



Information Booklet

Business Startup

1

PREPARE YOURSELF FOR BUSINESS

for SMEs



Introduction

Small and Medium Enterprises Development Authority (SMEDA) works under the Ministry of Industries and Production, Government of Pakistan and was established in 1998 with the objective to propel economic growth through development of SMEs. SMEDA serves as an SME strategy-advisory body for the Government of Pakistan and facilitates partners in meeting their SME development agendas.

SMEDA envisions growth of a globally competitive SME sector (in Pakistan), through creating an enabling environment and support services for increase in the national economy. SMEDA strives to achieve this vision by providing assistance in employment generation and value addition to the national income, through development of the SME Sector, by helping increase the number, scale and competitiveness of SMEs.

National Business Development Program for SMEs (NBDP) is a project of SMEDA which intends to provide hands-on support services to SMEs. The aim of this business development support provided by NBDP is to advance new businesses and improve efficiencies in existing SME value chains to empower them to contend in global market. NBDP expects to facilitate around 314,000 SME beneficiaries over the period of five years.

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Objectives

- To explain the benefits, preparation and aspects of owning a business.
- Provide details about the management skills, industry expertise, technical skills, finance, long-term vision and plan for a successful business.

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a Benefits of Owning a Business



Position of Control

When one builds his/her own business, they do what they want, how they want, when they want. The business owner develops the product or service to the level he/she thinks is best. They have systems and routines that work best for them.



Opportunity to Build Something

Whether one loves cooking, gardening, helping people reach their fitness goals, finding deals to sell online, or doing math, he/she can create a business out of nothing that taps into their interests. The owner of a business gets to shape and flesh out the dreams.



Chance to Help People

96% of small business owners said that being able to help their customers and clients was one of the top benefits of owning a small business. Small businesses also help people by creating jobs in their communities and being good community citizens.



Option of a More Flexible Lifestyle

For women, especially, owning a business can give the lifestyle flexibility necessary to raise a family and still have a successful career. There are more than 11.6 million businesses owned by women generating over PKR 263 trillion in sales.



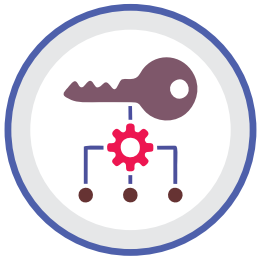
Bring a Revolution

Many business icons started with an idea that has changed the world. From Disney to Zuckerberg, and Bezos to Gates, all of them had ideas they built an empire around. Many of these companies were started from their garage.



Earning More Money

Granted, statistics on business success can seem grim. There is approximately a 50% success rate to five years. There is much one can do to improve the chances of success, and in fact, depending on the goals, opening a business might be a better financial option. With a business, one is more likely to earn what is worth, especially if the person is a woman. Instead of earning 79% of what a man earns, a woman can charge her value in a business.



Key Factors that Influence a Person to Own a Business

There are number of factors that effect a person's decision in choosing to do business rather than doing a job. Some of these factors are internal to the entrepreneurs' personality and some are external in the environment.

The internal factors are called entrepreneurial characteristics and they include:

1 Entrepreneurial Orientation	2 Creativity	3 Tolerance for Risk	4 Responsiveness to Opportunities	5 Self-Motivation
6 Leadership	7 Tenacity	8 Passion	9 Hard Work	10 Ability to Take Advantage of the Situation

All of these traits are important for an entrepreneur. Some of these factors are more significant and some are less in individual cases but they all exist in some degrees in almost all the businessmen and women. It is believed that they can be nurtured as well, for entrepreneurial initiatives.

External factors include political environment, local market situation and location in particular. Some people can succeed by changing locations as well to try a business idea, as some locations are more favorable to germination of certain businesses. However, there is an interesting dilemma in knowing about the end result, one cannot be sure unless one tries and succeeds.

b Personal Assessment (SWOT Analysis)

A SWOT analysis is an incredibly simple, yet powerful tool to help assess and develop any business strategy, whether one is building a startup or running a business of their own or guiding an existing company.

How to Conduct a SWOT Analysis for Small Business



For doing SWOT, seek opinions from the social circle including friends who know a little about the business or entrepreneurial skills, the accountant, or even the vendors and suppliers. The key is to have different points of view.

A SWOT analysis is part of the business planning process. It will help to chalk down a strategy in the right direction.



Remember, things are constantly changing and information should be updated every 6 to 12 months.

c Assessing Market and Trends

Assessing market demand for different products and services and their trends is one of the most important external factors for an entrepreneur. This is a common tool to have overview of the current market situation and determine future prospects for business. Following are the five ways to gauge future trends in the market space:

1. Talk to the Customers

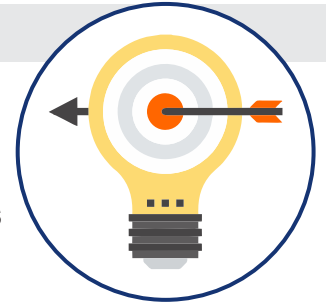
Customers are a valuable resource that can provide information, without hiring a marketing research company or crunching numbers for valuable insights into the market. This will not only improve the understanding of the market, it may also give ideas about new trends and more opportunities.



2. Access Demographics

Assessing demographic changes and trends in the business area can reveal significant information about market opportunities or difficulties. If a business sells pocket books and perfume, it is useful to know if the female population of the city has increased by 20 percent over the last decade as the trend will likely continue.

Similarly, knowing about household income information can help to find out whether one should go more upscale or sell cheaper products and information about the ethnic changes in the city or town can give a better idea of who the business will be selling to in the future.



3. Note Real Estate Changes

Knowledge of local real estate market can give an invaluable information, which can affect any business. If new residential and commercial societies are being formed and are occupied by new inhabitants, it means there is a strong probability that additional money will flow into the community, that may lead to business growth.



4. Social Changes and Mobile

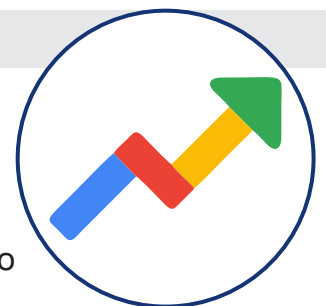
The way we get our information has changed rapidly in recent years with dramatic consequences for static businesses such as conventional stores. A decade ago, few people would have realized we would be doing much of our shopping for goods or services on mini computers that fit in our pockets.

Small businesses usually do not spend much time predicting future technology trends, although reading commentaries online can help. Furthermore, talk to young people and find their likes and dislikes as they are future clients or customers.



5. Industry Trends

Knowing about industry trends and emerging scenarios is important for any business. It is hard to be one step ahead of the competition if one does not know what they are doing. There are many indicators of industry trends. In a local context, chambers of commerce or local authorities will often put energy and resources into reports about business trends.



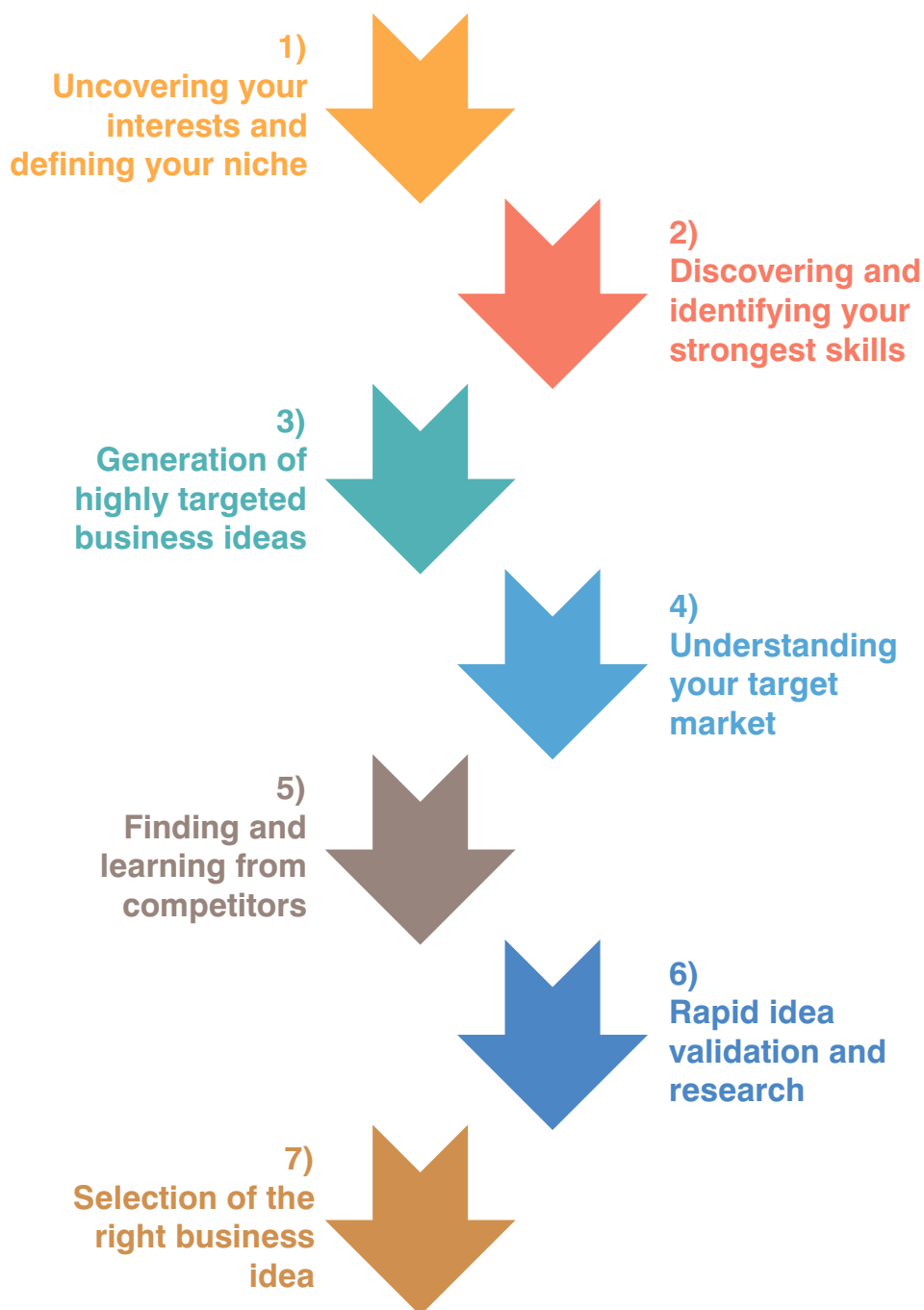
d) Generating a Business Idea and Selecting Product/Services

Not only to succeed as an entrepreneur but also to start a business, one must develop the ability to select and offer the right products or services to customers in a competitive market. More than any other factor, the ability to make this choice will determine business's success or failure.

There are thousands of products and services available to customers today. Similarly, there are unlimited opportunities for a person to enter the marketplace and compete effectively with a new product or service that is better in some way than what is already being offered by competitors. Remember, the skill at choosing that product or service is critical to success.

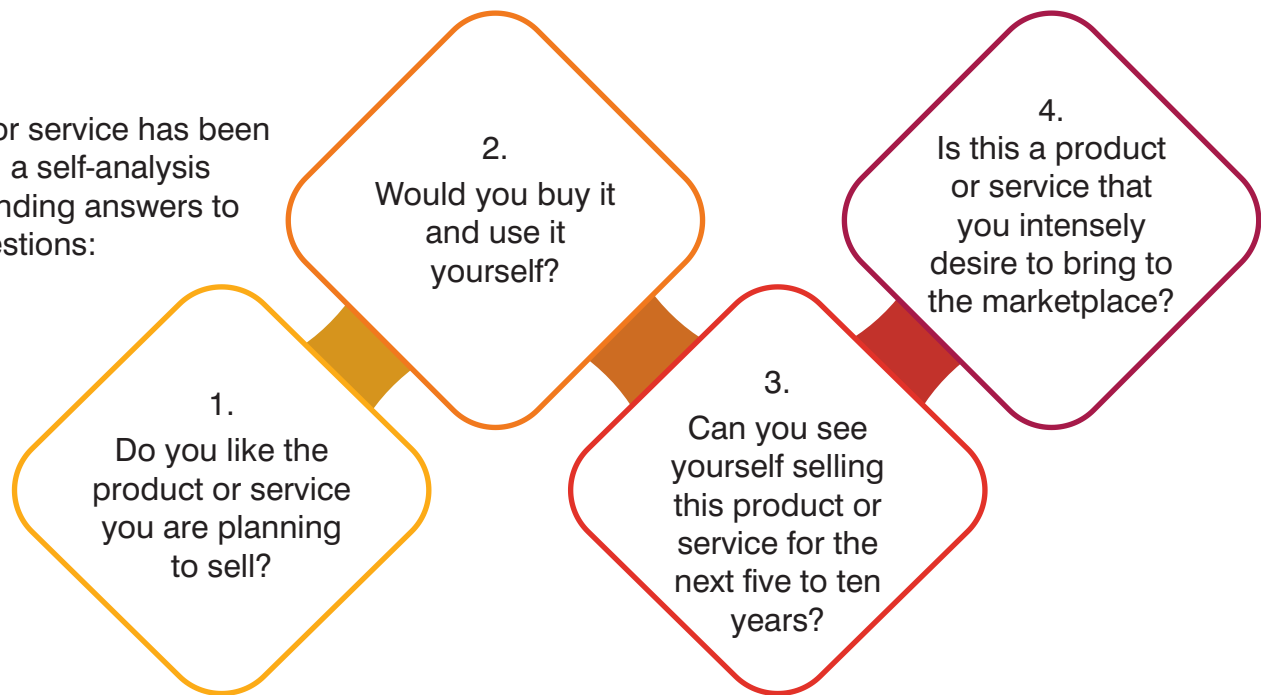


FINDING A PROFITABLE BUSINESS IDEA



The most important thing one can do before deciding what to sell is to think about different options. The more one thinks about different options, the better decisions will be. Use different evaluating techniques for short listed options and compare the results.

Once a product or service has been selected in mind, a self-analysis should start by finding answers to the following questions:



Then analyze the product or service from the customer's point of view:



e Consulting Business and Legal Experts

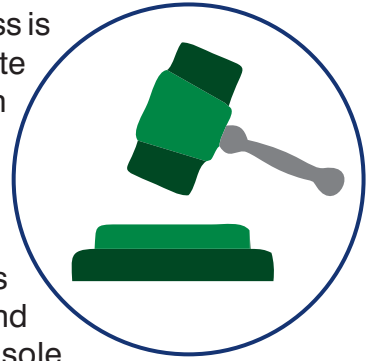
There are legal and business consultants to assist in the business decisions and operations. The legal consultants' responsibilities comprise of providing legal advice, analyzing and identifying the legal issues, drafting the legal documents, maintaining correspondence, etc., whereas the business consultants helps in business management so that the organization earns maximum profits and that there are no difficulties faced by the organization. These professionals are needed to guard the company against the possible legal and business complications. These professionals may have some particular legal or business expertise like property, tax, real estate, intellectual, securities, etc. The role and duties will vary according to the field they excel in and will depend on the terms of reference of the employer/ entrepreneur as well.



f Understanding Legal Framework

Each business owner must understand the relevant laws under which the business is operating. There are no legal restrictions or requirements for a business to operate other than incorporation and registration for tax, in addition to compliance with the regulatory authorities like the Provincial Food Regulatory Authority for food business and Drug Regulatory Authority of Pakistan for drugs business.

The business can be registered as a sole proprietor, partnership or as a private limited company (PLC) depending upon the number of sponsors and their wishes for formalization. They can be registered with FBR for sole proprietorship and partnership and SECP for PLC. The tax registration is also simple for sole proprietorship or partnership. The National Tax Number or NTN which can be acquired from the FBR. Tax registration for Private limited company is also at the FBR.



Similarly, there is requirement for GST registration for all types of businesses, if they deal in new goods. For a business to thrive, it needs to take full advantage of the market opportunities without any legal hitches undermining the viability of the business.

g Preparing a Business Plan

It is important to have a business plan, particularly when starting off a new venture. Although there is a fairly well accepted structure for a business plan format, there are many ways of putting it down on paper. There are three primary parts of a business plan:



The Business
Concept



The Marketplace
Section



The Financial
Section



Most entrepreneurs feel that they may need assistance putting together the financial information, which is perfectly acceptable if they do not have a financial background, but make sure to get an accountant to explain what all the figures mean.

The standard contents of a business plan include:

Executive
summary

Description
of sponsors
and general
company

The business
opportunity

Industry,
competition
and market

Business
strategy

An
appendix

1. Executive Summary

This is a summarized overview of the plan. It aims to present the key points of the plan with the objective of preparing the reader for the upcoming content. Written at the end, it is clear and concise account of the plan.



2. Description of Sponsors and the Company

Write down a concise brief of each of the sponsors including their business experience and the company with any relevant details about commercial activities undertaken so far. This may also describe how business ownership is structured.



3. The Business Opportunity

Explain the proposed products and services the business will provide and highlight the areas of greatest potential in growing the business. These opportunities could include opening up a new market, new product initiatives or a new approach to an existing market.



4. Industry, Competition and Market

Conduct an industry and a competitive analysis, which assesses the general industry environment in which one competes and which identifies the competitors and analyzes their strengths and weaknesses. Similarly, a target market analysis should be conducted, which identifies and quantifies the customers that will be targeted for sales.



5. Business Strategy

i. Marketing Plan

To grow a business, one needs a marketing plan. The right marketing plan identifies everything from:

1.
Who the target customers are?

2.
How to reach them?

3.
How to retain the customers so they repeatedly buy from the business?

Devised properly, a marketing plan will be the roadmap a business follows to get unlimited customers and dramatically improve the success of the organization.

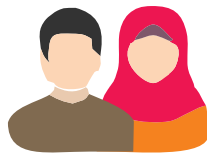
DOES YOUR ONLINE MARKETING STRATEGY MEASURE UP?

ATTRACT



Have a strategy with clear aim and goals.

CONVERT



Know the customer base and customer destination.

EXPLORE



Embrace social media e.g., Google+, Facebook and Twitter etc.

DELIGHT



Monitor and measure website hits and online sale rates.

ii. Technology and Infrastructure Plan

A strategic technology and infrastructure plan assesses the current technological strengths and weaknesses, then establishes a roadmap to align technology and infrastructure with the way the company wants to do business. In most cases, it is also about procurement of machinery and equipment required for the production.



iii. The Team and Management Plan

For a business plan, it is the most important part. The 'management section' describes the management team, staff and other human resources. This section should not only describe who is on the management team but how each person's skill set will contribute to the bottom line.



iv. Financial Plan

The financial section of any business plan determines whether or not a business idea is viable and will be the focus of any investors who may be attracted to the business idea. The financial section is composed of three financial statements: the income statement, the cash flow projection, and the balance sheet.

Start with a sales forecast. Set up a spreadsheet projecting sales over the course of three years.

Create an expenses budget showing all the expense heads required for a business.

Now, one is ready to develop income projections, a cash-flow statement and balance sheet to deal with assets and liabilities.

Profit and Loss Statement

A profit and loss statement is essentially an explanation of how the business made a profit (or incurred a loss) over a certain period of time. It is a table that lists all of the revenue streams and all of the expenses—typically for a twelve-month period—and lists at the very bottom the total amount of net profit or loss.

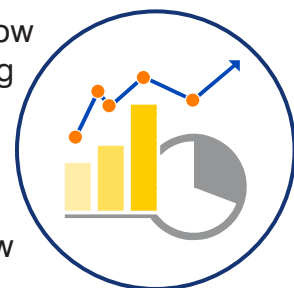
A typical profit and loss statement should include revenue (also called sales), “cost of sale” or “cost of goods sold” (COGS)—keep in mind, some types of companies, such as a services firm, may not have COGS and the gross margin, which is the revenue less the COGS. These three components (revenue, COGS, and gross margin) are the backbone of any business model-i.e., how one makes money.



Cash Flow Statement

A cash flow statement (also called a “statement of cash flows”) is an explanation of how much cash a business has brought in, how much cash it paid out, and what its ending cash balance was, typically per-month.

What happens when one sends out an invoice to a client, but they do not pay it by the due date? What happens when one pays their bills late or early? These kinds of things are not reflected in the profit and loss statement, but they are explained in the cash flow statement. Cash flow statement is just as important as a profit and loss statement.



Balance Sheet

The balance sheet of a business is a bird’s eye view of business’s financial position. This is the financial position at a particular moment in time. How much cash one has in the bank, how much do customers owe the owner, and how much does the owner owe the vendors? In addition, what are assets and the business acquired them?

The balance sheet is standardized, and consists of three types of accounts:

- Assets (accounts receivable, money in the bank, inventory, etc.)
- Liabilities (accounts payable, credit card balances, loan repayments, etc.)
- Equity (for most small businesses, this is just the owner’s equity, but it could also include the share holders’ equity as well)

It is called a balance sheet because it is an equation that needs to balance out:

$$\text{Assets} = \text{Liabilities} + \text{Equity.}$$

As discussed earlier, the business and legal consultants can be engaged for formalizing a business plan, particularly the financial section.



Conclusion



Apart from having an opportunity to build something and a chance to help people, having a more flexible lifestyle, being in position of control and earning more money are also considered big advantages of owning a business. Both internal and external factors matter a lot in influencing to start any business, especially the external factors. For example: assessing market trends, selection of product/services, recruitment of a consultant, understanding legal framework, preparing a business plan and strategy.



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