



and income sources, etc.; in brief: financial management. Ask for the participants' reaction!

- (3) Then, set the four walls while mentioning that the 4 Ps - which we have learned already during the last days – require special attention. They are not only the cornerstones of the future marketing strategy but they are supposed to be a general reminder of the necessity to review this strategy depending on the changing environment (increasing/ decreasing number of competitors, their prices, their promotional measures, new competitors in other places, etc. and the need to react permanently to these changing situations).
- (4) Place the roof and ask them what it could represent? Make them understand that the roof stands for the family environment: be it supportive or destructive. As long as this environment is clear to the respective entrepreneur, (s)he should be able to (re)act accordingly.
- (5) Let the participants repeat the different components of the "House model" in order to make sure that the message is understood.

**Caution** : None

**Hints** : Train yourself as far as the composition of the house model's components is concerned so that the composition of its different parts can be done in plenary without any problems.

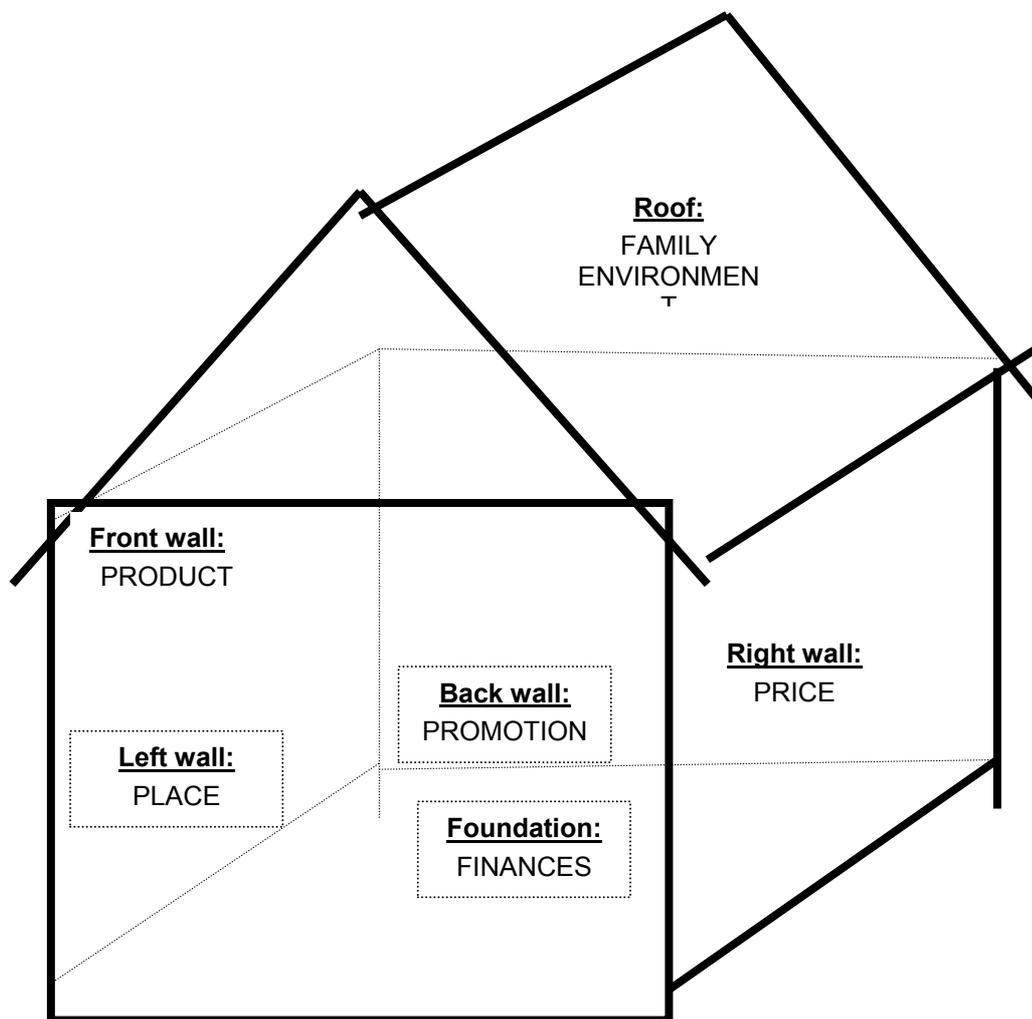
Keep the "Chair model" within reach (permanent display!) for a better linking with its messages.

**Variations** : None

**Processing** : Not required! Lead over to the next session and explain in how far the "House model" plays a role in it.

# Annex 1

## House model



Utilise different colours for the different parts of the house !

OPEN    COMPET    PPMATCH    BPLAN    END

FIN



**Exercise** : Intelligent Chilli Sales

**Code** : BPLAN-FIN – 1b-chilli

**Source** : Kohinoor, Maung, Wadud, Torsten, Reaz, Kolpona

**Tested in** : Bangladesh (Manikgonj)      **Date:** 7/99      **By:**

**Target group** : Illiterates

**Objectives** : Understand and practice changes of profit margins depending on quantity of sales and raw material prices paid,  
Understand lack of liquidity as one major problem why small businesses hardly grow,  
Understand the necessity of reinvestment into one's business.

**Use** : Finance sub-module,  
Market cleverness,  
Best purchase and sales moments (anticipation & planning).

**Time** : 2 hours

**Requirements** : Lead facilitator, co-facilitators  
Flip chart  
2 ZOPP boards,  
ZOPP cards of four different colours,  
Sufficient dummy money for all groups,  
Chart "Chilli Prices" (**Annex 1**) on Kraft paper.  
Chart "Chilli Sales Record" (**Annex 2**) on Kraft paper.  
"Group Records" Chart (**Annex 3**) on Kraft paper.

**Setting** : Participants are divided into four groups of equal strength in numerical skills.

**Steps** : (1) Tell the participants the story of a woman (give a concrete name!) who trades with chilli. She buys fresh chilli, dries and sells them after some time. She has a capital of 5.500 Taka. Now, ask the groups to count

the respective amount utilising the dummy money which is distributed at this point in time. 10 minutes

- (2) Explain that a new month is just about to start. For all the future transactions which will be decided upon by the groups, the woman can only use her capital once, i.e. it is assumed that there is only one buying and selling cycle per month.

Narrate with the help of the prepared "Chilli Prices" Chart (**Annex 1**) that the woman knows exactly the respective purchase and sales prices during the next 6 months. The last column for the profit margin is still empty. Show each and every figure so that the participants get acquainted to them.

As the woman is planning to expand her economic operations after 6 months, she is aware that she would require a profit of 12.000 Taka (i.e. 11.000 Taka plus one security margin of 1.000 Taka to make up for possible price hikes in the purchase of raw material) within this time frame; otherwise, her capital will not be sufficient to start the intended new business (you make take any example as a new business!).

Ask the groups if they think this would be possible? Note their answers on flip chart. Inquire what they think could be her profit after 6 months (without taking other costs such as salary, transport, etc. into account!). Let them discuss in the groups, and note down their answers (amounts in Taka) on the same flip chart. The group with the answer closest to the correct result will gain an additional 20 points in a competition of which the rules and regulations will be explained later (*next step*). 15 minutes

- (3) Then, explain that they are entering now into a competition. Distribute 6 ZOPP cards per group; every group has a different colour. Ask them to calculate with the help of the dummy money the profit margin for the first month, and to write their answers on one ZOPP card. Urge them not to speak out loudly because they might influence the others. Every correct answer gets 3 points; the fastest and correct answer will get triple points, the second fastest double points; the others will just earn three points each. If the answer is wrong, then there will be no point at all. 15 minutes

- (4) Proceed in the same manner until all monthly profit margins are calculated until the final month. Enter the respective points for the groups into the "Group Records" Chart so that they have a clear picture of the competition's standings at any point in time.

15 minutes

- (5) Read out the standings of the groups from the "Group Records" Charts (**Annex 3**). Explain that up to now only the monthly profit margins have been calculated but we do not yet know if she really can earn the 12.000 Taka she has set as her target!? Reiterate that she has a capital of 5.500 Taka. What do the groups think would be the best strategy for her to maximise her profits. Repeat again that there is only one buying and selling cycle per month. Point out that they should take a closer look at the different profit margins per month in order to find a solution to her problem (*Note, that this remark is intended to bring the participants on a wrong track! Some groups might favour a solution where she buys in the first month with the lowest purchase price and sells in the last month with the presumably highest profit. But, the profit would only be 4.200 Taka <9.600 – 5.400>*).

Ask the groups to discuss this issue and to come forward with a solution. Without writing on ZOPP cards, each group provides an answer and forwards its respective arguments. The most important arguments are recorded on ZOPP cards with the personal symbol of the author. The latter are debated in plenary. There are no points allotted for the answers.

20 minutes

- (6) Have a brief **intermediate processing** on their arguments with main focus on hoarding policies. *How do you do in practice? (Take an example of rice trading!) Is everything hoarded (stocked) or only parts of the goods? Why parts or why all?*

10 minutes

- (7) Proceed now to the next calculation round. Explain that things are getting a little more complicated now. It will be their task in the groups to find out how many bags can be bought by the woman (at which price), at what price they will be sold and what will be the profit margin. Distribute again ZOPP cards with different colours (each group retains the same colour like before!) and request the groups to write only the respective profit margin per first month on that ZOPP card.

As far as the scoring is concerned, the same logic will be followed but there are now 5 points each at stake. Example: first correct answer 5 times 3; second correct answer 5 times 2; all others only 5 points each. Wrong answers will get 0 points. Make sure that the groups work independently without any disturbances from the others.

10 minutes

- (8) Proceed in the same manner for the remaining 5 rounds of calculation.

30 minutes

- (9) Compare the "increase in capital" figure with the different groups' estimates in the beginning. Allot 20 extra points for the group being closest to the calculated result. Then, proceed to the processing.

10 minutes

### Caution

: Some participants are not able to follow the calculations.

Participants who are stronger in mathematics dominate their groups.

Those who know the answers may speak them out loudly, thus spoiling the competitive character of the exercise.

**Hints** : Proceed in a way that all participants can follow; this requires repetitions and recalculations with the help of those participants who are stronger in numerical skills.

If Chilli has been among the projects favoured by one participant, take the real monthly amounts (buying and selling) as prepared during the preceding session <calendar exercise>.

Speaking out the results loudly (instead of writing them on ZOPP cards) might be punished with minus 5 points even if the answer is correct.

**Variations** : Example of another product; make sure that the product chosen is not a real life project of one participant (danger of copying, particularly when the figures in the exercise are rounded in order to facilitate computations).

**Processing** : Inquire if they expected that the woman can really increase her capital by 14.400 Taka in only six months?

Read out again the final "Chilli Sales Record" Chart so that all participants can easily follow and understand the logic. Inquire why the woman has been so successful? (*Elicit that she reinvested all her profit into the business; she always availed of increasing liquidity*).

Would hoarding have been a better alternative, i.e. buying in the first month and selling in the sixth month? (No!). Under which circumstances could hoarding (stocking) be a good opportunity to increase income? (*Elicit, that the sales prices should be several times higher which is only the case in exceptional conditions such as drought, floods, other catastrophes where severe shortages may occur!*).

Would there have been a possibility to further increase profits in only 6 months? (*Elicit that a small loan during any of the months could have resulted in even higher profits.*) Examples are given below:

**Alternative 1:** If the woman would have taken a short-term loan of 300 Taka in the beginning of month 6 (to boost her investment capital to 13.000 Taka), she could have bought 13 bags of chilli with a profit of 7.800 in order to get an increase of capital 15.000 Taka (minus loan plus interest it would be around 14.600 Taka).

**Alternative 2:** If she would have taken a loan of say 1.700 Taka before the very first month so that she is able to buy 8 bags instead of 6, the table would look as follows:

| Month | Capital (in Taka)         | Purchase (unit) | Purchases (costs in Taka) | Sales price (in Taka) | Profit margin (in Taka) |
|-------|---------------------------|-----------------|---------------------------|-----------------------|-------------------------|
|       | 5.500 own<br>+ 1.700 loan |                 |                           |                       |                         |
| 1     | 7.200                     | 8               | 7.200                     | 8.800                 | 1.600                   |
| 2     | 9.800                     | 10              | 9.000                     | 10.000                | 1.000                   |
| 3     | 10.800                    | 9               | 9.900                     | 13.500                | 3.600                   |
| 4     | 14.400                    | 14              | 14.000                    | 16.800                | 2.800                   |
| 5     | 17.200                    | 17              | 17.000                    | 18.700                | 1.700                   |
| 6     | 18.900                    | 18              | 18.000                    | 28.800                | 10.800                  |
| 7     | <b>29.700</b>             |                 |                           |                       |                         |

Increase in capital: 22.500 Taka minus interest for the loan, say 120 Taka = 22.380 Taka.

Now, compare with the increase in capital in the first chart!

Any other alternative of taking a loan to boost purchases and sales would increase the profit, provided the demand is assured.

What would have happened if the product could be sold in less than one month? (*Elicit that with short sales cycles, the profit might increase manifold, always provided the market is sufficiently large!*). Those who are interested to know should do this calculation with two cycles per month!

Generalisation:

What can be done to assure liquidity? (*Elicit that always a certain amount of the surplus can be put aside; everything can be reinvested in case the market bears.*)

Everybody knows that there might be problems (illness, accidents, family members with problems) which require some money to be solved or eased. How could an entrepreneur react in such a situation? (*Elicit that a certain amount needs to be earmarked which is considered to be required to re-launch the business at any point in time. If this money <liquidity> is no more available, then the source of help for others, and for oneself, is dried up. Note: never touch the financial basis of your enterprise!*).

**Annex 1****Chilli Prices Chart**

| Month | Purchase price (Taka) | Sales price (Taka) | Profit margin (Taka) |
|-------|-----------------------|--------------------|----------------------|
| 1     | 900                   | 1.100              | 200                  |
| 2     | 900                   | 1.000              | 100                  |
| 3     | 1.100                 | 1.500              | 400                  |
| 4     | 1.000                 | 1.200              | 200                  |
| 5     | 1.000                 | 1.100              | 100                  |
| 6     | 1.000                 | 1.600              | 600                  |



To be calculated by  
the participants

Provide in the beginning only the figures on the different purchase- and sales prices per month.

The profit margin column is supposed to be calculated by the participants with the help of dummy money.

**Annex 2****Chilli Sales Record Chart**

| Month | Capital (in Taka) | Purchase (unit) | Purchases (costs in Taka) | Sales price (in Taka) | Profit margin (in Taka) |
|-------|-------------------|-----------------|---------------------------|-----------------------|-------------------------|
| 1     | 5.500             | 6               | 5.400                     | 6.600                 | 1.200                   |
| 2     | 6.700             | 7               | 6.300                     | 7.000                 | 700                     |
| 3     | 7.400             | 6               | 6.600                     | 9.000                 | 2.400                   |
| 4     | 9.800             | 9               | 9.000                     | 10.800                | 1.800                   |
| 5     | 11.600            | 11              | 11.000                    | 12.100                | 1.100                   |
| 6     | 12.700            | 12              | 12.000                    | 19.200                | 7.200                   |
| 7     | <b>19.900</b>     |                 |                           |                       |                         |

Increase: 14.400 Taka  
in capital

**Annex 3****Group Records Chart**

| <b>Group</b>                  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> |
|-------------------------------|----------|----------|----------|----------|
|                               |          |          |          |          |
| Profit margin/unit 1. month   |          |          |          |          |
| Profit margin/unit 2. month   |          |          |          |          |
| Profit margin/unit 3. month   |          |          |          |          |
| Profit margin/unit 4. month   |          |          |          |          |
| Profit margin/unit 5. month   |          |          |          |          |
| Profit margin/unit 6. month   |          |          |          |          |
|                               |          |          |          |          |
| Actual profit margin 1. month |          |          |          |          |
| Actual profit margin 2. month |          |          |          |          |
| Actual profit margin 3. month |          |          |          |          |
| Actual profit margin 4. month |          |          |          |          |
| Actual profit margin 5. month |          |          |          |          |
| Actual profit margin 6. month |          |          |          |          |
|                               |          |          |          |          |
| Best estimate (+ 20 points)   |          |          |          |          |
| <b>TOTAL</b>                  |          |          |          |          |



- Setting** : Two volunteers (one responsible, one assistant) near the oven to start production with all other participants sitting in a semi-circle around this scene.
- Steps** :
- (1) Acquaint the participants with the set-up by explaining that these two volunteers will produce "muri" (puffed rice) whilst the others are observing the production process and analysing the ingredients necessary to do the production process. Tell them not to interfere into the cooking process although they might have a different approach in preparing puffed rice. *(The volunteers have been already identified and briefed one day in advance; they should bring their own equipment. It is advisable to identify at least one volunteer who really is planning to take up "muri" making as her project).*
  - (2) Announce a competition of the "best production cost estimator" and ask the volunteers as well as the observers to estimate the production costs for the production of 1 kg of "muri". Write the respective figures on the prepared flip chart (see **Annex 1**) and keep it until the processing part.
  - (3) Then, the observing participants are asked to itemise all material, equipment and other inputs required in preparing 1 kg of "muri". While the volunteers keep on cooking, list all mentioned items on ZOPP cards of the same colour (invent symbols for each item!).
  - (4) Ask if all items belong to the same category or if they see different uses or specificities which might require some categorisation (*Elicit that some are totally used off while others still remain seemingly unchanged*). Then, proceed to the distinction of equipment/machines and raw material by using the prepared symbols on the prepared "Production Cost Calculation Table" (**Annex 2**) which is revealed on the second ZOPP board. Treat card by card of the first ZOPP board and transfer them to the second (reserved for the different categories). In case, the participants have identified other costs (such as work/labour, transport, packaging, etc.), open a new category by using the respective symbol for them (for the symbols: see session plan on "My cost categories").
  - (5) While the volunteers are still cooking the "muri", ask all participants to identify the respective purchasing prices of all cost components. If the participants come up with different options for the equipment, then take the more expensive alternative! As far as the raw material, transport and packaging per unit is concerned, write the costs directly into the

last column. Identify the basic units for each item with the participants (1 kg rice, etc.).

- (7) Add up the figures for the different categories (based on costs per 1 kg "muri") so that the total production costs emerge. Note this figure into the last line of the last column (grand total)!

**Note:** Regarding equipment (and machines), inquire from the volunteers (producers) the respective average life cycles of the equipment (for example: for 100 kg of rice) as a basis to calculate the depreciation costs (*don't mention this word but just explain that all these equipment need to be replaced once it is broken our outworn!*). 100 kg as a basic figure eases computation and can be more easily understood than any odd and complicated numbers.

Example: initial costs of all equipment: 120 Taka; highest price for pot with a life cycle of 100 kg of rice;  $120 : 100 = 1,20$  Taka depreciation for 1 kg "muri".

- (8) After the preparation of "muri" is over, weigh the "muri" in order to find out if there was a loss of weight during the production process (*experience shows that 1 kg of rice produces around 850 g of "muri"!*). Recalculate the rice cost figure (raw material), if it is based on only 1 kg rice, adjust the figure (approximate costs: 1,150 to 1,250 kg rice!).

Make the point in comparing production costs and usual sales price in the area (cost price: usually between 28 and 30 Taka; sales price: around 30 Taka). What is the gain per 1 kg of "muri"? Is this already the profit or did we omit other expenses? (*Elicit those relevant cost categories which might have been forgotten during the initial enumeration of cost items.*)

- (9) Proceed to the "Production Cost Estimate Score Board" and find out who among the participants was closest to the calculated costs. Award a prize of 30 Taka and inquire how he/she did the calculation (see also **processing**). Announce the result and highlight the differences in estimating the production costs for such a simple product as "muri" where there are not so many components to be considered. How could it happen that there are so big differences? *Elicit that they were not aware of all cost components because they never calculated them, that the sales price was lower/higher than usually in the market, that ... (let them cite other reasons!). Note their contributions (incl. their symbols!) on flip chart.*

**(10) optional:** With the given sales price per 1 kg "muri", ask them to estimate the number of kg which they can possibly sell in the market (related to the demand!). Note their answers and let them agree on one figure so that you can calculate the income per week, month and year. Ask them what they intend to do with this money? *Elicit that they will have to buy another pot (because it will not last for one year!) and other equipment to maintain production, that they will have to live from the income (salary) and that they need to do some savings (family reserve and reinvestment purpose).*

**Caution** : During the cooking demonstration process, some participants may want to interfere into the production process.

The process of making "muri" may be considered in some cultures as a women's job (potential problem in all male or mixed groups).

Some participants might be stressed if they are asked to do too many computations.

The estimate of the production costs per 1 kg "muri" takes too long because the participants are hesitating.

It may happen that the cost price is higher than the sales price; this situation is very good for processing because it shows that micro enterprises often produce at a loss which is not felt due to money transactions at different points in time. But in reality, for every product the producer spend their own money instead of getting some.

**Hints** : Inform the volunteers (producers) several days in advance so that they can get mentally prepared and bring along all the items which are required (Note: the raw material, the equipment and the packaging material should be provided by the organising agency).

While selecting volunteers for the production of "muri", make sure that the respective participants are able to produce "muri" (real life experience); if possible, select from among those who plan to do this business.

The estimate of the production costs needs to be introduced properly by saying that they surely have a rough idea about the sales price per 1 kg "muri"! *Then, do you know how much the production of 1 kg "muri" will cost? "Guess now how much production costs you incur! Don't reflect for a long time! Those who don't estimate, obviously cannot win the prize of 30 Taka!"*. Put a special mark on the esti-

mates of the "muri" specialists in the group (This will be highlighted especially during processing. *Are the specialists more able to estimate the production costs of their product correctly? If not, could this also happen to the other participants, i.e. are they fully aware if they really gain (or lose) money when they are not sufficiently informed about the real production costs!?*).

The calculation of production costs per unit (1 kg "muri") for the equipment can be done by small groups of participants who get play money for the computation; the same is valid for the other cost categories (raw material, transport, labour, etc.). For the calculation of the equipment's depreciation costs, it is assumed that the participants will accept your computations.

If the participants are aware that more than 1 kg of rice is required to produce 1 kg of "muri", they might take this into account while mentioning the purchase price of rice. For example, they put the price for 1,250 of rice kg instead of 1 kg. In this case, no special recalculation on the basis of 1 kg "muri" is required!

If other items such as "labour" are mentioned, they are usually rated at zero costs by the participants; nevertheless, put them on the same ZOPP board but in a separate position (if they belong to other cost categories!). If they put value to it, accept the figure mentioned by them! Proceed accordingly if any other secondary cost categories (see <BPLAN-FIN – 2-cost categories>) are mentioned during this exercise.

Draw symbols on ZOPP cards for the single cost items; some of these symbols might be already prepared in advance if you are sure that they will be mentioned.

## Variations

- : (1) Utilise the exercise mainly to understand the production process (**different processing!!**) if there are many production-related projects among the participants. **Processing**: why is it important to reflect about different ways of producing? *Elicit that the quality might be better (consumer satisfaction), costs might be lower (increase in income), or there is a higher efficiency (cost reduction).*
- (2) The volunteers are asked to package their product and try to sell it to the participants and facilitators. Make sure that the total production is sold; then calculate the income.
- (3) Produce a new variety of "muri" which demonstrates at the same time the research & development function of an enterprise and let the participants taste the "new" brand (more spices, sugar added, etc.) which is developed ac-

ording to your own imagination. Calculate the additional costs and relate to the sales price of this "new" product. Is there any larger margin? If yes, why not try testing new products with some clients before launching them on a broader scale?

## Processing

: Inquire if, how, and to what extent the participants appreciated the exercise. Loudly repeat their contributions to reinforce the message. Write their contributions eventually on flip chart using their personal symbols.

Ask for a volunteer and let him/her explain the lessons retained from this exercise. Emphasise the **composition of production costs** (R/M, equipment/machines, transport, packaging), the **profit** (difference between sales price and production cost per unit) as well as the possible differences in **production processes** (optional step: the same product can be produced in many ways with a different cost structure and varying quality implications!). Note these points on flip chart.

Let them resume the learning points regarding **profit**: reduced production costs and maintained sales price or stable production cost and increased selling prices increase the profit. Money needs to be put aside to **replace** outworn equipment; furthermore, profit can be utilised for **savings**, **better life style** (increased salary) and **reinvestment** purposes (increase the scale of production or invest into similar products or increase the sales radius, i.e. more clients in more distant places, etc.); see the optional **step 10**.

What would happen if the raw material price (rice) as single most costly element of "muri" production will rise? (*Elicit that there might be a loss for any kg "muri" produced unless they raise the sales price to an appropriate level assuring a certain profit.*)

What will happen if other cost elements will increase in price? (*Elicit that the same mechanism will work but the impact on the production costs of each kg "muri" will be less; in the long run, an increase in sales price will be inevitable!*)

How could these lessons learned influence the management of their present project ideas. Let them cite examples which you note down on flip chart. What is required before entering into any business? (*Elicit that raw material and equipment costs are to be researched <have they been researched during the market survey?>, the production cycle is to be identified, sales prices are to be fixed <link to the 4 Ps > – but all this needs to be **based on the client's solvent demand**.*

Finally, point out that the **anticipation of future costs and income** within their businesses is one basic ingredient to be successful in business. Make them understand that there is a great necessity to understand the nature of costs and the need to calculate them before reasonable prices can be fixed. The next step will consist in identifying the different cost categories for their own businesses.



## Annex 2

## Production Cost Calculation Table

|                                 | Purchasing cost<br>(symbol) | Production cost per 1 kg *of<br>"muri" (symbol) |
|---------------------------------|-----------------------------|---|
| <b>EQUIPMENT /<br/>MACHINES</b> |                             |   |
|                                 |                             |   |
|                                 |                             |   |
|                                 |                             |   |
|                                 |                             |   |
|                                 |                             |   |
|                                 | Sub-Total                   |   |
| <b>RAW MATERIAL</b>             |                             |   |
|                                 |                             |   |
|                                 |                             |   |
|                                 |                             |   |
|                                 | Sub-Total                   |   |
| <b>TRANSPORT</b>                |                             |   |
|                                 |                             |   |
|                                 | Sub-Total                   |   |
| <b>PACKAGING</b>                |                             |   |
|                                 |                             |   |
|                                 | Sub-Total                   |   |
|                                 | <b>GRAND TOTAL</b>          |   |

\* or any other unit which seems to be more appropriate to the participants and which is common in the region

The depreciation for machinery and equipment is done in a lump-sum based on the expected life time of the costliest item (in the case of "muri" it's the clay pot).

Note: shaded boxes remain blank



**Steps**

- : (1) Link to the previous exercise (Muri making) by pointing out that a great number of cost factors have been identified: raw material, equipment/machines, transport and packaging. Tell them that now it would be important to know which of these cost categories occur during their own production- as well as sales process. Ask them to classify those cost categories already known to them along these two lines (production and sales). Inquire how they would assess the transport category? (*Elicit that it can occur as production- and sales cost depending on the situation*). If they come up with new cost categories (see **step 2**), ask them to wait for a little while, but note them down on flip chart as a reminder!
- (2) Inquire from them if they think that all cost categories have been mentioned by now or if they can imagine any others? Ask them to reflect about their own businesses which might have a different cost structure! Note down on flip chart their suggestions. Remind them of the "muri making exercise" provided issues such as labour (or salaries) and promotion have been mentioned.
- (3) Laud their efforts (if successful!) and tell them that you will reveal now some more cost categories (*if they have not been able to identify the remaining cost categories used during this exercise!*). Pin the prepared symbols of the cost categories into the respective boxes of the prepared chart on Kraft paper (see **Annex 1** for the total picture of cost categories!). Find some practical examples for each cost category so that the participants can relate them to their respective businesses.
- (4) Then, announce that the participants organised in groups of similar businesses will now have to identify all cost factors occurring in their respective businesses. Ask them now to take their document "Cost categories and yearly cost estimate" (**Annex 1** – which is already known to them) on A4 size (with the symbols already printed) or on laminated A3-size card board (with the respective symbols to be fixed with blue tack) and ask them to tick-mark the respective costs per cycle (A4 version) or to fix the respective symbol if this particular cost category is valid for them. Remind them that the right part of the document has been already dealt with while identifying the best sales months.

- (5) The participants work in groups of similar businesses with intensive coaching from the facilitators. This phase will last for about 30 minutes. Make sure that every participant finishes with this work.
- (6) Each participant presents his/her findings to the group (*watch if they have been able to identify the appropriate cost categories!*) while explaining what sort of costs are expected; the group is supposed to give comments in order to complete or to criticise. The co-facilitators will assist in providing feedback. They encourage group discussions regarding the individual presentations.
- (7) While wrapping up and leading over to the processing part, explain again that all these cost categories in their document in front of them do not necessarily occur in all projects. Cite examples such as packaging (*vegetables are usually not packed for sales!*), promotion (*a word of mouth promotion does not involve costs*) or training (*for some projects such as grocery shops training is either not required or not available in the area!*).

### Caution

: Their information obtained during the market survey is not sufficient to identify the respective cost categories (lack of imagination regarding non-traditional approaches to business).

The prepared symbols might not be properly understood or retained; there are too many different symbols so that participants feel not at ease.

### Hints

: Only intensive coaching can help overcome individual frustrations. Encourage them to attack this task as they are presently laying the foundation stone for their future project ("House model") which hopefully provides them with a sufficient income.

It might be required to explain why for example machines are not mentioned as a special category (*they are included in equipment because it is assumed that almost no machines will be utilised by the participants*); construction material such as cement or wooden racks can also be subsumed under equipment. There might be other cases where an instant decision needs to be taken.

If the time is too short, then continue the exercise during the next day (or the following session) because these figures need to be computed before proceeding to the next exercise (estimated sales income).

**Variations** : (1) Without disclosing the cost categories, ask them to identify in groups (competition!) any other production costs which are not yet covered by the cost categories which they have just learned during the preceding exercise <BPLAN-FIN – 2-muri-make>. Two co-facilitators act as jury which might accept any individual cost factor, such as fisheries- or salesperson training (1 point), as well as any cost category, such as training in general (3 points).

**Processing** : Explain that they have just undertaken an important step in business planning. Without knowing essential costs, one cannot proceed any further. The knowledge of cost components is linked to the estimate of total project costs (business expenditures); they are a prerequisite to determine if the project is viable or not.

Inquire if this exercise has triggered any discovery of new costs? Which ones? Why do they think they are important to be included while keeping in mind that any increase in costs is only justifiable if the estimated income will increase?

In how far can massive individual cost factors (large amounts) influence the planning of the whole project. *Elicit that cost reduction is usually the most important means to increase the profit because sales prices in a stiff competition are usually quite stable (refer to the "cooking oil" exercise where the demand-supply law has been discovered!). Emphasise the need for product innovation in order to avoid heavy competition!*

Let them search for possibilities to reduce costs! *Elicit 1. Bulk purchase or pooling of purchases with other entrepreneurs from the same business (lower per unit costs, link with "muri making"); 2. Low quality and cheap raw material (watch out for bad quality); 3. Longer life span of equipment/machines than calculated (link with good maintenance but hint out that reinvestment needs to be made one day, financial reserves!); 4. Pooling of transport for different cost items (avoid double transport), 5. Leasing instead of buying cost items (e.g. megaphone for promotion), 6. Common sales points, etc.*

Lead over to the next exercise and announce that now it's time to actually compute these costs; firstly, this will be done per cycle in pursuit of this exercise, and later on a monthly basis in order to be able to calculate the total costs per year.

# Annex 1

## Cost categories and yearly cost estimate

| Production costs      |       | Sales costs   |       | Yearly calendar   |
|-----------------------|-------|---|-------|---|
| Raw material          | Taka  | Promotion   | Taka  | Please, attach the respective month's symbol you're dealing with (i.e. production- and sales costs)<br><b>HERE</b><br>Start with the first month when operation starts. |
| _____                 | _____ | _____   | _____ |   |
| _____                 | _____ | _____   | _____ |   |
| Sub-total             | _____ | Sub-total   | _____ |   |
| Machinery & equipment |       | Transport   |       |   |
| _____                 | _____ | _____   | _____ |   |
| _____                 | _____ | _____   | _____ |   |
| Sub-total             | _____ | Sub-total   | _____ |   |
| Transport             |       | Packaging   |       |   |
| _____                 | _____ | _____   | _____ |   |
| Sub-total             | _____ | Sub-total   | _____ |   |
| Labour                |       | Others  |       |   |
| _____                 | _____ | _____   | _____ |   |
| Sub-total             | _____ | Sub-total   | _____ |   |
| Utilities             |       | TOTAL   |       |   |
| Sub-total             | _____ |   |       |   |
| Principal & interest  |       | <b>CALCULATIONS ARE NOT YET DONE DURING THIS EXERCISE !</b> |       |   |
| Sub-total             | _____ |   |       |   |
| Training              |       |   |       |   |
| Sub-total             | _____ |   |       |   |
| Others                |       | Grand total/month:  |       |   |
| Sub-total             | _____ |   |       |   |
| Total                 |       |   |       | x   |
|                       |       |   |       | x + 1   |
|                       |       |   |       | x + 2   |
|                       |       |   |       | x + 3   |
|                       |       |   |       | x + 4   |
|                       |       |   |       | x + 5   |
|                       |       |   |       | x + 6   |
|                       |       |   |       | x + 7   |
|                       |       |   |       | x + 8   |
|                       |       |   |       | x + 9   |
|                       |       |   |       | x + 10  |
|                       |       |   |       | x + 11  |
|                       |       | TOTAL   |       | TOTAL   |



**Steps**

: (1) After the participants have identified all relevant cost categories in their individual cases <see *BPLAN-FIN – 3-cost categories*>, invite them now to calculate all production costs for their respective production cycles on a format already known to them (either on A4-size paper or on A3-sized laminated card board with movable symbols; see **Annex 1**, see previous session). Explain a cycle to be basically one month if the project does not require a different time frame (such as fisheries, animal rearing or stocking and hoarding with very specific cycles).

(2) In order to understand the approach, have a calculation example for one month with one of their projects in plenary (not exceeding 25 minutes). Invite a volunteer to imagine all production costs for the first month of his (her) production cycle. Let him (her) identify the first month when business will start. Place the respective large symbol (4 x 4 inch) of that month in the larger box (upper right).

It may happen that they plan the business start for a few months later. Then, you can either suggest to leave the same monthly sequence as it is (so that the respective participants may start their calculation for the second, third or fourth month of this sequence; *put the respective larger symbol into the greater box in the upper right side!*) or to rearrange the monthly symbols in a way that the first month of operation becomes the first month in the sequence.

Then, let him (her) mention the expected costs for each cost category of the first month of operation. Assist in finding realistic figures (good example for the other participants!) based on the market research findings and not on the own production capacity. Tell the participants that some cost categories might be obsolete in some cases, but in other cases they might be very important (particularly transport for sales). Help in accurately computing the monthly production costs and transfer this amount into the respective month box of the "month-ladder".

(3) Before the individual work will start, distribute the play money to every group in order to ease individual computations. Designate one co-facilitator as coach to each group and let them work for one hour and a half. Make a tour of all groups so as to make sure that all forms (card boards) will be filled in time and that the participants have well understood the basis for the calculations. Encourage them to write (symbols and figures) on their own (*particularly, when you have done some classes on numerical literacy! Practice!*).

Pay attention that they don't exceed their own savings while calculating the costs or – at least to remain within the limits of access to loans in the area. This will help to keep the projects to a manageable size, and that they don't become unnecessarily indebted.

**Caution** : Some participants are still not very happy with calculations although the individual importance is clearly seen.

Complicated cases might lead to overtime work.

Some co-facilitators might not be well acquainted with the calculation procedure (production cycle) and/or lack practical experience.

**Hints** : Do not work for but with the participants; they should basically write figures and symbols and not the facilitators.

Take an example (**step 2**) where the production cycle does not correspond to one month in order to make them understand more complex situations.

Work with play money to ease the computation process.

The preparation of the co-facilitators during the preceding day is very essential for the success of this exercise. The following issues need to be observed in order to unify the approach:

- Calculation basis: 25 days in a month = 300 days in a year for all projects (this figures covers illness, travel, occasional festival, etc. during which there will be no work; if they work more, the better for them!).
- Identify basic calculation units with the participants such as fingerlings bought per bucket (fisheries), paddy (per bag or per kg), seeds (per packet – how many grams or per kg), one-day chicks (per 100), cooking ingredients (per l or per bottle – how many millilitres), etc.
- Rounding of all figures to the next higher 10 (no paise; no last number between 1 and 9).
- The purchase of raw material is always linked to the demand (market survey), calculate pessimistically.
- If there are price bracket for purchases, take the respective higher figures as your calculation basis (basic rule: exaggerate all cost issues while minimising sales expectations).

- Total costs for the first months (or all months before income can be expected) should not exceed savings (see also depreciation; next paragraph) plus loan (if the latter can be obtained); otherwise, costs need to be recalculated with the aim to reduce them substantially.
- Explain that the costs for depreciation ("money required to substitute broken equipment") should always be covered by the participants' savings.
- Labour cost can be calculated at a rate of 50 Taka/day no matter if food is provided (and some Taka in cash) or the whole amount is paid to the labourers.
- For project of composed items (tea stall, restaurant, grocery shop, etc.), make a list of all articles (raw material) required during a future average month of sales. Regard this "100" (composed figure) as starting point for your calculations . During the first months, the participant might achieve only sales of between 40 to 60; calculate the respective percentage based on the "100" figure. General advice: equip the shop only with a minimum (test run) for about 5 – 7 days in the beginning and evaluate how things are selling.
- Take only new equipment/machines into account while calculating the production costs; existing equipment and machines in working conditions are not accounted for.

**Variations** : Not yet known

**Processing** : Wrap up the session by saying that the first big step in business plan preparation has now been accomplished and the second step is going to be tackled the next day. The production costs per cycle and per month are very important figures to know if one is able to financially manage his/ her business properly.

# Annex 1

## Cost categories and yearly cost estimate

| <i>Production costs</i> |             | <i>Sales costs</i>        |             | <i>Yearly calendar</i>   |  |
|-------------------------|-------------|---------------------------|-------------|--|--|
| Raw material            | <b>Taka</b> | Promotion                 | <b>Taka</b> | Please, attach the respective month's symbol you're dealing with re. production- and sales costs<br><b>HERE</b><br>Start with the first month when operation starts. |  |
| _____                   | _____       | _____                     | _____       |  |  |
| _____                   | _____       | _____                     | _____       |  |  |
| Sub-total               | _____       | Sub-total                 | _____       |  |  |
| Machinery & equipment   |             | Transport                 |             |  |  |
| _____                   | _____       | _____                     | _____       |  |  |
| _____                   | _____       | _____                     | _____       |  |  |
| Sub-total               | _____       | Sub-total                 | _____       |  |  |
| Transport               |             | Packaging                 |             |  |  |
| _____                   | _____       | _____                     | _____       |  |  |
| Sub-total               | _____       | Sub-total                 | _____       |  |  |
| Labour                  |             | Others                    |             |  |  |
| _____                   | _____       | _____                     | _____       |  |  |
| Sub-total               | _____       | Sub-total                 | _____       |  |  |
| Utilities               |             | <b>TOTAL</b>              |             | x  |  |
| Sub-total               | _____       |                           |             | x + 1  |  |
| Principal & interest    |             |                           |             | x + 2  |  |
| Sub-total               | _____       |                           |             | x + 3  |  |
| Training                |             |                           |             | x + 4  |  |
| Sub-total               | _____       |                           |             | x + 5  |  |
| Others                  |             |                           |             | x + 6  |  |
| Sub-total               | _____       |                           |             | x + 7  |  |
| <b>Total</b>            | _____       | <b>Grand total/month:</b> |             | x + 8  |  |
|                         |             |                           |             | x + 9  |  |
|                         |             |                           |             | x + 10   |  |
|                         |             |                           |             | x + 11   |  |
|                         |             |                           |             | <b>TOTAL</b>   |  |



**Steps**

: **(1)** Explain to the participants, that by now we have identified the best buying and sales months for our products based on the months where we can possibly attain highest sales prices per unit (*which does not necessarily mean that profit is highest during these months!*). And we know the production- and sales costs we incur during the different months of a year. Now, everybody would be interested to learn about the volume of income we can expect. It's only then, when we will be able to say if the business is profitable or not and how much (if any) external financial resources are required.

Show the "Yearly income estimate and cash flow" Chart (**Annex 1**) on Kraft paper (*it should be positioned on the right side of the previously used "Cost categories and yearly cost estimate" chart so that the "monthly ladders" (month x to x + 11) appear at the same level*).

Tell them that the last column (yearly cash flow) is not yet of concern so that they should concentrate on the income part only. Remind them that they have shaded in black the best income months (which does not mean that these are the only income months). *Elicit that sales should take place with a higher intensity during those months shaded in black only if the margin <income minus costs> is sufficient.*

Invite one volunteer (*it is suggested to invite the same person whose example was taken during previous sessions so that continuity is guaranteed!*). Ask him (her) about the income during the first month of operation. Inquire into the calculation method (basis, times how much, etc.). *Elicit that the individual sales price and the number of products to be sold will have to be multiplied for every month during which sales can realistically be expected (solvent demand!).* Calculate on flip chart and write that figure into the respective monthly box on the income chart. Do the same calculation for at least three months so that several different figures appear and the process is properly understood.

**(2)** Now, all participants (still organised in groups along similar business lines!) are supposed to calculate month by month the income they can expect. Instruct them to start with the first month on that list which can be seen from the left side of the chart (first months when costs occurred). Cyclic businesses might have zero income for some months before sales can be effected. Distribute the play money to facilitate the calculation process.

Ask the participants to provide mutual help in computing the figures during group work. One facilitator will act as

coach in each group, but the participants should do their work as independently as possible. Remind them to get orientation along those months which have been shaded in black (highest income months)

- (3) After all computations have been, link the income results to the monthly production costs calculated earlier during the training programme. Can they already imagine if the project is profitable or not? Those who are more advanced might have a tentative overview of a yearly or monthly profit. Tell them that they will continue with another exercise which will provide them with all these essential data.

Urge them once again to be very careful with their income estimates, in case they want to review the figures at home. If production costs are tentatively overestimated and income figures realistically underestimated while there is still a substantial profit per year, then they can be more sure of their businesses' success.

### Caution

: Some participants need heavy guidance and coaching in computation.

Others are disturbed by two documents (card boards) which are to be treated jointly.

### Hints

: Limit your guidance to the strict minimum and urge the participants to calculate their income with the help of play money; for those who can't write figures, help them transferring their computation results on the prepared chart.

In some cases, the number of estimated products sold need to be realistically re-assessed: mortality rates (suggested: 10% flat rate), weight and quality loss, thefts, spoiled products (like e.g. in hoarding), etc. need to be taken into consideration; explain that it would be nice if all products can be sold but that it is more cautious to take a certain drop-out into consideration. Urge them to memorise the percentage of losses if they want to redo the computation process at a later stage (for those who can read numbers!).

Participants, especially those with trading businesses, should count on eleven months of work (costs and income) and 25 working days per month (as all the others, too!) because sometimes they might be forced to rest (illness, family problems, seasonal impacts, festivals, etc.). Make them aware that real profitable projects would also be in the profit zone if there is one month without income; if they can work 12 months or more days during one month, the better for their profit development, if not, they also know

that their businesses can be profitable (provided the figures testify this!).

**Variations** : Not yet known

**Processing** : Thank them for their efforts and ask some participants about their results obtained. Do they know if they are gaining or losing money?

Was the understanding of the process difficult? Who was able to compute on his (her) own with the help of play money (special applause!)?

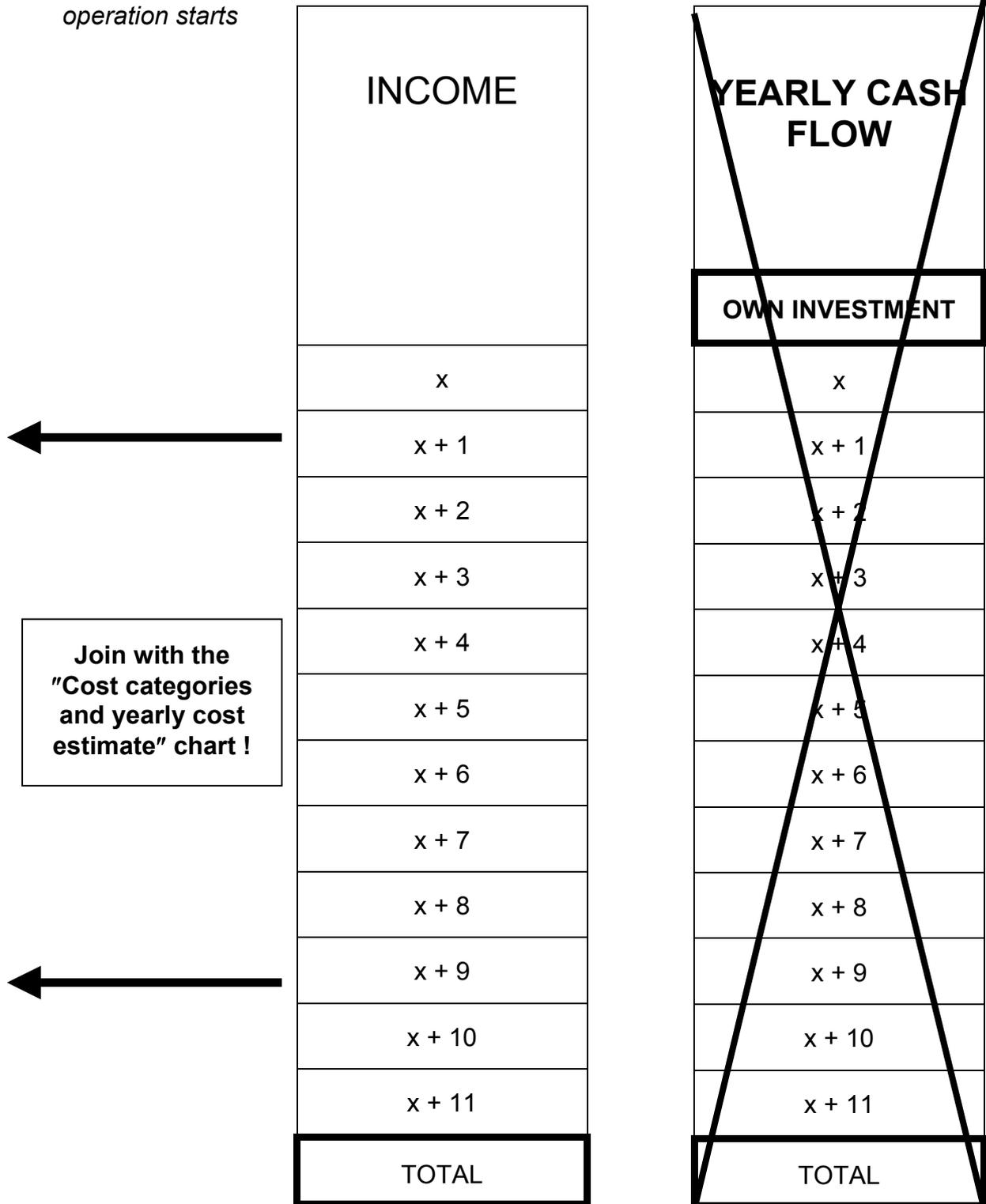
Remind them that all these computations have been made on the basis of some important assumptions (average sales prices in the respective months, certain quantities and qualities produced, certain markets available <as researched during their market survey>, etc.) which might change in course of time. How could these assumptions change? *Elicit that sales prices might be lower/higher, certain quantities cannot be produced at all or not in time, markets might be conquered by competitors, quality standards cannot be maintained due to poor R/M or other influencing factors (environment), the participants may fall ill, family problems might emerge, etc.* The list of possible changes can be even longer but it is meant to highlight mainly dangers as participants usually think to positive at this stage because they are blinded by the high yearly income figures!!

Urge them to memorise these assumptions! If things turn out more positive than the assumptions, the better for them in terms of probably higher income.

**Annex 1**

**Yearly income estimate and cash flow**

*x = month when business operation starts*



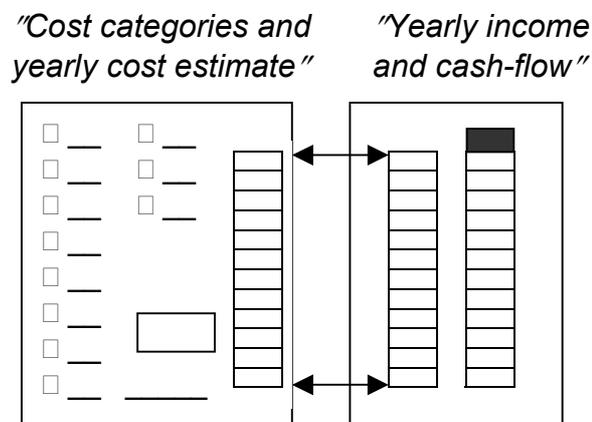
Join with the "Cost categories and yearly cost estimate" chart !



**Setting** : Participants organised in groups of similar projects.

**Steps** : (1) Link to the previous session on income estimate <BPLAN – FIN – 5-income-estimate> and recall the main learning points and questions raised at the end. Tell them that now the time has come to find out a. if there will be really profits, and if yes, of which amplitude, b. if the projects can be self-financed or if they require external finance, and ultimately c. if some changes need to be made in the cost side.

(2) Display the "Yearly income and cash flow chart" (**Annex 1**) on Kraft paper and ask for the same volunteer to continue the computation process. As during the previous session on income estimate, have this chart fixed on the right side of the "Cost categories and yearly cost estimate" chart (see exercise: BPLAN-FIN – 3-cost calculate>). Adjust in a way that the lines representing the same months on both charts are at the same level (see figure below; see also **Annex 1** in <BPLAN-FIN – 4-income-estimate>). Otherwise, the participants will have additional comprehension problems.



Explain that the income side of this new chart has been already treated. If required, fill in these figures according to the calculations done individually during the preceding exercise. Tell, that now it's time to find out if the project is feasible (enough equity or access to funds available) and profitable (how much will be gained).

Inquire first from the volunteer about the own investment (these could be the personal savings in bank and/or cash-in-hand alone or coupled with money which can be borrowed from friends, neighbours or banks) and enter this amount into the upper right box (blackened in the figure

above!). In case of a loan, some recalculations might be required at a later stage regarding principal and interest repayment per month which would appear in the respective cost category of the production-cost calculation).

Tell that this chart is organised in the same way as their daily book keeping structure so as to ease their comprehension. Stick the respective symbols of the book keeping exercise (pot with arrow out, pot with arrow in, pot with some money for balance).

- (3) Explain that the figure in the "Own investment" box is the property of the volunteer, the starting point. This figure is in which relation to the costs of the first month (*Elicit that it needs to be subtracted because it is outgoing!*). Ask them to do the calculation; visualise on flip chart. With the respective result obtained, proceed by asking what is the relation of this new figure towards the income estimated for the first month? (*Elicit that this incoming money increases the balance, hence it is to be added to the previous figure*). Ask them again to calculate; visualise again on flip chart. Continue with the new balance for the first month and the costs and income for the second month.

Calculate until the end of the table with the help of the participants; keep on explaining the process.

- (4) Then, instruct them to do the same calculations for their own projects. Let the co-facilitators provide assistance in the groups of similar businesses. Note: in case the above mentioned calculation process has not been properly understood, the facilitators should do the work, because the main objective consists in getting cash flow information for the counselling of the participants (*see also: exercise "Preparation for the presentation" <BPLAN-FIN – 7-preparation>*).

It may last 20 minutes until the chart is completed. Demand as often as possible the assistance of the participants (play money!) to help computing.

- (5) Supervise the work and pitch in wherever required to give a helping hand.

Note: those participants who finish earlier with their work might be already interviewed for the baseline survey serving as a basis for follow-up activities provided by the organising agency (*see separate session outline; this activity is supposed to be conducted parallel to the 3-months project planning with the help of the Gantt Chart <END – action-plan>*).

**Caution** : Some participants do not fully recognise the similarity between this chart and their book keeping exercise due to the additional column (aggregated amounts as well as negative figures – which might occur during this exercise - were not possible during the book keeping exercise!).

Others give up because they don't feel competent to do these calculations.

**Hints** : Show intensively the computing structure which resembles the book keeping exercise and explain, that with a cash account book, end-of-the-month aggregates can be calculated (these are taken into account in this chart). Secondly, this is a preview and not a post-operation accounting as with the accounting books.

Take the same participant as example because his (her) figures are already known and the participants can more easily follow.

Provide play money to help the participants computing the respective monthly balances.

**Problems and specific coaching hints:**

- **Purchase of equipment** is projected some months **before it is required** (purchase equipment when it is needed).
- **The planned loan is too high**. If a participant planned for a loan (upper right box on the chart "Yearly income and cash flow") and if (s)he is always well in positive figures, then the loan amount should be reduced accordingly. Consider a safety margin of 10 –20 %.
- **Income is only slightly higher (or even lower) than the estimated costs**. Several reasons might be the cause:
  1. Sold quantities are too small; a slight increase might make the project profitable;
  2. Own salary is too high or number of hired manpower is exaggerated! Reduce, if possible!
  3. Range of offered products is limited (tea stalls, grocery shops)! Enlarge range of products or offer additional services!
  4. Loan amount is too high, so that repayment eats up the profit! Start smaller, save continuously and grow slowly!
  5. Transport is too expensive! Evaluate if goods can be transported by the owners!
  6. Equipment and raw material is not utilised for multiple purposes! Check if equipment cannot be leased to others (e.g. fishermen's nets), raw material not sold as such (cloth, rice, etc. with a certain profit margin) instead of utilising it exclusively for the own production process!

- **Projected profit is too high!** Review the salaries (forgotten?), profit margin (realistically fixed?), number of clients per month (exaggerated?), other cost categories (forgotten?), sales figures exaggerated (natural losses, mortality, etc. accounted for?).

**Variations** : Not yet known and difficult to find!

**Processing** : Inquire how the participants feel after this hard work. Reinforce their statements and look for contrary comments (whatever feeling is provided first!).

Who is not satisfied with the profit result? Why not? How can this situation be changed.

Who detected that the monthly balance went into the minus side? Is this possible in reality if they take their experiences with the book keeping exercise into consideration? What does this mean? (*Elicit that the project funds are not sufficient or that the size of the project needs to be scaled down!*)

Who thinks about changes in the project's strategy? Which changes? Why?

Ask some participants to cite by heart the key figures they are supposed to know such as average production cost per unit (kg, flock of x animals, etc.), average income per unit, number of income months calculated (max. 11), profit margin per unit (and/or per month), minimum reserve required for the purchase of key equipment / machines, etc. in order to follow up the cost and price situation influencing their business situation.

What do you intend to do with the profit? (*Elicit that a certain amount needs to be kept as reserve <savings> but the newly acquired liquidity should be utilised to reinvest. This could concern a careful expansion, a gentle diversification or a more solid basis <higher quantities> of the existing activity. The total utilisation of profit for private matters <things I always wanted to buy!> may put the small business in danger.*)

**Annex 1**

**Yearly income estimate and cash flow**

*x = month when business operation starts*

|   | <b>INCOME</b> | <b>YEARLY CASH FLOW</b> |
|---|---------------|-------------------------|
|   |               | <b>OWN INVESTMENT</b>   |
|   | x             | x                       |
| ←   | x + 1         | x + 1                   |
|   | x + 2         | x + 2                   |
|   | x + 3         | x + 3                   |
| Join with the<br>"Cost categories<br>and yearly cost<br>estimate" Chart ! | x + 4         | x + 4                   |
|   | x + 5         | x + 5                   |
|   | x + 6         | x + 6                   |
|   | x + 7         | x + 7                   |
|   | x + 8         | x + 8                   |
| ←   | x + 9         | x + 9                   |
|   | x + 10        | x + 10                  |
|   | x + 11        | x + 11                  |
|   | <b>TOTAL</b>  | <b>TOTAL</b>            |



**Steps**

**(1)** Explain that the training programme is about to finish; last efforts will have to be furnished in order to prepare for the next step, i.e. the presentation of the business ideas to the bankers. During the next 1 ½ hour, they are supposed to mentally prepare for the presentation of their business ideas to the local bankers. Instruct them, that they are interested in learning about their marketing strategies (4 Ps), the projected costs and the estimated income. The latter will have to be defended in terms of number of customers / sales per month. The prepared figures on card boards should be sufficient but they should be prepared to explain certain figures.

**(2)** Remind them not to be too nervous (in case they are!) because they will definitely have more opportunities to meet the bankers invited today. The process of business identification will not come to an end with this day; it is supposed to continue so that they will also be able to fine-tune their business planning in an even more comprehensive way.

Nevertheless, the guests today are of some importance for them, particularly when they seek external financing without which some businesses might not get started. Remind them that it is always good to start with one's own money in order not to get indebted and to fully control the project. If they are able to finance integrally their projects with equity money, it will be so much better for them. In this case, they can enjoy the professional feedback of the bankers and act accordingly if they consider their advice to be helpful. The advice might provide some new insights on how the project could be further improved.

**(3)** If there are no more questions, ask them to find a convenient place in the training hall to do their preparation. The co-facilitators will be at their disposal, if required. Remind them to assemble all relevant documents (micro screening results, market survey information, if there is anything in written such as cost estimates, technical sheets, etc., and – above all – the card board with all costs and income figures). The income estimate in particular will be of utmost interest to the bankers because it will show them if the participants have a good grasp on the project-related issues.

Ask them also to be prepared to answer questions regarding policies and strategies of their competitors (where are they located? what do they sell in particular? at what price and quality? what kind of promotion are they doing? and so on!).

**(4)** Make the tour of all participants after they have started working in order to encourage them and give a helping hand. If desired by the participants, they can work with each other simulating presentations. They might also present to you and your colleagues expecting a critical feedback.

**Caution**

: Some participants don't feel at ease with their figures on card boards because they are not able to recall how some figures were computed.

Others might renounce to meet one banker because they don't require any external financing.

**Hints**

: Provide individual help, if required, to some participants who don't recall key figures of their businesses or don't remember the basis for some calculations.

If presentation is not required by some participants, leave them. But explain that they should not miss a professional feedback because one day

they might be in need of a loan, so that it would be useful to personally know already a responsible banker (networking).

**Variations**

: (1) Treat more in detail the main problems encountered during the previous day while preparing the cash flow (particularly when there was not sufficient time to analyse them!). The objective will be to increase the participants' ability to deal with some critical questions which might be asked by the bankers. In the following list, some more issues have been included compared to that one which can be found in the session outline <BPLAN-FIN – 6-cashflow>:

**Problems and specific coaching hints:**

- **Purchase of equipment** is projected some months **before it is required** (purchase equipment when it is needed).
- **The planned loan is too high**. If a participant planned for a loan (upper right box on the chart "Yearly income and cash flow") and if (s)he is always well in positive figures, then the loan amount should be reduced accordingly. Consider a safety margin of 10 – 20 %. It's never an advantage to work only for the bank!

- **Income is only slightly higher (or even lower) than the estimated costs.** Several reasons might be the cause: 1. Sold quantities are too small; a slight increase might make the project profitable; 2. Own salary is too high or number of hired manpower is exaggerated! Reduce, if possible! 3. Range of offered products is limited (tea stalls, grocery shops)! Enlarge range of products or offer additional services! 4. Loan amount is too high, so that repayment eats up the profit! Start smaller, save continuously and grow slowly! 5. Transport is too expensive! Evaluate if goods can be transported by the owners!
- **Projected profit is too high!** Review the salaries (forgotten?), profit margin (realistically fixed?), number of clients per month (exaggerated?), other cost categories (forgotten?), sales per month exaggerated (unforeseen losses, mortality of animals, rotten raw material, etc. which diminishes sales).
- **Utilisation of profit for private consumption!** Although this issue cannot be directly seen from the yearly cash flow but it is an inherent problem of many micro businesses. If salaries have been fixed and if there is still a meagre profit, survival is secured. But the well-being of the economic activity cannot be reached. Hence, the question of utilisation of profits comes into the picture. Insist that a certain amount needs to be saved (for depreciation) and/or reinvested (see remedial remarks under the paragraph "**Income is only slightly higher <or even lower> than the estimated costs**" above).
- **Equipment and raw material is not utilised for multiple purposes!** Check if equipment cannot be leased to others (e.g. fishermen's nets), raw material not sold as such (cloth, rice, etc. with a certain profit margin) instead of lying idle or utilising it exclusively for the own production process! Multiple use of equipment can boost the profit margin!
- **Loans are utilised for different purposes!** Experience tells loans officially demanded by women are often utilised by their husbands for different purposes. Make them aware that once a real planning is done (*like we are doing now!*), there is no way in utilising the loan (not even partially!) for another purpose because the planned project will suffer.
- Include **other problems** according to your perception during the "cash flow exercise".

## Processing

: Tell them that processing of this preparatory period will be done after the presentation itself when the bankers have provided their feedback. That feedback will certainly be related to the contents but also to the form of presenting their business ideas (self-confidence, knowledge of facts and figures, marketing strategy, anticipation skills, flexibility, negotiation skills).

OPEN    COMPET    PPMATCH    BPLAN    END

FIN



|                     |   |
|---------------------|---|
| <b>Exercise</b>     | : Project presentation to local bankers                           |
| <b>Code</b>         | : BPLAN-FIN - 8-bankers   |
| <b>Source</b>       | : Torsten Striepke  |
| <b>Tested in</b>    | : Dinajpur/ Bangladesh <b>Date:</b> 8/98 <b>By:</b> U Thein Maung |
| <b>Target group</b> | : Illiterates   |

**Objectives** : Evaluate the participants' projects,  
Provide feedback regarding the projects' viability.

**Use** : Business evaluation through bankers;  
Final module.

**Time** : 1 ½ hours

**Requirements** : Lead facilitator, co-facilitators;  
4 local bankers or credit officers (if possible from different financing institutions);  
ZOPP boards;  
Flipchart;  
10 sheets of A4 paper for every facilitator assisting in the presentations (to note down bankers' remarks);  
All relevant documents prepared by the participants during the previous exercises (mainly the yearly cash flow);  
List of enrolment for the encounter with bankers (**Annex 1**);  
"Project Evaluation" format (**Annex 2**).

- Setting** : Bankers seated in different rooms (or different corners of one greater room) behind a table and facing a ZOPP board or flipchart;
- Participants wait in a specially designed waiting area (if possible, the training hall) and await to be called to one of the bankers;
- A list has been established with the banks' (or bankers') names in which the participants have enrolled (see **Annex 1**);
- The bankers must have been briefed thoroughly on the evaluation format which might be new to them.
- Steps** : (1) The participants waiting in the training hall are called into the different rooms occupied by the bankers according to the list (**Annex 1**) which has been established one day prior to this evaluation.
- (2) The bankers question the participants following their usual banking habits. One co-facilitator assists in each encounter by taking notes only (no interference! no interpretation of what the participants might have wanted to say!). The bankers fill in the form without any assistance or influence from the co-facilitator.
- (3) After the end of all presentations, the bankers are requested to give a brief **feedback** to the participants regarding their key impressions of their projects and the business plans. Ask them not to talk about individual (particularly not bad) cases. The participants may have the opportunity to ask questions.
- (4) Once the bankers have left, communicate to them the bankers' remarks which the co-facilitators have noted down during the presentation. Invite the individual participants to see you for interpretation (early in the morning of the following day or during breaks).
- (5) Start with the processing (see below).
- Caution** : Participants are very nervous or even afraid that their entrepreneurial future may be spoiled if they do a bad presentation – particularly those who need loans to realise their projects.
- Bankers may differ greatly in questioning and investigating behaviour.

**Hints**

: Encourage the participants do see this presentation as one and not as the final chance. They can always improve their business plans or marketing strategies according to the bankers' remarks.

Bankers need to be briefed thoroughly on their task. It has been a good experience to invite them during the beginning of the training programme to acquaint them with your approach. The evaluation form may be discussed and eventually revised during that visit. It is also a good practice to visit them in their offices prior to the presentation exercise.

The invited bankers need to have first-hand banking experience with the projects which will most likely be presented to them; it is useless to invite bank directors or higher ranking staff because more often than not they don't have any direct relation any more to the grass root level. Preferably, active credit officers are to be invited.

If one banker works quicker compared to others, you might shift some participants to his side in order to level time requirements. Try to finish with all presentation at the same time.

**Variations**

: (1) Forms need to be modified according to the target groups or regarding the requirements of the financing institutions.

(2) If you dispose of more time, the participants can do bank-shopping, i.e. visit two or more bankers in order to get more and intensive feedback from them.

**Processing**

: Inquire from the participants how they feel after this presentation? Was it more difficult (easy) than expected? Why (not)?

Was the feedback encouraging (destructive)? How do they judge the feedback: was it eye-opening, already well-known issues, constructive, etc.?

Which ones of the suggestions they would take into account, i.e. changing certain issues of their marketing strategy, product features, prices, etc.? Let them freely express their convictions.

Has there been any case where a banker invited them to see them during the following days to settle the loan demand?

Who would have liked to present the project to another banker (bank)? Why? *Explain that the bankers' feedback is not a final verdict; they should consider this to be a constructive feedback which they should take into account while refining their marketing strategies.*

Tell them that they should make a decision about their project (Go or No go!) before the next day so that a proper time planning could be undertaken. Basically, it is still possible to change the project idea, although we cannot do the same process once again. But as they know the different steps now, they could plan for these steps in case they want to change the project.

**Annex 1**

**List of enrolment for the encounter with bankers**

| <b>Time</b>                              | <b>Banker 1</b> | <b>Banker 2</b> | <b>Banker 3</b> | <b>Banker 4</b> |
|--|-----------------|-----------------|-----------------|-----------------|
|  |                 |                 |                 |                 |
| <b>12<sup>00</sup> – 12<sup>20</sup></b> |                 |                 |                 |                 |
| <b>12<sup>20</sup> – 12<sup>40</sup></b> |                 |                 |                 |                 |
| <b>12<sup>40</sup> – 13<sup>00</sup></b> |                 |                 |                 |                 |
| <b>13<sup>00</sup> – 13<sup>20</sup></b> |                 |                 |                 |                 |
| <b>13<sup>20</sup> – 13<sup>40</sup></b> |                 |                 |                 |                 |
| <b>13<sup>40</sup> – 14<sup>00</sup></b> |                 |                 |                 |                 |

## Annex 2

# PROJECT EVALUATION

Name of participant: \_\_\_\_\_

Planned project: \_\_\_\_\_

### Project viability

- A. Marketing aspects \_\_\_\_\_
- B. Technical aspects \_\_\_\_\_
- C. Management aspects \_\_\_\_\_
- D. Financial aspects \_\_\_\_\_

Sub-total: \_\_\_\_\_

### The entrepreneur

- A. Familiarity with his project \_\_\_\_\_
- B. Self-confidence \_\_\_\_\_
- C. Clarity of goals \_\_\_\_\_
- D. Entrepreneurial competencies \_\_\_\_\_

Sub-total: \_\_\_\_\_

Allot marks between 0 (very bad) and 5 (excellent)

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|               |       |
|---------------|-------|
| <b>TOTAL:</b> | _____ |
|---------------|-------|

## Observations & remarks regarding ...

### 1) The entrepreneur

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### 2) The project in general

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### 3) The marketing plan

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### 4) The finance plan

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### Final appreciation *(please, tick appropriate box)*

|                |      |
|----------------|------|
| To be rejected | /_/_ |
| To be reviewed | /_/_ |
| Acceptable     | /_/_ |
| Excellent      | /_/_ |

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Name of the bank

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Signature of credit officer

Date: \_\_\_\_\_