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STARTING A SMALL BUSINESS

IN JAMAICA : A GUIDE



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 MINISTRY OF YOUTH & COMMUNITY DEVELOPMENT
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STARTING A SMALL BUSINESS : A GUIDE

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FEASIBILITY STUDY

Many businesses have their beginnings when someone has an idea of making or selling a product or offering their skills as a service, and then tries out the idea. If it succeeds, it is usually expanded and a business is born. During the first stages of the life of the business, the problems may be numerous and the person involved may consider giving up the idea. Unfortunately, at this point, a lot of effort, time and money may have been wasted. One way of minimising this waste is to try to determine the ability of the business to do well before it is started, or while it is still in its infancy, by doing a Feasibility Study.

The feasibility study will determine how certain important factors will affect the possible growth and success of the business, and will help the person with the 'idea' to decide whether it is worth going ahead with or not.

The method we will use for doing a simple feasibility study has four parts:

1. Examining your aptitudes and capabilities for running the business you are thinking about starting.
2. Estimating the probable market for the product(s) or service(s) you propose to offer. This includes determining both price and volume of sales.
3. Determining the probable cost of your product(s) or service(s).
4. Analyzing the probable income you would receive from the business in comparison with your expectations and with the return for other alternative uses of your time and skills.

When we have finished these four steps, and if they have been done carefully, you should have a fairly good idea of the income possibilities -feasibility - of the small business you are considering.

PART 1

PERSONAL APTITUDES AND CAPABILITIES

If you plan to start a small business, the first thing you should do is make an assessment of yourself to decide whether or not you have what it takes to be successful in the particular activity you are considering. Below are some questions you should ask yourself:

1. Do I have a special skill or knowledge of a particular product or service?

Yes

No

2. Do I possess those special qualities which are necessary for business people to have, such as:

	Yes	No
a. Self-motivation (getting things done on my own)	<input type="checkbox"/>	<input type="checkbox"/>
b. A committment to seeing a job well done	<input type="checkbox"/>	<input type="checkbox"/>
c. The capacity for hard work (working intensively and for long hours)	<input type="checkbox"/>	<input type="checkbox"/>
d. The ability to plan ahead	<input type="checkbox"/>	<input type="checkbox"/>
e. The ability to organize	<input type="checkbox"/>	<input type="checkbox"/>
f. The ability to make decisions	<input type="checkbox"/>	<input type="checkbox"/>
g. The ability to take risks	<input type="checkbox"/>	<input type="checkbox"/>
h. The ability to work well with people	<input type="checkbox"/>	<input type="checkbox"/>

3. What kind of business am I going to set up?

Manufacturing	<input type="checkbox"/>	Farming	<input type="checkbox"/>
Food Processing	<input type="checkbox"/>	Service	<input type="checkbox"/>
Retailing	<input type="checkbox"/>		

4. Do I have the special skill(s) needed to run that business?

Yes

No

If the answer is 'No', you will need to learn the skill from someone who has mastered it. You may instead, wish to hire someone with the skill, but this may be too costly.

5. Do I have any experience in this kind of business?

Yes

No

(If you do, this will certainly be an asset. If you do not, don't be discouraged).

6. What form of business organization will I set up? (Tick one)

a. A proprietorship (I own the business)

b. A partnership (myself & 1-19 other partners)

c. A company (myself and shareholders)

d. A cooperative (myself and other members)

7. Will the business have a name?

Yes

No

If 'Yes', what will it be called?

.....

(You should find out whether or not a licence or special permit will be required to operate the business).

8. Where will the business be located?

.....

9. Will I need financial assistance to start the business?

Yes

No

If 'Yes', where will I seek this assistance?

.....

Now that you have answered these important questions, you will need to look at your answers carefully to see which areas of running a business you will be good at and which you will need to improve upon. For instance, in Question 2, you should have answered 'Yes' to most of the questions asked! Business people need to have these qualities in order to be successful, especially so if the business is run by one or a few persons. If you answered 'No' to many of these questions, perhaps you should abandon your idea of starting a small business, as you may be happier working for someone else.

MARKET STUDY

In order to obtain income from the products you make or the services you offer, you must sell or MARKET them. By answering the following questions, you aim at getting the information which can assist you in developing the sales of your product or service. By gathering and analyzing this information, you will be able to tell whether or not there is a market for your product or service. This is called Market Study. You will need to ask questions of others and look at other businesses in your own community and in surrounding communities. You should avoid making guesses, but answer the questions honestly, based on sound knowledge or facts you discovered while you were doing the study.

1. What product(s) or service(s) do I plan to sell?

.....

2. Is there a need for my product(s) or service(s)?

Yes

No

If "Yes",

Will there be buyers for what I want to produce?

Yes

No

How many?

Is this enough?

3. Will I be able to expand and sell more in the future?

Yes

No

4. If there is little or no demand for my product, will I modify my product to match what people want, or if there is little or no demand for the service I have to offer, will I offer another service to match what people want?

Yes

No

5. What will customers look for in my product?

.....

6. Who will my customers be? (Tick those boxes which apply)

Tourists

Friends

Housewives

Family

Working people

Higglers

School children

Small firms

Older people

Large firms

Middle-aged people

Males

Young people

Females

7. Where are my potential customers located?

(Tick the box or boxes which apply)

In my community

In surrounding areas

In other towns and cities

Overseas

8. How will my customers obtain my product(s) or service(s)?

They will come to me to buy them

I will go to them to sell them

Other people will buy them and re-sell them

9. How often will they buy?

Seasonal

All year round

10. Do I know who my competitors will be?

Yes

No

If 'Yes', are they located

(tick one box for each question)

none some most all

in my immediate community?

in surrounding areas?

in other towns and cities?

Are their product(s) or service(s),

	none	some	most	all
superior to what I plan to offer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
inferior to what I plan to offer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
about the same quality?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
cheaper than what I plan to offer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
more expensive?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
about the same price?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Are my competitors,

(tick one box for each question)

	none	some	most	all
new in the business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
in the business for some time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
very well established?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Are they, generally,

(tick one)

doing good business? (making profits)	<input type="checkbox"/>
not doing good business? (losing money)	<input type="checkbox"/>
just surviving?	<input type="checkbox"/>

11. What advantages will I have over my competitors?

.....
.....

12. What advantages will my competitors have over me?

.....
.....

13. Where will I obtain my raw materials or supplies?

- In my community?
- In surrounding towns or villages?
- In the city?
- Overseas?

14. Have I looked for other sources of raw materials or supplies?

Yes No

If 'Yes', are the sources I have identified,

- too expensive?
- too far away?
- unable to meet my needs?
- selling low quality items?
- not reliable enough?

If 'No', is it because the sources I have identified are,

- cheaper than other sources?
- more reliable?
- closer to my business?
- selling better quality items

15. What price can I obtain for my product or service?

\$ _____ . _____ (per unit)

How did I arrive at that price?

(tick one or more)

- a. I used the existing market price
- b. I used a price lower than the existing market price
- c. I used a price higher than the existing market price
- d. I did a price calculation or costing
- e. I took a price out of my head

(See the exercise on 'Calculating the price of my product').

16. How much (in dollar terms) will I be able to sell,

in the first 3 months? \$ _____ . _____

in the first 6 months? \$ _____ . _____

in the first year? \$ _____ . _____

The answers you give to the questions in Part 2 of the Study will tell you whether or not a market for your product or service exists. You will see that in order to have a market, the product you make or the service you offer must be needed and be acceptable to the right buyers for the right price, and you must sell it at the right place and at the right time.

You will be certain to obtain markets for your product, for instance, if the demand for it is high, if it is produced from good quality raw materials, and is itself of high quality; if you can produce it at a fair (but profitable) price and if you have identified and are in touch with your customers.

If you provide a service, your business will grow as long as you can satisfy your customers with high quality service at a reasonable price coupled with a high degree of reliability, in a good location.

Your potential competitors can provide you with good ideas about the type of products or services you plan to offer in your business. By observing how they run their businesses, you can also determine what you should and should not do in your own business. You may want to compare competitors' businesses which are doing well and those which are doing poorly, and try to learn from their experiences.

PART 3

COST OF PRODUCTION

It is necessary to determine what it will cost you to produce the product or service you are thinking of selling.

You have calculated the fair price for your product when you did the exercise 'Calculating the price of your product'. Here you will calculate the costs other than your own time and effort, in order to determine the return to you for your time and effort, given the price(s) you expect to receive.

CALCULATING THE COST OF YOUR PRODUCT

Calculating what it costs you to produce your product is just as important as estimating the price at which you can sell it. Follow the instructions in this exercise and fill out the form provided for the cost calculation and use it during this year. Repeat the exercise next year, or whenever costs go up by 10% or more.

To fill out the top section of the form:

Put the item that you are costing in the blank marked PRODUCT. If you make different sizes of the same item, be sure to write down the size you are costing. Put your name in the next space after PRODUCER'S NAME. After PRODUCTION, put the number of items you can produce in one day, one week or one month. This information is the basis for your cost calculation.

1. RAW MATERIALS will include the wood, fabric, vegetable or other basic materials you use to produce your product. List these on the individual lines provided. Calculate the total cost of raw materials for one week (or one day, or one month) and put this total in the blank at the end (right side of page).

2. LABOUR includes the time of individuals working for you. Put their daily labour rate in the RATE blank. If they do not work for a full day (7-8 hours), you may wish to use an hourly rate and multiply that rate by the number of hours they work per day. This will give you their daily rate. Multiply the daily rate by the number of days they work in the week or month and put the total in the blank at the end. Use the table overleaf to help you multiply.

TABLE FOR MULTIPLYING DAILY RATES

DAYS	RATE:	\$ 12.00	\$ 15.00	\$ 20.00
5 per week		62.50	75.00	100.00
6 per week		75.00	90.00	120.00
7 per week		87.50	105.00	140.00
20 per month		250.00	300.00	400.00
24 per month		300.00	360.00	480.00
28 per month		350.00	420.00	560.00
30 per month		375.00	450.00	600.00

3. PACKAGING AND LABELLING COSTS (for day, week or month) should be calculated and put in this blank.
4. TRANSPORTATION costs for buying raw materials and marketing your product (to and from) should be calculated (for day, week or month) and put in this blank.
5. TOTAL DIRECT COSTS will be had by adding numbers 1 - 4.
6. ITEMS MADE will be had by putting the number of items made (per day, week or month). This should be the same number you put in the top section after PRODUCTION.

1. DIRECT COST PER ITEM will be had by dividing number 5 (TOTAL DIRECT COSTS) by number 6 (ITEMS MADE)

2. INDIRECT COSTS include money spent on things like rent, utility rates, tools and equipment which are difficult to determine for each item produced, so a percentage is taken of the direct costs to determine this.

Look at the items listed below and tick those you pay for in your business:

- | | | | | | |
|--------------------------|----------------|--------------------------|-------------|--------------------------|-------------------------|
| <input type="checkbox"/> | Rent | <input type="checkbox"/> | Water | <input type="checkbox"/> | Tools and Equipment |
| <input type="checkbox"/> | Phone | <input type="checkbox"/> | Electricity | <input type="checkbox"/> | Servicing of Equipment |
| <input type="checkbox"/> | Marketing time | <input type="checkbox"/> | Fuel | <input type="checkbox"/> | Receipt books |
| | | | | <input type="checkbox"/> | Additional Record books |

If you have ticked 1,2 or 3 of the boxes, then calculate 10% of the direct cost to get the indirect cost. To do this, divide number 7 (DIRECT COSTS) by 10.

If you have ticked 4,5 or 6 of the boxes, then calculate 20% of the direct cost to get the indirect cost. To do this, divide number 7 (DIRECT COSTS) by 5.

If you have ticked 7 or more of the boxes, then calculate 30% of the direct cost to get the indirect cost. To do this, divide number 7 (DIRECT COSTS) by 3.

9. TOTAL COSTS OTHER THAN YOUR TIME AND LABOUR will be had by adding numbers 7 and 8.
10. RETURN (INCOME) TO YOU will be had by subtracting the TOTAL COSTS (number 9) from the sales price obtained in the market study section (Part 2, question 15).
11. INCOME PER WEEK (OR DAY, OR MONTH): You can now determine your probable income from this business by multiplying the income per unit (number 10) by the number of units you will produce and sell per week (or day, or month). This tells you the return to you (total of wages and profit) per item sold.

COST CALCULATION

PRODUCT _____ PRODUCER'S NAME _____

PRODUCTION _____ in _____
(day, week or month)

1. RAW MATERIALS: _____ \$ _____
_____ \$ _____
_____ \$ _____
_____ \$ _____

2. LABOUR: \$ _____ per day
_____ hours per day
_____ days per _____ \$ _____
(week or month)

3. PACKAGING AND LABELLING \$ _____

4. TRANSPORT (to and from) \$ _____

5. TOTAL DIRECT COSTS (add numbers 1 - 4) \$ _____

6. NUMBER OF ITEMS PER _____ (day, week, month) _____

7. DIRECT COST PER ITEM (divide #5 by #6)..... \$ _____

8. INDIRECT COSTS: 10% (divide number 7 by 10) \$ _____

20% (divide number 7 by 5) \$ _____

30% (divide number 7 by 3) \$ _____

9. TOTAL COSTS OTHER THAN YOUR TIME AND LABOUR \$ _____
(add numbers 7 and 8)

10. RETURN PER UNIT TO YOU \$ _____
(Price per unit (from Market Study) minus number 9)

11. INCOME PER WEEK (DAY, MONTH) \$ _____
(Multiply number of items you can produce by number 10)

PART 4

ANALYSIS (FEASIBILITY)

You now have the basic information required to analyze the feasibility of your proposed business.

1. What is the expected weekly (daily or monthly) income expected from the business?

\$ _____ . ____ per _____

2. Do you have any other alternative uses for your time and effort?

Yes

No

3. If you answer 'Yes' to question 2, how much income will this alternative provide you with per week (or day, or month)?

\$ _____ . ____ per _____

4. If your proposed business promises to provide you with more income than any other alternative, you should seriously consider beginning it; if you think there are alternatives that will provide greater income, it would be well to apply this feasibility study to them before making a final decision.

5. I have decided.....
.....
.....
because.....
.....
.....
.....

No one can predict for you whether or not your business will start off well and continue growing.

The Feasibility Study, therefore, is meant to make you aware of some aspects of running a business which you had given some thought, but needed to look at again in more detail.

GOOD LUCK IN YOUR VENTURE!

