



A sample business plan

Prepared as part of “Training for employment - *an interactive journey that teaches you how to find a job...*”



Simply Perfect Nappies

**Nakaseke - near Bordsburg
Johannesburg**

a business plan

This sample Business Plan was prepared purely to illustrate how a Business Plan can be assembled. It not based on any existing business and is purely for DEMONSTRATION PURPOSES ONLY.

If you write a Business Plan, ensure that you do proper research

This plan is based on “*Starting your own Business*”
by Peter Hingston (ISBN 0 7513 1413 7)

This book (and others) will give more background on the areas that you should look at

Comment

You will now see why it is important to write a Business Plan AND to also include financials such as a Cash Flow Statement.

Summary - Simply Perfect Nappies

Business Opportunity	The manufacture and re-selling of disposable baby nappies
Business type	Registered Close Corporation (CC)
Location	Nakaseke, a township to the south of Johannesburg
Owner (s)	Mary Pelo, a resident of Nakaseke, the business champion (20% ownership) plus 8 other ordinary members - 10% shareholding per ordinary member (20% + 80% = 100%)
Staff	No additional staff initially as the 9 members will be working in the business.
Market	<p>The main market is young women in the Nakaseke Township (total estimated population 450 000) who have recently had a baby (est. at 4.5% of the total population at any one time). This represents a potential market of 20,250 babies who need nappies.</p> <p>As a result of unemployment, affordability of shop-bought mass-produced nappies is a big issue. Further, the nearest large supermarket is in the Molebeng Centre on the corner of Church and Mandela Drive in Bordsburg - about 15km away. The biggest competitor is non-disposable (washable) nappies; as well as reject nappies which are available from Amanda's Reject Nappies in the Freeway Centre - (8 km away) who also employs agents to sell in the township.</p>
Premises	The nappy factory will be initially located in the Nakaseke Community Centre (25 sq. metres). After 6-9 months, this will be reviewed and according to nappy output at that time, a more permanent location will be found (probably in one of the industrial units along Unity Road).
Proposed business name	<i>"Simply Perfect Nappies"</i>
Turnover	R 83 250 per month.
Financing	<p>To purchase a nappy making machine, financing of R45 000 is required.</p> <p>An additional R15000 is required in order to purchase other start-up equipment and materials, including nappy raw materials as well as second hand tables and chairs.</p> <p>Finally, start-up capital of R2 500 will be required for diverse capital purchases. Total R62 500</p> <p>The Members can raise R10 000 (R1000 each) This leaves a balance of R52 500 to be found. R25 000 (raised through a 3 year bank loan).</p> <p>The balance, R27 500 will be sought from one of the Poverty Alleviation Funds - one of which has expressed a willingness to make this Grant, as has one other Donor Fund - the Reijo Small Business Fund of Finland.</p>
Timescales	To start trading in June 2005 - allowing for a 6-month lead in time.

Introduction

The objective is to set up a nappy-production and distribution business in the Nakaseke community. The “factory” will initially be housed at the Nakaseke Community Centre, but more permanent premises have to be found within 9 months of the venture starting.

Both medium and large nappies will be made.

At any one time, three of the Members will work in the “factory” to manufacture nappies, while the remaining seven members will be selling from door to door.

The purpose of this Plan is to define the business opportunity; to ensure agreement amongst all ten Founding Members; as well as most importantly, to raise the finance for this venture.

Market Research

Nakaseke Township is a large semi-urban township with a population of around 450 000 people, but also characterised by high unemployment.

During her years living in Nakaseke, Mary Pelo has noticed that the availability of low-cost nappies is a major issue amongst young mothers - especially to mothers who are unemployed, Affordability is an issue.

In addition however, the availability of low-cost nappies has often been a concern as the nearest supermarket is about 15 kilometres away.

Over and above the supermarkets being far away, nappies are available through local Spaza shops within Nakaseke, but these tend to have a high unit cost. Further the size of pre-packaged nappies make them an unpopular item to stock in Spaza shops, where storage space is at a premium.

Many Nakaseke young mothers tend to rely on non-disposable nappies. This in turn leads to health problems (soiled nappies have to be washed and availability of running water and running sewerage is a problem).

It is estimated that there are around 10 000 mothers at any one time within the broader Nakaseke community. Mothers with little or no income tend to use non-disposable nappies during the day and switch to disposable in the evenings and overnight (2 disposable changes per day).

Working mothers tend to use disposable nappies throughout (4 disposable changes per day).

This represents a total potential market of 30 000 nappies per day (assuming an average of three changes per day). Assuming a further 5% market penetration for *Simply Perfect Nappies*, this represents a potential sales volume of 1 500 nappies per day, or 45 000 per month.

Finally, similar opportunities exist in neighbouring townships, with similar “lower-income” demographics; to the more affluent suburbs of Johannesburg.

For simplicity and so as to take a worse-case scenario, these potential sales have not been factored into the financial analysis for *Simply Perfect Nappies*.

The existing shops in the area that might present competition to *Simply Perfect Nappies* are:

Competitor	Pricing	Unit Price
ShopRite Checkers - Bordsburg.	Buggies Medium R20 per 10 Buggies Large R28 per 10	R 2.00 R 2.80
Spar - Bramble Gardens Shopping Centre; 2nd Avenue, Bordsburg	Buggies Medium R19 per 10 Buggies Large R23 per 10	R 1.90 R 2.30
Sainsbury's 9 th Road, London Street, Bordsburg	Buggies Medium R21 per 10 Buggies Large R30 per 10	R 2.10 R 3.00
Tshipo's Spaza Shop 13 th Avenue Nakaseke.	Buggies Medium R35 per 10 Buggies Large R45 per 10	R 3.50 R 4.50
Moodly's Superette Nakaseke.	Buggies Medium R42 per 10 Buggies Large R50 per 10	R 4.20 R 5.00
Amanda's Reject Nappies - Freeway Shopping Centre, Mandela Drive, Bordsburg	Buggies Medium R17 per 10 Buggies Large R22 per 10 Sold via agents in Nakaseke Buggies Medium R25 per 10 Buggies Large R30 per 10	R 1.70 R 2.20 R 2.50 R 3.00

There is at present little direct competition from shops within Nakaseke Township. The main competitors are supermarkets in other Suburbs around Nakaseke, but these are some distance away (15 km).

Other competition would come from non-disposable nappies (but there is convenience as well as health problems associated with non-disposables).

More direct competition can come from Amanda's reject nappies. While she sells nappies from her shop which is some 8 km away, she does have selling agents within Nakaseke Township who buy from her shop to re-sell in within Nakaseke.

Mary Pelo has questioned 100 young mothers within the community who she knows and all of which would be potential customers for *Simply Perfect Nappies*.

Of this sample, 38 indicated that they would definitely consider buying *Simply Perfect Nappies* if they were cheaper, and readily available, and the nappies were delivered to their door.

30 women however indicated that they work in town anyway and would probably continue to buy from a supermarket along with their normal weekly shopping.

However, of these 28, 16 also indicated that they would consider a switch if the nappies were delivered in the evenings, as they are bulky items and difficult to carry home on the bus.

A further 18 indicated that as they have cars, and use credit cards, they would definitely continue to buy nappies at the supermarket, because of the convenience of using credit cards for purchases.

A final 14 mothers indicated that they would prefer to buy known brands of nappies, as they would be more reliable.

In terms of price sensitivity, most mothers (68) in this group have indicated that price is very important. This is not surprising considering the low income levels of most Nakaseke mothers.

However, ALL mothers also indicated that locally made nappies would also have to perform as well (fasten easily and not leak) as other, branded nappies such as Buggies

Advertising and Promotion

It is important for a local operation such as this to make sure that the word spreads and that many people are aware of the services available. However, due to the low-cost nature of the nappies being produced, not a lot of money will be available for advertising and promotion.

A number of low-cost promotion opportunities have been identified:

Advertising Posters	<p>Two students who frequent the Nakaseke Community Centre have offered to layout and design two posters. These posters (one A4 and one A3) will promote the low-cost nappies that are available.</p> <p>Tshepo Msimang (also a local community worker) is studying marketing and Miemie Nkumalo is studying Graphic Design. The posters will also carry a HIV / AIDS awareness message as a community service.</p> <p>At least 75 of these posters (Hewlett Packard in Bordsburg has kindly offered to print 150 of these posters) will be initially distributed and hung-up in local community halls, church halls, the Nakaseke Library and school notice-boards.</p> <p>Importantly, these will also be placed in doctors surgeries and the local clinic.</p>
Business cards	<p>Cards will be printed to match the above poster. They will be put on the posters (that will contain a card slot which holds 20-25 business cards) and left in the same institutions as outlined above.</p>
Newspaper adverts	<p>The local community newspaper (the “<i>Nakaseke Weekly News</i>”) carries free classified adverts and an advert will be placed weekly in this column.</p> <p>In addition, a paid-for advert will be placed once a month in the Community Health section of the paper.</p>
Press Releases	<p>Mary Pelo will be responsible for writing and sending a press release / article for insertion to the “<i>Nakaseke Weekly News</i>”; as well as the <i>Johannesburg Start</i> newspaper on issues around childbirth and the raising of babies in poorer communities.</p>
Internet	<p>It is recognised that not many people in the Nakaseke have access to, nor use the Internet. However, where possible, “advertorials” will be posted on web-sites that cover Nakaseke Community issues - a good example being the Nakaseke Community Centre web site.</p> <p>These “advertorials” will include the baby health articles previously written by Mary Pelo for local newspapers covering childbirth and the raising of babies in poorer communities.</p>

Premises

An agreement has been reached with the Nakaseke Community Centre that for between 6 and 9 months, *Simply Perfect Nappies* can use premises at the centre (up to 25 square metres of space) to base its operations. In this way, the new business will have access to other resources such as copiers, fax etc (to be paid for at marginal cost).

However, after this initial period the company will have to move to commercial premises.

It is not important for *Simply Perfect Nappies* to be close to its customers, but for the convenience of the Members of the company, most of which do not have access to private transport, it is important that the business remain in the vicinity of Nakaseke.

An initial search has located premises that will become vacant along Unity Road (in one of the Industrial Units), where up to 50 square metres can be made available from January 2006. These premises will cost R15 per square metre. Security is covered in this amount, but not utilities such as electricity, water and cleaning.

Personnel

Management	<p>The company will be under the direct supervision of each of the nine CC Members. However, Mary Pelo, as majority shareholder will take responsibility for the administrative and marketing aspects of the business. She has worked previously with an Accounting company (8 years) as a Administration Clerk.</p> <p>In anticipation of <i>Simply Perfect Nappies</i> being established, she is taking a Diploma course in Basic Book-keeping and Business Administration at a local private college.</p> <p>The nine members of the CC will also be the main employees of <i>Simply Perfect Nappies</i>.</p> <p>Of the nine members, seven are married and two are single. Of the seven that are married, four have husbands that have other means of income. The two single women live with their families.</p>
Staff	<p>The company will not initially take on additional employees. During the initial stages, if there is a need, family members will come in to help out - as long as income from nappy sales can support this.</p> <p>It is envisaged that as the Company establishes itself, additional staff will be employed as cleaners as well as to expand the manufacturing and sales team (who will operate on a commission basis) if demand requires this.</p>

Equipment and Vehicles

Equipment	<p>The main piece of equipment required for <i>Simply Perfect Nappies</i> is a nappy-making machine, which will cost R45 000.</p> <p>Over and above start-up raw materials for the nappies, other small</p>
------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

equipment, such as tables and chairs, kettle etc will be sourced second-hand where possible.

Finally, a telephone will be required with which to contact suppliers as well as receive orders from customers.

Vehicles

The business does not require a vehicle. Supplies will be delivered to the premises. Nappies will be distributed by the seven Members who will be responsible for their own transport (given the compact size of the township, nappies will be supplied to customers by using taxi's and walking).

If the volume of nappies supplied does increase to such an extent that a delivery vehicle is warranted, this will be assessed at that time, based on a financial justification.

Suppliers

Mary Pelo has spoken to the suppliers of the nappy machine, who also supply kits to make up the nappies ("Boellermanns" of Unity Road,) which will be the main supplier to the business.

This company supply the nappy-making machine as well as the raw materials - ie polyethylene; glue; elastic; tapes and stickers.

They have indicated that they will deliver once a week.

Further, based on satisfactory credit references (which are available); they are prepared to eventually offer 30-days credit on purchases. This is not reflected in the cash-flow forecast as they have also indicated that the 30-day credit line would come into effect only after four months of trading - and these (cash) orders have been placed and paid for satisfactorily.

Legal Aspects

As *Simply Perfect Nappies* will be initially operating from the Nakaseke Community Centre, and later from commercial premises along Unity Road, planning permission is not required.

Simply Perfect Nappies will operate as a legal company entity - in this case, a Close Corporation (CC) which will be registered at the Department of Trade and Industry.

A book-keeper will be engaged once a month to maintain the books. This will be used for auditing purposes, and to ensure that (given the number of members involved) there is transparency in how the money is handled.

Annual accounting will be provided by the same company that will do the book-keeping.

Legal services will be obtained on a services rendered basis from Naledi Legal Services of Bordsburg.

Timescales

Assuming that financing can be secured in time; it is planned to start manufacture and sales on 1st June 2005, giving a 6-month lead in time for establishment of the business and the installation of equipment.

The nappy making machine can be delivered and installed within three weeks of order.

Finances

Pricing

The raw material cost from the suppliers are:

Medium nappy	R0.58
Large nappy	R0.85

Commission on production / sales per nappy to each CC Member are:

Production team	R0.18
Sales team	R0.55

Thus, the cost per nappy is:

Medium nappy	R1.31
Large nappy	R1.58

For calculation purposes an average cost of R 1.57 per nappy is supposed. The Cash-Flow forecast attached to this Business Plan assumes that nappies will sell for R1.85 per nappy (for simplicity both medium and large nappies are calculated at this price. In reality, large nappies will sell for R2.00)

At a selling price of R1.85, and assuming a daily sales volume of 1500 nappies, then the income accruing to each of the members is as follows:

Production team

R2 700 per month (2000/3 X R 0.20 x 30).

Selling team

R3 536 per month (2000/7 X R 0.65 x 30)

In addition, the Company - *Simply Perfect Nappies CC* will accumulate an after tax profit of R133 446 over the first year of trading.

Cash-Flow Forecast

The attached cash-flow forecast shows an annual turnover in the first year of R971 250 of which R658 020 represents gross profit.

It is expected that, by the second year of operation, turnover will have increased by 25% to approximately R1 214 062.

In all months, excluding month one of trading where nappy sales are assumed to be 67% of the normal sales volume, cash flow remains positive. At financial year -end cash on hand should be a healthy R154 279!

Risk-assessment

It is Mary Pelo's opinion that the Nakaseke market can sustain a business such as *Simply Perfect Nappies CC*.

Mary Pelo estimates the total potential sales in Nakaseke township to be around 30 000 nappies per day (assuming approximately 20 000 babes in

the community at any one time). The cash-flow forecast is based on a sales turnover of 45000 nappies per month.

Therefore, even if Amanda's Reject Nappies sells more aggressively in the township, there is still room for both to make sales to this market.

If sales were 30% less than forecast, Simply Perfect Nappies would still survive, though in a more difficult trading environment. The cash-flow would still be positive for most of the year and much smaller profit would, of course, be realised.

Should Mary Pelo become ill, there are still 9 other members to continue the business.

**Financial
Require-
ments**

A R27 500 grant has been applied for from the Poverty Alleviation Fund.

A further R25 000 will be applied for as a bank loan (a 3-year loan repayable at 15% interest - prime plus 4%).

**Professional
Fees**

Book-keeping will be sourced on a monthly retainer basis. Accounting and Legal support will be outsourced externally as and when these services are needed.

Projected Balance Sheet as at end of first financial year		
Capital Employed		
Owner's Capital	10000	
Accumulated profits after tax	133446	Note1: See Projected Income Statement
Donor Funding Employed	27500	
Total	<u>170946</u>	
Employment of Capital		
Assets		
Nappy Making Machine	30000	Note2: Assets reflected at book value, i.e written off over 3 yrs.
Start-up Equipment	10000	Note2: Assets reflected at book value, i.e written off over 3 yrs.
Sundry Capital Purchases	1667	Note2: Assets reflected at book value, i.e written off over 3 yrs.
Cash on hand	154279	
	195946	
Liabilities		
Bank Loan	25000	
	25000	
Total	<u>170946</u>	

Projected Income Statement for the first financial year

Turnover	971250
<u>Minus</u> Cost of Sales	313200

Gross Profit	<u>658050</u>
---------------------	---------------

Expenditure	<u>467413</u>
--------------------	---------------

Advertise/promotion	1000
Scrapping Allowance	20833
Bank charges	1100
Insurance	5000
Rent	6400
Cleaning	0
Salaries / Commission	394200
Electric / water	6400
Loan repayments	11280
Legal & professional	3600
Motor - fuel	0
Motor - other	0
Other expenses	6000
Postage	0
Repairs / maintenance	1800
Staff salaries	0
stationary / printing	2000
Subscriptions	0
Sundries	3000
Tax payments	0
Telephone /fax	4800
Travel & subsistence	0

Net profit before tax	<u>190637</u>
------------------------------	---------------

Provision for SA Taxation (30%)	57191.1
----------------------------------------	---------

Net profit after tax	<u>133446</u>
-----------------------------	---------------

Cash Flow Forecast: <i>Simply Perfect Nappies</i>													45000	nappy sales per month
Rented accommodation													1.85	Selling price per nappy
CASH IN	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	totals	
Sales	55500	83250	83250	83250	83250	83250	83250	83250	83250	83250	83250	83250	971250	
Bank loans	25000	0	0	0	0	0	0	0	0	0	0	0	25000	
Owners Capital	10000	0	0	0	0	0	0	0	0	0	0	0	10000	
Donor funding	27500	0	0	0	0	0	0	0	0	0	0	0	27500	
Other money in	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL CASH IN	118000	83250	83250	83250	83250	83250	83250	83250	83250	83250	83250	83250	1033750	
CASH OUT														
Advertise/promotion	500	0	0	0	0	500	0	0	0	0	0	0	1000	
Bank charges	0	100	100	100	100	100	100	100	100	100	100	100	1100	
Insurance	5000	0	0	0	0	0	0	0	0	0	0	0	5000	
Rent	200	200	200	200	200	200	200	200	1200	1200	1200	1200	6400	
Cleaning	0	0	0	0	0	0	0	0	0	0	0	0	0	
Salaries / Commission	32850	32850	32850	32850	32850	32850	32850	32850	32850	32850	32850	32850	394200	
Electric / water	400	400	400	400	400	400	400	400	800	800	800	800	6400	
Loan repayments	940	940	940	940	940	940	940	940	940	940	940	940	11280	
Legal & professional	800	200	200	200	200	200	200	200	200	800	200	200	3600	
Motor - fuel	0	0	0	0	0	0	0	0	0	0	0	0	0	
Motor - other	0	0	0	0	0	0	0	0	0	0	0	0	0	
Other expenses	500	500	500	500	500	500	500	500	500	500	500	500	6000	
Postage	0	0	0	0	0	0	0	0	0	0	0	0	0	
Repairs / maintenance	150	150	150	150	150	150	150	150	150	150	150	150	1800	
Staff salaries	0	0	0	0	0	0	0	0	0	0	0	0	0	
Stationery / printing	750	0	0	0	0	500	0	750	0	0	0	0	2000	
Raw material	26100	26100	26100	26100	26100	26100	26100	26100	26100	26100	26100	26100	313200	
Subscriptions	0	0	0	0	0	0	0	0	0	0	0	0	0	
Sundries	250	250	250	250	250	250	250	250	250	250	250	250	3000	
Tax payments	0	0	0	0	0	0	0	0	0	0	0	57191	57191	
Telephone /fax	400	400	400	400	400	400	400	400	400	400	400	400	4800	
Travel & subsistence	0	0	0	0	0	0	0	0	0	0	0	0	0	
VAT	0	0	0	0	0	0	0	0	0	0	0	0	0	
CAPITAL EXP.	62500	0	0	0	0	0	0	0	0	0	0	0	62500	
TOTAL CASH OUT	131340	62090	62090	62090	62090	63090	62090	62840	63490	64090	63490	120681	879471	
Net cash flow	-13340	21160	21160	21160	21160	20160	21160	20410	19760	19160	19760	-37431		
Opening balance	0	-13340	7820	28980	50140	71300	91460	112620	133030	152790	171950	191710		
CLOSING BALANCE	-13340	7820	28980	50140	71300	91460	112620	133030	152790	171950	191710	154279		
Unit cost	Medium nappies				Large nappies				Inc. tot	# ppl	Inc per person			
Material cost	0.58				0.85				8100	3	R 2,700			
Production team - Commission	0.18				0.18				24750	7	R 3,536			
Selling team - Commission	0.55				0.55				32850					
	1.31				1.58									