successful entrepreneur. Ultimately, there are no hard and fast rules. The skills commonly associated with entrepreneurship can be learnt and attitudes can be developed, although some people are more prone than others to engage in self-employment activities.

How do I discover if self-employment is for me?

The first step towards self-employment and enterprise start-up is self-discovery, i.e. seeing whether you have “what it takes” to become an entrepreneur. There are various assessment tools available to help you get a sense of what “being enterprising” means. You can search for tools and “tests” that are used by business development agencies, education and training institutions, and chambers of commerce. A selection of three self-assessment tools is included in the annexes to this Guide. In addition, there are several self-discovery exercises that can be downloaded from the Internet (see the list provided in Annex 4).

Remember that these tools can help you to reflect on the skills you have and on those that you would need to improve, and that there are no “right” or “wrong” answers.

DO YOU HAVE WHAT IT TAKES TO BECOME SELF-EMPLOYED?

Once you have completed one of the self-assessment tools:

- Ask a friend or a family member to check your answers. Are there any of your skills that others scored higher than you did? If yes, do you think that you may be under- or over-estimating your skills?
- Think about the skills you need to improve (for example, organizing and planning, risk-taking, effective communication). How can you do it?

Remember that improving these skills is useful not only for starting a business, but also for your employment prospects and personal life.

What if my self-assessment turns out to be inconclusive?

If you have doubts, or the results of the assessment are uncertain, you may need to think more carefully about your career goals and do some further research before embarking on a self-employment venture. Answering the following questions can help clarify your ideas:

- Are you looking for higher income, for personal satisfaction, for control over your job and work schedule? Think about the personal or career goals you hope to achieve.
- Are you a self-starter? It will be up to you – not to someone else – to develop projects, organize your time and follow through on details.
- How well do you get along with different kinds of people? Could you deal with demanding clients, unreliable suppliers and unsatisfied employees in the best interests of your business? Business owners need to develop working relationships with a variety of people, including customers, suppliers, employees, bankers and professionals such as lawyers and accountants.

- How good are you at making decisions? Business owners are required to make decisions independently, often quickly and under pressure.
- How do your current skills and work experience match up with the type of business you are interested in? Think about the skills you have acquired at school and at work.
- How well do you plan and organize? Good organization and planning – of finances, human resources and production – are essential for business operations.
- Is your drive strong enough to maintain your motivation? Running a business is very demanding. Motivation will help you during periods of slow-down and overwork.
- How will the business affect your family life? The first few years of business start-up can be hard on family life. There may be financial difficulties until the business becomes profitable, which could take months or even years. You may have to adjust to a lower standard of living or risk your family assets.

What's next?

Having “enterprising” skills and attitudes is necessary, but it is not sufficient a condition for setting up your self-employment activity.

You also need to have a “good business idea” that is marketable, to be able to present it in a convincing way and to secure funds for running your business.



Chapter 2 – Generating business ideas

1. Generating business ideas

A business idea is a short and precise description of the basic operations of a business. It explains what the business is about, the clients and how the products and services reach the market.

How do I get business ideas?

Business opportunities are all around you. The first challenge for you is to find the right idea that matches your resources, interests, skills and experience with the needs of the market and its clients.

One way to generate business ideas is to observe items of common use (in the house, in the street, in shops) and think of improvements that people would be ready to pay for. Most entrepreneurs are successful because they have introduced improvements to existing products or services that were already valued by clients.

Another way to generate ideas is to imagine “If only I had...” to indicate a wish, want or need of an item or service that is not available or is difficult to obtain. There are needs that develop over time and originate from a change in individual interests or technology. Think for example of needs that have emerged recently (e.g. cellular phones, school rucksacks, roller-blades).



When generating business ideas it is best to keep an open mind. Think of as many ideas as possible and make a list of all the business opportunities that come to your mind. At the top of a blank sheet of paper, write an activity you like to do (make this the heading). Use a separate page for each activity or interest you have. On each page, list as many items as you can identify. Use your imagination to transform these items into products or services that you could sell.

What is best for me?

Revise the lists you have just prepared and try to determine the potential for success of each idea. Select the ideas for which you think you have the relevant skills. By analysing your skills against the planned “business”, you will understand which idea is best suited to you. For each listed item, carry out a preliminary feasibility check by answering the following questions:

- Does the product or service respond to a need?
- How is it produced? What kind of equipment and materials are needed to produce the item or service? Where can you buy the material? How much will it cost?
- Is there anything that makes what you need for the business difficult to get (e.g. scarce availability of raw material, expensive equipment or inadequate technology)?

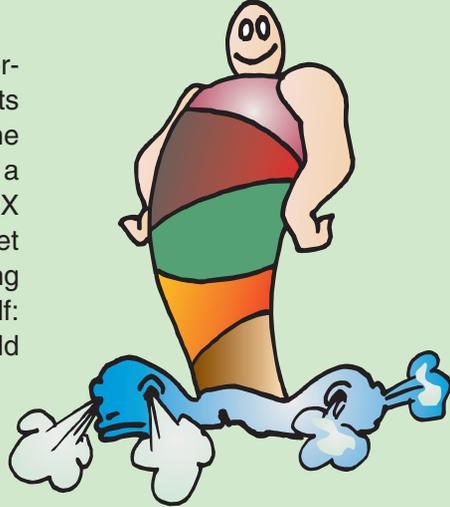
This exercise will help you exclude the ideas that are just too difficult to implement or too costly. This selection will narrow down your focus to a handful of business opportunities. Box 2.1 gives you some examples of successful business ideas.

SUCCESSFUL BUSINESS IDEAS

Box 2.1

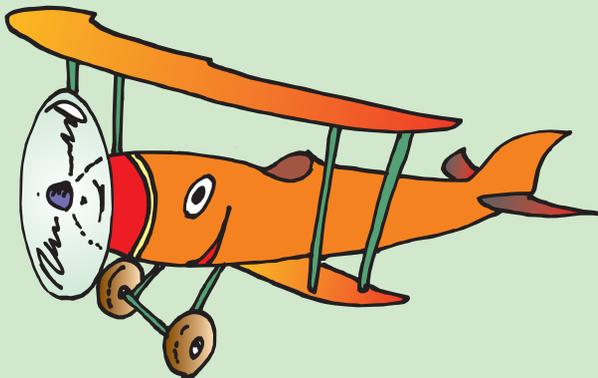
Breathing Shoes

The idea of GEOX shoes was generated on a mountain trail and made its inventor one of the richest men in the world. While lacing up his boots for a mountain hike, the inventor of GEOX shoes began imagining how hot his feet would become when tramping along the mountain trail. He said to himself: "I wish I had boots with soles that could let in air, but no water or snow".



Pony Express Russian Relay

The idea of a Russian rapid delivery company came to two graduates with some experience in the delivery service. The objective was to offer courier services between Moscow and other Russian cities to corporations new to the Russian market. Since 1994, the two entrepreneurs have made their Moscow-based delivery service one of the more successful small-business start-ups in Russia. Today, Pony Express Relay offers courier services between Moscow and 185 cities, totals more than US\$5 million in annual sales and employs 270 staff.



Signing it up

The idea of producing cheap signs for shops came to a group of young people who heard small business owners complaining about the high prices of advertisement signs. The business uses scrap material, sculpture-type designs and innovative combinations of colours to produce unique advertisement signs at low cost. Their first job was to reproduce a famous woman's portrait with an elaborate hairdo to advertise a hairdresser's shop. The sign was painted on a board made out of scrap planks of wood.



Wooden shades



The production of vertical and horizontal window shades made of scrap wood is another successful business idea. It came to a group of students passing by a wooden furniture company while going to school. The company had a lot of waste wood in its yard. This waste was sold from time to time to another company, but the transport costs were so high that the furniture company owner preferred to stock the scrap wood and sell it during the winter months as firewood. The students found out that 30 per cent of the waste wood was suitable for the production of wooden shades for windows, and concluded an agreement with the company. Today, the turnover of the window shade business nearly equals that of the furniture company.

GENERATING BUSINESS IDEAS

Pedal water pump (treadle pump)

The idea of a pedal water pump has its origin in the African farmlands where water needs to be pumped from canals and wells both for irrigation and domestic uses. The idea of the treadle pump is an improvement on the hand-operated pump. Instead of using the strength of arms and torso, farmers use their legs and full body weight to operate the pump. Engine-operated pumps are costly to buy and to maintain, and they often break down because of intense use. In addition, many areas are not always served by energy supply, so electrical pumps are not suited to the needs of the farmers.

Four hours of treadle pumping per day can irrigate up to 0.5 hectares of land, save the costs of motor-driven and electrical pumps, and reduce the physical effort required by the hand-operated pumps.



2. Researching information and networking

The research and acquisition of information as well as the establishment of networks are key factors in understanding the feasibility of your business idea.

Where and how do I get the information I need?

There are several institutions and agencies that provide information on self-employment opportunities and on how to set up your own company. These usually include chambers of commerce, business development agencies, the employment services, banks and micro-credit institutions, community organizations, and public services such as the municipality and the tax authority. Today the most common way of finding information is through the Internet, but also telephone directories (yellow and white pages) and the listings of local public and private services can be useful. It is also important to find sources of business assistance and expertise. For example, it might be a good idea to visit an employers' organization so as to obtain first-hand information on economic trends.

If you are not sure what kind of information you need and where to locate it, visiting the local public library may be a good starting point. Asking your neighbours, friends and family members could also be an option. They may know somebody else who could help.

GENERATING BUSINESS IDEAS

What is networking?

Networking means finding, cultivating and expanding useful “contacts”. It starts by identifying who has the information and knowledge you need. Family, friends, acquaintances, local administrators and businesspersons can provide a lot of information and create additional contacts useful for business, employment and community life.

You may wish to create a network inventory by listing all the people you know, indicating who they are (name and contact details), what they do and how they can help. You can then reorganize this list according to categories (e.g. business start-up, employment, education, financing).

Example of networking

Mr. Peter Violet, (telephone number 3030303) is a plumber. He needs some help in April, when residents fix their garden irrigation systems for the summertime.

Mr. Violet can give me a job (employment), he can show me how to become a plumber (training) and we can become business partners (self-employment).

Chapter 3 – Market analysis

1. Analysing the market

The most important step in determining the feasibility of the business idea is to look closely at the market. The success of a business largely depends on how well this has been targeted.

What is it?

To find out whether the business idea has a market, it is necessary to know the potential clients, their needs and desires and the price they can afford to pay for the products and services to be offered.

Market analysis requires collection of information on:

- the product or service and its production process;
- the equipment and supplies you need for start-up, as well as the skills required for operating your business;
- the “best” place to locate your enterprise (e.g. traffic routes, services available nearby, communication networks);
- your main competitors (i.e. those who sell or provide similar products or services);
- your potential clients (i.e. those who will buy your product or service and the reasons for them to buy from you).

Marketing experts usually classify their clients according to the following individual characteristics:

- *Gender and age* – purchasing habits vary between men and women, children, youth and adults;
- *Income and occupation* – both are indicators pointing to a client's preferences and spending capacity;
- *Family status* – spending habits of families differ significantly from those of individuals.

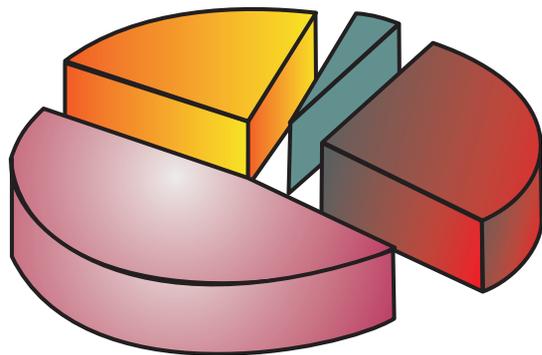
80/20

Bear in mind the 80/20 principle: for most enterprises, approximately 20 per cent of customers buy 80 per cent of their products or services. This means that most of the clients will be buying only the remaining 20 per cent. Hence, it is important that you develop your marketing strategy to target those clients who will be purchasing most of the products or services.

What is the best way to gather market information?

Business support agencies, chambers of commerce, banks or micro-credit institutions and employment services have developed formats to help you to research the market. The kind of information you need to collect and its sources are summarized in Box 3.1.

It is better to organize the findings of your research in a written document. This will come in handy when preparing the business plan.



MARKET ANALYSIS

Box 3.1

Clients

Divide the prospective clients by age, gender, geographical location and income level.

The best way to find this information is to ask prospective clients directly. Make a list of the questions you need to ask and start with friends, relatives and acquaintances. When you feel more confident, you can approach people you do not know so well.

Trends

Collect information on the current and future market trends affecting the sub-sector you want to enter. In particular, you need to gather information on:

- the size of the current market and how it is likely to change in future;
- the share of the market your business will serve;
- the opportunities and threats within the market;
- the factors influencing the market (e.g. technology, design).

You need to talk to people who know the business (preferably in a different neighbourhood from the one where you want to open your enterprise). Suppliers and clients of your competitors, as well as retired workers, are good information sources.

Suppliers and Distribution

Identify the suppliers of the equipment and material you need to run your business and the distribution channels for your products and services.

Telephone and business directories (available in public libraries) list companies by type of business. This type of information is also published by chambers of commerce and business registration authorities. You can get in touch with some of them to obtain the information you need.

Competition

A good test for your business idea is to analyse the products and services offered by the competition to see how they are performing in the market. This analysis can easily be conducted when the market share of each competitor is known and when there is a clear distinction between your products and those offered by the competition. It is important to identify competitors, and find out what their customers say about their products and services.

Once you have identified the above-mentioned clients, ask them how satisfied they are with the goods or services and whether they would like to have something different.

Location

Describe how the location of the business can contribute to its success.

You need to scout and observe different locations, and to compare rental or purchasing costs. You should observe the flow of people and of vehicles at different hours and days of the week, as well as the presence of transport facilities, loading space, access to suppliers, etc.

Marketing and Promotional Strategies

Develop marketing and promotional strategies that make your product or service more attractive to your potential clients.

You should decide on the expected outcome and target of your marketing and promotional campaign, as well as the amount of resources to be devoted to these activities (see also chapter 6).

Competitive Advantage

Describe the advantages of your products or services (e.g. price, quality, location, delivery) compared to what is offered by your direct competitors.

You need to identify the distinctive characteristics of your product or service that will make it more attractive to clients.

Budget

Identify the financial resources required to start and operate your business, as well as the sources that can provide the funding for your enterprise.

You need to calculate the financial requirements, the costs of producing the goods and services, the forecasted revenues and the profit the business is expected to generate (see also chapters 4 and 5).

What if my idea does not seem to work?

Market analysis helps you discover how feasible your business idea is before investing time and money. It is during this phase that you might discover that your business idea has little chance of success (it would cost too much, nobody would be interested, etc.). On average, only two out of ten business ideas may have potential, and only one may really be feasible. So keep your enthusiasm and commitment alive, and try again with another idea.

Chapter 4 – Resources

1. Human resources

Market research gives you a fairly good idea of the resources – inputs such as material, equipment, labour and cash – that your business requires for its operations. After having verified the feasibility of your business idea, you should analyse business requirements and match them with your skills. This analysis allows you to plan for the external support you need, identify your training needs and determine the most suitable form for your enterprise.

Can I do everything myself or do I need employees?

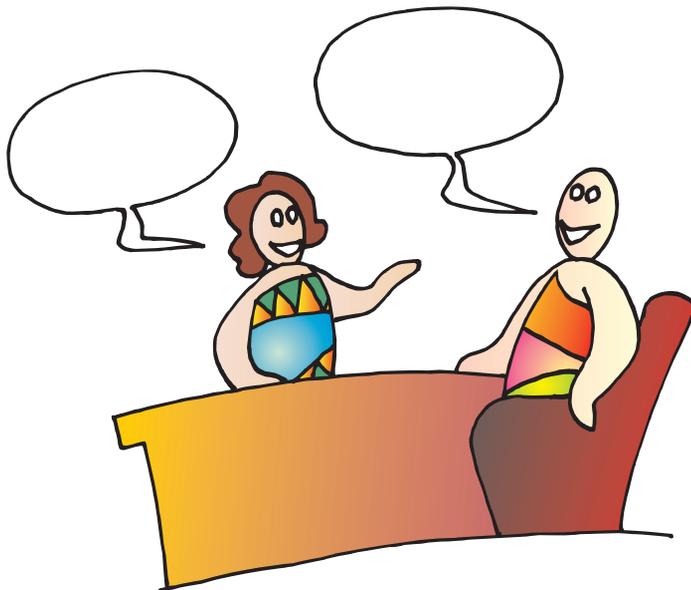
Business tasks are many and it is not always possible to do everything alone. If you need external support, you should assess whether this warrants the recruitment of employees (full-time or part-time) or if it would be possible to subcontract to others the tasks you cannot do by yourself. Employing workers is a big step for any business, especially a new business. Before you commit time and money to hiring staff, you need to carefully consider:

- 1 the recurrence (frequency) of the task;
- 2 the rules and regulations on employing staff (labour law requirements). This information can be obtained from the employment service, chambers of commerce, workers' and employers' organizations;
- 3 salary costs.

Example

Make a list of all the tasks and activities to be undertaken in your business, indicate the frequency of these tasks (e.g. every day, often, seldom), and tick off the ones you can do yourself (i.e. those you feel competent in and comfortable with). Consider the frequency of the tasks you are unable to do in order to decide whether to hire somebody (full-time or part-time) to do them or to subcontract them to a person or company when you need to. The final stage is to see if your business can afford the costs involved in recruiting or contracting human resources.

When recruiting employees, remember that there are labour standards that you need to comply with. The minimum labour standards that are contained in international norms are set out in Box 4.1.



RIGHTS AT WORK

Box 4.1



The International Labour Organization is the United Nations specialized agency that promotes social justice and internationally recognized human and labour rights.

Founded in 1919, the ILO formulates international labour standards in the form of Conventions and Recommendations setting minimum standards of basic labour rights: freedom of association, the right to organize, collective bargaining, abolition of forced labour, equality of opportunity and treatment, and other standards regulating conditions across the entire spectrum of work-related issues.

Minimum working age and prohibition of child labour:

The minimum age for admission to employment shall not be less than the age of completion of compulsory schooling. There are specific provisions for the immediate elimination of the worst forms of child labour (e.g. slavery, prostitution, trafficking). Such prohibition applies to all children under the age of 18.

Equality and non-discrimination standards:

Prohibit discrimination in access to employment, training and other conditions of employment on grounds of race, colour, sex, religion, political opinion, national extraction or social origin. The objective is to promote equality of opportunity and treatment, and equal pay and benefits for work of equal value.

Forced labour:

These standards prohibit the use of any form of forced or compulsory labour as a means of political coercion, or education, punishment for the expression of political views, labour discipline, punishment for participation in strikes and discrimination.

Right to organize and bargain collectively:

These standards envisage the right of all workers and employers to form and enjoy organizations of their own choosing, protect against anti-union discrimination and promote collective bargaining.

Occupational health and safety:

Every business has legal responsibilities to ensure the health and safety of employees and other people, and to protect the environment. These duties include ensuring that the workplace meets minimum standards of comfort and cleanliness and reporting serious injuries, diseases or dangerous accidents to the relevant authority (labour inspection and health authorities).

Source: www.ilo.org/standards/index.htm

2. Start-up costs and income statements

What are start-up costs?

Many young entrepreneurs put little effort into financial planning in the belief that it will not be difficult to raise additional funds if the business is doing well or if the idea is sound. However, most new businesses require more money than originally planned.

The first step in financial planning is to determine the start-up costs. These are one-off expenditures for starting the business (equipment, furniture, supplies, renovations, licenses, and other administrative and legal fees). Expenses incurred after the opening of the business are known as operating costs.

Which type of business structure is best for me?

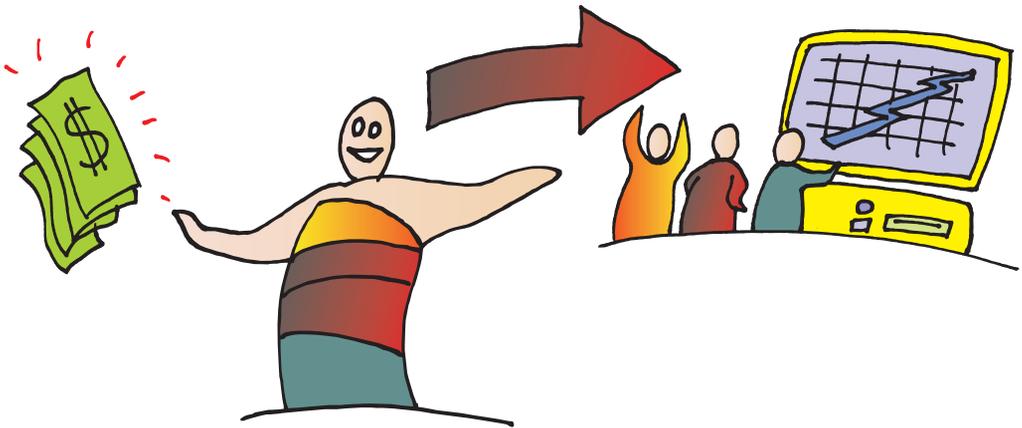
The business form chosen for the enterprise may affect start-up costs and operating expenses. For instance, a poorly selected business structure can result in unnecessary exposure to debt, operational hardship or unnecessary taxes during operations. When choosing the structure of your enterprise, you need to consider:

- the number of people participating in the business;
- the role of each partner in the business and the possibility to withdraw from the venture;
- the financial resources required.

Whatever the structure you chose, you need to:

- check if you need a license for operating your business;
- choose a name, under which you will register your business;
- check what taxes you need to pay according to the structure you have selected.

It is a good idea to seek professional advice to deal with some of these issues. Business advice is available from local chambers of commerce and business development agencies. Accountants, lawyers and bankers can also help you select the best form of enterprise. The most common forms of enterprises are summarized in Box 4.2.



BUSINESS STRUCTURE**Box 4.2****Sole Proprietorship**

A single individual fully owns the business. The main advantage is that all profits of the business belong to the owner. The disadvantage is that the owner is personally responsible for all debts and obligations.

Partnership

Two or more partners share the ownership of the business. The main advantage is that expenses and income are shared according to the partnership agreement. The disadvantage of a partnership is that each owner is personally responsible for all the debts and liabilities of the business.

Limited Liability Company

Two or more members participate in the company on the basis of the number of shares they have. This form of company has the advantage of protecting its members from personal liability for company debts exceeding the amount of their shares. The main disadvantage relates to the strict legal requirement on these types of enterprises.

Cooperative

A number of persons join forces to carry on an economic activity of mutual benefit. It is a legal entity controlled by its members. Membership is open, meaning that anyone who satisfies certain conditions may join. The main advantage is that economic benefits are distributed proportionally according to each member's interests. In certain countries, cooperatives are granted incentives, including lower registration fees.

START UP COSTS

Box 4.3

| START-UP AMOUNT | DESCRIPTION | AMOUNT |
|---|---|--------|
| 1 Licenses, permits and registration | Check with municipal and state offices what the fees are to register a business, and to get a trading license and business permit | |
| 2 Deposits <ul style="list-style-type: none"> Rent Utilities | <ul style="list-style-type: none"> Amount to be paid before opening the business (lease contract) Check average costs with the utility companies (e.g. water, electricity, phone) | |
| 3 Building, renovations | Ask a local construction company how much it would cost to renovate or build the business premises | |
| 4 Fixtures and equipment | <ul style="list-style-type: none"> Check in local shops how much fixtures cost For production equipment and materials, check with local suppliers | |
| 5 Professional fees | Include accounting, legal and construction engineer fees. Ask for an estimate for services | |
| 6 Insurance | Ask for estimates from insurance companies | |
| 7 Vehicles | Check prices of new and used cars (do not forget to include in the income statement the cost for fuel, insurance and maintenance) | |
| 8 Opening costs <ul style="list-style-type: none"> Advertising Wages Supplies Miscellaneous | <ul style="list-style-type: none"> Promotional activities for opening the business (ads, leaflets, etc.) Salaries as established in the employment contracts. If you have no idea of the wage to apply ask the facilitator. For the office, cleaning products, etc. Include an amount for unexpected expenses | |
| 9 Opening inventory | Equipment and consumables needed to open the business. | |

What is an income statement?

Another important step in business planning revolves around the relationship between the costs and the earnings of the business. An income statement lists business revenues and expenditures over a period of time. The difference between the two gives the profits (or losses) of your business. Most enterprises cannot be profitable during the very first period of operation. They are however expected to have a plan that forecasts when profits will materialize. The various parts of an income statement are summarized in Box 4.4.

| INCOME STATEMENT | | Box 4.4 |
|---|--|---------|
| | DESCRIPTION | AMOUNT |
| 1 Total sales | Amount of revenue generated by the business. The amount recorded here is the total sales, minus any product returns or discounts given. | |
| 2 Cost of goods <ul style="list-style-type: none">Gross profit | <p>Costs directly associated with making products. Costs include materials purchased from suppliers, as well as any internal expenses incurred in the manufacturing process or provision of the service.</p> <ul style="list-style-type: none">Gross profit is derived by subtracting the cost of goods sold from the revenues of the sales. It does not include any operating expenses or income taxes (1 minus 2). | |

| | DESCRIPTION | AMOUNT |
|---|--|--------|
| 3 Operating expenses <ul style="list-style-type: none"> • Wages • Promotional expenses • Advertising expenses • Other costs • Rent • Utilities • Depreciation • Overhead costs | Daily expenses incurred by the business. <ul style="list-style-type: none"> • Salaries paid to staff. • Promotional expenses include product samples and freebies used to promote the product. • All costs involved in creating and placing printed or multi-media advertisements. • Other costs associated with selling the product. They may include travel, equipment rental, and miscellaneous printing costs. • Fees incurred to rent or lease office and workshop space. • Costs for electricity, phone, water, etc. • Annual amount that takes into account the loss in value of the equipment used in the business. • Expenses that do not fall into any other category. These types of expenses may include insurance, office supplies, or cleaning services. | |
| 4 Total expenses | The sum of all expenses, except taxes. | |
| 5 Net income (before taxes) | Amount earned by the business prior to paying taxes. It is arrived at by subtracting total operating expenses from gross profit. | |
| 6 Taxes | Amount of taxes owed to the central or local government. | |
| 7 Net income | The amount of money the business has earned after paying taxes (5 minus 6). | |

How much money do I really need to start a business?

One of the most common reasons for the failure of many businesses is the lack of adequate capital. This shortcoming has a number of implications that may affect your business. For example, you may need to choose less than ideal packaging for your product because you do not have sufficient funds. Similarly, failing to purchase efficient technology may mean that you have to invest more time and labour, which can be costly, and produce fewer (or lower quality) products. The income statement is fundamentally a balancing act between what the business would ideally need and what you can afford to invest.

What is the informal economy?

Do not be lured by the informal economy (e.g. avoiding taxes and registration fees, or employing people without a contract or social security). The long-term disadvantages of operating in the informal economy far outweigh the immediate advantage of higher short-term profits. Box 4.5 defines the informal economy and its long-term disadvantages.

THE INFORMAL ECONOMY**Box 4.5**

The informal economy comprises all economic activities by workers and economic units that – in law or in practice – are not or are insufficiently covered by formal arrangements.

The informal economy may indeed provide income-earning opportunities for those who would otherwise be without means of livelihood, but the disadvantages for enterprises, workers and the community are high. Drawbacks comprise:

- non-conformity with laws and regulations;
- non-contribution to government revenues due to tax evasion;
- unfair competition with formal enterprises by avoiding business costs linked to registration and regulation;
- low productivity, e.g. the contribution to employment is higher than the contribution to the country's national product.

For workers, being “informal” means:

- not being protected in terms of labour legislation and social protection;
- often being unable to enjoy, exercise or defend their rights at work;
- working in small or undefined workplaces, under unsafe and unhealthy working conditions, with low levels of skills and productivity, low and irregular levels of income, lack of access to training and to technology;
- facing barriers to organizing and effective representation vis-à-vis employers and public authorities;
- being excluded from or having limited access to public infrastructure and benefits.

Chapter 5 – Financing

1. Sources of funding

Where do I find the necessary money?

Securing funding for your business may be one of the biggest hurdles you have to solve. Many young entrepreneurs have a limited amount of savings to invest in their business.

Financial means can come from several sources – bank loans, personal savings, commercial credit and so on – but not all of them are easily accessible. Young people are usually considered “risky” clients by lending institutions because they have no credit history and limited work and business experience. However, the lending institution’s decision is primarily based on the quality of the business plan.

For many young people, personal savings or loans from family and friends (informal sources) may well represent the most accessible sources of funding. You also need to check if there are any special programmes that help young entrepreneurs secure funding. You may wish to contact chambers of commerce, business development agencies, employment services, commercial banks and micro-finance institutions that can provide more information on these opportunities.

Box 5.1 provides information on the main sources of funding for new businesses.



SOURCES OF FINANCING**Box 5.1****Personal savings**

Personal savings are the most common source for business start-up. Banks often recommend a personal investment since new businesses are less likely to get loans unless the owner is willing to invest his/her own resources. A personal investment in the business demonstrates the owner's commitment.

Selection of a business partner

It may be possible to negotiate agreements or partnerships with other people or businesses that can provide financial backing in the form of cash, capital equipment, and credit.

Informal financing

Family, friends and community organizations are examples of informal sources of financing. Community organizations can also help prepare financial statements and provide bookkeeping services, pro-bono legal assistance and networking.

Commercial and trade credit

Commercial or trade credit may be used to operate the business. This involves suppliers delivering goods and services before receiving payment. In a printing service, for example, it may be possible to negotiate with a paper supplier a 30-day payment term so that the new business can pay through its sales revenues.

Small business loans

The possibility of obtaining a small business loan can depend on a number of factors that are usually summarized in the "Five C's" of creditworthiness (character, cash flow, collateral, capital and conditions). Start-ups are less likely to get such loans than established businesses, as the latter are less "risky". On the other hand, there are banks and micro-credit institutions that lend money exclusively to newly established businesses, often taking advantages of guarantee systems that promote small business development.

Business incubators

Business incubators provide start-up companies with free-of-charge business and management assistance, space and other support services. They are usually managed by economic development agencies or local governments and are established for the promotion of enterprises operating in specific sub-sectors.

2. Managing resources

Managing resources – money, clients, staff and information – is an important aspect of business. It includes the planning and organization of income and expenditure, which are skills that can be easily learnt, although proficiency will come with practice. For these tasks you may need the help of specialized institutions (e.g. business advisory services, bank and credit unions, accounting associations, employers' organizations). It may also be a good idea to become a member of an employers' organization to stay on top of industrial developments and have access to its services.

How do I learn to manage resources?

A practical exercise that can help you understand how to manage resources revolves around the purchase of something you desire or need. For this purpose, you should keep track for a period of time of how much money you get during a week, how much you spend (and on what) and how much you are able to save. You can then calculate how much time you would need to save enough money to buy what you desire, taking into consideration also that you may incur unexpected expenditure. At the end of the period, you should check whether you really were able to save as much as you thought or whether your plan was not realistic.

A more complex exercise consists of simulating the management of the income and expenditures of your household. To this end, you need to find out:

- the monthly income of your household (not only earnings from wages but also interests from investments);
- how much is spent each month on the running of your household (e.g. rent, food, utilities, schooling);
- the amount your household saves (e.g. in a bank account);
- the amount for planned expenses in the short to medium term (i.e. the amount needed to satisfy major and minor needs and obligations of the household).

You need also to plan for unexpected expenditure (e.g. the cost of unforeseen car repairs).

Consider also the option of borrowing money from a bank to pay for household needs. This loan will, however, have to be repaid within a certain time frame and you will have to calculate the payment of monthly interests as well.

Prepare your plan, select your options and discuss them with a member of your family or with your teacher or counsellor. You will find out that it is very easy to make mistakes, especially when deciding which expenditure has priority over others.

Chapter 6 – Business planning

1. The business plan

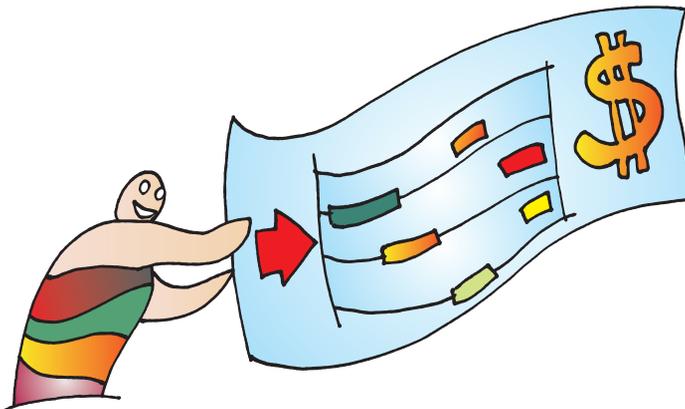
The business plan is a document that formulates:

- 1 the goal and objectives of a business, and
- 2 the investment proposal to be submitted to financial institutions and investors.

What is a business plan?

The business plan is an operational tool for planning how human, technical and financial resources can be used in a business to the greatest advantage. Usually, this document is prepared after taking the decision to go into business and before founding the enterprise.

Most of the information contained in the business plan is collected during the market analysis and the financial planning. It is now time to design the marketing strategy and to organize the information in a logical structure. If you have organized the information on the market analysis in writing, you will already have done three-quarters of the business plan.



Why is marketing important?

Marketing is often equated with sales strategies (how to sell a product when it has already been developed). On the contrary, the development of a marketing strategy starts with finding out what potential clients want and ensuring that the goods are produced (or the service delivered) in a way that satisfies the clients' needs.

The most important features of marketing are summarized in the concept of the marketing mix, known as the four Ps (Product, Price, Place and Promotion).

Answering the questions in Box 6.1 will give you the general lines of your marketing strategy.

THE MARKETING MIX

Box 6.1

Product

- Your product or service and the consumer needs it meets.
- Define potential customers (remember that there are different clients with different needs).

Price

- How much are the potential clients willing to pay for your product or service?
- How do you know they are willing to pay that much? What are the prices applied by competitors?
- What other factors should be considered when setting the price?

Place (where and how buyers will buy the product)

- What is the best place and the best selling method to reach potential clients and to have the highest possible level of sales?
- Is there a need to have more than one place to serve the needs of different potential clients? (remember to also check the availability of communication facilities, access to suppliers, etc.)

Promotion

- Four methods of promotion can be used concurrently:
 - 1 Advertising (brochures and catalogues);
 - 2 Publicity (e.g. media releases, sponsorship, word of mouth, telling your friends to tell their friends and acquaintances);
 - 3 Personal selling;
 - 4 Sales promotions (buy one get one free, etc.).
- Which types and means of promotion are most appropriate for your business, given the product, place and potential customers?

2. Writing the business plan

To get an idea of how to prepare a business plan, you could collect the models that are usually prepared by local business development agencies or lending institutions.

Examples of business plans can also be downloaded from the Internet, where you can find a variety of tools that could help you finalize your self-employment plan. Alternatively, you can refer to the template presented in Box 6.2, which provides a list of the main headings of a business plan and explains what needs to be inserted under each heading. Finally, Annex 3 gives an example of a complete business plan.

BUSINESS PLAN

Box 6.2

1 Cover page and executive summary

The cover page includes the name of the business, of the owners and contact information. The executive summary should clearly state the vision of the business and its structure. It should also identify the products and services, market opportunities and goals of the business for its first few years of operation. If the plan is a request for a loan, the executive summary should include the amount needed, the intended uses of the funds and how the business will be successful in carrying out the activities planned.

2 Business description

This section provides general information about the business and its competitive advantage. Competitive advantage refers to the characteristics of the products compared to the competition (e.g. service, delivery, and location).

The business description should include the name and nature of the business (manufacturing, services, etc.), a brief description of what the business does, price and distribution of products/services and how the business process is structured.

3 Market analysis

This section should:

- define the product precisely;
- identify existing clients and their characteristics;
- measure the market potential;
- choose the best means to compete in the market (e.g. sales methods, communication and marketing methods, distribution networks).

For this purpose, a number of people can help and provide information. For example:

- retired people who used to work in similar businesses;
- local professionals;
- clients and suppliers of companies working in the same or a similar domain.

4 Management plan

This section describes the management structure of the business. It should also indicate whether expertise will be recruited in the market (e.g. legal counselling, accountancy services). The personnel section describes the roles and responsibilities of the staff along with the various jobs for the day-to-day operation of the business. The operations section indicates how the goods and services are produced and distributed.

5 Marketing plan

This section provides details on:

- pricing (how much clients are willing to pay and the factors to be considered when setting the final price);
- distribution strategy for the product or service; and
- advertising (promotional means to advertise the product or service).

6 Financial plan

The financial plan describes the amount of money required for the start-up, a vision of how the business will be financed in future, and the projected performance of the business. It normally includes the following items:

- *Financial statement*: Comprises an estimate of the total income, total expenses and total cash the owner can invest in the business.
- *Income statement*: The best estimate (based on market research) as to how the business will perform over a period of time (revenues and expenditure).
- *Break-even analysis*: An analysis of the relationship between sales and costs so as to determine how much production is needed to reach a level whereby the revenue of the business will cover the costs.
- *Projected cash flow*: Shows the flow of financial resources needed by the enterprise to start and run the business.
- *Capital equipment*: An inventory of all of the equipment and material already available or necessary for the business.

Final tips...

After the business plan has been finalized and the information checked, you could ask one of your friends or family members to read it. You may also seek the preliminary advice of an expert (e.g. a businessperson or a bank officer). You can start the search for funds only when you feel confident enough with your plan.

Remember that the business plan is not a document that you prepare only once. Ideally, you should update it and use it as a management tool throughout the life of the business.

ANNEXES



Annex 1 – Self-discovery tools

Example 1

- A. Using the scoring system, review your skills in the column “Self”.
- B. Ask another person who knows you well to also rate your skills in the second column. You may want to reflect on the score others have given you.

- ① This is one of my strengths; ② This is an area which I could develop further;
- ③ This is one of my weak points. It is an area I need to work on to do better;
- ④ Not sure – need to find out more.

| I HAVE THE FOLLOWING SKILLS | Self | Other person | Comment |
|--|------|--------------|---------|
| 1. Seeking and grasping opportunities | | | |
| 2. Taking initiatives | | | |
| 3. Being creative | | | |
| 4. Learning from mistakes | | | |
| 5. Planning effectively | | | |
| 6. Taking responsibility | | | |
| 7. Networking effectively | | | |
| 8. Using critical judgment to take risks | | | |
| 9. Resolving conflict | | | |
| 10. Self-confidence and self-belief | | | |
| 11. Ability to evaluate own performance | | | |
| 12. Perseverance | | | |
| 13. Negotiation skills | | | |
| 14. Being flexible | | | |
| 15. Matching abilities to tasks | | | |
| 16. Ability to seek advice | | | |

Example 2

Are you enterprise-ready? **1** Answer the following questions with Y (yes), N (no), U (unsure).

| | |
|---|--|
| 1. Do you like making your own decisions? | |
| 2. Do you like competition? | |
| 3. Do you have self-discipline? | |
| 4. Do you plan ahead and get things done on time? | |
| 5. Can you take advice from others? | |
| 6. Are you adaptable? | |
| 7. Are you ready to work long hours, during weekends and while on holiday? | |
| 8. Do you have a lot of physical and emotional energy? | |
| 9. Do you know which skills and areas of expertise are critical to the success of your project? Do you have these skills? | |
| 10. Are your skills and abilities useful to make your idea operational? | |
| 11. Do you know how to find others that have the expertise you lack? | |
| 12. Does your project meet your career goals? | |

- 2** Ask a friend or family member to check your answers to see whether they see you in the same way as you see yourself.
- 3** Look closely at the “no” answers and think about how you can change them into a “yes”.

Example 3

Self-assessment questionnaires This self-assessment questionnaire is more suitable if you have already had some work experience.

PLEASE PROVIDE ONLY ONE ANSWER FOR EACH QUESTION

PART A

1. If I had to work 50 hours a week I would

- | | |
|----------|-------------------------------------|
| A | Grumble and complain |
| B | Do it, if I had to |
| C | Tell people it was a light week |
| D | Get sick from stress and exhaustion |
| E | Do not know |

2. What would you be willing to do to start a business?

- | | |
|----------|---------------------------|
| A | Take a pay cut |
| B | Take a financial risk |
| C | Mortgage the family house |
| D | All of the above |
| E | Do not know |

3. If you called two hundred potential customers and were rejected every time what would you do?

- | | |
|----------|---|
| A | Call another two hundred |
| B | Try to get customers using a different method |
| C | Buy a cell phone |
| D | Ask somebody else to make the telephone calls |
| E | Do not know |

4. If you noticed something that could make things more efficient in your job, would you

- A** Tell your friends how brilliant you are
- B** Tell your direct supervisor about your ideas
- C** Go ahead and make the changes yourself
- D** Take a break till the idea goes away
- E** Do not know

5. How would people describe you?

- A** Optimistic and enthusiastic
- B** Careful and reserved
- C** Chatty and pleasant
- D** Relaxed and a follower
- E** Do not know

6. Before giving you a loan the bank asks you to write a business plan. You...

- A** Go to another bank
- B** Ask your family for the money you need
- C** Go and research the competition and market potential
- D** Mortgage your family house
- E** Do not know

SELF-DISCOVERY TOOLS

7. You have just had a good idea for a business – what do you do first?

- | | |
|----------|--------------------------------------|
| A | Put a sign on your door |
| B | Start advertising the product |
| C | Go and research the market potential |
| D | Ask a bank for a loan |
| E | Do not know |

8. How would you describe your work habits?

- | | |
|----------|---|
| A | I work from 9 to 5, Monday to Friday, and have the week-end off |
| B | Relaxed |
| C | Hectic |
| D | I work on something till it is finished |
| E | Do not know |

9. Late on a Friday you receive a big order from a customer to be filled by Monday morning. You know it will take some time to prepare it. What do you do?

- | | |
|----------|--|
| A | Explain that you cannot do it |
| B | Call your assistant and delegate the job |
| C | Work overtime and finish the order by Monday |
| D | Pass the request on to your boss |
| E | Do not know |

PART B

1. I understand myself and know what I can do Yes No
2. When I believe in something, I can convince others of its merits Yes No
3. Although I take other people's opinion into account, I make the final decision myself Yes No
4. I enjoy giving my all to everything I do: successfully completing a job gives me satisfaction Yes No
5. I feel comfortable in managing other people, including telling them what to do Yes No
6. I am afraid of hard work and long hours and I prefer to do one thing at a time Yes No
7. I find unexpected situations stimulating, especially when I know what I am doing Yes No
8. I believe that work strengthens my abilities Yes No
9. For me money is a good measure of success Yes No
10. I find it hard to do nothing or sit still. The responsibility of getting things done gives me energy Yes No
11. I am able to make long-term plans to accomplish my goals and get where I want to go Yes No
12. I never think of ways of doing things differently Yes No

SELF-DISCOVERY TOOLS

SCORING SYSTEM

PART A

| | A | B | C | D | E |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 1 | 0 |
| 2 | 1 | 2 | 3 | 4 | 0 |
| 3 | 3 | 4 | 2 | 1 | 0 |
| 4 | 1 | 3 | 4 | 2 | 0 |
| 5 | 4 | 1 | 3 | 2 | 0 |
| 6 | 2 | 3 | 4 | 1 | 0 |
| 7 | 1 | 3 | 4 | 2 | 0 |
| 8 | 2 | 1 | 3 | 4 | 0 |
| 9 | 1 | 2 | 4 | 3 | 0 |

Total 36-28: You have an entrepreneurial spirit. You are independent and ready to accept responsibilities. You have good business sense and you want to succeed.

Total 27-20: You are interested in being an entrepreneur. However, you have a moderate business sense. You are still hesitant and you need time to make a decision.

Total 19-10: You prefer a firm structure to work well and be efficient. Your entrepreneurial spirit is low.

PART B

| | |
|----|---|
| 1 | Y |
| 2 | Y |
| 3 | Y |
| 4 | Y |
| 5 | Y |
| 6 | N |
| 7 | Y |
| 8 | Y |
| 9 | N |
| 10 | Y |
| 11 | Y |
| 12 | N |

If your answer was **YES**:

- **between 7 and 9 times:** you have an entrepreneurial spirit
- **between 6 and 4 times:** you have only a moderate interest in entrepreneurship
- **four times or less:** you have very little interest in entrepreneurship

Annex 2 – Sample of a business plan

Soapy Rides business plan

Soapy Rides,
Rose Meadow 345
Tel. (098) 876543

1. Executive summary

Soapy Rides is a car wash business that will serve clients of the town of Rose Meadow. It will provide two main services: exterior and interior car wash and servicing. Soapy Rides has no competitors offering a high quality service at convenient prices. The company's ability to provide a high-quality service, both for washing and for servicing, is based on the qualifications of its employees.

Soapy Rides will target three main groups of customers: individual car owners, car dealers, and local businesses. The surrounding area is quite well-off, 40% of the residents earn over \$40,000 a year. There are five different car dealers within a three-mile area that require car washing services. There are also many local businesses that have company cars.

The competitive edge and asset of the company is the experience of Mark Smith, who is the owner of the business. He has been involved in the family's car repair business over the last two years. Before this experience venture, Mark Smith studied auto-mechanics at the local high school.

Soapy Rides forecasts that it will acquire a market share of 20%. The business will generate a 95% gross margin and an 11% net margin after one year.

2. Business description

Soapy Rides' mission is to provide top-quality car washing and servicing in Rose Meadow. The objectives of the company are:

- 1 to become a top car wash and servicing business in Rose Meadow;
- 2 to maintain a gross profit margin of 95%;
- 3 to generate a net profit margin of 11% after the first year;
- 4 to expand the business to a new location after the third year of operation.

Company ownership

The company will be registered under the name of Mark Smith, the sole owner of the business. The start-up expenses for Soapy Rides will be financed by a personal loan of US\$ 30,000, which has been requested by Mark Smith. The workshop and office will be rented for a minimum of three years. The rent will be \$1,200 per month. Insurance will be approximately \$200 per month.

Mark is working with a local graphic designer to develop a logo, letterhead, and company brochures.

Equipment includes three high-power water pumps, two industrial vacuum cleaners, two computers and one cash register. The building was previously used as a quick-stop car service shop, so it is set up to move vehicles quickly. The services of a contracting company will be sought to refurbish the facility.

The table below describes the requirements for starting up the business and the cash balance.

SAMPLE OF A BUSINESS PLAN

| START-UP REQUIREMENTS | \$ | CASH BALANCE | \$ |
|----------------------------------|---------------|-------------------------------|---------------|
| Legal fees | 500 | Cash balance on starting date | 8,700 |
| Stationery, office expenses etc. | 400 | Start-up inventory | 1,250 |
| Brochures, sign and adverts | 1,150 | Total current assets | 9,950 |
| Insurance | 200 | Long-term assets | 10,000 |
| Rent | 1,200 | Total assets | 19,950 |
| Equipment | 4,400 | Total requirements | 30,000 |
| Building and renovation | 2,200 | Investor 1 | 30,000 |
| | | Loss at start-up | (10,050) |
| TOTAL | 10,050 | Total capital | 19,950 |

3. Market analysis

The town of Rose Meadow offers a number of advantages for a car wash business. Over 40% of households in the immediate neighbourhood earn over \$40,000 a year. Many people own new cars and place great value on their upkeep. There are a large number of car dealers in the area (five of them within three miles of the proposed location). Soapy Rides will provide car washing, cleaning and servicing (minor repairs and routine checks).

The target customers of the company are:

- ① **New car owners:** Owners of new cars are most likely to use car washing services. These owners take great pride in their cars and have them washed frequently.
- ② **Luxury car owners:** These owners have had their luxury cars for several years and they want to keep them in good shape. They bring their cars in regularly for washes.
- ③ **Sports car owners:** These owners are often young people who attach great importance to the look of their cars. They usually have them washed every week.
- ④ **Lifetime owners:** Many of these owners have had their cars for more than five or six years. They occasionally bring them in for a wash. They like their cars to look spic and span, and want to keep them in good shape.
- ⑤ **Dealers:** There are five new and second-hand car dealers in the vicinity of the proposed location. These dealers often use neighbouring car wash services to clean their vehicles before they are put up for sale.
- ⑥ **Local businesses:** Some local businesses have company cars and small vans that must be kept clean. These businesses look for a cost effective and efficient car wash service which they prefer to use during the week.

SAMPLE OF A BUSINESS PLAN

Target market strategy

The strategy of Soapy Rides is to attract regular customers who will frequent the business in the quieter moments of the week. It will not be difficult to attract customers during the summer months and on weekends. During the week, however, especially in winter, people will not think of having their cars washed. For this reason, Soapy Rides will target people who tend not to be tied to busy times, such as business owners, retired people, dealers and businesses.

Offering competition to Soapy Rides in Rose Meadow are a number of small hand car washing businesses, including automatic car wash machines. Soapy Rides will therefore target quality-conscious individuals who place enough value on their cars to spend \$12 per week to have them washed.

Competition

There is one other large hand car wash shop in Rose Meadow. It is quite new and is trying to compete with the automatic car washes by offering low prices. However, it does not attract customers who seek quality cleaning, and these are the customers Soapy Rides is targeting since they are more interested in the quality of the job. They do not mind spending a little more money to have their car washed and waxed.

The key to Soapy Rides' success is its owner and his personal connections within the neighbourhood of Rose Meadow. Thanks to these connections, sales and marketing will focus on approaching customers on a one-to-one basis, the emphasis being on gaining loyal customers. The competitive edge is that the owner will put a great deal of emphasis on creating a service that is both fast and efficient, while at the same time keeping costs to a minimum.

Sales forecast

The following chart forecasts sales based upon the market strategy. The company aims at incrementing sales by targeting segments that will want to keep their cars clean throughout the year.

| UNIT SALES | 2004 | UNIT PRICES | 2004 | UNIT COST | 2004 |
|-------------------------|--------------|------------------------|----------|------------------------|--------|
| Full wash | 1,760 | Full wash | \$15.00 | Full wash | \$0.70 |
| Exterior wash | 2,050 | Exterior wash | \$9.00 | Exterior wash | \$0.40 |
| Interior clean | 770 | Interior clean | \$8.00 | Interior clean | \$0.30 |
| Servicing | 129 | Servicing | \$140.00 | Servicing | \$3.00 |
| Business fleet washes | 615 | Business fleet washes | \$10.00 | Business fleet washes | \$0.70 |
| Car dealership service | 494 | Car dealership service | \$70.00 | Car dealership service | \$3.00 |
| Total unit sales | 5,818 | | | | |

| TOTAL SALES | 2004 | TOTAL COSTS | 2004 | PERSONNEL | 2004 |
|------------------------|------------------|------------------------|----------------|----------------------|-----------------|
| Full wash | \$26,400 | Full wash | \$1,232 | Owner | \$18,000 |
| Exterior wash | \$18,450 | Exterior wash | \$820 | Car washers | \$30,240 |
| Interior clean | \$6,160 | Interior clean | \$231 | Admin/Sales | \$13,440 |
| Servicing | \$18,060 | Servicing | \$387 | | |
| Business fleet washes | \$6,150 | Business fleet washes | \$431 | | |
| Car dealership service | \$34,580 | Car dealership service | \$1,482 | | |
| Total sales | \$109,800 | Total costs | \$4,583 | Total payroll | \$61,680 |

SAMPLE OF A BUSINESS PLAN

4. Management plan

Mark Smith will be the company's sole owner and manager. However, he will be helped by an accountant for the financial administration of the company.

Personnel plan

The company will hire one full-time car wash/ service specialist when it opens for business. In addition, it will rely on temporary and part-time help. The company will also hire an administrative assistant who will help the owner with paperwork and act as a receptionist.

5. Financial plan

The following plan outlines the financial development of Soapy Rides. The business will initially be financed by a \$30,000 personal loan to be taken out by the owner. By year three, it is hoped that the company will be able to open a second location.

Break-even analysis

Fixed monthly costs for Soapy Rides are estimated at approximately \$7,500, and break-even units are 203 cars per month.

| BREAK-EVEN ANALYSIS | |
|---------------------------------|---------|
| Monthly break-even units (cars) | 203 |
| Monthly break-even revenue | \$9,122 |
| Estimated monthly fixed cost | \$7,500 |

Projected profit and loss

The following profit and loss table illustrates income and expenses for the first year.

| PROFIT AND LOSS | YEAR 1 |
|---------------------------------|-----------------|
| Sales | \$109,800 |
| Total cost of sales | \$4,583 |
| Gross profit | \$105,218 |
| Gross profit % | 95.83% |
| Expenses | |
| Payroll | \$61,680 |
| Sales and marketing | \$2,600 |
| Depreciation | \$2,070 |
| Utilities | \$3,325 |
| Insurance | \$1,800 |
| Rent | \$4,800 |
| Payroll taxes | \$15,420 |
| Total operating expenses | \$91,695 |
| Profit before taxes | \$13,523 |
| Taxes incurred | \$3,204 |
| Net profit | \$10,318 |
| Net profit/sales | 9.40% |

Source: Adaptation from the web page of Sample Plans, downloadable at <http://www.sampleplans.com/> (visited January 2007).

Annex 3 – Glossary of business terms

Some of the words used in self-employment and business start-up may be difficult to grasp. To get a better understanding of the main business terms, go through the list of words and definitions and tick those you are already familiar with.

| | |
|---|--|
| <input type="checkbox"/> Advertising | Attempting to influence the purchasing behaviour of clients by providing a persuasive selling message about products and services. |
| <input type="checkbox"/> Assets | Any property owned by a person or business. Assets include money, land, buildings, investments, inventory, cars, trucks or other valuables. |
| <input type="checkbox"/> Balance sheet | A statement of the financial position of a business that lists the assets, liabilities and equity at a particular point in time. |
| <input type="checkbox"/> Bookkeeping | The process of recording business transactions in the accounting books. |
| <input type="checkbox"/> Break-even point | The level of business at which the revenue (income) exactly equals the expenses (costs). |
| <input type="checkbox"/> Budget | A plan expressed in financial terms, e.g. how much money is needed to run the business and how much money will be generated. |
| <input type="checkbox"/> Business plan | A document that summarizes the operational and financial objectives of a business and contains a detailed plan and budget showing how the objectives are to be met. The business plan also contains detailed financial forecasts about the business performance, and a marketing plan. |
| <input type="checkbox"/> Cash-flow management | The process of monitoring, analysing, and adjusting the flow of financial resources. For small businesses, the most important aspect of cash-flow management is to avoid cash shortages, caused by a gap between cash inflows and outflows. |
| <input type="checkbox"/> Collateral | Assets that the entrepreneur is willing to put up to secure a loan. Houses, cars, property, or equipment are all examples of assets that may be used as collateral. |
| <input type="checkbox"/> Customer service | The ability to serve clients' needs. Improving customer service involves learning what clients need and developing plans to set up customer-friendly processes. |

| | |
|--|---|
| <input type="checkbox"/> Depreciation | Decrease in the value of equipment over time. |
| <input type="checkbox"/> Entrepreneur | Anyone who creates his/her own earnings in the form of a business, contract or freelance activity. Also used to indicate a person who starts a new business venture. |
| <input type="checkbox"/> Fixed cost | Cost that does not vary significantly with the volume of production. An example is employees' wages. (See also VARIABLE COST) |
| <input type="checkbox"/> Marginal costs | Additional costs associated with producing one more unit of a product. |
| <input type="checkbox"/> Market research | The collection and analysis of information about clients, competitors and marketing strategies. Entrepreneurs use market research to determine the feasibility of a new business, test interest in new products or services, improve their business and develop competitive strategies. In other words, market research allows businesses to make decisions allowing them to be more responsive to clients' needs and increase profits. |
| <input type="checkbox"/> Marketing | Process to get potential clients of a business interested in its products and services. |
| <input type="checkbox"/> Partnership | A legal relationship between two or more people who share business responsibilities, resources, profits, and liabilities. |
| <input type="checkbox"/> Pricing | The setting of the selling price of a product or service. |
| <input type="checkbox"/> Promotion | Generally, promotion is communicating with prospective clients to influence them to buy the company's products and services. Promotion includes all methods available to make a product known to clients so they will want to purchase it. |
| <input type="checkbox"/> Retail | Selling directly to consumers. Conversely, selling in large quantities to dealers for resale is a "wholesale" activity. |
| <input type="checkbox"/> Small business loan | A small business loan is money borrowed by a person to start or run a small business. It is an expression also used by lending institutions to describe loans granted to people who have a small business. |
| <input type="checkbox"/> Start-up capital | Funds required to start a business. |
| <input type="checkbox"/> Variable cost | Any cost which changes significantly with the level of goods and/or services. An example is the cost of materials. |

Annex 4 – List of Internet resources

The listing of every useful Internet page available on business development and self-employment services goes beyond the scope of this orientation booklet. Moreover, Internet information is continuously being updated and revised, which means that web pages available at the time of publishing may not be accessible to users at a later date.

A. SELF-SERVICE SELF-EMPLOYMENT

<http://www.donnadouglas.com/links.html>

http://www.sedi.org/html/new/fs1_new.html

www.exploreselfemploy.ca

<http://www.cbsc.org>

<http://www.strategis.ic.gc.ca>

<http://www.yea.ca>

<http://www.cybf.ca>

http://www.adviceguide.org.uk/index/life/employment/self-employment_checklist.htm

<http://www.nase.org>

<http://www.wevonline.org/Training/SETOrientation.htm>

<http://www.inc.com/home>

<http://www.entreworld.org/Channel/SYB.cfm>

<http://www.myownbusiness.org/>

<http://www.benlore.com/>

http://www.business.com/directory/small_business/

<http://www.businesstown.com/>

<http://www.toolkit.cch.com/>

<http://www.businessownersideacafe.com>

<http://wl.office.com/>

B. SELF-ASSESSMENT

http://www.cbasc.org/alberta/tbl.cfm?fn=self_analysis

<http://www.profitguide.com/quizzes/entre.asp>

http://www.bdc.ca/en/business_tools/entrepreneurial_self-Assessment/selfassessment.htm?iNoC=1

<http://www.wd.gc.ca/apps/amiantent.nsf>

C. BUSINESS PLANNING

<http://www.cbasc.org/>

<http://www.morebusiness.com/>

<http://www.business.gov>

<http://www.businessnation.com/smallbiz.html>

<http://www.planware.org/busplan.htm>

<http://www.businessplans.org/business.html>

<http://www.bplans.com/sp/>

