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DEPARTMENT OF TRADE & INDUSTRY PHILIPPINES

YOUR GUIDE TO STARTING A SMALL ENTERPRISE 2015

NEGOSYO CENTER

YOUR GUIDE TO STARTING A SMALL ENTERPRISE

SME ROVING ACADEMY

Gabay-negosyo sa pag-asenso

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FOREWORD

One item in the 10-point agenda of the Philippine Government is for the present leadership to generate a million jobs a year. Part of the response initiated by the Department of Trade and Industry through the Bureau of Small and Medium Enterprise Development (BSMED) was to embark on an even more intensive countrywide campaign to create more enterprises that will provide the jobs.

This time BSMED focused its interest not only in developing an entrepreneurial way of thinking among the people but more so in ensuring that the enterprises that will be created start on the right path with a foundation solid enough to enable them to grow and succeed.

This publication, *Your Guide to Starting a Small Enterprise*, looks at how a small enterprise evolves from a mere business idea until the enterprise is born. It is a step-by-step guidebook that walks the reader through a systematic way of putting up a small business. It is a light and easy read and the language is simple.

This guidebook has a different ending. Unlike the usual guidebook that will either leave the reader hanging, asking for more or be put back to the shelf after being read, *Your Guide to Starting a Small Enterprise* induces the reader into action. It is not all concepts; it is interactive. Asking the reader to complete a business blueprint as each chapter is read is probably the next best thing that this guidebook can offer.

We acknowledge the University of the Philippines Institute for Small-Scale Industries for their assistance in the development of *Your Guide to Starting a Small Enterprise* and the Bangko Sentral ng Pilipinas for their generous support.

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INTRODUCTION

CHAPTER 1: STARTING A SMALL ENTERPRISE

Are you one of those thinking hard of going into business for reasons of your own?

- You are a young person who wants a job but rejection after rejection of your job application has given you no hope of landing a job in the near future,
- An employee, who is tired of the 8 a.m. to 5 p.m. work routine, and looking forward to the day when you would be able to work according to your own time, be your own boss, and enjoy all the money earned from your own efforts,
- A young housewife, who needs to help your husband earn in order to add to the family earnings for the sake of your children's future,
- A not-so-young wife, who wants a means to escape from boredom and to find an outlet for your skills and creativity,
- A retiree, who is still full of ideas and energy and wise from years of experience, yet still looking for a second career, or
- A returning overseas contract worker, who is determined to find some ways of making the most out of the dollars you have earned abroad.

If you are, then you are on the right track. A small business for a start might just be what you are thinking of!

Before you rush in, however, pause for a while and ask yourself, "Do I know where I'm going to?" In the first place, you must have all the information you need so that whatever decision you will make later will be made on the basis of the right information.

Such so-called "informed decision-making" will help you a lot especially in starting a small business, an area where you have not tried before. Going into business can be likened to taking a risk because you are venturing into something whose outcome still remains uncertain.

In this chapter, therefore, you will learn the basics of the unknown territory you wish to go into. What is a small business? Why should you go into it? Do you have what it takes to start a small business? What are the rewards versus the risks? What help can you expect if you decide to set up one?

These are just some of the more important questions you need to ask before you start a small business.

WHAT IS A SMALL BUSINESS?

After working overseas for 10 years, Orly Villa decided to start a business of breeding ornamental plants in September 2004. He bought the 500 square meter lot adjacent to his house in Los Banos in Laguna province, south of Manila. The garden is one of four gardens that lie along the stretch of the highway. A small signboard, "Ricky's Garden," stands directly in front. Three men help him prepare the soil, plant, transfer seedlings, water the plants, and do other garden maintenance tasks. Part of their job includes putting up trellises when needed, keeping the bags of fertilizer, garden soil, sawdust, compost, and other materials, taking care of the tools, and assisting buyers.

Orly holds office inside a *bahay kubo* that stands in the middle of the garden. A permit from the town mayor hangs in one of the walls. He uses notebooks to list down the money that come in from buyers and the money that he spends for the seedlings, fertilizers, plastic bags, and other materials, including the salaries of the three helpers. His

We can see from the illustration that Orly is a small businessman. Being the owner of the business, he alone decided, and continues to decide for the business. It was he who thought of putting up the business; chose the type of business – ornamental plant breeding – and form – single proprietorship (organization aspect); amount of money to put in and keep notebooks (financial aspect); system of breeding the plants and maintaining the garden, including choosing suppliers of the materials, number of sacks to keep in stock, tools and equipment to use, etc. (production or technical aspect); where to set up the business, how to attract buyers, how much he will charge, etc. (marketing aspect); and whom to hire, what they do, their number, and their pay (organization aspect).

Some Definitions

Broadly speaking, a small business is one wherein most functions of a business enterprise – production, marketing, finance, and management – are essentially organized around the owner-manager who makes most of the major decisions and runs the day-to-day affairs of the enterprise. The small business owner has very few or no specialized staff or managers helping him in marketing, production, finance, and personnel management decisions. Rather, he tries to do most of these tasks himself.

There are other characteristics commonly associated with a small business. These are:

- single proprietorships and family-based operation,
- single product line or very limited product range, usually light consumer products (for example, food, beverage, and clothing),
- small-volume production,
- limited markets, usually local,
- labor-intensive production methods,
- few employees, other than family members, many on part-time basis,
- "patriarchal" management style where employees are often treated as extended family members,
- low level use of technology, and
- marginal capital assets, mainly sourced from the owner-manager's savings and those of the immediate household members.

The government defines a small business based on **how much the business owns** (asset size) and the **number of people that work for it** (employment) for purposes of rationalizing assistance and incentives to business enterprises.

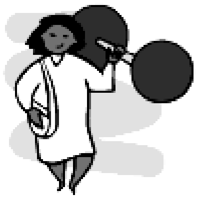
In terms of asset size, **a small enterprise has capital assets between P3 million to P15 million**. In terms of employment, **a small business employs from 10 to 99 workers**. Below the level of asset size and employment mentioned, you have a micro enterprise. Above such level, you have a medium or large-scale business.

Generally speaking, however, micro, small and medium-scale businesses are categorized as small. Some micro enterprises grow into small, then from small into medium, and so on. This is one of the reasons why the government has made distinctions among them so that its support services and incentives can be focused according to the needs of enterprises, which apparently tend to differ depending on the size category of the business (You will know more about these government services towards the end of this chapter).

Just like any other business, small businesses are found in manufacturing (for example, food processing or garment making), services (auto repair or internet café), agribusiness (farming or fishing), or trading (grocery store, buy-and-sell).

Strengths and Weaknesses of a Small Business

- Strengths.



You must have heard of the phrase “small is beautiful.” E.F. Schumacher in ***Small is Beautiful: Economics As If People Mattered*** praised small business for using low-level or intermediate technology rather than the high technology of large firms. The latter “dehumanizes” the working man or makes a machine out of him, while intermediate technology still allows him to think creatively at work and find fulfillment from its results.

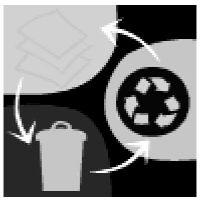
Indeed, in big enterprises, production has been so mechanized that the worker is reduced to setting up the equipment and watching over its operation, intervening only when something unexpected happens. In an assembly line, work is divided into smaller units for the sake of “efficiency,” but the worker gets to do only a few routine steps like cutting, punching, or soldering – work processes that require little thinking or creativity.

In contrast, in most small factories, an individual worker gets to work on a whole or part of an operation. In furniture making, for example, some work processes that require individual attention are carpentry, in-lay making, finishing; in garment manufacturing, cutting, embroidery, sewing the collar or the sleeves, etc.

Usually, small enterprises are those engaged in pottery, basket weaving, papier-mache making, woodcraft, jewelry making, or other craftwork where skilled artisans can still practice their traditional craft.

Small businesses also often use materials and methods that are friendly to the natural environment constantly in danger of being polluted or depleted of its resources.

Other advantages of a small business include:



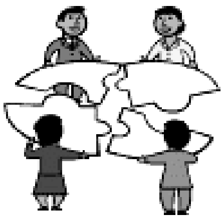
- Small-scale producers are able to make use of raw materials and by-products in limited volume which otherwise would have been disposed of as waste in large-scale factories.

  For example, an enterprising person can buy wood scraps from large furniture makers and turn these into racks to hold DVDs, mobile phones, and even magazines.

- Because authority is centralized around the owner-manager, decision-making is fast.
  Communication of information downwards does not suffer from bureaucratic delays, provided that the owner-manager practices an open, rather than a secretive, management style.

- In times of rapid changes in market demand and preferences, small-scale production
  units can more readily modify their manufacturing set-up to make a changeover or to diversify to other products or product variants.

  A children's garment subcontractor can easily shift to stuffed toys when orders stop coming.

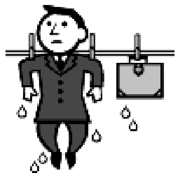


- The patriarchal, often informal management style, practiced in many small firms, gives employees a sense of belonging. The atmosphere in a small business is more like that in an ordinary Filipino family where the owner-manager is looked up to as the "father" or "mother" or the *kuya* or *ate* of the employees. In this manner, a sense of belonging flourishes. Thus, the labor turnover in small businesses is not as high as expected when in fact the employees receive comparatively low wages.

- In seasons of economic crisis, like recession and inflation, small enterprises are often
  better able to make adjustments in their production, personnel and other systems. This was demonstrated in the oil crisis of the 1970s and again in the Asian currency crisis of the 1990s wherein many large firms were forced to fold up. In contrast, many small firms stayed afloat and survived.

It might be added that small-scale enterprises are the beneficiaries of various incentives and support services from government.

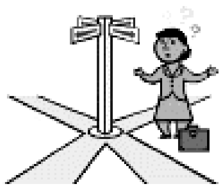
- Weaknesses.



On the other hand, there are major constraints and weaknesses that have to be addressed in order to make small businesses stronger and more competitive. These constraints include:

- Marketing in small businesses is characterized by competitors selling a large number of similar products mostly to small local markets, resulting in small sales and narrow profit margins. Small manufacturers also find it difficult to compete against imported goods and those produced by multinationals and other larger firms. Generally, distributors are reluctant to accept their products, preferring the more established bigger-name brands.

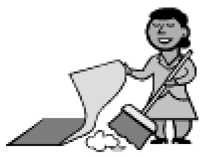
- Small businesses lack skills in market planning and in doing market studies. Consequently, owner-managers are hard pressed to identify the needs, preferences, and buying habits of customers. Small firms generally find it difficult to produce marketable goods that measure up to quality standards in sophisticated or upscale markets, including export markets.



- Small businesses hardly undertake promotional activities, notably media advertising. While many should be able to get by with low-cost advertising strategies, they lack skills on how to do these.

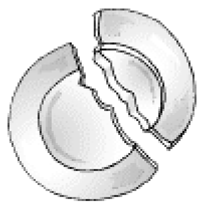
- In production, the most commonly-cited problem has to do with raw materials – their availability, quality, and cost. Small entrepreneurs also have to cope with wastage and late delivery of materials, problems which hamper the efficiency of production.

- Labor-related problems are also experienced, notably in terms of demand for higher wages, negative attitude of workers, high worker turnover, and low productivity of workers.



- Because of limited capacity, small enterprises cannot avail of economies of scale not only in production but also in procuring raw materials. Consequently, they tend to operate at higher costs.

- Other production-related problems include: machine breakdowns, lack of technical know-how, quality control problems, and obsolete technology. Small factories also need technical support on product design and development, quality control, and productivity improvement.



- In finance, many small businesses fail or falter because of a basic lack of a realistic
and workable business and financial plan. Generally, they use inadequate cash control tools and techniques, resulting in shortage or loss of funds and high operating costs. Planning cash requirements is hardly practiced. Many also purchase raw materials on cash basis and sell goods on credit, leaving them with very little funds for current needs.

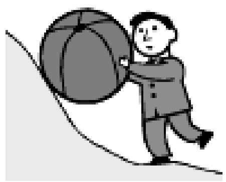
- Many entrepreneurs do not know how to generate funds from within their operations.
They do not realize that they could cut down unnecessary expenditures by reducing wastage, increasing efficiency of production, keeping inventories to the minimum and, generally, improving operations.

- Lack of capital remains a major problem for most small enterprises in spite of numerous policies and programs designed to provide them with more credit. This is because commercial banks still prefer to lend to large firms since they are considered low-risk.

- In management, control and administration of the firm is centralized in the hands of
the owner-manager. This implies lack of provision for the continuity of the business as well as lack of planning and control. Because the owner-manager lacks specialized staff, he does not have access to the financial information necessary for sound decision-making.

- Few management staff results in the owner-manager being too engrossed in day-to-
day operations of the company at the expense of long-term planning.

- Other management problems facing small businesses include: inadequate system of internal administration; poor and inadequate record keeping; unsystematic recruitment and selection of workers; and unscientific decision-making.



DO YOU HAVE WHAT IT TAKES TO SUCCEED IN BUSINESS?

From what you have read about the strengths and weaknesses of a small business, you can see the crucial importance of the role played by the owner-manager – whom we would now better call “entrepreneur.”

The entrepreneur is the most important person in the business. He takes the key role in controlling and administering the firm in all its aspects and functions. He is the one who takes most of the risks (as when he loses his shirt and faces scorn) and receives most of the rewards (as when he gets rich and reaps recognition).

Before you decide to be one, you should know what is expected of you, as an entrepreneur.

The Role of an Entrepreneur

The entrepreneur is sometimes described as someone who allocates and manages the factors of production, bears risks, innovates, and makes major decisions.

- **The entrepreneur plans, organizes, and puts together all the resources required to start a new enterprise and to run and operate it on a sustained basis**. These resources are human (workers, managers, customers, and suppliers) and non-human (land and building, money, machines, materials, and methods or processes).

- **The entrepreneur takes risks** – not just in the way gamblers and speculators do – but rather in terms of putting resources together in order to realize business objectives. It takes risk-taking to invest money, efforts, and other resources into a new undertaking whose result is uncertain. He might win or lose, get rich or go bankrupt – but he takes chances anyway.

- **The entrepreneur innovates**. He continuously creates and develops new products and services based on what he understands to be the needs of society. He also looks for ways by which these goods and services can be produced more economically.

- In the process of starting, running and growing their business, small **entrepreneurs help build the nation**. They are often called the "backbone of the economy," or "the engine of growth" because – consciously or unconsciously – entrepreneurs play the following roles in society:

  - *Bring about employment*. When entrepreneurs put up a business, they often need to hire other people to get things done. This is why when business slows down, the country's unemployment increases. On the other hand, when people are employed, they are able to feed their families, send their children to school, provide them with decent homes, and contribute to government revenues through the income taxes that they pay.

  - *Improve the quality of life*. Entrepreneurial activities contribute to the continuous improvement of living standards. The development of new products and the delivery of needed services make life easier and more comfortable for society. Cooking, for example, has been revolutionized by entrepreneurs. Today, we cook with better and faster stoves like micro wave ovens, turbo broilers, pressure cookers, multi-purpose cookers – thanks largely to entrepreneurial innovations.

  - *Contribute to a wider distribution of income*. Entrepreneurs continuously search and develop raw materials they need in order to produce goods and services. They often find these in the rural areas. And when they locate in the provinces, they are actually spreading the benefits of development to these often, neglected communities. This will help slowdown migration and overcrowding in the metropolis.

- *Utilize resources for national productivity*. Economic development is hastened if our natural and other resources are put into good use. Entrepreneurs are famous for utilizing them. For example, handicraft entrepreneurs have made use of locally-grown and in abundance, weeds and reeds like *pandan*, rattan, bamboo, *anahaw, nipa, buri* … even, would you believe, *cogon* grass?

  Entrepreneurs also make productive use of capital resources such as family or personal savings, which may otherwise be used in unproductive ways like gambling or luxury spending.

- *Generate social benefits through government*. With revenues that the government collects from taxes, duties and licenses paid by entrepreneurs, the government is able to allocate the money to different social services in the communities. These services come in the form of infrastructure like roads and bridges, educational and medical services and facilities, and maintenance of peace and order.

Are you willing to accept these responsibilities?

If you answered "Yes" to that, the next question is: **Do you have the "it" to be an entrepreneur?** Refer to the personal traits in the next section that are considered "entrepreneurial."

You may have already formed an idea from what you have read so far – that entrepreneurship is not for the weak-hearted or the shy. Neither is it for those who want to take things easy. And it isn't for those who want sure returns on their investments.

See if you can identify with the personal qualities and competencies associated with successful business people.

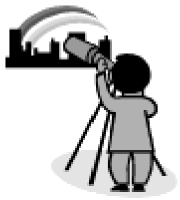
Personal Characteristics of Entrepreneurs

The entrepreneur has attracted the attention of social scientists. If so – that they are important to economic growth – then it follows that the tribe of entrepreneurial members of society should multiply. But first, they should be identified. Are you one of them? Entrepreneurs are those described as:

- opportunity seekers
- persistent
- committed to work
- risk-takers
- demanding in terms of quality and efficiency
- goal setters
- information seekers
- good in planning and monitoring
- persuasive and good in networking
- confident
- creative.

Here are questions you can ask yourself to know if you have some of the so-called entrepreneurial competencies:

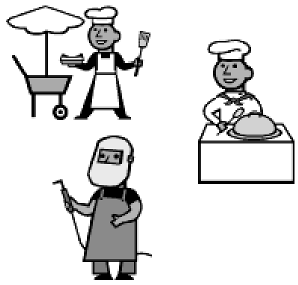
- *Opportunity seeking*.



Do you seek opportunities for business making? Can you identify them when they come? Do you act on them quickly? Or do you wait and twiddle your thumbs until they pass you by?

For example, you see a new arcade being built near your place – just perfect for the hotdog stand you have always wanted to set up. Do you just look at it with a sigh as you pass by the growing structure everyday, or do you talk with the administrator and explore the possibility of leasing space?

Or say, you love to cook and have in fact begun a small, off-and-on catering business. One day your friend tells you that the canteen concession at her office is soon ready to accept bidding from interested parties and asks you if you would like to try. She tells you to attend a bidding conference. You think you might have a busy week ahead because of previous engagements. What will you do?



In the morning dailies, the classified ads announce a "rush sale - owners leaving" of used welding machines you need for the metalworking business you have in mind. But, oh my, it requires Manila-based people to go to Cavite province, where the owners reside. Do you get discouraged by the distance?

What you do with breaks that open your chances to acquire space, markets, materials, equipment, loans or training programs for your business determines whether you are entrepreneurial or not.

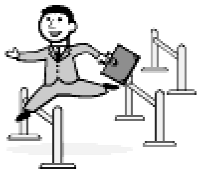
- *Risk-taking*.

Do you take moderate risks? These are risks that are calculated and studied, rather than the reckless kind the gambler takes. They are called "risks" because if you do not study the situation and the market environment, you will not be able to recover the amount of money you have already invested.

For example, will you put in your money on a business – any business – whose outcome, of course, is not 100 % certain? And at the same time, will you gather information – read up, talk with experienced entrepreneurs, study the market environment, make a feasibility study – to reduce the risk of losing your money?

This is calculated risk-taking which successful entrepreneurs are known for.

- *Persistence*.



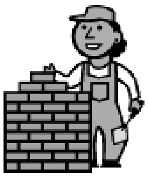
Do you get discouraged easily? Do you change your mind if people criticize you or don't agree with you? Have you had failures in the past and did these bother you?

Entrepreneurs stand their ground in the face of those negative comments saying it is unwise or not good to invest in an unsure business.

And do you know that there are few entrepreneurs who were successful in their first business attempt? The majority tried and failed, only to try again. Yet, the more they failed the more determined they were to try again. Some would try a different line of business, different product, different market, different strategy, while learning more and more from past mistakes.

Are you willing to still try and try and try again, and learn from failures?

- *Commitment to work contract*.

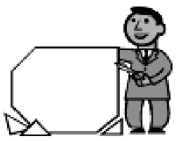


Do you honor your word? Your promises? Did you complete and submit your work on time – when you were in school? In the workplace, do you think twice doing dirty or boring work, or someone else's work, if necessary, just to get the job done on time – all because you gave your word?

Entrepreneurs will pay their workers premium overtime wages or other incentives to meet a delivery schedule and not disappoint their customers. And these owner-managers work right alongside their people doing whatever needs to be done, including sweeping floors and cleaning toilets. They skip a meal, lose sleep, do the work of absent workers. Some even miss family parties, children's graduation, wedding anniversary dates, etc., in their commitment to the work contract.

Can you imagine yourself making such personal sacrifices too?

- *Demand for quality and efficiency*.



A high standard of quality and efficiency is also dominant among achieving entrepreneurs. They expect excellence from themselves and their workers. So, in order to be able to meet these standards, they strive to find ways to do things better, faster, cheaper.

What about you? Whatever you're doing, no matter how small, ordinary, or "everyday" – like wrapping a gift, cooking a meal, or hanging a picture frame on a wall – do you try to do it as well as you can? You oftentimes hear "*puwede na iyan!*" from friends and other people, are you one of those who submit work that is *puwede na kahit papaano ang paggawa*?"

Other questions to ask yourself to find out your drive for quality and efficiency: Does it bother you when things are not done well? Do you always think there is a better way to accomplish a task? Do you find ways to complete tasks assigned to you faster at work and at home?

A quality product done at very minimal costs will give not only the entrepreneur a high level of satisfaction but so does the customer or the buyer of the product.

- *Goal setting*.

Do you like to think about the future? Do you have a clear plan, more or less, about your life?

Do you think of what you want to accomplish tomorrow, next week, next month, next year, or five years from now? Do you think of today's activity as only a small step towards what you want to accomplish over the long term?

If you say yes to most of these questions, then you are a goal setter – another important virtue of the successful entrepreneur.

- *Information seeking*.

Information seeking is related to planning. As a careful planner, the entrepreneur seeks information useful to the business. This is related to informed decision-making and calculated or studied risks. He consults experts, clients, competitors, suppliers – just about anyone who can help. He will not also hesitate to approach government promotion agencies, banks, and other sources of information and assistance.

Are you an information seeker too? When you don't know something, do you mind admitting it? And knowing that you don't know, would you seek out a person who knows what you do not know?

Before there is anything concrete, do you rush into things right away, thinking you can do something or improvise along the way? Or do you gather as much information as you can about it before going ahead?

Think back when you were younger and in school. Weren't you afraid to ask questions if you were not clear about a lesson? Recall an important project you had to do. Did you seek out advice from teachers? Parents? Other students?

- *Systematic planning and monitoring*.

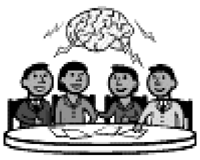
A successful entrepreneur does not only plan but also follows through the plan systematically, checking if the activities and expected outputs are going on as planned.

Planning enables him to avoid costly mistakes and anticipate possible problems. It enables him to determine what he needs for the business in terms of materials, supplies, equipment, skills, and finances. It enables him to program activities in advance.

Monitoring, on the other hand, is basically verifying whether everything, including results, proceed according to plan. If there is any discrepancy, then either the activities or the plan itself need to be adjusted.
Planning and monitoring can be done in everyday life. For example, in the case of Orly Villa, by monitoring the movement of his fertilizers, garden soil, compost, and the plants, he can plan his next purchase of the materials and schedule replanting for the next batch of plants.

When you had a school project – say a research paper – did you break it down into time allotted for smaller tasks like library work, interviewing, tallying, tabulating, analyzing the data, and report writing? Did you think of all the problems you may encounter later and anticipated solutions? How did you deal with limitations of time? With people who may be too busy to be interviewed? With lack of data? And if one approach to a problem didn't work, did you think of another?

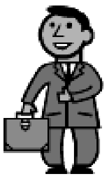
- *Persuasion and networking*.



The entrepreneur is a natural leader who can win people over to his way of thinking. He should be able to persuade partners to put in their money in his business. A bank to give him a loan. A supplier to give him credit. Other entrepreneurs to give him useful information. Buyers to try his product. He builds a network of contacts useful to starting and building up his business.

In your subdivision, did you once lead a major activity, say celebration of the town fiesta? Did the other homeowners listen to you when you talked? In the office, are you able to get your boss or your peers to support your ideas or recommendations? Are you able to get people with opinions of their own to change their minds because they believed what you said?

- *Self-confidence*.



The true entrepreneur is one who believes in himself. He starts with the premise that "I can." Self-confidence is related to the belief in your capacity to achieve despite the overwhelming odds.

Do you believe that YOU CAN: Do very good work? Stick with your decisions? Overcome difficulties and problems? Succeed in everything you have in your mind?

REWARDS AND RISKS OF BEING AN ENTREPRENEUR

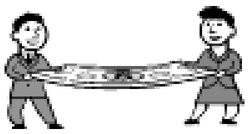
Assuming you have what it takes to be in business, the next step is to determine whether or not you are willing to accept the rewards and risks of being an entrepreneur. You should first weigh the advantages and the disadvantages. Being in business can be on the one hand most rewarding and fulfilling, and on the other, most risky and demanding.

Rewards

For many, the biggest motivation for going into business is the chance to be rich. For others, it is to be able to call the shots, be their own boss. Still others find that being in a business of their own is a way of expressing their creative and leadership abilities.

A business can provide all these … and more, such as:

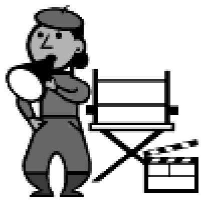
- *Make money*. A successful entrepreneur who told his story in a forum began this way: "For many years, I helped make my employers prosper. I got tired of doing that. So, I put up my own business and now am busy trying to become rich for myself."



There is almost no limit to the amount of money you earn as owner of your own business. It is usually commensurate to the amount of sacrifice, energy, time, and resources that you invest in it.

How many people do you know who went into business and became prosperous?

- *Be your own boss*. As a salaried employee, you do as your employer or your boss tells you. It is even frustrating because you find yourself with several other bosses with conflicting demands on you. As an entrepreneur, you call the shots. You make the decisions and take full responsibility for these. If you make the right decisions, your business gains; if you make the wrong ones, your business loses.

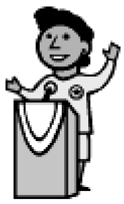


- *Express creativity*. Any kind of business begins as an idea that an entrepreneur has in his mind. The "seed" of that idea then grows as he makes plans and puts these into action. He then works hard to turn the idea into a project that produces products and services and earns income for himself and his employees.

  As the business continues and grows, the creative entrepreneur thinks of more productive ideas. These ideas may be product innovations – how to improve or diversify the product or service. These may also be marketing innovations – how to make more people know about the product or service, how to find more buyers or users, how to introduce the product or service to new places or new markets.

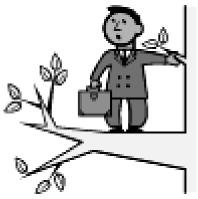
  Creativity is also used when solving problems, which the entrepreneur faces from day to day.

- *Feel fulfilled*. Usually, a business allows a person to express creativity, to demonstrate capability in securing and managing resources, to face challenges and overcome them. In other words, a business provides a sense of accomplishment – a feeling of fulfillment from having done something that he thought at first he could not do.



  Satisfaction will also come from recognition from family, friends, employees, and the community as a whole.

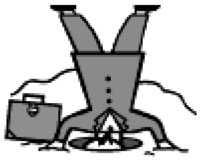
Risks



If the rewards are many and attractive, the risks and demands of being an entrepreneur are equally enormous and cannot be ignored.

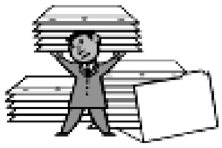
So, don't act without thinking. Don't just resign from your present job or retire immediately. Think twice or even many times more. Ask yourself if you would be able to risk failure, to cope with unpredictable business conditions, to work for long hours, or to make small and big personal sacrifices.

- *The risk of failure*. By nature, a small business is prone to risks and possibility of failure. A single bad decision can make a small business bankrupt. A study made by the University of the Philippines Institute for Small-Scale Industries (UP ISSI, 1986) reveals that one of five new businesses is likely to fail.



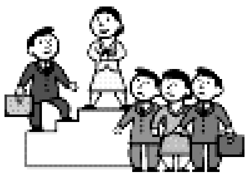
  As you have learned, a small business is often weaker and likely to fail than a large enterprise. There are many reasons why – the inability to access institutional loans, limited bargaining power, competition from bigger companies, etc.

- *Long hours of hard work*. Especially at the beginning, when your product or service is new and just being developed and introduced in the market, business means long and hard work. Entrepreneurs are known to miss lunch, sleep, holidays, weekends.



  Don't expect instant or overnight money. The returns will be slow and meager at first. Experienced entrepreneurs will tell you how they persevered and patiently plodded on when they began. They will also tell you that when the business stabilized, all the sacrifices were worth it.

- *Unwanted responsibilities*. Entrepreneurship means social responsibility. If you become an entrepreneur, you are responsible to the people you employ, the customers you serve, the community you work with. You are obliged to pay decent wages, provide value for the customer's money, compete fairly, and share your wealth and good fortune to the community and society.



  Are you willing to accept such responsibilities?

DOING (SMALL) BUSINESS IN THE PHILIPPINES

An important consideration when deciding to go into business is the external environment in which it will operate. Is the environment a positive one for business in general and for your own enterprise in particular?

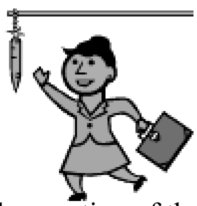
As an entrepreneur, you can control your internal environment. You can put in place productivity and quality systems, train your employees to be more productive or more quality-oriented, acquire new technology, etc.

On the other hand, your external environment is hard to control. You can only respond or adjust to the changes there.

The external environment is essentially composed of the interaction of political-legal, economic, technological, and intra-industry structures. Thus, the environment is affected by political upheavals, technological advances, domestic and foreign market developments including price fluctuations, inflow and outflow of capital, and so many other things.

Most importantly, you must study the environment of economic and industrial policies, business laws and regulations, and system of business incentives and disincentives.

Incentives to Small Enterprises



Without entrepreneurs, there can be no production, innovation, and risk taking. That is very clear. In turn, without production, innovation, and risk taking, a country does not move forward. That is also very clear. Governments, past and present, have learned and have made entrepreneurship a priority in the economic program.

The creation of three million new entrepreneurs tops the 10-point economic agenda announced by President Gloria Macapagal-Arroyo in her 2004 inaugural address. The agenda also includes the creation of 6-10 million jobs through more opportunities to entrepreneurs and a tripling of loan amounts made available to SMEs.

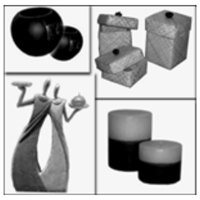
Small enterprise promotion and development has, in fact, attained the status of a national movement, participated in by more than 50 government agencies each of which offers support services to the small businessman. The private sector has also joined the "small is beautiful" bandwagon – including industry chambers, trade associations, schools and universities, civic and non-government organizations, and church-based groups.

The Small and Medium Enterprise Development (SMED) Council was created in 1991 to integrate and synchronize the various efforts. Chaired by the Secretary of the Department of Trade and Industry (DTI), the Council is composed of:

- The Director General of the National Economic and Development Authority (http://www.neda.gov.ph),
- The Secretary of Agriculture (http://www.da.gov.ph),
- The Secretary of Labor and Employment
- The Secretary of Science and Technology (http://www.dost.gov.ph),

- The Secretary of Tourism (http://www.tourism.gov.ph),
- The Chair of the Monetary Board (http://www.bsp.gov.ph),
- The Chair of the Small Business Corporation (http://www.sbgfc.org.ph),
- A representative from the private business sector, and
- A representative from the private banking sector.

The SMED has an array of programs to assist small businesses. The areas of assistance cover finance, marketing, training and human resource development, product development and technology assistance, and other incentives.



Finance

Government banks like the Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), Small Business Corporation (SBCorp), Quedan and Rural Credit Corporation, Philippine Export-Import Bank, and the National Livelihood Support Fund, have agreed in 2003 to simplify and standardize lending procedures, lower interest rates, and facilitate loan releases to small enterprises under a unified scheme called SULONG.

Even before SULONG synchronized the respective programs of these banks, lending to small businesses, often with some special considerations, has been going on for quite a time already. Some, like DBP and SBCorp, are “wholesale” lenders that use commercial banks, rural banks, thrift banks and other financial institutions as “retailers” to reach out more readily to small businesses everywhere in the country.

For micro enterprises, countless micro finance institutions now proliferating throughout the country are doing a good job of providing small but quick and no-hassle loans that require no collateral. They provide an alternative to the so-called “five-six”lenders, who are actually loan sharks.

Marketing

The DTI, through its various agencies, provide marketing support to small enterprises by means of:

- exposure in local and international trade fairs, expositions, trade missions to various countries-trading partners, and other trade events through the Center for International Trade Expositions and Missions (CITEM),
- provision of domestic trade database, including local suppliers courtesy of the Bureau of Domestic Trade (BDT), and
- provision of export trade database and consultation services by the Bureau of Export Trade Promotion (BETP) and the Bureau of International Trade Relations (BITR).

Training and Human Resource Development

The DTI, in cooperation with local government units and local industry associations, has set up SME Centers nationwide manned by business counselors who are trained to assist entrepreneurs in their finance, marketing, technology, and training needs.

In terms of formal training, entrepreneurs may check out the following services in SME Centers:

- Skills and other production-related training – from the Cottage Industry Technology Center (CITC) and the Technical Education and Skills Development Authority (TESDA).
- Entrepreneurship, managerial training, including business improvement – from the UP Institute for Small-Scale Industries (UP ISSI) and small business extension institutes of other schools and universities.
- Export marketing training – from the Philippine Trade Training Center (PTTC).

Product Development and Technology Assistance

For assistance in product design and development, the agency to approach is the Product Development and Design Center of the Philippines (PDDCP). For packaging design, testing and analysis, it is the Packaging Research and Development Center (PRDC).

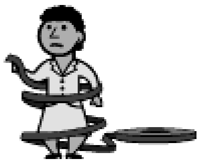
On the other hand, the Department of Science and Technology (DOST) has a number of research and development institutes that undertake R & D for new products and product innovations. These include: The Industrial Technology Development Institute (ITDI), the Technology Application and Promotion Institute (TAPI), the Metals Industry Research and Development Centre (MIRDC), the Philippine Textile Research Institute (PTRI), and the Forest Products Research and Development Institute (FPRDI).

Other Incentives

Other than government support services, there are still other factors that make the country a viable site for business. According to an annual corporate survey, these include:

- labor availability, quality and reliability,
- market potential, size and quality,
- positive attitude of Filipino workers,
- literacy of workers,
- low cost environment, including labor cost, and
- quality and quantity of middle management and technical people.

Disincentives



On the other hand, certain business conditions in the country are seen to be problematic. The country is facing an oil crisis, an investment crisis. This oil crisis, though not just affecting the Philippines, is problematic because it is also affecting the rest of the world.

Industry has responded to it in many ways, like using alternative fuel and, of course, the inevitable – adjustment in product pricing.

What may be more worrisome is the investment crisis. The country's foreign direct investment (FDI) rate has declined since 1997 and is among the lowest in Asia. Nevertheless, new investments help buoy up the economy. Most of these have been in call centers and business processes (e.g., data encoding, bookkeeping, inventory), and outsourcing.

A number of manufacturing companies have either closed down or downsized (staff or operations cut to size), contributing to an already high unemployment rate. On the other hand, export-oriented industries and the service sector have remained strong.

Other problem areas that a small enterprise needs to live with are:

- corruption,
- bureaucratic red tape,
- poor infrastructure,
- peace and order and security problems,
- political instability, and
- local market size, growth and access.

Corruption and bureaucratic red tape are said to be part of our Philippine society and culture. As such, these practices appear in all aspects of Filipino life, practiced by everyone in high or low status. Poor infrastructure, peace and order, and political instability are the results of a government leadership that is hard pressed to set an example of equality and love for country. When all the social and political problems have been minimized, only will the economy of the country recover.

SUMMARY

The chapter has given you a definition of a small business. It presented the strengths and weaknesses of going into business. It identified what qualities and skills an ideal entrepreneur must possess, and gave good reasons for the need to study the business environment prior to putting up a business.

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CHAPTER 2: WHERE DO YOU START?

In many entrepreneurship fora, the most frequently asked question by aspiring entrepreneurs is: "What is the best business to go into?"

The standard answer they often receive is: "It depends," which is then explained in detail in terms of the many internal and external variables on which "it" depends.

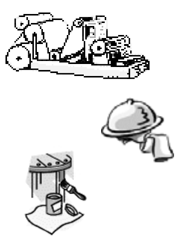
Often, this answer disappoints the listeners. Does it disappoint you too?

But an answer that may be considered acceptable now may turn out unacceptable sometime after.   If it is announced, for example, that the business to go into is the sago pearl business, then everybody would join the mad rush to set up a sago business and before you know it, the market has become overcrowded. That actually happened to the sago pearl business – as it did with the *shawarma* business. Before that, the hot *pandesal* business.   So many people engaged in these businesses until competition became cut-throat. With thousands of shops competing for a share of the market, all but a few folded up.

You should be better advised to look within and outside to identify what is the **best business** for you to go into.

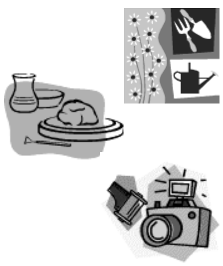
Looking Within

In a way, the best business for you actually depends on you – who you are, what you know, what you have.



Begin by looking for products, processes, or services about which you already know something. It is now a fact that many ideas for small businesses were the direct result of experience in a previous job. Carpenters would be confident going into construction, furniture making or sash-making. Seamstresses would have a best chance going into garment making or stuffed toy manufacturing, or setting up a *modista* or tailoring shop. Cooks would be good in starting a *carinderia*, a *tapsilog* stall, or a small restaurant.

By starting with what you know and what you have, you would not miss your goal.



Similarly, a hobby could become the basis for a full-time successful enterprise. Do you have one which you can expand into a business? Is it gardening? Bonsai plants and desktop garden-fountains are very much in demand. A commercial garden on an idle lot which you can rent for a small fee would also be a good possibility. There was this housewife who loved collecting ornaments and home accessories. Her friends liked her taste and convinced her to sell them some of her items. Before she knew it, she had begun a small home-based business which eventually prospered.

Technical training is also closely linked with entrepreneurship. You will do well to begin a business based on some vocation or trade skills you have learned, such as auto repair, metalworking, computer assembly, desktop publishing, or bookkeeping.

Looking Outside

After looking within, then you can look around you.

By looking at the total business environment, you identify business opportunities. In other words, you observe developments and trends in the economy, demography and society as a whole – including political, ecological, and technological events. What is happening in the broad picture will greatly affect your decision on what products to produce or services to offer.

Here, some techniques will be useful:

- **Find a business opportunity in every market need**.

  One of the first things you should remember in trying to identify business opportunities is that all enterprising ventures answer, in one way or another, a particular human need. Whether it is a product or a service, it must respond to what the buyers need or want.

  Begin by studying your own community, village, or *barangay*. Is it self-sufficient or do the residents have to go out of their way to buy *pandesal*, cooked food, or cooking oil? Or to have their shoes repaired, their cars washed, or their homes pest-protected?

- **Study demand and supply gaps**.

  Find out how the present demand for certain products or services in the community is being met. Is demand for some items being filled by local suppliers or producers? Find out whether or not local supply can cope with or totally satisfy local demand. If not, this may suggest that there is room for still one more in the business.

  To illustrate: Let us suppose you have learned that there is only one hollow block maker or retailer in your community and that he can supply only about half of the community's needs. On top of this, you notice a boom in the construction business. You see many new houses and commercial buildings being built. From these observations, you see a room for a new entrepreneur to bridge the gap between supply and demand.

  That new entrepreneur can be you! However, you don't just study the hollow block demand and supply only. It will be useful, too, to look at the situation in the case of other construction materials (for example, steel works, fixtures, grills, door jambs, cement, etc.) or services (plumbing, painting, landscaping, interior designing) to meet related construction needs.

- **Study import-export movements.**

  Again, perhaps a number of products are being supplied by producers or suppliers outside the community or imported from other countries. Study these imports. Possibly, given the resources, you can produce these. You may not be able to produce the same high quality as the imported ones. However, if you can produce at a much lower cost and sell the products cheaper, you have a competitive advantage there. You may find that your products though cheaper and of lower quality will also be attractive in the market. For example, locally cured ham, corned beef, *tocino* and *longganisa* have become acceptable substitutes for imported processed meats.

  You may also take a look at products that the community is selling outside or is exporting. Usually, these products are exported in raw or semi-finished form. For instance, rattan poles grown in the community are normally sold to rattan furniture makers and processors outside the community. As a potential entrepreneur, look for ways of increasing the value of rattan poles before selling or exporting them. If you succeed, then you can be in business.

  One way of increasing the value of rattan poles is to process them into a form that can readily be used by the buyers. How? By pre-cutting them into the desired sizes, by treating them with chemicals to prevent deterioration, by varnishing them or painting them. Of course, the best way would be to manufacture rattan furniture or rattan handicraft items like trays, boxes, coasters, etc. You can earn better this way.

- **Capitalize on available resources.**

  The availability of certain resources in an area can suggest business opportunities. These resources may be in the form of raw materials, skills, information or technology.

  Consider the following:

  - Raw materials. Identify the materials that are native to and abundant in an area. Study how to make money out of these either through gathering the materials, trading them, partially processing them, or manufacturing finished products out of them.

    > Gigi Campos, who resides in Bacolod City, visited a neighboring town, Pulupandan, named after the pandan weeds that grow abundantly by the swamps. She saw native women weaving the leaves to make wall decor and room dividers. On her next visit to Pulupandan, she brought with her some of her *pyrex* baking dishes. She approached weavers and asked whether they could make pandan *pyrex* holders. They said "Yes." This was the beginning of a flourishing community-based export business now known as." Reeds and Weeds."

  - Local skills. Are specialized, traditional skills available in the community? Can these be used for commercial purposes? Study these skills for possible upgrading and innovation. The availability of skilled weavers in a community, for example, can be tapped by organizing a weaving, handloom, or handicraft industry.

Examples of traditional skills on which progressive enterprises have been built are: shoemaking in Marikina City, slipper-making in Liliw, Laguna, woodcraft in Paete, Laguna, jewelry making in Meycauayan, Bulacan, and “antique” furniture making in Betis, Pampanga.

- Industry information – Reading technical and business journals will keep you updated on business ideas. *Newsweek Magazine*, for example, has a regular feature on new products and techniques. Local publications like *MagNegosyo* of TLRC and *Entrepreneur Philippines Magazine* give information that inspire new entrepreneurs. Check out, too, the business features section of *Philippine Daily Inquirer*, *BusinessWorld*, and most other dailies. Online, there are sites that will be useful, notably the *DTI website*, *E-Yellow Pages*, the *UP ISSI website*, etc.

Many private and government institutions conduct periodic studies which review the growth and performance of certain industries. Such studies discuss a given industry’s problems and prospects for growth and expansion. Obviously, they would provide useful information that will help you make wise investment decisions.

For example, the following were identified by the DTI as export winners in 2002:

- Processed fruits
- Marine products (fresh/frozen fish, shrimps)
- Carrageenan and seaweeds
- Electronics (components and parts)
- Metals (automotive and parts)
- Garments
- Furniture
- Jewelry (fine and custom)
- Holiday decor (Christmas, Easter, Halloween)
- Ceramics (decorative and tableware)
- Basketware
- Marble and marblecraft
- Construction services
- Information technology services
- Professional consulting services

A more updated priority list is given in the National SME Agenda prepared in 2004:

- Food
- Organic and natural products
- Marine products
- Wearables, including costume and fine jewelry, and footwear
- Leathergoods (handbags, belts, travel goods, gloves)
- Home furnishings
- Construction materials
- Micro-electronics
- Information Technology services
- Motor vehicle parts and components

If you engage in one of these industries, you will receive high priority in government incentives and support programs. That means you get the first crack at credit, training, and technical assistance.

- Technology. Look out for advances or improvements in technology. These might be useful in upgrading or improving traditional production systems or starting a new business altogether. For example, research and development in aquaculture has made prawn and *bangus* culture a viable business venture. Similarly, R & D in waste utilization has given rise to new products like wood particle boards, organic farming, and volcanic ash ceramics. Canned *laing*, and vacuum-fried *tahong* are also new products developed by DOST. And of course, e-commerce has opened up new web-based businesses and new ways of doing business.

➢ **Adapt, complement, reshape**.

Be observant. What are the people around you doing? Can you pick up something from it – with some modification?

Get familiar with the current economic situation in communities comparable to where you live. You can be inspired by a number of projects which have worked in these areas and which you can adapt to your own local situation. Don't just copy and imitate. Innovate! Innovating is improving on someone else's idea to make it work for you. This might mean reshaping or repackaging goods or services to fit or match present trends or styles. Creative ideas may add or change a product's features and thus add more to its benefits.

For example, if you live in the province, you might wish to look at a project that has succeeded in the city. Internet cafes, for instance, which first proliferated in Metro Manila, are now being set up in the regions. Fads like string-it-yourself bracelets and necklaces, color-it-yourself ceramics, print-while-you wait shops, and badminton courts can also catch the imagination of provincial markets.

➢ **Explore forward-backward industry linkages**.

No doubt, there are a number of industries in your community. Find out what possible business ideas you can pick up from what already exists.

For example, a backward linkage of a meat processing plant in your area may spur agribusiness projects like poultry or hog raising, transport services, supplies required for meat processing. Consider also going into distribution of poultry feeds, egg trays and other inputs to the poultry raisers in the community.

A forward linkage, on the other hand, would explore opportunities in meat packaging, subcontracting, or trading and distribution of finished products.

➢ **Screen and select the best investment alternative.**

You may be able to identify a number of alternative business ideas. You may then narrow down the choice to two or three possible projects, maybe food, garments or handicraft. But since you have limited resources, you can't go into all three projects at once. You will have to screen and select the best one.

Read more about screening business ideas in the next chapter.

SOME OPTIONS: BUY A BUSINESS, TAKE A FRANCHISE, ETC.

You have options to start a brand-new business from scratch. One other option is to buy an already existing business or to take a franchise on an already tried-and-tested business. Either option should be attractive to would-be entrepreneurs who think they don't have a creative idea for new or better products and services or would like to skip some processes in the long route that a new business must go through.

Buying an Existing Business

Buying an already established business is not as easy as it sounds. Very few such opportunities
will fall directly on your lap. There is no established marketplace for these firms.

So, chances are you will have to conduct a search. It can be slow and time-consuming. The average time required to find the right one runs about a year. The resources you can use are: newspaper classified ads under the heading 'business for sale,' industry and trade associations, and lawyers specializing in corporate matters.

Once your search is underway, you may come across a potential business to buy out. Try and see if you can conduct a preliminary background research on the business. If the results satisfy you, the next step is to meet the owner(s) and visit the business. From there, you ask for the figures – the operating and financial data. A seller with a distressed business may be more willing to provide numbers than one whose business is doing well. And for bankrupt firms, the data may be obtained from the Securities and Exchange Corporation.

Before anything else, however, you have to think long and hard about what type of business interests you, what best fits your lifestyle. And of course, you have to decide how much of an investment you are willing to make.

Some questions you need to draw as you interview the owner include financial data such as:

- How volatile are the company's cash flows?
- How fierce is the competition in the industry?
- Is it a growing or declining industry?
- How well established is the company in the intended line of business?
- Is a competent management team and work crew in place?
- Historically, has the company been growing or shrinking, and how fast?
- To what degree does the marketplace find this line of business attractive?

At this point, you will need professional advice from either an accountant or a lawyer or both. Having a counsel will ensure you are protected, especially if you are signing a document.

Taking a Franchise

Taking a franchise has been called the "business with the least fears and tears." A franchise is a legal and commercial relationship between the owner (franchisor) of a trademark, service mark, brand name, or advertising symbol, and an individual or small business (the franchisee) wishing to use that identification in a business. Generally, a franchisee sells goods or services supplied by the franchisor or that meet the franchisor's quality standards.

Just about any product or service that you can think of is franchised. Fastfood? Think *Jollibee*, *Max's*, *MacDonalds*, *Dunkin' Donuts*, and countless others. Repair services? *Mr. Quickie*. Beauty salons? *Ricky Reyes* and *Jun Encarnacion*. Convenience stores? *7-Eleven*, *Uniwide*, and *Mini-Stop*. Fitness? *Slimmer's World*.

It is the business with the least tears because the franchisor makes it easy for you to get into it. It entails the least fears because you will go into business with a proven track record of success. You, as franchisee, gets to take advantage of the product of someone else's work – including establishing the brand name, setting up operational systems and procedures, and building the market.

Indeed, the success rate for franchise-owned businesses is significantly higher than for independent businesses. However, lest you be misled, going into a franchise business does not carry with it a guarantee for success. Therefore, you still have to weigh the advantages and disadvantages of owning a franchised business. Here are things to consider (www.quintcareers.com):

- Pros
  - Established brand and customer base. You get the strength of the franchisor's brand and the loyalty of its customers.
  - Marketing support. Franchises often have the support of national campaign, as well as ready marketing materials for a local campaign.
  - Reputable suppliers. Franchisors often have established relationships with suppliers for all the materials they need to run the business.
  - Training support. Some of the better franchise operations offer management and technical training.
  - Financial assistance. Loans are sometimes provided to help franchisees.
  - Ongoing research and development. You can concentrate on operations because the franchisor spends time and money developing new products or services.
  - Calling the shots. As in any business you can go into, you are the boss and you control your own destiny.

- Cons
  - Initial payout. You have to pay for the franchise fee and start-up costs. The bigger and more established the franchise, the more money you need.
  - Royalty payments. The monthly royalty – equivalent to a certain percentage of the monthly gross sales – must be paid the franchisor. This means a reduced income for you.
  - Marketing and advertising fees. To receive marketing support, you may need to pay these fees, depending on the contract.
  - Limited creativity and flexibility. Most contracts have very explicit standards, allowing little or no alterations. You must use their system and follow their rules.
  - Sole sourcing. Some contracts stipulate franchisors must buy supplies from a restricted list of suppliers.
  - Locked into operation by contract. You may be stuck for many years with the wrong franchise.
  - Dependence on franchisor success. The reputation of your franchise is only as good as that of the franchisor. Should he fail, you fail with him.
  - Risk. There is always risk in going into business, franchised or not.

OVER A HUNDRED BUSINESS IDEAS

Here, from various sources, is a list of business projects – from A to Z – which may be useful in the early stage of shopping around for business ideas. Although this is quite comprehensive in terms of service enterprises, it is by no means a complete list. You can add others on the basis of the needs within the neighborhood and community as well as the material, skill, and other resources that may be found in abundance there.

See if you can tick one or two or more ideas in the list after you have looked within (your interest, training, etc.) and outside (market needs, available resources, etc.).

A	
Accounting Services Advertising Agency Advertising Copywriting Advertising Specialty Sales Aerobics Classes Answering Service Antique and Collectibles Dealer Antique Book and Magazine Dealer Apiary (beekeeping)	Appliance Repair Art Consultant Art Gallery Artist, Freelance Artist Management Art Restoration Attorney/Notary Public Auction Business Auto Sales
B	
Baby Handprint and Footprint Bronzing Service Baby Shoe Bronzing Service Badminton Courts Badminton Coaching Bakeshop Balloon and Other Party Needs Basketball Tournaments Basketware Beautician Bed and Breakfast Inn *Bibingka* and *puto bumbong* stall (especially at Christmastime) Bicycle Repair	Billiard Hall Bookkeeping Service Bookbinding Service Bookstore Building/Home Inspection Service Bumper Stickers Bus Service Business Broker Business Consultant Business Financing Service Business Plan Consultant Business Plan Writer Buttons/Badges/Pins

C	
Cabinet Making Cake Decorating Calligraphy Candle Making Car Parts Dealing Car Rental Car Wash Car Wash (Mobile) Canning *Carinderia* Carpentry Services Carpet and Upholstery Cleaning Cartoonist Catering Service Cell Phone and Accessories Trade Cell Phone Repair Ceramics/Pottery Cleaning Service Clip Art Clothing and Accessories Design Clown Coaching (Sports) Coin Dealer Collection Agency Commercial Artist Computer Animator Computer Bulletin Board Owner Computer Consultant Computer Data Back-up Service	Chair Caning Chair and Table Rental Cheese Making Children's Clothes Children's Transportation Service Childcare Provider Computer Programmer Computer Repair Computer Training Computer Tutor for Children Concert Promotion Concierge Services Construction Services Consultant, Art Consultant, Beauty Consultant, Business Consultant, Computer Consultant, Image (Public Relations) Consultant, Internet Consultant, Landscaping Consultant, Small Business Consultant, Wedding Convenience Store Cooking School Cosmetics Sales Cosmetologist Costume Design Crafts Crafts Instructor
D	
Dance Instructor Dating and Escort Service Daycare Center Daycare for Adults Deli Business Desktop Publishing Desktop Video Dinner/Lunch Delivery Service Directory Publisher	Direct Sales Disk Duplication/Burning Services Dog Breeding Dog Training Doll Making Dressmaking/Sewing Dried Floral Arrangements Dry Cleaning Services Dry Cleaning Pick-Up and Delivery Service
E	
Editorial Services Email Processing Embossed Stationery Employee Trainer Employment Agency Engineering Consultant	Errand Service Event Management Event Organizer Event Planner Executive Search Export Agent

F	
Finance Broker Financial Advisor Financial Planner Fishball stand Fish Boat/Fishing Fish Culture (*bangus*, *tilapia*, prawns) Fish Drying/Smoking Fishing Supplies Fish Tank/Bird Cage Maintenance and Sales Fitness Trainer Flea Market Seller Flower Shop Food Delivery Service	Forwarding Service Framing (Picture) Service Franchise Consultant Franchise Owner Franchisee Freebie Ad Magazines Freelance Artist Freelance Photographer Freelance Writer Fruit Processing/Preservation Fundraiser Furniture Making Furniture Restoration and Refurbishment
G	
Garage Sales Garage Sales Promotion Garbage Collection Services Garden (Commercial) Garden Consultant Gardener Ghost Writer Gift Baskets	Gift Baskets, Gourmet Giveaways Goat Raising Goldsmith Gourmet Jam and Jelly Graphic Artist Greeting Cards Grocery Shopping Service
H	
Hairdresser Handmade Paper Handmade Soaps Handyman Service Hardware Store Hauling Service Healthcare Consultant Herbalist Herb and Spice Business Herb Gardener Herb Wreaths and Crafts Holiday Decor Hog Raising	Home Accessories Sales Home Boarding Home Business Consultant Home Decorating Home Furnishings Home Healthcare Agency Home Inspection Service Homemade Foods Home Tutoring Housewares "How-To" Videos Human Resources Consultant
I	
Import/Export Imprinting Independent Contractor Indoor Fountains Insurance Sales Internet Consultant Interior Decorating	Internet Cafe Internet Marketing Internet Recruiting Internet Service Provider Interpreter/Translator Inventory Taping Service Invitation Printing
J	
Jewelry Designer Jewelry Maker Jewelry Maker (Costume)	Jewelry Sales Junk Car Trading Junk Shop
K	
Knife Sharpening Services	Knife Sharpening (Mobile)

L	
Lamaze Instructor Landscaping Consultant Landscaping Service Language Translation Laundromat Laundry Service Lawn Maintenance	Legal Transcription Service Lending Services Limousine Service Lingerie Sales Locksmith Long Distance Telecommunications Products
M	
Magician Mailing List Services Mail House Mail Order Make-Up Artist Management Consultant Manicurist Marblecraft Market Research Marketing Consultant Massage Therapy Meat Processing (*tocino*, *tapa*, *longganisa*, etc.)	Medical Claims Processing Medical Diagnostic Clinic Medical Office Consultant Medical Transcription Service Meeting and Event Planner Menu Planner Metalworking/Fabrication Mobile Manicurist Mobile Notary Public Mobile Pet Groomer Mobile Puppet Theater Moving Service Music Lessons
N	
Nanny Finding Service Nature Hikes New Media/Multimedia Production Newsletter Production for Clients Newsletter Publishing Newspaper Clipping Service	Newsboy Newspaper Delivery Newspaper Stand Notary Public Nutritional Supplements Sales
O	
Office Organizer Office Plant Care Office Support Service Online Internet Training Online Newspaper	Online Researcher/Abstractor Online Retailer Organic Fertilizer Making Organic Vegetable Farming Outdoor Adventures

P	
Packing/Unpacking Service Painting Paper Recycling Papier Mache Paralegal Services Party Catering Party Plan Sales Party Planning Pawnshop Payroll Service Pedicab Operation Personal Fitness Trainer Personalized Stationery Pest Control Services Pet Breeding Pet Food and Supplies Delivery Pet Grooming Service Pet Stud Service Pet Products Pet Shop Pet Show Business Pet Sitting/Home-Care Service Photos to Video, Transferring Photography Photography, Scenic	Piano Tuning Picture Framing Plant Nursery Polling/Surveying Pool Cleaning Portrait and Wedding Photography Portrait Artist Potted Plants/Potted Vegetables Poultry Farmer Preschool Pregnancy Fitness Class Printing Business, Small Printing Broker Printer Toner Recharging Private Detective Services Product Assembly Product Development Consultant Professional Organizing Service Proofreading Service Property Damage Appraisal Service Property Manager Public Relations Agency Public Speaking *Puto-kutsinta* (and other native delicacies) Making and Selling
R	
Real Estate Appraising Realtor Recruitment/Job Placement Agency Relocation Consultant Remodeling Contractor Repacking (of basic commodities)	Restaurant Booking Service Restaurant Delivery Service Retail Consultant Reunion Organizer Risk Management Consultant Rubber Stamps
S	
Safety Consultant Sari-sari store School Photographer Screen Printing Secretarial Service Security Video Service Self Defense Instructor Self-Improvement Seminars Self Publishing Seminars and Workshops Seminar Promotion Seniors Exercise Classes Sewing/Dressmaking Shareware Programmer Shoe and Bag Repair	Shopping Service Show Promoting Shuttle Service Sightseeing Tours Sign Design and Painting Small Business Consultant Software Creation Software Trainer Spa/Sauna Parlor Special Event Videos Specialty Consultant Stained Glass Street Food Selling Stuffed Toy Making Survey Taking Service

T	
Tailoring Shop Tarot Reader Tax Consultant Tax Return Preparation Service Taxicab Operation Teaching Technical Writing Service Telemarketing Telephone Answering Service Telephone Service Reseller Temporary Help Agency Time Management Consultant Tool Rental Service	Tour Guide Training Transferring Photos to Video Service Transcription Services Translator/Interpreter Travel Agency Travel Club T-Shirt Design Tupperware Sales Tutoring Service TV Repair Typing Service
U	
Used Books Used Cars Used CDs	Used Clothes (*ukay-ukay*) Using Your Car or Van to Make Money Utility Auditing
V	
Vending Machine Business Veterinary Clinic Video cassette recorder Repair Video Duplication Service Video Editing Service Video Production Video Rental Shop	Video Taping Service Videoke Bar Vitamin/Nutrition/Weight Loss Product Sales Voicemail Voice Instructor Voice Over
W	
Watch Repair Website Design Website Development Web Hosting Services Web Marketing Wedding Consultant Wedding Coordinator Wedding Planner Wedding Video Service Wedding Singer	Welcoming Service Window Washing Service Wood Carving Woodworking/Woodcraft Word Processing Workshops, Seminars Writing Audio Cassette Scripts Writing Press Releases Writing Research and Term Papers
Y	Yard Cleaning

SUMMARY

Finding the best business for you involves looking from within and from without. Who you are, what you are, and what you have are the internal resources you need to look into. External resources are the business opportunities, developments and trends in the environment. Options in starting a business, including whether to buy a franchise or not, are presented in terms of pros and cons. Finally, the chapter listed over a hundred business ideas for the wannabe entrepreneur like you to skim through to help you decide what business to go into.

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CHAPTER 3: ASSESSING YOUR BUSINESS IDEAS

By this time, you may already have a shortlist of business ideas to think about. Your next move now is to decide which of these ideas to pursue. You may be attracted to one business idea, but some other one may seem to be more challenging and more to your interest.

Many people who want to start a small business already have an idea of the business they want to own. While some have a generally broad concept, others may already know the how-tos. It will make sense for any aspiring small entrepreneur like you to weigh your options carefully. After all, you will be putting in serious money here. Your objective is to come up with a choice that will match your strengths, needs and business goals.

To you, almost all of the business ideas you have encountered in the previous chapter could look promising. This chapter will guide you to trim down this list to a more manageable number. The process could be painful especially if your ideas are an extension of yourself, i.e., these reflect your personal interests, experiences, frustrations, desires, wants, and aspirations.

THE RIGHT TYPE OF BUSINESS

Reviewing your list and sorting out your ideas according to type of business activity will help you decide which business idea you will eventually entertain.

Ask yourself this question: "Do I want to manufacture a product, deliver a service, or go into trading?"

- A manufacturer produces a product and sells it. Making new jewelry from beads, baking cookies, making quilted linen are some examples of a manufacturing activity.
- A service-oriented business offers a specialized kind of service to customers. The service can either be creative and technical or professional in nature. An auto repair shop, a music lounge, laundry shop, internet café, and a tailoring shop are among the more popular businesses in the first category. A medical clinic, an accounting firm, and a law office are examples of professional service providers.
- A trading business, on the other hand, is basically a buy-and-sell type. One can be a retailer, wholesaler, or even both. The *sari-sari* store still remains to be the most common form of a trading business. Another example that is fast gaining popularity is the distribution of goods. Nowadays a number of small entrepreneurs are in the business of supplying beverages like soft drinks and beer to restaurants and grocery stores, an activity that used to be done by the beverage manufacturers themselves in the past.

One can always combine activities, say, manufacture a product and trade in related goods as well. A candle maker, for example, can also carry on such wares as candleholders and candle accessories to go with the candles. A technician can sell electronics spare parts and related items such as speakers and amplifiers. An interior decorator can also sell decorative items such as vases, lamps, and wall accessories. The owner of an internet café can accept computer service jobs on the side.

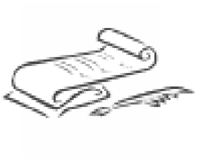
Then choose an industry. Pick a sector where you are interested in, one that you enjoy doing, or one that you think you have some knowledge and experience.

Setting up a business does not always mean starting from scratch. You can also start by getting a franchise. The next decision you will make is whether you want to set up an independent business or get a franchise. An independent business is something that you start and nurture on your own. A franchise essentially involves buying the right to sell the parent company's goods or services in a specific area.

HOW DO YOU START?

Know yourself. You are off to a good start when you set up a business that matches your interests and your own personality.

Selection Checklist



The following chart will guide you in choosing the business that will suit you. It will help you match your skills and experiences to the business ideas that appear in your shortlist. You will initially find this task too boring and simple. But you will be surprised at how writing down your ideas this way will help you put together what it is that you want from your small business.
If it cannot help you make the final choice, the chart will at least narrow your choices further.

Follow these three steps in filling out the chart. Be objective and do not be emotional.

- In the far left-hand column, list the business ideas you're considering by order of interest.
  The idea that you are most interested in will appear on the top left-hand blank space. Put the next idea below the first one in the same first column and continue until you have written down all the ideas in the shortlist. There are only five blank rows. If you have more than five business ideas in your shortlist, you may add additional spaces but the list should not be more than 10; otherwise this will not be a shortlist anymore. Suppose you come up with a list like this one:

Business Idea	Your knowledge	Your experience	Your skills	Ease of entry	Uniqueness	Total
Dress shop	1	3	1	2	1	8
Pet shop	3	3	3	2	1	12
Beadwork	2	2	3	3	2	12
Party planner	1	1	2	3	1	8
Auto repair	2	3	3	2	1	8

- Now take each business idea and rate it on a scale of 0 – 3 in all criteria appearing in the succeeding columns (your knowledge, your experience, your skills, ease of entry, and uniqueness). Use a rating scale of **0** to **3**; with **0** meaning none, **1** below average, **2** average, and **3** above average.

  The criteria and their scope are defined below:
  - *Knowledge of the business*. This will measure how much you know about the business idea. Let these questions be your guide in rating the business idea:
    1. Will I need some time and money to know more about the business?
    2. Would I rather take on a partner to fill in my lack of knowledge of the business?

Let us say you want to set up a dress shop but you do not know how to sew. Your rating will be based on your willingness and readiness to acquire sewing skills or ask a skilled person to join you.

Rating Guide: **0** – no knowledge of the business; **1** – some indirect knowledge of the business; **2** – limited knowledge; **3** – working knowledge.

- *Experience in the field*. You may know a lot about the business but do not have enough experience. The rating will depend on your answers to the following questions:
  1. Have you ever owned or worked in this type of business in the past?
  2. To what extent is hands-on experience critical to this type of business?

You may have worked as a helper in an auto repair shop for a couple of years and now intend to put up your own repair shop. Your rating will depend on how you will assess the importance of actual experience on the nature of the jobs you will be offering.

Rating Guide: **0** – no experience; **1** – indirect experience; **2** – limited experience; **3** – familiar with the business.

- *Skills*. Focus on the skills that are unique to the particular business. This category will measure the extent of the skills you have that are useful to the business and how hard or easy it will be for you to learn and acquire such skills.

For example, you want to cash in on your scented candles that made a big hit among your friends and family. Are you ready and able to make a business out of this hobby? How good are you at taking bulk orders, calculating costs and expenses, setting prices, and collecting payments?

Rating Guide: **0** – none; **1** – limited skills; **2** – some skills; **3** – extensive skills.

- *Ease of entry*. This refers to the costs of entering the business and the blocks or hindrances that might exist. For example, a car wash that you can run from your own home could be relatively inexpensive to start, but if there are others already providing that service in your area, you may hesitate to offer the same type of business.

Rating Guide: **0** – crowded field, very difficult to enter; **1** – limited entry available; **2** – mix of large and small competitors; **3** – unrestricted entry for any business size.

- *Uniqueness*. This does not necessarily mean that no one else is providing the product or service. It can also mean that no one else is providing the product or service in the **same way** you intend to provide it. It can also mean that no one else is providing that product or service in that specific area. This category will help you find out some ways of distinguishing your product or service from the others already in the market.

Uniqueness is not limited to the product or service itself. Sometimes going “the extra mile” or giving your clients some convenience will provide the distinctive mark of your product or service. Ever wondered how free delivery has become a widely acceptable practice among food outlets?

Rating Guide: **0** – product or service widely available; **1** – a few to several others offering your produce or service; **2** – about one or two others; **3** – no other one providing your product or service.

- Total up the numbers. These tips will help you interpret the scores:
  1. Forget any idea that scored less than 10
  2. Discard any idea that did not score at least a 2 in every category
  3. Let go of any idea that did not score at least a 3 in the uniqueness category.

How many ideas are left? If there is none and you really want to pursue any of the ideas in your shortlist, then use the selection result to identify where you need to improve on. Then develop a strategy for raising the "1s" to "2s" or "3s." Your goal here is to trim your choices to a maximum of five.

The scores in the example on page 36 show that the choices were narrowed down to only two – opening a pet shop and doing beadwork. The next section can help you make the final choice.

SCREENING YOUR IDEAS

Getting a good match between your skills, talents and experiences, and your business idea may indeed be a good start. But you cannot just as yet put your life savings, loan, parents' money, inheritance, or retirement fund into the business. Try to have a look at the macro environment affecting your business. This time, limit your choice to the five ideas that got the highest rating in the checklist. Screening will narrow the five choices to just three that will meet your needs, strengths, and business goals. In this screening, you need to find out how profitable the business will be.

This requires you to do some business analysis. Doing so will help you evaluate the chances for survival and eventual growth of your prospective business.

Look at each of the remaining choices of business ideas along the four functional areas, namely, marketing, technical, organization, and finance.

- Market assessment. This generally concerns the presence or absence of buyers for your product or users of your service and how much income you can expect to derive from it.
- Technical assessment. This examines your capability to be in the particular business.

  You will need to answer such questions as:

  - What technology does this business need and how will I acquire it?
  - Will I be able to acquire the materials, equipment, and technical skills that the business will require?

- Organizational assessment. This measures your familiarity with the type of business or how well you know the ins-and-outs. It also concerns your ability to put together all the resources you will use in the business.

- Financial assessment. This gives you an idea of how much it will cost to start the business and keep it going at least until the revenues start coming in. It will test how deep your pockets are as well as your patience in identifying and getting the necessary financing. Can you withstand periods, particularly following start-up, when little or no revenue will come in?

Now take a closer look at each area.

Knowing the Market for your Product or Service

You have narrowed down your choices in the selection checklist. You can now look around for the business opportunities in your area that match with your choice.

In this phase, you will collect, list down, and examine data that have something to do with selling the goods you will produce or services that you will offer. This process is also known as market research.

- Market research will allow you to know more about the following:
  - The demand for your product or service; the people who will likely buy or use them, and how many they are; and whether these buyers will likely affect the location of your business.

  For example, if your target customers are homeowners, should you be near residential areas?

  - The type of people who will buy and continue to buy from you. Consider the following:
    - It is almost impossible to make a product or offer a service that will appeal to all kinds of customers all the time.
    - In many cases, people who have special interests frequently visit specialized shops. For example, sports buffs would go to a sporting goods store more often than they would go to a department store that sells anything and everything. Scented candles will appeal more to women who fall within certain age and income groups.
    - A salon offering a wide range of grooming and body-pampering services would attract a wider variety of clients compared to the traditional beauty parlor of old whose fare is limited to the regular hair, make up, and nail polish services.

  - How you will make your product or service known to your likely buyers or users and encourage them to buy from you.
    The following are among the more popular ways of promoting a business:
    - Putting up an eye-catching mark or sign in your place of business and in other strategic places in the community;
    - Advertising in the newspaper, radio, television, billboards, or brochures and flyers, or through the web. Some people insert their flyers in the newspaper.
    - Conducting sales promotions such as giving discounts and giveaways; and
    - Holding product demonstrations in malls, offices, social gatherings, etc.

    If you plan to make a product or offer a service that is already in the market, your promotion efforts may focus on the distinct features of your item and what makes it different from the rest.

- How you are going to reach your customers; how to reach the most number at the least cost.
  - Will you put up a storefront in a fixed location?
  - Will you use a cart so you can go around?
  - Do you plan to go virtual as in selling through the web?
  - Will you sell in a *tiangge*?
  - Can you "borrow" a store and let others move your products for you?

- How much you are going to charge for your product or service.
  - Do you intend to charge on the high side or on the low side?
  - Will you be able to make a profit from your product or service?

- Who your competitors are. Consider also those who are not direct competitors but who might somehow compete against you. For example, if you rent out a badminton court, you compete not only with other operators of fitness facilities but also against providers of other forms of recreation or leisure, such as billiard halls.

- How you will position your product or service.
  - Will you compete with existing businesses head-on or will you try to find your own place in the sun?
  - Can you come up with something better or maybe something more practical and useful?
  - What will your product or service have that will convince buyers or users to prefer yours?

- Where you will set up your business. This will depend on the business activity you intend to put up.
  - The site of your business becomes a critical factor if your product or service depends on a heavy volume of vehicular and people traffic. If this is the case, even the side of the street you are on can make a difference. You can benefit by positioning this type of business close to a "magnet" store, i.e., a bigger store not necessarily in the same business as yours that attracts a large number of customers. This way, their customers may spill over to your store.
  - If you are a beverage distributor, reaching out to your customers becomes a question of transportation costs and speed. You will prefer a set-up that is large enough to store your goods and park your vehicles at a low rent.
  - Some service entrepreneurs can do business without leaving home. Licensed professionals such as doctors and dentists can set up their clinic in their own residence. Accountants, lawyers, architects can hold office at home too. It is a common practice among *sari-sari* storeowners to use a portion of their front for the store. Many hardware stores can set up their store at the first floor of their residence.
  - There are also some other service businesses that can do away with a physical set-up. These include those services that may be performed at the residence of a customer, such as landscaping, tutorial, salon service, interior designing, or pest control. Client calls on services for special occasions, for example a wedding or a product launch, can also be done either at the home of the client or in some other venue, say, a restaurant.

Knowing your market, who they are, where they are, how to reach them, your price, the competition, and type of operation suitable for your business is not the be-all and end-all of market research. Use the data to get a good estimate of the number of potential buyers or users and, consequently your potential sales figures.

Read more of this aspect in Chapter 5, *Determining Your Market* and Chapter 6, *Marketing Strategies.*

Creating your Product or Service

How did you fare in the selection checklist? If you possess the technical know-how you need for the business you intend to go into, your next move will be to find out the process, system or technology that is appropriate for your business. Ask yourself the following questions:

- How am I going to make my product or complete my service?
- How and where will I know more about the process, materials, and tools and equipment I
  need to make the product or service?
- Where will I get the materials and tools and equipment?
- If I will use machines, how and where will I get people who can operate the units?

  - Process. Think about the different steps or stages, materials, and tools necessary to produce the product or render the service. Answer the following:
    - Are all the steps necessary?
    - Can I eliminate a step or combine several steps?
    - What tools and equipment will I need?
    - What skills should I look for in a potential worker and how many workers do I need?

  - Machines and equipment. Use these things to help you make a product or complete a service in an organized way and with the least cost. The kind of machines to use will depend on the product or service you will offer. If you are in crafts, hand tools and simple machines will do. If you are in trading, you'll probably need a couple of vehicles to move the goods. If you will open an internet café, your computer needs will differ from one that is intended for personal use. Regardless of whether the process you employ will depend heavily on the workers or on machines, you should be most concerned with getting the most use of the equipment and in drawing out the creativity and potential of your workers.
    - Where will I get the equipment? Is it locally available?
    - How much will it cost? How many years will it take for me to recover the cost?

  - Materials. You will certainly need materials to make the product or run the service.
    Where and how will you get your materials? Can you use alternative materials? You cannot open a laundry service without adequate running water and a stable source of power. If you opt to be a furniture manufacturer, you will depend on suppliers mostly coming from the provinces to provide you with the wood and

other natural materials you will need to create and sell your goods. Your location and access to highways and transport can affect how quickly you will receive your materials. If your sources are far and there are not enough transport facilities serving your place, your costs will increase which, when passed along to your customers, will also certainly affect your price. Besides, having suppliers far from your plant can also result in production delays.

- Workers. As a new small business owner, one of the first decisions you will have to make is whether to hire someone to help you out in making the product or in completing the service.
  - Do you need a full-time or a part-time worker?
  - What type of skills do you need?
  - How much will you pay your worker? What will be the terms? Will it be on a per item or service completed, by the hour, or by the day?

Learn more of this aspect in Chapter 7, *Making Your Product and Completing Your Service.*

Putting your Business Together

Now you already have a tentative product or service in mind. You have also identified your potential buyers or users and discovered how you are going to make your product or complete your service. Your next move is to put up the business itself.

- Start by defining your purpose for putting up the business and setting the goals and objectives that will lead you to achieve this purpose.

- Give your business a legal personality. This basically means registering your business with the appropriate agencies of government.

- Let these questions guide you:
  - Why am I setting up this business? How do I want my business to be five years from now? What should my business achieve on the first year, on the second year, etc.?
  - Will my business be a single proprietorship, will I get partners, or will I incorporate? What are the advantages and disadvantages of each type?
  - What are the laws and regulations that can affect and influence my business?
  - Will I need people at the outset? How many will I need? What qualities will I look out for in them?
  - Where should I go for information and guidance?

You can ask for assistance from any SME counselor at the DTI SME Center nearest your place.

Read more of this aspect in Chapter 8, *Organizing Your Business.*

Looking at your Finances

Regardless of the manner that you will start a business (an entirely independent business, an existing one, or a franchise) and type of activity (manufacturing, service, or trading) that you will go into, you will need money to put up a business and keep it going at least until the business starts to generate revenues. Your next move is to find out how much you will need.

There is nothing like doing your homework and being prepared. You will need to come out with a document that will guide you in setting up your business. This document is known as the business plan.

The next chapter will give you an overview of the business plan.

After computing your start-up costs and the cost of running your business, you will now raise that money to get your business going. Initially, you need not search far and wide. Start with what you have. You can use your savings or sell some personal belongings like some pieces of jewelry or even a car. You can approach your parents, a brother or a sister, to complete the amount you need. Sometimes a friend or a rich uncle may also be willing to help you out.

Using your own money to finance a business is the safest thing to do. Borrowing from relatives and friends is also safe. Although you are duty-bound to pay them back, they are usually amenable to easy repayment terms. Sometimes, they are also willing to ask for a low interest or may even totally forgo the interest.

When the sum you raised from your personal money and from relatives and friends is not enough to meet your start-up costs, you can look for capital from other sources. There are a number of financing programs that you can avail from government and private financial institutions.

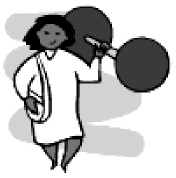
An SME counselor of the DTI SME Center will be willing to help you out on this matter.

SWOT ANALYSIS

Even if a business started smoothly, it is subject to change like any other business as it continues to operate. The changes are a result of the internal and external factors that affect and influence the business.

This next step will let you narrow your choices down further into three. Look at each of the five ideas once more in the light of your own business situation as well as in the business environment where you will operate. SWOT stands for **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats. Strengths and weaknesses refer to the factors internal to the company while opportunities and threats are the conditions in the external business environment.
The result of this exercise will help you come out with a list of the strong and weak points of each of the three business ideas and at the same time make you aware of the growth prospects and factors that could endanger each idea.

- Strengths.



They represent the positive factors that contribute to the success of your
business. They include the skills of your employees and workers, your expertise, availability of the resources you need (such as materials, information, machines and equipment, money, etc.), a strong demand for your product or service, low capital requirement, brand (if a franchise), among others.

- Weaknesses.

These are the negative factors that may cause your business to stagnate or be sluggish. They consist of having unclear goals and targets, poor leadership, inadequate skilled workers, low morale among workers, inefficient processes and equipment, unstable supply of materials, seasonal demand, lack of capital, etc.

- Opportunities.

These are conditions in the environment that will allow your business to
earn more income. Government support particularly in terms of loans, good infrastructure, technical and marketing assistance, incentives, etc., technological innovations specifically in communications technology, cost-saving devices, software programs for business application, etc., are some of the opportunities that you can seize to make your business grow.

- Threats.

These refer to the conditions in the environment that will have a negative effect on your business. They include an emerging and strong competition, entry of cheap imports, flight of skilled labor in favor of overseas jobs, declining market, shortage of raw materials, political crisis, too much legislation, and others.

MAKING THE FINAL SELECTION

First, you rated your business ideas according to your skills and experiences and narrowed down your choices. Then you examined the prospects of the five ideas that topped the selection checklist along the four major areas of an enterprise. You continued to study the five choices according to the internal and external circumstances that will most likely affect the business and came up with three semi-final choices.

At this point, I suppose you may have already made up your mind as to which among the three choices you are going to pursue. I bet it was a tough decision to make.

Whatever choice you arrive at, it will pay to bear these tips in mind:

- Find your niche. You must decide the economic level and geographic community that you are going to serve. For example, you may have the skill and patience of a teacher but you also love dancing, so that you are torn between offering a tutorial service and opening a dance school. The tutorial provides a necessary service while the school addresses the aesthetic and artistic inclinations of your target market.

  Look for a niche that is being served only by a few. But if you encounter several competitors in every prospective market area, do not shy away from them. You can face them by creating your own unique niche with a new or fresh idea and service offerings.

- Follow your heart. Think of the role you intend to play in your new business. Do you enjoy being hands-on and in the middle of everything? If you are a good cook, you would likely prefer being in the kitchen to serving customers in your *carinderia*. Are you more comfortable being a manager? You can get people to work for you while you concentrate on planning and running the day-to-day operation.

- Prepare a financial statement. Your three choices will require different amounts of start-up and working capital costs, sales prospects, and profit margins.

These are just practical tips. Learn more about them in the succeeding chapters.

SUMMARY

This chapter guided you how to select the business idea that is right for you. You rated each of the ideas competing in your mind. You also learned the steps for starting a business, which demanded from you an examination and evaluation of the market, technical, organization, and financial aspects of your possible business prospects. These assessments, including the SWOT analysis, will help you finally select the business idea that is most promising.

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PART II

STARTING YOUR BUSINESS

CHAPTER 4: THE BUSINESS PLAN

You are already definite about this business idea and want to make it real. You feel you have the "it" to be an entrepreneur. You know what you are getting into; you have the skills, some experience, and believe you can persuade people to buy your product or use your service. What else is stopping you from starting that business?

The ordinary person will rush headlong into the water. The entrepreneur will first dip a toe, so to speak, to determine if the water is hot, lukewarm, or cold before taking the plunge. An even wiser entrepreneur would bring out a thermometer to check the water temperature.

As has been mentioned in the previous chapters, the entrepreneur takes calculated risks. He is expected to get more details about a business idea to determine if the business he has in mind will stay afloat, grow, or collapse. He notes down these details in what is called a business plan.

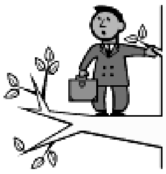
This chapter will give you an overview of the business plan and the importance of preparing one. The various components of the business plan will be discussed in details in the succeeding chapters.

WHY PLAN A BUSINESS?

A business plan is a document that aims to establish whether or not a business idea will bring in money that is greater than what it cost to start and operate it. Your business idea may look attractive to you at first. But beware! Not all business ideas are "doable." Some look brilliant while others are just too absurd.

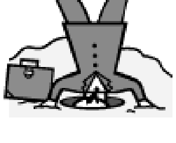
Therefore, no matter how good your business idea will seem, you still need to make a business plan for the following reasons:

- Reduce, if not remove, the risk of losing money invested in a poorly researched or unstudied business idea.



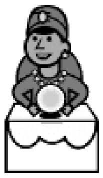
Shouldn't you first find out where your money is going before you let go of it? This way you reduce, if not remove, the possibility of losing your money on some activity that you should not have gotten into in the first place. Preparing a business plan will enable you to measure the prospects of a business idea before parting with your money.

- Avoid costly mistakes.



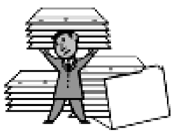
Every spur-of-the-moment or careless decision you make for the business entails cost that you might not be able to recover. It is never advisable to engage in a trial and error or on a hit-or-miss activity. You can actually save on costly mistakes by looking carefully at the details of the business in advance and determining your actual requirements. For instance, you may have thought that you will need two units of a high speed industrial sewing machine to complement your two regular motorized sewing machines and make full use of your estimated production capacity. After making a business plan, you realize that one unit of the industrial sewing machine and three sewers were all you needed to run in full capacity.

- Anticipate your financial requirements.



Money is the blood of any business. Without it no business can start or even survive. It is always wise to foresee sudden increases or decreases in the demand for your product or service so you can prepare for them. Through the business plan you can plan for the lean months and ensure that the business will have enough resources to meet business obligations during the periods when sales are low. In the same manner, the business plan will help you get ready for the peak production months so that you avoid losing any business opportunity.

- Organize your activities beforehand.

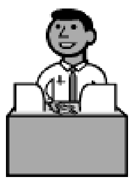


A business plan will serve as your road map to an unfamiliar territory and as such, minimize or avoid unpleasant surprises. The business plan will allow you to estimate how your business will perform in the future and to prepare for contingencies in case things will not turn out as planned.

- Assess actual performance against set goals.

A business plan will enable you to set targets in terms of sales volume and revenues, as well as expenses, among others. Once you have put up the business, you can always go back to your business plan to measure actual performance against your set goals.

- Apply for financing from lending institutions.



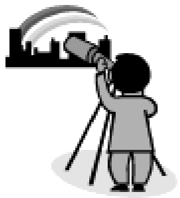
You could be lucky to have a *nanay* or *tatay*, *kumpadre* or *kumadre* to lend you money to start your business right away. But under normal circumstances, no one will lend you a sum if they are unsure about the prospects of your business idea. You should be able to convince possible sources of capital, especially banks, that something good will come out of your business idea. A well-prepared business plan can be your back-up support.

And so now you may already be asking, “What does a business plan look like?”

COMPONENTS OF A BUSINESS PLAN

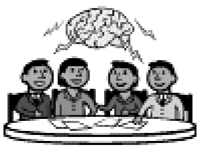
A business plan is basically composed of the following:

- Introduction or executive summary.



Just like the preface or foreword of a book, the introduction or executive summary gives a general idea about the contents of the business plan. It also states the name of the person who is planning to set up the business, form of ownership, the business address, type of project, objective(s) of the business, and total project cost.

- Marketing aspect.



This generally refers to the product or service that the business will offer. It gives details of the product or service, how it will benefit the buyer, how it will look like; who are expected to buy the product or use the service, where they can buy, and how much it will cost. This component also includes data on how much sales the business can expect - in a year, in two years, or longer - in units and in peso values. This portion also looks at the general situation outside the proposed business. The information will consist, among others of the following: how many buyers or users there are in the market as against the number of makers of similar products or services, how the latter are doing in the market; details as to how they make the buyers and users know about their products or services and convince them to buy; and many more information.

One of the first steps to take in preparing a business plan is to study the present situation of the market - the buyers and sellers. You have to *know thy enemy*. Like a soldier in a war you should have some idea of the products or services similar to yours that are already available in the market, who are making or offering them, how these other makers or providers sell their products or services, how they make their products or services known to the buying public, how go-betweens handle their products, and how they price their products or services.

The next step is to study supply and demand. Determine the volume produced by the different makers or providers (supply) against the volume needed by the buyers (demand). If the supply is greater than the demand, then it might be better for you to abort the business idea.

Once you are convinced that there is a good market opportunity for your product or service, it is time to stretch those finger muscles and work out the marketing plan. Begin by describing your target market or the specific group of customers you would expect to buy from you. After knowing their needs and wants, proceed to describing the product or service you have in mind. Then plan how your product or service will get into the hands of your expected buyers or users.

If, for instance, you intend make bath soap, you may consider supplying the bath soap needs of people living within the vicinity where you live. Let us say you live in Quezon City and your target market is just 0.001% of the total household population of the city. If the total household population of the city is 480,000, your target share then is 480 homes. Let us further assume that an average family of four consumes two bars of soap a month. That will mean you have to produce 960 bars of soap a month. With this target market in mind, you may have the marketing strategy shown below:

- *Product*: Bath soap with green papaya extract for whitening skin packed in an attractive box at 150 grams.
- *Promotional activities*: Eye-catching signboard inside the supermarket and the storefront of sari-sari stores.
- *Place or channel of distribution*: Supermarkets and variety stores.
- *Price* (from the factory): 20 pesos per 150-gram pack.

After estimating the number of packs of soap you expect to sell, where to sell them and how much to charge per pack, you can now calculate your projected sales:

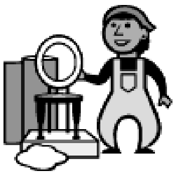
960 bars of soap a month * P25 = P24,000 a month or P288,000 a year.

Let us take the case of a service business, say, a laundry shop.

- *Service*: Laundry services consisting of the following combinations: dry clean, wash-dry-fold, wash-dry-iron, steam-dry-iron.
- *Promotional activity*: Signboard at the shop, movable signboard on the pavement.
- *Place or channel of distribution*: Front of the main gate of the public market
- Price: Dry clean – from P150 to 700 per piece, depending on size, wash-dry-fold at P25 per kilo, wash-dry-iron at 30 per kilo, steam-dry-iron at 40 per kilo.

Read Chapters 5 and 6 for more detailed discussions on marketing.

➢ Production or technical aspect.



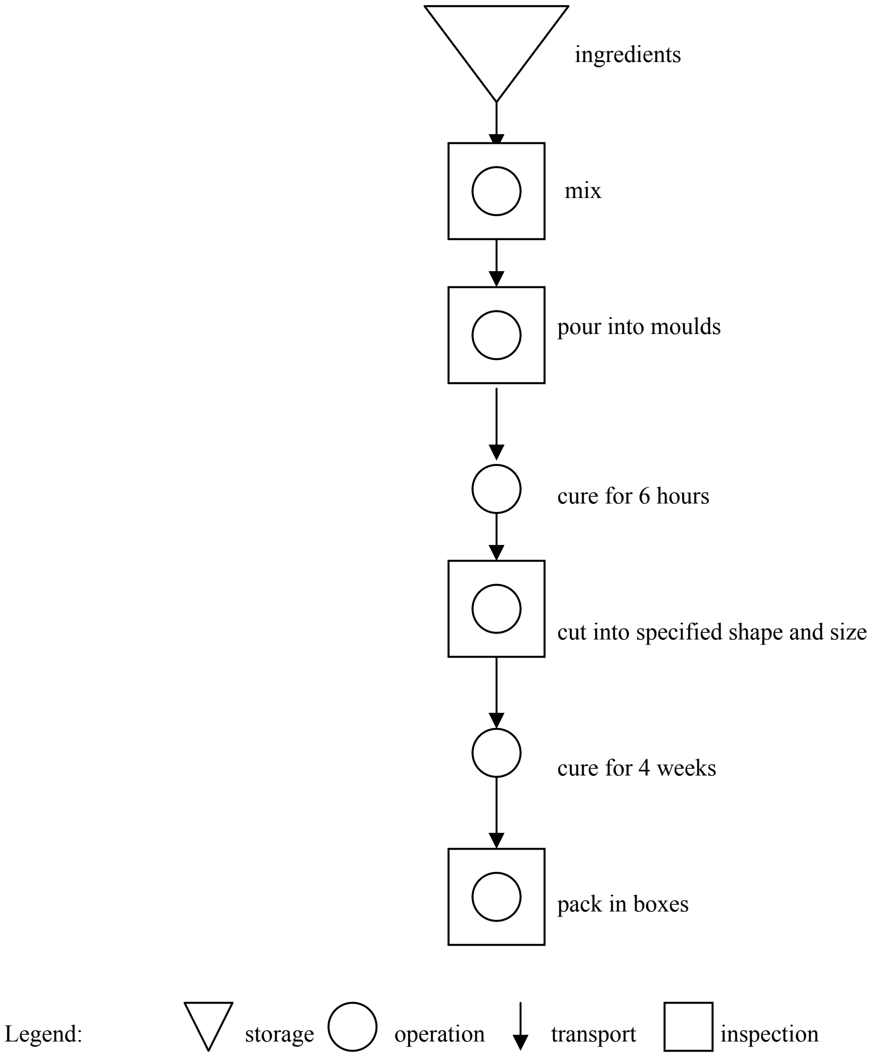
This component deals with how the product is made or the service completed; when it is made or completed; type and number of materials and equipment and number of people needed to make the product or complete the service; type and amount of electricity, power and water to use; arrangement and location of machines, work stations, storage and other areas; physical space and facilities; quality control system; waste disposal system; and many more.

In our example on the soap-making business, technical information may consist of the following:

- *Product specification*: This refers to the characteristics and components of the bath soap. In other words, it will describe how the soap will look like and what it is made of. In this case, it would be: 150-gram soap with green papaya extract that comes in three different scents. In the case of the laundry shop, the specifications will describe the nature of the different combinations of laundry services being offered.

- *Production process*: This is a step-by-step description of how the product is made or the service completed.

  In the soap-making example, you will show the different steps for making soap in a manner similar to the recipes you see in cookbooks. This is best illustrated by using a chart similar to the one below:



In the case of the laundry shop, use a similar chart to trace the steps and the amount of time required to complete each step from the time the shop receives the clothes for washing until the time they are done and temporarily stored, waiting to be claimed.

There are two methods for making soap, the cold process and the hot process. The process flow chart above illustrates the cold process. It does not need heating but requires additional four to six weeks of curing. If you intend to follow the hot process, just change the process flow chart.

- *Production machinery and equipment:* This refers to the machines and equipment necessary to make the product or complete the service.

  For the soap-making example, list the equipment, tools, and machinery you will need to make 960 bars of bath soap. While a startup business of making bath soap per se will not need much equipment, you may still need at least a computer and a printer to make attractive packaging for the soap. A table like this one will help you describe the equipment you will need:

Equipment	Unit	Cost (P)
Stick Blender	4	4,000.00
Weighing Scale	1	1,000.00
Computer	1	35,000.00
Printer	1	10,000.00

  For the laundry shop, list down the type, specifications, and number of washing machines, dryers, steam irons, ironing tables, laundry baskets that will be used to complete the service.

- *Production materials:* This refers to the major materials that you will use to make a product or complete a service. There are two types of production materials, direct materials and indirect materials. Direct materials refer to the materials that become part of, or are directly related to the product you make or service you offer. Indirect materials refer to some materials that are usually used in small amounts to make a product or complete a service.

  Following the same format of the machinery and equipment, make another table for the materials and supplies and the quantity or amount necessary to produce the 960 soap bars. For the soap, the direct materials would be base oil, caustic solution, and papaya extract. The solution that will provide the scent is considered as indirect material.

  For the laundry business, major materials would consist of laundry detergent and water. Indirect materials would be the solution that will give the pleasant smell on the clothes.

- *Utilities, plant location and layout*: This relates to the sources of water and electric power, the site of the business, and arrangement of facilities and workstations.

  Indicate whether you will use tap water, deep well, or any other source. Do the same for the electric power. Mention the availability or unavailability of your water and power source and whether you need to do some installations.

- *Production schedule:* This gives in detail how the work is going to be spread out in the next 12 months. This has to be made in order to ensure that the number of units to be sold or services to be completed, based on the projected sales, are produced in time. Among others, the schedule will show the status of production at any point during the production period; the specific periods when production or service will start and when the product or service will be completed.

For the soap-making example, make a production schedule based on the data given in the process flow chart. Find out how long each step takes in minutes or hours. In the soap example, you may have noticed that the curing period is long. You may have to prepare the mixture for all the 960 bars of soap in advance. Once you have computed the length of period required for one production cycle (960 bars), you will be able to determine the number of cycles you can do in a week, a month, and a year. This information will help you to decide whether to concentrate on the business or consider it as a part-time project.

In the case of the laundry shop, the production schedule should indicate how many washing jobs can be done in one day, week, month, and a year given the estimated amount of time that were identified to complete one washing job, number of washing machines, dryers, flat irons, and ironing tables, as well as the number of workers in the shop.

- *Labor requirement:* This comes in the form of direct labor and indirect labor. Direct labor refers to the people who are actually involved in making the product or completing the service. In the soap business, this will be the mixer. Indirect labor refers to the people who perform tasks that do not have anything to do directly with making the product or completing the service. They are the production helpers, quality control inspector, supervisor, etc.

  The decision to hire people will depend on your choice on whether to operate the soap-making business full time or part time. Let us assume that you want to go full time. The type of people you will need to help you and their number will be dictated by your production schedule. You could have some use for a table like this:

Position	Number	Duties	Basic Salary (P)
Production helper	4	Buys ingredients for the product, makes soap once a month and assists in selling the products when there is no production.	P4,500.00
Driver	1	Delivers finished goods to customers.	P3,000.00

- *Inventory schedule:* Inventory refers to the stock of materials, supplies, and spares required for making the product or completing the service.

  The inventory record will keep you informed of the date of purchase, quantity purchased, cost, date released for production, quantity issued, and remaining balances. Keeping track of these items will ensure that you do not only have the materials you need to make the product or complete the service on short notice but also to prevent you from keeping obsolete or expired materials in your stock.

  You can devise something similar to the chart on next page for this purpose.

Item	Quantity	Date In	Cost	Quantity	Date Out	Balance	Date
Base oil							
Caustic solution							
Papaya extract							
Green dye							
Scent							

- *Total production cost schedule:* This is a summary of the costs involved to produce your product or complete the service. It is composed of the direct materials cost, direct labor cost, and the supplies, utilities, depreciation of machines and equipment, and indirect labor costs, collectively known as manufacturing overhead cost.

  Use the charts below to help you compute your total production cost.

Direct Material	Purchase Cost per Unit of Material	Quantity Needed per Unit to be Produced	Cost per Unit to be Produced
Base oil			
Caustic solution			
Papaya extract			
Green dye			
Scent			
Direct Material Cost per Unit			

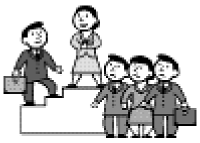
Direct Labor	Number	Monthly Salary	Annual Salary*
Production Helper	4	P18,000.00	P234,000.00

* computed on a 13-month per-annum basis

Manufacturing Overhead	Cost
Indirect Labor	
Indirect Materials	
Repair and Maintenance	
Depreciation of Production Equipment	
Transportation	
Utilities	

Read more on the production or technical aspect in Chapter 7.

- Organizational aspect.

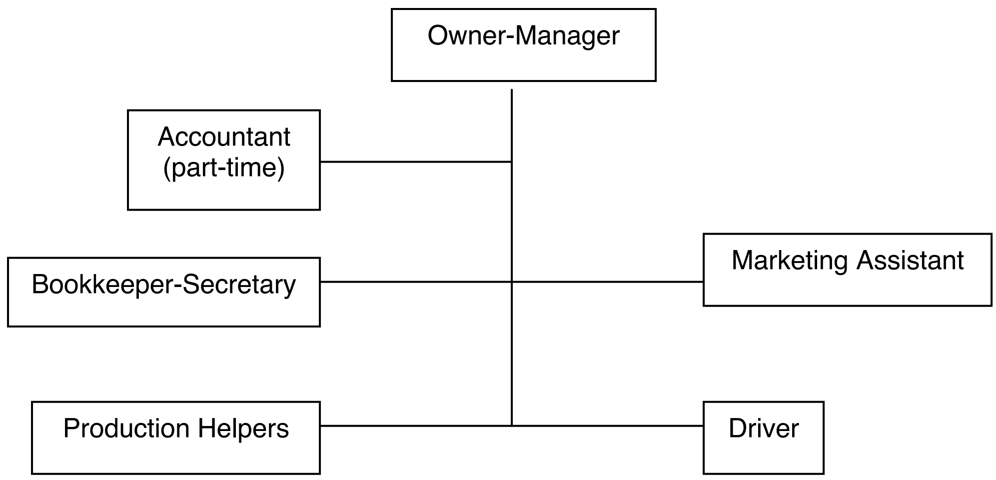


This refers to the details of putting the business together. It involves getting the people, setting up systems and procedures, acquiring the machines and equipment, and registering the enterprise. It includes coming up with a timetable of activities to do until the enterprise formally opens for business.

You start by defining your vision for the enterprise and setting up your goals and objectives. Then decide on the form of ownership, whether it will be a sole proprietorship, a partnership, or a corporation. If you have a group, you may also choose to form a cooperative.

Read more on the organizational aspect in Chapter 8, *Organizing Your Business*.

Show the organizational structure by means of an organizational chart arranged according to the four functional areas: marketing, production, finance and administration. Below is an example of an organizational chart.



The organizational chart is useful for indicating the hierarchy or the levels of authority and communication in a company. It identifies who is responsible for whom and who reports to whom. It also visually presents how the various job assignments are classified among the staff.

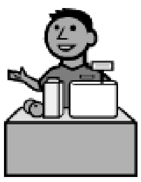
This chart shows that the owner is a hands-on manager. He may have some staff to assist him but he is on top of the business and makes all decisions.

Besides the organizational chart, you have to describe the duties and responsibilities that go with the positions, the number of people you will need, the qualifications of those who will carry out each task, and the corresponding salaries and benefits, in the organizational plan.

An important part of the organizational plan is the Gantt Chart. This is a list of all the activities you are to do prior to launching the business and the timeframe for accomplishing them. Preparing the Gantt Chart is a useful exercise that allows you to have a view of the pre-operating activities and their cost implications. These activities include writing of the business plan, negotiation for financing, construction or improvement of the building, acquisition of machinery and equipment, recruitment (and training, as applicable) of personnel, registration of the business etc. Your Gantt Chart could look like the one on next page.

Activity	Week											
	1	2	3	4	5	6	7	8	9	10	11	12
Preparation of the Business Plan												
Securing Owner's Capital												
Registering with the Government Agencies												
Construction of the Shop												
Acquisition of Furniture and Fixtures												
Acquisition of Equipment and Machines												
Purchasing of Raw Materials												
Hiring of Personnel												
Training of Personnel												
Trial Run												
Start of Operation												

- Financial aspect.



Just as money is very important to any business, this section is critical to any business plan. This component will let you know how much you will need to put up the business, where you will get the money to finance it, and keep it going. Vital to this component is an estimate of how much you will need to operate the business for at least a year up to, probably five years, especially if you will borrow from a bank, how you are going to use the loan, how much profit the business will earn, how you are going to repay the bank loan, and some other information.

While you usually go to a doctor only if you are ill, it is nonetheless advisable that you see your doctor regularly for a checkup. In the same manner, you should know the financial status of your business regularly (preferably once a month) and not just whenever you experience cash flow problems. The financial plan can be both a tool for prognosis for a healthy business and diagnosis for one that is experiencing difficulties.

The financial plan translates into monetary terms what you have learned after completing the first three major components of your business plan. In doing the marketing plan, you learned things related to *sales generation,* whereas in the production and organizational plans, you learned about things related to *expenses*. The financial plan translates all of this information into monetary figures, and from these data you will be able to assess whether the profit that you expect the business to earn is greater than the cost of setting it up and operating it.

In the soap business for example, you expect to realize a monthly sales of P24,000 or P288,000 within a year. After computing your expenses, deduct this amount from your total sales. If you get a positive number, it could mean that the business is profitable. This is a very simplistic way of measuring the profitability of a business. There are a lot of other factors to consider and methods to use for evaluating a business plan. Chapter 10 will discuss this in more detail.

One of the financial schedules you are to prepare for the financial plan is the *total project cost schedule*, which is composed of items relating to the total fixed assets, the working capital, and the pre-operating expenses. Examples of fixed assets are land, building, vehicle and equipment. Working capital, on the other hand, refers to funds you need to pay for expenses related to production, marketing, and organization within a short period or until the revenues start coming and the business will be able to finance its own operation. Pre-operating expenses, meanwhile, consist of the fees you incur when you register with the government and consultancy fees you pay to a consultant or researcher who prepared the feasibility study. You include your sources of funds. The money may come from your own pocket and from fellow owners of the business or equity contributions, if any. It may also come from relatives, friends, banks or financial institutions. External sources of funds are referred to as creditors.

In the soap-making business, the blender, weighing scale, computer and printer are considered your fixed assets. If you put up a stall or improve a part of your house for the business, the costs for putting up the stall and house improvement are also considered your fixed assets. Your working capital will consist of the money you will need to buy the direct and indirect materials, pay your direct labor, take care of overhead costs, and sell the soap. If you loaned from the bank or from an informal source, the interest will also form part of your working capital. If you will train your workers, hire a consultant, or do some research these expenses, and the fees you will pay for business registration will be part of your pre-operating capital.

A financial plan includes the preparation of the following financial statements: income statement, which presents the net result of a company's revenues, minus expenses, over a given period; balance sheet, which is a “financial snapshot” of your business at a given time that tells you how much your assets and liabilities are, as well as the net worth of your business; and *cash flow statement*, which shows the sources and uses of cash for your business over a certain period.

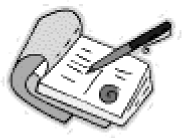
You are not expected to acquire the skill of preparing financial statements after reading this chapter. You can ask somebody to prepare these statements for you. A well-experienced bookkeeper or an accountant can easily do the task. The more important thing is for you to understand how to use the financial plan, particularly the financial statements, to come up with good business decisions.

Read more about financial statements in Chapter 10, *Basic Record Keeping for the Non-Accountant*.

SUMMARY

The chapter discussed the importance of a business plan and your need, as an aspiring small business beginner, to prepare such a plan. It made use of a soap making business and a laundry shop to illustrate the four components of a business plan.

You can make your own business plan for the product or service that you have in mind by using the Workbook in Chapter 12. The Workbook is designed for three types of businesses: manufacturing, trading, and service.



Follow the instructions, answer the questions, and write down your thoughts, ideas, and computations on the blanks provided. Fill it up gradually, preferably on a per section basis, that is, after reading each chapter from Chapter 5 onwards. Once accomplished, the Workbook can serve as your bible to guide you when you finally decide to put up your own small business.

The guidebook does not guarantee that you will acquire all the skills necessary to make a business plan. The discussions and presentations from Chapters 5 to 11 are by no means complete. They are intended mainly to familiarize you with some basic business concepts, procedures, and methods that you, as a beginning entrepreneur, must know before you decide to actually put up your business. If you want to learn more, you can always read business books and seek help from an SME counselor at the DTI office nearest your place.

CHAPTER 5: DETERMINING YOUR MARKET

After getting an overview of the business plan, it is time to come up with your own business plan for the product or service that you have selected. The discussions from this chapter onwards will serve as your prompt for preparing your business plan. After reading each chapter, proceed to the Business Plan Workbook in Chapter 12.

The first part of the business plan deals with finding out the possible buyers of your product or users of your service. The techniques for identifying who they are and more can be found in the marketing function of a business.

Some Definitions

There are several meanings of the term, "marketing," that appear in the website, www.thefreedictionary.com/marketing. For the purposes of this guidebook, we shall follow these definitions: **Marketing** refers to the *commercial processes involved in promoting and selling, and distributing a product or service. It refers to the commercial functions involved in transferring goods from producer to consumer.*

We shall likewise consider the following definitions of the term, "**Market**" by the same website:

1. *a subdivision of a population considered as buyers*;
2. *the business of buying and selling a specified commodity;*
3. *a geographic region considered as a place for sales.*

Related words that were given for the term, "**Market**," includes:

1. *the world of commercial activity where goods and services are bought and sold*;.
2. *the customers for a particular product or service.*

The four important things in marketing that an entrepreneur must remember are:

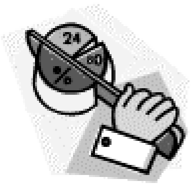
- the client, the buyer, the target user, generally called the **target market**;
- the entrepreneur's ability as a marketer to **understand the target market**;
- the entrepreneur's ability to **influence the target market to buy** the products **or use** the services offered by the business; this will depend on how well he understood he target market; and
- the main objective of marketing, which is **making the target market buy** the company's product or service; this will be measured by the revenues that come in the form of payment from the buyers of the product or users of the service.

Take note of the second and third points, understanding the target market and influencing them to buy from you. If these may sound strange, do not be turned off. This chapter will guide you how to identify your target market and to know them better. The next chapter will discuss how you are going to make your target market buy your product or use your service.

UNDERSTANDING YOUR MARKET

There are five skills you need to acquire that will help you understand the market: how to group (or **segment**) the market, how to identify which segment to focus on (**target**), and how to be more **familiar with your target**. It will also help to you to know who else are making similar products or offering similar services (**competition**) and how to estimate the **size** of the target market that will buy your product or use your service.

Segmenting the Market

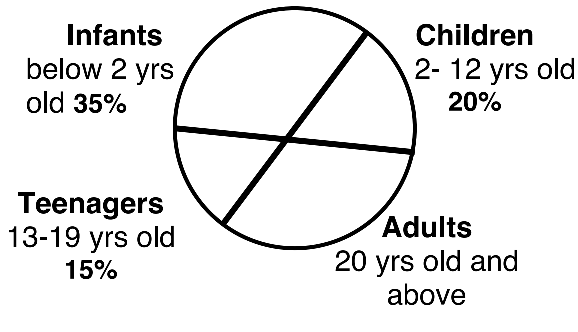


Market segmentation refers to the process of dividing prospective buyers into groups that have common needs and will respond similarly to a marketing action. It is a process in marketing of grouping a market (customers) into smaller subgroups. It is drawn from the recognition that the total market is often made up of submarkets (segments).[1]

A market can be grouped according to these variables: geographic (region of the world or country, size of country, climate), demographic (population - age, gender, sexual orientation, income, occupation, education, etc.), psychographic (personality, lifestyle, values, attitudes), or behavioral (product, benefit sought, rate of usage, brand loyalty, readiness-to-buy stage, etc.).

It is simple to segment a market. For example, the Market is the whole Philippines or the Filipinos living within the Philippine archipelago. One can group the Filipinos according to any or a combination of the demographic variables.

Figure 1 below shows an example of the Philippine market, segmented according to age groups. It shows that 35% of Filipinos are infants, that is, they belong to the 2-yr-old-and-below age group.



The kind of grouping to use will depend on <u>the nature of product</u> you are going to make and <u>the set up of your business</u> (whether manufacturing/processing, trading, or service).

[1] http://encyclopedia.the freedictionary.com

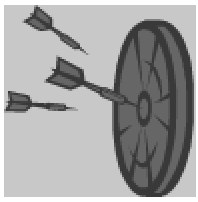
The table below shows some examples of grouping.

Type of Product	**Possible Segments**
Soap (manufacturing or trading business)	People who want to have whiter skin People who want scented soaps People who want soaps without additives People who want to get rid of their pimples People who want to eliminate body odor.
Shampoo (manufacturing or trading business)	People with: dry hair, dandruff, colored hair, long black hair, oily hair, curly hair
Type of Business	**Possible Segments**
Call Center (service business)	Businesses who want to outsource some of their operations, e.g., accounting, billing, collection, sales, marketing, logistics, customer services, technical support.
Hardware (trading business)	Contractors, interior designers, architects, developers, carpenters, repair shops, electricians, plumbers, individuals

One of the more effective ways for identifying the kind of grouping to use in market segmentation is to go to the places where products <u>similar</u> to what you intend to produce or service to offer are being sold. You can gain some insights by observing what kind of people are buying products or using services similar to what you have in mind to sell or offer, and buying from businesses with the same set-up as yours.

If you plan to sell mobile phones, for example, the best way to spot the groups or segments that would buy them is to go to places where mobile phones are being sold. These are either at the open market (e.g., Greenhills Shopping Center, the malls), the market in the internet (e.g., e-bay, bidshot), or the stores of the telecom firms (e.g., *Nokia* Stores, *Smart* Centers, *Samsung* Distributors, *Globe* Hubs). You will notice what types of people are buying a specific type of mobile phones. You would perhaps note that a housewife would be happy to own a unit with the basic features that will allow her to get in touch with her family through messages and calls. A student would prefer a unit with more features like a camera. A yuppie would go for one with still more features and that will exude a sporty look. The list of buyers and their preferences can go on. The process of segmenting or grouping aims to identify the different types of buyers who are buying the products or services that are similar to what you intend to offer.

Targeting



After grouping the market into different segments, you must be able to choose which among the segments or groups to target as your market. To target is to select from among the big group of possible buyers or users, a specific group or type of buyers to cater to. Normally, entrepreneurs would want to target all segments of the market – the Philippines or the world. That is very good and that is encouraged. But the discipline in marketing is to <u>target one segment at a time</u>. The goal of a business may, however, be to serve all segments if it wants to.

When you target, you are going to decide which among these groups or segments you want to serve. In effect, you are narrowing down the market from a very wide universe (all the Filipinos living in the Philippines) into a specific group or segment.

The table below shows an example of a food and beverage company that has targeted particular segments and served almost all segments.

Food and Beverage Manufacturing*	
Segment	**Targeted Marketing**
Breakfast Table	*Eight O'clock*, *Magnolia Fresh Milk*, *San Mig Coffee*, *Purefoods Bacon*
Night on the Town	*Pale Pilsen*, *San Mig Light*, *Ginebra Gin*, *Red Horse Beer*, *Coke*, *Matador*, *Crispy Pata*
Kiddie Party	*Tender Juicy Hotdog*, *Chicken Nuggets*, *Fun Chum Juice*, *Chicken Popcorn*, *Jellyace*, *Magnolia Ice Cream*
Computer Shop	
Segment	**Targeted Marketing**
Gamers	Software: *Ragnarok*, *Tantra*, *Counter Strike*, *Diablo*, *Star Craft*, *War Craft* Hardware: High Graphics Card, RAM, High Internet Speed, Heavy Duty Mouse
Word Processing	Software: *Microsoft Office*, *Open Office*, *Adobe Suite* Hardware: High RAM and Hard Disk Storage, Good Keyboard, Printer
Surfers/Chatters	Software: Browsers, Updated Plug-ins, Current Media Players, Chat Lines Hardware: High Resolution Screen, Headsets, USB ports, Large Hard Disk

*SMB Brochure 2005

Targeting will allow you to concentrate on one segment or group at a time. In the above example, *San Miguel Corporation* segmented the market according to "event tables" and focused or developed a marketing per segment. Marketing in this sense includes the products, the promotions, the distribution, and the price that applies to each segment. So, the company developed specific products per segment. You are also aware that the promotions programs for each product are different (e.g., *San Mig Light* is promoted to young people who want to stay out all night but don't want to get drunk immediately; while *Red Horse Beer* is for those who want an instant kick). Each product is also distributed (slightly) differently and priced differently.

In our Computer Shop for example, targeting for a small firm is the same as targeting for a big firm like *San Miguel Corporation*. The Computer Shop segmented the market according to users and developed product and service offerings accordingly.

On page 61, the people who were expected to buy soap were divided into five groups or segments. The grouping was based on the benefit that each group expected to gain from the soap.

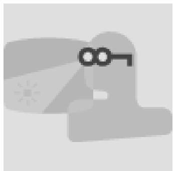
Understanding Your Target

After identifying a specific segment to be your target market, you will need to acquire skills on how to understand or get to know your target market a little deeper. The usual practice of some businesses in studying their target market is to use what is popularly called market research.

Market research is the process of collecting and analyzing information as to how the goods or services move from the producer to the consumer. Market research is commonly regarded as an expensive activity especially if it is carried out to draw conclusions and involve a large number of respondents.

But you need not despair. You can still conduct a low-cost market research for your business. A whole new set of inexpensive tools have been recently developed to help aspiring small entrepreneurs like you understand your target market a little better. These include the following:

- Gathering Insights. One way to be familiar with a target market is by getting to know them up close, knowing where they go, what they do, and what things they buy and services they avail. You can get some valuable insights about them; what they need and what they want. Such insights will enlighten you about the kind of product to make or service to offer your target market, how your product or service will look like, how you will convince them to buy your product or use your service, how your product or service will reach them, and how much you are going to charge for that product or service, among others.



Here is a list of some of the commonly used tools for gathering information and getting insights about the target market:

- Surveys,
- Focus group discussions (FGDs),
- Observing in context (shadowing, expert walkthroughs, day-in-the-life survey, draw the experience, fly on the wall),
- Emphatic tools (mock journey, empathy tools, body storming), and
- Prototyping.

When using these tools, be on the lookout for the following:

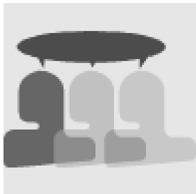
- Why people do what they do (motivation or intention),
- How they do what they do (process),

- Any behavior that is surprising or beyond the ordinary (e.g., not using a pillow when sleeping),
- Errors that make sense (e.g., dialing 9 on the house phone),
- Body language (e.g., saying no but nodding), and
- Work-around (e.g., using shortcuts).

- Survey. This is a process of collecting a sample of data or opinions, from a group that can be considered to represent a whole, on a product or service. It usually comes as a list of questions to ask to a sample of the target market. A survey can be conducted using printed questionnaires, interviews, or polls. What is important in surveys is the quality of questions to ask. Good questions yield answers that reveal a lot about the target market. In turn, revealing answers would allow for better insights.

For example, you want to know how you can improve your catering service for weddings and you have no idea on how to go about it. You can ask those who plan to get married what motifs they are considering, how many people on the average they will invite, how much their budget is, what month of the year they plan to get married, what they want as parts of the reception program, etc. You can also ask some newlyweds about their experience. The answers you will get from the survey will give you ideas that will help you create better wedding reception packages.

- Focus group discussion (FGD). Focus groups are a tool for evaluating a product or service. It is an organized discussion of a specific group of people who will talk about the issues and concerns about a topic that they share in common. It requires a facilitator to moderate the discussion and process the outputs.



In marketing, the participants to the FGD would be composed of people from the target market. Key to the FGD is the ability of the facilitator to draw out ideas and feedback from the members of the focus group. Another important factor in the FGD is the questionnaire or rather, the questions and the topic that the group will discuss. Just like in a survey, good questions yield good answers.

The FGD will allow you to obtain a better appreciation and understanding of the target market. You can use the output to verify survey results, add an emotional flavor to the ratings, provide clues to new products or services to offer, and strategies to use.

If you are the caterer, you can use the FGD to bring together the prospective brides, newlyweds, and wedding planners. You include your concern in the agenda for discussion.

- Observation. This refers to the act of paying attention or taking a patient look at a sample of the target market. In marketing, one of the simplest methods of observation is the contextual observation.

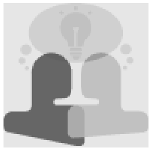
- Contextual observation involves studying or monitoring a sample of the target
  market in the context of a product or service. It involves paying close attention while the sample of the target market is using or experiencing a product or service. Observing in context will provide you with ideas for improvement, innovation, or thoughts of what the target market really needs and wants.

- Shadowing. Another way of observing is by shadowing the target. This is like spying on the target market. Shadowing involves following a sample of the target market, taking daily note of their behavior as they interact with the product or a similar product that a business plans to produce.

  When you shadow, you observe the following - how the target market uses the products and services similar to what you intend to offer, what they feel about the products or services while using it, how they communicate with other people about the products or services, and many more possible observations.
  A small business that wants to produce sports apparel should follow an athlete from the time he starts training, through action in real games, and even after the games.

- Expert walkthrough. This technique involves getting an expert's opinion about a product or service. This technique is normally used for products and services that are complex in nature. As experts, they are expected to have a bird's eye view of how similar products and services are made and how users experience the product.

  Asking an expert about the processes of making a product or completing a service as well as the experiences of the users of similar products or services will help you to quickly understand your target market. You can get a lot of help from experts who, by knowledge and experience, know the product and services inside and out.

- Day-in-the-life surveys. This is like shadowing but instead of following the target, the entrepreneur will ask the participants in the survey to take note of their own surroundings and behavior when using the product or service.

  For example, a mobile phone company will ask a photographer and an ordinary person to use its new megapixel camera-phone to take pictures everyday and monitor their usage of the unit. The company will find insights on the use of the phone on the basis of the experience of the two users. The company can then use this information to make adjustments on the camera.

- Draw the experience. Another observation technique is to ask a sample of the target market to describe their experience with a particular product or service. The experience should illustrate how they found the product before use, during use, or after use. Businesses that can best use this type of contextual observation are those in the food, hospitality, tourism, and construction services.

- o Fly on the wall. Another technique in contextual observation is to act like the fly on the wall. This is the same as shadowing except that the observer (the entrepreneur) should stay in one place only, just like the fly on the wall. In this technique, the entrepreneur observes and records human behavior within the target market's context. This is a technique that is popular among all types of businesses. It has been used extensively in studying how people behave in supermarkets or when shopping.

- Emphatic tools. Empathy is the ability to appreciate what another person feels or to understand what the latter goes through. To empathize is like "being in another's shoes." The entrepreneur must literally get into the target market's shoes. It will enable him to break out of the trap of designing what he wants for himself and start to see the challenge from the point of view of the user.

  It would be good for you to know not just what people are saying and doing but also about what they are thinking and feeling.

  Current practice shows that this technique is best used for businesses that want to make products and services for the disabled. The law on providing "wheelchair" pathways when constructing a building is an emphatic insight. However, emphatic tools can be used for most, if not all, products and services.

  Here are some of the techniques in empathizing:

  - o Mock journey. In this technique, the entrepreneur simulates or acts out the customer's or the user's experience with a product or service. The entrepreneur will go through the entire process of using the product or service from the time he buys it until he is through using it. This will allow the entrepreneur to feel and understand what the target feels and goes through when using the product or service.

    A good example is when one puts a promotional sign on the highway. It is not enough that he will put the sign there. The entrepreneur has to stand across the road to see that the sign stands balanced. The mock journey suggests that the entrepreneur gets into a car or a bus or a tricycle so that he can "see" the sign from the point of view of the target market.

  - o Empathy tools. Another technique is the use of empathy tools. Sample empathy tools would be colored glasses and weighted gloves. The entrepreneur wears colored eyeglasses when he wants to understand how an elderly person experiences the product. The same thing with weighted gloves. For example, a sports shoes maker plans to produce running shoes for the exceptionally huge-sized-people market. The entrepreneur must put on weights (sand or stone) in the shoes to approximate the mass of the target market and try to jog around with it.

  - o Body storming. This is the least used technique in developing empathy with the target market. It is a variation of the brain storming technique, which is used to gather as many ideas as possible. The only difference is that, in this technique, the body is used to show ideas and experience possibilities.

    When creating a new body design for a tricycle, for example, the entrepreneur can try the new design by sitting or stepping in and out of it.

Body storming can help the entrepreneur gather insights into the "riding" experience.

How is body storming done? Set up a scenario (one that your target market may actually go through) where you, with the help of friends or family, act out roles, with or without props, focusing on the spontaneous responses prompted by the physical action.

- Prototyping. Prototyping is the skill of quickly putting ideas and concepts into tangible products or actionable services. Prototypes are samples or look-alikes or sounds-alike of the product or service that an entrepreneur wants to bring into the market. Prototyping is a good way of gathering insight into the market by allowing a sample of the target market to experience the product and getting feedback from them. A good example of prototyping is the popular "taste tests" or "sampling" of food products.

Analyzing the Competition

When trying to understand your target market, do not neglect to look at the other businesses that are making similar products or offering the same services as yours (competitors). What is important here is not the competition but your target market in relation to your competitors. It will help you understand your target market further by looking and analyzing as to <u>why</u> the target market buys or might buy from the competition – the answer to these questions can be found in the insights you have already gathered.

Competitor analysis is, first, knowing <u>what your competitor's marketing is</u>. This includes: the competitor's products or services, how much they cost, how they are distributed, and how they are made known to the target market. The best way to do this is to go out there and see the competition yourself. Some entrepreneurs even go to the extent of buying the products or using the services of competitors. In this way, they are able to differentiate the product or service and marketing, be ahead of the competition, and ride with the market trends.

Competitor analysis is, secondly, understanding <u>why the target market is buying</u> or will buy from the competitor. To achieve this, you can use the tools on how to understand your market.

Estimating Potential Market Demand

Another skill that the entrepreneur must develop is the ability to estimate potential market demand. Estimation is an educated guess. The best way to be very certain and confident about estimates for potential market demand is to look for facts about the industry where the entrepreneur intends to enter.

A very simple way of estimating demand is by using the national census. Let us assume that you want to produce garments for women. The national census indicates that there are 10 million women in the country. Assuming that these women will buy two blouses in one year, the <u>market demand</u> for blouses would be 20 million blouses per year.

The blouse that you want to produce is made of very high quality and would be quite expensive; only the economically well-off can afford it. The census says that there are 1 million women in the country who belong to the A socio-economic bracket. So, given that the women buy two blouses a year, the total demand for high quality blouses would be two million pieces. Taking into consideration that there are 19 competitors who can offer the same blouse of similar quality, two million blouses divided by 20 firms (19 competitors + you) would result in a potential <u>demand for your high quality blouses at 100,000 pieces a year.</u>

Estimating potential market demand is a marketing skill that has an impact on projecting sales, sales growth, and capital, machine, and manpower requirements. A good estimate of demand has a direct correlation with the main objective of marketing, which is to make the target market buy one's products, which will, in turn, redound to sales revenues. In essence, the estimated potential market demand is the numerical representation of how well the entrepreneur understands the target market.

SUMMARY

In this chapter, you learned that central to marketing is the target market, and the foremost competency that a beginning entrepreneur like you should develop as a marketer is the ability to understand that target market. To do this, it is important for you to have the following skills: grouping similar people together to form market segments; analyzing and deciding which of the segments you will target or sell to; and gathering insights into that target market using surveys, FGDs, contextual observations, empathic tools, and prototyping.

Acquiring such additional skills as knowing your competitor's marketing and estimating the demand for your product or service will enable you to understand your target market better. The latter skills are especially useful in business planning especially in forecasting your sales, sales growth, and deciding the investment, manpower, and machine requirements of your new enterprise.

Have you identified the type of people who will likely buy your product or use your service? What will you do to be able to understand their behavior and know them better? How many units of your product do you think can you sell or service jobs can you complete in a month, in a year?

Now come up with your marketing plan by filling out some parts of the Marketing Plan in the Workbook in Chapter 12. Among others, the marketing plan comes with a simple do-it-yourself market research activity.
This will guide you on how to segment the market and forecast your sales.

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CHAPTER 6: MARKETING STRATEGIES

In the previous chapter, you identified your target market or the people whom you expect to buy your product or use your service. You also learned some of the tricks and techniques for understanding them better. Your next task now is to find out how you will get this target market to buy your product or use your service.

The second point in marketing is concerned with activities that will draw the target market to a product or service and induce them to buy. The success of an entrepreneur's efforts towards this end is measured in terms of how much the business will realize from sales of the product or service.

This chapter shall focus on some of the tried and tested ways of influencing a target market to buy one's products or services. The kind of activities to implement and the level of their influence on a target market will depend largely on **how well the entrepreneur understands his market**.

Before you reached this chapter, you already had a product or a service in mind, right? This chapter will help you determine whether or not your product or service will sell and how you are going to persuade or induce your target market to buy from you.

Some Definitions

All throughout the chapter, you will be coming across the term, marketing strategies. In general, a **marketing strategy** is a plan of action required to realize the main objective of marketing, which is to influence the target market to buy the product or service being offered by a business.

Much of the ability to influence the target market is developed by knowing what these marketing strategies are, by learning from the other companies, and by actual practice.

Marketing strategies revolve around the 4Ps of marketing, so-called because they all start with the letter P. Collectively referred to as the **marketing mix**, the 4Ps are the factors that help a business to sell its product or service. The four elements – *the four Ps of marketing* – are normally set apart as: getting the right product to the market, at the right price, ensuring that promotion in terms of advertising and marketing for the product or service is right, and ensuring that the product or service is distributed to the most convenient place for the customers to buy it.[2]

All the factors are interrelated and, in many cases, interdependent.

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[2] http://encyclopedia.farlex.com

PRODUCT STRATEGIES

Product strategies involve using the properties of the product to influence the target market into buying a product or using a service. Some of the properties of a product or service include brand, packaging, label, support, and attributes.

Branding

A "brand" is a name, term, sign, symbol or design, or a combination of these, that aims to identify the goods or services of one seller and to differentiate them from the other sellers. The simplest example of a brand is the full name of a person. A person's full name distinguishes him from another person.

And just like your full name, your brand will allow your target market to easily identify and distinguish your product or service from similar products or services available in the market. If your product or service can be easily identified through its brand, this will trigger an easy recall for your target market. When that happens, you will know that your product or service has made an impact and that you as an entrepreneur-marketer are already in the position to influence your target market to buy.

It usually takes a long time before an entirely new business is able to establish its brand unlike in the case of a franchise. This is one of the reasons why many new businesses use a brand that spoofs an existing brand. Take for instance, *Mang Donald*, a brand of chicken taken from the brand, *McDonald's*. It is always good to come up with a brand that is short, can easily catch one's attention, and speaks of the product or service.

Another example is *Reyes Haircutters*. It easily conveys that the establishment is in the salon business. *Mr. Quickie* lives up to the image of what the business is trying to project, and this is in fixing shoes and bags in a jiffy.

Packaging

After coming up with a brand, the next step is to think about the package of the product. Packaging refers to the outside appearance of a product, or the way it is presented.

In deciding how you are going to present your product, you can follow this simple concept – "what the package should be or should do for the product." In other words, the package should convey what it is and what it does for the product.

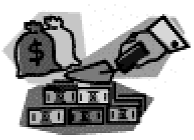
An example is packaging for perfumes. The package may be a red solid glass in the shape of an alabaster jar. It has the head of a cobra for a lid and a spray; the brand name of the product, *POISON*, is etched on the backside of the jar. This type of package is meant to securely contain and protect the perfume for the customer (use of the cobra), help the user dispense the perfume easily (through the spray), differentiate itself from the many others, and be identified by the target buyers without difficulty.

Labeling

After the brand and packaging comes the label. A label is used to identify, grade, describe, and promote a product. In the perfume example, the name *POISON* etched on the backside of the jar is a label.

For customers to know that *POISON* is a perfume and not a toxic substance, the entrepreneur can put the word, "perfume" below the label, or a description of the perfume, or a description on how to use it, or put a "non-toxic" grade symbol on the jar.

Product Support

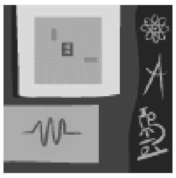


Product-support is the collective term for services that add to the marketability of the actual product. Some examples would be: credit and financing services, fast and reliable delivery, and a quick installation. For very expensive and highly technical products, product-support is very important. Many times, customers put a premium on product-support when considering a purchase. An example is the service warranty that often comes with the purchase of computers and appliances.

One reason that is attributed to the success of the furniture business of the store, *ABENSON*, is the free and prompt delivery service that comes with every purchase.

Product Attributes

Another product strategy is changing the attributes of an actual product, based on how the target market would want it. An actual product has three attributes that you can change or modify: quality, features, and design.



Usually, products of very high quality target people in the higher income brackets. However, when quality is a standard, you should find another strategy to influence your target market.

Changing the features of a product can help you to influence specific target markets.

The case on the mobile phone industry, as mentioned earlier in the previous chapter, provides a good example. The basic features of a mobile phone allow the user to make calls and send short messages. This phone is best for people who want a low-cost phone and use the product just for those purposes. The makers of *Nokia* designed a phone that features a game console. This is intended for people who love to play games on their phones. Then, they came out with camera phones for people who love taking pictures when on the run.

PLACE STRATEGIES

Place strategies are concerned with the ways of bringing one's product or service to the target market. One of the major decisions an entrepreneur must make is where to sell the product or offer the service, more particularly, how the product or service will get into the hands of or be availed by the target market.

There are numerous venues (physical and virtual) where you can sell your product or service. There are also many options available on how your product or service will reach your target market. Venues and options are also known as distribution channels. Below are some examples of distribution channels that you can consider:

- Traditional distribution channels.

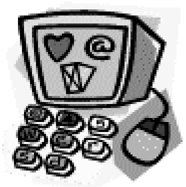
  Traditional channels are avenues that allow for a personal interaction for the buyer and seller. Having this kind of a direct human interaction enhances buyer-seller relationship. These channels are best for target markets that value speed of delivery and guaranteed supply or convenience. The more common examples of traditional distribution channels are:

  - Distributors
  - *Sari-sari* stores
  - Malls
  - Shops
  - Kiosks

- New distribution channels.

  These so-called new channels are avenues where the buyer and the seller communicate, interact, and do business without necessarily meeting in person. They are best for target markets that put a premium on information and interaction. Popular examples are:

  - Television
  - Telephone
  - Internet



Designing Places

How will an entrepreneur decide which channel to choose for bringing the product or service to the target market? Or, which place is most appropriate for the target market?

The insights you got while trying to understand your target market would help you arrive at the right choice. You can also find the following tips useful when you want to develop and improve buyer-seller relationship:

- Locate in a place that provides opportunities for you to interact and do business. If you have to put up a storefront, design your place in such a way as to accommodate the delivery, guaranteed supply, convenience, information, and interaction needs that today's market is looking for.

  For example, you plan to set-up a restaurant for people connected with universities, colleges, or other educational institutions A common consideration is to see where most of the schools are located. This way you can position your business right where your target market is. This is a common consideration but it is not all.

- Think about offering delivery services in response to speed of delivery concerns.

- When it comes to guaranteeing supply, consider the accessibility of your restaurant from your suppliers as well as your target market.

- In the case of convenience, try to body storm by walking from the school to your restaurant. Along the way, gather insights on how near, or how pleasant the walk to your restaurant will be for your target market.

  For example you are undecided as to whether to put up a salon at the ground floor of a building that houses a wide variety of businesses as tenants and located near a residential subdivision, or locate inside a big multi-storey mall, complete with restaurants and movie houses. Which of the two locations would be more convenient to your market?

- You can satisfy your target market's need for information by determining, at the onset, where to put signage along the street going to the direction of your restaurant or where to place announcements inside the school premises.

Capitalize on your understanding of your target market by combining different channels, or concentrating on one channel, or creating a new and different channel that might be more appropriate to your target market.

The restaurant example has shown that when coming up with place strategies for a restaurant or any eatery, always look at the location of your business or the offering of food and services from the point of view of your target market.

PRICE STRATEGIES

One of the most obvious ways of influencing the target market to buy a product or service is by setting a low price. However, not all goods and services can be priced low. An entrepreneur must see to it that the price is "right" in order to make a profit, sustain the business, and let it grow, and continue serving the needs of the target market.

Before going into price strategies, we need to discuss the concept of value, specifically monetary value. A simple way of understanding value is to ask different people how much a particular product should be priced. Surprisingly, each would give a different price.

Value is a **perception** of worth. That value can be quantified. The question to ask is, "How much is this product or service worth to you?" People value one thing differently, or put a price tag for the same items differently depending on their background, character, experience, and many other factors.

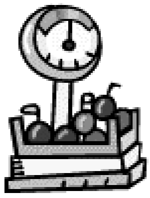
It all goes back to how well you understand your target market. Having a good understanding of your target market will help you identify and recognize the factors that influence how people "price" a product or service.

Factors Affecting Price

There are other basic factors that affect pricing decisions or pricing strategies aside from understanding your target market. These factors include: the cost of the product, external factor - competitors' prices, and target market factors – the supply and demand situation, the ability of your target customers to pay, and the image of your company (high prices are associated with good quality and low prices with low quality), among other factors.

Taking from these three factors, we are going to tackle the three basic strategies for setting the price of a product, namely: cost-oriented pricing; competition-oriented pricing; and demand-oriented pricing.

- **Cost Factor: cost-plus strategy**



When you price your product or service, always consider the following costs – the cost of making the product, the cost of selling your product, and the costs you incur to operate your business. The easiest and the most commonly used pricing strategy is the cost-plus.

Cost-plus pricing is quite simple to do: Add all the costs you incurred in producing your product and divide the sum of all these costs by the number of products you made. The result of that division is the cost of each unit that you made or the unit cost. Then, come up with a percentage of the cost per unit to represent your markup. Try to ensure that your mark-up is sufficient to cover your unit production cost and selling and operating expenses, and leave you with some profit. Add the markup and the cost per unit to arrive at your selling price per unit.

To illustrate:

Total cost incurred to make the balloons		= P1,500
No. of balloons made		= 100
Computation of Unit Cost	P1,500 / 100	= P15 per balloon
Markup (20% Assumption)		+ 3
SELLING PRICE per balloon		P18

Normally, the markup follows the prevailing rate in the industry where the product or service belongs to or the price of competitors for similar products or services. In certain industries, it is common practice for competing enterprises to fix standard mark-ups for their products. A good example of that industry is the wet market, where the prices of meat, fish, and vegetables follow a standard mark-up and pricing system.

- **External Factor: competition-based pricing**

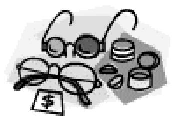
For entrepreneurs who plan to produce a product or complete a service similar to what are already available in the market, the competition-based pricing strategy is worth considering.

This strategy means that the main factor for determining the price of your product or service is your competitor's price. You can set a price that is either higher than your competitors, the same as your competitors, or lower than your competitors.

Again the insights you got from understanding your target market will come in useful in this situation. Let us assume that your product is an improved and better version than similar products already available in the market. You have three possible choices.

- You can price your product higher to establish in your target market's mind that your product or service is far better or more superior and is of higher value. This has been used in building product credibility and reliability in the long term.
- You can price your product or service at the same level to show your market that for the same amount of money, they can get a better product. This will push your competitors to lower the price of the similar product and/or create a product that is the same as yours or a better one for the same price.
- You can price your product lower as an introductory offer and create short-term sales or a long-term offer to capture the market.

- **Target Market Factor: demand-oriented pricing**



In our example on the ladies blouse in the previous chapter, we discussed how to estimate potential market demand based on these considerations: national census, the type of product to make, and the number of competitors.

The factors you considered when you computed the potential market demand are the keys for determining the price for your product or service through time.

This dynamic approach allows you to set a high price when demand is strong and a low price when the demand is weak. Demand can be strong when there is growth in population, when only you or a few number of businesses are making that type of product, and when a competitor discontinues making the product. The reverse could mean that the demand is weak.

Read more about costing in Chapter 9, *Costing Your Product or Service*.

PROMOTIONS STRATEGIES

The entrepreneur's effort for making the target market buy a product or service is measured in terms of sales revenues generated by the enterprise. The end goal of the promotions strategy is the same. In order to meet that goal, the promotions strategy of an enterprise calls for the effective communication of a message to the target market.

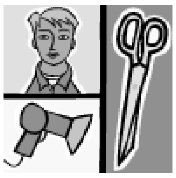
Promotions is the collective term for all the tools or media that a business uses to communicate a message to the target market. The tools and media are many as they are also very diverse. Some examples would be the familiar television commercials and the unfamiliar Internet or viral ads in the worldwide web.

The Message

People do not just buy products. They buy the benefit that they get from the product. In essence, people are drawn to products because of the benefits that the products or services provide them.

Your promotions message should, thus, always convey what benefits your target market can expect to get from your product or service.

Your promotions should be able to get across the message that your product or service will address a specific need or want that you found out when you studied your market.



For example, one company understood that the main benefit their customers are getting from the salon is "beauty." So the owner crafted this message, "*Ang ganda ng lola mo*!" The benefit that the message is trying to get across to the target market is that availing the services of the salon can make one beautiful.

So, what do you think is the most important benefit that your target market can get from the product or the service you are selling?

There are several ways of communicating benefit to your target market. You can say it through words, through pictures, through stories, using various media like print, broadcast, people, among many other ways.

For example, the main benefit of your spa services to your target market is relaxation. You can communicate relaxation in words by saying, 'Relax at SPA Salon!' You can also convey relaxation in pictures by showing a customer enjoying a spa service. Another way of expressing relaxation is through the story of a tired, stressed, and high-strung mommy, who, because of work and family problems, went to the SPA Salon and came out looking fresh and, naturally, relaxed.

Promo Tools

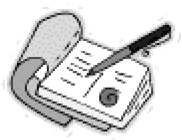
Here are some of the more popular promotional (promo) tools you can use for informing your target market about the benefit that they will get from your product or service.

Promotional Tools	Examples	Uses	Objectives	Notes
Advertising	TV, radio, newspapers, magazines, classifieds, yellow pages, billboards	• For items bought repeatedly through self-service facilities • Best used for a large group • Low cost per exposure and non-personal	• To build awareness • To persuade • To reinforce • To remind	
Sales Promotions	Sampling, coupons, refund offers, continuity programs, bonus packs, trade allowances, premiums, in/on/near packs, contests, sweepstakes, points-of-purchase, co-ops, tradeshows		• To encourage short term sales boosts by providing temporary price reductions or value added incentives to spur demand	
Public Relations	News stories and press releases		• To inform • To build an image	• Least measurable impact and most difficult to track • Difficult to control message because of editing • Lowest cost per exposure
Personal Selling	Sales force or distributors	Used in cases when persuasion and immediate feedback are necessary		• Products must be demonstrated. • Most expensive form of promotions per contact but generally the most effective
Direct Marketing	Direct mail (mailing lists), interactive TV, telemarketing, catalogs, postcards, inserts			• Well-developed database for monitoring prospects' buying behavior • Customized messages • Easy to measure response and develop effective executions
Events Marketing			Considerations: • Theme development • Prominent exposure of product in a positive light • Execution detail	• Popular on a local market basis • High cost per exposure • Augmented by bringing in sponsors or obtaining services

Promotional Tools	Examples	Uses	Objectives	Notes
Minimedia	Business cards, brochures, banners, newsletters, posters, take-one-boxes, circulars, gift certificates, order forms, stationery			
Other Promotions	Frequent buyer programs, music, jingles, slogans, packaging, special gifts			
Internet	Company web page, web page ads, viral advertising, referrals, spamming, E-groups, blog sites, bidding sites, chat, forums			

SUMMARY

In this chapter, you were able to see the connection between understanding your target market and designing marketing strategies. If you know and understand your market well, you will be able to create effective marketing strategies that will address their needs and wants, make them buy, and bring in the sales. You can design your marketing strategies around the four factors of the marketing mix, namely, the product, price, promotions, and place.



How about you? How will you make your target market know that you are in business and, more importantly, motivate them to buy from you? Will the mix you choose be able to help you realize your sales projections? Continue with your marketing plan in the Workbook. Leave out some spaces and go back to them after reading Chapter 9, *Costing Your Product or Service*.

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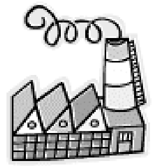
CHAPTER 7: MAKING YOUR PRODUCT AND COMPLETING YOUR SERVICE

Where is the best location for your business? What is the best layout suitable for your business operations? How much stock should you keep? Should you subcontract[3] or not? Should you buy brand new equipment? How you decide on these questions and more can make or break your business. So, think things over before you make your final decision.

CHOOSING YOUR PLACE OF BUSINESS



The best place to locate a business is in a place where the enterprise can produce and sell to its customers at the lowest cost. It is easy to see why.

Before you can have a product to sell, you need to pay for materials, labor and overhead, including building rental and maintenance, for example. In the same manner, before you can sell to your customers, you will need to pay for marketing and distribution expenses. You need to recover all these costs before you can make a profit. So, the lower your costs are, the less money you need to recover. In this way, you may be able to sell your product or service at a price lower than that of your competitors. When you can sell lower, you enjoy a pricing advantage.

Locating Where You Can Minimize Costs

You will learn more about product costs in Chapter 9. For now, remember that, in order to keep your production and distribution costs down, it will be best to locate:

- Near your source of raw materials.

  The cost of raw materials accounts for a big share of the production cost. One way to bring these costs down is by locating your business near to the place where you get your raw materials. This is especially true if materials needed are bulky (e.g., sugarcane for sugar millers) or if they deteriorate easily (e.g., fruits and vegetables for food processors).

- Close to your labor source.

  Some products, like handicrafts and shoes, are better made by hand than by machine. When your operations are labor-intensive (where most of the work is done by hand) and require artisans, it is best to locate your business where you can hire skilled labor. By so doing, you will not have problems hiring skilled labor nor will you have to spend for accommodations to entice workers from afar to relocate.

- Where your market is.

  To minimize delivery and transportation costs, locate your business near your target market. This way you don't need middlemen like wholesalers and retailers. Neither do you have to pay for transporting your goods to your intended market. You can then pass on at least part of the savings to your customers by way of lower prices.

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[3] A business activity and strategy where a producer contracts other producers to manufacture part or the entire product at an agreed quality, time, and price.

Other Considerations

There are other things to consider when choosing your place of business. These include, among others:

- Convenience.

  The location you choose must be convenient to you and your customers. Since your business will demand much of your time it is best that you locate your business in an area where you can do business conveniently – not too far, for example, from the place you reside. Your place of business must also be accessible to your customers. Customers value convenience. Unless you offer a product or service that is unique, very cheap, or of exceptional quality, customers will not go out of their way to buy from you. They would rather go where it is more convenient.

- Accessibility.

  Accessibility and the availability of all means of transportation – land, air, and water are very important to your business, especially when your market is not limited to the immediate vicinity. You need to get to your customers and vice-versa.

- Potential for generating sales.

  To cut down on operating costs, many entrepreneurs choose to set up their business in their home or in a lot they own. Is this a wise decision? Not always. Saving on rental is nice but not at the expense of generating sales. You would be better off renting a place where prospects to sell is high rather than save on rent in a place where the sales potential is low.

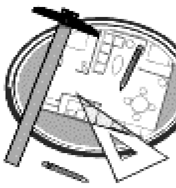
- Continuous supply of power and water.

  Unexpected disruption of operations is bad for business. So before finally deciding on a place to locate, check if there is adequate and reliable power and water supply. Remember, once orders start coming in, you will have delivery deadlines to meet. Don't let a power brownout or water shortage stand in the way of meeting your commitments.

- Zoning restrictions.

  Each city has its own zoning ordinance. Before deciding to locate in a particular area, study the city's zoning ordinances to make sure that the business you are planning does not violate any zoning regulations.

DESIGNING YOUR PLANT LAYOUT FOR BETTER EFFICIENCY



Once you have found a suitable location for your business, it is time to put things in proper order. That means you have to design your layout. Layout refers to the way machines, workplaces, and storage areas are located in relation to one another. Since moving and handling time adds to the cost of the product but not to its value, you need to arrange your facilities in such a way as to minimize the movement and handling of materials.

A good layout is one that facilitates the manufacturing process, minimizes materials handling and investment in equipment, maximizes use of floor area, promotes effective utilization of manpower, and provides for employee convenience, safety, and comfort at work.

In contrast, a poor layout takes a longer time to manufacture a product or complete a service and requires more handling time than necessary. A poor layout results in unnecessary expenses because you will need more workers, more handling equipment, space, and handling time.

Calculating How Much Space You Need

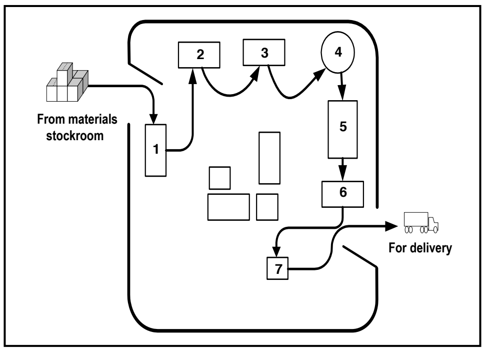
To determine how much space you will need, it is best that you:

1. find out how many units of each machine or equipment are needed to produce the volume or quantity of goods you intend to sell;
2. know the space requirement of each machine;
3. multiply the space requirement of each machine by the number of machines you'll need;
4. add space for machine operators and storage for raw materials, goods-in-process, and finished goods;
5. determine the aisle, hallways, or spaces needed to move about efficiently;
6. provide space for other needs, such as toilets and offices; and
7. compute for the total space requirements for your plant operations. Allocate spaces for parking, as well as for receiving goods and loading goods for delivery.

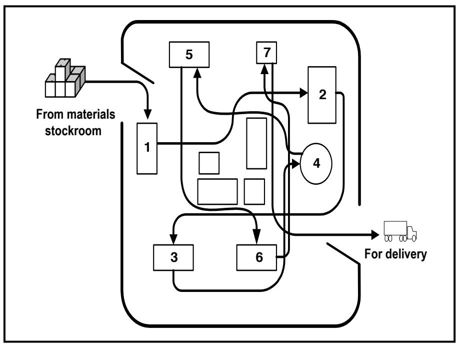
Putting Your Machines and Equipment in the Right Place

Having a good plant layout is one step towards achieving maximum efficiency. Whether you will manufacture a product or offer a service, you will want to know the best way to arrange things in your business.

The movement of materials is your basis for your plant layout. Your layout design should allow for the smooth and continuous flow of materials from receiving (unloading, inspection and storage), through the different production activities to storage of finished goods and finally to the shipment of the product. Arrange your machines and equipment in such a way as to minimize, if not totally avoid crisscrossing, backtracking, or overlapping of activities.



Good Layout

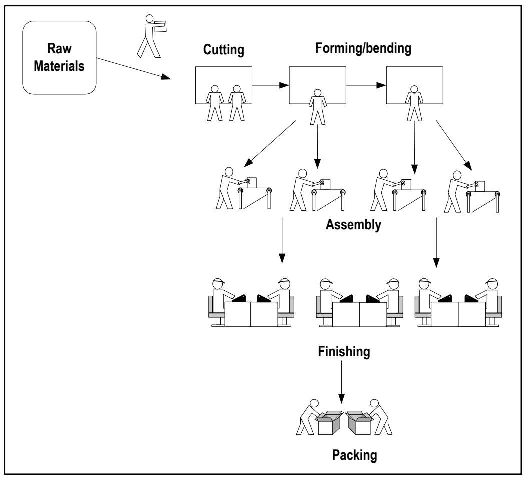


Poor Layout

There are four major types of layout: process, product, fixed position, and group. Of the four, the most common are the process and product layouts.

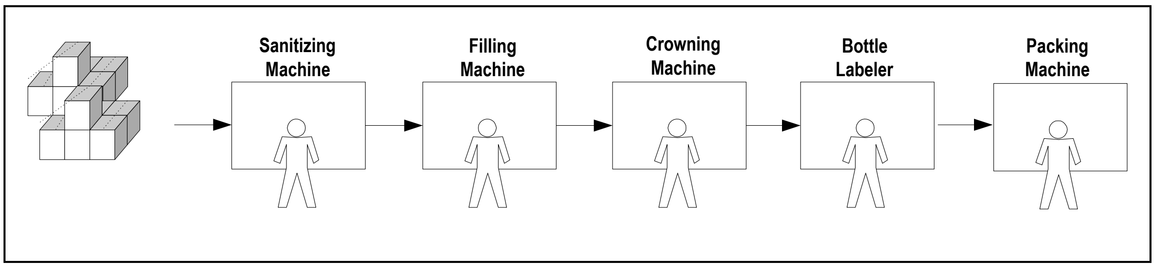
- By process.

  Also known as layout by function, this type of layout groups all activities of the same nature together. This is used by manufacturers that produce in small quantities or by job order. A good example is a furniture-making factory where you find cutting, forming-bending, welding/ assembly, finishing, and packing done in different sections.



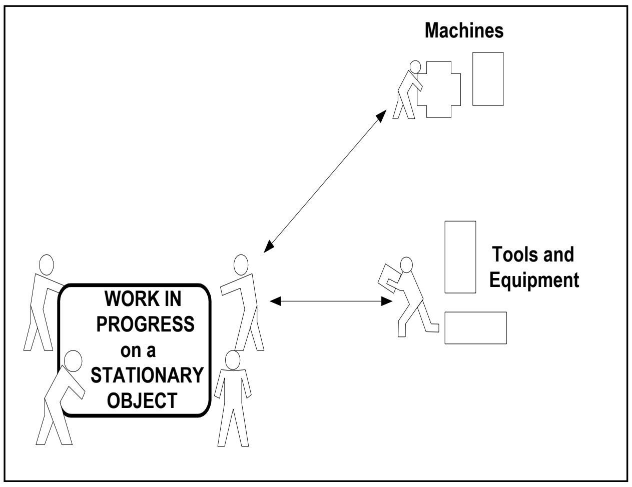
- By product.

  This layout is more for mass production operations. In this type of layout, the different machines and equipment are arranged in sequence to process only one product or a few but very similar products. Examples of these are automobile assembly, food processing, and bottling plants.



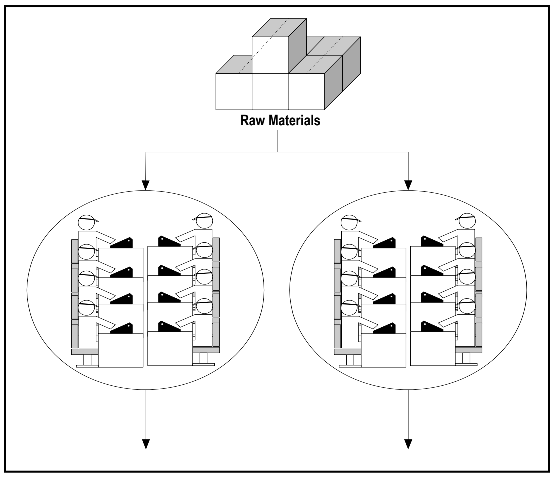
➢ By fixed position.

In this type of layout, the product does not move around the shop floor. Instead, all the necessary materials, equipment and machinery are brought to it. This type of layout is common in the assembly of bus and jeepney bodies, and in shipyards.

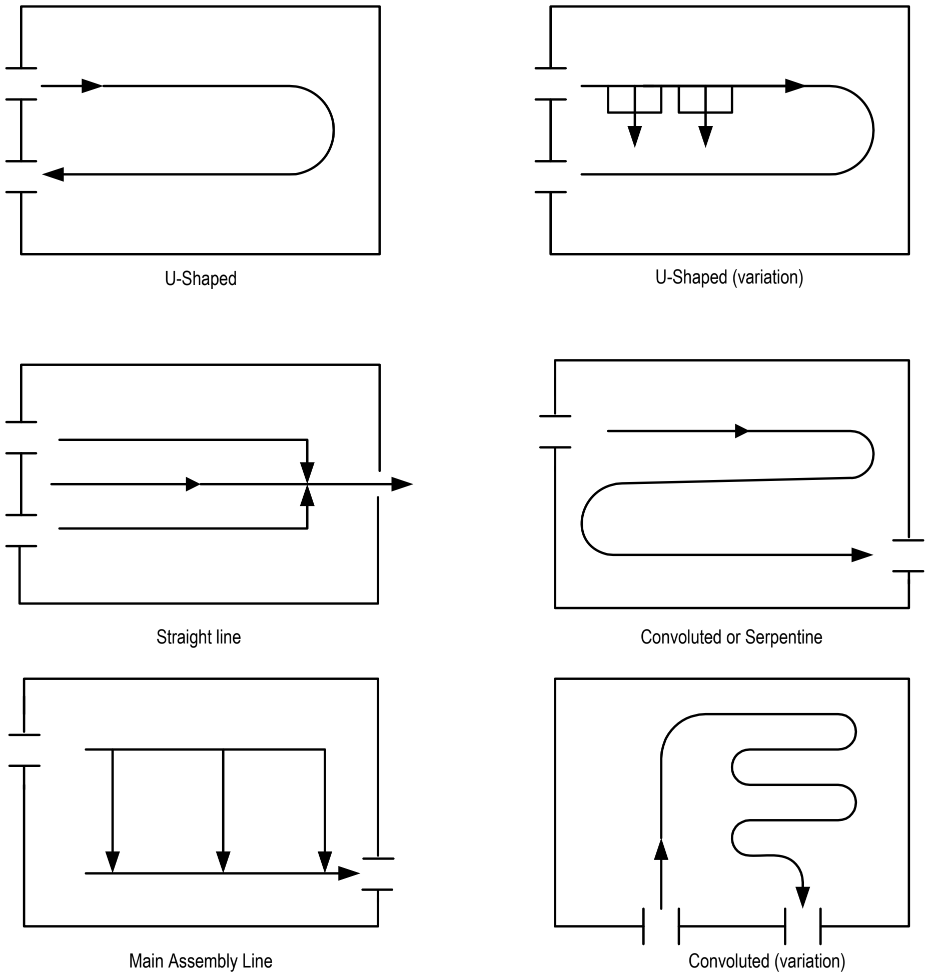


➢ By group.

This layout arranges operations in such a way that a group of people working together has all the necessary equipment and tools to complete the work.



When designing your layout, identify the most effective flow of materials that will minimize or reduce movement of people and materials. The most commonly applied flow patterns in small and medium sized manufacturing plants are as follows:



The concept of "layout" for the trader/retailer is slightly different. To them, layout refers to the display or arrangement of goods for sale.

Majority of traders rely on window displays to attract shoppers. There are several display strategies you can pick up on the internet. One site provides the following useful tips:[4]

1. Keep your displays clean, neat and simple.

2. Keep display window well lit. Use spotlights or neon signs to highlight special items.

3. Your storefront and show windows serve as the face of your business. So it is best that you arrange your displays in a manner that will convey the image you want to project, be it prestige, high quality, mass appeal, style, etc. to attract the market segment you wish to target.

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4 http://smbtn.com/books/gb42.pdf#search='Retailing'

4. Design your display window to reflect the tastes and attitudes of your target market.

5. Change window displays frequently.

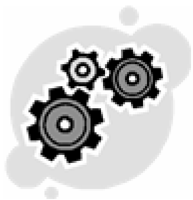
6. Use themes. Coordinate your displays with holidays and special events.

7. Make sure you have sufficient stock of the items on display for sale to customers.

8. Prepare all materials ahead of time. Merchandise, display stands, signs or posters, mannequins, and all the other materials you will need, should be carefully selected and prepared ahead of time so that a window can be trimmed in a few hours time.

9. Color is an important element in your display. Use attractive and harmonious color combinations.

GETTING YOUR MACHINES AND EQUIPMENT



As a small businessperson, you should keep in mind that your choice of machine and equipment affects the overall profitability of your business. That is, it affects your costs, productivity, product quality, and revenues.

The money you use to buy machines and equipment is a form of investment. For accounting purposes, these items are classified as non-current assets and their values depreciated over the course of their useful life.

Choosing the Right Machines

At the outset, you need to decide whether your production process will be machine-driven/automated, labor-intensive/manual type or a combination of both.

When choosing machines and equipment, keep in mind the following considerations:

- Operating characteristics.

  The most important thing to consider in selecting the supplier or brand for a particular production machine is the operating characteristics of the machine you need. Establish first your requirements, the intended function of the equipment, and the operating characteristics of the machine you need for your operations.

  For instance, if your operations call for the sewing of parts, decide on what type of sewing machine you will need. Which of the following models will meet your requirements: A Brother TZ1-B652 (that's an industrial straight and zigzag sewing machine)? A Brother SL-755 (industrial single needle straight lock stitcher with self-oiling system and reverse feed)? Or a Brother DB2-B737-413 (industrial programmable single needle straight lock stitcher with self-oiling system and reverse feed, thread trimmer, auto backtack, needle position)? Or would a Singer 20U73 sewing machine (a straight and zigzag machine with up to 12mm zigzag stitching capability) be a better choice?

- Engineering features.

  Closely related to the machine's operating characteristics are its engineering features. These features must be compatible with your other equipment, process and plant layout. Consider the machine's physical size, power requirements, maintenance, and safety features.

- Cost.

  After you've found several machines that fit your requirements, analyze and compare the cost of each machine in relation to its capacity, efficiency in its use of fuel, and other technical considerations.

- Qualitative factors.

  Consider all possible suppliers before making a final decision. Who among them is willing to provide installation assistance, warranty and/or maintenance service?

You don't necessarily have to acquire brand new equipment. You can buy a second-hand machine, lease equipment or even fabricate your own machine. You can also consider subcontracting part of your process so you need not buy an expensive piece of equipment. There are advantages and disadvantages to each option. Carefully study each option before deciding on one.

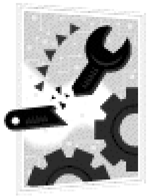
OPTION	ADVANTAGE	DISADVANTAGE
Buy brand new	• Minimal maintenance problems	• Expensive • Capital is tied up
Buy second-hand	• Less expensive than buying a brand new unit	• Uncertain as to the remaining useful life of the machine • Maintenance problems
Lease	• No problem on maintenance and obsolescence • Capital is not tied up	• The cost of leasing may be high
Make your own	• Relatively cheaper than buying or leasing	• May require very technical skills to make
Subcontracting parts/processes	• Economical	• No control over quality and delivery

The Steps to Follow in Purchasing

Here is an eight-step procedure to guide you in purchasing equipment for best results. Follow the same steps when you buy raw materials, supplies and other things your business needs.

STEP 1: Determine your requirements.	Buy on the basis of your specific needs. It is important to be specific on the intended use so that you get the right equipment you need.
STEP 2: Get information on possible suppliers.	List down suppliers that sell the equipment you need. Get information on each supplier and determine how reliable each supplier is.
STEP 3: Contact suppliers.	Get quotations from suppliers and find out what each supplier can offer in terms of price, terms of payment, warranty, discounts, terms of delivery, etc.
STEP 4: Choose the best supplier.	The cheapest supplier is not always the best. Evaluate the quotations that you receive. Try to negotiate with suppliers for a better deal. Choose the one that gives the best deal.
STEP 5: Place your order.	After deciding which supplier to buy from, place your order. Make sure you place your order in writing. This will help you remember what you ordered and serve as proof of your order.
STEP 6: Check goods upon delivery.	If you pick up the equipment yourself, immediately check the equipment before you take it away. If the equipment is delivered, the supplier usually sends a delivery receipt. Always check if you got the right equipment and if it is in running condition before you sign the delivery receipt. If something is wrong, let the supplier know immediately. Do not sign the delivery receipt until the problem is corrected.
STEP 7: Check the invoice.	The invoice tells you when, how much and how the supplier wants to be paid. Be sure that the total amount shown in the invoice is correct. If you think that the invoice is wrong, contact the supplier immediately.
STEP 8: Pay.	Whether the terms of payment is cash or credit, make sure you get a receipt as proof that you paid.

MAINTAINING EQUIPMENT AND MACHINERY



To ensure a hassle-free manufacturing operation, it is important to keep your machines and equipment in good running condition. Proper care and maintenance of equipment go a long way in ensuring that there is no disruption of production due to machine breakdown. Machine breakdowns not only cost money but also cause delays as well.

Here are a few tips for proper maintenance of equipment:

- Clean machine parts after every use;
- Apply lubrication on machines regularly (at least once a week);
- Check for worn-out parts at least once a month;
- Check electrical parts and wiring every month; and
- Calibrate machines regularly.

MANAGING YOUR INVENTORY

Stock refers to all the goods a business has for sale, and all raw materials or parts a business keeps to ensure continuous operations. Stock and inventory are oftentimes used interchangeably.

A trader, manufacturer, and service provider keep different kinds and levels of stock. A trader keeps a supply of merchandise that he intends to sell to his customers at a later date. A manufacturer maintains a stock of all the raw materials to ensure continuous production of goods. This is known as raw materials inventory. Finished goods inventory, on the other hand, refers to the supply of goods produced by a manufacturer but which remain unsold. If you are a service provider, you must keep a stock of goods, materials, or spares that will allow you to complete the service.

Avoiding Poor Inventory Practices

When in business, keep just the right amount of stocks of merchandise, supplies, raw materials, in-process, and finished goods that you need to meet your sales targets.

It is not good practice to keep huge quantities of materials and goods in stock. When you do, you not only fail to maximize the use of your working capital (as it is tied up to these goods and materials) but also lose the opportunity to earn more money. The money you tie up in excess stock is actually costing you money as goods and raw materials kept in stock deteriorate over time. For example, fabrics get stained and dirty, iron and steel parts rust, flour and sugar become lumpy, etc. You would be better off letting your money earn interest in a bank than having excess stock occupying precious space in your stockroom.

It is just as bad if you don't keep ample supply of what your business needs and run out of stock when you need them. You must guard against having too little of the materials and supplies you need. Having extra stock would allow you to meet any sudden increase in demand or make up for rejected or damaged parts and products. If you are a manufacturer and you run out of a certain raw material, you will be forced to suspend production for a while. If you are a trader or a service provider, you will be forced to turn down a customer because you have no goods to sell or cannot render a service because you run out of materials.

There are many different reasons for running out of stock or keeping too much stock. To be on the safe side, be sure you:

- Know which goods sell fast and which sell slow so that you keep the right goods and materials in stock;
- Check your stock regularly, so you know how much you have in stock; and
- Arrange your stock properly so you can easily see and count what you have in stock.

Controlling Your Inventory

Many entrepreneurs ask, "Just how much is enough stock?" The basic idea behind inventory control is to operate effectively with the least amount of stock. To do this you need to know- when to order, how often to order, and how much to order.

To manage your inventory well, you need to distinguish between basic stock goods and seasonal goods. Each kind is controlled in a different way.

Basic stock goods are those that are either regularly used in production (e.g., sugar and milk for ice cream production) or those sold at much the same rate at all times (e.g., coffee, cooking oil, and canned goods in a grocery store; or nails, paints and light bulbs in a hardware store).

Seasonal goods, on the other hand, sell fast during certain months and taper off in demand for the rest of the year. In a department store, these would be umbrellas and raincoats during or just before the rainy season, swimming outfits and light clothing during summer months, and school bags, shoes, uniform, and school supplies before and during the opening of classes.

➢ When to order.

- Basic goods. When ordering basic goods, you have to determine the lead-time required, or the time it takes between placing an order (by telephone, by email, or through sales agents) and the actual receipt of the goods. Keep in mind that you need to order in good time to have the goods delivered before your present stock runs out.

  After you have determined the lead-time required, estimate your reserve stock, or the number of units you expect to sell during the lead-time period. For example, if the delivery date is after two weeks and you expect to use or sell 50 units per week, your reserve stock is:

  2 weeks x 50 units/week = 100 units

  But since you might sell more than you expected or your orders may arrive later than scheduled, you need some extra stock or safety stock so that you will not be short of stock. The usual rule is that the safety stock should be one half the reserve stock.

  In the example above, the safety stock will be one half of 100 units or 50 units. You may increase or decrease this quantity according to your own experience with your suppliers.

Your re-order level is the sum of the reserve stock and the safety stock. In our example, the re-order level is 150 units. When your stock reaches this level, it is time to re-order.

- Seasonal goods. In the case of seasonal goods, the question of re-order level is not so important. However, remember that, since the item is seasonal, many other retailers will be placing orders at the same time that you do. To avoid the danger that the supply runs out on you, it is best that you place your order early. Suppose you are stocking up for the school opening in June, and the lead-time required is one month, you can place your order by late April or early May. Better still, since it does not cost extra, order in March and have it delivered by June 1.

➢ How often to order.

Basic goods should be ordered regularly, maybe on a weekly basis. As mentioned earlier, there is little reason to have excess stock in your stockroom. In this set-up, however, you must be prepared to place frequent orders, which you might find tedious.

There will be cases when you need to consider the minimum orders implemented by suppliers or the transport/delivery costs charged to you whenever your orders are delivered. If so, ordering on a monthly basis may make more sense, especially if a sizeable discount is given for bulk orders.

Obviously seasonal goods are ordered less frequently. But remember that you should have available stock if these are ready-to-sell items or ready for use in production while waiting for the next batch to be delivered. It is not practical to replenish stock between seasons for cost considerations.

➢ How much to order.

Basically, the quantity you should re-order when the re-order point is reached should be sufficient to replenish the stock back to the re-order level.

For basic goods, you should order as much as you think you will use in production or sell within the period until you order again. In the case of seasonal goods, you should order as much as you will use or sell during the next production or selling season.

There are cases, however, when you have to re-order more than what you need because it is more economical than frequent re-ordering every time you reach the re-order point. This is especially true for items that are bulky and need to be transported or shipped from distant places.

Monitoring Your Stocks

To monitor your stock levels, you may use any of the following methods:

- Use stock cards for every item in stock.

  You can use index cards for your stock cards and keep them in a box. Update your stock cards weekly or monthly to keep track of sales and purchases made. The re-order level must be prominently indicated on each card. When the quantity on stock reaches the re-order level, you would know it is time to place an order. An example of a stock card is as follows:

PRODUCT: Refresh Bath Soap, 90 gms.

Cost per item: P10.50 10.50

Re-order level: 10 bars

		IN			OUT			BALANCE		
DATE	DETAILS	UNIT COST	QTY.	TOTAL COST	UNIT COST	QTY.	TOTAL COST	UNIT COST	QTY.	TOTAL COST
May 15	Balance forwarded							10.50	19	199.50
20	Sold				10.50	3	31.50		16	168.00
21	Sold				10.50	2	21.00		14	147.00
22	Broken				10.50	5	52.50		9	94.50
24	Sold				10.50	4	42.00		5	52.50
26	Purchase	10.50	24	252.00	10.50	2	21.00		27	283.50
27	Sold				10.50	12	126.00		15	157.50
29	Sold				10.50	4	42.00		11	115.50
30	Sold				10.50	3	31.50		8	84.00

- Indicate directly and physically on the stockpile the re-order point.

  This could either be a colored card or a marking on the racks that you easily see when that point is reached or about to be reached. For example, if your re-order level for ply boards is 200 pieces, you can measure the height of these 200 boards and mark the corresponding storage rack so that when the stack reaches this height, you will know it is time to replenish.

Doing a Physical Count

Since your inventory is part of your investment in the business, it is important to know exactly what kind of stock you have, how much stock you have, what condition your stock is in, and how much your stock is worth.

To get this information, you must do a physical count. Conducting a physical count gives you a lot of useful information like:

- stock that is damaged or in bad condition;
- missing stock;
- goods that sell quickly and those that sell slowly;
- materials and parts you use a lot of and which you use little of; or
- re-order period, if you do not keep stock cards.

How often your business should do a physical inventory count depends on many things. You need to do a physical count **often** if you:

- do not keep stock records;
- have large quantities of stock;
- have many different goods or materials;
- are not sure if your stock is secure;
- have many people, or new people, working in your business; or
- have problems with missing stock.

On the other hand, a physical inventory done **occasionally** will suit your business if you:

- keep good stock records;
- keep small quantities of stock;
- have few different goods or materials;
- have good security; or
- do not have problems of missing stock (that is, either lost, misplaced, or stolen).

Valuing Your Stock

If prices remain the same, you will have no problem in inventory valuation. But this is rarely the case. Prices of goods vary through time or even from one supplier to another.

There are four methods of inventory valuation: FIFO, LIFO, weighted average, and specific identification.

➢ First-in, First-out (FIFO).

FIFO is an inventory method of valuation that assumes that the stock you acquired earliest is sold (or used up) first. Since each sale is made out of the oldest goods in stock, the ending inventory therefore consists of the most recently acquired goods. Let's say that you make the following purchases in March:

5 cases of mineral water purchased on 3/1 @ P 110.00/case	....	P 550.00
3 cases of mineral water on 3/8 @ P 120.00/case	....	360.00
5 cases of mineral water on 3/20 @ P 125.00/case	....	625.00
4 cases of mineral water on 3/28 @ P 130.00/case	....	520.00

To illustrate, let's assume that you have five cases left at the end of March. Your ending inventory of mineral water at the end of March using FIFO is worth P 645.00 computed as follows:

1 case of mineral water purchased on 3/20 @ P 125.00/case	....	P 125.00
4 cases of mineral water purchased on 3/28 @ P 130.00/case	....	520.00
Ending inventory (at FIFO cost)	....	P 645.00

By using the latest cost to value your ending inventory stock, the FIFO method tends to closely approximate the actual market value of the inventory at the balance sheet date. Moreover, in periods of rising prices, FIFO leads to higher net income.

- Last-In, First-Out (LIFO).

LIFO is an inventory method of valuation that assumes that the stock acquired most recently is sold (or used up) first. In a period of rising prices, LIFO results in a lower net income than FIFO.

Using the same example above, your ending inventory at the end of March using LIFO is worth P550.00 computed as:

5 cases of mineral water purchased on 3.1 @ P 110.00/case ……….. P 550.00

- Weighted average.

Under this method, inventories are valued on the basis of a weighted-average cost. In computing the weighted-average cost, one takes into consideration the price paid and the number of units purchased. One computes the average cost by dividing the total cost of goods available for sale by the number of units for sale.

Again using the same example, the value of your ending inventory for the same period is worth P636.76 using the weighted average cost method. Computation is as follows:

5 cases of mineral water purchased on 3/1 @ P 110.00/case	………..	P 660.00
3 cases of mineral water purchased on 3/8 @ P 120.00/case	………..	360.00
5 cases of mineral water purchased on 3/20 @ P 125.00/case	………..	625.00
4 cases of mineral water purchased on 3/28 @ P 130.00/case	………..	520.00
17 cases ← Total goods available for sale	Total cost of goods available for sale →	P 2,165.00

Average cost (per case)………………………………………... P 127.35
Ending inventory (5 cases)………………………………………. P 636.76

- Specific identification.

  Under this method, inventories are valued on the basis of the actual cost paid for the specific item sold or used. Companies that keep relatively expensive merchandise like automobiles, diamond jewelry, and appliances normally use this method.

You can choose from any of the four inventory methods to record your cost of goods sold. The important thing is to be consistent with the method you apply. You cannot change your method as you like it.

PRODUCTION PLANNING AND CONTROL

You need to plan, coordinate, and control your business activities in order to get the most benefit out of using your manpower, equipment, plant facilities and other resources.

Production planning and control (PPC) is the key to efficient and effective production management. PPC deals with decisions that will enable you to produce goods or offer services: a) according to customers' specifications or needs; b) in the quantity demanded; c) by the schedule demanded; and d) at minimum costs.

Why Plan Your Production Activities?

Detailed planning of materials, labor, and machine time is necessary so that materials and parts will be at the right place and at the right time. This will enable you to complete a job within the time planned and in accordance with the requirements. When you plan your production activities, you are in a better position to prevent delays, excessive wastage, and unnecessary costs.

The following situations commonly cause delays:

- Defective parts or materials.
- Running out of raw material stocks when they are needed in the shop floor.
- Interruption of operations because the next machine or worker does not have a continuous supply of in-process material from the preceding one.
- Work stoppage due to machine breakdown.

When you plan ahead, you can anticipate problems and work out solutions or measures to prevent problems from occurring. To eliminate unnecessary delays, make sure you:

- Check all the materials/supplies you purchase for any defects;
- Schedule your production activities and compute for all your requirements;
- Plan and monitor your inventory levels so that you never run out of stock;
- Plan jobs to be done so that work flows continuously in the shop floor;
- Schedule machine maintenance so that machines don't breakdown during production.

Make it a habit to set aside time to plan your production. It will save you a lot of money and time on the shop floor.

Production Planning[5]

At this point, all you have is your sales forecast for your first year of operations. From your sales forecast, you need to develop a production plan to determine what resources are necessary to meet your target sales and how the work will be spread out over the next 12 months.

Inputs to your production plan will come from different sources. You will need information on your forecast sales, current workforce, inventory levels, activities required for production, production capacity, and raw material requirements and availability.

The person in-charge of production, whether that will be you or someone else, has to review the sales forecast to see whether the necessary manufacturing or service facilities, equipment, manpower and skills requirements are available. A production schedule, which details how the work is to be spread out in the next 12 months, has to be developed to make sure that the number of units to be sold based on your sales forecast can be produced in time.

The person in-charge of purchasing, again whether that will be you or someone else, should review the materials requirements, check on inventory levels, make the necessary purchases, and ensure availability of all the necessary materials, tools and equipment when they are needed in the shop floor.

The person in-charge of cost accounting, also whether that will be you or someone else, collects all the necessary information – from production and purchasing – and comes up with a manufacturing or service budget, showing the monthly requirements for materials, labor, and overhead.

Presumably, you will handle all finance activities in your business. You need to study and review the monthly sales forecast and the monthly manufacturing or service budget so that you can determine your business' monthly working capital requirements.

Controlling Production Activities

Production control refers to checks made to ascertain whether the schedule is being met, to report discrepancies, and to take corrective action.

You have learned from the previous chapters that a good entrepreneur is in business not only to earn profit but also to serve the needs of the market. If you want to succeed in business, then you must manufacture a product or offer a service that meets your customer's specifications or expectations at the price they can afford and at the time they need it.

If a customer is satisfied with the quality of your product, you can expect continuous patronage. However, once your product is found to be defective or otherwise short of customers' specifications or requirements, you can expect sales to drop.

[5] Production planning is not easy as the conditions for planning are filled with assumptions and uncertainties. Teaching a beginner like you PPC strategies and techniques without the technicalities is next to impossible. This section has been simplified just to give you an overview of PPC. For details, it is suggested that you refer to books on production management and operations.

Apart from keeping customers satisfied, maintaining the quality of a product or a service will go a long way in keeping your cost of production to the minimum and in improving productivity. Defective products entail unnecessary costs. Think of all the materials, labor, and other inputs gone to waste! On top of these, more resources are going to be spent for rework. This is money down the drain!

Defective products can be a result of lack of control. Here are guidelines to follow in production control:

- Inspect for quality.
- Conduct adequate tests to verify whether the product meets quality standards or not.
- Maintain machines properly and make sure they are in good condition.
- Calibrate measuring and testing equipment regularly.
- Check the quality of your raw materials.

Make it a point to have inspection points or simple routine checks on important operations or activities. Inspection can involve measuring, tasting, touching, weighing, or testing a product. As the owner, you must verify, often by inspection, that your business is performing up to the quality level that you set. Your goal is to detect a bad process immediately.

Inspection does not correct deficiencies in the system or defects in the products or services, nor does it change a product or service, or increase its value. To be effective, it is critical to know when and where to inspect. This decision depends on the type of process and the value added at each stage. It would be good to inspect at the following points:

- Upon receipt of materials from supplier;
- Before doing costly or irreversible processes;
- During the step-by-step production process;
- When the production or service is completed;
- Before the product leaves your production area; and
- At the point the product reaches the customer.

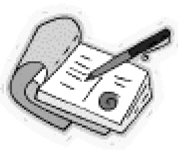
Poor craftsmanship arising from the lack of skill or motivation of workers can also contribute to the production of defective products. Be sure you get the right people for the job. Motivate your workers to work and encourage them to be quality conscious.

There are a number of ways to reduce the number of defective units. They include:

- Giving workers complete, easy to understand, and clear instructions on the production or service operations. If necessary, provide them with drawings or diagrams.
- Making sure that your workers know how to perform the operations well before leaving them unsupervised;
- Communicating clearly any changes in policies or procedures;
- Providing incentives to motivate them to produce quality products or services. In the same manner, holding them liable or responsible for every defective product they turn out; and
- Emphasizing the importance of waste prevention.

SUMMARY

The chapter identified factors on where to set up a business and basic important considerations in organizing your production and your display (if you are a trader). It also gave pieces of advice on how to arrange your machines and equipment, work stations, and facilities, including storage areas. It also mentioned good practices regarding purchasing, maintaining machines and equipment, managing inventory, monitoring and valuing stock, and production planning and control. These factors affect efficiency in production, pricing, and eventually profits.



Now, go back to the Workbook, start filling in some of the blank spaces in your technical plan. Continue with the rest of the unfilled spaces after reading Chapters 8, 9, 10, and 11.

References

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CHAPTER 8: ORGANIZING YOUR BUSINESS

Once your plant is ready, it's time to organize your business. Perhaps you may already have an idea of what your business is going to look like. You are pretty excited to start your operation with the least possible delay. But wait, there are still some questions to answer and things to attend to before you formally open for business.

What form of ownership will your business take? What is your vision for the business? What are the goals and objectives that you want your business to achieve? Are you going to register your business even if you are only starting? Can you run the business by yourself? Who are the people you think can help you? How are you going to choose them? What skills must they have? Who will do what?

THE LEGAL FORMS OF BUSINESS

An enterprise can assume any of the following legal personalities: sole proprietorship, partnership, corporation, or cooperative.

- First Option: Sole Proprietorship.

There are many reasons people venture into business. Most probably, you are part of the majority who want to go into business because they want to be their own boss. If this is the case, then the legal form suitable for your business is the *sole* or *single proprietorship*.

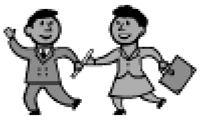
There is much freedom for you here since being the sole proprietor or owner of the business, you will make all the decisions, work on your own time, and keep all the money that come in. You also have the choice as to whether or not to register your business at the onset.

Unregistered businesses comprise what is called the underground economy or the informal sector. They do not pay income tax, do not pay the minimum wage, and do not enroll their workers with the Social Security System. Some of these informal businesses remain informal while others, however, become formal.

Fortunately, the Government is beginning to recognize these informal businesses. They have instituted programs to entice them to come clean. One of the recent programs is Republic Act 9178, otherwise known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002. Under the Law, small enterprises are exempted from paying income tax and from paying the minimum wage to their workers. But the latter are still entitled to the same social security and health care benefits which the employees of other businesses enjoy. A BMBE enterprise, however, must first register with the Government in order to avail of these exemptions and other benefits under the Law.

A BMBE enterprise may not necessarily be a sole proprietorship; it can assume any of the four legal personalities. (More about this law later in this chapter.)

- Second Option: Partnership.

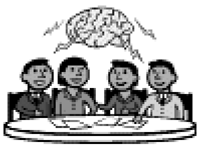


By the contract of partnership two or *more* persons bind themselves to contribute money, property, or industry to a common fund, with the intention of dividing the profits among themselves (Article 1767, *The New Civil Code of the Philippines*).

Registration of a partnership is not necessary unless an immovable property like land or building (or just real rights to them) are contributed and unless the partnership has a capital of three thousand pesos or more in money or property. In such cases, the contract of partnership must be notarized and recorded in the Securities and Exchange Commission (SEC) (Articles 1771 and 1772).

Each partner is liable for the act of another *on behalf* of the partnership. This means you are responsible for the act of your partner if such act was made with representation of the partnership. Naturally, you gain whatever profit your partner earns but you also bear whatever loss your partner incurs, and you are bound with whatever debt your partner is indebted to on behalf of the partnership.

- Third Option: Corporation



If you want to bring in more owners to your business and if you want it to act on its own (basically, have a life of its own), then a *corporation* may be the right legal form of business for you. The law defines a corporation as "…an artificial being created by operation of law, having the right of succession and the powers, attributes and properties expressly authorized by law or incident to its existence.." (Section 2, *The Corporation Code of the Philippines*).

The law simply would like to say that a corporation is a person. Of course, unlike you, it cannot eat, breathe, walk, or speak. But *like* you, it can sue and be sued, purchase, receive, take or grant, hold, convey, sell, lease, pledge, mortgage, and otherwise deal with such real and personal property (Section 36). It is therefore a *legal* person separate and distinct from you. It basically has a life of its own.

There are many classes of corporations but we shall concern ourselves only with a *stock corporation*. It is a corporation that has a capital stock[6] divided into shares. A stock corporation is authorized to distribute dividends[7] or allotments of the profits to the stockholders[8] (Section 3).

Any number of *natural* persons[9] not less than five (5) but not more than fifteen (15), all of legal age and a majority of whom are residents of the Philippines, may form a private corporation for any lawful purpose or purposes (Section 10).

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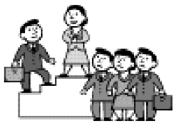
[6] The ownership element of a corporation that is divided into shares among its owners. A share is a portion of the capital stock distributed among its owners and represented by certificates.
[7] A dividend is a share of the profits of a corporation that is distributed to its owners.
[8] A stockholder is simply an owner of the capital stock.
[9] A natural person is a real human being, as distinguished from a corporation that is treated by law as an artificial person.

Registration is a must for all corporations since the law enforces filing their articles of incorporation[10] with SEC (Section 14).

Unlike in the first two legal forms of business, a creditor[11] cannot run against any of the incorporators in case of a debt incurred by the corporation since it has a legal personality of its own.

- Fourth Option: Cooperative



If you want to make money through your association or with people with whom you share a common interest within your locality, then you may consider putting up a *cooperative*. A cooperative is a duly registered association of persons, with a common bond of interest, who have voluntarily joined together to achieve a lawful common social or economic end, making equitable contributions to the capital required (Sections 3 and 10), *The Cooperative Code of the Philippines*).

From this legal definition we can take *at least* four requirements in forming a cooperative: (1) it must be duly registered, (2) it is an association of persons, (3) the members must have a common interest, and (4) the members must make equitable contributions[12] to the capital required.

The primary objective of every cooperative is to provide goods and services to the members and thus enable them to increase their income and savings, investments, productivity, and purchasing power and promote among them equitable distribution of net surplus (Section 7).

Like a corporation, a cooperative has a legal personality separate and distinct from its members. It may be said that a cooperative is a localized version of a corporation. While partnerships and corporations are registered with SEC, cooperatives register by filing the articles of cooperation with the Cooperative Development Authority (Section 14).

Cooperatives may fall under any of the following types:

- Credit Cooperative. This type promotes thrift among its members and creates funds in order to grant loans for productive and provident purposes[13];
- Consumers Cooperative. The cooperative procures and distributes consumer goods[14] to members and non-members;
- Producers Cooperative. This one undertakes joint production of goods whether agricultural or industrial. It is a cooperative composed of manufacturers, who may be individuals or groups of individuals organized to undertake the joint production of certain goods.
- Marketing Cooperative. This type engages in the supply of production inputs[15] to members and markets their products;

[10] The document that proves that a corporation has indeed been established in accordance with law.
[11] A person or an entity that owes another person or entity.
[12] What is just and fair with respect to the share of each member in the cooperative.
[13] A provident purpose refers to that which is attached to any activity that will allow a member to save for future need.
[14] Goods, such as food and clothing, that satisfy human wants through their direct consumption or use.
[15] Production inputs may be in the form of fertilizers, construction materials, or any equipment or supply that may be used to make certain goods.

- Service Cooperative. This type engages in the delivery of services such as, but not limited to medical and dental care, hospitalization, transportation, insurance, housing, labor, electric light and power, communication and other services; and
- Multipurpose Cooperative. This type combines two or more of the business activities of the different types of cooperatives (Section 23).

Perhaps the single most attractive feature of a cooperative over a corporation is the tax exemptions and other privileges provided by law. Cooperatives, for example, are not subject to tax on their transactions with their members and even with non-members to some extent (Section 62). Credit cooperatives, meanwhile, are entitled to loans with some of the government banks and financial institutions (Section 63).

There are both advantages and disadvantages of each form of business. Study the chart below carefully and use it to help you decide on the form appropriate to your set-up.

Legal Form	Pro	Con
Sole proprietorship	➢ Easy to start; registration is simple. ➢ Gives you more freedom and control of the business. ➢ Allows you to take all the profits.	➢ Makes you bear all the risks and losses. ➢ Has limited capital and resources. ➢ Demands much time and effort from the owner.
Partnership	➢ Enables partners to contribute money and property to the partnership. ➢ Allows the successes, risks and losses of each partner to be shared by the other partners. ➢ Facilitates participatory planning and problem solving.	➢ Limits control of the business. ➢ Limits profit. ➢ Consequences of a bad decision affect the other partner. ➢ Binds the other partner in case of a debt incurred by one partner on behalf of the partnership.
Corporation	➢ Easy to raise capital. ➢ Limits liability for debt to one's share in the capital stock. ➢ Easy to attract investors and creditors since it has the impression of a large company.	➢ Delays decision-making since major decisions must be approved first by the board of directors. ➢ Double taxation since corporate and individual profits (in terms of dividends) are simultaneously taxed. ➢ Involves more expenses. ➢ More rules and regulations to follow.
Cooperative	➢ Easy to raise capital. ➢ Facilitates transfer of knowledge and technology since members share common interest. ➢ Tax-exempt and has other privileges under the law. ➢ With almost the same benefits as those of a corporation without much trouble.	➢ Delays decision-making since major decisions must also be first approved by the board of directors. ➢ Limits scope of operation within the residence or area of work of the members.

REGISTERING YOUR BUSINESS

Business registration involves enlisting your small enterprise with the proper government agencies and obtaining the necessary permits to conduct business.

The government requires all enterprises of whatever size, type, and form to secure a permit before it can do business. An unregistered enterprise is not counted within the economic mainstream. In other words, it is not legal and therefore is part of the underground economy.

Why Register?

You may then ask yourself, “So what if my business is illegal, or I do not hold a franchise for my taxis?” Now, think about these. Why does the FX taxi driver hide his signboard every now and then during the trip? Have you ever wondered why that building down the corner becomes very busy and noisy only at night when you see goods going in and out? Why does the owner of your favorite *carinderia* never stop complaining about ‘free-loading’ people in uniform? The answer to these questions is quite obvious. The taxi does not have a franchise; the shop and the *carinderia* do not have the necessary permits. All three are operating illegally. Either they play hide-and-seek with the authorities or ‘come across’ every so often to get away with being unregistered. Would you like to be in their shoes?

At first glance, the mere thought of business registration may mean expense. But if you are a small entrepreneur who is forward looking, you will see beyond the expense to appreciate the gains that your business will get for being legal. Registering your enterprise allows you the exclusive use of your business name, design, and brand name, among others. In addition, an enterprise that is registered can operate openly without fear of being visited by ‘unwanted’ guests.
It is also an investment or a passport to opportunities that will give you access to the different programs, like the BMBE Law, being offered by government and private institutions to help starting small entrepreneurs like you.

Where to Go and How to Get There

Before you can register your small enterprise as a BMBE, it has to be a legitimate business first. This means, your enterprise should have the necessary permits, licenses, and certificates issued by the government agencies concerned.

Registering a business is a very simple process. In general, you start by filling out a registration form and complying with the required documents, filing the accomplished form with the government agency and attaching the supporting documents, and paying some fees. After a certain period, you will be issued a certificate of registration, a permit, or a license.

Aside from registering your enterprise, you will also need to register your employees and workers. This will protect them and entitle them to benefits under the law.

Where to Register

Following are the government agencies that a start-up business needs to register with. Some of them have already been mentioned earlier in this chapter and are being repeated here for easy reference. For information about the list of requirements for registration, visit their URL.

NO.	AGENCY	WHAT
1	Department of Trade and Industry (DTI)	This is where you register if your enterprise is a single proprietorship. The agency will issue a certificate of registration of business name. (http://www.bnrs.dti.gov.ph)
2	Securities and Exchange Commission (SEC)	If your enterprise is a partnership or a corporation, this is where you will register. It will issue a certificate of registration. (http://www.sec.gov.ph)
3	Cooperative Development Authority (CDA)	If your set-up is a cooperative, register with this body. The agency will issue the certificate of registration. (http://www.cda.gov.ph)
4	Local Government Unit (LGU)	You register with the municipality or city where you will set up your business. This office will issue the business permit.
5	Barangay Hall	You register with the specific *barangay* in the municipality or city where you will operate your business. This office will issue the *barangay* clearance.
6	Bureau of Internal Revenue (BIR)	You register your business with this office and apply for your business's taxpayer identification number (TIN), registration of books of accounts, authority to print receipts, permit to use a cash register machine or point of sales (POS) machine, and permit to adopt a computerized accounting system. Your employees are also required to register and apply for their own TIN. (http://www.bir.gov.ph)
7	Social Security System (SSS).	You register your business as an employer, yourself as a self-employed or as employee, and your workers as employees. This office will issue an SSS number for your business, for yourself, as well as for your workers. (http://www.sss.gov.ph)
8	Department of Labor and Employment (DOLE)	If you employ five workers or more, register your business with this agency. The DOLE is tasked to promote gainful employment opportunities, protect workers and promote their welfare, develop human resources, and maintain industrial peace.
9	Home Development Mutual Fund (HDMF)	RA 7742 requires all SSS members earning at least P4,000 a month to register with this agency. HDMF administers the Pag-Ibig Fund. (http://www.pagibigfund.gov.ph)
10	Philippine Health Insurance Corp. (PhilHealth)	The New National Health Insurance Act (RA 7875) as amended by RA 9241 requires all employers of the government and private sectors and their employees to register with this agency. PhilHealth manages and administers the government health care system. (http://www.philhealth.gov.ph)

The following pages will trace the steps in applying for a business name for a sole proprietorship with the DTI and a mayor's permit with the local government of Manila.

Steps in Applying for a Business Name (Single Proprietorship) with the DTI

1. Choose a Business Name. Think of at least three names in case your first preference is not available. If your first choice is already registered or is similar to a name already registered, you may have to consider your next preference.

2. Search for a Business Name. Find out if your proposed business name is still available and can still be registered. Be sure that your proposed business name does not infringe on any existing trademarks.

3. Get application form from Information Window and accomplish in triplicate. If new applicant, submit form with complete requirements for checking in Window 1. You will be given a priority number. (One number per application; a maximum of 3 transactions per applicant per day is allowed.)

   If for renewal, submit application form with complete requirements to designated window (from Windows 4 to 9) for checking. Get priority number.

4. Get routing slips from Windows 2 and 3.

5. When your applicant priority number is called, proceed to Wing B. Get the checked application form and submit together with the documents for evaluation. Wait while the documents are being processed.

6. If your business name is approved, proceed to Cashier (Windows 28 and 29) and pay the necessary fees.

7. Proceed to Releasing Station for the issuance of your certificate of business name registration.

Steps in Applying for a Business Permit in the City of Manila

1 Get a business transaction form together with a list of requirements from the Business Promotions and Development Office (BPDO).

2 Accomplish the form, comply with the requirements, and submit them to the BPDO.

The BPDO personnel will:
- encode the business transaction form
  assess the completeness and correctness of the documents you submitted
- compute the corresponding fee
- issue a computer-generated business identification number (BIN) slip

3 Present your BIN to a licensing officer at the License Division of the City Treasurer's Office for verification of the computation and assessment of business tax and regulatory fees.

4 Pay the fees at the cashier's office. License & Regulatory Fees (LRF) form will be issued as official receipt.

5 Present the LRF to the BPDO for verification of payment. Wait for the issuance of your business permit.

THE BMBE LAW AND YOUR ENTERPRISE

This law was passed to help new small enterprises like yours, as well those that are already existing, to flourish by making available incentives and benefits. It is expected that the birth or creation of new small enterprises will help the economy grow and, consequently improve the quality of life of the Filipinos. This is not to forget that as more small enterprises open, employment opportunities also increase.

Under this Law, a BMBE is any business enterprise that:

- produces, processes or manufactures goods, including processing of agricultural produce;
- is engaged in selling or trading, and services;
- has total assets of not more than P3.0 million, excluding the land on which the enterprise is located.

Services provided by professional practitioners, such as medical and dental clinics, law offices, consulting services, etc. are not included.

You can avail of the following incentives if you register as a BMBE:

- Exemption from paying tax on the income you derive from your small enterprise
- Exemption from the coverage of the Minimum Wage Law. However, your employees remain entitled to social security and health care benefits like other employees
- Priority to a special credit window that was set up specifically to address the financing requirements of small enterprises
- Access to the different programs that are designed to help small enterprises. These include technology transfer, production and management training, and marketing assistance.

Because these incentives are intended exclusively for BMBEs, the Law requires you to register first as a BMBE and secure a Certificate of Authority as proof of your being a BMBE.

How to Register a BMBE

Registration is open to any person, cooperative, or association with a business enterprise falling in the category of a BMBE as described in the previous page. If you have already registered with the aforementioned agencies, applying for a Certificate of Authority as a BMBE will now be a breeze. You already have most of the required documents. Just follow these steps:

1

Get an application form (BMBE Form 1) from the Office of the Municipal or City Treasurer where you intend to locate your enterprise.

If you are a new applicant, you need to present your certificate of registration (DTI, SEC, CDA, etc.) and the mayor's permit.

2

Fill out the application form in three copies. Each copy should be signed by the owner or the manager of the enterprise. Submit the form to the Office of the Municipal or City Treasurer. Attach three copies of passport-size photos. The treasurer will retain two copies and will acknowledge the third copy of the applicant.

3

The treasurer will evaluate the application. It shall be processed within 15 working days upon submission of complete documents. Otherwise, the BMBE shall be deemed registered.

If your assets are worth more than P300,000, the treasurer may ask for some documents.

4

The treasurer of the local government unit (municipality or city) will issue the Certificate of Authority to approved applications or deemed approved.

The Certificate of Authority will be effective for two years. It can be renewed for another two-year period.

Requirements for Renewal of Certificate of Authority:
- All documents submitted prior to registration
- Annual information return from the BIR for the year immediately preceding the renewal of registration

Cost of Registering a BMBE

There are no fees to be charged for registering a BMBE per se. But the Law allows the local government unit where you filed your application to collect the amount of P1,000 to cover administrative expenses related to registration and monitoring of registered BMBEs.

There are important things to remember and do when your enterprise becomes a BMBE.

- If your business is ongoing, it is assumed that your employees are already receiving a specific wage and enjoying other entitlements.
- If you will hire new employees after becoming a BMBE, you are not required to base their wage on the minimum wage law. Employees of a BMBE are entitled to the other benefits provided by the labor laws and regulations. This includes the non-diminution rule or a reduction in their wage and other benefits.
- The BMBE Law does not set the exact wage to be given to employees of a BMBE. The Law has left this matter into the hands of the BMBE and its employees. It is necessary, therefore for both parties to agree on the acceptable wage rate.
- A BMBE's exemption from coverage to the minimum wage law takes effect upon issuance by the municipal or city treasurer of the Certificate of Authority.

But Revenue Memorandum Order (RMO) No. 10-04 dated 08 March 2004 still requires a BMBE to file with the Bureau of Internal Revenue (BIR) and comply with the tax rules and regulations in order to avail of the benefits of the BMBE Law.

- To claim your tax exemption privilege, visit the nearest BIR office in your place and submit these documents:

  - Copy of the BMBE Certificate of Authority
  - Sworn statement of assets of the BMBE and / or its affiliates (either a person or business) supported with relevant documents
  - Certified list of the branches, sales outlets, factories, warehouses and storage facilities
  - Certified list of affiliates (either persons or businesses)
  - Latest audited financial statements or account information form or its equivalent.

- If your BMBE qualifies to full tax exemption, you will be required to submit an annual information return and supported by an account information form that contains data from the financial statement and sworn assets owned and/or used in the business on or before the 15^{th} day of the 4^{th} month after the close of the taxable year. The registration fee for this purpose is P500.

- The income tax exemption privilege of a BMBE is not permanent. It may be revoked for any of the following reasons:

  - Transfer of place of business
  - Value of total assets exceeds P3.0 million
  - Voluntary surrender of certificate of authority
  - Death of the registered individual owner
  - Violation or non-compliance with the provisions of RA 9178
  - Sale or transfer of the BMBE, if it is a single proprietorship, without prejudice to the transferee applying for registration
  - Submission of fake documents
  - Retirement from business or stopping of operations for one year
  - Making false or omitting required declaration or statements.

WHERE ELSE TO REGISTER

Some enterprises, by nature of their operations, are required to secure a special clearance, license, or permit from some other government agencies. The following table will guide you about some of the types of businesses that require a special certificate or permit and the agencies that issue them.

TYPE OF BUSINESS	WHAT AND WHERE
Animals and animal products, registration of veterinary drugs and animal facilities	Registration certificate - Bureau of Animal Industry Dept. of Agriculture (DA-BAI) (http://www.bai.da.gov.ph)
Aquatic animals, importation Fishpond lease agreement	Permit - Bureau of Fisheries and Aquatic Resources (DA-BFAR) (http://www.bfar.da.gov.ph)
Fertilizer products and registration of pesticide products	Registration certificate - Fertilizer and Pesticide Authority (DA-FPA) (http://www.fpa.da.gov.ph)
Fiber and fiber products processing and trading	Registration certificate; commodity clearance - Fiber Development Authority, (DA-FIDA) (http://www.fida.da.gov.ph)
Film and television production, export and import, booking, etc.	Registration certificate - Movie & Television Review and Classification Board (MTRCB)
Food, chemicals, health related business	Registration certificate – Bureau of Food and Drugs, Dept. of Health (DoH-BFAD) (http://www.bfad.doh.gov.ph)
Flour processing Grains wholesaling & retailing, milling, warehousing, exporting, importing, indenting, packaging, threshing, corn shelling, mechanical drying	License – National Food Authority (DA-NFA) (http://www.nfa.gov.ph)
Meat plant accreditation for meat & meat products, slaughterhouse operations	Accreditation certificate, Registration certificate – National Meat Inspection Commission (DA-NMIC) (http://www.nmic.da.gov.ph)
Pawnshop & lending investor	Registration certificate – Bangko Sentral ng Pilipinas, Dept. of Finance (DoF-BSP) (http://www.bsp.gov.ph)
Plants & plant products: nursery accreditation Seed certification and phytosanitary certificate	Permit - Bureau of Plant Industry (DA-BPI) Registration certificate – DA-BPI (http:bpi.da.gov.ph)

Recruitment or placement agency for foreign employment Recruitment or placement agency for local employment	Registration certificate - Phil. Overseas Employment Administration, Dept. of Labor (DOLE-POEA) (http://www.poea.gov.ph) Registration certificate – Bureau of Local Employment (DOLE-BLE) (http://www.ble.dole.gov.ph)
Schools & educational institutions: Educational institution (nursery, primary, elementary, secondary levels) Tertiary level Technical-vocational education, training program registration and accreditation	 Permit - Dept. of Education (DepEd) (http://www.deped.gov.ph) Commission on Higher Education (CHEd) (http://www.ched.gov.ph) Registration and accreditation certificate - Technical Education Skills Development Authority (DOLE-TESDA) (http://www.tesda.gov.ph)
Security agency business	Permit – Philippine National Police, Dept. of Interior & Local Government (DILG-PNP) (http://www.dilg.gov.ph)
Service and repair shops for: Motor vehicles; automotive & heavy equipment; engine & engineering works, & machine shops; electronics, electrical, air conditioning & refrigeration; office & data processing equipment; medical & industrial equipment; appliances or devices; and private emission centers	 Accreditation license: Bureau of Trade Regulation and Consumer Protection, (DTI-BTRCP); DTI regional offices (http://www.business.gov.ph)
Sugar trading, muscovado converting & trading, processing or manufacturing sugar-based products for export	Registration certificate – Sugar Regulatory Administration (DA-SRA) (http://www.sra.gov.ph)
Telecom business	License – National Telecommunication Commission, Dept. of Transportation & Communication, (DOTC-NTC) (http://www.ntc.gov.ph)
Tourism-related projects	Registration and accreditation certificate – Dept. of Tourism (DOT) (http://www.tourism.gov.ph)
Transportation: Land transport service Sea transport service	 Land Transport Franchise & Regulatory Board (DOTC-LTFRB) (http://www.ltfrb.gov.ph) Maritime Industry Authority (DOTC-MARINA) (http://www.marina.gov.ph)
Video production, sales and rental	Optical Media Board (formerly Videogram Regulatory Board), Office of the President (OP-OMB)

Some Reminders When You Register

Are you still awake? Try not to be overwhelmed by the registration process. Bear in mind that the process could be tedious only in the beginning. It will be much easier the next time around, when you will renew your permits.

Here are a couple of tips when applying for a certificate, license, clearance, a permit, or whatever document you will need in order to operate. The ease or difficulty of securing that important document lies in your ability to prepare things and in organizing them.

- Upon getting the application form and list of requirements, check immediately for anything that is not clear to you. Don't hesitate to ask questions.
- Make a schedule for accomplishing the requirements. Schedule your appointments with agencies close to each other in succession.

- Two days before filing your application, review the list of requirements by ticking each item one by one. This will indicate whether you missed out something. Ask your family members to double-check your application form to know if you have incorrect inputs or overlooked some.
- Before going to the government office, be sure to bring the accomplished application form and all the documents required from you.
- Do not forget to bring some ballpen and, of course, money. Make sure you have enough cash to pay for the fees. If possible, bring some extra money to cover unexpected expenses such as fee adjustments.
- Never seek assistance from a fixer! You will lose more money.
- After receiving your document, reproduce a copy for your file and for government inspection. Display the original copy in your place of business or in your office.

OTHER THINGS TO TAKE CARE OF

There some other matters that you will put in place before you are able to operate. These are basic things you cannot do without if you want your business to run smoothly. These are the utilities, namely, power, water, and telephone. You can already work on some of them even while getting your registration papers done.

- Secure a connection for electrical services. You can get this with the Manila Electric Co. (MERALCO) if your business is within a franchise area of MERALCO. If your business is located in a non-MERALCO franchise area, get the connection from the local electric utility firm or company in your area.
- Secure a connection for water services. There are two business concessions operating in the Metro Manila area. You can connect either with Maynilad Water Works or Manila Water, depending on your business location. If you are outside Metro Manila, connect with the Local Water Utilities Administration (LWUA).
- Secure a connection for telephone services. You can choose to connect with the Philippine Long Distance Telephone Co. (PLDT), Bayantel, Digitel, Smart, or Globelines.
- Secure a connection for internet services. This is optional. If you want to reach the market beyond your place of business, the internet is a good tool. There are several service providers available for you to choose from.

STAFFING YOUR BUSINESS

While your registration papers are being processed, you can already start getting the people who will help you in the business. The number of workers you will get and the skills you will look for in them will depend on the tasks you will give them.

Staffing, however, is not the only skill you have to learn. Assigning an individual to a particular job is easy but getting *qualified* and *competent* people is difficult. A good recruitment and selection process will help you in this respect, and this process begins with determining your employment requirements.

Who Will Do What?

Assigning tasks is easy if you are going to make all the business decisions. The only question that you will answer is: What will be your role in the business?

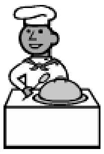
Indeed, many small businesses start as a one-person show and without the help of specialized staff. What about you? Are you going to perform all of the management functions, namely, marketing, production, personnel management, and finance? Or would you rather concentrate on one and be on top of that?

The following factors will help you choose which role(s) to take in your business:

- Your Education and Training.

If you are an engineer or you have some technical training, it will be natural for you to consider being in the technical or production area. Or if you are an accountant or have a background in banking or finance, you may want to handle the finance function.

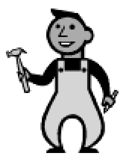
- Your Experience.



Have you experienced working for a manufacturing firm? Were you ever a member of the kitchen staff of a hotel? How successful were you in getting automotive jobs for that service center? Your experiences will be handy in performing certain management functions.

You might ask, “What if I don’t have any work experience at all?” or “What if I’m just a fresh graduate and trying my luck in entrepreneurship?” Did you learn some skills while helping a relative in the ceramic business during one of those summer breaks? What did you gain from your summer job or during internship? Remember the skills you learned from these experiences. You might need them when deciding which management function to assume in your business.

- Your Interest and Talent.



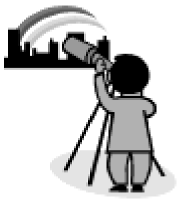
Not having the education or the experience to back up your inclination to take on a specific management function will not disqualify you. For all you know, you might have the interest or the talent for it. If you have people skills, are cheerful but commanding and persuasive, you may do well in sales or in personnel management even without any experience or formal training. After all, you can develop these skills by attending some seminars or short courses. On the other hand, if you enjoy working with your hands and putting things together, you can handle production.

- Your Time.

Granting you have the training, the experience, and the interest and talent to assume a management function, do you have the time for it? Can you devote most of your time to the particular management area you selected?

Take time to do an objective personal assessment of the situation. Ask yourself if you are able and will have the time to handle *all* the management functions in case you decide to be on top of everything. Remember, you are not only an entrepreneur. Ours is a pluralistic society. Besides being a spouse, a parent, an offspring, or even a sibling, you are also part of your community. Nonetheless, if you think you can be a jack-of-all-trades and be everywhere in your business without sacrificing any of life's essentials, then go for it! It might be good for you to review how you fared in the section on the personal entrepreneurial competencies in the first chapter.

- The Pros and Cons of Having a Bird's Eye View



Finally, weigh the advantages and disadvantages of having a broad view of your business. Being "everywhere" in your business will allow you to see the interrelationship among the four management areas; where one area supports and draws support from the three other areas. While the age-old saying "jack-of-all-trades, master of none" is true, consider the setback if you indeed plan to become a master of something. If you concentrate in one area, say in finance, you might neglect the other areas that are just as important. Let us say you opted to concentrate on production. As you look for ways to become more efficient in order to produce more at a faster rate, you might lose sight of the other areas, like sales and finance. This could lead your business to end up with too many unsold stocks and incur losses due to overproduction and an over investment in machines.

Whatever role you will play in your business, it is always wise to look at your business as in integrated operation. Remember that you, as the entrepreneur, hold the key position in your enterprise. The success or failure of the business lies in your hands.

While you may be able and willing to run the business on your own, strictly speaking, this is close to impossible. You may be capable of making all the necessary decisions, true, but you will need people to help you implement them.

So how will you go about taking in the people to help you? Again, another set of guidelines could help you make a good choice.

GETTING THE RIGHT PEOPLE

You may start with family members, relatives, friends, neighbors, or acquaintances. Wherever they may come from, be sure they can deliver what you will require. Before hiring them, be sure to explain your ground rules and have them agree to your policies. Level your expectations; from your end as the employer and from them as your employees. It is always good to prepare a staff manual. This should contain information pertaining to staff privileges and benefits and working hours, among others.

If you decide to hire friends, relatives or even family members, be clear about requiring them to be professional in the workplace, especially when dealing with you.

One of the reasons why the Government is encouraging people to start small enterprises is because of their potential to generate employment. It may seem easy to look for people to fill in the positions in your business. Many people are finding it hard to be employed. This should not excite you at all to hire whoever will come asking for a job. Match each position with somebody who will meet the requirements of the position.

Do not limit your recruits to the trained and experienced. Be open to applicants who can help your enterprise grow. Choose people who are willing to be trained and to stay in your company after being trained. Take care not to get opportunists or those who apply for lack of a better opportunity outside. They will be willing to work for you only for the time being either because they want the work experience or they don't have any other source of income. Hiring people who are willing to work for a long time is particularly important not only for reasons of ensuring continuity of work but also for the legal implications of employee resignations. Of course, you don't want your pockets to shrink by paying the separation benefits to people whom you should not have hired in the first place because they never had shown any intention of staying in your business for long.

The bottom line to these discussions is for you to come out with a set of qualifications for people whom you will hire.

Here are the steps in coming up with the criteria for selecting applicants:

- First, list down all the different activities that have to be done in your business. You can group this according to the four functional areas of management
  - Marketing
    - Sale and delivery of products to buyers
    - Delivery of products to distributors
    - Promotion and advertising
    - After-service support, etc.

  - Production
    - Product manufacture or service delivery
    - Machine operation
    - Repair and maintenance
    - Quality control
    - Raw materials and finished products inventory, etc.

  - Finance
    - Bookkeeping
    - Payroll preparation
    - Settlement of payables and collection of receivables
    - Petty cash management, etc.

  - Administration
    - Ordering of supplies
    - Sales contract preparation and business permit renewals
    - Keeping and maintenance of personnel records
    - Business communication and inquiries, etc.

You can specify your list further according to the nature of your business. In our example of the soap making business in Chapter 4, the specific jobs include mixing of the ingredients, molding, curing, cutting, packaging, washing of the utensils, sales and promotions, supervising, and bookkeeping. Note that each of your listed activities does not have to be done by a different person. One or two of your workers may perform a combination of jobs.

- In your list of activities, exclude those that you are taking for yourself. The remainder will be those that will be taken by the people you are going to hire. These are now the tasks you are going to translate into job designations or position titles. As said earlier, one or two of your workers may perform a combination of jobs. A production worker in a soap-making business, for example, may do all the activities related to soap making prior to packaging, and these include mixing, molding, curing, cutting, etc. Similarly, your bookkeeper may also be your secretary or administrative assistant. But be sure that no worker will be too much preoccupied or overworked. Thus, it is important to determine the *sufficient* number of people for each position title.

- Next, list all the qualifications you will require for every position in terms of education, experience, training, etc. For example, you may require the following from a worker for your home-based soap-making business:

  - At least high school graduate
  - Preferably with experience in soap manufacturing
  - Willing to work overtime
  - Willing to work in shifts.

  For a bookkeeper or secretary, the requirements could be:

  - Graduate of any business-related course
  - Computer literate
  - Must know how to use the copier and the fax machine
  - With good oral and written communication skills
  - With pleasing personality
  - Preferably with experience in bookkeeping and secretarial work.

- At this point, you will now determine the salaries you are going to pay your workers. You must follow the prevailing minimum wage in your region or, if your business is BMBE-registered, you should consider what is just and equitable for them.

  Critical to any business is worker compensation. Labor cost affects production cost, which, in turn will affect profitability. On the other hand, wage is one of the most important factors that will motivate or discourage a worker to stay in a company.

  One way for fixing wage rates is to match them with the industry standards. Some entrepreneurs ensure that their employees receive slightly higher (about 10 percent) than the prevailing industry rate. These entrepreneurs believe that raising their employees' salaries has a direct impact on productivity. Some other entrepreneurs pay a new recruit lower than the industry rate, which they can adjust upward after the worker has shown good performance within the probationary or trial period.

Once you are done with the four steps, you can now begin to recruit, screen, and select the people who will work for you. For a starting small business, the above steps are already enough to complete an entire organizational plan. Additional steps will be needed to complete a bigger set-up.

Other Matters

Putting your business together and making it legal does not happen overnight. You will need to do some legwork and pencil pushing. It will also help to have a high tolerance level for waiting and chasing the paper trail. As you go from one agency to another, you will spend for transport, be it for gasoline or for public utility, and incidental expenses. Most importantly, you will need money to obtain the most coveted document, be it the registration certificate, a permit, a license, or a line in the case of the utilities. Another expense to prepare for is the cost of specialized training that your workers may need to meet the skills necessary to be able to make your product or complete your service.

Whatever the case, there is no need to worry. These expenses form part of the pre-operating expenses that your business will amortize within a given period. Your receipts will serve as supporting documents when you complete the organizational portion of the Workbook.

Finally, once you have put your business together, you are now ready to proceed to yet another critical step in starting your small enterprise, and that is how are you going to cost your product or service. Read on to get more information on this matter.

SUMMARY

This chapter has given you a step-by-step guide to organizing your business, from choosing the form of ownership, to registering with the proper government agencies, to getting the right people.

With your receipts in hand, turn the Workbook to the Organization Plan and fill in the relevant spaces and tables.

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CHAPTER 9: COSTING YOUR PRODUCT OR SERVICE

Now that you've organized your business, you have to make sure that customers will come. How sure are you? You're never sure. Quality, location, and customer service are factors that influence people to buy. Price is another. If the price for your product or service is higher than what your buyers can afford or are willing to pay, chances are your business will not last very long.

WHAT ARE COSTS?

Costs are all the money a business spends in making and selling its products or services. Some examples are:

- raw materials bought to make products or complete services
- goods intended for resale
- salaries and wages of factory workers or service crew
- sales commissions of sales people
- electricity for the machines, light, and office equipment
- interest on business loans.

These examples can be grouped into three kinds of costs: product costs (raw materials, goods for resale, salary of factory workers or service crew), selling expenses (sales commissions), and administrative and financing costs (electricity and interest on loans).

If you are in a service business or a trader, you will not have the same costs as a manufacturer. But most businesses have costs for materials, electricity, water, rent, transportation, and the like. Your costs will depend on the nature of your business.

Benefits of Knowing Your Costs

Costing is the way you calculate the total costs of making and selling a product or completing a service.

- Costing helps you set prices. When you know your total costs, you can set prices that will give your business a profit.

- Costing helps you make better decisions about your business. When you know the total costs of each type of product or service, you can make better decisions about which products or services to sell so that your business can make the highest possible profit.

- Costing helps you plan for the future. When you know all your costs, you can make plans for your business. You can decide on such things as: how much to produce; buying a new piece of equipment or opening a new sales outlet; hiring new people to cope; and increasing prices.

The Different Types of Costs

A business incurs different types of costs: direct material costs, direct labor costs, manufacturing overhead, and operating expenses.

For a manufacturer, the direct material costs, direct labor costs, and manufacturing overhead are commonly referred to as **manufacturing costs**.

- Direct material costs are what manufacturers spend on materials that become part of, or are directly related to, the products or services they make and sell. Some examples are the caustic solution, papaya extract, and base oil that are used to make soap. In the laundry shop for example, the direct materials are the laundry detergent and water.

Traders (retailers and wholesalers) do not have direct materials. The goods they purchase for resale are called cost of merchandise sold.

- Direct labor costs are all the money a business spends on wages, salaries, and benefits for the employees who make the products or provide the services.

  The person who prepares and mixes the ingredients for making soap and checks the product while it is being cured is a direct worker. The person who puts the water and laundry detergent into the washing machine, operates the equipment, dries, folds, and presses the clothes is a direct worker.

  Traders who do not make products or provide services do not have direct labor costs. The salaries and wages they pay their employees are considered as indirect labor costs, which form part of operating expenses.

- Manufacturing overhead are expenses referring to all the other costs that a business incurs in making a product or completing a service in addition to direct materials and direct labor.

  There are several types of costs that fall under the manufacturing overhead. They include, among others, indirect materials, water, electricity, supplies, salaries of production supervisors, repair and maintenance of production equipment, and depreciation of production equipment.

  Indirect materials refer to some materials used in production or service. These are usually used in small amounts, which, for practical considerations are considered indirect material costs.

  Indirect labor refers to the salaries paid to those who are not engaged in the actual production of goods or services. They include the production supervisor, production helper, and quality control inspector.

- Operating costs refer to all the other expenses a business incurs in the course of running the business. These costs can be classified into two: selling expenses and administrative and finance expenses.

Selling expenses include sales commissions, salaries of sales staff, packaging materials, delivery expenses, and promotional expenses.

Administrative expenses include, among others, salaries of the cashier, secretary, messengers, janitors, security guards, office supplies, rent, power, communication, depreciation of non-production related equipment, repair and maintenance of non-production related equipment, furniture and fixtures.

Financing expenses refer to the interest on loans or any bank charges that a business incurs.

The illustration below shows the various components of total costs.

DIRECT MATERIAL COSTS	+	DIRECT LABOR COSTS	+	MANUFACTURING OVERHEAD	+	OPERATING EXPENSES	=	TOTAL COSTS

COSTS AND PRICING

How you set your selling price is influenced by your costs for doing business. You put up a business in order to earn profit. To achieve this, your selling price should be at a level that will enable you to fully recover everything you spent and give you a reasonable markup. This refers to the difference between the cost of making a product or completing a service and its selling price. It is therefore important for you to know all your different business costs so that you can set your prices at a level that will give you profits.

There are three methods of determining your costs: production costing, variable costing, and full costing.

- Production costing. When you use production costs as basis for pricing, you actually set your price on the items:

  Direct material costs + Direct labor costs + Manufacturing overhead

- Variable costing. This is used when you consider all costs that vary or change with the number of units you produce or services you complete when setting your price. In addition to direct material costs and direct labor costs, you also include variable operating expenses such as packaging materials, labels, etc.

  Direct material costs + Direct labor costs + Variable operating costs

- Full costing. This is used when you consider the total of all manufacturing costs plus the total of all your operating costs (selling and administrative +finance expenses) when setting your price.

Direct material costs + **Direct labor costs** + **Manufacturing overhead** + **Operating expenses**

The latter method is not commonly used by small and medium enterprises as it is a long and cumbersome approach to pricing.

Costing Steps for a Manufacturer or Service Provider

1. Calculate direct material costs.
2. Calculate direct labor costs.
3. Calculate manufacturing overhead (*indirect labor, indirect materials, rent, electricity, water, maintenance of production or service equipment, depreciation of production or service equipment, transportation*).
4. Add direct material costs, direct labor costs, and manufacturing overhead costs.

Costing Steps for a Trader

1. Calculate cost of goods or merchandise.
2. Calculate operating costs (all the other expenses you incur in running your business. They can be classified into two: selling expenses and administrative and financing expenses.)
3. Add cost of merchandise and operating costs.

Traders:

- Have direct material costs. They may not make products or complete services but they need goods (or merchandise) to sell. The costs of buying goods to resell are the direct material costs of a wholesaler or retailer.

- Do not have direct labor costs. They buy and sell goods made by other businesses. They may have employees assisting them in the store but they do not have employees who make the goods they sell. Therefore, all the wages and salaries they pay to their employees are considered as indirect costs which are part of operating expenses.

- Have operating costs such as rent and electricity. The operating costs incurred by retailers and wholesalers refer to all the costs that the business spends for other than the total costs of buying goods or merchandise for resale.

Costing: Trading

The type of business that has the simplest problem in costing is in trading, where you buy goods at a certain price and sell the same at a higher price per unit. And the difference or the unit gross margin multiplied by the number you can sell within a given period should be enough to cover your operating expenses and leave you with some profit.

How does this work? Suppose all you're selling are *chichirias* to public school children. You're selling this at P1.00 each, because that's the price they can afford and that's the price being charged by all the vendors anyway. You buy these *chichirias* in bulk, at P15 per bag, with each bag containing 20 pieces. In effect, the cost of each pack is P0.75 – and selling the same at P1.00 gives you a gross profit or contribution margin of P0.25 per unit. If you manage to sell all 20 pieces, then you realize a gross profit[16] of P5.00. Remember you still have to consider your transportation costs in buying and bringing the product to school. In this case, P15 is the tricycle fare in going to the public market and another P15 in your return trip or a total of P30 for the transportation cost. So it isn't much if it takes you the whole day to sell all 20 packs. *Lugi ka pa*.

[16] The difference between the selling price and the cost of an item.

Let's modify the picture a bit. Let's say you have a cart which you had made to order for P10,000. You put all kinds of *chichirias* – 10 different brands – and you bring these near the school. This time you're paying P50 per month for your *puwesto* – ten months of the year. You buy your stocks on a Sunday, by the end of Tuesday all have been sold out. You buy again on Wednesday so that you have something to sell on Thursday and Friday. Business looks good, or is it? Let's go over each cost item.

1. Your goods. Ten bags of different brands, each costing you P15 per bag. You make two purchases in a week
2. Your transportation: P30 round trip. Since you have to do this twice a week, your transportation costs amount to P60 a week.
3. Your *puwesto* of P50 per month is equivalent to P12.50 a week.
4. The depreciation of your cart. Depreciation means the wear and tear of the cart, the expense of which is recognized and recorded in the income statement as a cost for the month or quarter or year. Assuming this is good for two years, then you have to divide P10,000 by 20 months (there are roughly 10 calendar months in a school year) to arrive at roughly P500.00, which is the monthly depreciation. You divide this by four and you get P125.00, the depreciation for a week.

Now we're ready to know if you're making some profit:

Sales	(20 packets/bag x 20 bags/week x P1/packet)		P 400.00
Less Variable Costs[17]:	Purchases (20 bags/week x P15/bag)	P 300.00	
Contribution Margin			100.00
Fixed Costs:[18]	Transportation	P 60.00	
	Depreciation	125.00	
	Rent	12.50	197.50
Loss			(P 97.50)

Obviously, selling 400 individual packets is not enough. Suppose we double the sales volume. That's the only change.

Sales	(20 packets/bag x 40 bags x P1.00 per packet)		P 800.00
Variable Costs:	Purchases (40 bags x P15.00 per bag)	P 600.00	
Contribution Margin:			200.00
Fixed Costs:	Transportation	P 60.00	
	Depreciation	125.00	
	Rent	12.50	197.50
Profit			P 2.50

It's a bit better than before, but you can't live on P2.50 a week, can you? But you don't have to use a table like the one above to find out the sales level where you can break even[19]. Instead, you can use the formula:

Sales = Fixed Costs + Variable Costs / Unit

[17] Expenses that change with the volume of goods produced or the amount of business done.
[18] Expenses that remain relatively unchanged in total, regardless of the volume of production or activity.
[19] Break-even point is the point at which a business neither earns a profit nor incurs a loss; the point where total revenue equals total costs.

Since both total sales and total variable costs are related directly to the number of units either sold or produced, the above equation can also be expressed as:

Selling Price/Unit x No. of Units Sold	=	Fixed Costs
		+ Variable Costs / Unit x Number of Units Sold

Based on what we already know, we can make our substitutions in the equation above:

P 1.00 per pack x number of packs sold	=	P 197.50 / week
		+ 0.75 per packet x number of packets sold

Simplifying this further, we have –

P 1.00 x	=	P 197.50 + P 0.75 x
P 1.00 x - P 0.75 x	=	P 197.50
P 0.25 x	=	P 197.50
x	=	P 197.50 / 0.25
x	=	790 packets

From here, we see that you should sell 790 packets to break even. Suppose you don't have a single product with a single buying and selling price like a sari-sari store, the option then is to go by averages. A sales combination of soft drinks, *chichiria*, *de lata*, and other items minus their respective costs, may give an average unit contribution margin of P1.50. What should your monthly sales be to break-even?

Suppose now that your monthly fixed expenses are:

Rent	P 4,000
Electricity	2,000
Depreciation of refrigerator	1,500
	P 7,500

P 1.50 x	=	P 7,500
x	=	P 7,500 / 1.50
x	=	1,500 different items

Costing: Service and Manufacturing

What if your business is not in trading, but in services or manufacturing? The same concepts apply.

In services, you have to know the cost of salaries and wages of your employees, those who directly render the service, plus the cost of supplies, equipment, and facilities directly used in providing the service. One example would be a beauty parlor. The cost of each service will consist of the wage of the attending beautician and the cost of shampoo or hair dye, plus the depreciation of curlers, dryers, and related items. Rent and electricity plus the depreciation cost of the air conditioner and furniture may be a major part of operating expenses.

If you were in manufacturing, you have to know all the costs to produce your finished goods. These include raw materials used, direct labor, and manufacturing overhead. Excluded are selling and administrative + finance expenses, and operating expenses.

Just remember that when you reduce…

fixed costs	then the break even point will…	go down
variable costs	then the break even point will…	go down
unit selling price	then the break even point will…	go up

If you increase any of the variables, this will have an opposite effect on the break-even point.

Some Ways to Reduce Your Costs

So how do you reduce costs?

- In beginning a business, you can reduce start-up costs by buying second-hand equipment. If this is not possible, rent instead of buying. If you can start from your house, it's so much the better. Ask your children to help in the business. This way you can avoid paying salaries. Just make sure you give them their allowance or spending money.

- If you're in the food business and use a lot of energy, rice hull for fuel may be an option – instead of LPG or electricity. Speaking of electricity, use energy saving lamps instead of the traditional bulbs. Their prices may be five times more expensive, but you save on your electric bill in the long run. But whatever type you use, you have to turn these off when not in use. This also goes for other electrical appliances. You may also substitute, if you can. I know of one office that uses electric fans, instead of air conditioners. The savings? P4,500 a month.

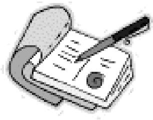
- Are you a heavy user of stationery? Then recycle. Reuse those business envelopes for routing internal correspondence. Use the back page of the paper. Cut these up in uniform sizes for notes or routing slips.

- If the area you're renting is too big or too expensive for your business, consider subleasing some of the space – if your lease contract allows you to do so.

As you begin your business, keep these in mind. These may come in handy especially in the early years of your business when sales volume is low.

SUMMARY

The chapter guided you on how to precisely calculate the costs of your product or service. Many cost items are involved but for a start, there is no better way than to reduce costs to the minimum by practicing the virtue of economy.



Now, go back to the Workbook. Use the information you got from this chapter to help you complete your marketing and technical plans.

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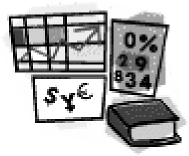
Chapter 10: BASIC RECORD KEEPING FOR THE NON-ACCOUNTANT

Whether it is basketball or other popular sports, someone tallies or keeps the score. In business, you keep books. You have to. It's the only way you'll know how your business is doing – especially if you have lots of transactions. You can't remember them all.



You argue, "But I only have a few transactions. I can remember." True, but not when your business expands. Now is a good time to start – when you just opened for business and transactions are few. Where do you keep score? Not in your head, like what most *sari-sari* storeowners do. Not in a notebook (although this can be used for temporary recording), but in a journal.

There are essentially two kinds of books of accounts. The first is the journal where you record transactions according to their dates. A journal is somewhat similar to a diary where you write what happened during each day. This is where you record each transaction as it happens or at the end of the week, if transactions are few. The second is the ledger where you transfer transactions from the journal – according to account or type of transaction.

FIRST THINGS FIRST

Before you even begin recording your business transactions, you must be guided by the accounting equation: **Assets = Liabilities + Equity.** Anything that you own and use for business falls under assets. Assets can be acquired in two ways: through borrowed money which you'll have to pay later on (liabilities) or your capital or your own money (equity). The accounting equation is the basis for your balance sheet. When you open for business, you expect to have some sales – and at the same time incur expenses. These too are recorded in the books of accounts and are summarized in the income statement – for a month, a quarter, a semester, or a year. If your sales are bigger than your expenses within a certain period, then you make a profit which increases your capital. If the opposite happens, then your business suffers a loss, which decreases your capital.

Recording each transaction is based on the accounting equation, with a plus (+) sign to show an increase in amount and a minus (-) sign for a decrease. Take note of which side of the equals (=) sign these belong, because proper recording of each transaction does not and should not change the equation.

To make it easier to remember, fold the diagram in the next page that follows vertically along the equals sign. You'll see that one side of the equation is the mirror image of the other.

Assets		=	Liabilities + Equity	
[Left Side] Increases (Dr.)	[Right Side] Decreases (Cr.)		[Left Side] Decreases (Dr.)	[Right Side] Increases (Cr.)

Particular Transactions	Assets		=	Liabilities		+	Equity			
							Paid-In Capital		Income Statement	
	Left Debit	Right Credit		Left Debit	Right Credit		Left Debit	Right Credit	Left Debit	Right Credit
1. Invested cash to start the business	(+)							(+)		
2. Improved the place which was rented	(+)	(-)								
3. Transferred some home furniture to the business	(+)							(+)		
4. Bought some supplies, paid for these in cash	(+)	(-)								
5. Bought some tools and equipment on credit	(+)				(+)					
6. Realized revenues, customers paid cash	(+)									(+)
7. Realized other revenues, extended credit to customers	(+)									(+)
8. Recorded expenses incurred with the sales		(-)							(-)	
9. Recorded, but did not pay expenses for the period					(+)				(-)	
10. Paid the supplier for tools bought on credit		(-)		(-)						
11. Withdrew some cash for personal use		(-)					(-)			

As you may have noticed, an entry on the left side is recorded as a debit (Dr.), and that on the right side as a credit (Cr.). Look closely, increases in assets are recorded as debits and decreases as credits. For liabilities and equity, it's the opposite. Increases are credited and decreases are debited. Likewise, since sales will increase your equity in the business, these are credited. Expenses, which will decrease equity, are debited.

Remember we said business transactions. These do not include personal or family expenses, like tuition fees and daily allowances of your children. These do not include your personal and household expenses, like food and clothing. These do not include purchases of appliances, like television and audio component, unless these are used in the business. If you do, then either the expenses or the assets of your business will be higher than what these should be. In the end, you do not get a fairly accurate picture of how your business is doing. Your business might even show a loss when it should not be. However, you can include seminars attended by your workers if these are related to your business.

THE CHART OF ACCOUNTS

Any business, whether service, trading, or manufacturing, will have balance sheet accounts and income statement accounts. But classifying them further (in what accountants call chart of accounts) will vary according to the nature of the business. To walk you through this chart, let's imagine a business – with very few accounts.

Mr. Cruz went into business. Since he did not have enough, he decided to invest in three bicycles with sidecars. This involved: an initial investment of P30,000, the purchase of three units of pedicabs and simple tools for ordinary repairs, and permits to operate these units.

So before he opens for business, his chart of accounts will include the following:

General Ledger (GL) Code	**ACCOUNT NAME**
CURRENT ASSETS. These include cash and other assets or resources commonly identified as those that can be converted into cash – or sold or consumed during the normal operating cycle of the business.	
001	**Cash on Hand.** Money received but which has not been deposited to a bank account as of the balance sheet date.
005	**Prepaid Insurance.** This represents accident insurance premiums paid for a period of one year.
FIXED ASSETS (or PROPERTY & EQUIPMENT). Assets under this category are fixed assets or capital expenditures. This means that "liquid" cash was transformed to a non-liquid asset that the business needs to operate. Depreciation means the wear and tear of the asset, the expense of which is recognized and recorded in the income statement as a cost for the month or quarter or year.	
010	**Transportation Equipment.** This represents the assembled pedicabs that the owner uses to provide the public with a means of transportation within a specified area.
010 A	**Accumulated Depreciation – Transportation Equipment.** The wear and tear of the asset based on its expected useful life. Usually, these are depreciated for over a period of 3 to 5 years depending on the degree of use.
015	**Shop Tools and Equipment.** These are recorded based on the acquisition cost of the asset purchased. These refer to the tools and other equipment that is used in the business operation.
015 A	**Accumulated Depreciation – Shop Tools and Equipment.** The wear and tear of the asset based on its expected useful life. Usually, these are depreciated for over a period of 3 to 5 years depending on the policy of the company.
LIABILITIES – refer to the obligations of the business. If these are payable within twelve months from the cut-off date of the financial statements (for instance, December 31), these are classified as current. Otherwise, these are considered long-term. In the case of Mr. Cruz, his business has no obligations, since he had paid for his pedicabs in full and in cash.	

EQUITY. Capital contributions made by the owner/s of the business. Income realized by the business is added to the capital, while losses incurred in the operations (and personal withdrawals from the business) are deducted from the capital account.	
045	**Owner's Capital.** This includes the initial and subsequent contributions of the owner to the business.
046	**Owner's Drawing.** This records the personal withdrawals of the owner from the business.

Suppose that Mr. Cruz opens for business and charges a boundary of P50 per day for the use of each unit. Minor repairs are charged to the pedicab driver, but replacements of parts are chargeable to Mr. Cruz. This brings us to the income statement accounts.

INCOME. The revenues realized by the business over a given period. In the case of Mr. Cruz, there is only one kind of income.	
050	**Rental Income.** This refers to the "daily boundary" received by the owner for the use of his pedicabs.
EXPENSES. Expenses that are necessary in the ordinary course of the business. These include:	
060	**Insurance.** The expired portion of the insurance premium for the period.
061	**Office Supplies.** These represent stationery for written communications and for recording transactions.
062	**Taxes and Licenses.** These refer to fees paid to the government agencies to allow the company to operate in the place where it is located. These include, but are not limited to, mayor's permit, community tax, registration of the company vehicle, and real estate tax on the real properties of the enterprise.
071	**Repairs and Maintenance – Materials.** This refers to the cost of the equipment or machinery parts that need to be replaced.
072	**Repairs and Maintenance – Labor.** This covers the labor costs to put the machinery or equipment back to its original form and working condition.
081	**Depreciation Expenses – Transportation Equipment.** These refer to the wear and tear of the pedicabs used in the day-to-day operations of the business.
082	**Depreciation Expenses – Shop Tools and Equipment.** These refer to the wear and tear of the tools necessary to repair and maintain the pedicabs.

THE MECHANICS OF KEEPING SCORE

Now that we have the complete chart of accounts for the business of Mr. Cruz, we can start recording the entries chronologically. Take note that the account that is credited is indented to the right of the account that is debited.

1st Step: Journalizing

		General Journal			Page 1
Date		Particulars	F	Debit.	Credit
Jan	05	Cash	001	30,000.00	
		Mr. Cruz, Capital	045		30,000.00
		Initial investment			
	19	Transportation Equipment	010	24,000.00	
		Cash	001		24,000.00
		Purchased 3 units of pedicabs			
	21	Shop Tools & Equipment	015	1,800.00	
		Cash	001		1,800.00
		Purchased various hand tools for regular maintenance			
	24	Prepaid Insurance	005	3,000.00	
		Cash	001		3,000.00
		Paid annual premiums for accident insurance			
	28	Taxes & Licenses	062	360.00	
		Cash	001		360.00
		Paid the city office for the necessary permits			
	30	Office Supplies	061	150.00	
		Cash	001		150.00
		Bought pens, folders and record books			

By the way, the "*F*" refers to "folio" or the reference number where the data entry is forwarded to in the ledger. These reference numbers are the same ones used in the chart of accounts of Mr. Cruz. This brings us to the next step in the recording process.

2nd Step: Posting to the Ledger

As you might have noticed, transactions in the journal are recorded according to dates. But you have to group similar transactions or to put them under a certain account. You need to transfer these to a ledger – which is the summary of transactions indicated in the chart of accounts. Asset, liability, capital, income, and expense accounts have their own reference numbers known as the GL Code. Some numbers are not used – as you have seen in the chart of accounts of Mr. Cruz – so that he (or his accountant) can provide for other accounts that may be included later on – when the business expands.

(Account Title) *Page ___*

Date		Items	F	Debit	Date		Items	F	Credit

This time the numbers under the "*F*" column refer to specific pages in the journal where the amounts were taken from. This way you can always refer back to check your accounting entries. And at the end of each month, you add up the credits and the debits to arrive at the balance.

Cash *GL 001*

Date		Items	F	Debit	Date		Items	F	Credit
Jan	05	Initial investment	01	30,000.00	Jan	19	Bought 3 units	01	24,000.00
						21	Various tools	01	1,800.00
						24	Insurance	01	3,000.00
						28	City hall permit	01	360.00
						30	Office supplies	01	150.00
									0
				30,000.00					29,310.00
				690.00					

Mr. Cruz, Capital *GL 045*

Date		Items	F	Debit	Date		Items	F	Credit
					Jan	05	Initial investment	01	30,000.00
									30,000.00

Transportation Equipment *GL 010*

Date		Items	F	Debit	Date		Items	F	Credit
Jan	19	Bought 3 units	01	24,000.00					
				24,000.00					

Shop Tools & Equipment *GL 015*

Date		Items	F	Debit	Date		Items	F	Credit
0Jan	21	Bought various tools	01	1,800.00					
				1,800.00					

Prepaid Insurance *GL 005*

Date		Items	F	Debit	Date		Items	F	Credit
Jan	24	Annual premiums	01	3,000.00					
				3,000.00					

Taxes & Licenses — GL 062

Date		Items	F	Debit	Date		Items	F	Credit
Jan	28	City hall permit	01	360.00					
				360.00					

Office Supplies — GL 061

Date		Items	F	Debit	Date		Items	F	Credit
Jan	30	Various supplies	01	150.00					
				150.00					

Starting in February, Mr. Cruz is ready for business and rents out his pedicabs at P50.00 daily. As a personal preference, he only rents the units to three: Berting C., Caloy A, and Alex D. Mr. Cruz records his collections daily, but to simplify things we will journalize these weekly. Take note that we have used a new page for the transactions of the following month.

General Journal — Page 2

Date		Particulars	F	Debit.	Credit
Feb	07	Cash	001	900.00	
		Rental Income	050		900.00
		Income from Feb 01 to 07			
	14	Cash	001	1,050.00	
		Rental Income	050		1,050.00
		Income from Feb 08 to 14			
	21	Cash	001	1,000.00	
		Rental Income	050		1,000.00
		Income from Feb 15 to 21			
	28	Cash	001	850.00	
		Rental Income	050		850.00
		Income from Feb 22 to 28			
	28	Mr. Cruz, Drawing	046	900.00	
		Cash	001		900.00

After Mr. Cruz journalizes each entry, he posts this to the appropriate ledger accounts. At the end of the month, the affected ledgers appear as follows:

Cash GL 001

Date		Items	F	Debit	Date		items	F	Credit
Jan	05	Initial investment	01	30,000.00	Jan	19	Bought 3 units	01	24,000.00
						21	Various tools	01	1,800.00
						24	Annual premiums	01	3,000.00
						28	City hall permit	01	360.00
						30	Office supplies	01	150.00
				30,000.00					29,310.00
				690.00			30,000 – 29,310		
Feb	07	Rental income	02	900.00	Feb	28	Drawing	02	900.00
	14		02	1,050.00					
	21		02	1,000.00					
	28		02	850.00					
				3,800.00					900.00
				3,590.00			690 + 3,800 – 900		

Rental Income GL 050

Date		Items	F	Debit	Date		items	F	Credit
					Feb	07		02	900.00
						14		02	1,050.00
						21		02	1,000.00
						28		02	850.00
									3,800.00

Mr. Cruz, Drawing GL 046

Date		Items	F	Debit	Date		items	F	Credit
Feb	28		02	900.00					
				900.00					

3rd Step: Making the Trial Balance

This consists of several smaller steps. First, copy the titles in your chart of accounts – in the order in which these appear. Second, transfer the ending balances of the accounts to the trial balance. Third, reflect the unrecorded changes under the adjustments heading. Usually, these do not involve cash transactions, like depreciation or the ordinary wear and tear of fixed assets. If Mr. Cruz thinks that (a) his pedicabs will be good for three years, then the monthly depreciation will be P666.67 per month (P24,000 ÷36 months) and (b) his shop tools worth P1,800 will last for two years, then the monthly depreciation will be P75.00 per month (P1,800 ÷ 24 months). Also, his annual premiums for accident insurance will have to be adjusted to reflect that portion which has been used up for the month or (P3,000 ÷ 12 months). There are no repairs because his units are brand new. Fourth, make the adjusted trial balance.

Accounts	Trial Balance (TB)		Adjustments		Adjusted TB	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	3,590.00				3,590.00	
Prepaid Insurance	3,000.00			250.00	2,750.00	
Transportation Equipment	24,000.00				24,000.00	
Accum. Dep'n – Transp. Eqpt.				666.67		666.67
Shop Tools & Equipment	1,800.00				1,800.00	
Accum. Dep'n – Shop Tools				75.00		75.00
Owner's Capital		30,000.00				30,000.00
Owner's Drawing	900.00				900.00	
Rental Income		3,800.00				3,800.00
Repairs – Materials						
Repairs – Labor						
Taxes & Licenses	360.00				360.00	
Office Supplies	150.00				150.00	
Insurance Expense			250.00		250.00	
Dep'n Expenses – Transp Eqpt			666.67		666.67	
Dep'n Expenses – Shop Tools			75.00		75.00	
	510.00	33,800.00	991.67	75.00	34,541.67	34,541.67

4th Step: Making the Financial Statements

What you see below is just an extension of the trial balance. In practice, this and the one above make up the work sheet.

Accounts	Adjusted TB		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	3,590.00				3,590.00	
Prepaid Insurance	2,750.00				2,750.00	
Transportation Equipment	24,000.00				24,000.00	
Accum. Dep'n – Transp. Eqpt.		666.67				666.67
Shop Tools & Equipment	1,800.00				1,800.00	
Accum. Dep'n – Shop Tools		75.00				75.00
Owner's Capital		30,000.00				30,000.00
Owner's Drawing	900.00				900.00	
Rental Income		3,800.00		3,800.00		
Repairs – Materials						
Repairs - Labor						
Taxes & Licenses	360.00		360.00			
Office Supplies	150.00		150.00			
Insurance Expense	250.00		250.00			
Depreciation Expenses – Transp	666.67		666.67			
Depreciation Expenses - Tools	75.00		75.00			
			1,501.67			
Net Income to Owner's Capital			2,298.33			2,298.33
	34,541.67	34,541.67	3,800.00	3,800.00	33,040.00	33,040.00

3,800.00 – 1,501.67

Now we can record the adjusting entries in the journal…

		General Journal			GJ 2
Date		Particulars	F	Debit.	Credit
Feb	28	Depreciation Expenses – Transp Equipment	081	666.67	
		Accumulated Depreciation – Transp Equipment	010 A		666.67
		Record monthly depreciation			
	28	Depreciation Expenses – Shop Tools & Equipment	082	75.00	
		Accumulated Depreciation – Shop Tools & Equipment	015 A		75.00
		Record monthly depreciation			
	28	Insurance Expense	060	250.00	
		Prepaid Insurance	005		250.00
		Record expired portion of annual premiums			

and later in the appropriate accounts in the ledger.

Depreciation Expenses – Transportation Equipment GL 081

Date		Items	F	Debit	Date		items	F	Credit
Feb	28		2	666.67					

Accumulated Depreciation - Transportation Equipment GL 010 A

Date		Items	F	Debit	Date		Items	F	Credit
					Feb	28		2	666.67

Depreciation Expenses – Shop Tools & Equipment GL 082

Date		Items	F	Debit	Date		Items	F	Credit
Feb	28		2	75.00					

Accumulated Depreciation - Shop Tools & Equipment GL 015 A

Date		Items	F	Debit	Date		Items	F	Credit
					Feb	28		2	75.00

Prepaid Insurance *GL 005*

Date		Items	F	Debit	Date		Items	F	Credit
Jan	24		1	3,000.00	Feb	28		2	250.00
				2,750.00					

Insurance Expense *GL 060*

Date		Items	F	Debit	Date		Items	F	Credit
Feb	28		2	250.00					
				250.00					

You might be wondering why we recorded office supplies and taxes and licenses as expenses. Well, the amounts are not significant enough to materially affect the financial performance of the business. If a business bought a box of matches or paper clips, it would not make sense to classify these under assets. It would make more sense to consider these as expense.

However, certain prepayments, especially if these are big amounts, can be charged off gradually as these are used or incurred as expenses. In the case of Mr. Cruz, this was in the form of annual premiums for accident insurance.

BOOKS OF ACCOUNTS

Mr. Cruz uses a single journal and a single ledger. These are enough for his business. But if your business is more complex than his – then you may have to use several types of journals or books of accounts. The reason for this is to separate certain accounts that appear more frequently than others. These books are the sales journal, cash receipts journal, cash disbursements journal, purchases journal, and general journal.

Sales Journal (SJ), for recording your sales transactions made on credit, based on Charge Invoices.

Sales Journal *SJ ___*

Date		Sold To (or Account Debited)	Terms	Invoice No	F	Amount

Cash Receipts Journal (CRJ), which contains all transactions related to the receipt of cash, including cash sales. Transactions in this journal are supported by the Cash Invoices for cash sales and Official Receipts (ORs) that are issued as evidence of having received cash from customers who bought on credit.

Cash Receipts Journal *CRJ ___*

Date		*Account Credited*	*Explanation*	*F*	*Credit Amount*	*Debit Cash*

Cash Disbursements Journal (CDJ), where you record all your payments to your suppliers, employees, and even those from whom you borrowed money for your business. All payments must be supported by check vouchers – so that you can also go back to the details of each transaction, including supporting documents, if any.

Cash Disbursements Journal *CDJ ___*

Date		*Check No.*	*Account Debited*	*Explanation*	*F*	*Debit Amount*	*Credit Cash*

Purchases Journal (PJ), for recording your purchases made on credit, based on your purchase order, supplier's invoice, and receiving report.

Purchases Journal *PJ ___*

Date		*Brought From*	*Terms*	*Invoice Number*	*F*	*Credit Amount*

General Journal (GJ). This contains all other transactions not entered in the other journals. Examples are: (1) expenses that have been incurred but not yet paid. Utilities, such as electricity and water, are billed for amounts consumed in the previous month – but paid for in the following month; (2) sales taxes are paid in the following month while income taxes in the following quarter, (3) the employer's share in social security and Pag-Ibig premiums which are paid in the following month, (4) monthly amortization of prepaid expenses, like insurance premiums for the year, and (5) depreciation of fixed assets – which allocates the acquisition costs of these assets over a reasonable period.

General Journal *GJ ___*

Date		*Particulars*	*F*	*Debit.*	*Credit*
	(1)	*Utilities Expense*		*xxx.xx*	
		Utilities Payable or Accrued Expenses			*xxx.xx*
		Meralco bill for the period			
	(2)	*Taxes & Licenses*		*xxx.xx*	
		Taxes Payable			*xxx.xx*
		Tax on sales for the month			

	(3)	*Employees' Benefits*		*xxx.xx*	
		SSS Premiums Payable – Employer's Share			*xxx.xx*
	(4)	*Insurance Expense*		*xxx.xx*	
		Prepaid Insurance			*xxx.xx*
		Recognize the insurance premium portion that expired for the month			
	(5)	*Depreciation Expense – Furniture & Fixtures*		*xxx.xx*	
		Accumulated Depreciation – Furniture & Fixtures			*xxx.xx*
		Depreciation of furniture & fixtures for the month			

Just as in the journal of Mr. Cruz, you have to start on a new page for each month – regardless of the kind of journal.

Depending on the nature of the business, there are other accounts, such as:

- Supplies Inventory. This includes items used for servicing clients' requirements to separate these from office supplies which are used for administrative purposes.

- Merchandise Inventory. This covers items that are bought for the purpose of selling the same in the same form. The trading business might buy these in bulk and sell these in smaller quantities, like one ream of bond paper that is sold by the piece.

- Raw Materials Inventory. This includes materials on hand that were bought by the business for use in directly manufacturing its product(s).

- Goods-in-Process Inventory. This involves products that are in various manufacturing stages of completion as of a certain date.

- Finished Goods Inventory. This covers manufactured products that have been completely processed and packaged and ready for sale.

- Accounts Receivable. This can be separated into two accounts: Accounts Receivable – Trade and Accounts Receivable – Others. The former are claims by the business against its customers for goods sold or services rendered. The latter are receivables not related to the business of the company, such as advances to another company or persons not employed by the company. The same applies to Accounts Payable.

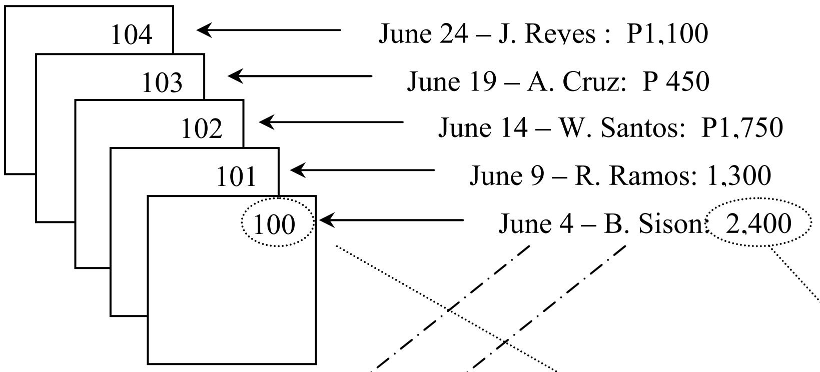
Other payable accounts may include: SSS Premiums Payable, Pag-Ibig Premiums Payable, and PhilHealth Contributions Payable. Each one may be divided further into employees' share and employer's share. These obligations – and expenses – of the current month are recorded as such. When paid in the following month, there is a decrease in cash and a similar decrease in liabilities.

You are also required by law to withhold taxes on the salaries and wages of your employees – and remit the same to the Bureau of Internal Revenue on the following month.

What happens if there are too many….

- Daily sales on credit?

Let's suppose Mr. Cruz encouraged his wife to go into business selling bicycle parts. It goes without saying that she will have her own books of accounts, separate from her husband's. We foresee that she will be having many customers, some of whom she can trust and will be selling on credit. Then she has to use charge sales invoices (SI) and record each one in numerical sequence as shown below:



Sales Journal						Page ____
Date		Account Debited	Terms	Invoice Number	F	Amount
June	04	B. Sison		100		2,400.00
	09	R. Ramos		101		1,300.00
	14	W. Santos		102		1,750.00
	19	A. Cruz		103		450.00
	24	J. Reyes		104		1,100.00
			Total			7,000.00

After recording each transaction, you can transfer this to a subsidiary ledger, which in this case is the accounts receivable ledger. At the end of the month, you can add up all the credit sales and post it to a subsidiary ledger, which in this case is the accounts receivable ledger.

Unlike the one used for the General Ledger, the one below has three columns – with the addition of a "balance" column. This provides a running balance of how much a customer owes you. .

Customer Name						
Date			F	Debit	Credit	Balance

J. Reyes					
Date		*F*	*Debit*	*Credit*	*Balance*

J. Reyes					
Date		*F*	*Debit*	*Credit*	*Balance*

If you have a lot of purchases made on credit, then you can maintain a purchases journal.

- Items in a particular account?

There are two ways. First, you can have another account. In the case of cash, you can have a ledger page for cash on hand and another page for your savings account and still another page for your checking account – if you have a checkbook for your business. The other way is to maintain subsidiary ledgers: one for accounts receivable, another for accounts payable, another for office equipment, and still another for plant machinery & equipment.

How does a page from a subsidiary ledger look like? It can be the same as the ones used for the general ledger – except that each subsidiary is a separate book. A page in the subsidiary ledger can also look like the one below:

(Name of Customer)					
Date	*Items*	*F*	*Debit*	*Credit*	*Balance*

Unlike the one used for the General Ledger, this one has three columns – with the addition of a "balance" column. This provides a running balance of how much a customer owes you or how much you owe to your supplier at any time.

How does it work? Sales in the daily sales report are transferred to the accounts receivable ledger.

J. Reyes						
Date		Items	F	Debit	Credit	Balance
June	05	Five boxes		165.00		165.00
	08	Six boxes		198.00		363.00
	12				165.00	198.00

You record the payments you receive from customers in the cash receipts journal and subsequently transfer the data to their individual receivable ledgers.

Cash Receipts Journal										CRJ ___
						Debit	Credit			
Date		OR No.	Received From	Account Credited	F	Cash	Cash Sales	A/R	Others	
June	05	025	A. Cruz			165.00		165.00		
	12	026	J. Reyes			165.00		165.00		

This way you will know which customers are up-to-date with their accounts and which ones are not. At the end of the period, the amounts in each of the customers' ledgers are summed up – and later combined to come up with the total accounts receivable for say, the month.

For your suppliers, if you have many who extend credit, then you can have another subsidiary ledger – this time for accounts payable.

(Name of Supplier)						
Date		Items	F	Debit	Credit	Balance

At the end of the month, sum up the balances in each of your suppliers' ledgers and combine them to come up with the total accounts payable for the period.

- When your business has many fixed assets?

  First, you can classify these into: Land, Building, Office Furniture & Fixtures, Office Equipment, Shop Tools, Machinery & Equipment and Transportation Equipment.

Suppose you have twenty industrial sewing machines or ten delivery vans of various makes and acquired at different times. Then you can have another subsidiary ledger.

(Model of Transport Equipment & Plate Number)					
Date	*Items*	*F*	*Debit*	*Credit*	*Balance*

You can do the same for your other fixed assets – and repairs and maintenance for each fixed asset.

FINANCIAL STATEMENTS

You've seen the income statement and balance sheet as these appear in the work sheet. The final step is to put these in their acceptable formats. For the income statement, this normally has a heading that has the name of the business on the first line, the words "Income Statement" on the second line, and the words "For the Period Ended (date)" on the third line.

Income Statement

The income statements will show whether the business made a profit or suffered a loss for a given period. Broadly, we want to know if revenues are greater than expenses for a given month, a quarter or year.

If your business provided services, then your income statement would be similar to the one below:

Revenues

Less: Cost of Services

Gross Income

Less: Administrative & Operating Expenses

Net Income from Operations

Income before Income Tax

Net Income after Taxes

Consists of all related costs to provide the service required, such as:

- salaries, bonuses, and benefits
- communication, travel and related expenses

of personnel directly providing the service. Also included is the cost of the required parts, plus freight charges, if any.

If it were in merchandising, then the income statement would look like –

Sales

Less: Cost of Goods Sold

Gross Income

Less: Administrative & Operating Expenses

Net Income from Operations

Income before Income Tax

Net Income after Taxes

This is derived as follows:

Beginning merchandise inventory
Add: Net purchases
Cost of goods available for sale
Less: Ending merchandise inventory
Cost of Goods Sold

If your business was in manufacturing, then the income statement would appear similar to the one below:

Sales

Less: Cost of Goods Sold

Gross Income

Less: Operating Expenses

Net Income from Operations

Income before Income Tax

Net Income after Taxes

Computed as follows:

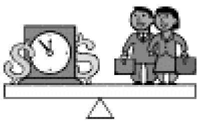
Finished goods inventory, Jan. 1, 20__	_____
Add: Cost of goods manufactured	_____
Cost of goods available for sale	_____
Less: Finished goods inventory, Dec. 31, 20__	_____
Cost of goods sold	_____

This is derived as follows:

Raw materials inventory, Jan. 1, 20__	_____
Add: Raw materials purchases	_____
Total raw materials available	_____
Less: Raw materials inventory, Dec. 31, 20__	_____
Add: Direct labor	_____
Raw materials used	_____
Cost of Goods Manufactured	_____

Note: We omitted goods-in-process, beginning and goods-in-process, ending to simplify matters.

Balance Sheet



While the income statement shows how a business performed within a given period, the balance sheet gives a picture of the business as of a given date – which appears on the third line of the balance sheet heading. Essentially, it is based on the accounting equation of Assets = Liabilities + Equity. The main difference among the different types of business – services, trading, and manufacturing – would be in the classification of the inventories, which are asset accounts.

Another difference will be in the equity portion, the presentation of which will vary depending on the type of ownership. For a single proprietorship, the equity is simply labeled "Owner's Capital." For a partnership, ownership can be represented as: Mr. A_____, Capital; Mr. B_____, Capital; and Mr. C_____, Capital to indicate their individual contributions. In the case of corporations and cooperatives, showing the equity is not that simple.

Instead of owner's capital, the term used for corporate balance sheets is stockholder's equity. This refers to the capital contributions made by its owners – whether partial or in full payment of the subscribed capital stock. Income realized by the company is added to the capital, while losses incurred are deducted from the capital account.

Corporations raise capital from the contributions of the owners. The extent of their individual contributions can be seen in the number of shares of stock each one owns. This in turn, is recorded in the stock and transfer book, not in the equity portion of the balance sheet.

Let's assume that a corporation has 2,000 shares with a par value of P100 per share. This is the number and par value in its Articles of Incorporation and approved by the Securities and Exchange Commission. In other words, its authorized capital stock is P100,000 of which 25% should be subscribed. However, to begin its operations, only 25% of the subscribed shares need to be paid-up. After 18 months of operations, the company realized a net income after taxes of 60,000. Thus, the equity portion would look like this.

Stockholders' Equity	
Common Stock – par value P1,000.00	
Authorized, 2,000 shares	
Subscribed, 500 shares	
Paid-Up, 125 shares	P 125,000.00
Retained earnings (losses)	90,000.00
Total Stockholders' Equity	P 2 15,000.00

This refers to the accumulated income or losses of the company from the start of its operations up to the last audited year.

Please note that there are other ways of presenting this portion of the balance sheet. For cooperatives, equity is presented differently.

Members' Equity	
Common Share Capital Authorized	
_________ shares at P____ par value	
Subscribed Share Capital Common	__________
Less: Subscriptions Receivable Common	__________
Paid Up Common Share Capital	__________
Undivided Net Surplus	__________
Statutory Funds	
Reserve Fund	__________
Educational and Training Fund	__________
Optional Fund	__________
Total Members' Equity	__________

This is the equivalent of retained earnings.

These are certain percentages of undivided net surplus set aside as required by law. The reserve fund is supposed to cover operational losses. The educational fund is for the training of its members, while the optional fund is expected to cover the future purchase of land, building, or other assets.

For an overview of the whole recording and accounting process, see the Figure 1 on the next page. However, please confer with a good accountant to set up your books of accounts and to initiate you into the recording process. Once you get used to it, recording will almost be mechanical and routine. Doing it regularly will pay dividends in the future. Remember what the price of ignorance or neglect will be for you!

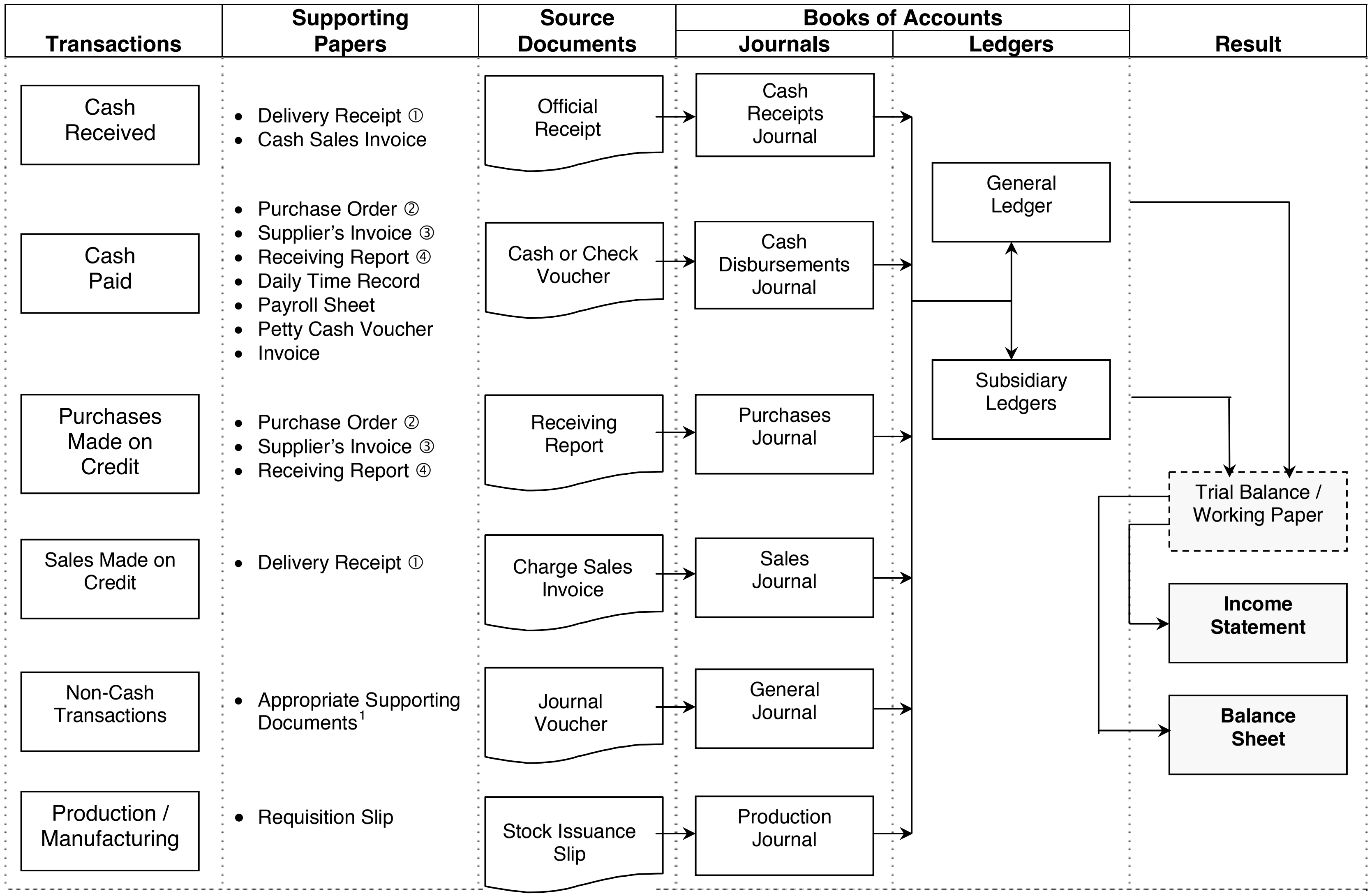
SUMMARY

You have just been walked through a very simplified process of bookkeeping. This was followed with the preparation of expanded versions of the journal and the ledger. Finally, you were introduced to the general forms of income statement for the three types of business (manufacturing, service, and trading) and balance sheet for a corporation and a cooperative.

There is nothing like knowing how to keep track of your business, how it is doing, and if it is going as planned. The financial statements give a complete picture of where your business is at a certain point.

You may now proceed to the last part of the Workbook and prepare your financial plan.

Fig. 1 THE RECORDING AND ACCOUNTING PROCESS



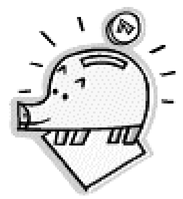
[1] Examples: Lapsing schedule for depreciation, accrued expenses, and prepaid expenses

CHAPTER 11: MANAGING YOUR FUNDS

In business, keeping accounts of transactions implies excellent record-keeping. Records tell you how your business is going. You are able to determine whether your business is healthy, sick, or just okay. To keep your business healthy, you need to manage your funds properly day in and day out.

Business owners think managing their funds means simply maintaining sufficient cash for their operations. Unfortunately, managing funds entails a more comprehensive approach than just having ready cash.

SOURCES OF FUNDS



Many small business beginners like you source their start-up capital from their own pocket. They also borrow from relatives and friends. Another common source, particularly from among micro entrepreneurs, is the motorbike-riding Indian nationals with their “five-six” loan scheme where interest is paid either on a daily or weekly basis. A great number of Filipinos patronize the “five-six” lenders because they are easy to approach and the relationship is governed by trust. Borrowers can also keep on borrowing from them even without a collateral.

But these are not the only sources of funds you can tap to finance your business. There are many formal sources that are as easy and as accessible as their informal counterparts. Government is intensifying its assistance programs to small enterprises, introducing new ones, and bringing them down to the grassroots level. The government, for instance is now beginning to adopt the good points of the “five-six” that clicks with the masses. One of these programs is in microfinance where micro and small enterprises can borrow small but quick money from government-accredited institutions at easy repayment terms. Several non-governmental organizations, industry associations, and private groups have also been tapped by the Government to serve as conduits for lending to the micro and small enterprise sector.

If you want to know more about the microfinance programs of the Government, ask any small business counselor from the SME Center nearest you for assistance.

SOME POOR CASH MANAGEMENT PRACTICES

Let us assume you were granted a small business loan. Prudence dictates that you use the money wisely and smartly. Poor cash management practices get in the way of a business becoming prosperous. Here are some of the poor cash management practices you should avoid:

- Lack of cash planning.

  Haste makes waste. An entrepreneur can be so engrossed with managing the day-to-day operations of his business and this could make him forget to properly plan his cash. Without knowing it, the entrepreneur could end up paying more than what is needed.
  Learn to plan your expenses wisely. Anticipate that time of the year when you are likely to earn more and spend more. Of course, it is difficult, if not impossible, to

determine when exactly and how much you are going to earn or spend at any particular time. If you based your cash flow on realistic projections, you could anticipate how much to prepare for and the period when you will need them. Your marketing plan should be able to guide you when the probable peak and low seasons will take place.

There is no better way to plan your spending than to project your cash flow requirements. I suppose you have already done this in your Workbook. For a start-up business like yours, it is always advisable to forecast your cash flow on a weekly basis for the first year to enable you to understand and appreciate the importance of monitoring your cash. For the succeeding years, a monthly forecast will suffice.

- Poor internal control.

Good cash management does not end with good cash budgeting. No matter how good your cash planning is, you must still be able to carry out your plan.

Setting up some internal controls can help you ensure that cash is available whenever you need it. The next section will help you install internal controls in your funds management system.

NINE DO'S AND DON'TS IN MANAGING YOUR FUNDS

Follow these simple dos and don'ts in managing your funds:

- *Don't* mix your personal finances with the funds of the business.

  Though this may sound elementary, it is one of the most common problems facing small business beginners. In large companies, the finance manager (in some cases, the vice-president for finance) supervises the treasurer, who takes charge of the custody and acquisition of funds, and the controller, who in turn, is responsible for accounting. But in small firms, the finance manager is also the treasurer and controller. In even smaller firms, the finance manager is also the owner.

  It will be difficult to separate personal money from business funds if the custody and acquisition of funds as well as their control are assigned to one person. It is always wise to assign the roles of a treasurer and controller to different persons.

- *Don't* pay long-term requirements with short-term sources, and vice versa.

  Fixed assets and working capital requirements during normal operations must be financed from long-term sources (payable in one year or longer). These sources are your equity and long-term loans. Short-term requirements, on the other hand, like additional working capital needed during peak seasons (like summer, school opening, holidays, etc. depending on your product or service) must come from short-term sources like trade credit (thirty to ninety days), short-term bank loans (two to three months), pawnshop mortgages (three months), relatives or friends.
  Change this rule and it will have a negative impact on your cash flow.

- Keep watch on the source documents.

  Keep an eye on source documents such as sales invoices, official receipts, and vouchers. It is recommended that you keep these documents for at least *three* years. Make sure the journals (whether general, cash receipts, or disbursement) are consistent with the source documents. Meanwhile, the tracer numbers of the source documents must likewise be consistent with the journals. This is basic accounting practice that you read in the previous chapter.

- Be prompt in recording.

  Post or record transactions in the ledger, within one week at the latest, after journalizing.

- Deposit cash *daily*.

  Cash is your asset that is also most susceptible to theft. Deposit your cash collection at the bank of your choice within the same day when you receive it.

- *M*aintain a petty cash.

  Formulate a policy for petty cash. It can be a fund like five hundred pesos. From this fund you can pay for small expenses like postage, transportation, and purchase of small supplies, etc. without issuing checks.

- Reconcile bank accounts *monthly*.

  You or someone else should regularly review the bank accounts of your business. A bank reconciliation statement will tell you how your business is going along. You can make one following the example below:

BANK RECONCILIATION STATEMENT
Month of ______________

Balance shown per bank statement		XXX
Add: Deposits in transit:		
Date __________	XXX	
___________	XXX	XXX
		XXX
Deduct: Outstanding checks		
Check No. __________	XXX	
_________	XXX	XXX
Adjusted balance per bank statement		XXX
Balance shown per checkbook		XXX
Deduct:		
Bank service charge	XXX	
Others	XXX	
Adjusted checkbook balance		XXX

- Be careful about extending credit.

  As much as possible, sales must be done on a cash basis only. It is said that you must not lend money unless you are damned rich. The price of legal action for an unpaid debt is expensive, time-consuming and grueling, and makes having the money returned not worth pursuing at all.

  In exceptional cases, you may extend credit to a customer. In these cases, you must have a credit policy for your business. Small firms seldom have credit policies, but it is highly advisable to have one. A credit policy must have the following components:

  - Percentage of sales on credit. What part of the sales are you willing to give on credit? Your decision must be based on your projected cash flow statement and competition. Whatever your decision will be, it should not endanger your cash flow. Neither should your decision put you behind competition. If your competitor can give as much as a particular amount on credit, you must be able to do the same.

  - Qualifications of the customer. Be on the alert with the Four Cs. These determine a potential debtor's trustworthiness:
    - Character – the willingness to pay
    - Collateral – which may either be real (land and building) or chattel (car, furniture, appliance)
    - Capacity – the ability to pay
    - Capability – the management or technical ability to pay. This statement will distinguish it from 'capacity'. A person may have the capacity to pay (has assets to dispose to raise the money for payment) but does not have the capability to convert such assets into cash.

  - Maximum amount of credit per customer. Again, this decision must be based on your projected cash flow statement and the qualifications of your customer.

  - Terms. The term of payment can last anywhere between 30 and 90 days. Generally, the shorter, the better, as it ensures continued inflow of cash every month. But you must also be flexible enough to accommodate an extension in exceptional cases for purposes of goodwill.

  - Discount for early payment. Provide discounts for early payers. This guarantees cold cash at the soonest possible time.

  - Choose collection method(s) applicable for certain situations. How are you going to collect payment? Are you going to write a letter? Personally visit the debtor?

- Collect efficiently. Finally, you must perfect the art of collection. You must be able to collect receivables promptly, at a lesser cost for you and your customer, and without damaging customer goodwill.

SOME CASH MANAGEMENT STRATEGIES

While the dos and don'ts in managing your funds can help ensure the control of the use of your funds, you may need some additional techniques and tactics to improve your cash flow. While the dos and don'ts provide some "tools of the trade" the following are so-called "tricks of the trade" that you could apply to better guarantee that you have cash whenever you need it.

- Barter.

  If you can avoid paying cash, consider barter. In common Filipino business language, this is often called "ex deal" or exchange deal or "trade-in." This is a usual practice in trading, which sometimes involves exchange of goods even between competitors. Mobile phone retailers and tire supply merchants exchange items in their stocks with those not found in their inventory but are nonetheless available from their neighboring competitors either with little or no cash involved.

- Once-a-week disbursement.

  As much as possible, allow disbursements only once a week for easier monitoring of the inflow and outflow.

- Disallowance of prepayment.

  Simply put, do not make payments even before the obligations become due. It is a different picture, though, if paying beforehand will save you more money.

- Taking advantage of non-interest bearing payables.

  Postpone payment by all means. You can use the money for income-generating activities like adding to your working capital.

- Some tricks with regard to issuing a check.

  If your creditor will allow it, issue a post-dated check to pay your debt. In banking, there is such a practice called "playing the float" or funding the checking account only at the moment of check encashment between or among different banks. Take advantage of the period between the time you issued a check and the moment your creditor will cash it. You can also mail the check to buy even more time. Be wary, though, of the law penalizing issuance of bouncing checks. Just be sure that you have sufficient funds in your bank at the moment of encashment.

- Concentration banking.

  If you maintain different accounts at different banks, it is suggested that you also maintain a "main" bank account, where all deposits are transferred to facilitate bank reconciliation.

- "Lock box system".

  Sometimes, the distance of your debtors prevents them from paying you. A good way to resolve this is to rent a post office box (P.O. Box). Cluster your debtors into one area and select a central post office closest to them. Rent a P.O. box maintained by that post office and notify your debtors that they can also send their payments to that P.O. box.

  An alternative to this is opening an account at a bank branch nearest to your debtors. The payments made by your customers to that account will be remitted by the bank to the branch where you maintain your account.

- Requirement of down payment.

  Finally, require your customer to make a down payment if paying in full is not possible.

SUMMARY

It is not enough to have the financial resources you need to operate. A business can be profitable for a long time but it can also incur losses anytime. It pays to exercise prudence when handling your finances. The chapter gave you nine dos and don'ts for managing your funds better.

This chapter marks the end of the discussions and presentations about entrepreneurship, small enterprises, and the business plan. You are not expected to absorb and learn all that has been tackled in the guidebook in just one sitting. It is always right to go over them repeatedly.

PART III

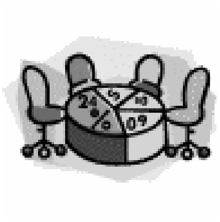
BUSINESS PLAN WORKBOOK

CHAPTER 12: BUSINESS PLAN WORKBOOK

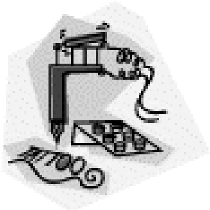
Not all business ideas are feasible. This is the reason why you need to prepare a business plan.

This workbook will guide you in the preparation of your business plan. It is divided into four inter-related sections: marketing, technical, organization, and financial. Prepare each plan carefully so that each one fits into place. Put them together and you have your own business plan.

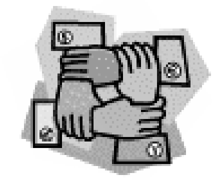
Everything starts with your **marketing plan**. To begin with, you need to make sure that your intended business satisfies a need or a want. A good business is one that provides the right product or service, at the right price, at the right place, at the right time, and supported by the right promotion.



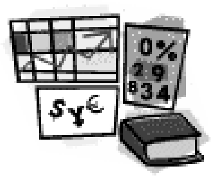
Your **technical plan** follows next. It is in this section where you describe all technical aspects of your business. These include: product design, production process, plant location and layout, materials, machinery / equipment / manpower requirements, and production schedule.



It is in your **organizational plan** where you decide on the legal form of your business. It is also in this section where you determine your personnel requirements as well as the skills and qualifications you need to look for when screening prospective employees.



Finally, your **financial** plan will reveal how much capital you will need for your business and how much profit to expect during the initial years of operation.



As you turn the pages, you will see many questions and tables. Do not be discouraged. You need to gather a lot of information and do a lot of computations. But don’t worry because everything has been laid out for you. All you need to do is answer the questions and fill in the tables. The questions will guide you to think of the details. The tables were designed to facilitate computations.

Before proceeding, decide on what line of business you intend to get into. Do you wish to engage in manufacturing? Perhaps trading (buying and selling of goods) is more to your liking? Or do you intend to offer a service (e.g., an auto repair shop, a resort, restaurant business, tailoring shop, beauty parlor, spa)?

There is no standard format of a business plan that will apply to the three types of businesses. Some parts, particularly the financial statements – income statement – differ among the three types. The *"cost of goods sold"* section of the income statement of a manufacturing firm includes the costs of raw materials, labor, and overhead. On the other hand, in the income statement of a trading firm, the "*cost of goods sold"* is solely the purchase cost of the items for resale. In the case of a service entity, the income statement is more straightforward as it does not have a "*cost of goods sold*" section.

As you go along, you will notice **Tables** and **Schedules** in the titles of the forms you are filling up. A table is a summary of figures that provide information on a particular topic. A schedule is an itemized list that supports each figure given in the table.

MARKETING PLAN

1. Briefly describe the product or service you intend to offer your target market.

   ____

   ____

   ____

2. If your product is tangible, draw a sample of your product(s) in the box provided below. Give product specifications (e.g., size, weight, dimensions, ingredients, brand name etc.) and the use(s) of the product or service.

Product specifications:

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Uses of the product or service:

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3. Describe the existing market situation. What similar products or services exist in the market? How many others are making the same product or offering the same service? Are they able to meet the needs of the market? If not, how big is the unmet demand of the market? In terms of quality, how does your product or service compare to that of your competitors?

4. In general, what type of people or businesses would be interested in your product or service?

5. Describe your target market. Specifically, what segment are you targeting? Who are the people or businesses likely to buy your product or use your service because they need or want your product or service and are willing and able to pay for it? Where is your target market located? How big is your target market?

6. Do your market research. Simply follow the steps below.

1	2	3	4	5	6	7
Product or service you intend to offer	Your target Customers	How often and when do your target customers buy or avail of such product or service	Price	Target Customers' Comments	Competitors	Competitors' price

1. In column 1, write the product or service you intend to offer.
2. In column 2, describe the customers whom you expect to buy your product or use your service. Who are the people who need or want that product or service and are willing to pay for it? For example: Are they mostly men, women or children? Are they young or old? What type of work do they do? Are their incomes low or high? Where do they live and where do they buy or avail of the same product or service? Are they in the rural areas, in the town, near your business or far away?
3. In column 3, write down how often and when your target market buy the product or avail of such service. Is it every day, every week, every month, every year, during the rainy season, in summer, on payday, or after the harvest?
4. In column 4, write down what price you will charge for your product or service. Do this after reading Chapter 9.
5. In column 5, write down what your target market think about your product or service. For example: Do they like the design, the colors? Or do they prefer other products or services instead?
6. In column 6, write down other businesses, your competitors, who are selling or offering the same or similar products or services. What do you think is special about their products or services? What do customers like about their products or services?
7. In column 7, write down the price your competitors charge for a similar product or service.

7. Quantify your market share. Consider the equation: $\mathbf{Q} = \boldsymbol{n} \times \boldsymbol{q}$

   where ***n*** = *number of customers likely to buy your product or avail of your service*

   q = *average quantity to be purchased by a customer in a given period*

   Q = *represents total demand for your product*.

   Demand for some products or services can be seasonal. For instance, demand for umbrellas and raincoats is high during the rainy months. Demand for tutorial services or review classes is high two or three months before scheduled college entrance or professional board exams. Because of seasonality, it is best that you approximate your sales on a monthly basis. By so doing, you get to consider fluctuations in the demand for your product or service.

   There are no complications if your business offers only a single product or service all year round. The following schedule, Schedule 1-A, will suffice. But as you fill in the schedule, you need to think of the conditions that prevail during a given month and how it will affect your sales. Is it vacation time, start of school, graduation, Lent, rainy season, Christmas, etc.? Approximate the number of units ***(n and q)*** you think you will be able to sell for a given month. To get your 1st year total sales volume figure simply add up your monthly demand (**Q**) figures.

Schedule 1-A
Projected Monthly Sales Volume

	Month												
	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
n													
q													
Q													

   If your business will manufacture, trade, or offer more than one product or service, you will have to create a schedule similar to the one above for each product or service you intend to sell or offer. This can be tedious especially for those who intend to go into trading. Use a computer to facilitate your work. When you've come up with a schedule for each of your products or services, consolidate all your monthly ***Q*** figures in a Projected Sales Summary Schedule similar to Schedule1-B on the next page. When you've done that, add up all your monthly figures for each product or service and write the sum under the total units column. Do not fill in the last two columns (i.e., the selling price and pesos sales total columns) for the time being. We'll get back to that shortly.

Schedule 1-B
Projected Sales Summary Schedule
(In units)

PRODUCT LINE/ SERVICE	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total Units	Selling Price	Peso Sales Total

8. Think ahead. Do you think the size of your market will increase in the next 3 years? If so, how will this affect the demand for your product or service? By how much do you project demand for your product or service to increase in your 2nd and 3rd year of operations? What factors will bring about an increase in demand for your product or service?

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9. How much will you charge for your product or service? How did you arrive at your price? If you are a manufacturer or a trader, will you adopt a wholesale price and a retail price? If wholesale, what is the minimum quantity for wholesale? Will you change your price in the long run? By how much? How does your price compare to that of your competitors'? How much lower or how much higher? Review Chapters 6 and 9.

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10. Will all your sales be in cash? If not, what percentage of your sales will be on cash basis? What will your credit terms be?

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____

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Things can get a little tricky from here on. Be sure you fill in the right table.

Choose the table that suits your business:

Table 1-A is for single product line manufacturers/traders/service providers.
Table 1-B is for multiple product line manufacturers/traders/service providers.

After reading Chapter 3, you should have already figured out the category where your business will fall in. Go to the table that suits your planned business and fill in the spaces. You will need to refer back to your answers to question numbers 7, 8, and 9.

<u>If you are a single product line manufacturer or trader</u>: To get your total projected peso sales for the year, multiply your planned sales volume by the selling price per unit that you intend to set. Your planned sales volume for the 1st year is the sum of your total monthly sales volume or ***Q*** (go back to Schedule 1-A).

Using your projections for Year 1 as basis, how many units do you expect to sell during your 2nd and 3rd years of operations? Are you going to increase your selling price on the 2nd and 3rd year? Fill in the blank boxes under Table 1-A.

TABLE 1-A
Planned Sales Volume/Sales for a Single Product Line Business

	Year 1	Year 2	Year 3
Planned sales volume (in units)			
x Planned selling price/unit			
Total sales			

If you've completed Table 1-A, turn to the next page and proceed with the section on receivables.

<u>If you are a multiple product line manufacturer/trader or service provider</u>:
Computing for your projected sales is more complicated since you have several product lines. Go back to Schedule 1-B. Fill in the selling price column for each of your product lines or services. To get the figures for your last column, multiply each total units figure for each row with the corresponding selling price. The sum of all the figures in the last column is your Total sales figure for Year 1. Now you can proceed and write your total sales for Year 1 in Table 1-B on the next page.

TABLE 1-B **Planned Sales Volume/Sales for a Multiple Product Line Business**			
	Year 1	**Year 2**	**Year 3**
Total sales			

To get your total sales figures for Years 2 and 3, you will have to repeat the same process over again. You will need additional sheets of paper to do a repeat of Schedule 1-B for your 2nd and 3rd years of operation. For future reference, keep all your working papers together. Better staple them with Schedule 1-B on page 6.

RECEIVABLES. Let's proceed and work on your receivables. Are you going to extend credit? Refer back to your answer in question 10. If you are not going to extend credit to your customers, then this means that all your sales will be in cash and therefore you have no accounts receivable (A/R). Your accounts receivable at the end of the year or period will be zero.

However, if you project 20% of your monthly sales to be on credit, then 80% of your monthly sales will be in cash. It is important that you come up with a schedule of your receivables on a monthly basis, as this is critical in determining how much receivables you have at the end of the year. Review Chapter 10.

Let us take the following example. Granted that 20% of your monthly sales is on credit, your A/R will vary depending on the level of your sales for the month. Assuming that you are able to collect your receivables after 30 days, your accounts receivable schedule would look like the one below.

Schedule 2-A
Simple Accounts Receivable Schedule

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Total Sales	25000	24500	26500	27000	27800	35000	45500	56800	32000	24600	23500	22500
Less: Cash Sales	20000	19600	21200	21600	22240	28000	36400	45440	25600	19680	18800	18000
Sales on Credit	5000	4900	5300	5400	5560	7000	9100	11360	6400	4920	4700	4500
Collection of A/R	0	5000	4900	5300	5400	5570	7000	9100	11350	6400	4910	4700
A/R Balance	0	4900	5300	5400	5570	7000	9100	11350	6400	4910	4700	4500

From the foregoing schedule you will see that computing for your A/R is not simply a matter of getting 20% of your total sales figure for the year. Doing so would give you an A/R balance at the end of December of P 74,130 when in fact your receivables only total to P 4,500. So be careful. Always break your sales down on a monthly basis.

What happens if you extend different credit terms to your customers? That is, you allow some of your customers to pay within 30 days, some within 60 days, and others within 90 days. There is nothing wrong with this practice, except that computations, monitoring, and collection of receivables will get more complicated.

In the next schedule we are assuming that credit sales remain at 20% of the monthly sales. However, we are assuming also for the purpose of illustration that 40% of the sales on credit will be collected in 30 days; 45% will be collected in 60 days; and the balance of 15% will be collected in 90 days. Here is how the A/R schedule will look like. By end of December the total amount of receivables still to be collected is P 16,814.

Schedule 2-B
Accounts Receivable Schedule
For Businesses with More than One Credit Term

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Total Sales	25000	24500	26500	27000	27800	35000	45500	56800	32000	24600	23500	22500
Less: Cash Sales	20000	19600	21200	21600	22240	28000	36400	45440	25600	19680	18800	18000
Sales on Credit	5000	4900	5300	5400	5560	7000	9100	11360	6400	4920	4700	4500
On 30-day credit	0	2000	1960	2120	2160	2224	2800	3640	4544	2560	1968	1880
On 60-day credit	0	0	2250	2205	2385	2430	2502	3150	4095	5112	2880	2214
On 90-day credit	0	0	0	750	735	795	810	834	1050	1365	1704	960
A/R Balance	5000	7900	8990	9315	9595	11146	14134	17870	14581	10464	8612	8058

Using the January sales as example, of the P25,000 worth of sales transactions during the month, P20,000 was paid in cash and the remaining P 5,000 was on credit. So by the end of January the entire P5,000 makes up the A/R balance.

The P5,000 will be collected over the next 90 days as follows: 40% of P 5,000 will be collected in February, 45% of it in March, and 15% of the same amount in April.

For February, the A/R balance equals P 7,900 which is made up of:

P 4,900.00	February total sales on credit
3,000.00	Balance still to be collected on January credit sales (P 5,000 – P 2,000)
P 7,900.00	February A/R Balance

For March, the A/R balance equals P 8,990 which is made up of:

P 5,300.00	March Sales on Credit
750.00	Balance still to be collected on January credit sales (15% of P 5,000)
2,940.00	Balance still to be collected on February credit sales (60% of P 4,900)
P 8,990.00	March A/R Balance

Now, try to figure out the rest of the monthly sales as shown in Schedule 2-B.

Now let's see how you determine your A/R balances for the next three years. Complete the next three tables. It is important that you get your December year-end A/R balances right.

TABLE 2-A
BREAKDOWN OF CASH and CREDIT SALES for Year 1

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Total Sales												
Less: Cash Sales												
Sales on Credit												
Collection of A/R:												
On 30-day credit												
On 60-day credit												
On 90-day credit												
A/R Balance												

TABLE 2-B
BREAKDOWN OF CASH and CREDIT SALES for Year 2

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Total Sales												
Less: Cash Sales												
Sales on Credit												
Collection of A/R:												
On 30-day credit												
On 60-day credit												
On 90-day credit												
A/R Balance												

TABLE 2-C
BREAKDOWN OF CASH and CREDIT SALES for Year 3

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Total Sales												
Less: Cash Sales												
Sales on Credit												
Collection of A/R:												
On 30-day credit												
On 60-day credit												
On 90-day credit												
A/R Balance												

11. Place of business. Where are you going to locate your business? Why did you choose this place in particular?

____

____

____

12. Draw a location map of where you intend to put up your business. It will be good to show landmarks and access routes.

13. Will you sell directly to end-users? If so, how are you going to bring your product or service to them?

14. Are you going to use middlemen or distributors? If yes, are you giving commissions or discounts? How much?

15. How will you get customers to buy? How will you promote your product or service? Will you advertise in newspapers, radio or TV? Will you use posters, flyers, signboards, etc.? Are there any promotional gimmicks that you intend to use?

    Plan your marketing activities and figure out how much you will have to spend to sell your product or service. Complete your marketing plan by filling in Table 3 on the next page. Review your answers to question numbers 13, 14, and 15.

TABLE 3 Selling Expenses			
	Year 1	Year 2	Year 3
Sales commissions			
Advertising			
Signboards			
Posters, flyers etc.			
Packaging			
Transportation expenses			
Sales promotions			
______________________			
______________________			
______________________			
______________________			
______________________			
______________________			
Total selling expenses			

Before proceeding to your technical plan go back to your first table. Are your sales volume projections realistic? Can you really sell this much? If you wish to make adjustments, you can do so. But don't forget that any adjustments in projected sales volume should be reflected in Tables 1-A or 1-B as well as in Tables 2-A, 2-B, 2-C, and 3. Make sure you do your corrections properly as you shall be referring back to these tables when you get to your financial plan.

TECHNICAL PLAN

16. Think of the different activities in your business.
    - If you are into manufacturing, list down and describe the step-by-step manufacturing process, from procurement of raw materials up to the point of delivery.
    - If you are into trading, list down and describe the different activities, from procurement of merchandise up to the point of sale, of your business.
    - If you are a service provider, list down and describe the different activities involved in servicing a client.

Step	DESCRIPTION
1	

17. Based on your description in the preceding question, draw your process flow diagram on the space provided. Use the symbols at the bottom of the page. Refer to Chapter 7.

○ Operation	⇨ Transport	□ Inspection	▽ Storage	D Delay

18. Property, plant, and equipment. What assets do you need for your business? How much does each one cost? How many units do you need for each type of machine/equipment/furniture/ fixture/vehicle? Compute for your annual depreciation charges. (Note: Be careful. The total annual depreciation charges in the 1st year may not be the same as that in the 3rd year – if some of the fixed assets are fully depreciated by the 2nd year.)

TABLE 4
Fixed Investment and Depreciation Schedule

	Acquisition Cost	Qty.	Total Cost	Life Span (in years)	Annual Depreciation Charges		
					Year 1	Year 2	Year 3
Land				---	---	---	---
Building							
Building improvements							
Machines/eqpt./tools							
Total Machines/eqpt/tools							

TABLE 4
Fixed Investment and Depreciation Schedule

	Acquisition Cost	Qty.	Total Cost	Life Span (in years)	Annual Depreciation Charges		
					Year 1	Year 2	Year 3
Furniture and fixtures				---	---	---	---
__________							
__________							
__________							
__________							
__________							
__________							
__________							
__________							
__________							
Total furniture & fixtures							
Office equipment							
__________							
__________							
__________							
__________							
__________							
__________							
__________							
Total office equipment							
Vehicle							
__________							
__________							
__________							
Total vehicles							
GRAND TOTAL							

19. Design your layout on the space provided below.
    - For wannabe manufacturers: How will you arrange your machines and work areas in relation to one another? How much space (include storage areas) will you need? Draw your plant layout.
    - For wannabe traders: Draw the layout of your selling area. Where will you locate your different merchandise? How much space, inclusive of your storage area, will you need?
    - For wannabe service providers: Draw the layout of your work area. How much space, inclusive of your reception and storage areas, will you need?

20. How will you dispose of your business' waste? Can you sell them? Can you recycle them? Will you need to spend for their disposal? How much?

Manufacturers, traders and service providers please take note of the questions that you need to answer.

- For wannabe manufacturers, answer questions **21 to 35.** When you're done proceed to your organizational plan on **page 38.**
- For wannabe traders, answer questions **30, 31, 36 & 37.** When you're done proceed to **page 38.**
- For wannabe service providers, answer **questions 30, 31, 38 to 40.** When done proceed to **page 38.**

21. It's time to come up with your production schedule. Aside from your projected sales volume, you may want to keep a few units in your finished goods (F.G.) inventory to meet unexpected demand. How many units would you like to keep in your ending F.G. inventory at the end of the period? Keep in mind that your beginning inventory account for subsequent periods is your previous year's ending inventory figure.

    If you manufacture only one product line, fill in Table 5-A. If you have several product lines move on to the next page.

TABLE 5-A
Production Schedule for a Single Product Line Business

	Year 1	**Year 2**	**Year 3**
Planned sales volume, in units (from Table 1)			
Add: Desired Ending F.G. inventory, in units			
Less: Beginning F.G. inventory, in units	0		
Units to be produced			

For you multi-product line manufacturers, here is how you fill in Table 5-B:

1. You get the information for columns A and B from Schedule 1-B.
2. Decide on how many units of finished goods for each product line (column C) you want to keep in F.G. inventory.
3. Compute for Column E. (Column E = Column B + Column C – Column D)
4. Leave Columns F and G for the moment. We'll return to them shortly.

Do the same thing for Years 2 and 3. Copy Table 5-B in a separate sheet of paper. Be sure you have the right figures in column D. Remember your beginning inventory is the previous period's ending inventory. Be sure to staple your schedules for the succeeding years to the next page so that you don't lose them.

TABLE 5-B
Production Schedule for a Multiple Product Line Business

Product (A)	Total Units to be sold in Year 1 (B)	Plus: Desired FG Ending Inventory (C)	Less: FG Beginning Inventory (D)	No. of Units to be Produced (E)	Production Cost/Unit (F)	Total Cost of FG Ending Inventory (G)
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
					Total for Year 1	

22. Direct raw material requirements. What direct raw materials do you need in the manufacture of your product(s)? Are you assured of a continuous supply of all your direct material requirements? Fill in the next schedule. For each type of direct material, how much do you need per unit of product you intend to produce?

Schedule 3-A
Direct Raw Material Requirements

PRODUCT: ______________________________

Direct material (A)	Purchase cost/ unit of material (B)	Quantity needed/unit to be produced (C)	Cost/unit to be produced (D)
e.g. milk	P 55.00/liter	50 ml	P 2.75
		Direct material cost/unit	

For you to determine the direct material cost that goes into each unit of your product, you will have to come up with a separate Schedule 3-A for each of your product lines. Staple them together and be sure that each schedule is properly labeled as to what type of product line you are referring to.

23. Do you expect prices of direct materials to increase in the next 3 years? By how much? If you're in a single product line business, complete Table 6-A to come up with direct

material costs for the next 3 years. Be sure to impute price increases in your direct material cost per unit for the succeeding years if you expect the cost of materials to go up.

TABLE 6-A
Direct Material Cost for a Single Product Line Business

	Year 1	Year 2	Year 3
Units to be produced (from Table 5)			
x Direct material cost/unit (Schedule 3-A)			
Total direct material cost			

If you have multiple product lines fill in Table 6-B. Get the data from the different schedules you made under question 22. (Schedule 3-A).

TABLE 6-B
Direct Raw Material Cost for a Multiple Product Line Business

Product Line (A)	Direct raw material cost/unit to be produced (B)	No. of units to be produced (C)	Direct raw material cost per product line (D)
	Total direct material cost (for Year 1)		

You will have to do the same thing over again for Years 2 and 3.

24. Go over your direct raw material schedule in question 22. Pick out the materials that you think you should keep in stock and fill in the next schedule.

Schedule 3-B
Direct Material Ending Inventory Schedule

Direct material	Purchase cost/ unit of direct material	Quantity to be kept in stock	Cost of material in stock
e.g. short bond paper	P 130.00/ream	10 reams	P 1,300.00
Desired Ending Inventory of Direct Materials (for Year 1)			

25. Do you expect prices of your direct materials to rise? By how much? Come up with a similar schedule as the one above for your 2nd and 3rd year of operations. When you're done complete Table 7 to come up with your direct material purchases for the next 3 years. Be sure to impute price increases in your direct material inventory costs for the succeeding years if you expect cost of materials to go up. Again, your beginning inventory account for subsequent periods is your previous year's ending inventory figure.

TABLE 7
Direct Material Purchases

	Year 1	**Year 2**	**Year 3**
Total direct material cost (from Table 6-A or 6-B)			
Add: Desired direct materials ending inventory (from Schedule 3-B)			
Less: Direct materials beginning inventory	0		
Total direct material purchases			

26. Indirect raw material requirements. Now you need to figure out your indirect material requirements. Where will you obtain them? Are you assured of a continuous supply of all your indirect material requirements? For each type of indirect material, how much do you need for the year? Fill in the following schedule.

Schedule 4-A
Indirect Material Requirement

Indirect material	Purchase cost/ unit	Quantity needed/year	Cost/year
		Indirect material cost (For Year 1)	

27. Do you expect prices of indirect materials to increase in the succeeding years? By how much? Come up with a similar schedule as the one above for your 2^{nd} and 3^{rd} year of operations. When you're done, complete Table 8 to come up with your indirect material cost for the next 3 years.

TABLE 8
Indirect Material Cost

	Year 1	Year 2	Year 3
Indirect materials cost			

28. Go over your indirect raw material schedule in question 26. Pick out the materials that you think you should keep in stock and fill in the next schedule. Do a separate schedule for Year 2 and Year 3. Be sure to impute price increases in your indirect material inventory costs for the succeeding years if you expect cost of materials to go up.

Schedule 4-B
Indirect Material Ending Inventory Schedule

Indirect material	Purchase cost/ unit of indirect material	Quantity to be kept in stock	Cost of material in stock
Desired Ending Inventory of Indirect Materials (for Year 1)			

29. Do you expect prices of your indirect materials to increase in the next 3 years? By how much? Come up with a similar schedule as the one above for your 2nd and 3rd years of operation. When you're done complete Table 9 to come up with your indirect material purchases for the next 3 years. Be sure to impute price increases in your indirect material inventory costs for the succeeding years if you expect cost of materials to go up.

TABLE 9
Indirect Material Purchases

	Year 1	**Year 2**	**Year 3**
Total indirect materials cost (from Table 8)			
Add: Desired indirect materials ending inventory (from Schedule 4-B)			
Less: Indirect materials beginning inventory	0		
Total indirect material purchases			

30. Direct labor requirements. Go back to your answers to question 16. How long does it take to complete each step/activity? How many people will you need to employ to complete each stage?

Activity	Time to complete (in minutes)	No. of workers needed

31. Manpower requirements. Refer back to your answers to questions 16 and 30 so that you do not miss out on your direct labor requirements. Are you going to give any salary increases in the next three years? How much? Fill in Table 10.

TABLE 10
Manpower Requirements

	Number of employees	Salary/month	Annual salary*
Direct labor			
Subtotal			
Indirect labor			
Subtotal			
Sales staff			
Administrative staff			
Subtotal			
TOTAL			

* Compute on the basis of 13 months/annum

32. Compute your production cost. You need to determine your overhead expenses for the year to complete Table 11. Be sure that your figures are realistic. If you feel that some of your expenses will escalate in the 2nd and 3rd year, don't forget to factor in corresponding increases.

TABLE 11
Cost of Production

	Year 1	Year 2	Year 3
Direct materials (from Table 6-A or 6-B)			
Direct labor (from Table 10)			
Production overhead:			
Indirect labor (from Table 10)			
Indirect materials (from Table 8)			
Repair and maintenance			
Depreciation of production eqpt. (Table 4)			
Transportation expense			
Light and power			
Water			
______________________			
______________________			
______________________			
TOTAL COST OF PRODUCTION			

33. Complete Table 12 to arrive at your production cost per unit.

TABLE 12-A
Product Cost Per Unit for a Single Product Line Business

	Year 1	Year 2	Year 3
Total cost of production (from Table 11)			
÷ Units to be produced (from Table 5)			
Product cost per unit			

If you have several product lines, you will need to compute the product cost per unit for each product line. Fill in Table 12-B to determine the product cost for each of your product lines. Here's where you get your figures:

1. Get the information for columns A and B from Table 6-B.
2. Get your total direct labor cost per month from Table 10. Divide it by your total number of production hours in a month to get your direct labor cost per hour. But column C asks for the direct labor cost per unit. So what do you do? You need to figure out how long it takes to produce one piece of a particular product. Refer to your answer to question 30. Multiply the number of minutes or hours by the your direct labor cost per hour to get direct labor cost per unit. (**NOTE**: Be careful. If it takes only minutes to produce one unit, be sure to convert the number of minutes as a fraction of an hour before multiplying it with your direct labor cost per hour figure.)
3. Go to Table 11 and add up all your production overhead expenses. Divide your total production overhead expense figure by your monthly total number of production hours to get your overhead cost per hour. Multiply your overhead cost per hour by the number of minutes or hours it takes to produce a particular product line. This is your overhead allocation (column D).
4. To get your product cost per unit (column E), add up the column items for each product line. That is column B + column C + column D.

TABLE 12-B
Product Cost Per Unit for a Multiple Product Line Business

Product Line (A)	Direct raw material cost/unit (B)	Plus: Direct Labor cost/unit (C)	Plus: Overhead Allocation (D)	Product cost/unit (E)

34. If you manufacture a single product line, complete Table 13-A to arrive at the value of your F.G. ending inventory. If you manufacture several product lines, complete Table 13-B.

TABLE 13-A
Finished Goods Ending Inventory for a Single Product Line Business

	Year 1	Year 2	Year 3
Production cost per unit (from Table 12-A)			
x Desired FG ending inventory, in units (from Table 5-A)			
Value of finished goods ending inventory			

TABLE 13-B
Finished Goods Ending Inventory for a Multiple Product Line Business

Product Line (from Table 12-B) (A)	Product cost/unit (from Table 12-B) (B)	Desired Finished Goods Inventory (from Table5-B) (C)	Finished Goods Ending Inventory (D)
		Finished Goods Ending Inventory (Year 1)	

Come up with a similar table as the ones above for your 2nd and 3rd years of operation.

35. Complete Table 14 to arrive at your total cost of goods sold. Just a reminder: Your beginning inventory account for subsequent periods is your previous year's ending inventory figure.

TABLE 14
Cost of Goods Sold for a Manufacturing Business

	Year 1	Year 2	Year 3
Total cost of production (from Table 11)			
Add: F.G. beginning inventory	0		
Total cost of goods available for sale			
Less: F.G. ending inventory (from Table 13-A or 13-B)			
Total cost of goods sold			

To wannabe manufacturers: You've just completed your technical or production plan. Before you turn to page 38, please go over your technical plan once again to make sure that you did not miss out on anything. Be sure you answered all the questions.

36. A trader buys merchandise from manufacturers/suppliers and sells them to end-users.

To complete Schedule 5 on the next page, go back first to Schedule 1-A (if you are a single product line trader) or Schedule1-B (if you intend to carry multiple product lines). Start completing Schedule 5 by first listing down all the products you intend to sell under column A. If the space provided is not enough, get additional sheets of paper and replicate Schedule 5. Don't lose those pages. Staple them onto the next page.

When you're done listing down your merchandise, fill in column B for each product.

Apart from your projected sales volume you may want to keep a few more units in inventory. Ask yourself how many units of each product you should keep in inventory and write these down under column C. For Year 1, you will have nothing in stock at the start of your operations hence your beginning inventory is zero for each product item.

To get the number of units to be purchased (column E) for each product you intend to sell, simply add each row item in column B to the corresponding item in column C and subtract row item in column D. Write in the unit cost per item in column F. When you've done that multiply row item in column E with corresponding row item in column F and write the product under column G.

Repeat the whole process and come up with your Merchandise Summary for Year 2 and Year 3.

Schedule 5 **Merchandise Summary**						
Product (A)	Total Units to be sold in Year 1 (B)	Plus: Desired Ending Inventory (C)	Less: Beginning Inventory (D)	No. of Units to be Purchased (E)	Purchase Cost/Unit (F)	Total Cost of Merchandise Purchases (G)
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
					Total for Year 1	

37. You have to determine your cost of goods sold before you can prepare your balance sheet or income statement. Normally, the level of inventory and cost of goods sold is determined through a physical count at the end of the accounting cycle. At the moment this is not feasible since you are just in the planning stage.

    Go over your pricing policy in question 9. What is your average markup? Once you've determined your markup, you can now complete Tables 15 and 16.

TABLE 15
Cost of Goods Sold for a Trading Business

	Year 1	Year 2	Year 3
Total sales (from Table 1-A or 1-B)	0		
Less: Mark-up			
Total cost of goods sold			

TABLE 16
Merchandise Inventory

	Year 1	Year 2	Year 3
Merchandise Inventory, Beginning balance	0		
Add: Merchandise purchases (from Schedule 5)			
Less: Cost of Goods Sold (Table 15)			
Merchandise Inventory, Ending balance			

To wannabe traders: You've just completed your technical or production plan. Your next task is to come up with your Organizational Plan. But before you turn to page 38, review your answers to questions 36 and 37.

38. A service provider needs supplies and spare parts to service the needs of customers.

    What supplies and spare parts do you need for your intended business? Go back to Schedule 1-B and estimate your supplies and spare parts requirements for the year. Fill in the Schedule 6-A on the next page. If you need more space get additional sheets of paper.

    To complete the next schedule, go back to Schedule 1-A (if you are a single product line trader) or Schedule1-B (if you intend to carry multiple product lines). Start completing Schedule 6-A by first listing down all the supplies/spare parts you need under column A. If the space provided is not enough, get additional sheets of paper and replicate Schedule 6-A. Don't lose those pages. Staple them onto the next page.

When you're done listing down the supplies and spare parts you need for your business, fill in column B. How much of each supply and spare part will you use or consume during your first year of operation?

Apart from what you will be using for the month, you may want to keep a few more units in inventory. Ask yourself how many units of each supply and spare part you should keep in inventory and write these down under column C. For Year 1, you will have nothing in stock at the start of your operations hence your beginning inventory is zero for each supply and spare part.

To get the number of units to be purchased (column E) for each supply and spare part, simply add each row item in column B to the corresponding item in column C and subtract row item in column D. Write in the unit cost per item in column F. Once completed, multiply row item in column E with corresponding row item in column F and write the product under column G.

Repeat the whole process and come up with your Supply and Spare Parts Summary for Year 2 and Year 3. Will your requirements remain the same during your 2nd and 3rd year of operation? Be sure to consider fluctuations in prices if you think that prices of supplies and spare parts are going to increase.

Schedule 6-A
Supplies/Spare Parts Summary

Supply/ Spare Part (A)	Number of Units to be used in Year 1 (B)	Plus: Desired Ending Inventory (C)	Less: Beginning Inventory (D)	No. of Units to be Purchased (E)	Purchase Cost/Unit (F)	Total Cost of Supplies/ Spare Parts Purchases (G)
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
			0			
					Total for Year 1	

39. Now estimate the cost of supplies and spare parts to be used for the period. Go back and copy columns A, B and C from Schedule 6-A to Schedule 6-B. When you have done that multiply each row item in column B with the corresponding row item in column C and write the product in column D. To get the total cost of supplies and spare parts used, simply add all the items under column D.

Schedule 6-B
Cost of Supplies/Spare Parts Used

Supplies/ Spare Part (A)	Number of Units to be used in Year 1 (B)	Purchase Cost/Unit (C)	Total Cost of Supplies/ Spare Parts Used (D)
Total Supplies/Spare Parts Used (For Year 1)			

Do the same thing over again for Year 2 and Year 3.

40. You have to determine your supplies and spare parts inventory to be able to prepare your balance sheet. Complete the next table.

TABLE 17
Supplies/Spare Parts Inventory

	Year 1	Year 2	Year 3
Supplies/spare parts beginning inventory	0		
Add: Total supplies/spare parts purchases (from Schedule 6-A)			
Less: Total supplies/spare parts used (Schedule 6-B)			
Supplies/spare parts ending inventory			

To wannabe service providers: You've just completed your technical or production plans. Your next task is to come up with your Organizational Plan. But before you proceed, review your answers to questions 38 and 40.

ORGANIZATION PLAN

41. What legal form of business will your business take? ____________________________

42. List down all the necessary licenses, fees and permits you need to secure and pay for in the course of registering your business in the next schedule. Add to this any transportation or incidental expenses.

Schedule 7
Licenses, Permits and Registration Expenses

Type of business license/permit/registration	Fees	Transportation expenses	Incidental expenses	Total
Total licenses, permits, and registration expenses				

43. Aside from the licenses, permits and registration fees, you are likely to incur other pre-operating expenses. Individually, these expenses may seem small and negligible. But if they are put together they can add up to a considerable amount. So you need to set aside money for such expenses. Pre-operating expenses are amortized during the course of the business so don't worry. Fill in Table 18.

TABLE 18
Pre-operating Expenses

Total licenses, permits and registration expenses (from Schedule 7)	
Training undertaken during the pre-operating phase	
Transportation expenses	
Initial marketing efforts	
Trial production runs	
Preparation of feasibility study/business plan	
Installation of utilities	
______________________________	
______________________________	
______________________________	
______________________________	
______________________________	
Total pre-operating expenses	

44. Let's now go to the hiring of employees. This may take some time so be patient. I want you to think of the marketing, production, finance and administration activities of your business. You cannot do everything so you will need to hire people to do the different tasks associated with these functions.

Fill in the next schedule. Go by functional area. On the first column you will find questions to guide you. But in case some questions do not apply to your business, by all means, skip them.

You've actually listed the tasks relating to your operations. Refer back to your answers to questions 16, 30 and 31. Should you need more space, feel free to insert new pages. Don't forget to staple them to your Workbook.

	Functional area/Job title	Number of people needed	Monthly salary rate
MARKETING Who will sell your products?			
Who will take care of promotion and advertising?			
Who will deliver products to customers or distributors?			
PRODUCTION			

Job description	Qualifications

	Functional area/Job title	Number of people needed	Monthly salary rate
PRODUCTION			
FINANCE Who will keep records? Who will do the accounts?			
Who will prepare the payroll? Who will collect receivables/settle payables?			
ADMINISTRATION Who will take care of purchasing, preparing contracts, renewing permits?			
Who will take care of personnel matters?			
Who will handle business communications, filing etc?			

Job description	Qualifications

45. Compute for your administrative expenses

TABLE 19
Administrative Expenses

	Year 1	Year 2	Year 3
Salaries and wages (from Table 10)			
Office supplies			
Rent			
Utilities			
Depreciation of non-production equipment (from Table 4)			
Amortization of pre-operating expenses (from Table 18)[20]			
Repair and maintenance			
Professional fees			
________________			
________________			
________________			
________________			
________________			
________________			
________________			
________________			
Total administrative expenses			

[20] To amortize your pre-operating expenses, divide your total pre-operating costs by n, = the number of years you wish to “spread out” the expenses you incurred during the pre-operating phase. An n ranging from 2 to 5 is acceptable.

FINANCIAL PLAN

46. Find out how much money you will need to get your planned activities going by completing Table 20. Breakdown each line item into two. That is, how much of each item listed on the 1st column will be funded by equity and how much will be funded by debt? Are you within the debt:equity limit set by the bank or institution you intend to borrow from?

TABLE 20
Total Project Cost

	DEBT	EQUITY	TOTAL
Total pre-operating expenses (from Table 18)			
Fixed investment (from Table 4)			
Working capital (minimum cash balance you need for one cycle to pay your raw materials, direct labor, manufacturing overhead, operating expenses)			
TOTAL PROJECT COST (Total pre-operating expenses + fixed investment + working capital requirement)			
Proportion of debt:equity			

47. Where are you going to get the funds to finance your total project cost?

____

____

48. For borrowed money, you will need to pay interest. Compute your annual financial charges.

TABLE 21
Financing Charges

Principal: ________________ Mode of payment: ________________

Interest rate per annum: ____________ Term of loan: ________________

Year	Interest	Principal	Total Payment	Outstanding Balance
1				
2				
3				
4				
5				

There are slight variations in the income statements of a manufacturer, a trader, and a service provider.

- Wannabe manufacturers and traders complete the income statement as presented in Table 22. When you're done, do your cash flow statement by filling Table 24.

- Wannabe service providers complete the income statement as presented in Table 23. When you're through, do your cash flow statement by filling in Table 24.

49. Wannabe manufacturers and traders prepare your Projected Income Statement for the next 3 years by completing Table 22.

TABLE 22
Projected Income Statement
for Manufacturers and Traders

	Year 1	Year 2	Year 3
Total sales (from Table 1-A or 1-B)			
Less: Cost of goods sold[21]			
Gross profit from sales			
Less: Selling expenses (from Table 3) Less: Administrative expenses (from Table 19)			
Net operating profit			
Less: Interest charges (from Table 21)			
Net income before taxes			

[21] For manufacturers, refer to Table 14. For traders refer to Table 15. Service providers do not have a cost of goods sold section.

50. Wannabe service providers prepare your Projected Income Statement for the next 3 years. Complete Schedule 8 before proceeding to Table 23.

Schedule 8
Total Expenses for Service Providers

	Year 1	Year 2	Year 3
Selling expenses (from Table 3)			
Administrative expenses (from Table 19)			
Depreciation for machines/eqpt./tools (from Table 4)			
Total supplies/spare parts used (from Table 17)			
Total expenses			

TABLE 23
Projected Income Statement
for Service Providers

	Year 1	Year 2	Year 3
Total sales (from Table 1)			
Less: Total expenses (from Schedule 8)			
Net operating profit			
Less: Interest charges (from Table 21)			
Net income before taxes			

51. How certain are you that you will have cash when you need it? Prepare your cash flow statement so that you will know when you will need additional cash.

TABLE 24
Projected Cash Flow Statement

	Pre-Operating	**Year 1**	**Year 2**	**Year 3**
Cash Inflows				
Loan proceeds (from Table 21)				
Owners Equity (from question no. 47)				
Cash sales (from Tables 2-A or 2-B)				
Add: Collection of receivables (from Table 2-A, 2-B and 2-C)				
TOTAL CASH INFLOWS				
Cash Outflows				
Pre-operating expenses (from Table 18)				
Fixed investment (from Table 4)				
Materials purchases (from Tables 7 + 9 + 16 + 17)				
Direct labor (from Table 10)				
Production overhead minus depreciation and indirect materials (from Table 11)				
Selling & administrative expenses minus depreciation and amortization of pre-operating expenses (from Tables 3 & 19)				
TOTAL CASH OUTFLOWS				
NET CASH FLOW				
Add: Beginning cash balance	0			
Less: Principal repayments/interest payments (from Table 21)				
ENDING CASH BALANCE				

52. Let's see you try your hand at making your balance sheet.

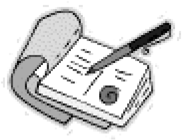
TABLE 25
Projected Balance Sheet

	Pre-Operating	Year 1	Year 2	Year 3
ASSETS				
Cash (from Table 24)				
Accounts Receivable (from Tables 2-A, 2-B, 2-C)				
Raw materials inventory (from Tables 7 + 9)				
Finished goods inventory (from Table 13-A or 13-B)				
Merchandise inventory (from Table 16)				
Supplies/spare parts inventory (from Table 17)				
TOTAL CURRENT ASSETS				
Property, plant, and equipment (from Table 4)				
Less: Accumulated depreciation				
NET PROPERTY, PLANT, AND EQUIPMENT				
Pre-operating expenses (from Table 18)				
Less: Amortization of pre-operating expenses (from Table 19)				
NET PRE-OPERATING EXPENSES				
TOTAL ASSETS				
LIABILITIES AND OWNER'S EQUITY				
Accounts payable				
Current portion of loans payable (from Table 21)				
TOTAL CURRENT LIABILITIES				
Long-term loans (net of current portion)				
TOTAL LIABILITIES				
Owner's equity (from Table 24)				
Retained earnings (from Table 22 or 23)				
TOTAL OWNER'S EQUITY				
TOTAL LIABILITIES & OWNER'S EQUITY				

53. By now you have all the figures at your fingertips. It's time to decide. Do you think business you intend to pursue is viable? Should you proceed with your plans? What is it going to be?

SUMMARY

The Workbook is the culminating activity for the Guidebook. It puts together the things you learned in the previous chapters. Through the Workbook, you learned how to prepare a business plan, the most important document you will need when you finally decide to put up your business. It is the means for determining whether it is worth your time, effort, and money to start that business that has long been lingering in your mind.



If you finished the Workbook, congratulations! If not, find time to study and complete it. It will come in handy anytime.

References

Small Enterprises Research and Development Foundation. **Introduction to Entrepreneurship.** Rev. Quezon City, 2006.

GLOSSARY

GLOSSARY[22]

A

Account. A record of a business transaction. A written or unwritten contract to purchase and take delivery with payment to be made later as arranged.

Account balance. The difference between the debit and the credit sides of an account.

Accountant. One who is skilled at keeping business records. Usually, a highly trained professional rather than one who keeps books. An accountant can set up the books needed for a business to operate and help the owner understand them.

Accounting period. A time interval at the end of which an analysis is made of the information contained in the bookkeeping records. Also, the period covered by the profit and loss statement.

Accounts payable. Money owed to an individual or business for goods or services that have been received but not yet paid for.

Accounts receivable. Money owed to a business for goods or services that have been delivered but not yet paid for.

Administrative expense. Expenses chargeable to the managerial, general administrative, and policy phases of a business in contrast to sales, manufacturing, or cost of goods sold.

Agribusiness. The sum total of operations involved in the production, processing, manufacture, and storage of farm commodities and items made from them.

Amortize. To liquidate on an installment basis; the process of gradually paying off a liability over a period of time.

Assessment of risk. Process for identifying potential hazards and alternative strategies to meet business plan goals and objectives.

Assets. Represent items that are owned or available for use in the business.

Average cost. The total cost of production divided by the total volume of output.

Average pricing. A pricing approach using average cost as the basis for setting a price.

B

Balance. The amount of money remaining in an account.

Balance sheet. An itemized statement that lists the total assets and total liabilities of a given business to determine its net worth at a given period in time. It is called a balance sheet because the value of assets must equal the total of liabilities and net worth.

Bankruptcy. The condition of being unable to pay debts, with liabilities greater than assets.

Barter. A method of payment using non-money items.

Bill of materials. A control sheet that shows the type and quantity of each item of material that goes into a completed unit of product.

Bookkeeping. The process of recording business transactions into the accounting records. The "books" are the documents in which the records of transactions are kept.

Bottleneck. A machine or process that limits total output because it is operating at capacity.

Brand. A design, mark, symbol, or other device that distinguishes one line or type of goods from those of a competitor.

Brand name. A term, symbol, design, or combination thereof that identifies and differentiates a seller's products or services.

Break-even point. The level of activity at which a business neither earns a profit nor incurs a loss. The break-even point can also be defined as the point where total revenue equals total costs, and as the point where total contribution margin equals fixed costs.

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[22] DTI.BSMED. Glossary; key terms and concepts for micro, small and medium enterprises, July 2005.

Budget. An estimate of the income and expenditures for a future period of time, usually one year.

Business plan. The description of the future direction of a business; a written document describing all relevant internal and external elements and strategies for starting a new business venture.

Business-to-business (B2B). A transaction that occurs between a company and another company, as opposed to a transaction involving a consumer. The term may also describe a company that provides goods or services for another company.

C

Capital. Resources that will yield benefits and create wealth gradually over time. It is related and in contrast to consumption. It may be divided into physical and financial, fixed and working, etc. Sometimes it is defined more broadly to include human capital (e.g. training and education that yields benefits over time) or innovative technologies and managerial practices (that yield a competitive advantage).

Capital budget. A budget covering the acquisition of land, buildings, and items of capital equipment.

Capital equipment. Equipment that is used to manufacture a product, provide a service, or use to sell, store, and deliver merchandise. Such equipment will not be sold in the normal course of business, but will be used and worn out or consumed in the course of business.

Capital goods. Stocks of physical and financial assets that are capable of generating income.

Capital expenditures. Amount used during a particular period to acquire or improve long-term assets such as property, plant, or equipment.

Capital expenditures for fixed assets. Include cost of acquisition of new and used fixed assets, fixed assets produced by the organization for its own use, major alterations, additions, and improvements to fixed assets whether done by others or done on own account.

Cash. Money in hand or readily available.

Cash budget. A detailed plan showing how cash resources will be acquired and used over some specific period.

Cash disbursements. Includes all outlays of cash in the period covered. The most common cash disbursements are cash purchases, payments of accounts payable, rent expense, wages and salaries, tax payments, fixed asset outlays, interest payments, and principal payments.

Cash flow. The actual movement of cash within a business; the analysis of how much cash is needed and when that money is required by a business within a period of time.

Cash flow statement. A financial statement that records the cash flow of a business, or financial entity. It is frequently referred to as the "sources-and-uses-of-funds" statement, and is customarily divided into "sources of funds" (cash flow from operating profits and depreciation, borrowing, equity, etc.) and "uses of funds" (capital investments, taxes, interest, debt amortization, dividends, etc.).

Cash receipts. The money received by a business from customers. Include all items from which cash inflows result in any given financial period. The most common components of cash receipts are cash sales, collections of accounts receivable, and other cash receipts.

Check. A draft or order upon a financial institution or banking house purporting to be drawn upon a deposit of funds, for the payment of a certain sum of money to a certain person therein named, or to his order, or to bearer, and payable instantly on demand.

C.O.D. Cash on delivery, meaning that payment is made when the goods are delivered or services completed.

Collateral. Property or goods used as security against a loan and forfeited to the lender if the borrower defaults.

Commercial banks. Banks that are allowed to engage in more varied lending activities and to offer more financial services than the other depository institutions. Commercial banks are owned by stockholders and operated for profit.

Commission. An amount of money paid, especially to a sales representative for making sales of products and services.

Competitive advantage. The unique blend of activities, assets, relationships, history, and market conditions that a business exploits in order to differentiate itself from its competitors, and thus create value.

Consumer goods. Articles necessary for daily living, such as food, clothes, and everyday things.

Contract. A legally binding agreement between two or more parties.

Contribution margin. The amount remaining from sales revenue after all variable expenses have been deducted.

Control. The process of instituting procedures and then obtaining feedback as needed to ensure that all parts of the organization are functioning effectively and moving toward overall company goals.

Cooperative. A duly registered association of at least 15 persons with a common bond of interest who voluntarily join together to achieve a lawful common social and economic end.

Core competencies. The key functions that an organization does best and uses to create sustainable value and wealth.

Cost. (a) as opposed to benefit: an expense related to purchase of inputs, including capital equipment, buildings, materials, technology and licensing fees, labor, public utilities, etc. Costs such as despoiling the environment and injuries to workers' health, since they fall outside the financial accounts of the project are generally regarded as externalities and dealt with separately. (b) as opposed to value: the amount of resources used to produce a product or complete a service.

Cost of goods sold (COGS). The direct cost to the business owner of those items which will be sold to customers. It includes materials, labor, and overhead costs that have gone into the products that have been produced or services completed during a period. Sales less COGS equals gross profit.

Cost-plus pricing. A pricing method in which a predetermined markup is applied to a cost base to determine a target selling price.

Coupon. A piece of paper that offers payment, service, or reduction in the price of goods or services.

Credit. Another word for debt. Credit is given to customers when they are allowed to make a purchase with the promise to pay later. A bank gives credit when it lends money.

Current assets. Valuable resources or property owned by a company that will be turned into cash within one year or used up in the operations of the company within one year. Generally includes cash, accounts receivable, inventory, and prepaid expenses.

Current liabilities. Amount owned that would ordinarily be paid by a company within one year. Generally includes accounts payable, salaries, and the current portion of long-term debt, interest.

Current price. Price that includes the effects of inflation or deflation; price as they are actually observed or prevailing (as opposed to constant prices).

Current ratio. Indicator of a company's ability to pay its short-term debt.

Customer service and satisfaction. Refers to the tracking and monitoring of customer complaints and suggestions.

Cycle time. The length of time required to turn materials into products or to complete a service.

D

Debit. A debt charged against a personal or business account.

Debt. That which is owed. Refers to borrowed funds and is generally secured by collateral or co-signer.

Debt ratio. Indicates how much of the total funds are supplied by creditors.

Decision making. The process of generating and evaluating alternatives and making choices among them.

Deficit. The excess of liabilities over assets; a negative net worth.

Demand. The need or desire for a product or a service. Such need will vary depending on the person, the price, the circumstance, or the desire. Usually expressed in terms of the quantities that would be demanded at various prices.

Depreciation. A decrease in value through age, wear, or deterioration. A normal expense of doing business that must be taken into account.

Direct channel. A distribution channel without any intermediaries or middlemen.

Direct cost. Any variable cost directly attributable to production. Includes materials used, labor deployed, and marketing budget.

Direct labor. Labor costs that can be physically traced to the creation of products or completion of services in a "hands-on" sense.

Direct materials. Those materials that become an integral part of a finished product and that can be conveniently traced into it.

Direct selling the process whereby the producer sells to the user, ultimate consumer, or retailer without intervening middlemen such as wholesalers, retailers or brokers. Direct selling offers many advantages to the customer, including lower prices and shopping from home.

Discount. A deduction from the stated list price of a product or service in relation to the standard price. A selling technique to encourage customers to buy and is offered for a variety of reasons: for buying in quantity or for repeat buying; as a special offer to move a slow-moving line or for paying by cash, etc.

Discount rate. The interest rate at which future values are discounted to the present. It is usually considered roughly equal to the opportunity cost of capital.

Discretionary fixed costs.Those fixed costs that arise from annual decisions by management to spend in certain fixed costs areas such as advertising and research.

Distribution channel. All of the individuals and organizations involved in the process of moving products from producer to consumer; the route a product follows as it moves from the original grower, producer, or importer to the ultimate consumer.

Distributor. Middleman, wholesaler, agent, or company distributing goods to dealers or companies.

Domestic resource cost. The cost of resources used in production or service that are not imported.

Down payment. A part payment for a product or service at the time of buying.

Downsize. Term currently used to indicate employee reassignment, layoffs, and restructuring in order to make a business more competitive, efficient, and/or cost-effective.

E

Earnings. A sum of money gained from employment, usually quoted before tax, excluding extra reward such as fringe benefits, allowances, or incentives. In business, income or profit from a business, quoted gross or net of tax.

E-business. The conduct of business on the Internet, including the electronic purchasing and selling of goods and services, servicing customers, and communications with business partners.

Economic order quantity (EOQ). The order size for materials that will result in the minimization or reduction of costs of ordering inventory and carrying inventory.

Economies of scale. Refers to the idea of increasing efficiencies of the production of goods as the number of goods being produced increases. Typically, the average costs of producing a good or service will diminish as each additional good is produced or service completed, since the fixed costs are shared over an increasing number of goods or services.

Economies of scope. Used to describe the decreasing cost per unit of production or service due to greater efficiency in doing the same things repeatedly.

Effectiveness. The capability of bringing about an effect or accomplishing a purpose, sometimes without regard to the quantity of resources consumed in the process.

Efficiency. The capability of producing desired results with a minimum of energy, time, money, materials, or other costly inputs.

Electronic commerce (e-commerce). The exchange of goods, information, products, or services via an electronic medium such as the Internet.

Electronic mail (e-mail). Text messages transmitted directly from one computer to another.

E-mail address. The address used to send and receive e-mail. The e-mail address contains the username, the @ symbol, and the domain name (jdelacruz@yahoo,com). This is read as: jdelacruz at yahoo dot com.

Enterprise. A business management system that integrates all facets of the business, including planning, manufacturing, sales, and marketing.

Entrepreneur. An individual who engages in a business; an innovator of a business enterprise who recognizes opportunities to introduce a new product, a new process, or an improved organization, and who raises the necessary money, assembles the factors for production, and organizes an operation to exploit the opportunity.

Entrepreneurship. The process of creating something new and assuming the risks and rewards.

Environmental analysis. Assessment of external uncontrollable variables that may affect the business plan.

Equipment. Physical property of a more or less permanent nature, ordinarily useful in carrying on operations, other than land, buildings, or improvements to either of them. Examples are machinery, tools, tracks, cars, ships, furniture, and furnishings.

Equity. (a) in financing and investment, the money contributed directly by the owner(s) and for which dividends may be paid, as opposed to debt, which is money borrowed by the project that must be repaid and on which interest is usually charged; (b) social justice, as opposed to (pure) economic efficiency regardless of distribution costs.

Establishment. An economic unit that engages in one or predominantly one kind of economic activity at a single fixed physical location, and having permanency of assets, such as goods for resale, materials, products, equipment, etc., in its premises, during its operation.

Exchange rate. The number of units of domestic currency per unit of international currency. It may also be expressed in an inverse fashion.

Export. All goods leaving the country which are properly cleared through the Customs.

Exporting. The process of selling goods made in one country to another country.

F

Facsimile (fax) machine. A device that transmits and receives copies of documents via telephone lines.

Factor of production. An input into production. Often a distinction is drawn between “primary” factors of production – such as capital, labor; and land (including mineral resources) – and “secondary” factors of production, such as materials and technologies.

Feasibility study. A detailed examination of the comparative costs and benefits (tangible or otherwise) of a program or project being proposed or identified as attractive, suitable, or feasible. It is normally carried out based on mutually agreed terms of reference drawn up at the identification or pre-feasibility stage. If the conclusions are favorable, then the financing proposal will be drawn up, and financing negotiations proceed without the need for further studies.

Feedback. The communication of responses and reactions to proposals and changes or to the findings of performance appraisals to enable improvements to be made.

FIFO. First In First Out, a method of inventory control whereby first items into inventory are first items out.

Finance. The money needed by an individual or company to pay for something, for example, a project or stocks.

Financial analysis. A diagnosis of trends that is indicative of the magnitude, timing, or riskiness of a company’s future cash flows through the use of data from balance sheet and income statement, which shows financial status at a point of time and financial operation over a period of time, respectively.

Financial plan. A section of the business plan providing an account of a new company's financial needs and sources of financing and a projection of its revenues, costs, and profits.

Financial ratios. Control mechanisms to test financial strength of a new business venture. Examples are acid-test ratio, current ratio, debt ratio, and debt-to-income ratio.

Financial statements. Reports of a company's financial performance and resources, including an income statement, a balance sheet, and a cash flow statement.

Finished goods. Goods that are completed as to manufacturing but not yet sold to customers.

Fixed asset. A long-term asset of a business such as a machine or building that will not usually be traded.

Fixed asset turnover. Indicates a company's ability to generate sales in relation to its fixed asset base.

Fixed costs/expenses. Those costs that do not vary from one period to the next. Generally these expenses are not affected by the volume of business.

Franchise. An agreement enabling a third party to sell or provide products or services owned by a manufacturer or supplier. The franchise is regulated by a franchise contract or franchise agreement that specifies the terms and conditions of the franchise.

Franchisee. A person or business obtaining a franchise.

Franchising. Allowing another party to use a product or service under the owner's name.

Franchisor. An individual or a company offering a franchise.

Fringe benefits. Non-financial supplements to employees' compensation.

Fund flow. An accounting statement showing the sources and uses of funds. It is similar to a cash-flow statement, except that a fund-flow statement generally deals in longer-term flows (e.g. yearly) and with non-cash items such as the issue of new equity shares or debt bonds.

G

General manager. An entrepreneur who functions as an administrator of a business.

Globalization. The process of tailoring products or services to different local markets around the world.

Grace period. A time period after a payment is due in which that payment may be made with or without penalty but no legal action.

Grade. Differences in degree, worth, or ranking between products or services that have the same functional use.

Gross domestic product (GDP). The value of all goods and services produced domestically; the sum of gross value added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the values of their outputs).

Gross income. Income before expenses.

Gross national product (GNP). The GDP adjusted with the net factor income from the rest of the world. It refers to the aggregate earnings of the factors of production (national), plus indirect taxes (net), and capital consumption allowance.

Growth capital. Funding that allows a company to accelerate its growth. For start-up companies, growth capital is the second stage of funding after seed money.

Guarantee. A pledge by a third party to repay a loan in the event that the borrower is unable to pay.
.
Guarantor. A person or an organization that guarantees repayment of a loan if the borrower is unable to pay.

H

Home-based business. A business that maintains its primary facility in the residence of its owner.

Home page. The "table of contents" to a website, detailing what pages are on a particular site; the first page that appears in a website.

I

Import. All goods entering any of the seaports or airports of the country properly cleared through Customs or remaining under Customs control, whether the goods are for direct consumption, for merchanting, for warehousing, or for further processing.

Income statement (profit and loss statement). A financial document that shows how much money (revenue) came in and how much money (expense) was paid out.

Income tax. A tax levied directly on the income of a person or a company and paid to the local government.

Indirect channel. The selling and distribution of products to customers through intermediaries such as wholesalers, distributors, agents, dealers, or retailers.

Indirect cost. A fixed overhead cost that cannot be attributed directly to the production of a particular item or completion of a particular service and is incurred even when there is no output.

Indirect labor. The factory labor cost of janitors, supervisors, engineers, and others that cannot be traced directly to the creation of products in a "hands-on" sense.

Indirect materials. Small items of material such as glue and nails that may become an integral part of a finished product but are traceable into the product only at great cost or inconvenience.

Industry analysis. Review of industry trends and competitive strategies.

Inflation. A sustained increase in a country's general level of prices that devaluates its currency, often caused by excess demand in the economy.

Infomercial. A television or cinema commercial that includes helpful information about a product or service as well as advertising content.

Insurance. An arrangement in which individuals or companies pay another company to guarantee them compensation if they suffer loss resulting from risks such as fire, theft, or accidental damage.

Intellectual property rights. Ownership of ideas, including literary and artistic works (protected by copyright), inventions (protected by patents), signs for distinguishing goods or services of an enterprise (protected by trademarks), and other elements of intellectual property.

Interest. A charge paid by a borrower to a lender for the use of the lender's money. It is expressed as a percentage rate over a period of time.

Interest rate. The amount of interest charged for borrowing a particular sum of money over a specified period of time.

Internet. A computer network which connects computers all over the world, enabling computer users to communicate via e-mail, find information on the World Wide Web, and access remote computer systems such as library catalogs.

Internet service provider. A person or a company providing access to the Internet.

Inventoriable cost. All costs that are involved in the purchase or manufacture of goods. In the case of manufactured goods, these costs consist of direct materials, direct labor, and manufacturing overhead costs used in the production process.

Inventory turnover. The ratio of annual sales to inventory. Low turnover is an unhealthy sign, indicating excess stocks and/or poor sales.

Inventory. Raw materials, items available for sale or in the process of being made ready for sale. They can be individually valued by several different means, including cost or current market value, and collectively by FIFO, last in first out (LIFO), or other techniques.

Investing activities. A section on the statement of cash flows that includes any transactions that are involved in the acquisition or disposition of non-current assets.

Investments. Amount of money or other resources measured in terms of money placed on activities or other forms of assets, whether done by others or done on own account.

Invoice. A document that a supplier sends to a customer detailing the cost of products or services supplied and requesting payment.

J

Job description. A document that describes the tasks and responsibilities of a job and its relationships to other jobs.

Job sharing. Two part-time people splitting the duties of one job in some agreed-on manner and being paid according to their contributions.

Job specification. A statement of the minimum acceptable qualifications a person should possess to perform a particular job.

Joint venture. Two or more companies forming a new company.

Just-in-time (JIT) inventory method. The practice of having inputs to the production process delivered precisely when they are needed, thereby assigning to suppliers the responsibility for keeping inventories to a minimum.

K

Knowledge management. The way organizations create, capture, and re-use knowledge to achieve organizational objectives.

L

Lead time. The interval between the time that an order is placed and the time that the order is finally received from the supplier.

Letter of credit. A mechanism used by exporters and importers, usually provided by the importing company's bank to the exporter to safeguard the contractual expectations and particularly financial exposure of the exporter of the goods or services. A letter issued by a bank that can be presented to another bank to authorize the issue of credit or money.

Letter of guarantee. A letter concerned with providing safeguards to buyers that suppliers will meet their obligations or vice-versa, and are issued by the supplier's or customer's bank depending on which party seeks the guarantee.

Liability. An amount owed (i.e., payable) by an individual or entity for items or services received, expenses incurred, assets acquired, and amount received but not yet earned.

Licensing. Allowing someone else to use something of the company's; contractual arrangement giving rights to others to use intellectual property in return for a royalty or fee.

LIFO. Last In First Out, an inventory costing method whereby last items into inventory are first items out.

Limited partner. A party in a partnership agreement that usually supplies money and has few responsibilities.

Liquid assets. Financial assets that can be quickly converted to cash without risk of substantial loans.

Loan. Money lent with interest.

Loan agreement. A document that states what a business can and cannot do as long as it owes money to the lender.

Loans granted. Loans approved by banks, which had been credited to a borrower's account or made available to him during a given period of time. Loans granted are classified by purpose, by debt instrument, and by industry.

Loan shark. A person or business that lends money at extremely high interest rates.

Loans outstanding. The unpaid balance of loans as of a certain date.

Long-term assets. Value of property, equipment, and other capital assets minus the depreciation.

Long-term liabilities. The liabilities that will not mature within the year.

M

Management. The use of professional skills for identifying and achieving organizational objectives through the deployment of appropriate resources. The art of conducting and supervising a business.

Manpower. A portion of population, which has actual or potential capability to contribute to the production of goods and services.

Manufacturing. The conversion of raw materials into finished products through the efforts of workers and the use of production equipment.

Manufacturing overhead. All costs associated with the manufacturing process except direct materials and direct labor.

Market. A set of potential or real buyers, or a place in which there is a demand for products or services; actual or potential buyers of a product or users of a service.

Marketable. Possessing the potential to be commercially viable.

Market analysis. The study of a market to identify and quantify business opportunities.

Market demand. Total volume purchased in a specific geographic area by a specific customer group in a specified time period under a specified marketing program.

Market development. Marketing activities designed to increase the overall size of a market through education and awareness.

Market forecast. An anticipated demand that results from a planned marketing expenditure.

Marketing. One of the main management disciplines, encompassing all the strategic planning, operations, activities, and processes involved in achieving organizational objectives by delivering value to customers. Marketing management focuses on satisfying customer requirements by identifying needs and wants.

Marketing costs. All costs necessary to secure customer orders and get the finished product or service into the hands of the customer. This term is synonymous with order-getting and order-filling costs.

Marketing mix. The set of product, place, promotion, price, and packaging variables, which a marketing manager controls and orchestrates to being a product or service into the marketplace.

Marketing plan. The part of the business plan outlining the marketing strategy for a product or service. It includes information such as the product or service offered, price, target market, competitors, marketing budget, and promotional mix.

Marketing research. The systematic design, collection, analysis, and reporting of data regarding a specific marketing situation.

Marketing strategy and action plan. A section of the business plan outlining the specific activities to meet the goals and objectives of the business.

Market niche. A well-defined group of customers for which a business offering is particularly suitable.

Market positioning. Finding a market niche that emphasizes the strengths of a product or service in relation to the weaknesses of the competition.

Market price. (a) the price of a product or service in the domestic market; (b) the cost of a product or service including indirect taxes and subsidies.

Market segmentation. The process of dividing a market into definable and measurable groups for purposes of targeting marketing strategy.

Market share. A company's percentage of total sales within a given market.

Market value. The highest price that a buyer would pay and the lowest price that a seller would accept on a property.

Markup. The difference between the cost of a product or service and its selling price.

Materials requisition form. A detailed source document that specifies the type and quantity of materials that are to be drawn from the storeroom and identifies the job to which the materials are to be charged.

Merchandise. Goods bought and sold in a business. "Merchandise" or stock is part of inventory.

Microfinance. The provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance products to the poor and low-income households and their micro enterprises.

Middleman. A person or company that performs functions or renders services involved in the purchase and/or sale of goods in their flow from producer to consumer.

Minimum wage. Wage fixed by the law that an employer can pay a worker. Also known as statutory minimum wage.

Mission statement. A broadly stated definition of the basic purpose and scope of an organization.

Monopoly. A market with only one supplier.

Mortgage. A long-term loan from a creditor that pledges an asset such, as real estate, as collateral for the loan.

N

Net assets. The amount by which the value of a company's assets exceeds its liabilities.

Net benefit. Benefits minus costs.

Net capital. The amount by which assets exceed the value of assets not easily converted into cash.

Net cash balance. The amount of cash that is on hand.

Net fixed assets. The value of fixed assets after depreciation.

Net income. A company's total earnings, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes, and other expenses.

Net margin. See net profit margin.

Net operating income. The income of an organization before interest and income taxes have been deducted.

Net proceeds. The amount realized from a transaction minus the cost of making it.

Net profit. Gross profit minus costs.

Net profit before taxes. Profit earned after all costs had been deducted.

Net profit margin. The profitability of a company after taxes had been paid.

Networking. The process of developing and engaging in mutually beneficial relationships.

Net worth. The total value of a business in financial terms.

Non-traditional exports. Export goods whose value did not exceed US$5 million in 1968 and which have undergone a significant degree of processing.

O

Objective. An end toward which effort is directed and on which resources are focused, usually to achieve an organization's strategy.

Obsolescence. The decline of products in a market due to the introduction of better competitor products or rapid technology developments.

Occupation. The specific kind of work a person does.

Open market. A market that is widely available.

Operating activities. A section on the statement of cash flow that includes transactions that enter into the determination of net income.

Operating assets. Cash, accounts receivable, inventory, plant and equipment, and all other assets held for productive use in an organization.

Operating cash flow. The amount used to represent the money moving through a company as a result of its operations, as distinct from its purely financial transactions.

Operating expenses. Administrative and operational expenses such as salaries and wages, supplies and materials, depreciation, and the maintenance of offices.

Operating plan. A section of the business plan describing a new company's facilities, labor, raw materials, and processing requirements.

Opportunity cost. The potential benefit that is lost or sacrificed when the selection of one course of action makes it necessary to give up a competing course of action.

Order. A contract made between a customer and a supplier for the supply of a range of goods and services in a determined quantity and quality, at an agreed price, and for delivery at a specified time.

Ordering costs. Administrative, clerical, and other expenses incurred in obtaining inventory items and placing them in storage.

Organizational chart. A visual diagram of a company's organizational structure that depicts formal lines of reporting, communication, and responsibility between managers.

Organizational plan. Describes the form of ownership and the lines of authority and responsibility of members of a new venture.

Organizing. The process of putting together an organization's human and other resources in such a way as to most effectively carry out established plans.

Output. (a) That which is produced; opposite of input. (b) Short-term or immediate products and services associated with or delivered by program or project activities that are necessary to achieve the intermediate or higher-order objectives.

Outsourcing. The process of subcontracting work to outside vendors.

Overhead. An expense that cannot be attributed to any one single part of the company's activities.

Owner equity. Represents the amount owners have invested and/or retained from the business operations.

P

Pareto analysis. A method of classifying items, events, or activities according to their relative importance. It is frequently used in inventory management where it is used to classify stock items into groups based on the total annual expenditure for, or total stockholding cost of each item.

Partnership. Two or more individuals having unlimited liability who have pooled resources to own a business.

Patent. The registered, exclusive right of an inventor to make, use, or sell an invention.

Payable. Ready to be paid

Payback period. The period of time required to recover the investment costs of a project out of its cash flow.

Payment-in-kind. An alternative form of pay given to employees in place of monetary reward but considered to be of equivalent value. It may take the form of a car, purchase of goods at cost price, or other non-financial exchange that benefits an employee.

Performance appraisal. The formal and systematic measurement and evaluation of job performance.

Personal selling. A sales presentation delivered in a personal one-on-one manner.

Piggyback franchising. The operation of a retail franchise within the physical facilities of a host store.

Planning and control process. A general term for setting the organizational goal, strategic business plans, capital and operational budgets; for comparing the planned with actual results, and making results-based performance evaluation; and for the ensuing revisions of goals, plans, and budgets.

Point of purchase. That place at which a product is purchased by the customer. The point of sale can be a retail outlet, a display case, or even a legal business relationship of two or more people who share responsibilities, resources, profits, and liabilities.

Policy. A predetermined guide established to provide direction in decision making.

Prepaid expenses. Expenditures that are paid in advance for items not yet received.

Prepaid interest. Interest paid in advance of its due date.

Prevention costs. Costs that are incurred to prevent quality problems from arising in the first place.

Preventive maintenance. The activities intended to prevent machine breakdowns and damage to people and facilities.

Price. The exchange value of a product or service from the perspective of both the buyer and the seller.

Price ceiling. The highest amount a customer will pay for a product or service based upon perceived value.

Price control. Government regulations that set maximum prices for commodities or control price levels by credit controls.

Price discrimination. The practice of selling the same product to different buyers at different prices.

Primary income. Includes salaries and wages, commissions, tips, bonuses, family and clothing allowances, transportation and representation allowances, honoraria and other forms of compensation and net receipts derived from the operation of family-owned enterprises/activities and the practice of a profession or trade.

Principal. The face or original amount of a loan or other such investment.

Product. Anything capable of satisfying needs, including tangible items, services, and ideas.

Product costs. See inventoriable costs.

Productivity. The efficiency with which inputs (labor, capital, natural resources, energy, etc.) are transformed into outputs (goods and services).

Product/service line. A group of products or services related to each other by marketing, technical, or end-user considerations.

Product mix. All of the products or services in a seller's total product or service line.

Product planning and development process. The stages in developing a new product or service.

Production plan. A section of the business plan that details how products or services will be manufactured or completed.

Profit. Financial gain, returns over expenditures.

Profit and loss statement. A list of the total amount of sales (revenues) and total costs (expenses); the difference between revenues and expenses.

Profit margin. The difference between the selling price of a product or service and the costs associated with its production or sale.

Promissory note. A written promise to pay a specified sum of money on a specified time or on demand.

Promotion. The communication of information by a seller to influence the attitudes and behavior of potential buyers.

Promotional pricing. Temporarily pricing a product or service below list price or below cost in order to attract customers.

Proprietorship. Form of business with single owner who has unlimited liability, controls all decisions, and receives all profits.

Purchase order. A written form issued to a supplier to buy a specified quantity of some item/service or items/services.

Purchase requisition. A formal internal request that something be bought for a business.

Purchasing. The process of obtaining materials, equipment, and services from outside suppliers.

Q

Quality. The conformance of a product or service to customer specifications in terms of features and performance.

R

Raw material. Any material that goes into a manufactured product or completed service.

Receivable. See accounts receivable.

Recruitment. The process of attracting individuals - in sufficient numbers and with appropriate qualifications – and encouraging them to apply for jobs with the organization.

Refund. The reimbursement of the purchase price of a product or service, for reasons such as faults in manufacturing or dissatisfaction with the service provided.

Rent. The price paid for any factor of production in fixed supply.

Reorder point. The point when an order must be placed to replenish depleted stocks.

Replacement value. The current cost of replacing a capital asset.

Retail trade. Any act, occupation, or calling of habitually selling direct to the general public merchandise, commodities, or goods for consumption.

Retrenchment. The reduction of the size or scope of a company's activities.

Return on assets (ROA). Indicator of profitability on the use of a company's total assets; shown as a percentage.

Return on equity (ROE). Measures the ability of a company to generate profit in relation to its equity base.

Return on investment (ROI). Indicator of profitability on investments out into a company.

Risk-taking. Taking calculated chances in creating and running a business.

S

Safety stock. Inventory maintained to protect against stockouts.

Salaries and wages. Payments in cash or in kind prior to deductions for employees' contribution to the SSS, withholding tax, etc. Included are total basic pay, overtime pay, and other benefits.

Sales. The activity of selling a company's products or services, or the income generated by this activity.

Sales channel. A means of distributing products to the marketplace, either directly to the end customer, or indirectly through intermediaries, such as retailers or dealers.

Sales forecast. A prediction of future sales, based on past sales performance.

Sales mix. The relative combination in which a company's products or services are sold.

Sales network. The distribution network by which goods and services are sold.

Sales outlet. A company's office that deals with customers in a particular region or country.

Sales promotion. Activities, usually short-term, designed to attract attention to a particular product or service to increase its sales using advertising and publicity.

Seed money. A usually modest amount of money used to convert an idea into a viable business.

Self-employment. Being in business on one's own account, either on a freelance basis, or by reason of owning a business and not being engaged as an employee under a contract of employment.

Self-liquidating. Providing enough income to pay off the amount borrowed for financing.

Selling costs. See marketing costs.

Service business. A retail business that deals in activities for the benefit of others.

Service charge. A fee for any service provided, or additional fee for any enhancements to an existing service.

Settlement. The payment of a debt or charge.

Setup costs. The costs associated with making a workstation or equipment available for use.

Short-term notes. Loans that come due in one year or less.

Small and medium enterprise (SME). Any business activity or enterprise engaged in industry, agribusiness, and/or services, whether single proprietorship, cooperative, partnership, or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant, and equipment are situated; must have value falling under the following categories:
Micro :Up to Php 3,000.000;
Small : Php 3,000,001– Php 15,000,000;
Medium: Php 15,000,001– Php 100,000,000;
and Large: above Php 100,000,00.

Sole proprietorship. Business legal structure in which one individual owns the business; also referred to as single proprietorship.

Staff. A position in an organization that is only indirectly related to the achievement of the organization's basic objectives.

Stakeholders. Various persons or groups of persons who have a lead role and interest in the objectives and results of a program or project.

Subcontracting. A business activity and strategy where a producer contracts other producers to manufacture part or his entire product at an agreed quality, time, and price.

Suppliers. Individuals or businesses that provide resources needed by a company in order to produce goods and services.

Supply. Willingness to provide a good or service.

T

Take-home pay. The amount of pay an employee receives after all the deductions, such as income tax, social security, or pension contributions.

Target market. The specific individuals distinguished by socio-economic, demographic, and interest characteristics who are the most likely potential customers for the goods and services of a business.

Tax. A government charge that is not the price for a good or a service.

Taxable. Subject to tax.

Tax incentive. A tax reduction afforded to people for particular purposes.

Tax refund. An amount that a government gives back to a taxpayer who has paid more taxes than were due.

Technology transfer. The process by which existing knowledge, facilities, or capabilities, developed under governmental research and development funding are utilized to fulfill public and private needs.

Telemarketing. Marketing goods and services directly to the consumer via the telephone.

Terms of sale. The conditions concerning payment for a purchase.

Total asset turnover. The ratio of net sales to total assets.

Total receipts (revenues/sales). Include the value/cash received and receivables for products shipped, goods sold and transferred, and industrial and non-industrial services rendered to others.

Trade barriers. Hindrances to doing international business.
Trade fair. A commercial exhibition designed to bring together buyers and sellers from a particular market sector.

Trademark. A distinguishing word, name, or symbol used to identify a product.

Traditional exports. Export goods whose value exceed US% million in 1968 and which have undergone a significant degree of processing.

U

Unemployed. Persons in the labor force who did not work or had no job/business during the reference week but were reported available and actively looking for work.

Unlimited liability. Full responsibility for the obligations of a general partnership.

Unsecured debt. Money borrowed without supplying collateral.

V

Value. As opposed to cost. A demand-side concept related to the marginal consumer willingness to pay.

Value added. Originally, the difference between the cost of bought-in materials and the eventual selling price of the finished product.

Value added tax. A tax added at each stage in the manufacture of a product.

Value chain. The major business functions that add value to a company's products and services.

Value of output. Represents the total value of products sold, receipts from contract work, and industrial services done for others, receipts from goods bought and sold in the same conditions, fixed assets produced on own-account, and change in inventories.

Variable cost. A cost of production that is directly proportional to the number of units produced.

Virtual organization. A temporary network of companies, suppliers, customers, or employees, linked by information and communications technologies, with the purpose of delivering a service or product.

Vision statement. A statement giving a broad, aspirational image of the future that an organization is aiming to achieve.

W

Wage rate. The basic pay, including cost of living allowances and other guaranteed or regularly paid allowances; excludes overtime payments, bonuses, and gratuities, family allowances, and other social security payments made by employers.

Warranty. A promise that a product will do certain things or meet certain standards.

Waste management. A sustainable process for reducing the environmental impact fof the diaposal of all types of materials used by businesses.

Wholesale price. A price charged to customers who buy large quantities of an item for resale in smaller quantities to others.

Wholesaling. The business of selling products to retailers, organizational users, or other wholesalers; selling for resale.

Withholding tax. The money that an employer pays directly to the government as a payment of the income tax on the employee.

Working capital. The excess of current assets over current liabilities; the cash needed to keep the business running from day to day.

Work-in-process (goods-in-process). Goods or services that are partially completed as at the beginning or end of a period and that will need further work before being ready for sale or delivery to a customer.

Y

Yearend. Relating to the end of a financial or fiscal (tax) year.

APPENDIX

BUSINESS PLAN FOR A SOAP MAKING BUSINESS*

Executive Summary

Business Name : XYZ Enterprises
Business Address : No.12 M. de los Reyes St., Poblacion, Los Baños, Laguna
Nature of Business : Soap Manufacturing
Form of Ownership : Single Proprietorship
Proponent : Ms. Juana dela Cruz

Objectives

The project seeks to achieve the following:

- put into practice the technical skills on soap making that the proponent acquired from a training seminar recently conducted by the local government of Los Baños;
- augment the income of the proponent; and
- provide some source of income for the youth in the neighborhood.

<u>Marketing Aspect</u>

The project relates to a business of making soap, specifically, bath and beauty soap. The product will be known by the brand, *CreamySkin*. The papaya extract in the soap will give it whitening and moisturizing properties. Each soap bar will be wrapped with fine transparent paper and put in individual boxes.

The business will target the female population of Laguna particularly a conservative 0.0002% of those who fall within the 15 – 64 age group. These are the women who are most likely already using herbal bath and whitening soap. *CreamySkin* will be sold in beauty salons, drugstores, boutiques, grocery and variety stores, and even schools. The owner will take the lead in selling the soap. She will also use sales agents to distribute the product. *CreamySkin* will be sold at an introductory price of P27.00 in the first year. To create an awareness of the product and encourage the target market to buy the soap, the business will use streamers, flyers, and posters, and will also advertise in the newspapers of local circulation.

<u>Technical Aspect</u>

The project will be set up at the residence of the proponent in Los Bańos in the province of Laguna, the first province south of Manila. An open area with concrete flooring and a roof will serve as the plant. Some improvements, such as the construction of a wall and installation of fixtures, will be done.

* This is only a sample business plan. It is intended to show to the reader how a business plan for a manufacturing business looks like. It should not be used as a basis for the conduct of an actual business in soap making. Any similarity of the circumstances to a real life situation is purely coincidental.

The main ingredients for the manufacture of *CreamySkin* will be coconut oil, lye, sodium silicate, papaya extract, and essential oil. Spring water will be mixed with lye to come out with the caustic soda solution. The business will require weighing scales, plastic pails, wooden moulds, stainless or laminated-top working tables, hydrometers, oil storage tanks, beakers, wooden ladles, and a stainless steel spoon with long handle. The business will also require safety accessories such as safety glasses, gloves, and dust masks.

Production of *CreamySkin* will be done two times a month at one-week intervals in the first year. From a yearly output of 2,797 bars in the first year, the output will increase by 50% in the 2nd and 3rd years. The business will need 2 workers working in staggered hours to produce the soap.

Organizational Aspect

The business will be a single proprietorship. It will register as a BMBE with the Los Bańos government to avail of tax exemption privileges. The proponent will make all the decisions and handle all the aspects of the operation.

Financial Aspect

The project will cost PhP27,190. The proponent will use her own funds to start the business.

MARKETING PLAN

The Product

The proposed business intends to manufacture herbal bath and beauty soap. The product will come in 135 -gram bars measuring 1.25” x 3.20” x 2.0”. Aside from its basic function as a body wash, the product will have skin whitening and moisturizing[1] properties. It will carry the brand name, *CreamySkin*. It will be produced in Laguna province and sold in the same province during the initial year.

Target Market

CreamySkin will target individuals from the high-lower up to the middle-income classes. These are people who can easily afford to buy and are willing to try a new product, especially if it promises other benefits to them. The market will be made up of the young girls to the matrons who are most likely already using herbal bath and beauty soaps that give beneficial effects other than for washing the body. These are the women who are within the 15 – 64 years age group, the age range considered by the NSO as the economically productive years. Specifically, *CreamySkin* will target a mere 0.0002% of this female segment of the Laguna population. Although the product will primarily target the women, the males within the same age group will also be considered.

The Market Situation

Soaps have evolved from the colored scented bars of old. Nowadays, the general public is exposed to a very wide variety of these soaps. Of late we have witnessed the emergence of herbal soaps. Herbal soap is a kind of soap mixed with natural ingredients, juice or extract, and vitamins from medicinal plants. They come in various forms, shapes, and sizes and offer benefits other than for washing the body. There are soaps for practically all types of skin, for babies, for the face, for people who want to remove pimples, to hydrate and moisturize the skin, to eliminate body odor, to maintain a fresh smell, to whiten, to address skin problems, and for many other purposes.

- Demand

  At first glance, the market for fragrance soap appears to be saturated. But there is always room for newcomers for as long as babies will be born. The consumption of soap is closely related to population growth, soap being one of the items that is basic in every household. Filipinos by nature are known for our cleanliness. In fact, many, if not most Filipinos take a bath at least twice daily. Changing customer preferences have also contributed quite extensively to the growing demand for herbal bath and beauty soaps. A 2004 press release from the Census office reported increases in expenditure in personal care and effects, among others, in 2003. As people become more conscious about their color and appearance, the market for herbal bath and beauty soaps will always be there.

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[1] Act of moistening, eg. the skin

Laguna residents have access to the more established as well as newly emerging local brands as much as those living in Metro Manila. And they also share the growing consciousness and desire for a better skin complexion. This quest continues to encourage them to search for a soap brand that will live up to its promise not only of improving the skin but easy on the pocket as well.

They presently buy their bath soap from the neighborhood retail stores and grocery stores in the town center.

The following table shows the total population of Laguna Province in Year 2000. Following the association of the demand for soap with the population, this table also reflects the total demand for soap in the said province.

Total Population by Age Group, Sex and Sex Ratio: Laguna, 2000

Age Group	Total Population	Male	Female	Sex Ratio
Laguna	1,965,872	975,470	990,402	98.49
Under 1	50,107	25,819	24,288	106.30
1 to 4	191,999	99,174	92,825	106.84
5 to 9	225,393	115,457	109,936	105.02
10 to 14	205,527	104,370	101,157	103.18
15 to 19	196,341	96,123	100,218	95.91
20 to 24	202,805	96,153	106,652	90.16
25 to 29	170,376	83,865	86,511	96.94
30 to 34	158,706	78,983	79,723	99.07
35 to 39	138,769	69,491	69,278	100.31
40 to 44	118,548	60,022	58,526	102.56
45 to 49	93,023	46,962	46,061	101.96
50 to 54	67,386	33,759	33,627	100.39
55 to 59	44,507	21,446	23,061	93.00
60 to 64	36,801	17,061	19,740	86.43
65 to 69	25,813	11,347	14,466	78.44
70 to 74	17,609	7,511	10,098	74.38
75 to 79	11,368	4,411	6,957	63.40
80 & Over	10,794	3,516	7,278	48.31

Source: NSO, 2000 Census of Population and Housing

Since herbal bath soaps cater to a specific segment of the population, it can be safely assumed that the target market for herbal bath soap would fall within the figures that are highlighted.

The next table shows the 2000 census figures for the population of Laguna with a five-year projection.

Population Projections, Laguna						
Census Data		**Projected Data**				
Gender	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Male	975,470	959,294	987,296	1,015,298	1,043,376	1,071,378
Female	990,402	976,960	1,008,434	1,039,882	1,071,412	1,102,861

Source: NSCB Fact Sheet, January 2005

- Supply

Big companies dominate the soap industry in the country. These include Unilever, Procter & Gamble, and Splash, among others. These are companies that have the resources to conduct extensive R & D and product development and, naturally, marketing activities. Dermatologists also come out with their own soap formulations that they recommend to their clients. Aside from these, there are also imported soap brands in the market carrying such brand names as *Lush*, *Body Shop*, *Jergens*, *Dove*, *Mark & Spencer*, etc.

The competitors of *CreamySkin* will be the locally-made herbal soaps that are starting to make their mark in the industry as well the small producers of herbal soap, particularly those based in the provinces. Many of them are backyard and home-based, and they can be found in many places in the country. In Laguna province, there are a number of households making laundry soap as well as herbal soap. There are two makers in the town of Siniloan, one in Cavinti, and three in Calamba City.

- Demand – Supply Analysis

The proposed business will work with the following assumptions:
- there will be a 2.3% increase in the total population of Laguna for the years 2006 to 2008;
- 50% of the projected female population of Laguna are female;
- 50% of the projected female population of Laguna represent the users of herbal soap;
- the business will target a mere 0.0002% of the current users of herbal soap.

Marketing Strategies

- Objective

The proposed business intends to capture a very small percentage (0.0002%) of the potential users. The proponent will target 111 women (based on 2006 projected population growth), who will buy a bar of *CreamySkin* at least twice a month. The estimated size of the market for *CreamySkin* in the first year is 2,712 bars.

Schedule 1: Projected Sales Summary Schedule (volume and value)															
Year	M O N T H														
1	1	2	3	4	5	6	7	8	9	10	11	12	**Total Units**	**Selling Price (PhP)**	**Total Peso Sales**
	222	222	222	222	222	222	222	222	222	222	222	222	**2,664**	**25**	**66,600**

For the second year, the business projects a 50% increase in the demand for *CreamySkin*, and another 50% increase in demand is projected in the 3rd year.

In the 2nd year, the business will introduce *CreamySkin* to the towns in nearby Batangas province. The projected increase in demand for the 3rd year will come largely from the mileage that the business will gain in the 2nd year as the users become convinced of the benefits of the soap.

Schedule 1-A: Projected Sales Summary Schedule (volume and value)															
Year	M O N T H														
2	1	2	3	4	5	6	7	8	9	10	11	12	**Total Units**	**Selling Price**	**Total Peso Sales**
	333	333	333	333	333	333	333	333	333	333	333	333	**3996**	**27**	**107,892**

Schedule 1-B: Projected Sales Summary Schedule (volume and value)															
Year	M O N T H														
3	1	2	3	4	5	6	7	8	9	10	11	12	**Total Units**	**Selling Price**	**Total Peso Sales**
	499	499	499	499	499	499	500	500	500	500	500	500	**5994**	**29**	**173,820**

- Product Strategies

The more popular locally-produced whitening soaps in the market are known by such brand names as *Silka Papaya*, *RDL Papaya*, *Block & White*, *Biolink Papaya*, *TopOne Papaya*, *Love Papaya*, etc. These are packed in individual boxes. The herbal soaps that are being made in Laguna do not bear any brand name. They are individually wrapped in white paper.

CreamySkin will have approximately the same attributes as the other locally-manufactured herbal soaps. A come-on for the product is the ingredient that will lighten the skin color and moisturize the skin. The brand name, *CreamySkin*, conveys the promise that the user will acquire a lighter skin color that is comparable to cream.

CreamySkin will be individually wrapped with fine transparent paper first before being placed inside a box. The box will bear the brand name, *CreamySkin*, list the ingredients, and give the name of the manufacturer.

- Place Strategies

The popular branded whitening soaps are being sold in supermarkets and groceries nationwide. They are also available in drugstores. The soap products of Laguna producers are usually sold in a store fronting the owner-producer's house. A signboard on which is written the word, *SABON*, appears in selected places along the highway. The producers also get people to sell the soap along the road and in the neighborhood.

The proposed business will be located in Los Baños, Laguna. This town falls within the second district of the province, the second most densely populated among the four districts. The place comes close to the heels of the 1st district, the most densely populated district being near Metro Manila. Los Baños town is also strategically close to the 3rd district.

CreamySkin will be sold directly to the end-users. The business will also "borrow stores" and use agents to reach out to the target market.

The soap will be sold in the beauty salon owned by the proponent. A small corner at the owner's residence will serve as a showroom for the soap. *CreamySkin* will also be distributed to similar shops, including barber shops, and other outlets such as boutiques, variety, grocery and convenience stores, drugstores, offices, and even schools. Aside from the proponent, the business will get agents to bring *CreamySkin* to the end users. These will include schoolteachers, employees, and college students.

- Price Strategies

The next table will show the prices in Laguna of the existing herbal bath and beauty soaps available in the market.

Brand Name	**Net Weight (Grams)**	**Retail Price PhP**
Love Green Papaya	90	22.85
RDL Green Papaya/ RDL Orange Papaya	135	29.90
TopOne Papaya	145	36.50
Silka Papaya	90	24.95
Biolink Papaya	135	39.50
Block & White Papaya	120	37.00
CY Gabriel Whitening	135	32.30
Skin White Whitening	90	26.00
Average price per gram		0.20

The proposed business will consider both internal and external factors in setting the price of *CreamySkin*. It will firstly consider the production and selling costs, the selling price of the competitors, and the market price.

The proponent will sell the product for an introductory price of P25.00 in the first year.

Table 1: Projected Sales (Volume and Value)			
	Year 1	Year 2	Year 3
Planned sales volume	2,664	3,996	5,994
x selling price per unit	25.00	27.00	29.00
Total sales	66,600.00	107,892.00	173,820.00

The proposed business does not intend to extend credit within the first three years.

- Promotions Strategies

The established soap manufacturers promote their products through tri-media. Their advertisements appear in the newspapers and television, and are aired over the radio. They also post their ads in billboards and giant posters that are placed along main thoroughfares. It is no secret that these companies allot a sizeable chunk of their budget for promotion; majority of them even tap celebrities to endorse their products.

The promotional activities being conducted by big soap manufacturers have successfully introduced herbal soap to the entire soap-consuming population. This has brought awareness of herbal soaps to a certain level that has helped significantly, the smaller manufacturers, including newcomers, market their products. So much so that the latter no longer start their promotional efforts from scratch but can already concentrate on getting their target market buy the new products.

The Laguna soap producers promote their products by word of mouth. The sign, *Whitening Soap* is placed in front of the soap bars that are piled on a table or a counter. The signs are either computer printouts or printed by hand.

To bring *CreamySkin* into the consciousness of the target market, the proposed business will use streamers, flyers, and posters. It will also advertise in the community newspapers such as the semestral *Los Baños Times* published by students of the UP Los Baños and the daily *Manila Times* Southern Tagalog Edition. The proposed business will also use the product as giveaways in contests and as corporate gifts.

The flyers will be inserted in all printed materials specifically magazines and newspapers circulating in the province. They will also be given out to parishioners coming out from the church, mall goers, as well as diners in restaurants and fastfood chains. The posters will be displayed prominently in beauty parlors, boutiques, variety and grocery stores, drugstores, resorts and tourism-related establishments.

Distribution of the promotional materials will be a joint effort by the proponent and the agents.

Table 2: Selling Expenses			
	Year 1	**Year 2**	**Year 3**
Sales commissions	5,000	8,200	12,500
Advertising	1,000	1,000	1,000
Signboards, streamers	500	300	400
Posters, flyers	350	350	400
Packaging	2,500	3,800	6,000
Transportation expense	300	350	350
Sales promotions			
Giveaways	300	300	500
Sponsorships			500
Total selling expenses	9,950	14,300	21,650

TECHNICAL PLAN

Plant Location

The proposed business will be put up at the residence of the proponent in Los Baños, Laguna. This is at No.12 M. de los Reyes St., Poblacion, Los Baños, Laguna.

Laguna province is one of the coconut-rich provinces in Southern Tagalog. Coconut oil is the major raw material for making soap using the cold process. The province also boasts of the availability of herbs and medicinal plants. The municipality of Los Baños, also known as a university town, hosts the University of the Philippines Los Baños and various research and development institutions of the government which the proponent can approach for technical assistance.

Getting workers should not be a problem. The next table shows the employment status of employable Laguna residents. The business will initially tap workers from the neighborhood of the proponent.

Household Population 15 Yrs Old & Over and Employment Status, Laguna (Population in thousands; Rates in percent)				
Employment Status	**1999**	**2000**	**2001**	**2002**
Population 15 Yrs old & over	1,113	1,226	1,284	1,333
Labor Force Participation Rate	65.2	65.1	66.8	66.6
Employment Rate	88.9	87.7	86.8	84.4
Unemployment Rate	11.1	12.3	13.2	15.6
Visible Underemployment Rate	8.3	9.9	10.6	9.9

Note: Details may not add to totals due to rounding.
Source: NSCB Fact Sheet, January 2005

Process Description

Following is the step-by-step process for the manufacture of *CreamySkin* whitening soap using the cold process. This process involves the reaction of the oil with a quantity of strong caustic alkali solution.

Step	Description
1	Prepare the materials and utensils.
2	Mix water and caustic soda[2] in a pail using a proportion of 1unit caustic soda:3 units water
3	Put coconut oil into another pail.
4	Add the lye (caustic soda solution) slowly to the oil while stirring continuously with a wooden ladle. Follow one direction in stirring. Keep on stirring for 15 – 20 minutes or until the caustic soda is dissolved.
5	Add the sodium silicate solution, papaya extract and continue stirring for 5 – 10 minutes. Add the essential oil[3] into the mixture and stir for about 3 minutes. Steps 4 and 5 should be completed in 30 – 35 minutes. Less than this time would not be an ideal preparation for the saponification[4] process, while more than this time would harden the mixture, thereby making the moulding process difficult to carry out.
6	Pour the homogenous viscous soap mixture into the moulds.
7	Let it stand for 72 hours (3 days) to enable complete saponification.
8	Remove the hardened soap from the moulds. Inspect.
9	Cut the soap with a fine wire cutter assembly or guitar string.
10	Allow to age for 4 weeks. Inspect regularly.
11	Put the soap bars in individual boxes.
12	Store or distribute.

➢ <u>Safety Precautions</u>

Exercise much care when handling caustic soda (lye). It can burn the skin upon contact. Wear rubber gloves and safety masks when pouring, mixing, or stirring. If you are spilled accidentally, wash immediately with vinegar or anything sour and then wash with soap and water. For additional safety precaution, wear long a sleeved shirt, pants, and an apron.

Process Flow (See Attachment 1)

Property, Plant, and Equipment

Production activities will be done at the existing extension of area adjacent to the family residence. It has a floor area of 20 square meters. This is an open area, the walling will be a combination of concrete (up to the level of the waist) and wire. It will have a separate installation for electricity. Water from the owner's deep well will be used for cleaning the utensils and the production area. Spring water will be used for the soap.

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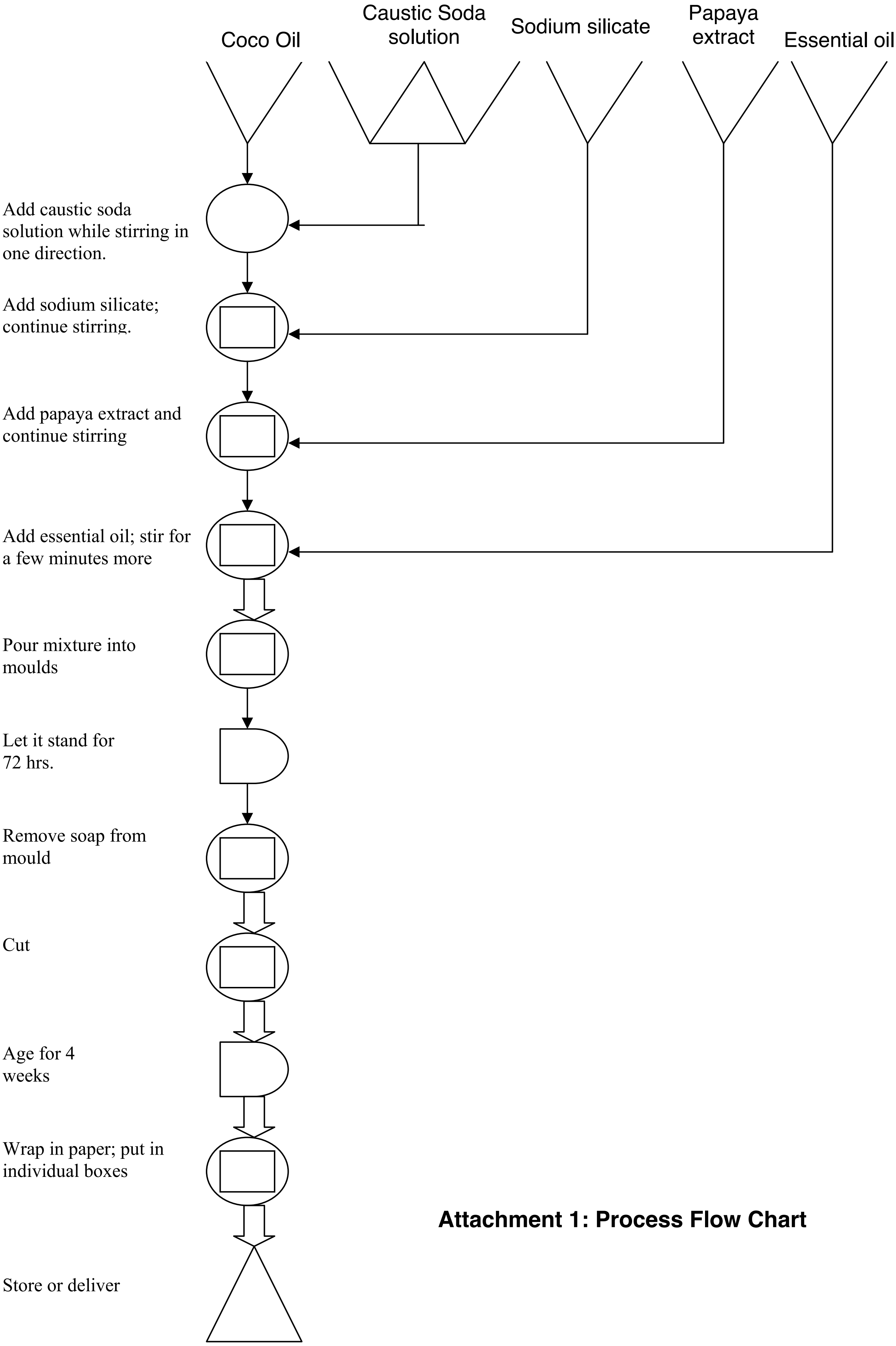
[2] Sodium hydroxide
[3] Oils distilled directly from plant materials. One's choice will depend on the desired effect for aromatherapy and skin
care properties.
[4] Process of converting (as fat) into soap.



Attachment 1: Process Flow Chart

The business will require accurate weighing scales, plastic pails, wooden moulds, stainless or laminated-top working tables, hydrometers, an oil storage tank, beakers, wooden ladles, stainless steel spoon with long handle. Safety accessories will also be needed. These are safety glasses with splashguard, heavy duty, well-fitting gloves, and dust masks.

Table 3: Fixed Investment and Depreciation Schedule

	Acquisition Cost	Qty.	Total Cost	Life Span (in years)	Annual Depreciation Charges		
					Year 1	Year 2	Year 3
Building Improvements			2,000	5	400.00	400.00	400.00
Machines / Eqpt. / Tools							
Weighing scale		2	1,000	10	100.00	100.00	100.00
Plastic pail, heavy duty		4	800	3	266.66	266.66	266.66
Wooden mould		4	400	3	133.33	133.33	133.33
Wooden ladle with long handle		2	100	2	50.00	50.00	50.00
Long-handled stainless steel spoon with scoop		2	150	3	50.00	50.00	50.00
Hydrometer		1	500	5	100.00	100.00	100.00
Oil storage tank		1	1,500	5	300.00	300.00	300.00
Beakers & other measuring equipment		4	1,000	5	200.00	200.00	200.00
Safety accessories			1,500	5	300.00	300.00	300.00
Total Bldg. Improvements, Machines/ Eqpt./ Tools			**8,950**		**1,899.99**	**1,899.99**	**1,899.99**
Furniture and fixtures							
Working tables		4	1,000	5	200.00	200.00	200.00
Wooden stools	existing						
Total Furniture & Fixtures			**1,000**		**200.00**	**200.00**	**200.00**
Office Furniture & Equipment							
Office desk		1	450	5	90.00	90.00	90.00
Office chairs		2	600	5	120.00	120.00	120.00
Display Rack		1	1,100	5	220.00	220.00	220.00
Personal computer	existing						
Printer	existing						
Total Office Equipment & Furniture			**2,150**		**430.00**	**430.00**	**430.00**
GRAND TOTAL			**12,100**		**2,529.99**	**2,529.99**	**2,529.99**

Layout (See Attachment 2)

Production Schedule

Production of *CreamySkin* will be done in 2 batches a month, preferably at one week intervals, in the first year. The number of batches will increase in the succeeding years.

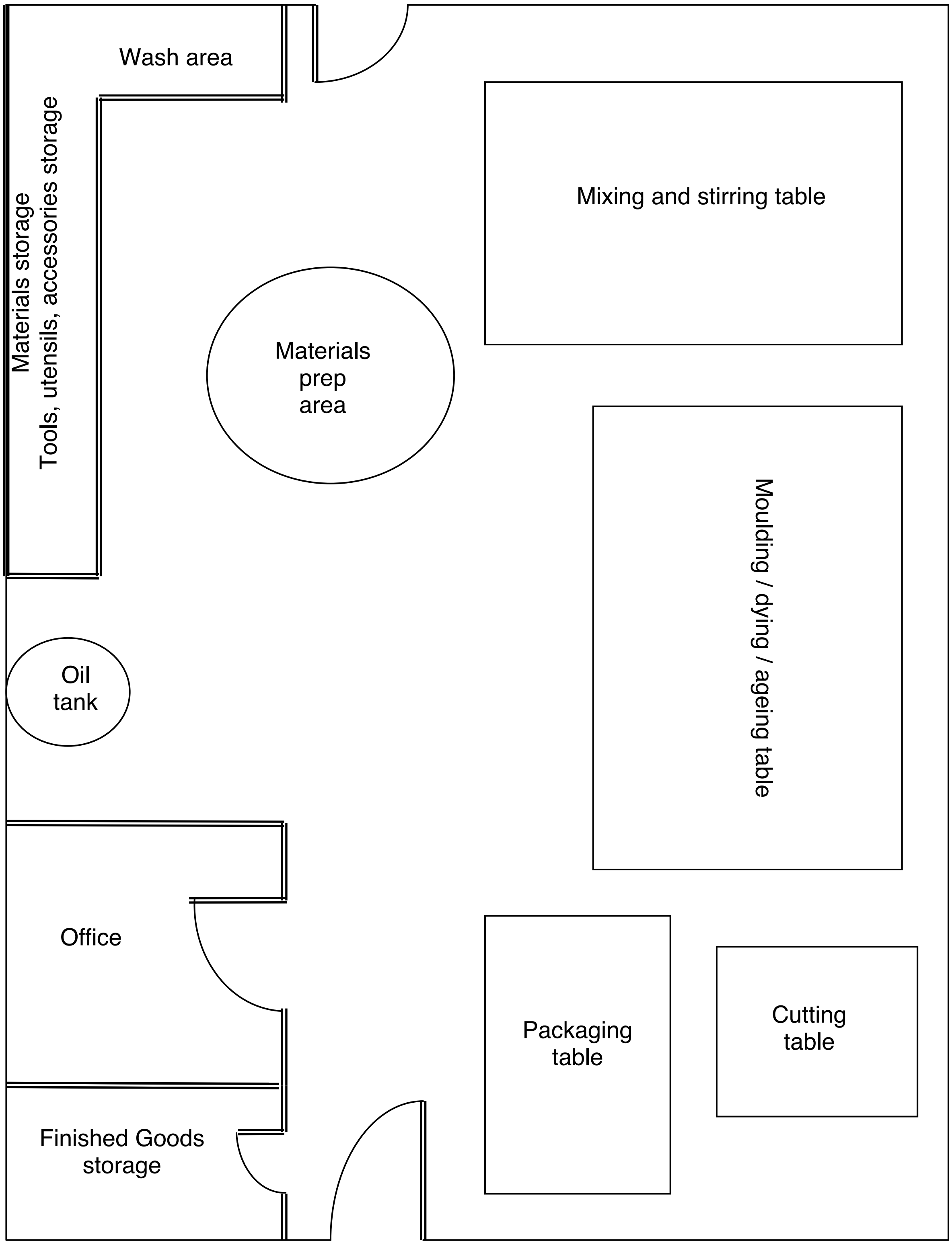
Table 4: Production Schedule			
	Year 1	**Year 2**	**Year 3**
Planned sales volume, in units	2,664	3,996	5,994
Add: Desired ending FG inventory, in units	133	199	300
Less: Beginning FG inventory, in units	0	133	199
Units to be produced	**2,797**	**4,062**	**6,095**

- Raw Materials

  The following materials will be needed for making soap using the cold process:
  - Fat – coconut oil prepared by wet processing or by other conventional methods. This is readily available from commercial oil processors. It can also be made at home.
  - Lye – caustic soda dissolved in spring water. The solution should be 35 degrees Be.[5] Use a hydrometer to check the density of the solution.
  - Builder – sodium silicate.
  - Perfume – essential oils such as citronella oil, ylang-ylang, etc.
  - Fruit extract or juice – from papaya, kamias, or calamansi.

Schedule 3: Direct Raw Material Requirements			
Direct Material (A)	Purchase cost/unit of material (B)	Quantity needed/unit to be produced ©	Cost/unit to be produced (D)
Coconut oil	34.00/kg	0.107	3.65
Lye or caustic soda solution	60.00/kg	0.020	1.20
Sodium silicate	42.00/kg	0.003	0.13
Papaya extract or juice	140.00/kg	0.0006	0.08
Essential oil	400.00/kg	0.0003	0.12
		Direct material cost per unit	**5.18**

[5] Baume – a calibration scale for liquids that is reducible to specific gravity by the following formulas: for liquids heavier than water, specific gravity = 145 – 145 – η (at 60 degrees F); for liquids lighter than water, specific gravity = 140 – 130 + η (at 60 degrees F); η is the reading on the Baume Scale in degrees. Baume is abbreviated Be.



Attachment 2: Plant Layout
(not drawn to scale)

Table 5: Direct Material Cost			
	Year 1	Year 2	Year 3
Units to be produced (from Table 4)	2,797	4,062	6,095
x Direct material cost per unit (from Schedule 3)	5.18	5.18	5.18
Total direct material cost	**14,488.46**	**21,041.16**	**31,572.10**

Since production of *CreamySkin* will be by batch at 2 batches per month, it is important for the proposed business to have materials ready for use. Materials will be purchased once every two months. The desirable level of inventory to keep is shown on the next page.

Schedule 3-A: Inventory Schedule for Direct Materials, Year 1			
Direct Material	Purchase cost per unit (PhP)	Quantity to keep in stock (kg)	Cost of material in stock (PhP)
Coconut oil	34 / kg	47.5	1,615.00
Caustic soda	60 / kg	8.9	534.00
Sodium silicate	42 / kg	1.5	63.00
Essential oil	400 / kg	0.15	60.00
Papaya juice or extract	140 / kg	0.30	42.00
Desired ending inventory of direct materials for Year 1			**2,314.00**

Schedule 3-B: Inventory Schedule for Direct Materials, Year 2			
Direct Material	Purchase cost per unit (PhP)	Quantity to keep in stock (kg)	Cost of material in stock (PhP)
Coconut oil	34 / kg	69.50	2,363.00
Caustic soda	60 / kg	13.0	780.00
Sodium silicate	42 / kg	2.0	84.00
Essential oil	400 / kg	0.2	80.00
Papaya juice or extract	140 / kg	0.4	56.00
Desired ending inventory of direct materials for Year 2			**3,363.00**

Schedule 3-C: Inventory Schedule for Direct Materials, Year 3			
Direct Material	Purchase cost per unit (PhP)	Quantity to keep in stock (kg)	Cost of material in stock (PhP)
Coconut oil	34 / kg	102.0	3,468.00
Caustic soda	60 / kg	19.0	1,140.00
Sodium silicate	42 / kg	3.0	126.00
Essential oil	400 / kg	0.3	120.00
Papaya juice or extract	140 / kg	0.6	84.00
Desired ending inventory of direct materials for Year 3			**4,938.00**

Table 6: Direct Material Purchases			
	Year 1	Year 2	Year 3
Total direct material cost (from Table 5)	14,488.46	21,041.16	31,572.10
Add: Desired direct materials ending inventory (from Schedule 3-A)	2,314.00	3,363.00	4,938.00
Less: Direct materials beginning inventory	0	2,314.00	3,363.00
Total direct materials purchases	**16,802.46**	**22,090.16**	**33,147.10**

There are no indirect materials required to make the herbal soap. Spring water is easily available for free from several public sources. The cost of transporting the water will be part of the overhead cost.

- Labor

The proposed business will need two workers. The workers will work for a total of 8 hours on a staggered basis to complete one batch. The step-by-step process and estimated time to complete each is shown on the next page. All the activities will be done by hand.

Activity	Time to complete (in minutes)	No. of workers needed
Prepare the materials and utensils.	60.0	2
Mix water and caustic soda in a pail.	20.0	2
Put coconut oil into another pail.	30.0	2
Add the lye (caustic soda solution) slowly to the oil while stirring continuously with a wooden ladle. Follow one direction in stirring.	30.0	2
Keep on stirring for 15 – 20 minutes or until the caustic soda is dissolved.	20.0	2
Add the sodium silicate, papaya extract, herbal extract, and dye and continue stirring for 5 – 10 minutes. Add the essential oil into the mixture and stir for about 5 minutes.	15.0	2
Pour the homogenous viscous soap mixture into the moulds.	20.0	2
Let it stand for 72 hours (3 days) to enable complete saponification.		
Remove the hardened soap from the moulds.	20.0	2
Inspect.	10.0	2
Cut the soap with a fine wire cutter or guitar string.	30.0	2
Age the soap for 4 weeks		
Wrap the soap in transparent paper. Put in individual boxes.	120.0	2
Pack in cartons, store or distribute.	90.0	2
Total no. of minutes to produce 1 batch	465.0	2

Table 7: Manpower Requirements			
	No. of workers	Rate per month	Annual Rate
Direct labor	2	848.00[6]	11,024.00
Manager	1 (owner)	2,000.00	26,000.00
Total		2,848.00	37,024.00

[6] Computed at P212 per day. Source: http://www.gti.gov.ph/contentment/9/60/64/491.jsp (Laguna: Cost of doing business.); accessed June 7, 2006

Table 8: Cost of Production			
	Year 1	Year 2	Year 3
Direct materials	14,488.46	21,041.16	31,572.10
Direct labor	11,024.00	16,536.00[7]	22,048.00[8]
Production overhead			
Depreciation of production eqpt.	2,099.99	2,099.99	2,099.99
Transportation expense	1,200.00	1,200.00	1,200.00
Total Cost of Production	**28,812.45**	**40,877.15**	**56,920.99**

Table 9: Production Cost per Unit			
	Year 1	Year 2	Year 3
Total cost of production	28,812.45	40,877.15	56,920.09
÷ Units to be produced	2,797	4,062	6,095
Production cost per unit	**10.30**	**10.06**	**9.34**

Table 10: Finished Goods Ending Inventory			
	Year 1	Year 2	Year 3
Production cost per unit	10.30	10.06	9.34
× Desired FG ending inventory	133	199	300
Value of FG ending inventory	**1,369.90**	**2,001.94**	**2,802.00**

Table 11: Cost of Goods Sold			
	Year 1	Year 2	Year 3
Total production cost	28,812.45	40,877.15	56,920.09
Add: FG beginning inventory	0	1,369.90	2,001.94
Total cost of goods available for sale	28,812.45	42,247.05	58,922.03
Less: FG ending inventory	1,369.90	2,001.94	2,802.00
Total cost of goods sold	**27,442.55**	**40,245.11**	**56,120.03**

[7] Production will increase to 3 batches per week.
[8] Production will increase to 4 batches per week.

ORGANIZATION PLAN

Legal Form

The proposed business will start as a very informal undertaking. It will be a single proprietorship with the owner-proponent making all the decisions and assuming all the functions. The owner-proponent has a beauty salon that is registered with the local government and with the Department of Trade and Industry. She will consider her soap making business as her new "baby" and as another outlet for her creativity and energy.

She intends to register the proposed business with the local government as a BMBE.

Schedule 4: Licenses, Permits, and Registration Expenses

Type of business permit	Fees	Transportation expenses	Incidental expenses	**Total**
Barangay certificate	200.00			200.00
Business permit from the LGU	1,005.00	25.00	30.00	1,060.00
DTI certificate	500.00	25.00	30.00	555.00
BIR certificate	500.00	25.00	100.00	625.00
BMBE certificate	1,000.00		50.00	1,050.00
				3,490.00

Table 12: Pre-operating Expenses

Total licenses, permits, and registration expenses	3,490.00
Consultancy fees	2,000.00
Trial production runs	3,500.00
Installation of utilities	100.00
Total pre-operating expenses	**9,090.00**

The pre-operating expenses will be amortized over a five-year period.

Manpower

Managing a business is not a new thing to the proponent. She was able to transform the beauty parlor that she set up four years ago from a traditional hair-make up-nails service station into a salon offering a wide range of personal care services. These services continue to be availed even by clients who have moved out of Los Baños and out of the province. She believes that the good image projected by her salon will be a plus factor that will make her new product, *CreamySkin*, be a big hit in the market.

The owner-proponent will run and manage the proposed business by herself. After successfully completing a local government-conducted training seminar on making soap, dishwashing liquid, and laundry detergents, she is confident that she can operate the business. Since this will be a new project, she wants to start very small.

The business of making bath soap does not require highly technical skills. The owner will get workers from the neighborhood. The nature of the work and working hours will be light therefore she is confident that she will be able to get workers. She, too, will carry out the administrative and finance tasks.

Table 13: Administrative Expenses

	Year 1	Year 2	Year 3
Salaries and wages	26,000.00	26,000.00	26,000.00
Amortization of pre-operating expenses	1,818.00	1,818.00	1,818.00
Depreciation of office furniture	430.00	430.00	430.00
Total administrative expenses	**28,248.00**	**28,248.00**	**28,248.00**

The chart below gives an overview of the different activities that the proponent will undertake before she will start actual operations. Some activities will be done simultaneously.

		W E E K											
	ACTIVITY	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1	Prepare business plan.	■	■	■									
2	Put up capital.				■								
3	Do physical improvement of plant area.					■							
4	Acquire equipment & tools					■	■						
5	Purchase safety accessories.					■	■						
6	Purchase raw materials.					■	■						
7	Hire and train workers.							■	■				
8	Register with the government.				■	■	■						
9	Consult packaging expert.					■	■						
10	Trial run.									■			
11	Test the market.										■	■	
12	Start operation.												■

FINANCIAL PLAN

Table 14: Total Project Cost			
		Debt	Equity
Total pre-operating expenses	9,090.00		
Fixed investment	12,100.00		
Working Capital	6,000.00		
Total Project Cost	**27,190.00**	0	**27,190.00**

The proponent believes that she will be able to raise personal money to start the business.

Table 15: Projected Income Statement			
	Year 1	Year 2	Year 3
Total sales	66,600.00	107,892.00	173,820.00
Less: Cost of goods sold	27,442.55	40,245.11	56,120.03
Gross profit from sales	39,157.45	67,646.89	117,699.97
Less: Selling expenses	9,950.00	14,300.00	21,650.00
Less: Administrative expenses	28,248.00	28,248.00	28,248.00
Net income before tax	**959.45**	**25,098.89**	**67,801.97**
Less: Tax (exempted as a BMBE)	0	0	0
Net profit	**959.45**	**25,098.89**	**67,801.97**

The proposed business looks promising on the basis of the projected income for the first 3 years.

Table 16: Projected Cash Flow				
	Pre-operating	Year 1	Year 2	Year 3
Cash Inflows				
Owner's equity	27,190.00			
Cash sales		66,600.00	107,892.00	173,820.00
Total Cash Inflows	**27,190.00**	**66,600.00**	**107,892.00**	**173,820.00**
Cash Outflows				
Pre-operating expenses	9,090.00			
Fixed investment	12,100.00			
Materials purchases		16,802.46	22,090.16	33,147.10
Direct labor		11,024.00	16,536.00	22,048.00
Production overhead minus depreciation and indirect materials		1,200.00	1,200.00	1,200.00
Selling & administrative expenses minus depreciation and amortization of pre-operating expenses		35,950.00	40,300.00	47,650.00
Total Cash Outflows	**21,190.00**	**64,976.46**	**80,126.16**	**104,045.10**
NET CASH FLOW	6,000.00	1,623.54	27,765.84	69,774.90
Add: Beginning cash balance	0	6,000.00	7,623.54	35,389.38
Ending Cash Balance	**6,000.00**	**7,623.54**	**35,389.38**	**105,164.28**

Table 16: Projected Balance Sheet				
	Pre-operating	Year 1	Year 2	Year 3
ASSETS				
Cash	6,000.00	7,623.54	35,389.38	105,164.28
Raw materials inventory	0	2,314.00	3,363.00	4,938.00
Finished goods inventory	0	1,369.90	2,001.94	2,802.00
Total Current Assets	**6,000.00**	**11,307.44**	**40,754.32**	**112,904.28**
Property, plant, and equipment	12,100.00	12,100.00	9,570.01	7,040.02
Less: Accumulated depreciation	0	2,529.99	2,529.99	2,529.99
NET PROPERTY, PLANT,& EQUIPMENT	**12,100.00**	**9,570.01**	**7,040.02**	**4,510.03**
Pre-operating expenses	9,090.00	9,090.00	7,272.00	5,454.00
Less: Accumulated depreciation	0	1,818.00	1,818.00	1,818.00
NET PRE-OPERATING EXPENSES	**9,090.00**	**7,272.00**	**5,454.00**	**3,636.00**
TOTAL ASSETS	**27,190.00**	**28,149.45**	**53,248.34**	**121,050.31**
LIABILITIES AND OWNER'S EQUITY				
Owner's equity	27,190.00	27,190.00	27,190.00	27,190.00
Retained earnings (loss)		959.45	26,058.34	93,860.31
TOTAL LIABILITIES & OWNER'S EQUITY	**27,190.00**	**28,149.45**	**53,248.34**	**121,050.31**

Financial analysis

Ratio	Year 1	Year 2	Year 3
Equity to assets	0.965	0.510	0.224
Gross profit to sales	0.587	0.626	0.677
Net operating income to sales	0.144	0.232	0.390
Net operating income to equity	0.035	0.923	2.493

The statements show the following:

- Continuing growth of assets that are being used for the business.
- Revenues in the first 2 years to be just be enough to cover its cost of goods sold and the cost of doing business. This is affected by policies regarding pricing and production efficiency.
- The business to earn P0.14, 0.23, and 0.39 for the first 3 years, respectively for every peso sale. This evaluates how operating and financial expenses affect the ability of the business to generate net profit.
- Every peso of the P27,190 capital put up for the business to generate P0.035, 0.923, and 2.493, respectively, during the first 3 years.

The analysis shows that the proposed business wants to take things slow. Being a new player, it does not aim to knock out the existing competition at the onset. It will focus instead on studying how the market will behave and making its presence felt through an aggressive marketing strategy by combining low prices with an extensive promotional campaign.

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