



December 2012

‘How To’

How to Start an Enterprise ?

India is home to crores of small and medium entrepreneurs. These enterprises are spread across rural and urban areas. Street vending, running small whole sale shops and retail shops, service centers and small production units are major SME enterprises in the country. They are popular especially among unemployed youth and women. These SMEs vary in size and management. This “how to” supplement serves as a guide to set up and run a good SME.



Selecting the Business

An enterprise is born out of an idea. The entrepreneur usually tries to fill in a gap in the existing demand.

Ask existing Entrepreneurs

- How they started the enterprise?
- How they are managing it?
- Who are their customers?
- What is the seasonality of the enterprise?
- Examine the supply chain – where is the stock procured from, how is it stored and for how long, what are the terms and conditions with the supplier, etc.?
- What is the expenditure incurred – fixed cost, recurring cost, etc.?
- What are the potential threats and risks of the business?

Groceries Shop

Mahender realized that though there are three provision shops already in the village people were still going to Pochampally market to buy certain items. The shop which catered to the needs of people in his colony was very small and didn't keep provisions regularly. The shop owner used to bring goods as and when requested. In case of emergency they had to go to the shops situated in other colonies where they didn't get credit.

Mahender felt that as he had good rapport with people he would be able to do good business. He discussed this idea with his family and friends in the village who encouraged him to start the shop. To begin with he decided to setup a small shop by converting one of the rooms in his house into a shop. To make the alterations and to buy essentials things he had to make an investment of Rs 60,000/-. He got Rs.35,000 thousand by selling the agricultural produce; he also got an interest free loan of Rs 25,000 from his relatives. They also gave him two years time to repay it. He made list of things that are mostly required by the people in his neighbourhood. He decided to sell both provisions and vegetables; initially he brought small quantity of goods. Though initially, only the neighbours bought goods from him, people from other colony started buying things from him later and his business picked up. There are reasons as to why this happened.

Other shops used stones and other non-standardized weighing measures, but in his shop Mahender introduced standardized weighing machines, which made people believe that he was giving away proper quantity. He also started giving credit and had a way of collecting it with his good communication skills. As he brought goods in small quantities which would get sold quickly, his shop always had fresh stocks. People recognized this and started buying from here. As the quantity he bought was small they used his motorbike to bring goods, which reduced his expenditure.

Mahender also had an ear to listen to his customers and learn about what was required. In one such conversation he realized that he could sell mineral water cans. This was first of its kind in the village, which had severe drinking water problem. This improved his general business too. He streamlined the products by identifying goods that moved faster. Slowly he also kept a phone coin box. Another product which Mahender identified was to sell loose petrol. There was no petrol bunks close by all vehicle owners had to go till Pochampally to buy petrol. In case of emergencies they required small quantity of petrol enough to take their vehicles till Pochampally. This was a big hit and gave him good profit.

Today Mahender Reddy does a business of Rs. 2200 to 2600 in normal days and around of Rs 3,500 to Rs 4,000 during festivals. This is giving him an income of Rs. 9000 per month. As he stays in the village itself he is able to cultivate his land as well as run the shop simultaneously. In a span of two years he has built good rapport with the whole sale dealers because of which he is still able to get goods delivered at his door step in circumstances where he cannot go to buy goods personally. In such cases he engages an auto informs whole sellers required goods and the quantity. Auto driver picks and delivers the goods to his shop. Though this is an extra cost he is still able to keep stock in his shop and do the business. Lessons learnt from Mahender Reddy's entrepreneurship are, along with money a good ear, good mind and good heart is essential to run an enterprise successfully.

This would mean two things: a) the enterprise recognizes there is a demand for a particular service/ product

Pesticides Shop SWOT Analysis	
Strengths: Knowledge of potential diseases and their remedy Friendly relations with customers Hard work Shop located in prime area for business Solid market research	Weakness: Lack of financial resources Selling on credit basis Poor maintenance of accounts Inadequate storage space High dependence on supplier
Opportunities: Market demand is continuous	Treats: Other pesticide shops Crop Failure

in the market, and b) whether she has the capacity/skill to fill this gap. An enterprises rests on its market, the entrepreneur has to meet the demand of the customers, or convince customers to want their product. The aspiring entrepreneur could talk to existing players in the market.

Fruits Business

In Nallakunta, before Sai Baba Temple, we see a fruit vendor, Md.Mahaboob. He is a Muslim and he is unmarried. His age is about 22 years. In his family, he has mother and father. He told that his father is a government employee. Before this fruit business he was a driver.

He belongs to Bidar district in Karnataka. He studied up to 7th standard in government school. By listening to the ideas of other he came to Hyderabad city 4 years ago. He will sell many types of fruits like Mangoes, Apples, Grapes, Oranges etc. At present he is selling various types of mangoes. He reduces the price of unsold mangoes up to 20% of original price. He will pay rent Rs.10,000 per month for his shop.

Details	Price	Details	Price
Expenditure-Per day		Income-Per day	
Purches of Mangoes			
Rasalu (Rs 30*50kgs)	Rs.1500	Rasalu (Rs 40*45kgs)	Rs.1800
Banginapally (Rs.22*80kg)	Rs.1760	Banginapally (Rs.30*70kgs)	Rs.2400
Thothapari (Rs.20*30kgs)	Rs.600	Thothapari (Rs.25*25kgs)	Rs.500
Coconut mango (Rs.15*20 fruits)	300	Coconut (Rs.20*15fruits)	Rs.300
Per day expenditure	Rs.4160	Oer day Income	Rs.4700
Expenditure per month(4160*30)	Rs.124800	Income per Month (Rs 4700*30)	Rs.141000
Shop rent	Rs.10000	Low quality:	
Total expenditure	Rs.134800	Rasasu (Rs.35*5Kg)	Rs.175
Loss:Rottenanddamagedmangoes		B.Pally (Rs.25*15kg)	Rs.375
Rasasu (Rs.35*5Kg)	Rs.150	Thothapari (Rs.21)	Rs.108
B.Pally (Rs.22*5kg)	Rs.110	Coconut (Rs.18*3f)	Rs.54
Thothapari (Rs.20*2kg)	Rs.40	Income per day	Rs.712
Coconut (Rs.15*2f)	Rs.30	Monthly Income	Rs.21360
Loss perday	Rs.330	Total income	Rs.162360
Loss per month	Rs.9900	Total Expenditure	Rs.144780
Total Expenditure	Rs.144780	Monthly Profit	Rs.18560

Dairy

Pentaiiah belongs to Kummariguda village, Vikarabad Mandal, Ranga reddy district. He is 40 years old. He has 4 acres of land. His wife took a loan of Rs. 1, 00, 000/- under the Scheme of Pasukranti in Mandal Samakhya, and purchased 3 buffaloes. With the buffaloes he started dairy farming. There was already a Bulk Milk Center (BMC) in the village where his wife sold the milk from the buffaloes. He got Rs. 5 lakh, loan from bank and sold his land and adjusted and purchased 7 cows and 8 buffaloes and also built a shed on his land.

He is running the dairy business in the village successfully now. Now, he has 15 buffaloes, 7 cows and 8 calves with him. His brother helps by giving him suggestions about the business. The family entirely depends on the dairy business now and all their needs are met comfortably.

Particulars	Amount Rs.
Capital: Capital for Shed, buffaloes, grass machine and etc	1400000
Fodder	20000
Electricity	1000
Medicine, check up (Veterinary expenditure)	1000
Salaries (2 laborers) 3000x2= 6000	6000
Bank loan (installment)	12000
Other expenditure	5000
Total Expenditure	45000
Monthly Income	
Daily 100ltr x 30days x 26	78000
Expenditure for month	45000
Income for month	78000
Profit for the month	33000

Strategies

<p>Pricing</p> <ul style="list-style-type: none"> Reasonable pricing Should match quality Consider purchasing power of customers Should cover entrepreneur’s costs plus result in some profits
<p>Quality</p> <ul style="list-style-type: none"> Quality builds reputation, helps growth of business Adopt strict quality checks
<p>Timing</p> <ul style="list-style-type: none"> The enterprise services and products should be available to the customers at convenient timings Punctuality in delivering products and services
<p>Quantity</p> <ul style="list-style-type: none"> Offer products in quantities proportionate to the prices Be fair in measuring the quantity
<p>Customer relations - Engage customers with special offers, discounts, etc. to build a loyal customer base</p>
<p>Location - Depends on product, it should have a demand locally</p>
<p>Adopting technology to manage information and also contact with customers</p>

Assessing resources

After assessing the market and skill set of the entrepreneur, the resources available to start the business – skills, technology, finance, infrastructure, human resource should be surveyed.

If the aspiring entrepreneur does not have the required skill, she can acquire the skill through training or working under someone else in the business.

For instance, Raghu, a garment shop owner in Mahabubnagar District used to work at another garment shop before he set up his own. While working there, he learnt about running the business and understood the market well.



Similarly, the entrepreneur should also identify where to source the other resources from. It is also important to select a suitable/viable location for the enterprise. For instance, a motorbike repair shop is likely to have more customers on the main road rather than an interior street.

Indicative Expenditure for a Cyber Cafe

Items	Amount (Rs.)
Capital: Furniture, 10 computers, scanners, printers, spiral binding, Lamination machines and shop advance	1,80,000
Monthly Expenditure	
Internet connection cost and Telephone bill	2300
Electricity cost	3000
Drum repair expenses	600
Catrage expenses	500
Shop rent	4000
Paper cost	1950
Spiral binding sheets and wires	500
Total monthly expenditure	12850

Preparing a business plan

Once the aspiring entrepreneur does the preliminary study of the market and resources available, a business plan should be developed. A business plan helps in putting the business idea, strategies and resources in an organized manner. The business plan should be appraised for feasibility, viability, cost-effectiveness, productivity, equity and sustainability.

Ensure that the business has comprehensive marketing strategies. However powerful the business idea maybe, poor marketing strategies would lead to its failure.

Generally small entrepreneurs run their business by themselves or involve family members. In some cases, they hire labour too. These enterprises run with limited investment, space, expertise, production quantity, information availability, technology, market and customers.

The business plan should also have a Strengths-Weaknesses-Opportunities-Threats analysis of the

business.

Seeking Resources

Financial Resources

The entrepreneur could approach banks, SHGs, money lenders, friends and relatives for getting loans and credit to start the enterprise. The entrepreneur could also avail government schemes in which banks give 60% as loan, government gives 20-30% as grant and the entrepreneur's contribution will be 10%. These schemes are implemented by Municipal bodies in urban areas and Mandal Development Office in rural areas.



Nursery

Srinivas reddy belongs to Etuka Nellore Village, Punganoor mandal, Chittoor district. He studied up to 10th class. He is married and has two sons. His sons attend school. Srinivas owns seven acres of land.

Like other farmers in Etuka Nellore, Srinivas also depends on agriculture for income. Earlier, farmers could not access plants for horticulture easily. So, they had to go to Punganoor (the mandal headquarter) in order to purchase

horticulture plants. It was the only nursery in the vicinity of a few villages and the supply fell way too short of the demand. Srinivas Reddy saw this gap and sensed a viable opportunity for setting up a nursery. He started the nursery on his own land. Initially, he required an amount of Rs 1,20,000/- to set up the nursery. He had Rs. 50000/- as savings and borrowed the remaining amount from his relatives at 24% rate of interest. Srinivas Reddy is now running three nurseries in the mandal.

Particulars	Amount Rs
Capital: Land, water tank, bore, tras. wire net and others	100000
Monthly Expenditure	
Employee salary	Rs.6000
Labour charges	Rs.2800
Seeds cost	Rs.3000
Fertilizers and Pesticides cost	Rs.3500
Compost cost	Rs.2000
Total Expenditure	Rs.17300
Monthly Income	
Chilli plants	Rs.18000
Tomato plants	Rs.6000
Brinjal plants	Rs.5000
Total Income	Rs.29000
Monthly profit	Rs.11700

The terms of the loan – interest rate, installments, repayment period should be negotiated at the time of taking the loan.

Inputs: Establish linkages with input supplying companies to procure stock for the enterprise. The entrepreneur could also buy goods in the wholesale market.

Zardisi

Rubina lives in Tekalhalli, Kolar district in Karnataka. She lives with her mother, father and three younger siblings– two brothers and one sister. She learnt to do “zardozi” work on sarees and dress materials from her cousins. Rubina started to make designs for her family members and neighbours .One day, she discussed with her mother about starting a small business of embroidery. Her mother agreed and decided to invest in the business. Her mother borrowed a loan of Rs. 2000 from her SHG for starting the enterprise. Initially, Rubina made 5 sarees and sold them for Rs. 600 each.

The raw materials required for the enterprise are needles, threads, beads and sarees. Depending on the design, Rubina takes 3-10 days to complete one saree. On an average, she manages to make at least 4 sarees a month. Sometimes her customers bring a saree to do the work on. On every saree, Rubina earns a minimum profit of Rs. 50. Thanks to her skill, the family income has risen by about Rs. 2000 per month (on an average). In the future Rubina wants to buy a computerized embroidery machines as it can deliver much more in a month. She also plans to learn to make designs on sarees using fabric paint.

Expenditure	Amount Rs.
Saree	250
Raw material	100
Total Expenditure	350
Income	
For small work	350
For large design	600
Total income	350-600
Profit	50-250

Human Resources: Estimate the personnel required for running the enterprise and hire them locally. The entrepreneur could also engage family members in the business.

Establishing the Business

Once the resources are arranged, the entrepreneur should select the location for the enterprise. The enterprise could be registered under a relevant department (eg. Agriculture department for agriculture inputs enterprise) or even the Companies Act.

Operations

Evolve the operations in the enterprise. Establish the supply chain – how will the procurement be done, how many times in a week/month, what is the procedure after procurement, how will it be stored, marketing, etc.

Business Strategies

Expenditure

Calculate the different types of costs:

- Fixed costs: The investment made on the assets for the business, it is a one time cost.
- Recurring costs: cost incurred in the regular activities of the business – marketing, procurement, etc.

Money Management

A part of the income the entrepreneur earns should be invested back into the business to help it expand. The income should also be used to meet the recurring costs of the business – salaries, bills, etc. Maintain an accounting system to record the cash inflows and outflows in the business. Conduct a statutory annual audit. File the applicable taxes without fail.

The entrepreneur could also opt for an insurance to shield the enterprise against potential threats. ❖