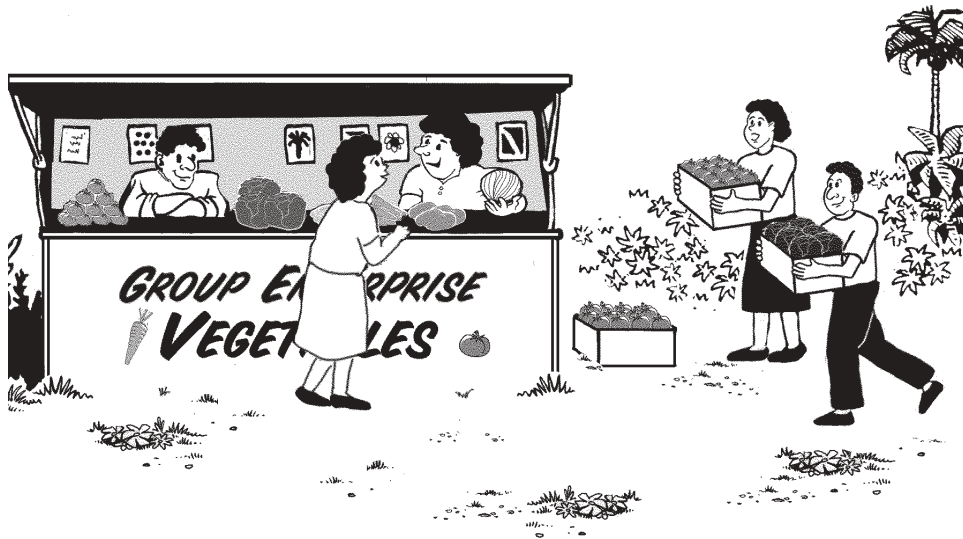




# The group enterprise book

A practical guide for Group Promoters to assist groups in setting up and running successful small enterprises



Food  
and Agriculture  
Organization  
of the United Nations

# The group enterprise book

## Note to Users

If you have any comments on or  
suggestions for improvements to this  
book, please write to:

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00100 Rome, Italy.

Your comments and suggestions  
will help us to improve  
future editions

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## **Acknowledgements**

This book draws on more than a decade of experience in Africa and Asia gained in group business management under the FAO People's Participation Programme and from comments provided by project field staff on earlier drafts, for which the authors are grateful.

# Introduction

Employment opportunities are usually very limited in rural areas. Self employment in small enterprises can make it possible to generate the income to satisfy needs and improve the standards of living.

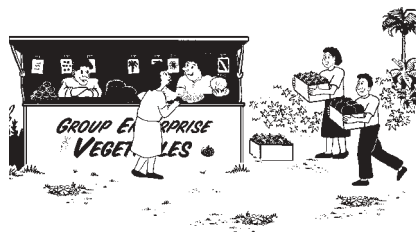
This book shows how small enterprises can be developed and run by small groups in rural communities using a participative approach. It is intended for use by Group Promoters (GPs), extension workers and other rural development staff to help existing groups to set up and run their enterprises.

Formation of the groups themselves is covered in 'The Group Promoter's Resource Book' - also available from FAO.

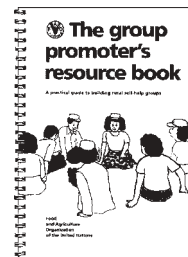
The language in the book has been kept simple and examples, illustrations and exercises have been included to help GPs to explain the ideas to their rural community groups. Pictures are included throughout the book and can be used by the GP to help the group understand the various concepts explained.

A group run small enterprise can have better chances of success than an individually run business. Since individuals have different skills, working in

groups instead of as individuals makes it possible to combine the different abilities and makes work lighter and easier. Groups also have greater bargaining power than individuals and easier access to services such as advice and assistance from government and international agencies.



Not all groups however are suited to carrying out income generating activities together. There are a few characteristics common to all groups



who are successful in running small businesses. The GP should first consider whether the group has most of these characteristics before introducing the idea of running a business together:

- A sound leadership, recognised and accepted by the whole group
- Commitment by all group members to work well together
- Group discipline, i.e. holding regular activities, regular meetings, having a set of rules
- Existing group savings and willingness to contribute regularly to them
- Resources within the group (i.e. materials, skills) which could be used to develop a small business
- Preferably a maximum of 15 members (it is more difficult for bigger groups to run a small business)
- Realism regarding possible achievements
- At least one group member who is numerate (can do simple arithmetic)
- At least one member who is literate (can read a write simple text).



The more group members who are numerate and literate the better, but if none can read, write or count, it will be very difficult for them to run a business on their own. If they need to use relatives or others to keep group accounts this can cause difficulties as they can easily be cheated and it will be difficult to check for themselves if this is happening.

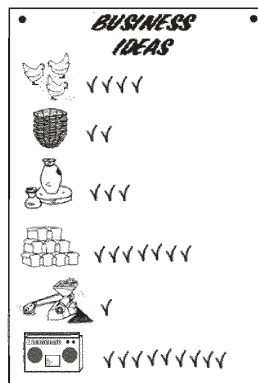
Some of these characteristics can be developed or overcome if they are missing. In such cases, the GP may be able to suggest ways to deal with them. For example, if there are 30 members, he may wish to suggest two or more enterprises.



## How is the book structured?

The book is divided into four sections:

### Part I Choosing the Business



This section covers the process for selecting an appropriate group enterprise. It begins with a consideration of advantages, disadvantages and risks of running a group business. It then looks at business ideas, opportunities in the area where the group lives, as well as at resources and skills available.

After covering these aspects, the section sets up a structure for the group to draw up a shortlist of ideas with the best potential for success. This will contain rough estimates of what each idea would need and how likely it is to succeed, as

well as such aspects as materials needed, costs and financing, skills required, existing or potential demand, competition, and risks involved.

### Part II Planning the Business

This section outlines the main aspects of planning for a new small group enterprise including detailed estimation of costs and profitability, financing the enterprise, input supplies, identifying the market for the proposed product or service and other factors which could affect the success of the business. It gradually takes the group through a feasibility study and the steps and actions needed to get ready to start the business.



Aspects of running a business such as recording sales and purchases, cash flow, simple profit and loss accounts, sharing of profits among the group members and monitoring the business progress are covered in this section. External finance and possibilities for expanding the business if it is successful are considered. The section also looks at some basic marketing principles and briefly outlines issues such as maintenance of equipment and monitoring.



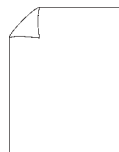
## Part IV The Role of Inter- Group Associations



The final section considers how Inter-Group Associations (IGAs) can help the group through exchange of ideas, networking with similar groups and provision of services. The particular services an IGA can offer will depend on what groups are organized together in an IGA (all operating the same enterprise or different enterprises, size and number of groups, location etc.) What activities the IGA could carry out, such as bulk provision of inputs, marketing services, training opportunities and liaison with relevant institutions are discussed, as well as how such activities should be financed.

Throughout the book the word “product” is often used to refer to what the business sells to their customers. In most cases this includes services as well as physical products.

The following symbols are used throughout the text to make it easier to locate information:



When examples of specific aspects of different business activities are given



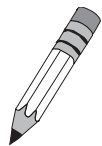
When group discussions or group exercises should be conducted



When a main step in a process is described



When the main points covered in the section are summarised



Space for the GP's own notes.

## **A note for Islamic countries**

Many of the ideas for developing and running small businesses can be also used in Islamic countries, despite the often different cultural and business conditions.

However, it is suggested that a number of points are taken into consideration when revising the document to make it more suitable and relevant to the local conditions. In particular, the role of women (in both the text and illustrations), should be reviewed and when necessary changed to reflect the social and cultural situation. In some areas, separate group enterprises might be preferable for men and women, while in other countries mixed groups might be more acceptable.

In Islamic countries, bank interest is not charged. However, fees and bank charges are made and will have a similar impact on the group accounts. The reference to "bank interest" should therefore be revised to reflect the local banking system.

## **How does the book need to be adapted?**

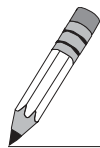
The book should not be seen as a rigid set of rules but as a set of guidelines and suggestions for adaptation to different circumstances. While many of the examples, suggestions and illustrations used in the book are practical for all regions, some of them will be more useful if they are revised to suit the particular cultural, environment and business conditions of the region where the book is to be used. This should preferably be discussed in a group meeting or training workshop with other development workers to develop a locally adapted version of the book before use in the villages.

In general, the more closely the text and illustrations can be adapted to the local circumstances, the more useful the book will be.

Examples of points which should be adapted are:

- Text should be translated into the local language (including text in illustrations) to ensure all group promoters use the same terms.
- Examples of enterprises should be changed to those which are practical and relevant to the area
- Illustrations should be changed to show these enterprises
- Local measurements should be used if different to those in the book
- The US\$ which has been used throughout the book should be changed into the local currency
- Organizations and administrative terms should be those used locally
- Additional information to suit the local area might also be needed
- Unfamiliar items shown in the illustrations should be substituted with familiar and culturally acceptable items
- Clothing may need to be adapted.

When the illustrations are to be used directly with groups, draft revised illustrations should be pre-tested with villagers before finalisation. Misinterpretation of drawings is extremely common when they are prepared by people with a different level of education and background to the intended user, resulting in distortion of the message. Understanding of pictures is learned in much the same way as understanding written text. A semi-literate audience will often see different things in the picture compared to a college graduate because they have not learnt to interpret common representations and symbols.



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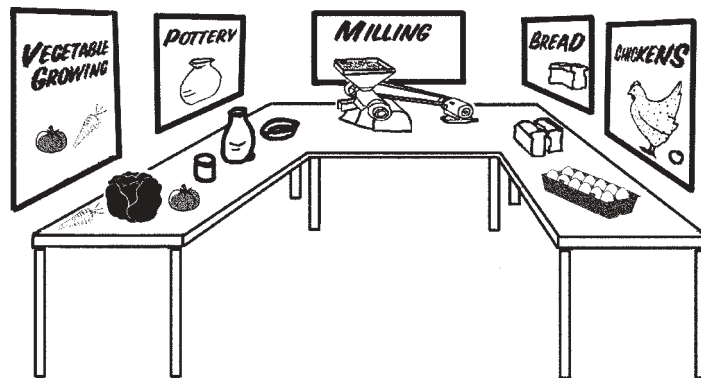
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Introduction



# Part I

## Choosing the Business



Many points need to be considered in choosing a business which stands a good chance of success. In this chapter, the GP discusses these points with the group and helps them to choose the most suitable business idea. Several of the points are looked at in more detail in later chapters but need to be considered here before more time and effort is spent in planning the details of the business.

### **Step one: Does the group really want to start a small enterprise?**

A lot of enthusiasm is needed to make a small enterprise successful. A group will need to be very sure that this is what they want to do before starting the business.

The GP should never try to persuade a group to start a business if there is no enthusiasm and the group does not wish to do so.

If the group is really interested in starting a small enterprise, a general discussion needs to be held. The GP should explain and help them discuss the advantages and disadvantages as well as the risks related to running a

business. While the GP should not interfere with the decision of the group on whether to go ahead or not, s/he should make sure that the group has fully understood the personal and financial implications, the commitment necessary and the risks involved.

### Advantages of running an enterprise as a group

While some people may prefer to carry out income generating activities on their own, and may be well suited to doing so, there can be a number of advantages to working together as a group. For example:

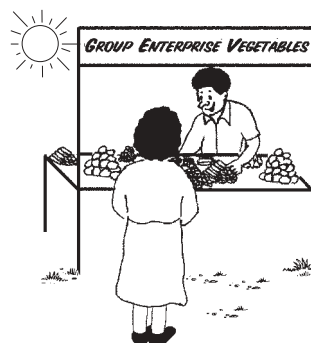
- Group members can share their skills, time and resources together to make something work. This also provides members with the opportunity to acquire new skills and knowledge.



Different people are good at different things - by working together, the group can take advantage of this. Some people are better at figures, some are good with their hands, some are very quick to learn technical things and others are good with people. Everyone is good

at something and most people are good at several things.

- Work can be divided amongst the group members, making the best of the time everybody has available. This ensures that the business goes on even if one person is sick or not available one day.





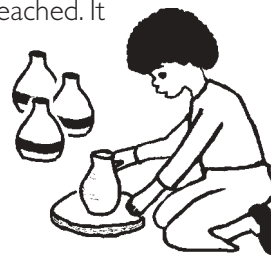
Even the hardest or most tedious jobs are easier or less unpleasant when people work together to do them.

- It is easier for groups, rather than individuals, to get assistance from outside - training, loans, advice from rural development agencies etc.

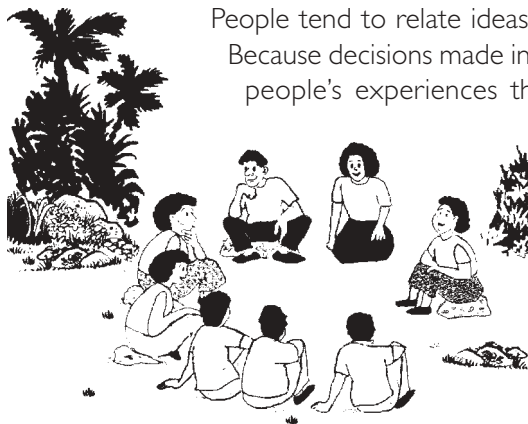
It is difficult for rural development agencies to reach individuals because it is too expensive, inefficient and impractical. But if people work together in groups, they can more easily be reached. It is also easier for groups to ask for assistance.

- Groups give members, especially women, more self confidence and status.

People are usually more willing to try something new if they are not alone, or can at least ask others what they think.



- Decisions taken in a group are often better and more realistic than those made by individuals.



People tend to relate ideas to their own experiences. Because decisions made in groups are based on many people's experiences they are more likely to be realistic. If other people are willing to risk their time and money as well, the idea is probably less risky.

The GP might also suggest that rather than doing everything together as a group, another possibility

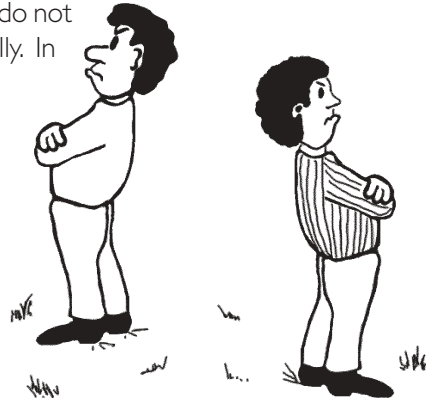
for a group activity could be to provide services to the members. Examples of services could be: access to inputs, bulk purchase of supplies or group marketing. Group members could then run actual production activities individually. In some situations this approach can be very successful, since, if properly managed, it can combine good points of both individual and group business.

### Possible problems in group enterprises

However, running a group enterprise may also present some problems which do not happen in businesses run individually. In particular:

- Deciding who will do what is not always easy.

Some jobs everyone likes to do - others no one wants to do. Dividing the work can sometimes cause arguments and problems between groups members.



- Decision making in groups takes longer than for individuals.

While the decisions reached through group consensus will often be better than they would have been if individuals made them, it does take time to discuss things in groups and come to a decision. Sometimes quick decisions are needed and at these times group decision making can be a disadvantage.

- One or more group members may contribute less than others in time or money but still want an equal share of the profits. If different group members have put in different amounts of time, money or other contributions, this can make it difficult to decide how



much of the profits should be given to each member.

The group needs to agree on the reasons for starting the business and what expectations they have from it. Is the main aim of the group enterprise to raise some extra cash, to develop it into their major job, to fill in spare time, or to increase status? All members must also agree on how much time and other resources they will each put into the business and how profits will be shared.

The more similar the group members aims and expectations from the business, the fewer the problems the group will have.

### **What are the most common problems a business can face**



#### **Exercise 1.1**

The aim of this exercise is to help the group to realise that small businesses are unlikely to be

successful if they have not been thought through and planned properly before starting. This is not intended to discourage the group from starting a business but to create awareness of the most common causes of failure and to make sure that enough thought has gone into avoiding each problem while planning the business.

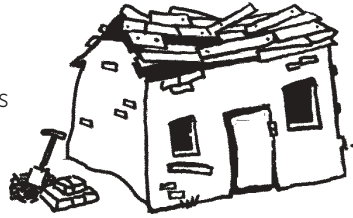
Start the exercise by asking group members if they know of any business that failed. Help the group to analyse the examples they bring up by asking them questions such as:

- Why do you think that happened?
- What were the decisions/events that led to it?
- How could that have been avoided?

Use the following list to expand on the points identified by the group through the exercise or to add to their list (these ideas are developed further in Parts 2 and 3):

- **Lack of expertise.**

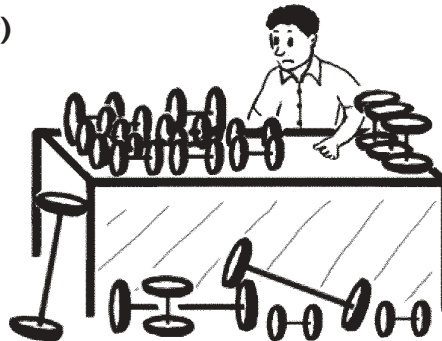
People often try to start up a business without knowing enough about it or where to learn it. The quality of the product the group tries to provide is therefore too poor, making the business unsuccessful.



The group should consider carefully whether they have the skills needed for the business they want to run. If the group doesn't have these skills, can they learn them or hire someone else who has the right skills? While many skills can be learned fairly easily, learning and mastering the new skill will still take time. The implications of choosing a business when no one in the group has the necessary skills need to be looked at carefully before taking the business idea any further. It is often safer and easier to look at different ideas.

- **No customers (or too few)**

If nobody wants to buy the product provided by the group, the business will very quickly end. While there may be several reasons for the lack of customers, the most common one is not looking at the potential market properly.



Sometimes, even if the group has carried out a careful study and started a good business, customers might stop buying the group's product.

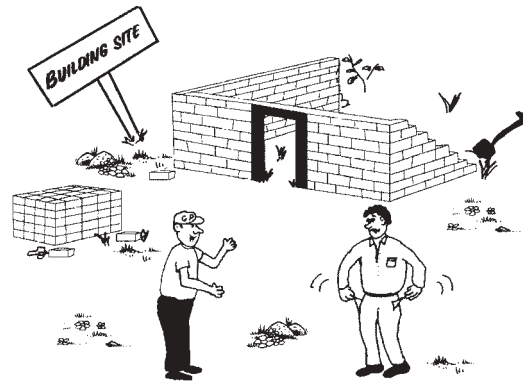
There are many reasons for this. One possible reason is because, after perhaps a good start, the quality of the group's work may have fallen. In other situations, a similar business may have started up, serving the same group of customers. Their product might be better, or the price lower. Both reasons will reduce the number of customers for the group's enterprise.

To make sure the business will have and will be able to keep enough customers, before starting the group should:

- Identify the group of customers it is aiming at
- Find out whether there are enough potential customers
- Find out customers needs/what they would buy from the group
- Ensure that the product the group wants to sell will match what the customers want
- Make sure the quality of the product is maintained

- **Underestimating start up time.**

There is usually a lot to do before customers start buying the group's product. A proper location has to be found, equipment and supplies bought, arrangements made for selling the product -



and of course any work done to produce whatever is offered for sale.

The main point here is that a lot of money will have to be spent and a lot of work done before any money comes back. Enough money should be available to cover this initial period. This period is usually longer than estimated because many things can go wrong. Estimate how long it will take, double it, and add on a bit more time to make sure there is enough money to cover this period.

- **Lack of cash to run the business.**

While the business is running, goods will often have to be bought in advance. This will mean that the cost of the product provided will have to be paid for before receiving the cash from selling it.

The timing of money coming in and going out of the business (cash

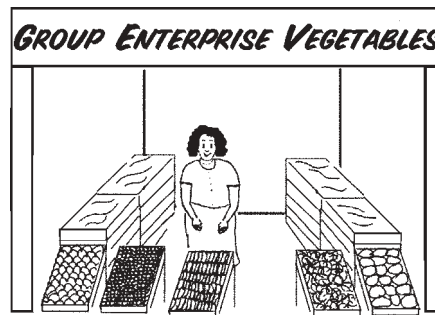
flow) will have to be looked at carefully to avoid running out of money needed to operate the business. Arranging late payments with suppliers might be one way to get round this.

- **Being too ambitious**

The bigger the business, the bigger the cost of starting it. High start up costs will be difficult to pay back until the business has grown.



A business should usually start small and, if it is successful and there are enough customers, grow gradually.



- **Mistaking cash for profit**



When cash does start coming in, it has to cover the bills from suppliers, services, labour etc. Only what is left is profit. If the group spends all the cash which comes in they will not be able to buy what they need to keep the business running.

The group should understand that some of the income must be spent to keep the business running and cannot be used on other things.

- **Lack of records**

Without records, it is difficult to tell if a business is in trouble until it is too late. It is also difficult to settle arguments among members about who contributed what and how much they should get out of the business. The group should be prepared to maintain regular records for their business. These include records of money spent, received or distributed to members, as well as records of stocks bought and sold.

- **Trying to run a group business when the group does not work well together**

A collection of people is not necessarily a group. They must be able to work together and agree on how to run the group.

Before starting running the business the group needs to agree on a number of issues. In particular:

- Who will do what in the business
- What contributions everyone will make
- How profits will be shared out
- How to deal with disagreements within the group (who will decide when there are different views)

Agreeing on all these points means avoiding arguments while running the business. Most rules will never have to be used, but it is better to make clear guidelines for these situations at the very beginning.

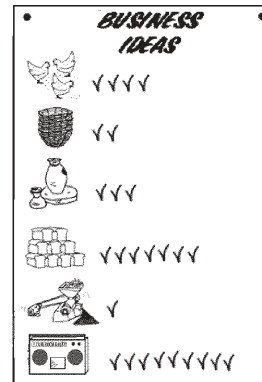
- **Free credit being given to customers**

A business needs money coming in if it is to be successful. If friends and relatives are allowed to take goods with only a promise of future payment, the group will soon run out of cash.



## 2 Step two: Choosing a business idea

Once the group has decided to start an enterprise, a lot of attention needs to be paid to choosing the right business. If not enough time and thought are put into this stage the business activity may fail. This will not only lead to financial problems, but also unwillingness to try again with a more promising business idea.



### Types of businesses

Though the GP should not interfere with the final choice of the group, s/he could suggest various categories of business which it would be practical for the group to try. The aim should be to stimulate discussion and encourage the group to consider several possibilities rather than just deciding on the first idea they think of.

Possible business projects for small rural groups could include growing something, making something, or providing a service which others would be willing to pay for (this may be something for which at the moment people have to go outside the community). It may also be worth considering taking over an existing business rather than starting a new one, if there is such an opportunity.



### Growing something/raising animals:

Growing vegetables or orchard crops, raising sheep, pigs, goats or chickens.



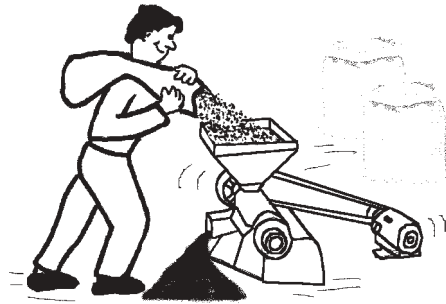
**Making something:**

Basket making, carpentry, pottery, tailoring, metal work.

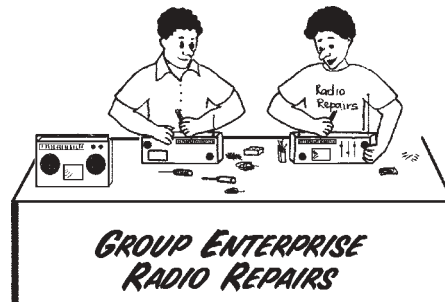


**Providing a service:**

Flour milling, grain trading, butchery, food processing, snack production, fish mongering, agricultural services (such as pruning and spraying service, pollination, seed production, veterinary supplies, sheep shearing etc.), radio repairing, welding, bicycle repairing.



Different groups will be better suited to different types of enterprise depending on their characteristics. The type of business will depend on the level of education of the group members, funds available for the start up, the amount of time they have available, how enthusiastic they are and how much experience they have, both in doing what they would like to do as a business and in working together as a group.

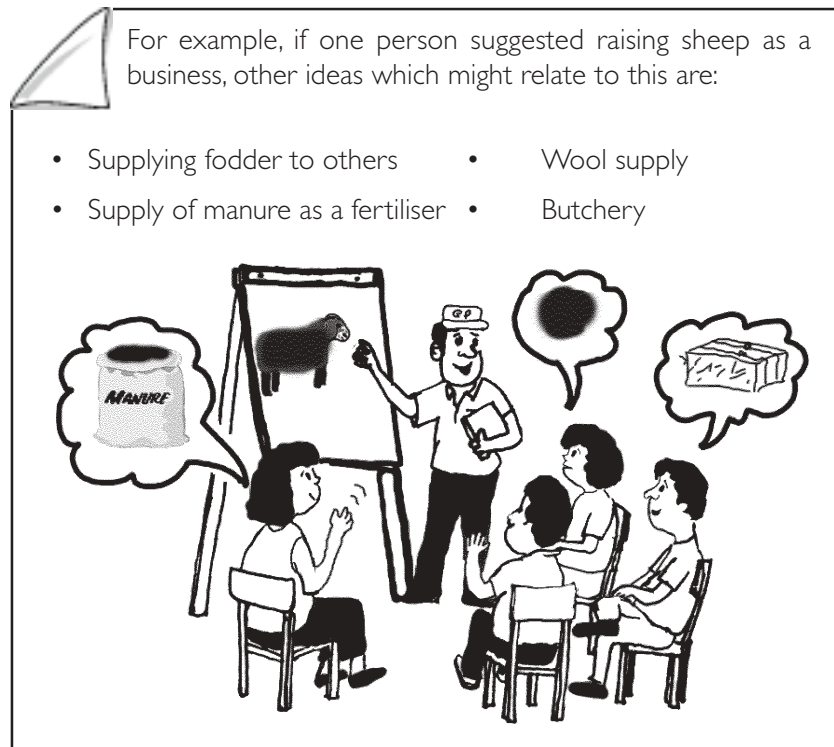


## The most promising idea

If, at this stage, the group decides they would like to develop the idea of running a group business in more detail, to help them come up with possible ideas, the GP should organize a series of exercises.

In each exercise, the GP should try to encourage the group to develop more ideas from those already mentioned by asking questions such as:

- What else could we do with this resource?
- Is the same thing needed in the next village?
- What else could be grown on the land?
- How else could we solve this problem?

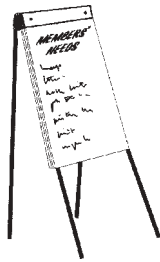




**Exercise 2.1:**

**What individual group members need**

Start the exercise by asking group members to get into pairs. Ask them to spend about 15 minutes discussing in the pairs what they would like to be able to buy/use within the village which is not available at the moment. Ask them to list at least 2 ideas per person (4 per pair). Working in pairs will encourage everybody in the group to participate and contribute their ideas.



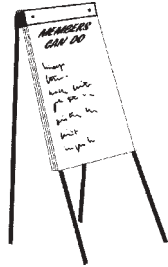
When everyone has completed the exercise, ask one person in each pair to say the ideas they have come up with. List them all on the flip chart (or a large sheet of paper) without commenting on them.



**Exercise 2.2:**

**What individual group members can do**

In pairs again, ask the group members to spend 15 minutes discussing what they are good at. This should include any skill or ability that could be useful to the group. One may be able to make baskets, another to write, one can be very imaginative and one very good at manual work. Each pair should list at least two things they can do. Remind the group that everyone is good at something and most people are good at several things.



As in the previous exercise, ask one person per pair to now briefly describe their skills. List all of the group's skills on another page of the flip chart.



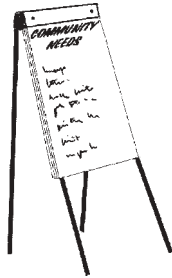
### Exercise 2.3: Community needs

Over the next few days, group members should spend some time looking around the community to find what people need, want or are unable to get, within the village. Though the exercise could be done individually, results would be better if done in pairs. The group members



should observe what people do, talk with people in the village, ask people questions such as what they buy and why, what else would they like to find at the local market, what services they would like in the village.





During the next group meeting, ask each individual or pair to report to the group what s/he has observed is needed or lacking. List all these ideas on another page of the flip chart. List all ideas which members may have without criticising or commenting on any of them. It is important at this stage to just get a lot of suggestions however impractical they may be.



**Exercise 2.4:**  
**Resources available**

Ask the group to come up with the list of resources available in the village. Use different sheets on the flip chart to list them:

1. Materials (such as wood, clay, cloth, wool)
2. Facilities (such as land, building, transport)
3. Services (such as water, electricity, sources of information)



**Exercise 2.5:**  
**Cross out impractical ideas**

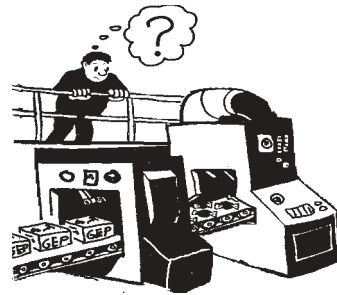
Pin on the wall the list with the results of Exercise 2.1 (individual needs) and the one with the results of Exercise 2.3 (community needs). These represent potential business opportunities. Discuss them very briefly with the group, in order for them to cross out any which are impractical, unreasonable or unethical.

While crossing out the ideas, try to encourage the group to see whether they have any similar ideas which could address a similar problem and be more practical. An impractical idea can often be altered to make a practical suggestion. Add any new ideas to the list.

Pin on the wall the list with the results of Exercise 2.2 (skills) and ask the group to compare the ideas left with their skills. Cross out the ideas which the group say they do not have the skills to implement and could not easily learn.

Now pin on the wall the list with the results of Exercise 2.4 (resources) and help the group to cross out the business ideas which could not be implemented for lack of resources. Successful business ideas will have the following characteristics:

- use locally available resources
- be labour intensive
- be culturally familiar:

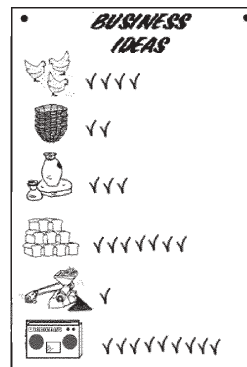


**Exercise 2.6:**  
**Choose the top 3 ideas**

Everybody in the group should now tick the three ideas they like most from the ideas remaining on the list. If the group has difficulties in reading you may need to help them either individually or by adding a drawing or symbol next to the idea, to help them remember which idea it was.

Leave the group about 15 minutes to do this.

When everybody has decided the ideas they like best, count the ticks and choose the three ideas which have received the highest number.



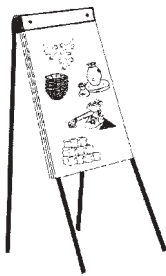


**Exercise 2.7:**

**Discuss the top three ideas briefly**

The group should **briefly** discuss what will be needed for each idea (skills, resources money etc.). To select one out of the three ideas identified, the group should consider:

- How strongly they feel about each business. Starting up a business will involve a lot of hard work, so it is better if the all the group members are enthusiastic about the idea. Enthusiasm will help to keep them interested through the difficult periods.
- What are its likely chances of success. It is better to avoid very risky businesses.
- How many people in the group could work in each of the businesses proposed (there should be enough work to do for all members).



If a business idea is only practical for a smaller number of people, more than one idea may be needed to provide work for all members. Could the business be run by women and men together? Or would it be better run by women or men alone? Sometimes women and men may work well together but in separate tasks.



Part I: Choosing the Business

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It is important that all the group agrees on the idea(s) chosen and not just the group leader. One dominant person can often persuade others of their idea without them being really convinced themselves. Businesses which are mainly one person's idea and do not have the backing of the rest of the group are unlikely to work.



They should now choose the idea(s), out of the three identified, that they think is most likely to succeed, which is popular and where all group members could play a role.



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## **3** Step three: Carry out a feasibility study

Once the group has decided on a business idea, they need to check some points to be sure that it can work well and make a profit. If this is done properly, the business stands a much better chance of success than if they just try to start up a business because some members think it would be a good idea.

A number of things should be looked at before going any further or spending any of the group's money. For example:

- Does the group have everything needed?
- Are all the resources available or accessible?
- What will it cost to produce what the business wants to sell?
- What price will the group charge for the product/service? Will it cover the cost? Will it be too high for people to buy it?
- How will the group finance the business?
- Who are the customers? What are they interested in? Lowest price or better quality? What do they buy now?
- Who else produces the same product/service? Are others likely to start a similar business?



The GP should discuss with the group what else needs to be looked at for their particular idea.

### a) What is needed to run the business?

The group now needs to list everything the business will need. Trying to think of everything that will be needed is not easy, and it is very easy to forget things. Do the following exercise, using, instead of the poultry shed used as an example, the business idea the group is looking at.



#### Exercise 3.1

Start a discussion by leading the group through a day in the life of the business by saying things like:

- It is morning and you are going to the [group poultry shed]. Where is it and how are you going to get there?
- Now you have got to the [shed]. What will you do first?
- You are [feeding the chickens]. What with?
- Where did you get this [feed]?
- Who else will be working there? etc.

The group should list all the things they talk about on a piece of paper. Ask the group further questions to try to make sure nothing has been forgotten.



The list of what the business needs should include:

- Materials
- Labour
- Skills
- Equipment
- Time
- Buildings
- Land
- Transport
- Licences and legal requirements
- Official support.



**b) Where will it all come from?**

Having now made a list of what is needed, the next step is to find out where the group can get everything from.

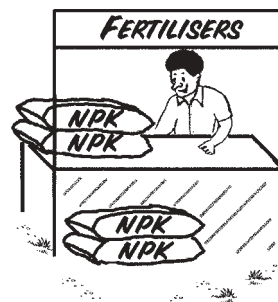
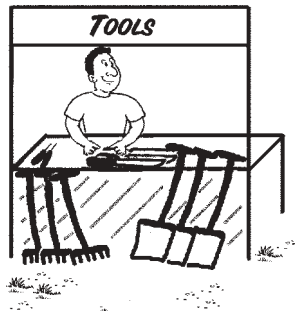


**Exercise 3.2**

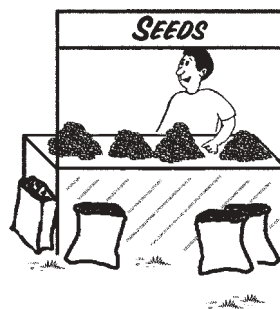
Help the group finding out where they will get what they need to run the business by asking them some

of the following questions:

- Is everything available locally?

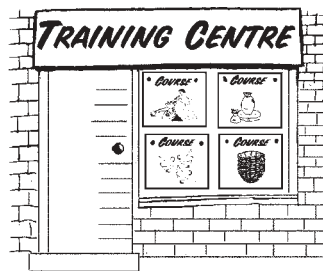


- Is the supply reliable? Is it reliable throughout the year or just for a part of it?
- Is the quality of inputs good enough?
- Who else uses the resources? Will this mean competition for the same inputs?
- Does the group have the land or buildings already?
- Are any services already there (water and electricity)? If not what would it cost to provide them?



- Where will the group get the seed, fertiliser, clay, wood, steel, flour, spare parts or whatever is needed to make the product?

- How will they transport them? Will they need a storage place?
- What about equipment? Where will maintenance and repairs be done? By whom?
- If a licence is needed, where can they get it?
- How many people will be needed to run the business? Who are they? Are they all group members or are others needed?
- Does the group already have the skills they need or can they be learnt. How, where and when?
- If designs or other technical information are needed, where will these come from?



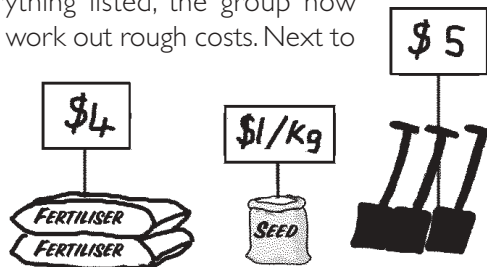
### c) Estimate what everything will cost



#### Exercise 3.3

For everything listed, the group now needs to work out rough costs. Next to

each item on the list, they should write down estimates of cost. Some of these costs the group will be able to estimate fairly easily from their own experience. Other things will have to be found out by asking others. The figures do not have to be exact, the idea at this stage is just to see whether the business is really practical or not.



- If skills have to be learned, will it cost anything to learn them?
- If extra labour is needed what will they be paid?

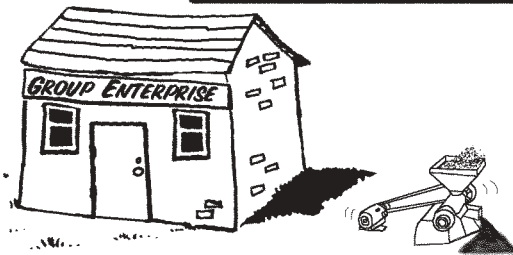
- What will the premises cost to rent or buy?
- How about any equipment or tools?
- How much will the day to day running costs be for materials, transport, etc?

At this stage the GP should raise the question of who will keep the records and do the business accounts. Maybe the group has somebody who already has some experience in keeping records. Or there might be a member who is good at numbers and would be willing to try.

### Fixed costs and variable costs

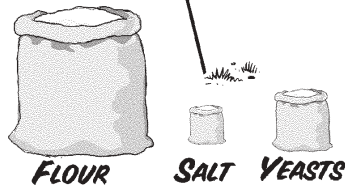
## FIXED COSTS

Once the group has put a figure next to all the things they need for the business, the GP should explain the difference between different types of cost.

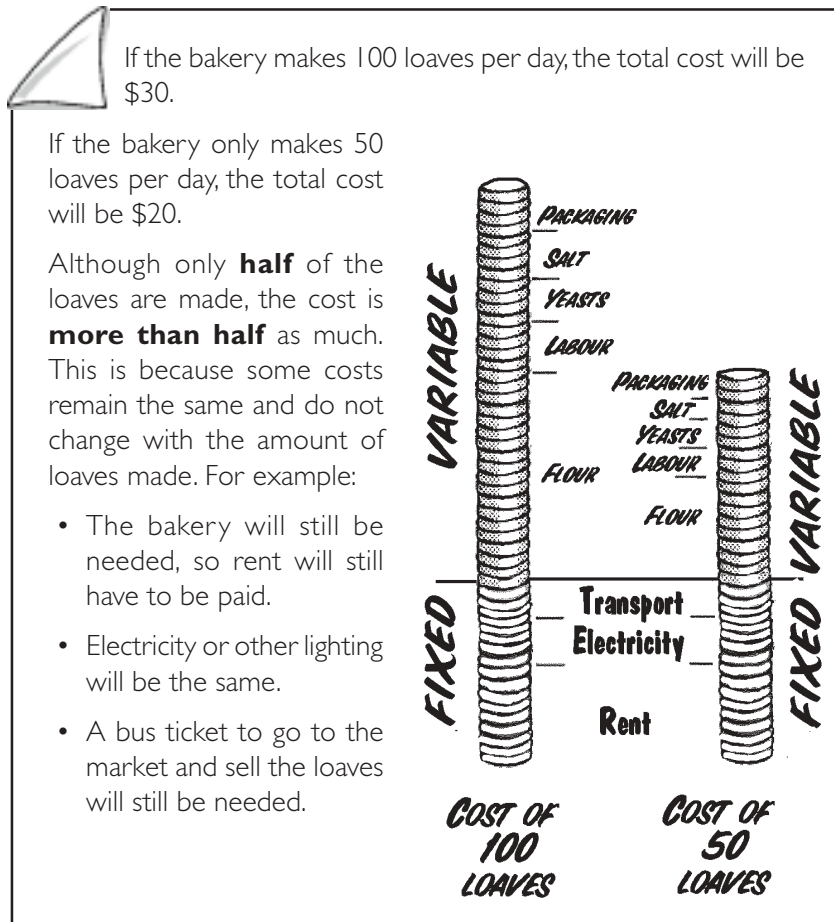


Let's consider running a bakery. Some costs will not change whether the bakery produces a few loaves or many. Rent, electricity, transport to go to the market to sell the group's product will still be needed regardless of how many loaves have been produced. These costs are called **Fixed Costs**.

## VARIABLE COSTS



Some other costs will change according to how many loaves the bakery produces. Flour, salt, yeast and other ingredients will **vary** according to how many loaves are made. These costs are called **Variable Costs**.



It is important for the group to understand the difference between fixed and variable costs and to divide their list of costs into the two categories. This will help the group to both monitor the business and to set the most profitable level of production.

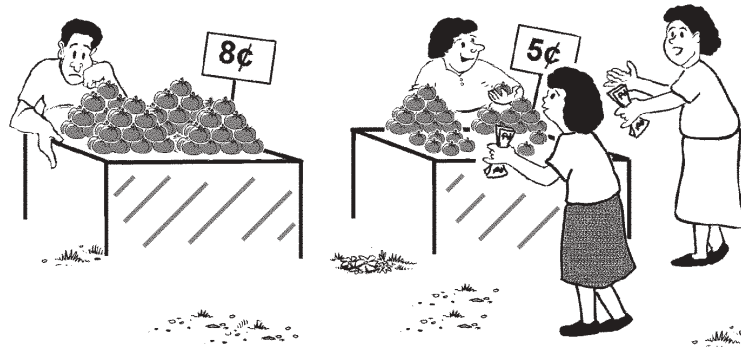
### d) Setting the Sales Price for the group's product

How much will people be prepared to pay for the product?



Ask the group whether the same or similar products are already available in the area or neighbouring areas. How much do they cost? Discuss with the group how much they themselves would be willing to pay.

Setting the price at the right level is very important.



If too high a price is charged, not enough will be sold. It may also be that someone else may be able to make it cheaper (or provide the service cheaper).

If too low a price is charged, it may mean that not enough money is made from the business to pay for the costs.

While the price will depend on what people are prepared to pay for the product, the group will have to check that it at least covers their costs.

If the price people are prepared to pay is less than the cost of production, increasing the price is not the answer. This may just mean that nobody will buy the product. Instead, the group should look again at the costs, both fixed and variable, to see whether it is possible to reduce some of them. However, cutting costs should not result in a lower quality of the product. If this happens, fewer people would want to buy it.

The sales price needs to be estimated at this stage but will be revised when the business is planned in detail (see Part 2).

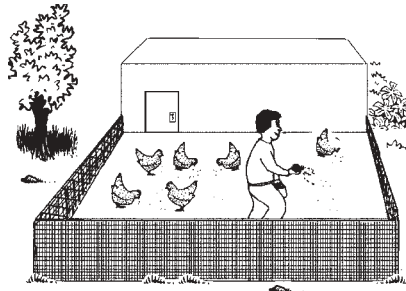
### e) Financing

Where will the money come from to start the business? Until something has been produced and sold, all the money goes out and none comes in. Every business needs money to be put in before any comes back. If the group wants to raise chickens they will need to pay for the chicks, their feed, and some wire to make a chicken coop to keep them in. All this will have to be paid for before they can start selling the adult chickens.

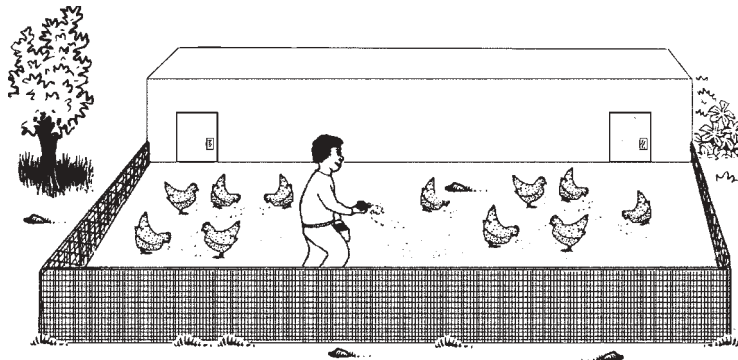
This start up money should come from the group's own savings (See Chapter 3 'Savings' in the Group Promoter's Resource Book).



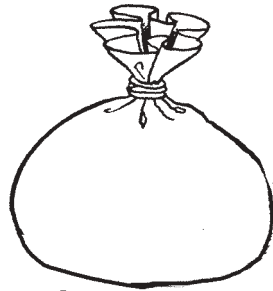
Will this be enough to cover costs until money starts to be received? If not, where else could money be found? Could the group contribute more? Could money be borrowed from relatives? Are there other sources?



Alternatively, is all the money really needed or could the business be started on a smaller scale at first? Perhaps some things could be borrowed to begin with instead of buying them, or smaller premises could be used.







**START UP**



**RESERVE**

Regardless of how well the group plans the business, things can still go wrong. Prices can unexpectedly be raised or something breaks down and needs repairing. The group should keep some money aside in a reserve fund, to cover these kind of unexpected expenses. Around five to ten percent of the start up costs of a business would be a reasonable amount for the reserve fund.

If the group is not sure enough of their business idea to risk their own money first, they should not be thinking of borrowing money at this stage, since a loan has to be repaid and should be thought of as the same as using their own funds. Banks and other sources of finance are often not willing to lend to small groups unless the group have put in the business some of their own resources or savings.

**f) Find out who the customers are**

A successful business will be one which matches the skills and resources of the group to what the customers need (or are prepared to buy).



The group should not try to produce something for which they have no skills or resources regardless of how much customers might want it. Equally there is no point in producing something which people are not going to buy.



Once the product has been identified the group should ask themselves the following questions:

- Who are the people that the group hopes to sell it to? Are they men, women, children, businesses, households? Where do they live? What do they do? What are they most interested in?

A good understanding of what the customers want would help the group produce something they would buy.

- Is the product they are intending to make really suitable for these customers?
- Would different customers be more interested in that product?
- How many customers do the group think there could be in the community? Are there enough to keep the business running?
- Are more potential customers in nearby villages? How many? Could the product be sold there? Could the group transport the product there? Is anybody selling it there already?

The GP may need to go to another area with one or more group members to try to find out about sales of the product in other areas.

### **g) Discuss the competition**

What does the group's product or service compete with? This doesn't just mean whether anyone else makes the product, but what would customers buy in its place if it wasn't for sale. For example if the group were to make fresh lemonade, they would not just be competing with other lemonade sellers but with anyone selling soft drinks. Selling Kerosene may be competing with selling firewood. Discuss this idea with the group and help them to think through who their competitors are.

For a business to work well over a long period, it will have to learn to deal with the competition (any successful business will have competitors). It will also have to learn to change and adapt to changing circumstances.



How easy is it to copy the business? If it is very easy, as soon as others see the group starting up the idea, they may copy it. Ask the group the following questions:

- Are there enough customers for everyone who may want to get into the business?
- If not, is there anything the group could do which would give them an advantage over others? Better position in the community, better quality product, faster service, better packaging or labelling?
- What would the group do if there were not enough customers for both them and their competitors?
- How easily could they alter their product or service to provide something else to keep the business running?

At this stage the group should have a clear idea of everything necessary to run the business and will know whether they still want to go ahead. It may be that, though they are willing to start a group enterprise, they decide that the idea chosen is not practical or too ambitious for some reason. If so, it may be worth going back to the original list of suggestions for business ideas to choose something else. Before proceeding to the next chapter, the same feasibility study should then be done for the new idea.



## ***SUMMARY***

**By now the group should:**

- Have a good understanding of the advantages and problems of running group enterprise
- Be aware of the main reasons which could make a business weak and limit its success

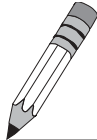
**It will have selected a business idea, based on:**

- What is needed in the community
- What the group can do

**It will have carried out some investigations in the area and found out:**

- Whether all resources they need are available
- Roughly how much it will cost to produce the business product and what price they could charge for it
- Possible ways to finance the business
- Who will buy their product
- Who they would be competing with.

The next stage is to plan the business in detail.



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Part I: Choosing the Business

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## Part 2

# Planning the Business



The better a business is planned, the better its chances of success. Planning means preparing and organizing the business so that time and resources are not wasted when it comes to production, and money is saved wherever possible.

The group have already done a simple feasibility study for their business idea (Part 1). The results of this now need to be looked at in more detail. The discussions held and lists made so far give estimates of everything that is needed. Now that the group is reasonably sure the idea is practical, the figures have to be checked in reality. Actual costs rather than estimates need to be found and real suppliers located for everything needed. This is not just an exercise now, but the real preparation for starting up the group business.

## **Step one: Separate start-up and running operations**

A lot of things need to be done both to start up the business and to run it.

Using the list made in part one of the feasibility study (Step 3), help the group to divide it into two lists:

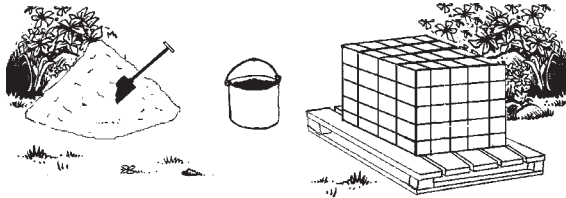


- Things which must be done before making anything (Start up operations) and



- Things which must be done all the time once the business is running (Running operations).

### **Start-up operations**



These include:

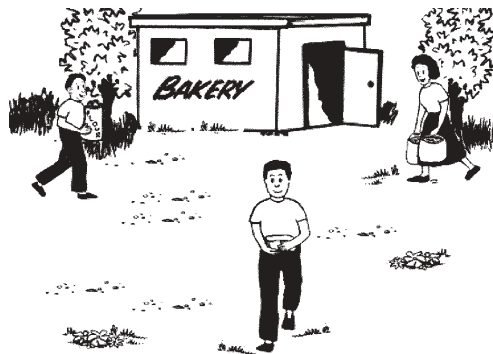
- Finding suitable land and premises and arranging any services needed such as electricity, water, gas, etc.
- Obtaining any permits needed for production or sale of the goods or service
- Obtaining equipment and tools
- Obtaining initial inputs and finding regular suppliers



- Deciding who will be responsible for what parts of the business
- Hiring any other people outside the group who will be needed if the group cannot do everything themselves.

The group should make sure that:

- They find at least one reliable source for each input needed for the business
- All equipment works properly
- Everybody involved in the business knows what s/he has to do and can do it properly
- They have an appropriate place for storing inputs and the products before they are sold
- All arrangements needed to sell the product are checked. If the product has to be sold on a market stall, they need to arrange for one. A sales permit may be needed from a local authority, in which case the group will have to find this out and get the permission while preparing the start up operations.



### Running operations

These include:

- Buying inputs (e.g. flour) and making sure they are supplied regularly
  - Processing or production operations
  - Packaging
  - Selling the product
- 
- Keeping records
  - Storing the stocks of inputs as well as the finished products
  - Checking quality of the product.

## **2** Step two: **Decide who will do what**

In the feasibility study, the group already checked whether they had all the skills needed to run the business. Now it should be decided exactly who will do what. Everyone in the group will probably need to be involved in all or most aspects of the business, especially during start up. However, it is usually a good idea if one person has special responsibility for coordinating each part of the business. The main areas of the business which normally need one or more persons to be in charge are:



- a) Supply of inputs - (supply coordinator)
- b) Processing/production/provision of service - (production coordinator)
- c) Record keeping/treasurer - (accountant)
- d) Marketing and sales - (marketing coordinator)
- e) General management - (business manager)

(Suggested titles for each of the roles are in brackets but should be changed to whatever the group feels is appropriate).

Other roles might need to be added according to the business.

Discuss the different roles with the group and help them to decide who will best be able to take responsibility for each role. While everyone should help with all the work they can, it is better for one person to be in charge of each area.

The purpose of each position is to coordinate the work. The group members in each role will need to make sure that the part of the business they are responsible for works well and that people involved in it know what they should do and how to do it.

The GP should make sure that:

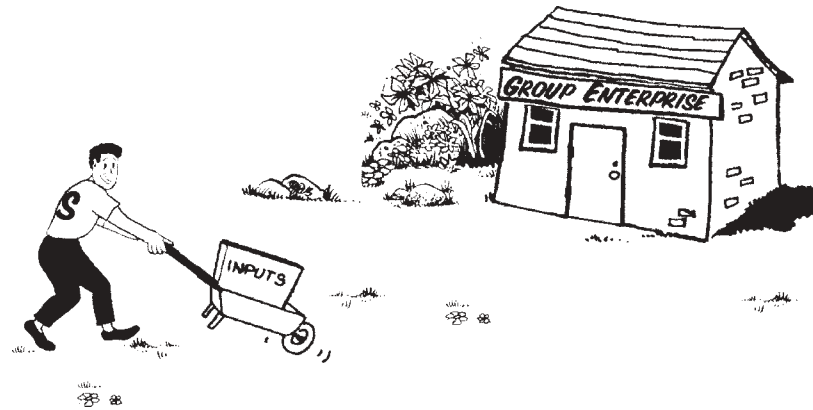
- The group recognises that every member should contribute to all the parts of the business
- Coordinators realise that their role is to coordinate and work with the group and not to give orders to others.



Of course it is always possible for group members to change roles later on if they decide they would like to try doing different parts of the business, provided they have the skills needed.

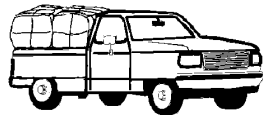


## Supply coordinator



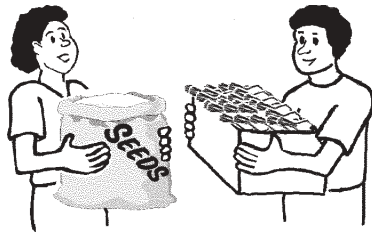
### The main responsibilities of the supply coordinator will be

- Making sure that all inputs needed for the business are available on time and at the right price. This may involve:
  - going to the market to buy materials
  - bringing the materials to the group business or arranging for their transport
  - finding alternative suppliers if one is not reliable.



- Arranging for any storage of the inputs. For example, for a bakery business, it may be cheaper to buy flour in bulk. The supply coordinator will need to make sure that it is stored in a place protected from rats, mice, insects and damp.
- Checking that the quantity of supplies kept in store is enough to keep the business running without a break. The quantity kept should also not be much more than needed since it usually has to be paid for before money comes in from sales. The advantages of buying in bulk need to be considered against the costs.

- Negotiating prices with suppliers and arranging for regular supplies. The supply coordinator could check whether suppliers can accept different forms of payment, for example:
  - credit, or a delay in payment until the group has sold the product. This can help the business especially in the early stages when nothing has yet been sold.



- barter - i.e. the supplier provides materials to the group business in exchange for the goods or services the group produces. For example if the group produces vegetables, perhaps some seeds could be paid for with some vegetables?

**The person for this role should be someone who:**

- Is willing and able to go to the market and other places to find suppliers
- Is good at talking to people and able to get the best deal
- Can read and write and do simple calculations since they will have to make agreements with the people supplying the inputs to the business.

**Production coordinator**



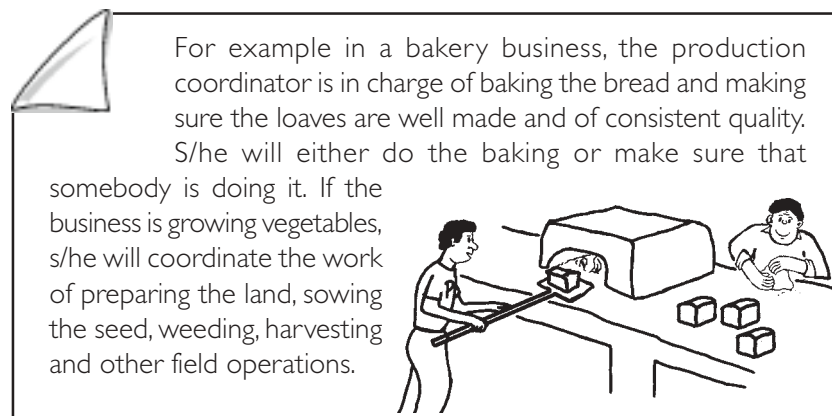
**The main responsibilities of the production coordinator will be:**

- To make sure that the product is :
  - of consistent standard and quality
  - produced in the right quantities
  - produced at the right time
  - at the lowest cost for the quality needed.
- To train the other group members on how to produce the product if necessary
- To make sure that the right number of people will be working when needed.

These responsibilities will mean being very involved in the production, but it doesn't mean being the only one producing whatever the business is going to sell. The production coordinator should coordinate the production, not do all of it.

**The person for this role should be someone who:**

- Is technically competent to do the work, or if not, is willing to be trained
- Is willing to be at the business place regularly and for longer periods than others.



When the product is very complex, the group may want to split the role of production coordinator between two persons.

When the group product is a service, this role will still need to be covered. Though the responsibilities will be much the same as those listed for the production coordinator, the group may decide to call the person 'service coordinator' instead.

## Accountant

**The main responsibilities of the accountant will be:**



- To record members contributions, what money has been spent and on what, and what money is received from sales



- To keep records in a simple way so that everyone in the group can understand where their money has gone in running the business and what happens to money which is received
- To prepare simple balance sheets, profit & loss and cash flow calculations to monitor the business
- To regularly inform the group of how much money is being spent, saved, earned or lost.

**The person for this role should be someone who:**

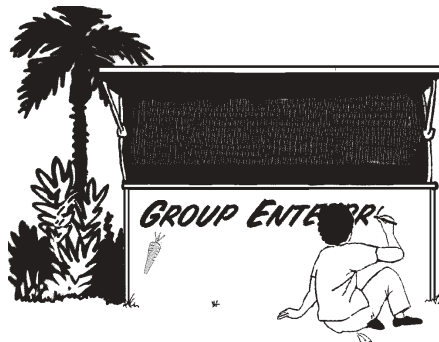
- Is at least basically literate and can do simple arithmetic
- Is well organized, disciplined and consistent so that records can be kept in an orderly way
- Understands the ideas of profit and loss and how to calculate them (as explained later in this book).

## Marketing coordinator

### The main responsibilities of the marketing coordinator will be:



- To find out what customers want
- To ensure that the product is what customers want (and advise the group on how the product, service or packaging might have to be changed)
- To ensure that customers know about the product and where to find it. S/he will therefore plan and organize advertising and promotion
- To check that all necessary arrangements for selling are in place (market stall, sales permit, transport to get the product to market, box to keep money, etc.)
- To coordinate which group members will be the sales men or women each time
- To check what the competition is doing..



### The person for this role should be someone who:

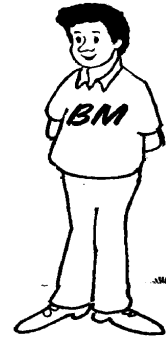
- Is a lively outgoing sort of person
- Is full of ideas
- Enjoys working with people
- Likes talking to people.



## Business Manager

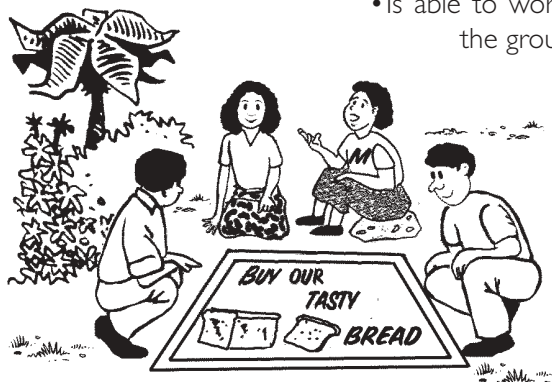
**The main responsibilities of the business manager will be:**

- To make sure the different parts of the business work together properly. This means that s/he will always need to be aware of what is happening in any part of the business and of any problems.
- Be involved in any major decisions
- Keep the group motivated.



**The person for this role should be someone who:**

- Is a good leader
- Is accepted and listened to by the group
- Is able to work well with everyone in the group



- Is able to get an overall picture of the business and not just the details
- Can make good decisions fast.

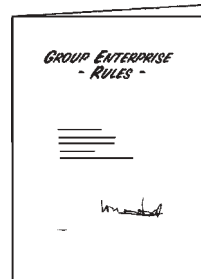
## **Step three: Agreeing rules for the group business**

Some group members will want to make different levels of contributions to the group enterprise either in the amount of money they put into the business or in the amount of time or other resources they contribute. New members may wish to join the group after the business has been established and sometimes members may want to leave the group.



Discuss these matters with the group as a whole and agree rules. In particular, help the group to decide:

- How profits will be shared according to contributions of members (in money, time, resources)
- How the amount of time put into the business by members will be recorded and considered in profit sharing
- What happens to a members contributions if they leave the group
- What part of the profit new members should get and when
- What happens if the business makes a loss instead of a profit
- How arguments should be settled. By the group as a whole, by majority, by the general manager?

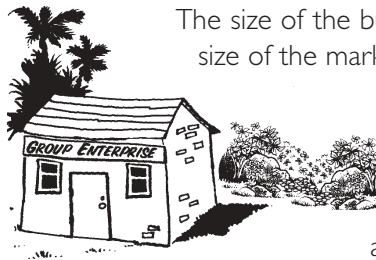


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## Step four: Decide how big the business will be



The size of the business should depend first of all on the size of the market i.e. how many customers there are.

Having estimated the number of potential customers, how much can the group afford to invest in the business to get started? The size of the premises, amount of land, amount of equipment etc. will all depend on how much money and other resources the group have available. Usually though, even if the group has the resources to start a large business, it is better to start small and grow as sales are made. This means there will be less risk in starting the business.

Remind the group of the exercise done in Part 1 Step 1, where starting too big and being too ambitious was given as one of the major causes for lack of success in small businesses.



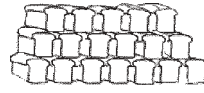
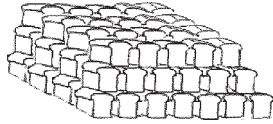
Help the group decide on the best size for their business by asking them some of the following questions:

- How many potential customers are there? (they should know this from the feasibility study)
- Will the amount of production/sales be different through the year? Will they vary during the week?
- Having set a target, how much time will this need? Will the group members be able to spare all the time needed to run the business?

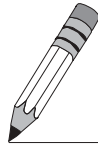
Part 2: Planning the Business

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- How many units per day/week/season (according to the business) will the business produce? How many loaves per day will a bakery make? How many pots can a pottery produce? How many bags of onions can be grown in a season?



- How small could the business start?
- How much can the group afford to invest in the business start up costs?
- What are the minimum fixed costs?
- Are there alternative ways to do things??
- How will the group decide when or if they can expand the business?
- Are other groups likely to start similar businesses? Are existing businesses likely to start making the same product or offer the same service? How long will it take before they start? Will there be room for everyone?



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## **Step five: Getting started**

By now, the group:

- Has decided what business to try and run
- Has carried out a feasibility study and is reasonably sure that the idea is practical
- Has made accurate estimates of the start up and running costs
- Has divided roles and responsibilities among group members
- Has agreed on some rules to run the group business
- Knows roughly how big the business will have to be to begin with.



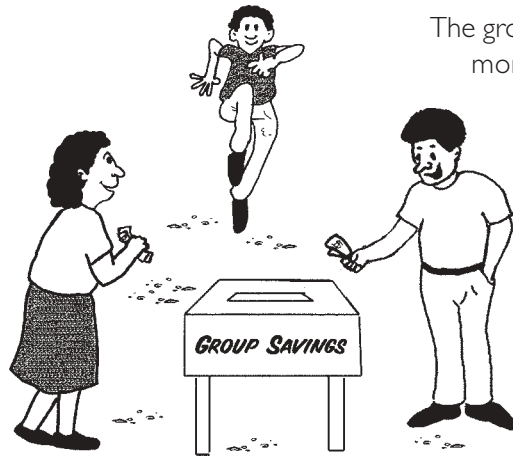
It should therefore be ready to get started.

Since the various coordinators have been selected, the GP should try to involve them as much as possible in organizing everything related to their areas. In particular, the GP should try to hand over coordination of discussions within the group, to the business manager. This will ensure that s/he is familiar with most of the operations and is aware of all aspects of the business.

Most of the activities listed below can be carried out at the same time. They should be the responsibility of the different coordinators whose names are suggested in brackets. The Business manager will also need to be informed of progress in every activity and be involved in the main decisions in all areas. The main start up activities are:

- Provision of funding
- Finding the premises
- Getting equipment and supplies
- Preparations for selling
- Testing production and packaging.

### Provision of funding (Accountant)



The group should have been saving money in its group funds for some time before deciding to start a business. This money should be the basis for starting the business.

The group should provide at least part of the funds for the business from their own group savings as this makes members more committed to the success of the business. Other

money may also be needed though if the business needs equipment or land which are beyond the means of the group. Possible sources of money might be from relatives or through loans from banks or other financial institutions, NGOs or government agencies. Usually though, such institutions do not lend to small groups unless they have already shown that they have significant savings or have other collateral (things like land, buildings etc. which the bank can keep if the group does not pay back its loan).

The money from the group should be kept either by the business manager, or the accountant. The group may decide that the money is best kept in a bank.

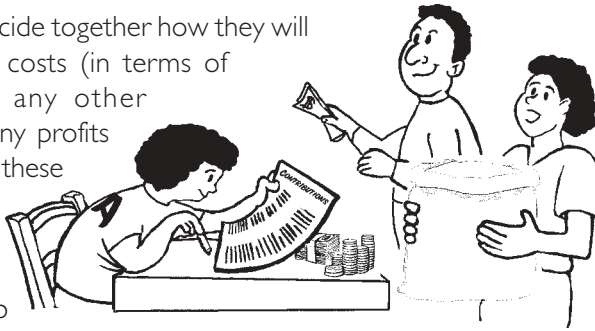
### Contributions

It is simple to calculate costs sharing when each group member contributes the same amount to the business and each person does the same amount of work. In practice this is often not what happens and the group should agree at the beginning about how much work each member is going to do and how much each will contribute.

Some members may not want, or not be able to, contribute as much as

others either in money or in time. Some members may be able to contribute in other ways by e.g. providing premises or tools.

The group should decide together how they will share out both the costs (in terms of money, work and any other contributions) and any profits from the business. All these points need to be decided by the group as part of deciding the group rules (Step 3 above).



### How much money is needed to start up

At the start of the business, there is no income at all. A lot of money may be spent on rent, electricity, materials, transport etc. But until the products are sold, which may be some time in the future, the group should remember that no money will come in.

The group has already estimated all costs for the business and decided how large the business will be. Now these figures need to be adjusted according to the premises chosen and the real costs found for the inputs needed.



Help the group to make the final adjustments for what funds they will need to start up the business. Ask the following questions:

- What is the difference between the money they already have available in the group savings fund and the money they need?
- Where will the difference come from? If there is no other source of funds, could any parts of the group's business plan be done more cheaply, at least for start up? Look at all the areas of the business - premises, land, equipment, labour, materials, transport.

- Where could money be saved? Perhaps a building which is not ideal could be used at first which may be cheaper - or even one of the group member's own homes.
- Could equipment and tools be borrowed or hired instead of buying them?

The estimated sales price (see Part 1, Step 3d) should now be checked again to make sure costs will be covered. If they are not, what costs could be reduced?



Help the group prepare the final list of costs and source of funds. Do not assume money can be borrowed unless this has been confirmed.

Some money is also needed to be set aside for emergencies. This should only be used to cover unplanned, unexpected expenses (when something breaks, or is stolen, or spoiled, or if the price of inputs rises suddenly). Things do go wrong with businesses and it is important to keep some money aside for this.

For every \$10 needed for the business, the group should keep an extra \$1. So for example, if they need \$150 to start the business, they should also make sure they have an extra \$15 - a total of \$165. This extra money can be kept aside as a special reserve fund for emergencies.

### **Finding the premises (Production coordinator)**

To carry out its activities, the business needs a suitable place to make its product or provide its service. In some cases, producing the goods and selling them can be in two separate places.

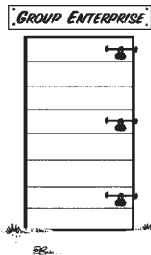




For example, vegetables may be grown in one place but sold in a market several miles away. For a pottery though, it may be easier to sell the pots directly from the place where they are made. Providing a service such as vaccinating chickens would mainly be carried out wherever the chickens may be. Some service businesses such as a butcher, a bicycle repair business, or a general store will need a shop or premises within easy reach of the community. Others such as grain trading or providing simple agricultural or veterinary services (worming sheep, vaccinating chickens, pruning fruit bushes, spraying crops) will only need a small store room and a way that people can contact the group. The actual work will be done in the fields or houses of the community.

Whatever the business, premises should be:

- Reasonably easy for the group members to reach, particularly if they are expected to work there each day
- Visible and accessible to customers if a product is to be sold there
- Reasonably secure if theft is a problem.



If services such as electricity, gas or water are necessary to run the business, the group should check that they are already available at the site or can be arranged.

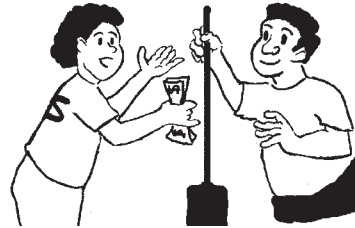
The premises should be large enough for at least the first year's production and ideally with room for some expansion.

If a group member or a relative already has a place which can be used, this may be a good solution. If so, the group will need to agree with the owner if rent needs to be paid or if that group member could be allowed to put less contributions in the group savings fund instead.

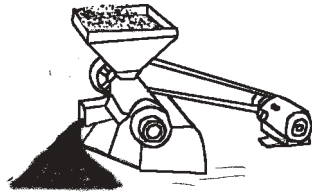
**Getting equipment & supplies  
(Supply coordinator, production  
coordinator)**

**TOOLS SHOP**

For many businesses the group will need equipment to produce their product. At the start of the business, costs and risks should be kept as low as possible, so when possible, hiring equipment until the business is running properly may be



better than buying it. Hiring is usually more expensive in the long run but at the beginning of the business, when the group doesn't have much money to spare, it may be necessary.



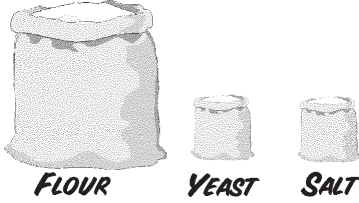
The group needs to find reliable people to supply the equipment and materials they need.

While trying to find suppliers, it is important to consider that:

- Local suppliers are usually the easiest to contact and while they may not be the cheapest, may be more reliable than unknown suppliers
- If supplies of materials are to be needed regularly, the group may be able to get a reduced price
- Instead of having a lot of suppliers for small quantities, and changing suppliers frequently, it is better to choose one or few suppliers which seem most suitable for the group business. These will be those who offer good quality materials at fair prices, and who will be reliable and provide the material whenever needed. With regular orders, the group may be able to negotiate a better price
- It is however better to always know more than one supplier in case there are problems. The group will then still be able to find the materials they need.

The group will need to purchase enough inputs or supplies for the first production period. If the production period is very short as with a bakery, arrangements should be made for more than one period to avoid delays while the group has to wait for delivery.

For a bakery, the group will need to have enough flour, water, salt, sugar etc. to make the first day batch of loaves. It will also need enough stock for the next few days so it would make more sense to buy several days supply at once.



A group growing vegetables would need to buy the seed and fertiliser for one season only as buying any more stock will just be using money unnecessarily. The seeds may also spoil when kept.

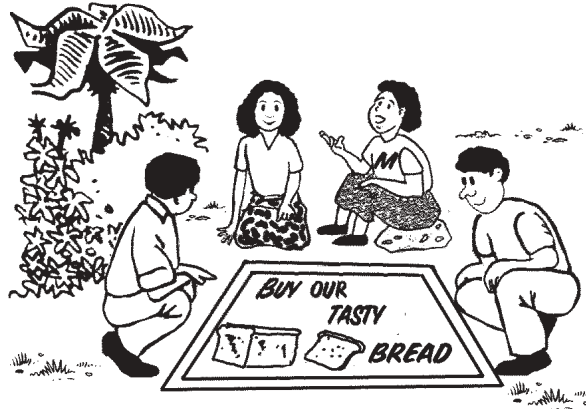
### **Preparation for selling (Marketing coordinator)**

The GP should help the marketing coordinator and all the group make their plans and preparations for selling the product. In particular the group should consider:

- Where it will be sold and any costs involved
- How and when it will be sold
- Who will sell it
- What promotions and advertising will be done to get people to try it.

Customers need to know what the group is producing, where they can get it and when. The more potential customers know about the group's products in advance, the better the chances of selling the group product. During this phase, the group should come up with ideas on how to promote and advertise the business and then go ahead and carry out whatever they decide.

## Promoting the group business



Discuss with the group how they could best get the community members to know about their product and get people to try it.

Ask them how they find out about new products or services for the first time. How could they make use of these ideas to promote their own business?

List their ideas on a flip chart or a sheet of paper, adding appropriate suggestions from those below only if they are not mentioned after some time.

- Could the group begin to advertise their products with a sign board and perhaps a poster in the village?
- Perhaps the group could hold a meeting for villagers to talk about their product - or mention it at a regular community meeting?
- The group members could tell their friends and relatives about their product and ask them to tell others



- Would a promotion or opening of some kind help to get people talking about the group's product?
- Maybe free samples could be given away, or the group could give a demonstration at their sales point.
- How else could the group advertise their new business?

### The selling place

Before any products are ready for sale, the group should start to prepare the sales point.

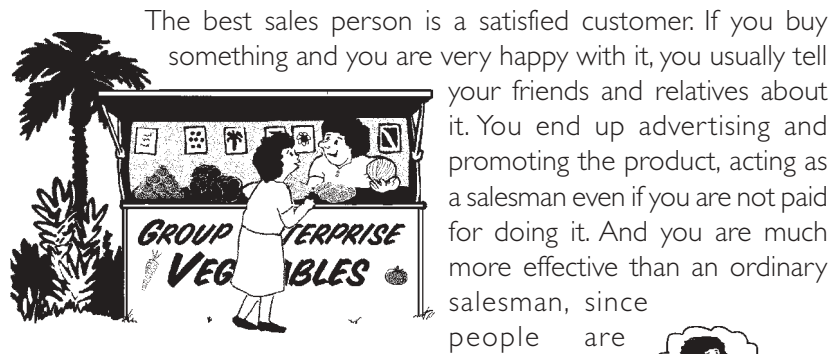


They should make it look attractive and clean so that customers will come. They should also decide who will be there each day to sell the products. According to the amount of work, they might want to have more than one person selling. If the production activities need more people, maybe only one or two people will deal with sales.

### Sales people

People doing the selling should look smart and clean. They should always be polite and friendly to the customers since people are more willing to buy something from a person they like. The salespeople are themselves an advertisement for the product.





The best sales person is a satisfied customer. If you buy something and you are very happy with it, you usually tell your friends and relatives about it. You end up advertising and promoting the product, acting as a salesman even if you are not paid for doing it. And you are much more effective than an ordinary salesman, since people are more likely to be convinced by their own family and friends than by any stranger.



So the group needs to make their customers satisfied and loyal to them. This will be achieved mainly by having a good product, but it will also be greatly helped if the sales people are friendly and polite to their customers.

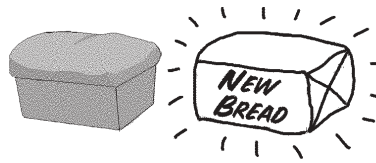
### **Packaging and presentation**

Before any product is ready for sale, the group should also find out whether people will be more interested in the product if it is packaged well. Presentation can often make a product more attractive than those sold by competitors. Maybe packing the group's product in a box or paper bag would make it more attractive to buyers. Vegetables and fruit stacked into a pyramid look more attractive than if they are just piled loose on a table or on the ground.



Discuss with the group what makes them interested in buying something. Are they more likely to buy it if it is well presented or packaged. If so, how could the group's product be best presented. Ask the

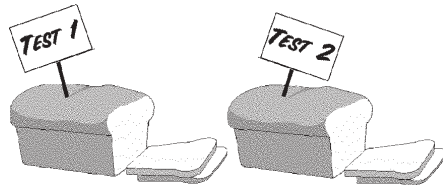
group to go in pairs to look at presentation and packaging of products in the shops and markets. Which ones sell the best? How much do they think is due to the packaging? Would presentation or packaging help their product?



To decide what kind of packaging to choose, it is important to consider its cost, how practical it is and how easy it will be to store the finished product in it.

## Test production and packaging

**(Production coordinator, marketing coordinator)**



Once all the equipment is set up in the new business premises, and all the other inputs needed have been bought, the group will start production.

With some businesses, it may be possible to try out operations before going into full production e.g. if the business is a bakery, the group can try baking a few loaves first before making a full batch to make sure they have got everything right. If the business is making soft drinks, perhaps a few bottles can be made as a trial.

If it is possible to try out the production, a good idea is to show the product to a few potential customers and ask for their opinion and suggestions. This will ensure that the product is suited to what customers want, as well as starting to build up good relationships with customers.





## ***SUMMARY***

By now the group will have moved from choosing a feasible business idea to planning their business and preparing to start.

**In particular they will have:**

- Divided roles among themselves
- Agreed on a set of rules
- Decided the size of the business
- Calculated start up and running costs
- Put together their contributions and any other funds needed
- Found the premises
- Bought all equipment and supplies
- Decided how the business will be advertised and started promoting it
- Set up the selling place
- Tested the product and decided on the best way to package it.

They now need some more information on how to run the business, how to keep records and monitor the activities.

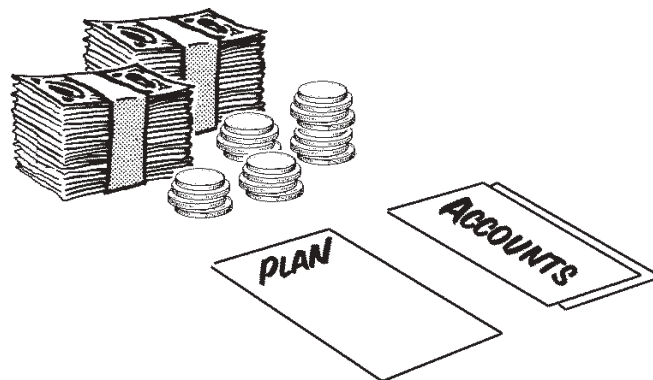






## Part 3

# Managing the business



## Keeping records

### Why should the group keep records?

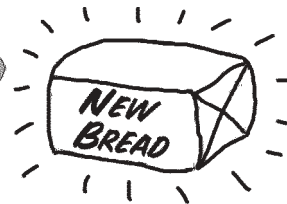
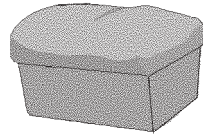
The GP should make sure that the group is well aware of the importance of keeping records and doesn't consider it just a waste of time.



Ask the group to suggest reasons why they need to keep records. Add the following reasons to the discussion only if they are not mentioned by the group:

- Without any records of what is spent and earned, the group won't know if something is going wrong until it is too late. Just because some cash is coming in doesn't mean the business is making a profit. Records make it easy to see whether the business is doing well or badly.

- By knowing exactly how the money is spent and where it comes from, the group can find better ways to manage the business. For example it is easy to see where savings can be made by spending less on something, or the difference it would make if one supplier could be paid a week later. It could also show if spending more on packaging has increased the sales and is worth continuing.



- Keeping records helps the group to remember who has paid for what, where the money has been used, and who has received what amounts. Without written records it is easy for



\$100

GROUP CONTRIBUTIONS



\$30



\$30



\$10



\$10

people to forget details and this can cause arguments in the group.

- Records can be used to remind the group what everything cost and how money has been used when planning future expenses.

\$20



Record keeping does not need to be difficult or take a lot of time. It can be simple and still effective and useful. What is important is that records should not be kept just for the sake of keeping them, but to make it easier for everyone in the group to see how much money the business is making and how it could make more.

**What information does the group need?**

Simply watching the day to day activity will not tell the group how well the business is doing. Neither will counting the cash they have in the counter at the end of the day. What is needed is some specific information on the running of the business.



The group accountant will need to know and understand this entire section well. However, the whole group should also understand the basic ideas of profit and loss so that they will be able to follow how well the business is doing.

In particular, they need to know:



- How much money the group had at the start of the business, how it has been spent and how much is left.

- If the amount of money has gone up while running the business,



- or gone down while running the business.



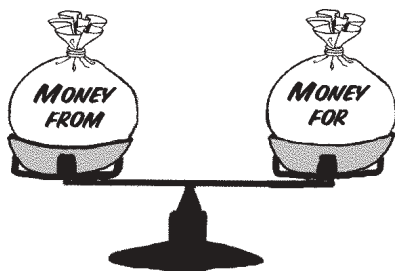
The Accountant will have to explain these points regularly to the group. S/he could use the diagrams as shown later in this section, to help the less literate and less numerate members of the group to understand the two aspects of the business.

To find out how much money the group has, they need to consider where the money came from and what has been done with it. This information is recorded in something called a **Balance Sheet**. Like a set of weighing scales, this records on one side the money the group has put into the business and on the other, how the money has been used.

A different record called a **Profit and Loss Account**, is used to find out whether the business has made money or lost money.

### The Balance Sheet

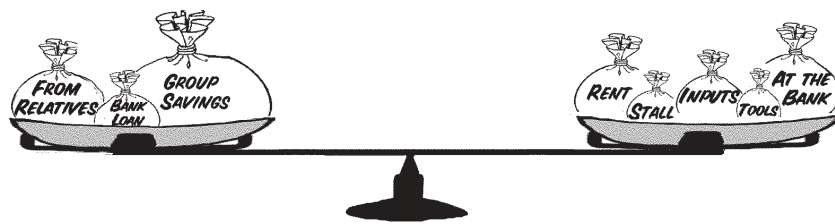
Every time something is bought for the business, it needs to be written down in the Balance Sheet. This makes it is easy to remember what has been done with the money and how much money is left.



The Balance sheet is used to record two things:

- The money that is put into the business (money from group savings, from loans, etc.)
- What has been done with it (used to buy things, put in the bank, etc.).

It is called a balance sheet because the two lists should balance, which means that they should add up to the same number. This is not surprising since the group cannot use more money than it has, and something is done with all of the money it has (even if it is just kept in a box). Checking that the two lists balance is a way of making sure nothing has been forgotten in the calculations. This calculation should be made as often



as the group thinks is necessary for their group meetings. If nothing is bought or sold, there is no need to make a new balance sheet. When a lot of money comes into or leaves the group it would be a good time to revise the balance sheet. The balance sheet gives a picture of the group's money at the moment it is calculated.

The GP should use the following example to explain the balance sheet to the group.

A group decides to start producing vegetables.

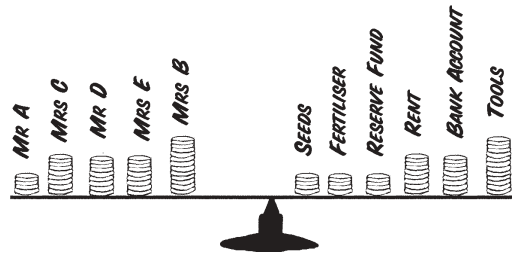
To start the business they decide what each of them can contribute and put the money together:

They then buy seeds for a total of \$10, fertiliser for \$10, tools for \$30 and pay the rent for the land they need to grow vegetables, spending an additional \$20. They reckon that the tools they bought would be good for 10 seasons, so they will not need to buy new ones again until then.

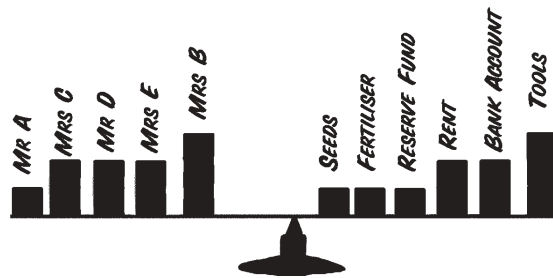
<b>SEEDS</b>	<b>FERTILISER</b>	<b>RESERVE</b>	<b>RENT</b>	<b>BANK</b>	<b>TOOLS</b>	<b>MR A</b>	<b>MRS C</b>	<b>MR D</b>	<b>MRS E</b>	<b>MRS B</b>
☞	☞	☞	☞	☞	☞	☞	☞	☞	☞	☞

They then decided to put \$20 in a group bank account at the local bank and keep the remaining \$10 as an emergency reserve fund. This money would be kept just for unexpected costs such as breakages and not spent on normal day to day costs.

The Balance Sheet at this point looked like this:



<i>The money came from:</i>		<i>The money was used like this:</i>	
Mr A	\$10	Seeds	\$10
Mrs C	\$20	Fertiliser	\$10
Mr D	\$20	Tools	\$30
Mrs E	\$20	Rent	\$20
Mrs B	\$30	Bank account	\$20
		Reserve fund	\$10
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<b>Total</b>	<b><u>\$100</u></b>	<b>Total</b>	<b><u>\$100</u></b>





When explaining this to the group, make sure that the group understands why the amount in the bank (\$20) is put under money used, not where the money comes from. Help them to see that there are two separate operations

- Collecting the money
- Using the money for different purposes

Putting the money in the bank, or even in the group saving box, is therefore using it for something.

When the first harvest was over, they took \$15 out of their bank account (leaving \$5 in it) and spent \$5 in bags to pack the vegetables, \$5 in a market stall, \$5 in bus tickets to go to the market in town to sell their vegetables. The Balance Sheet then looked like this:

<i>The money came from:</i>		<i>The money was used like this:</i>	
<b>Mr A</b>	<b>\$10</b>	<b>Seeds</b>	<b>\$10</b>
<b>Mrs C</b>	<b>\$20</b>	<b>Fertiliser</b>	<b>\$10</b>
<b>Mr D</b>	<b>\$20</b>	<b>Tools</b>	<b>\$30</b>
<b>Mrs E</b>	<b>\$20</b>	<b>Rent</b>	<b>\$20</b>
<b>Mrs B</b>	<b>\$30</b>	<b>Bags</b>	<b>\$ 5</b>
		<b>Market stall</b>	<b>\$ 5</b>
		<b>Bus tickets</b>	<b>\$ 5</b>
		<b>Bank Account</b>	<b>\$ 5</b>
		<b>Reserve fund</b>	<b>\$10</b>
<b>Total</b>	<b>---</b>	<b>Total</b>	<b>---</b>
	<b><u>\$100</u></b>		<b><u>\$100</u></b>

When they left the market they had sold all their vegetables for \$60. They were all quite happy about this. But did they really make more money than they spent?

(Ask the group for their answer before continuing).

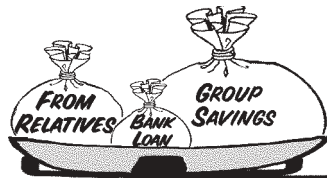
Unless they know whether or not they have made a profit they cannot say whether their business has been successful and if they should plant vegetables even for the next season.

The GP should help the group calculate their first balance sheets.



Ask the group where the money came from to run their group business. Sources may include:

- Group members contributions
- Loans from relatives
- Profit put back in the business after it has been running for a while
- Bank or other loans once the business has been running successfully for a while.

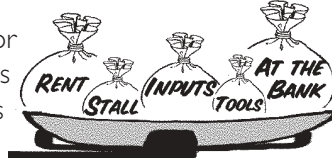


Now the GP should ask how the money has been used. Where did it go? What did the group do with it?

- Part of the money is used to buy things which are used up to make what is produced
- E.g. for the Vegetable enterprise, these would include seeds,

fertilisers, and bags to pack the vegetables.

- Part of the money is used to pay for things which the business uses and has to pay for but it cannot keep. (Such as rent for the land, bus tickets to go to the market and sell the vegetables)



- Part of the money is used to buy things needed to run the business and which will be used also in the future to make more of the group product. (Such as a plough, spade, table for the market stall)
- Part of the money is not spent and is kept in the group savings or at the bank.

The GP should make sure that the two sides balance and that the group understand the calculation.

The balance sheet only tells the group how much money has been put in the business and what it was spent on. It doesn't tell them if they have made a profit or not. The Balance sheet is needed to avoid arguments about where the money went and by recording everything, makes it easy to see where costs could be reduced.

To find out if they have made a profit or not, however, the group should use the information recorded on the balance sheet to make another kind of account called a **Profit and Loss account**.

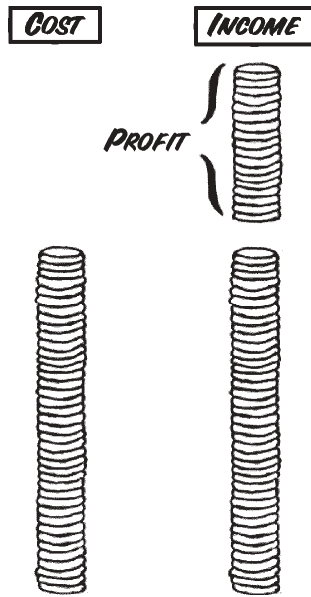
## The Profit and Loss Account

This calculation will show the group whether the money put into the business has become more or less than they started with. The GP should explain that the group will need to work out two things:

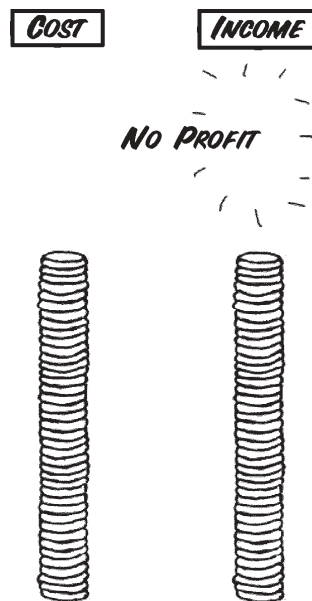
- How much they got for selling the product (sales)
- What it costs to produce the group product (costs).

The difference between the two will tell if the group has made a profit or a loss. This calculation should be made once or twice per year since many of the costs are difficult to split up over shorter periods. For example it

has little meaning to calculate profit for one day when some days nothing is sold and on other days several months production are sold at once.



If sales are higher than costs the money has grown and the group has made a profit.

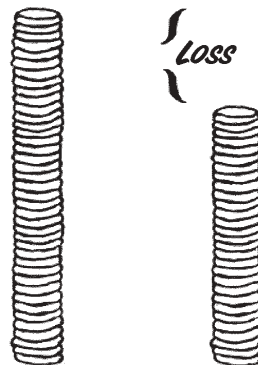


If sales are the same as costs, the group has just broken even: no profit, and no loss either.

**COST**

**INCOME**

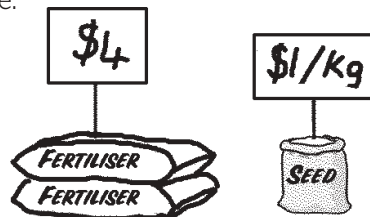
If sales are lower than costs they have made a loss.



Costs are only those things which relate to one accounting period (however often the group decides to prepare the profit and loss account - usually once per season or once per year). So while many of the costs are the same things as were listed in the balance sheet, an important difference is with those costs which will be spread over more than one period such as equipment and tools.

Costs for one production period include:

- **All** the things that have gone directly into what the group produced (seeds, fertilisers, bags to pack the vegetables, cost of transport to the market, cost of renting the market stall).



- **All** those things that were needed to run the business and are paid for at intervals such as rent for land and buildings, sales permits etc.

If the profit and loss account is calculated more often than these costs are paid, only part of the cost should be included. For example, rent

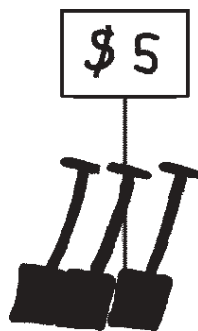
### Part 3: Managing the Business

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for land might be \$40 paid once per year but two crops are grown in the year and the profit and loss account is calculated after sale of each harvest. In this case, the cost of the land for one production period (and one profit and loss account) would be one half of the year's rent i.e. \$20.



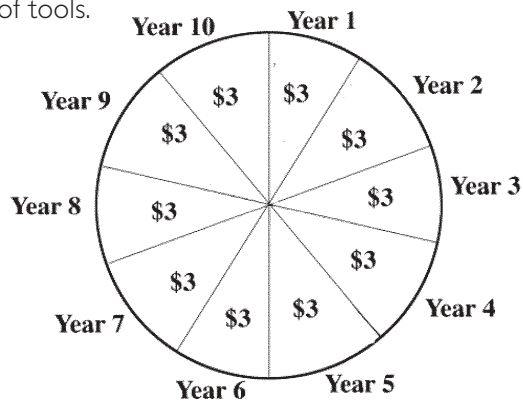
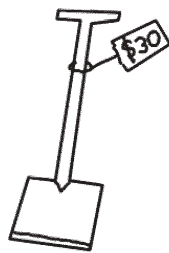
- Part of those things the group needed to produce what they sold but that they will still be able to use in the future (plough, spade, table for the market stall).



Since the group had to buy some tools and equipment which they use in the business but which will last for some years, this cost has to be included in the business costs. However, although they were paid for all at one time, they are still owned by the group and can be used for several years. So they still have a value to the group and only need replacing after some time. For this reason, the cost of the tools and equipment are thought of as being spent a bit at a time over the period they will be used.

To calculate how much of the cost of the tools and equipment are counted in the first year, the cost of these items is divided by the number of years (or seasons) in which the group will be able to use them.

For the Vegetable Enterprise Group, the equipment they bought cost \$30 and they expect it to last for 10 seasons after which they will have to buy new ones. In each season therefore one tenth of the cost of the tools (i.e.  $\$30/10 = \$3$ ) is counted as the cost of tools.



After one year then, the value of the tools is \$27 ( $\$30 - \$3$ ), i.e. the original cost minus the part that have been used up during the year. After the second year they are worth \$3 less again i.e.  $\$27 - \$3 = \$24$ . This way the value of the tools is slowly used up over the ten years, until they are of no value at the end of the tenth year. Up until this time though, they still have a value and so need to be included in the accounts.

A Profit and Loss account for the group business cannot be calculated until the business has been running for long enough to have sold some of its product. The GP should use the following example to explain the meaning of the Profit and Loss account to the group and how to calculate it. Later, when the business has been running for some time, the GP should help the group make the first Profit and Loss account for their business.

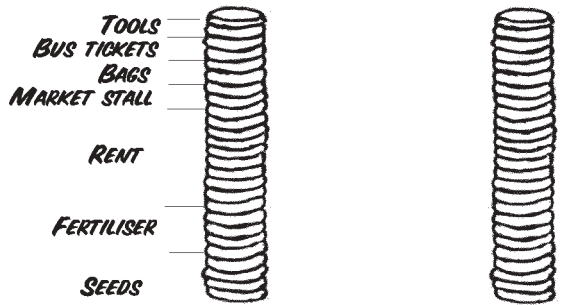
The Profit and Loss account of the Vegetables Enterprise Group after the first production season looks like this:

<i>Cost of production</i>		<i>Sales of vegetables</i>
<i>Seeds</i>	\$10	<u>\$60</u>
<i>Fertiliser</i>	\$10	
<i>Rent for land</i>	\$20	(half the year's rent)
<i>Market stall</i>	\$5	
<i>Bags</i>	\$5	
<i>Bus tickets</i>	\$5	
<i>Tools (\$30/10)</i>	\$3	(only <b>part</b> of the cost of tools)
<i>Total</i>	<u>\$58</u>	<u>(\$58)</u>
<i>Profit</i>		<u>\$ 2</u>

**COST**

**INCOME**

**PROFIT** 





So, though the group was happy thinking they had just sold all their vegetables for \$60, once the costs of growing them is taken away, the profit made was just \$2.

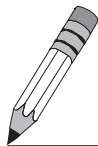


What does this mean? They have not lost any money, but they have not made much either. They need to look carefully at their balance sheet and the profit and loss account. Two dollars is very little for all the work they have put in, so they need to plan how they can make a better profit next season.

The GP should make sure the group members have understood the difference between what they receive for the sales, the profit they have made and the money they have in the bank (or their group savings box).



Ask the group how they think more profit could have been made by the Vegetable Enterprise Group. When a number of suggestions have been made, continue with the following example.



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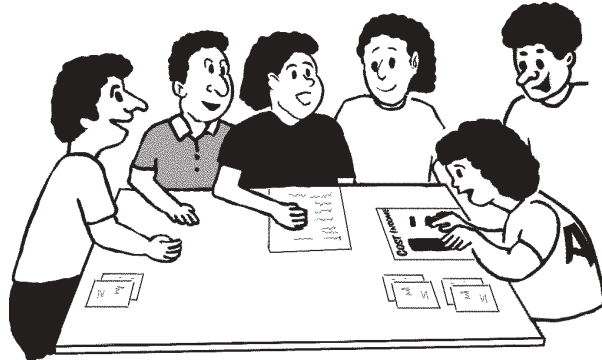
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So, the Vegetable Enterprise Group held a discussion about how they could make more profits. Before starting to keep



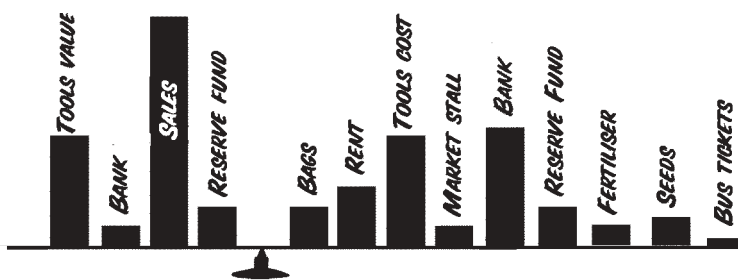
their accounts they would have thought that the only way would have been to produce and sell more vegetables. But from their accounts it was clear that producing more would not have increased the profit. Instead, they had to cut some costs.

- Somebody said that the local agricultural extension officer has just told him about a new and better fertiliser that only cost \$5 instead of \$10
- Another group member said that it was not really necessary to all go to the market and maybe just two of them should go next time, saving on the tickets
- A third suggested that if next season they spend an extra \$5 on bags they could pack the vegetables better and charge a slightly higher price for them.

The following season the group bought seeds for \$8, the new fertiliser for \$5, and made an agreement with the landlord to pay a lower rent of \$15 per season for the land. The group then spent \$10 on better bags, \$5 for the market stall, and \$1 for bus tickets. They put the money from sale of the vegetables in the bank account for the moment as it would all be needed to grow the next season's crop.

This time they did not need to buy any more tools as they could continue using the same ones as last season. When they went to the market this time, their balance sheet looked like this:

<i>The money came from:</i>		<i>The money was used like this:</i>	
<i>Sales of last season's vegetables</i>	<i>\$60</i>	<i>Seeds</i>	<i>\$ 8</i>
<i>Value of tools (\$30-\$3)</i>	<i>\$27</i>	<i>Fertiliser</i>	<i>\$ 5</i>
<i>Bank balance</i>	<i>\$5</i>	<i>Rent</i>	<i>\$15</i>
<i>Reserve fund</i>	<i>\$10</i>	<i>Market stall</i>	<i>\$ 5</i>
		<i>Bags</i>	<i>\$10</i>
		<i>Bus tickets</i>	<i>\$1</i>
		<i>Tools</i>	<i>\$27</i>
		<i>Bank Account</i>	<i>\$21</i>
		<i>Reserve Fund</i>	<i>\$10</i>
<i>Total</i>	<i>\$102</i>	<i>Total</i>	<i>\$102</i>

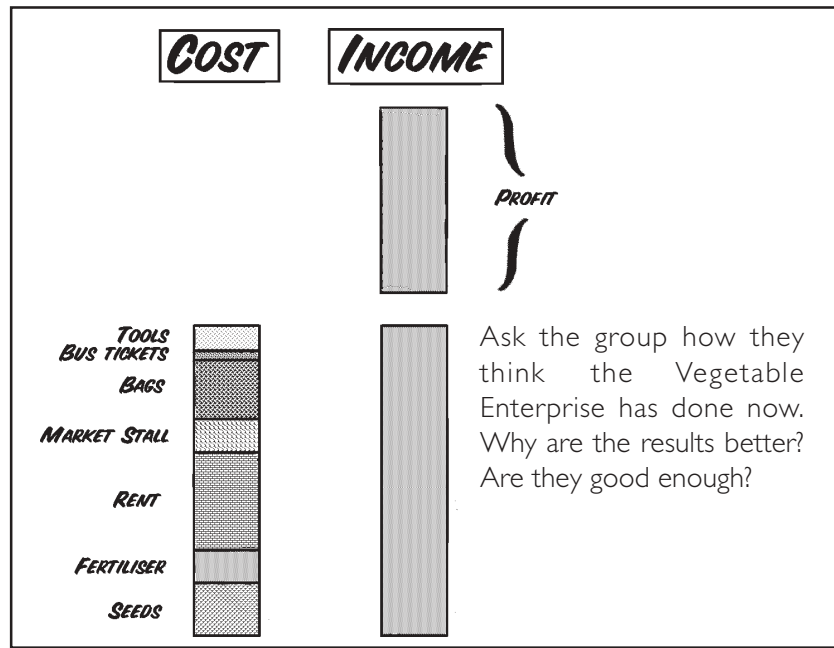


The \$21 left in the bank account is the money left after paying for everything else.

The tools are shown on both sides of the balance sheet to show what has happened to the money. They have a value of \$27 at the beginning of the season, but since they are still needed, the same amount is spent to keep them for the business.

Due to the better packaging as well as to the better farming of the second season (better seeds and better fertiliser) their total sales are higher than the previous season and are \$75. The profit and loss account of the Vegetable Enterprise Group now looked like this.

<i>Cost of production</i>		<i>Sales of vegetables</i>
<i>Seeds</i>	\$ 8	<u>\$75</u>
<i>Fertiliser</i>	\$ 5	
<i>Rent</i>	\$15	
<i>Market stall</i>	\$ 5	
<i>Bags</i>	\$10	
<i>Bus tickets</i>	\$ 1	
<i>Tools (\$30/10)</i>	\$ 3	
<i>Total</i>	<u>\$47</u>	\$47
	<i>Profit</i>	<u>\$28</u>



The Vegetable Enterprise certainly did much better in the second season. So by keeping these two records, the balance sheet and the profit and loss account, the group can see how well the business is doing and try to get better results each season. When the profits start to get high enough, some of the money can be shared out among the group members according to the agreements they made earlier (See Part 2 Step 3). In the early stages of the business, the group members should not expect to make large profits because all businesses need money to be invested to make them grow.

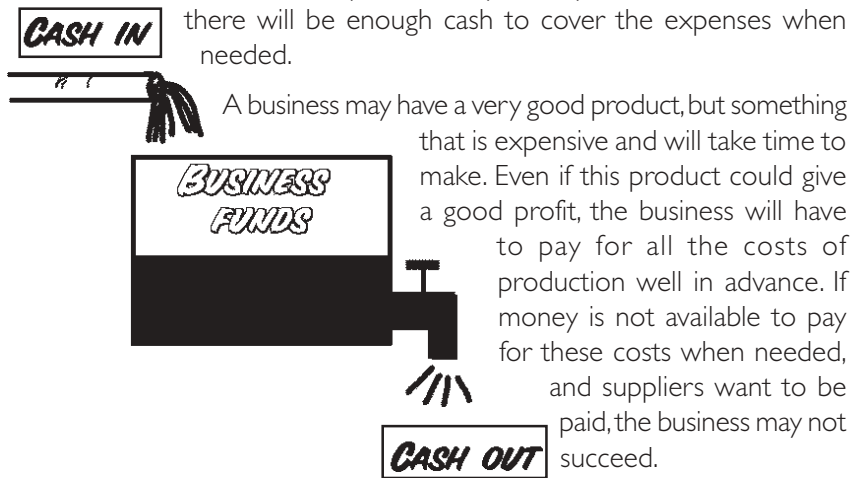


The group should also keep in mind that eventually the tools will need to be replaced and some money will be needed for this. What other costs will occur in the future that will need money to be kept by for?

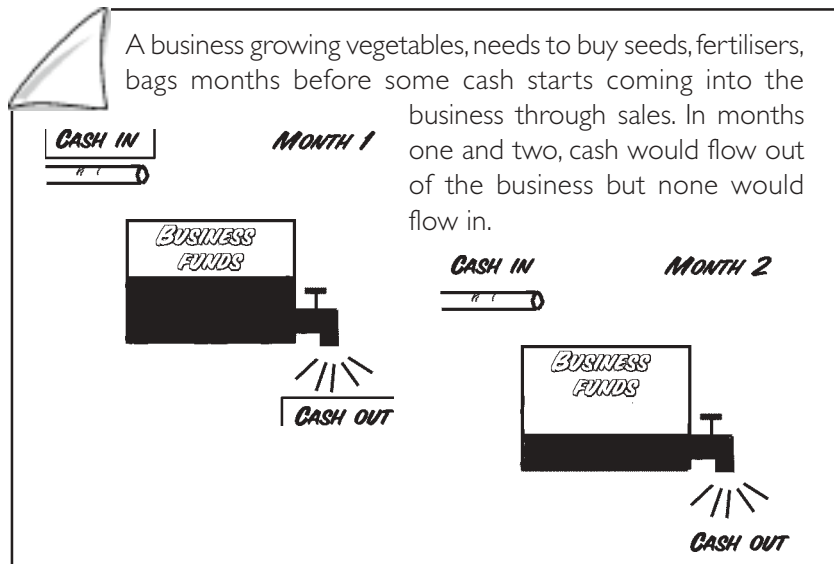
In the early stages the group should be prepared to take as little money as possible from the business. As the business grows however, more of the profits can be used to pay for labour by the group members.

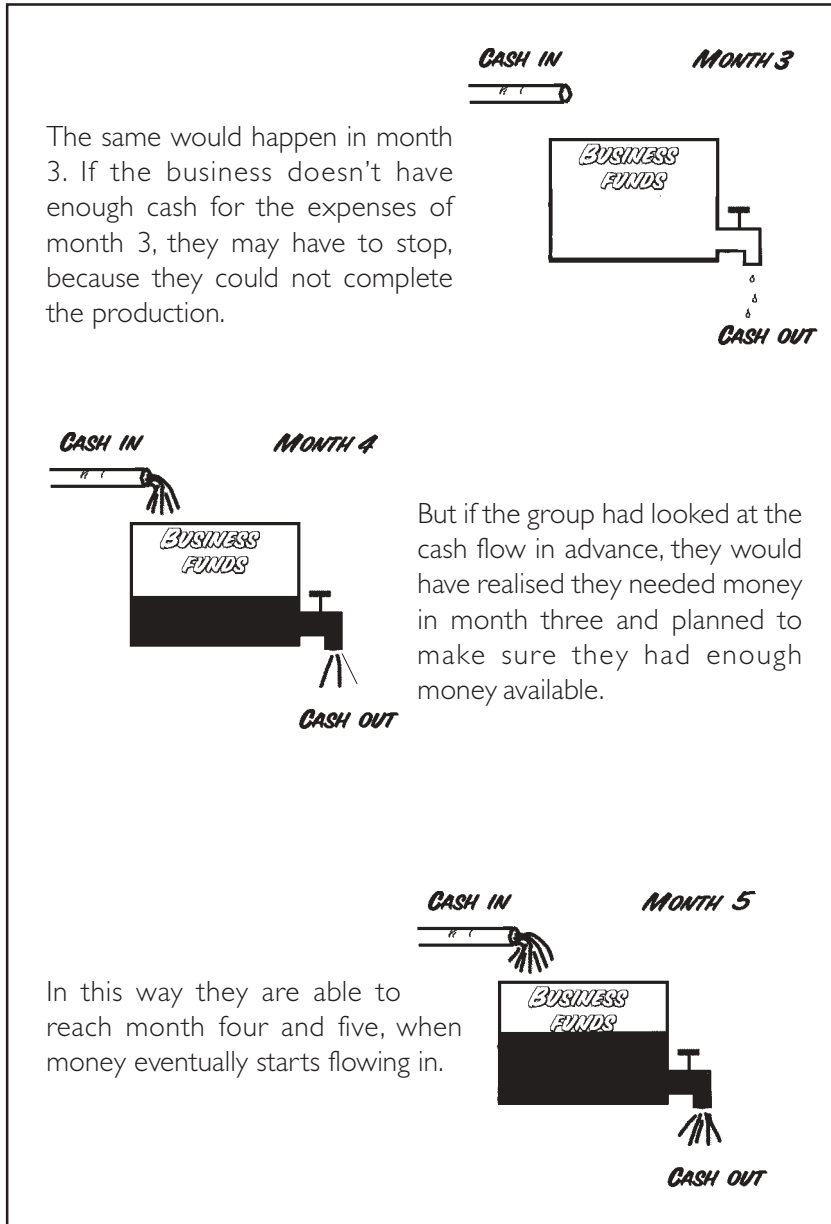
### Cash Flow

One other aspect of keeping accounts which is important to the group is **cash flow**. This means finding out when money goes out (flows out) of the business and when money comes in (flows in), in order to make sure there will be enough cash to cover the expenses when needed.



The GP should explain the idea of cash flow using the following example:





Cash flowing in and out of the business varies throughout the year/season. By preparing a cash flow chart at the beginning of the season, the group will see how much cash they expect to get every month and how much they will need to spend every month. By looking at the difference for each month, they will be able to plan the activities in such a way that they will not run out of cash in the middle of the year. If one month they expect to have to spend more than the cash they will have available, the group should look at the various alternatives in advance.



Ask the group for suggestions on how they could deal with the problem. Add the following suggestions only if they are not mentioned by the group:

- Could one expense be reduced or delayed?
- Could they try to negotiate a late payment with a supplier for that month?
- Could some items be paid for in instalments (a bit at a time) rather than all at once?
- Could each group member make an extra contribution for that month?

For the first cycle of the business, the group should have enough money for everything they need - all fixed and variable costs, plus a small reserve fund for emergencies - before they start.



Using the following example, the GP should help the group understand the cash flow chart and how it helps in running the business by seeing where cash will be needed. Ask questions such as:

- How much cash will be needed in month one? (\$25)
- How much cash will be needed before any cash comes in? (\$33)



A poultry business might have a cash flow chart like this:

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
<b>Expenses</b>						
<b>Start up expenses</b>						
Chicken wire	- 5					
Chicks	- 15					
Feed	- 3					
Feed containers	2					
water containers	- 1					
<b>Operating expenses</b>						
Feed		- 3	- 3	- 3	- 3	- 3
Vaccines			- 2	- 2	- 2	- 2
<b>Income</b>						
Sale of Eggs					+6	+8
Sale of Chickens				+10	+15	+15
<b>Total</b>	<b>- 25</b>	<b>- 3</b>	<b>- 5</b>	<b>+ 5</b>	<b>+16</b>	<b>+18</b>

The minus signs mean cash going out of the business, the plus signs mean cash coming in. The figures in this table are not the same as the costs of the business or the profits made, they just show when cash will be needed and how much throughout the season.

From this chart then, the group can see that in month one, the group will need to have a minimum of \$25 cash from their group savings to cover expenses, in month two they will need \$3 and in month three they will need \$5. After this the cash coming in will be more than that going out.

This business would need **at least** \$33 (25+3+5) of group savings or loans to cover the expenses of the first three months. Some money should also be kept in the reserve fund to be prepared for unexpected problems which might arise in the business (see Part 2 Step 5).

The GP should explain, using the example below, that money going out of the business may be more than money coming in at any stage of the business, not just at the beginning.

For example, in the group poultry business, the group needs to buy more chickens in month 7, which cost more than their income for that month.

Their cash flow chart for the second half of the year would then look like this.

Month	Month 7	Month 8	Month 9.	Month 10	Month 11	Month 12
<b>Operating expenses</b>						
Chicks	-20					
Feed	-6	-6	-6	-6	-6	-6
Vaccines	-2	-4	-4	-4	-4	-4
<b>Income</b>						
Sale of Eggs	+8	+8	+14	+18	+18	+18
Sale of Chickens	+15	+15	+20	+25	+25	+25
<b>Total</b>	<b>-3</b>	<b>+13</b>	<b>+24</b>	<b>+33</b>	<b>+33</b>	<b>+33</b>

In this case then the group would have to make sure they have enough cash available to cover the expenses in month seven as well as in the first few months of the year.



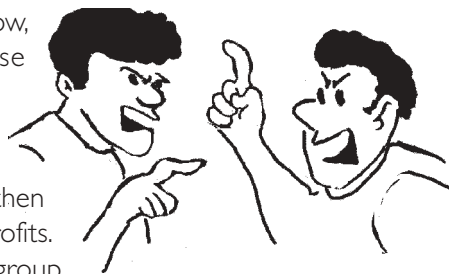
The GP should now help the group to prepare a simple cash flow statement to show when the different amounts will be needed for one complete cycle of their business (from buying all inputs to when the goods are sold).

## Profit or loss sharing among the group members



The profits made by the business belong to all the group and they should decide together what they want to do with them. If the profits are small it may be better to keep them in the business to help it to grow. As profits get larger however, the group members will want to share out at least some of the profits for their own use. Profits should be shared at different times according to the type of business. It will for instance depend on whether the sales are concentrated in one period (e.g. selling vegetables could be seasonal) or spread equally throughout the year (such as making and selling baskets). Whenever the profit is shared out, it is always good to keep at least some of the profits within the group business fund. Some of the profits will be needed for maintenance or replacement of equipment and premises as they wear out (see below).

Deciding how much, when, and how, to share the profits can cause arguments in the group. Some members may have done more work than others or put in more money than others. They may then expect a larger share of the profits. This should be decided by the group as a whole and ideally should be agreed before the work is carried out (see Part 2 Step 3).



Once a business produces a regular income, the group may decide to pay the members wages for the time they spend working for the business apart from sharing out any extra profits each season.

Another problem can be if the business makes a loss. It is very easy to blame others for problems with the business, but often the problems are not due to one person. They can be due to poor planning by the group as a whole. If a loss is made, or very low profits, the group needs to look at every part of the business again to see how it could be improved the next time.

## Maintenance of premises and equipment

All equipment eventually has to be replaced as it gets worn out.

Buildings too need repairs to keep them in good condition. This may be up to the landlord if the building is rented, but often the group will have to carry out their own repairs and maintenance.



It will usually cost more to replace something which has worn out than it would cost to keep it in good condition. Rust spreads very quickly. Once insects get into a store room, they quickly do a lot of damage. The group business will make more profits the longer they can keep their equipment and premises in good condition.

The place where customers come to see the business, the office or sales point, especially needs to be kept looking in good condition as this is an advertisement for the business. If customers see the group's business premises and equipment are falling to pieces and badly looked after, they may think the group cannot do their work well.

**Keeping buildings and equipment in good condition costs little, replacing them costs a lot.**

The group will need to keep back some of their profits to pay for these maintenance expenses as they occur and so should not use up or share out **all** profits. For example if equipment is estimated to last for 10 seasons and cost \$30, after those ten seasons, \$30 will be needed to replace it. The GP should make sure the group is aware of this and keeps part of the profits for maintenance and replacement costs.

## Monitoring the business

How well is the business doing?



Are sales being lost to competitors? Do people still want the product or do they want something different? Are sales increasing or decreasing?

Businesses can be successful at the beginning but they will keep on being successful only if they maintain

standards and keep aware of what happens in their market, making changes as they are needed. That is why the group needs to constantly think about how well or badly their business is doing and keep a check on how their competitors are doing.

The group accountant will need to keep the group informed about the balance sheet, cash flow, and profit and loss accounts, so that they always know how well the business is doing. The marketing coordinator should also keep the group informed of any changes in what the

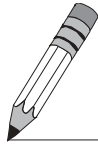


Part 3: Managing the Business

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customers want and on how the competition is doing. Is the group product becoming more or less popular? Are there new products? Have the competition come up with new ideas? Are there new competitors?

During the regular group meetings, any ideas for improving the business or expanding it can be discussed. Ideas should be welcomed and encouraged, not just from the business manager, the accountant, or the marketing coordinator but from any of the group members involved in the business.



## Marketing

What could be done to increase the number of customers for the group's product? Could some improvement be made to make their product more attractive? Better packaging, better or more sales points, pricing - e.g. discounts for bulk purchase, special offers, complementary sales, free gifts etc.

Or could the service be improved? If the group guarantees that the baskets they sell are very well made, maybe they can tell customers that if they find a fault within the first few days and take it back, they will substitute it with a new one at no cost. This will encourage more customers to try out the baskets. If customers are very happy with the product, they will tell their friends and family who may also come.

The group should aim not just to sell their product once to a customer, but to keep their loyalty so that they will keep buying it in future. For example, if bread loaves have been sold to one family, they will need to get them from somewhere again the next day or the day afterwards. It is worth asking them for a regular order or perhaps offering to deliver bread to their house on a regular basis, or give a discount for regular sales.



Discuss with the group, how else they could try to keep customers. Ask them:

- Who do they prefer to buy things from?
- Why?

Even if just selling vegetables, it is important to offer a pleasant service to the customers. Being friendly, remembering a customer's name and saying something more personal will help make the customer feel that s/he is getting a better service. If they think that the vegetables are the same quality as in other stalls, but the group enterprise people are friendlier, they will prefer to buy their vegetables from the group stall. It is however worth stressing to the group that, unless the quality of what they sell is at least as good as that offered by other businesses, smiling to the customers will not have any effect.

If the group believes there are more potential customers it may be in a position to start expanding the business.



Discuss with the group whether they believe there could be more customers and how to attract them:

- Could customers come only from within the community or also from outside?
- Could the group's product be changed to appeal to others in the community who do not buy it at present?
- Could customers be encouraged to find new customers? (e.g. 'bring a friend and get 10 cents off your next purchase')
- Could the group produce other products which go together with it, so that customers would buy both?

For example, If the group makes fuel efficient stoves, perhaps they could also sell firewood? Or cooking pots?





A baker's business could open a tea shop where people could eat their cakes and drink tea.



### Promoting the business

Unless people know the product is for sale, they won't be able to buy it.

During the planning stage the group will have discussed how the group's product could be promoted. Posters in the community can help to advertise the group's product. Another method is to call at each house and sell the group's product door to door. If the community has group meetings of any kind perhaps the group's product could be advertised or demonstrated there. A signboard



by the sales office or production place can help so that everyone who comes by can see what the group makes or does.

Advertising the business should not just be thought of as something which is done to start up the business, but as something to continually think of to increase the number of customers who know about the group's product. When a poster or signboard has been seen for a long time, people stop noticing it, much like when you first put on a watch or a ring, you are always aware of it. After a while though you only notice it if you take it off. It is the same with advertisements. After a while people stop noticing them. It is then time to make a new poster or other type of promotion.

The group should therefore try to think of other ways to advertise their product and make people aware of what they do. Any new product introduced by the business should also be advertised.

In deciding how to advertise the product, the group should consider cost. Whatever is spent on advertising will have to be cost effective. This means the advertisement needs to lead to more sales and so make extra profit for the group.

If the cost of a new poster is \$10 the group should expect making an extra profit of more than \$10 because of more sales due to the poster. In some cases, if there is a lot of competition for the same customers, advertising may be needed just to keep the same number of customers, i.e. the group will not make more profit if they advertise, but they will make less if they do not - which is almost the same thing. In other words, whether it is to increase customers or to stop them buying from competitors, the advertising must be worth what it costs to make it.

Good packaging and presentation can also help to promote the group's product by making it appear more attractive than the competitor's.

Promotions are another way to get new customers and also to reward long term customers for their loyalty (and so help to keep them as future customers) - Samples, special offers, free gifts, selling or giving away related products (e.g. free firewood with every stove). These are all types of promotion which can make the group's product more attractive to the customers compared to the competing products. Buying the 'free



gifts' in large numbers makes them much cheaper to the group than their value to the customer.

A promotion also appears as an event, something new, something more people will go to. People are naturally interested in anything new and different and so will be more likely to come and see the group's business if they see that something new is happening.



Discuss with the group possible ways to attract new customers as well as ways to sell again to the same customers. The main ideas will probably come from those dealing with marketing and sales since they

deal directly with the people who buy the group's product and will be more aware of what the customers want or would like more. Any of the group members though could contribute ideas from their own experience.

## Expanding the business

The group should consider expanding the business when:

- the business is going well, and profits are good
- AND sales are good and expected to grow further
- AND the market is large enough.

Expansion always involves more costs (remember the business start up costs). So the group should not expand the business too quickly or they may find they have spent all their money and there are not enough customers.



Planning the expansion should be done in the same way as planning the business start up. There should be a feasibility study covering most of the points covered at the beginning for the business, as well as a similar planning phase.

How should the group expand the business?

Should they just make the business larger in one place (grow more vegetables, produce more pots, have a bigger butcher's shop?)



or start up more small businesses - either the same business in different places or new businesses?



If the business expands, will there be enough customers? Or will they have to start selling in other communities?

Could other shopkeepers help to sell some of the group's products? Most businesses can also be expanded not just by making more of the same but by making complementary things or providing a complementary service.

The GP should discuss with the group different ways of expanding the business when it becomes successful enough.

## Financing the expansion

If the group business is very successful, they may well be able to save enough to expand the business from their own group savings. Often though, outside funds will be needed and at this stage banks, some NGOs and perhaps Inter-Group Associations (see next chapter) may be able to provide loans to help the group start up a larger operation.

### Bank loans

When money is borrowed from the bank, it usually has to be paid back with interest. In Islamic countries,



banks do not charge interest, but borrowing money is still not free, a charge is made by the bank according to the amount borrowed and the length of time it is borrowed for. This means that the amount of the loan has to be repaid plus a certain amount on top of the loan which varies with the bank or other institution.

The Vegetable Enterprise Group may need to borrow \$120 from the bank and they agree they will pay it back over 12 months. This means that they would have to pay  $\$120/12 = \$10$  every month in order to pay back this amount.

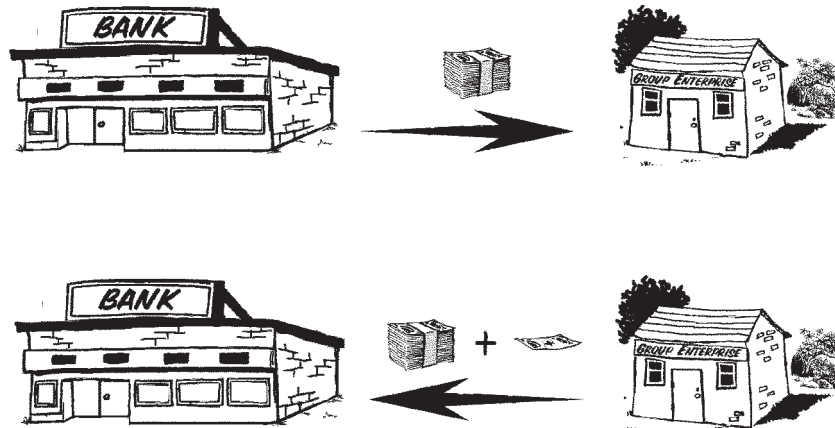
However in this case, the bank also charges them \$1 extra for every \$10 they have borrowed (10%). Therefore the group now has to pay back \$120 plus \$12 i.e. \$132 in total.

$\$132/12 = \$11$  per month instead of \$10.

If the bank had charged \$2 for every \$10 (20%) the group would have to pay back  $\$120 + \$24 = \$144$  which comes to

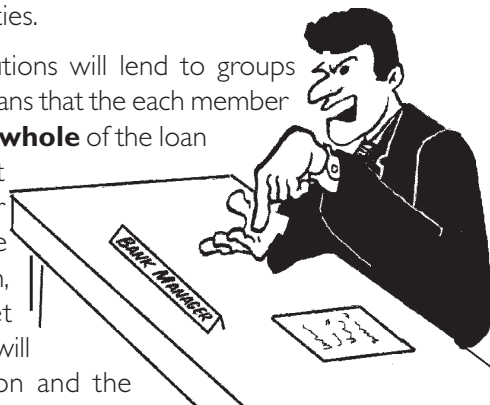
$\$144/12 = \$12$  per month.

So the higher the **interest rate** or **bank charges**, the more money the group will have pay back to the bank.



Of course, if the group can borrow money without paying interest or bank charges, this is much better for them because they will make more profits. However, it can still be worth borrowing money from a bank when the group has shown their business can be successful and that they will be able to make more money from the business than they will have to pay back to the bank in borrowing the money. They need to be sure of this though and it is usually better to start with a small loan and show that the group can successfully pay this back before borrowing a larger amount. Often groups borrow more than they can use properly which leads them into difficulties.

Most banks and other institutions will lend to groups using **group liability**. This means that the each member is responsible for repaying the **whole** of the loan and if one member does not pay their share, the other members must pay. Also, if the group does not repay their loan, they will not be able to get another loan in future and this will damage both their reputation and the chances of other groups getting bank loans.



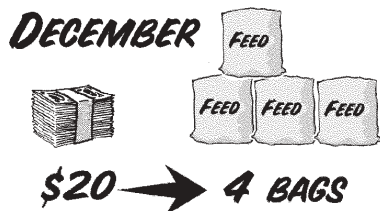
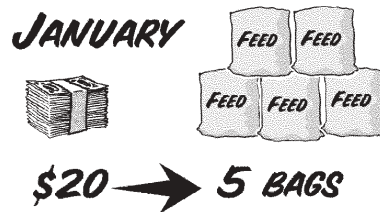
While explaining how a bank loan works, the GP should however explain to the group that a loan needs to be considered very carefully. Failure to repay it (because of a sudden drop in sales or when something unexpected goes wrong with the business) can bring legal problems and also lead to the bank taking over the group's business.

When thinking of borrowing money, the group should look carefully at its ability to repay the loan by making a realistic estimate of how much more profit they expect to make if they use the loan in the business. If the expected increase in profits would not cover the bank charges, the loan is not a sensible idea.

### Inflation

Inflation means a general increase of all prices throughout the country. It is related to how well or how badly the country is doing as a whole and is therefore something the group cannot do anything about. Having high inflation means that prices keep rising making it much more difficult to plan ahead for costs.

For example, bag of feed which cost \$10 last year, now costs \$12. Similarly a chicken was sold for \$4 last year and can now be sold for \$5.



The feed and chicks have to be bought at prices which keep going up as the chickens are raised. If inflation is very high, the group can run out of money to raise the chickens before they are old enough to sell. Although they would be able to sell them for a higher price this year than last year, they may run out of money too early. In other words, they will have a cash flow problem. In places which have high inflation, the groups therefore need to have a much higher level of savings to finance the business until sales are made.



## ***SUMMARY***

**By now the group will have understood:**

- The reasons why records help make the business more successful

**The group Accountant will be familiar with:**

- The Balance Sheet
- The Profit and Loss Account
- The Cash Flow.

**The group will have also decided when and how to share profits and how to deal with loss and will have looked at and discussed:**

- Maintenance of buildings and equipment
- Ways to monitor how the business is doing
- How to keep customers and increase their number
- When and how to expand the business and how to finance the expansion.

The group should by now have most of the ideas they need to run their business.

Let's now consider the role Inter-Group Associations can play in supporting the development of a group enterprise.





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Part 3: Managing the Business

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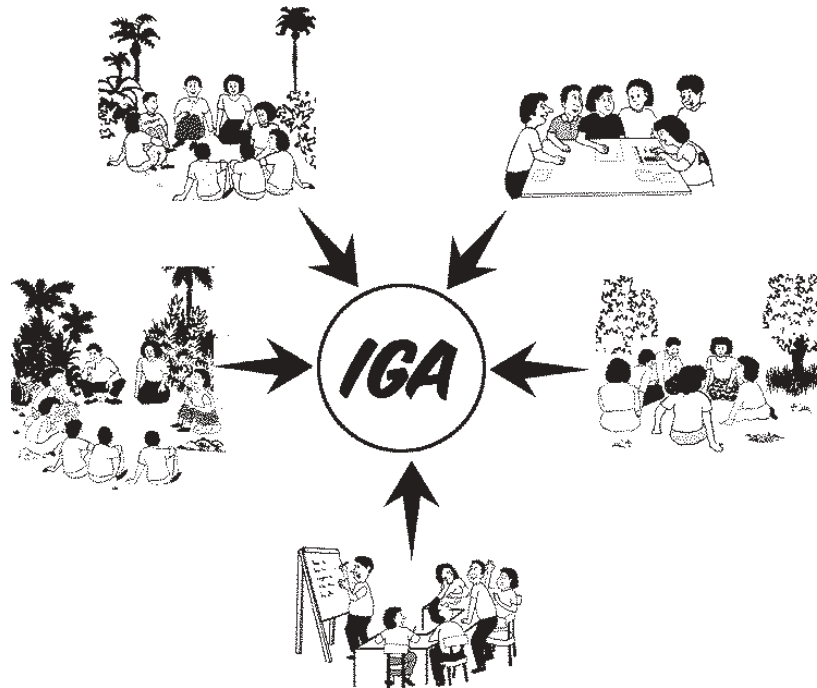
## Part 4

# The Role of Inter-Group Associations



An Inter-Group Association (IGA) is an informal federation of a number of groups who have decided to help each other in areas of common interest. The purpose of an IGA is to help share information between groups, improve access to resources and represent the interest of groups within local bodies. Groups running small businesses can greatly benefit from being part of an IGA, through offering the individual small businesses some of the advantages they would have if they were running a bigger business. Advantages may include:

- Easier access and lower prices through buying inputs in bulk
- Joint marketing of their products
- Access to services which could not easily be achieved by a single group (e.g. technical assistance, credit).



Successfully run in a number of countries, IGAs can play an important role in rural development by linking together groups in a network which can then effectively represent large number of individuals. They increase the potential for success of small group enterprises hence contributing to improvement of standards of living in rural areas.

IGAs are not necessarily all organized in the same way, since each one develops to address the specific problems member groups encounter in their area.

Once groups have been running successfully some time (usually two to three years) the GP should discuss with the group the possible advantages of forming an Inter-Group Association and how the individual group businesses might benefit from it. Whenever the GP is aware of groups within the areas which might benefit from getting together in an IGA, s/he should inform the groups and try to arrange for them to meet.

Not all groups can benefit from being part of an IGA, so the GP should look carefully with individual groups at the advantages and disadvantages to them.

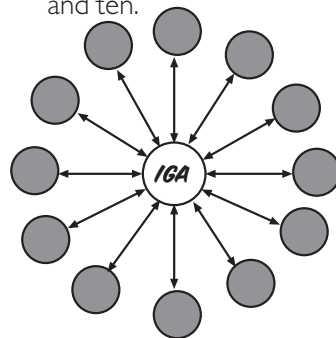
### Which groups should form an IGA?

In general, the most successful IGAs are formed by:

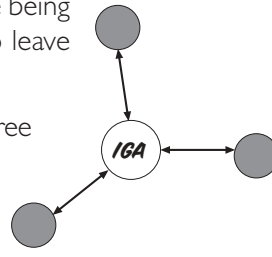
- Groups which are within easy reach of each other.

When groups are far apart it is more difficult to get together and decisions end up being made by a few people instead of being properly representative. If groups do not think they are being properly represented they may well want to leave the IGA.

- A small number of groups - usually between three and ten.



If more groups become involved in an IGA, it becomes more difficult to manage. A larger number of groups will also mean that the individual groups come from a larger area, which may also lead to problems (see above).



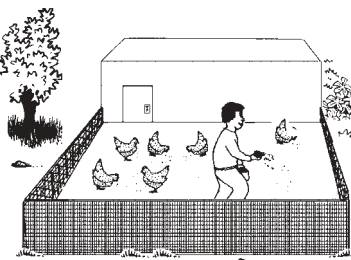
- Groups which are involved in similar income generating activities.

When groups are involved in very different activities, they do not share many common interests and problems, which make it difficult for the association to deal with all problems with the same effectiveness.

On the other hand, if group activities are exactly the same and groups are from very nearby, they may be competing with each other. In this case, while an IGA could still be useful, it should not focus only on helping them reduce costs through bulk purchase and joint marketing. It could also assist them to market their product over a larger area, helping them reach a large enough market for all of them.

For example, if several groups are involved in raising chickens, the following activities could be done through an IGA:

- Buying chicken feed in bulk
- Arranging for someone to vaccinate all the chickens of the different groups
- Getting advice on better feed or improved poultry methods.

An illustration showing a person standing in a fenced-in chicken coop, feeding several chickens. There is a small building with a door in the background and some trees to the left.


If the market is small, however, there might not be room for all the different businesses. Even if the chickens are of better quality and sold at a lower price, there would be a limit to how many chickens local customers would need to buy.

Instead of turning member groups into competitors fighting for the same customers, the IGA could help them sell chickens in nearby markets, perhaps organizing transport to other villages.

When groups are involved in different businesses, an IGA will not be able to help with bulk purchase of inputs, but could assist in areas such as joint marketing of group products, and representing the groups to government agencies, banks etc.

If one group produces baskets, one chickens and one vegetables, an IGA could help all three groups by:

- Getting their products to the market
- Setting up a joint market stall
- Getting a loan from the bank
- Acting as a representative for all of them in raising their problems with local authorities.

An illustration showing three woven baskets, a bunch of leafy vegetables, and a single chicken.

The GP should therefore discuss with the group the various ways an IGA might be useful, to help them decide if it would be worth setting one up. As with groups themselves, an IGA should start with simple, realistic objectives and not try to be too ambitious or do too many things at once. If different groups and group members would like an IGA to deal with different problems, the GP should help them to decide which objectives are most important and should be considered first.

### Forming an IGA

An IGA may already exist in the group's area or, if not, groups may decide they would like to form one after discussing how it would help. The formation of an IGA goes through a number of stages, from the willingness to get together with other groups, through to the approval of an IGA constitution.



Once a number of individual groups agree on the advantages that such an association could bring to them, the

GP should help them get in contact with each other. If there are many groups in one area who want to form an IGA, it may be better to consider forming more than one IGA. It is usually very helpful if different groups

hold a meeting to informally discuss their activities and the problems they face. All group members should be part of this first meeting.



Once common problems are raised, groups usually become very receptive to the idea of doing something together to address them.

The GP should help the group discuss what common problems could be dealt with through an IGA.

The next stage in forming an IGA will be for each group to appoint representatives. The person appointed from each group to represent them should:

- Be interested and willing to take up the role
- Have a direct interest in the issues and problems that the IGA will try to deal with
- Be good at talking with people
- Be trusted by the other group members.

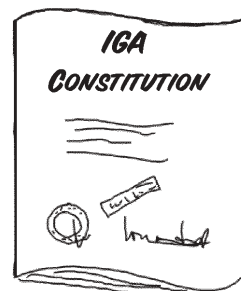
A second meeting should then be arranged at which the group representatives should talk through in more details and agree which common problems they should look at together through the IGA. They also need to set out some clear objectives for the IGA, which should serve as guidelines for their future activities. In setting these objectives it is important to:

- Be realistic
- Choose a limited number of activities where the association could be more effective than individual groups.

The group of representatives should then begin to draft a constitution for the IGA which would need to be discussed and approved by all of the individual groups at their own meetings.

As with the individual group constitutions, the IGA constitution should cover aspects such as:

- The purpose, aim and objectives of the IGA
- Membership regulations
- Frequency and purpose of meetings
- Roles of representatives
- How to deal with disputes





- What records need to be kept.
- How the IGA should be financed
- What is done with group contributions

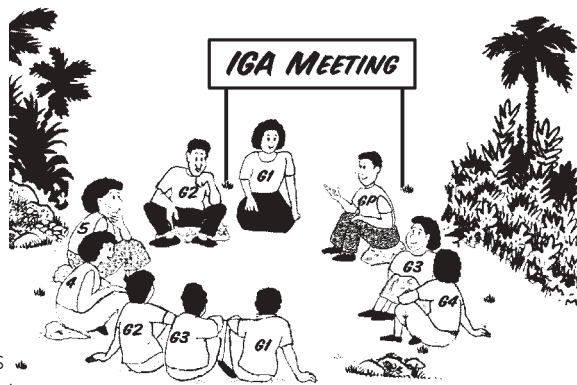
Organizing and running an IGA will benefit individual member groups but it will also cost some money for things such as paper and pens, and transport. The IGA may also decide to set up an 'emergency fund' to help individual members when needed. All these costs will have to come from group contributions.

### Running an IGA

Once objectives for the IGA have been set, a constitution approved and member group contributions put together, the IGA is ready to start its activities.

Group representatives will need to meet regularly. Other group members should however be welcome to take part in meetings where important decisions are taken.

Much as in an individual group, roles will need to be allocated at an early stage. Someone will have to be responsible for handling the funds, someone should be appointed as Chairman of the IGA,



someone else as Secretary. According to the objectives of the IGA, there may need to be people responsible for specific activities. For example, if bulk purchase is a main objective of the IGA, it is advisable to appoint somebody to coordinate the activities involved (looking for suppliers, negotiating deals, arranging for deliveries to different groups, etc.).

Records need to be kept of group membership, contributions, and how money is used, in much the same way as for individual groups.

## What services can IGAs provide to members?

### 1 Bulk purchasing

Buying a large amount of anything is usually cheaper than buying small amounts. Since a small group needs less of any input than a larger group, it can make sense for the groups to purchase a large amount, enough for all the groups together, then distribute it to the groups as needed. Buying larger amounts means that the group has greater bargaining power and so can get a lower price or can buy from a bulk supplier instead of a small retailer:



For example, if several groups in an IGA grow vegetables, each group will need seed and fertiliser. If they buy only 50 Kg fertiliser each, it will cost more than if they can buy 200 Kg at a time, which could then be shared by four groups.

### 2 Assisting groups with financing

The IGA can help groups with financing in several ways:

- **IGA Saving Fund**

The IGA could establish a Savings Fund in which member groups could put their extra profits. This amount could then be lent out to those member groups needing extra cash.

This could be, for instance, to overcome a shortage of cash at some stage (cash flow problem), or for emergencies, or to finance an expansion.

Borrowing money from the IGA may be easier than borrowing money from the bank. The IGA could charge the group borrowing the money and, once the loan has been paid back, the extra charge could be put back into the group savings fund to help it to grow.

- **Bank Loans**

The IGA could help member groups with preparing loan applications for local banks.

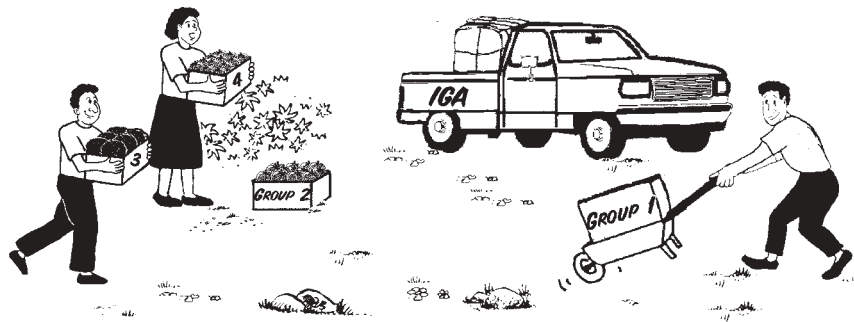


When several member groups need a loan, the IGA could negotiate a joint amount with the bank, getting possibly more favourable conditions since the amount is higher. Much as in the case of bulk purchasing, the IGA would have stronger bargaining power. The loan can then be split among the members that would have applied for it individually.

Groups may find advantages in keeping some or all of their funds with the IGA. This can help groups to save money regularly by formalising contributions. The money could then be kept in a bank Savings Fund. Banks often give more favourable conditions when more money is saved and so it can be helpful to groups to keep their money in the same account.

### 3 Joint marketing

As with joint purchase of materials, an IGA can help with marketing of the group products. Travelling to the market can be expensive and it may not even be necessary for all groups to send someone to a market to sell their products. One or two representatives could do this on behalf of all the groups to save on transport costs.

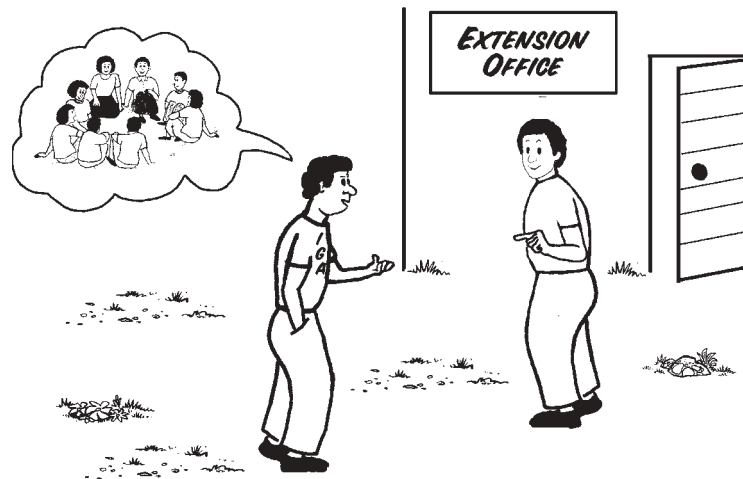


With some products it may also be easier to sell them in bulk to a trader than to sell them individually. There can be strength in numbers and a better price may be negotiated with traders if the groups are represented by a larger IGA. This is not always true though, and in some cases, the groups may want to go themselves to see their products sold as they may think they can get a better price than someone else would be able to get for them.

Another advantage in joint marketing is that a number of different products could be sold through one shop or market place by the IGA. The IGA might also be able to arrange the sale of group products or services through a number of different places which the individual groups may not be able to reach alone.

#### 4 Representing groups to government and other service organizations

An IGA represents a large number of people through their individual groups. It can therefore represent them to local government agencies and other organizations more easily than the groups can alone. Agricultural extension agencies, rural development organizations, NGOs etc. can always work more easily through organized groups than they can through individuals. The larger and more representative the group, the more easily such organizations can help.



For example, extension advice cannot easily be given to individual farmers, and so they often work through farmers groups. Extension workers in any field - agriculture, health, nutrition etc., can be contacted by IGAs to arrange advisory visits to individual groups or group members from a number of groups. In this way, advice and contact with organizations can be arranged which would otherwise be difficult or impossible.

Sri Lanka and Zambia are two countries which have developed networks of IGAs. The networks are now widely used by extension agencies to deliver their messages more effectively. Government agencies, NGOs and international agencies have also begun to favour areas with strong and active IGAs. They prefer to give assistance to those areas, since they find IGAs an effective network to deliver their services.

## 5 Arranging training for group members

An IGA may also be able to arrange specific training courses for groups, or a few group members in a number of groups, with the assistance of government departments, NGOs etc. Contacting individuals to arrange a training course can be very difficult, but if the groups themselves request training through an IGA, rural assistance organizations are often willing and able to arrange the training needed.

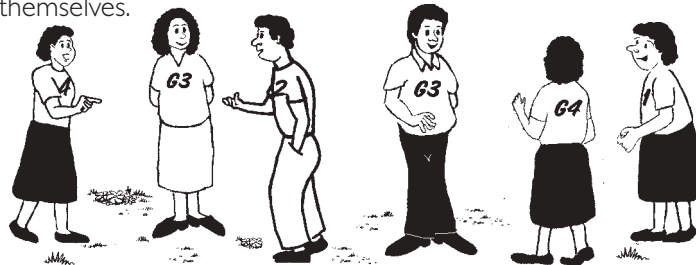


## 6 Exchange of ideas and information between groups.

By sharing experiences, groups may be able to overcome many of the problems they inevitably have over time. One group might have experienced the same problem before and be able to provide some useful information on how they managed to solve it.

But even without problems to solve, by talking to other groups, they may get to know about new opportunities for improving their product or expanding their business. For example, one group selling vegetables can inform an IGA fellow group, involved in a chicken business, that nobody yet sells chickens in a village market they normally go to.

Finally, simply being in contact with other groups helps strengthen the groups themselves.





## ***SUMMARY***

**Inter-group associations can assist groups to help each other through:**

- Bulk purchasing of inputs
- Group finances (savings funds and loans)
- Joint marketing
- Representation of groups to government and other service organizations
- Arranging training for group members
- Exchange of ideas and information

Forming an IGA can be extremely useful to the individual groups. When groups have reached a suitable stage, working together with other groups through an IGA should be considered.





**E**mployment opportunities are usually very limited in rural areas. Self employment in small enterprises can make it possible to generate the income to satisfy needs and improve the standards of living.

This book shows in simple illustrated steps how small enterprises can be developed and run by small groups in rural communities using a participative approach. It is intended for use by **Group Promoters (or GPs)**, extension workers and other rural development staff to help existing groups to set up and run their enterprises.

Formation of the groups themselves is covered in 'The **Group Promoter's Resource Book**' - also available from **FAO**.