



Information Booklet

Business Startup

3

STARTING A NEW 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.

Disclaimer

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Objectives

- To provide essential information for starting a new business.
- To elaborate different factors to be considered, including the market dynamics, business structure and regulatory framework.

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a Basic Concepts of Business – Business Types and Cycle

The term business refers to the efforts and activities of individuals and organizations to produce and or trade goods and services for profit.

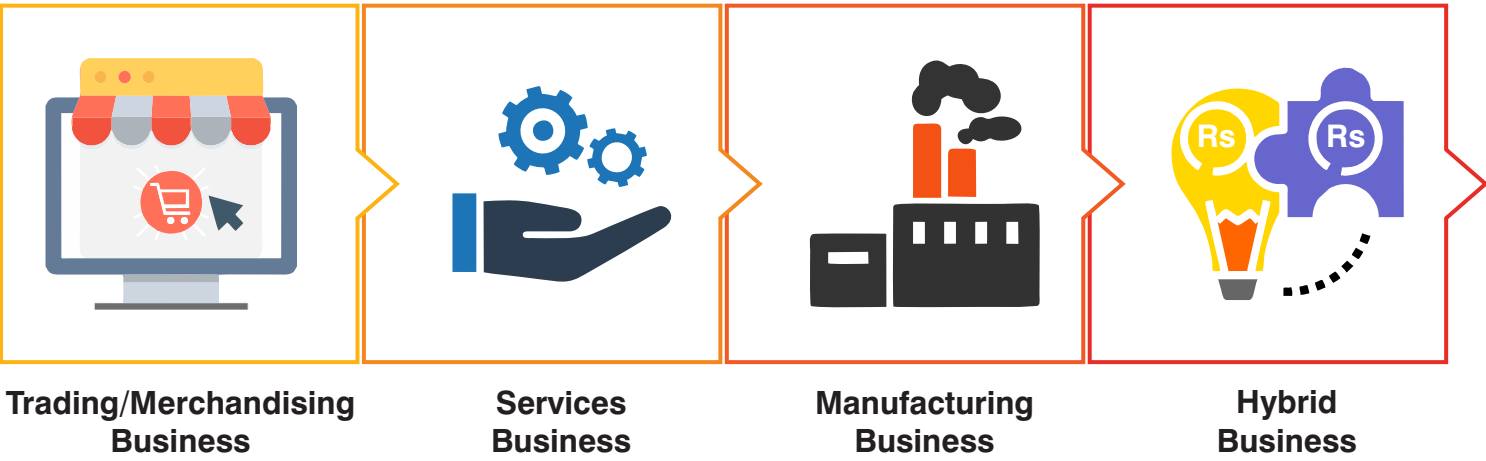
A business is defined as an organization or enterprising entity engaged in exchange of value through commercial, industrial or professional activities. In broader terms, a business can be for-profit entity or non-profit organization that operate to fulfill a charitable mission or further a social cause.

Types of Business

Different types of businesses can be defined by their nature of work, size or structure.

Nature of Work

In terms of nature of work businesses can be classified as:

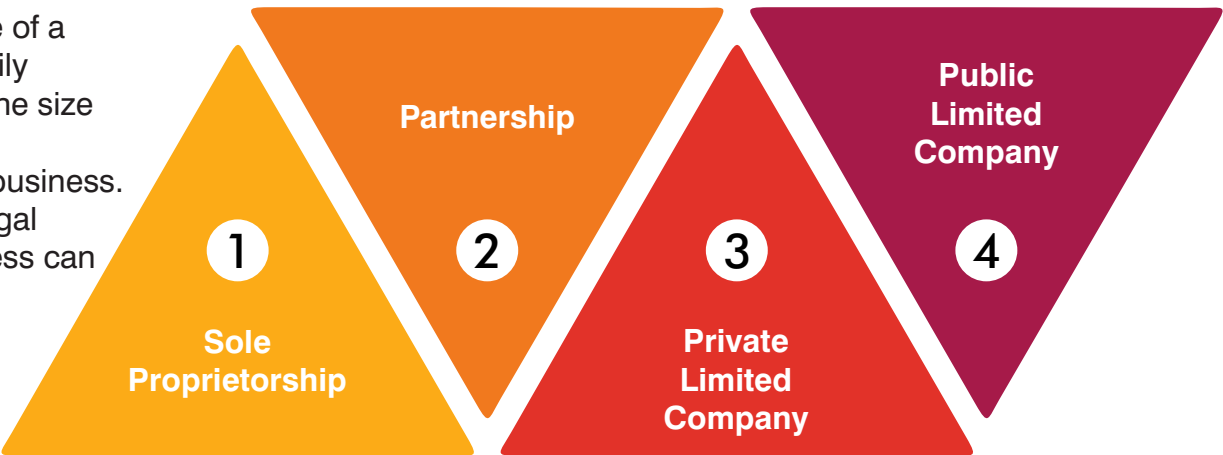


Size of Business

In terms of their size, types of a business can be a micro enterprise consisting of just the entrepreneur working alone or with family members to a giant multinational organization with multiple facilities and number of people carrying out different roles in a very elaborate structure.

Legal Structure of Business

The legal structure of a business is primarily dependent upon the size and complexity of operations of the business. In terms of their legal structure, a business can be:



A sole proprietorship, as its name suggests, is a business owned and operated by a single natural person. There is no legal separation between the business and the owner; the tax and legal liabilities of the business are thus that of the owner.

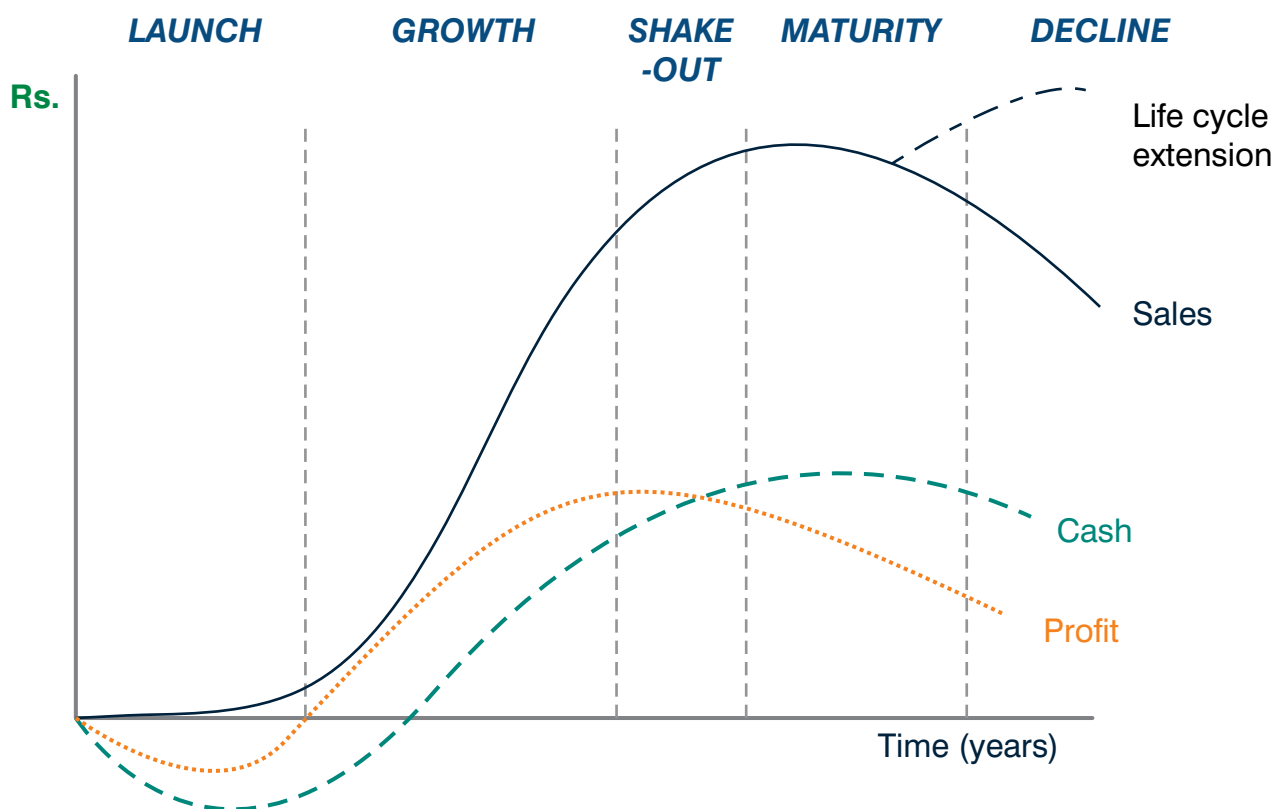
A partnership is a business relationship between two or more people who join to conduct business. Each partner contributes resources and money to the business and shares in the profits and losses of the business. The shared profits and losses are recorded on each partner's tax return.

A Private Limited is a business in which a group of people act together as a single entity; owners of a private limited company are shareholders who exchange consideration for the joint ownership through stock. Incorporating a business releases owner of financial liability of business obligations; however, a private limited company has unfavorable taxation rules for the owners of the business. But most SMEs convert into private limited companies (e.g., DESCON Engineering Pvt. Ltd. Millat Equipment etc.) on becoming medium or large.

A Public Limited Company or corporation allows a group of people to act together for establishing and managing a business, raising funds from the sale of joint stock and allows separation of management from the owners. The taxation treatment is almost similar to the private limited company. Examples of public limited company are listed companies on the stock exchange including Fauji Fertilizers or Engro Fertilizers.

Lifecycle of Business

A business cycle starts with a concept or idea generation and goes through different phases of inception, growth, maturity and decline and also death or closure/ bankruptcy in some cases. Most businesses which continue to flourish, are due to smart changes in their strategy and good planning by their owners.



Understanding the life cycle of a business for an SME is very important. It gives the idea that different stages would require different set of strategies and planning. As in the initial stages, most owners are also working full-time and may require physical presence at the business all the time but same owners may follow different timings later on in the business life.

b Assessing Personal Entrepreneurial Competencies (PECs)

Personal Entrepreneurial Competencies (PECs) refer to the key characteristics that a successful entrepreneur should have in order to be successful. These include:



1. The desire to improve one's condition

This is the most important of the characteristic. In essence, the best and most enduring motivation is to make a positive change in one's condition. When one focuses on his/her business and success as a top priority, he/she will be ready to put in a great effort to meet the goal.



2. The ability to spot opportunities and new trends

Looking for a business opportunity has to be a natural ability in a person to be an entrepreneur. Similarly, business moves fast, so one has got to have the ability to see changes coming in the industry. Make it a point to keep up to date on new ventures and the advances in technology that could be poised to disrupt the field.



3. The ability to be persistent and deal with failure

Every successful businessman knows that no business venture is a straight line to success; knowing how to cope with a failure and deal with ups and downs is essential. Every successful person out there failed dozens of times before getting a win. Failure is - at the end - just a data point on the way to success.



4. The ability to manage money

This is a very important consideration. If one cannot manage finances, one cannot manage a business. Does he/she know where his/her money goes each month? Does he/she live off less than he/she earns? If the answer to these questions is no, that person will struggle to manage a business budget as well.



5. The ability to get investment

Once one can manage the money, can he/she get more? In order to get investment, one needs to not only understand where to get the money, but how to convincingly make a case that his/her business is a good risk as well.



6. The ability to focus on customers

Without customers, there is no business. It should be made sure that pitches, products and services are focused on actual customer needs. If one does not know what these are, research and ask questions so that he/she is able to give great customer service.



7. The ability to close a sale

Letting customers know one understands their pain is important, but asking for the sale is where many entrepreneurs get stuck. Enrolling in a sales workshop helps to learn these much-needed skills.



8. The ability to be productive

This is a big topic, because there is no one right way to be productive that works for everyone. Learn about the peak energy times, routines and the productivity tools that work in order to create one's own plan for success.



9. The ability to make entrepreneur friends

According to a sound advice by an entrepreneur, "You are the average of the five people you spend the most time with". Improve odds of success by finding entrepreneur friends who will be able to understand the struggles and give much needed insight. Obtaining membership of a trade association or local Chamber of Commerce can help in this regard.



10. The ability to identify strengths and weaknesses

As a business owner, one does not need to be perfect at everything. However, it is important for a business owner to understand the strong points and weak points of the business. Assessing this will inform everything from the business decisions one makes, to the partners that are brought onboard, and to the employees hired.



11. The ability to hire effective people and delegate

This is easily one of the most important skills any entrepreneur could have. Particularly for a business with growth potential. Having competent people on team gives access to new strengths, while also building a company culture that people want to be a part of. Hiring the right people is essential in order to reach goals.



12. The ability to train staff

When new people are hired, their skills and competence need to be assessed and matched with the business requirements. An initial onboarding process will help ensure that they know what to do. Not only will this help keep the company moving the correct direction, it will also increase the commitment level of good employees and give grounds to follow up on performance achievement.



13. The ability to manage staff

Once right people have been hired, it is important to manage them well. Early on in the business's growth, business owner will be managing everything and everyone, so it pays to be effective. If one does not already know how to manage, take the time to learn how to motivate, encourage, and develop the hired staff.



14. The ability for social networking

In the current situation, social networks represent a key part of any business's marketing strategy. Not only will the business owner need to understand each platform, he/she will want to arm with the best strategies for getting startup and personal brand noticed.

Being an entrepreneur is a big task, but all of these skills can be learned. If the business owner lacks one, help can be taken to improve it, for eventual success depends on it.

C Identification and Selection of Business Idea (Using Macro and Micro Screening)

Finding a good business idea, that attracts the heart and soul is almost always a winning bet. If a conceived business idea meets the criterion of economic, social or environmental impact, the business owner will be far more motivated to get through the entrepreneurial challenges that will follow. The reason is that it will be something one can truly become emotionally invested in. The challenge, of course, is identifying these business ideas in the first place.

On the other hand, many of us come across business opportunities on a regular basis. But deciding which ones are worth taking a chance on, though, can be difficult. Whether a new business is being started or whether current business is being expanding with a new opportunity, it is vital to know how to appropriately evaluate it.

So, when having a large amount of business ideas, they can be screened using logical processes, evaluate the selected few using relevant criteria and pick up the best business idea. Thus, business idea screening and evaluation plays a valuable role in the business start-up process.

When looking forward, there are quite a few ways to go about it, however using a macro and micro screening when deciding whether a business opportunity is worth embracing, is a workable idea.

Macro Screening

Macro analysis is the first step. As the name suggests, trying to find an answer by looking at the broader picture is very useful. The analysis is done after recording the facts in an Evaluation Matrix format. Evaluation matrix is a table-like format where we can give each business idea a score against a selected criterion. The process is simple and non-complicated. Selected ideas are assessed against a few vital criteria using an evaluation matrix and then ideas are ranked according to the total score given.

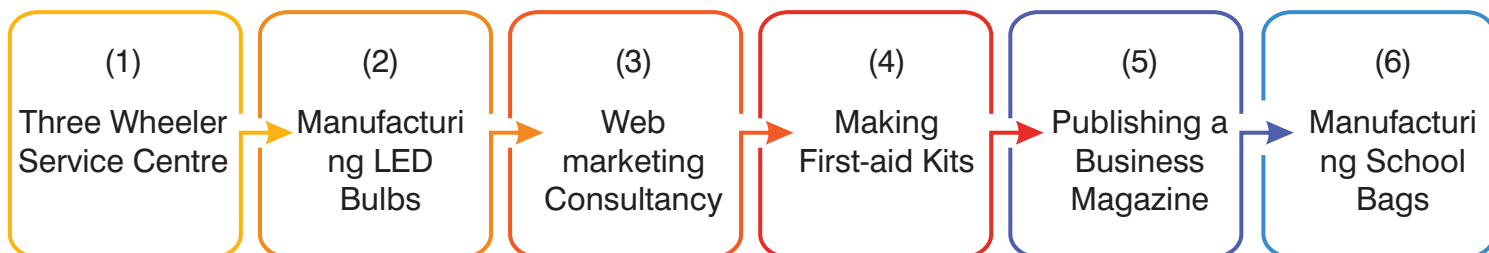
Micro Screening

Similarly, looking at the fundamentals with detailed analysis of the situation to find workable solutions is also very advisable. Idea screening criteria are used to determine compatibility with overall business objectives and whether the idea would offer a viable return on investment. In the micro analysis, the same process is followed as in the macro, using a broader set of criteria which include the criteria used in macro analysis. Ideas are then ranked accordingly. Whatever does not meet these criteria is typically discarded.

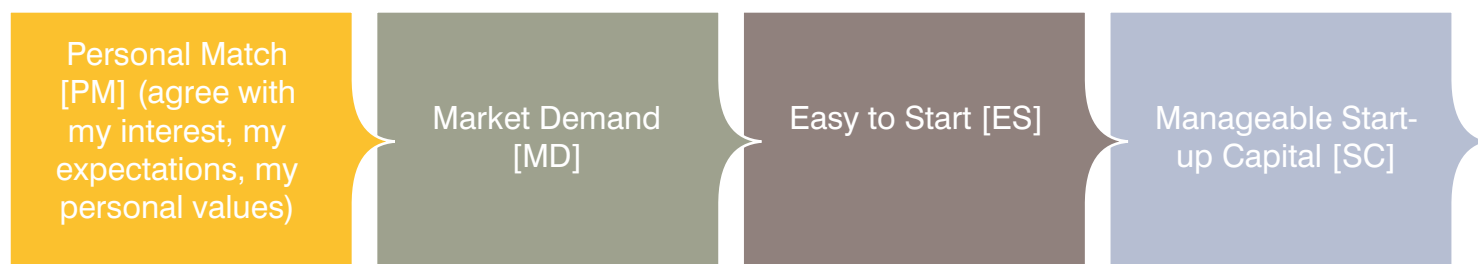
Example: Evaluating Kamal's 6 Business Ideas

Kamal needs to find out the ranking position of the following 6 business ideas using macro analysis and micro analysis, so that he can check the viability of the best business idea.

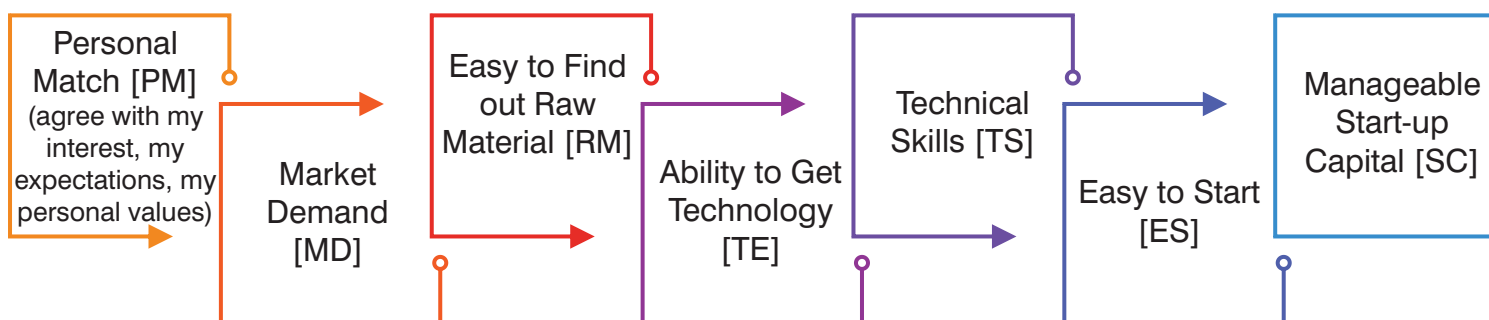
Six Business Ideas Include:



For Macro Analysis: 4 evaluation criteria have been agreed upon.



For Micro Analysis: For a more detailed analysis, 7 evaluation criteria have been agreed upon.



MACRO Screening:

Business Idea	PM	MD	ES	SC	Total	Rank
(1) Three wheeler service centre	4	8	6	4	22	3
(2) Manufacturing LED bulbs	4	4	4	6	18	5
(3) Web marketing consultancy	10	6	8	8	32	1
(4) Making first-aid kits	4	2	6	4	16	6
(5) Publishing a business magazine	8	4	4	4	20	4
(6) Manufacturing school bags	6	8	6	4	24	2

Result: Web Marketing Consultancy (with total score of 32) is ranked first.

Scores: Weak, Good, Satisfied, Highly satisfied, Excellent = 2, 4, 6, 8, 10

In the micro analysis assessment also, the best business idea is Web Marketing Consultancy.

d Understanding Market Dynamics and Players

Market dynamics are forces that will impact prices and behaviors of producers and consumers. In a market, these forces result from the fluctuation of supply and demand for a given product or services. In general, market dynamics can impact any industry or government policy.

There are dynamic market forces besides price, demand, and supply. Some emotions also drive decisions, influence the market and behaviors, and create price expectation. The effect of these emotions drives the actions of investors, traders, and consumers.

So, to think in terms of how the marketing strategies will fit into market conditions and how those may affect the startup, one has to anticipate and understand market dynamics and players.



Determining Market Size

One of the most important factors when evaluating a business opportunity is its market size. The business owner can find out a lot about a business opportunity by doing a little market research. Figure out if there is a market for the opportunity — and how big that market is.

Before one moves forward, it is needed to be made sure that the demand is there. One does not need to appeal to a massive market, but it does help if the market is understood. Additionally, knowing how engaged the market is and how likely they are to pay for what is being sold can help.



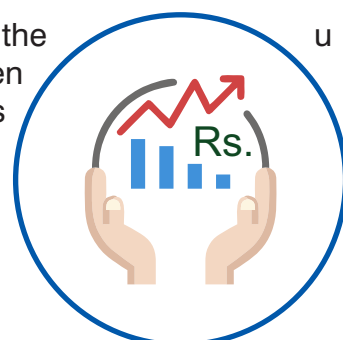
Market Players and Relationships

Does the business opportunity come with some relationships? For example, does one have an “inbuilt strength” that can help leverage the opportunity? If there is someone who is technically minded, that can help with certain aspects of the opportunity. What are the business owner’s relationships with potential investors or customers? When one has more relationships, the opportunity is likely to run smoother.



What is Recommended for an SME?

When dealing with one’s own startup, the business owner needs to have the understanding and insight into the opportunity. How will one push through even though things get a little tough? If he/she has done proper research, and is confident about the team and the plan, then being able to push through is a matter of time only.



e Market Research

Accurate and thorough market research is the foundation of every successful business. Every good business requires good market research to find out about its prospective and existing customers, competition and industry.

Market research helps collect relevant data to solve the challenges that a business might face and directs the efforts of the entrepreneur in the right direction.

In addition to providing information on key market dynamics, market research helps the entrepreneur to establish the product parameters, determine the placement considerations, assess the price standards and visualize the promotion requirements. In short it works as the eyes and ears of the entrepreneur in developing a business proposition and taking it forward through different stages of business life cycle.



f Market Survey (Techniques and Tool)

While there are many ways to perform market research, most businesses use one or more of four basic methods: surveys, focus groups, personal interviews, and field trials.



1. Surveys for Market Research

With concise and straightforward questionnaires, one can analyze a sample group that represents the target market. The larger the sample, the more reliable results will be.

Types of Survey:

In-Person Surveys are one-on-one interviews typically conducted in high-traffic locations such as shopping malls. In these surveys, people are presented with samples of products, packaging, or advertising and gather immediate feedback. In-person surveys can generate response rates of more than 90%, but they are costly. With the time and labor involved, the cost for an in-person survey can run as high as PKR 3000 to 5000 per interview.



Telephone Surveys are less expensive than in-person surveys, but costlier than mail. However, due to consumer resistance to relentless telemarketing, convincing people to participate in phone surveys has grown increasingly difficult. Telephone surveys generally yield response rates of 50% to 60%.



Mail Surveys are a relatively inexpensive way to reach a broad audience. They are much cheaper than in-person and phone surveys, but they only generate response rates of 3% to 15%. Despite the low return, mail surveys remain a cost-effective choice for small businesses.



Online Surveys usually generate unpredictable response rates and unreliable data, because one has no control over the pool of respondents. But an online survey is a simple, inexpensive way to collect anecdotal evidence and gather customer opinions and preferences.



2. Focus Groups

In focus groups, a moderator uses a scripted series of questions or topics to lead a discussion among a group of people. These sessions take place at neutral locations, usually at facilities with videotaping equipment and an observation room with one-way mirrors. A focus group usually lasts one to two hours, and it takes at least three groups to get balanced results.



3. Personal Interviews

Like focus groups, personal interviews include unstructured, open-ended questions. They usually last for about an hour and are typically recorded.

Focus groups and personal interviews provide more subjective data than surveys. The results are not statistically reliable, which means that they usually do not represent a large enough segment of the population. Nevertheless, focus groups and interviews yield valuable insights into customer attitudes and are excellent ways to uncover issues related to new products or service development.

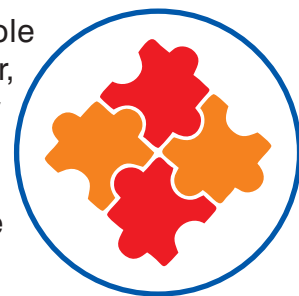


4. Field Trials

Placing a new product in selected stores to test customer response under real-life selling conditions can help the business owner make product modifications, adjust prices, or improve packaging. Small business owners should try to establish rapport with local store owners and Web sites that can help them test their products.

9 Regulatory Framework for Startups

Startups are regulated by the prevalent commercial laws regulating the sole proprietorship and partnerships as well as the Companies Registration Act. However, towards improving capital formation for small businesses and proposed regulatory amendments to provide ease of doing business to startups, the Securities and Exchange Commission of Pakistan (SECP) is amending Companies Act. This will support startups, providing an empowering environment for young innovative entrepreneurs to succeed in their ventures.



Recently SECP's representative stated that "The SECP is taking various initiatives to create an enabling regulatory framework for facilitating startups in Pakistan. These measures will attract local and international innovators". The commission in its statements has also said in-line with the government's initiative of ease of doing business and increasing access to finance and to facilitate private equity investments, the SECP has introduced significant amendments in the private equity & venture capital regulatory framework, which have been notified for public consultation.

The SECP officials have repeatedly briefed the media on proposals to eliminate arduous requirements in the Companies Act that are not viable for startups. Similarly, with the advent of new technology enabled financial products reshaping the modern businesses, the SECP has proposed the concept of equity crowd funding, which is one of the fastest evolving products within the Fintech landscape. The SECP, has emphasized upon amendments, including in private equity and venture capital regulations, draft equity crowdfunding regulations, launch of a startup portal, setting up a CRO (Company Registration Office) facilitation desk and launching of the first regulatory Sandbox in Pakistan.

Business Registration and Tax Implications

Business registration and tax implications for the startups are an important consideration for any startup. One of the first implications of the regulatory framework is the registration requirement for any business. The startups also need to be registered similar to other businesses with appropriate regulatory bodies, at the federal and provincial level. For sole proprietorship and partnership registration is carried out by the company registrar in the provincial hierarchy whereas the private limited companies are registered with SECP offices in the regions or the headquarters at Islamabad.



The sole proprietorship and partnership have ease of registration but they have difficulty in acquiring Bank Financing.

For tax purpose the treatment to startup as a sole proprietorship and a partnership is similar to an individual tax payer, however, special tax treatment is available if registered as a startup private limited company with SECP.

Business Plan

Business plan is a document which lays out the entire strategy for establishment and operations of a business venture. It starts with defining the overall objectives of the proposed business and continues to lay bare the ways and means to achieve those objectives.

The usual Business plans normally have six parts in addition to the Executive Summary which provides for a brief overview of the plan. The six parts include:



Executive Summary

This provides the outline of the business plan. The executive summary will inform the reader what one wants, upfront. It is generally not longer than one page. Within that space, the person will need to provide a synopsis of the entire business plan, covering all the six parts.



Business Proposal

The business description usually begins with a short description of the industry and all the various markets within the industry, including any new products or developments that will benefit or adversely affect the business. This is important if one is seeking funding; the investor will want to know just how dependable the information is, and will not risk money on assumptions or conjecture.

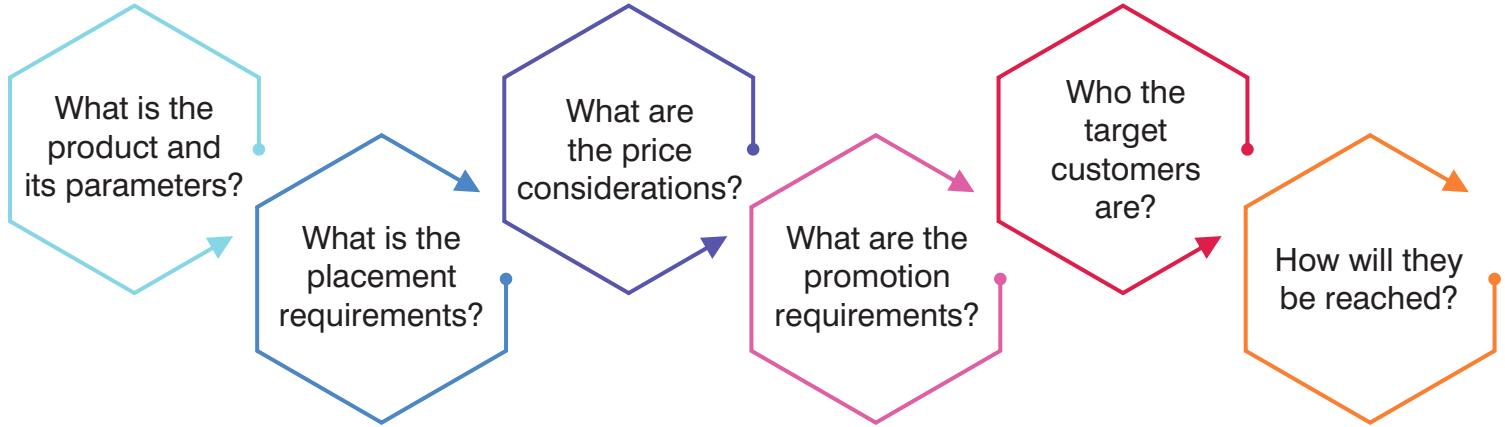
When describing one's business, the first thing the business owner needs to concentrate on is its structure. By structure, it means the type of operation, i.e., wholesale, retail, food service, manufacturing or service-oriented. Also state whether the business is new or already established and its legal structure like sole proprietorship etc.

This is providing very specific description of the product and services and the overall strategy of how when and where of the proposed business.



Marketing Plan

To start a business, one needs a marketing plan. In defining the marketing plan, following questions could be useful:



The right marketing plan identifies all the key elements related to the market. Begin the market analysis by defining the market in terms of size, structure, growth prospects, trends and sales potential.

The total aggregate sales of the competitors will provide a fairly accurate estimate of the total potential market. Once the size of the market has been determined, the next step is to define the target market and its service requirements.

When discussing market strategy, it is inevitable that positioning will be brought up. Positioning strategy of a business is affected by a number of variables that are closely tied to the motivations and requirements of target customers and so on so forth.



Operational Plan

This part of the plan lays out the operational details about the sourcing and production and other related activities like Scheduling and Costs involved.

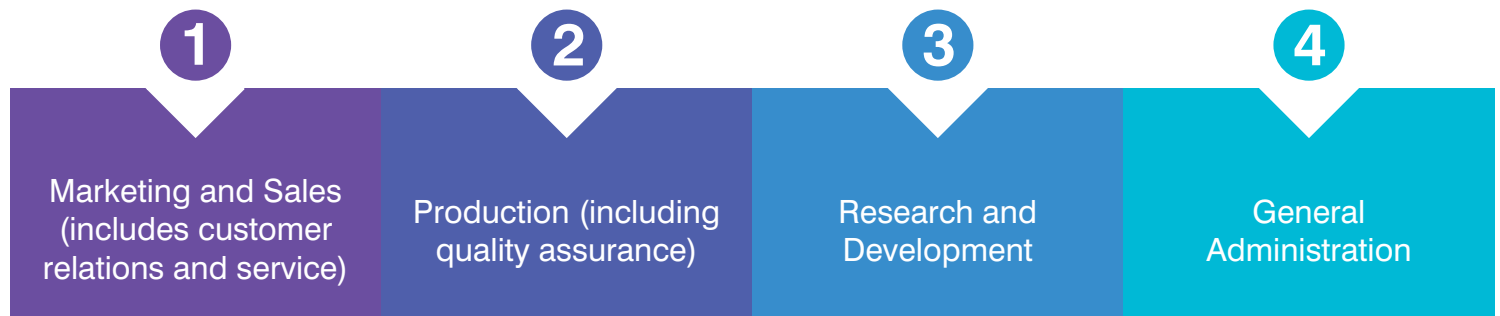
The operations and management plan is designed to describe just how the business functions on a continuing basis. The operations plan will highlight the logistics of the organization such as the various responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operations of the business. In fact, within the operations plan, the next set of financial tables will be developed that will supply the foundation for the "Financial Components" section in addition to inputs for the human resource section.



Human Resource and Management Structure

The organizational structure of the company is an essential element within a business plan because it provides a basis from which to project operating expenses. This is critical to the formation of financial statements, which are heavily scrutinized by investors; therefore, the organizational structure has to be well-defined and based within a realistic framework given the parameters of the business.

Although every company will differ in its organizational structure, most can be divided into several broad areas that include:



Financial Plan

Financial data is always at the back of the business plan, but that does not mean it is any less important than up-front material such as the business concept and the management team. Sometimes, investors look more closely at the charts, tables, formulas and spreadsheets in the financial section, than any other part of the business plan as if the financial figures have a life of their own.

This section lays out a complete set of financial statement including an initial balance sheet and a proforma annual income statement. Sometimes, an additional cashflow statement is added. These statements are also analysed for different financial and operational ratios. The purpose of all these statements and financial analysis is to give the reader an understanding about the profit and loss expectation and to establish the financial viability of the investment.

Income Statement

The income statement is a simple and straightforward report on the proposed business's profit generating ability. It is a score card on the performance of one's business that reflects when sales are made and when expenses are incurred. The income statement illustrates just how much the company makes or loses during the year by subtracting cost of goods and expenses from revenue to arrive at a net result-which is either a profit or a loss.

Cash Flow Statement

The cash-flow statement is one of the most critical information tools for the business, showing how much cash will be needed to meet obligations, when it is going to be required, and from where it will come. It shows a schedule of the money coming into the business and expenses that need to be paid. The result is the profit or loss at the end of the month or year. In a cash-flow statement, both profits and losses are carried over to the next column to show the cumulative amount. Keep in mind that if a loss on cash-flow statement is being ran, it is a strong indicator that one needs additional cash in order to meet expenses.

Balance Sheet

The last financial statement one needs to develop is the balance sheet. A summary of all the financial information broken down into three areas:

1. Assets

2. Liabilities

3. Equity

To obtain financing for a new business, the business owner may need to provide a projection of the balance sheet over the period of time the business plan continues.

It is to use services of a financial consultant or an accountant to develop these statements in addition to the above parts of the business plan. This will enable the business owner to focus on the strategy of the business rather than doing the writing part. However, one must be completely involved with the process to understand the features and respond to questions of the banker.

Securing Financing

As a new project or a new business is a risky preposition, the entrepreneur must exhaust all sources of accessing funding before going to a bank. While the advice is very appropriate it means exercising discipline by the entrepreneur.

There are a number of different ways for entrepreneurs to secure financing; starting from their friends and family and from their customers such as: a pay-in-advance model, marketplaces (with barter), and a normalization and resale strategy. All of these models are ways to provide initial funding to business, working with limited financial resources and little or no initial capital. If the above formulas fail to secure enough financing, then it is time to bring in investors, before going to the banks.

Conclusion



When starting a new business, understanding the types of business is as important as knowing the Personal Entrepreneurial Competencies (PECs). One should also keep an eye on market dynamics and players which includes prices and behaviors of producers and consumers. Before establishing a new small or medium enterprise, market research is very necessary as it will help collect relevant data to solve the upcoming challenges. Moreover, SME owners and entrepreneurs need to develop thorough understanding of laws and policies of the regulatory bodies of startups.



HEAD OFFICE



Address: 3rd/4th Floor, 3rd Building, Aiwan-e-Iqbal Complex, Egerton Road, Lahore
Tel: (042) 111-111-456, 99204701-12
Fax: (042) 36304926-27
Email: helpdesk@smeda.org.pk

REGIONAL OFFICES

Balochistan

Address: Bungalow No. 15-A, Chaman Housing Scheme, Airport Road, Quetta
Tel: (081)-2831623 - 2831702
Fax: (081)-2831922
Email: helpdesk.balochistan@smeda.org.pk

Punjab

Address: 4th Floor, 3rd Building, Aiwan-e-Iqbal Complex, Egerton Road, Lahore
Tel: (042)-111-111-456
Fax: (042)-36304926, 36304927
Email: helpdesk.punjab@smeda.org.pk

Khyber Pakhtunkhwa

Address: Ground Floor, State life Building, The Mall, Peshawar
Tel: (091)-111-111-456, 091-9213046-7
Fax: (091)- 5286908
Email: helpdesk.KhyberPakhtunkhwa@smeda.org.pk

Sindh

Address: 5th Floor, Bahria Complex II, M.T. Khan Road, Karachi
Tel: (021)-111-111-456
Fax: (021)-35610572
Email: helpdesk.sindh@smeda.org.pk