

6. Business planning in sanitation

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In cooperation with:



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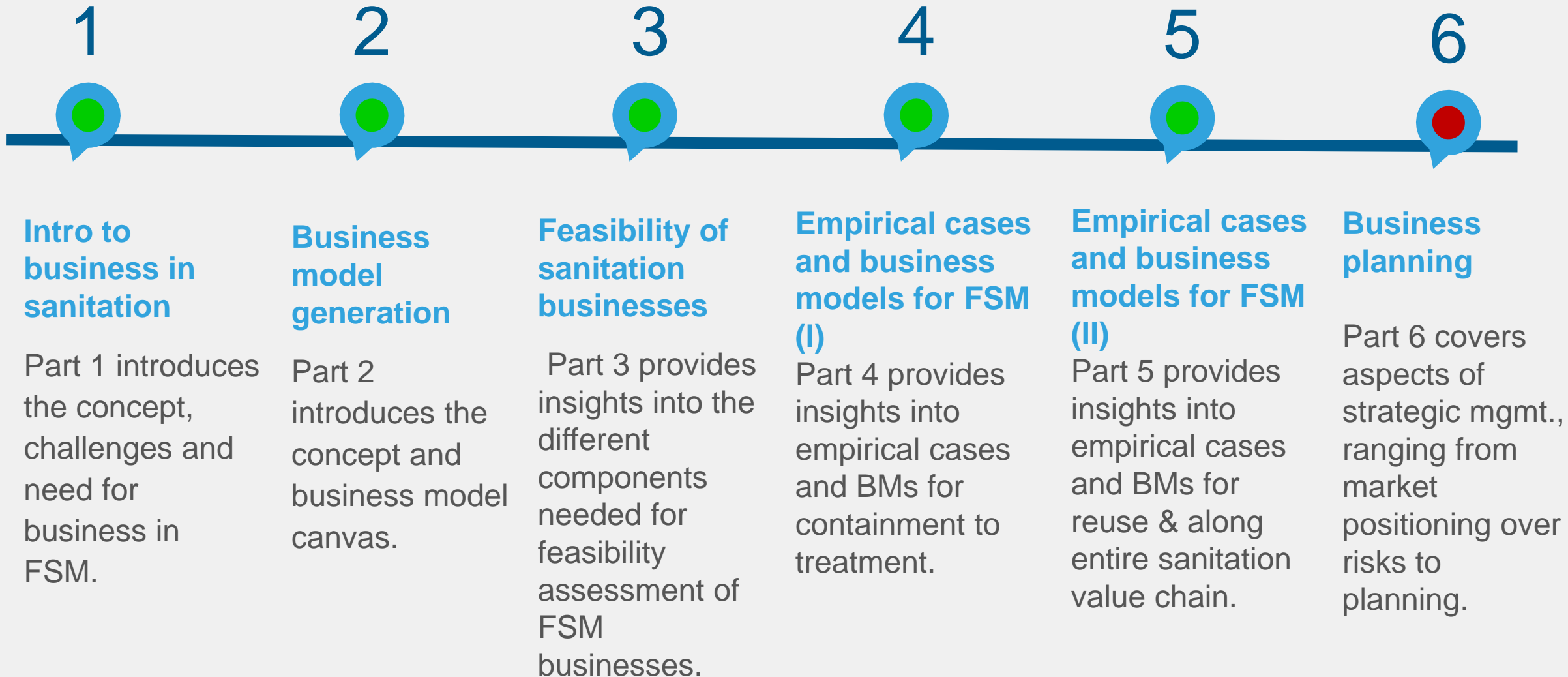


Learning Objectives

This component will allow you to:

- ♻️ Understand the importance of business planning
- ♻️ Be conversant with market positioning and management
- ♻️ Understand the types of risk assessment
- ♻️ Be conversant with financial planning and financing

Session structure



Phase 3: Business Plan

Summarize feasibility findings and design business accordingly

- ♻️ summarize the findings of the feasibility assessment
- ♻️ describe the business model and business objectives
- ♻️ plan the marketing, finances and operations
- ♻️ assess the associated risks and mitigation measures
- ♻️ make an investment offer to potential investors

Contents business plan

1. Executive summary
2. Company description
3. Business model
4. Solution
5. Feasibility assessment
6. Market positioning
7. Strategic and action planning
8. Management
9. Risk assessment
10. Financial plan
11. Financing

1. Market Positioning

Why it is important?

- ♻️ Customers know what they are buying (service or product)
- ♻️ Customers see the uniqueness and added value of the brand relative to competitors
- ♻️ Brand occupies a market gap and targets to those customers only
- ♻️ Businesses know what they are offering

Sulabh, India



- ♻️ Gap in sanitation value chain for **low-income areas.**
- ♻️ **Clean, competitively priced, strategically positioned,** provision of service.

❖ Marketing Mix – the 4 P's

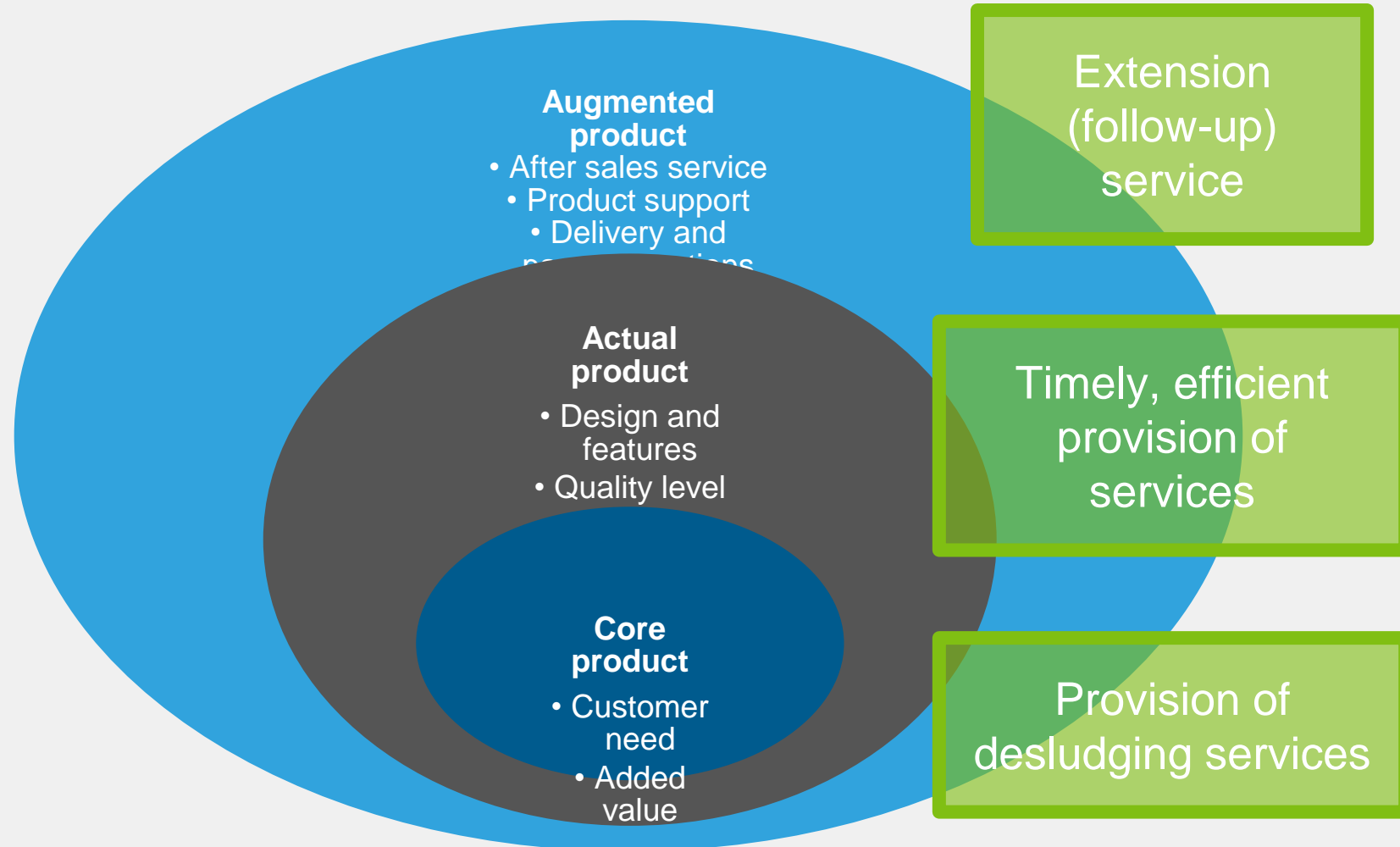
Product, Place, Price, Promotion

- ♻️ The Marketing Mix (MM) is a tool for defining the market position of the business.
- ♻️ Coherent combination of the four attributes: Product, Price, Place and Promotion.
- ♻️ based on the MM, the marketing strategy is developed



❖ Product/ Service

Different levels of a product/ service





How to set a price and pricing model?

❖ Price

The price describes the revenue streams of the business model. Revenue streams are made up of the **price** of the FSM service/product and the **pricing model**.

- ♻️ Which price allows the business to achieve its objectives?
- ♻️ How much does it cost to provide the service/ product?
- ♻️ What are the competitors charging for similar services/ products?
- ♻️ What is the perceived value of the service/ product in the eye of the customer and how sensitive are they to price?

❖ Price

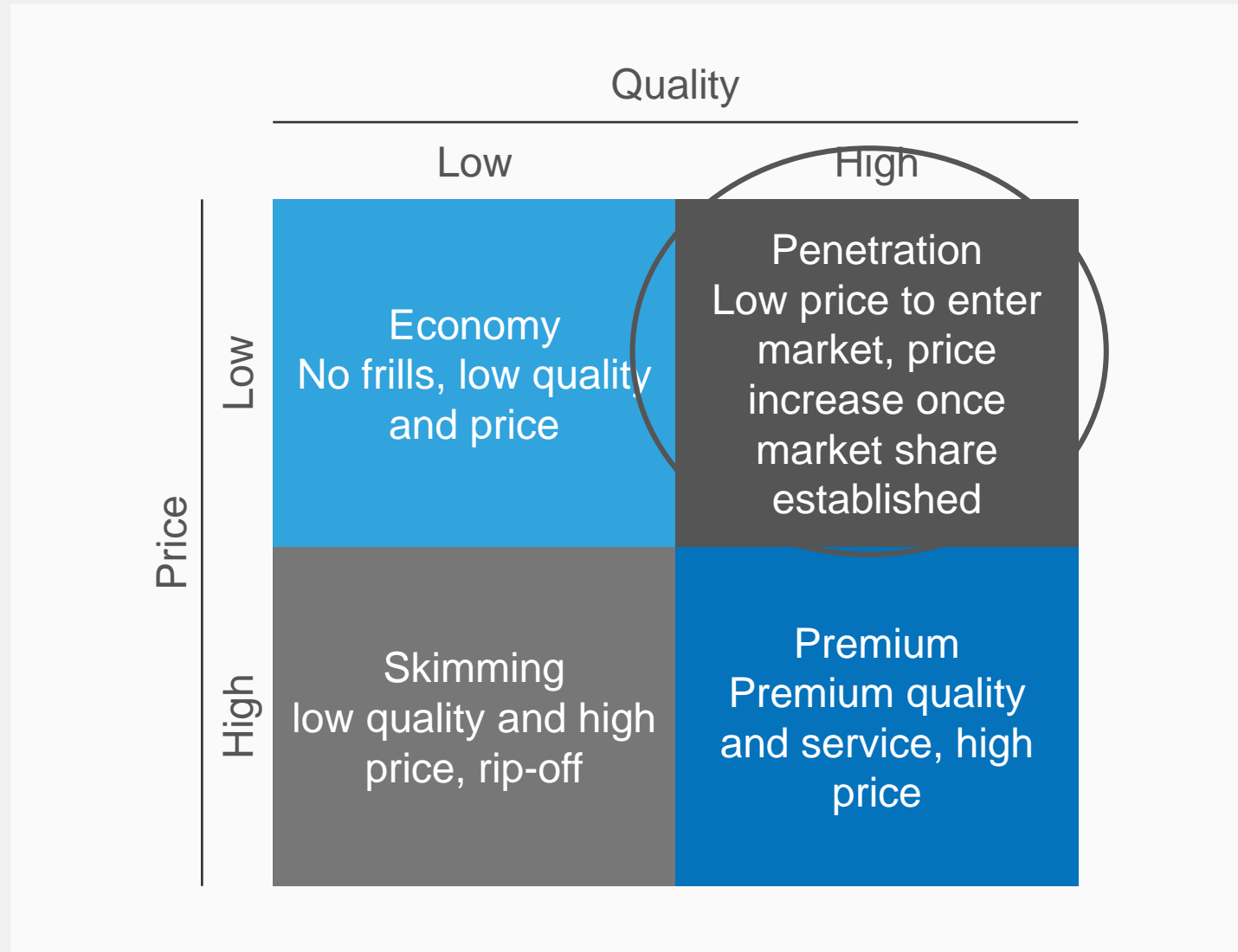
Cost-plus-pricing

- ♻ Determine the fixed and variable costs of making product or providing service
 - **variable costs:** cost of material and any operating costs that fluctuate with the volume of production (i.e. raw material)
 - **fixed costs:** rent, marketing, salaries fixed staff, depreciation and any costs that occur disregarding the volume of production
- ♻ Add margin to represent the desired profit
- ♻ **If you price below your cost, you will make a loss!**

$$\text{Price} = C_{\text{Variable}} \text{ Cost} + C_{\text{Fixed}} \text{ Cost} + \text{Profit}$$

❖ Price

Pricing strategies



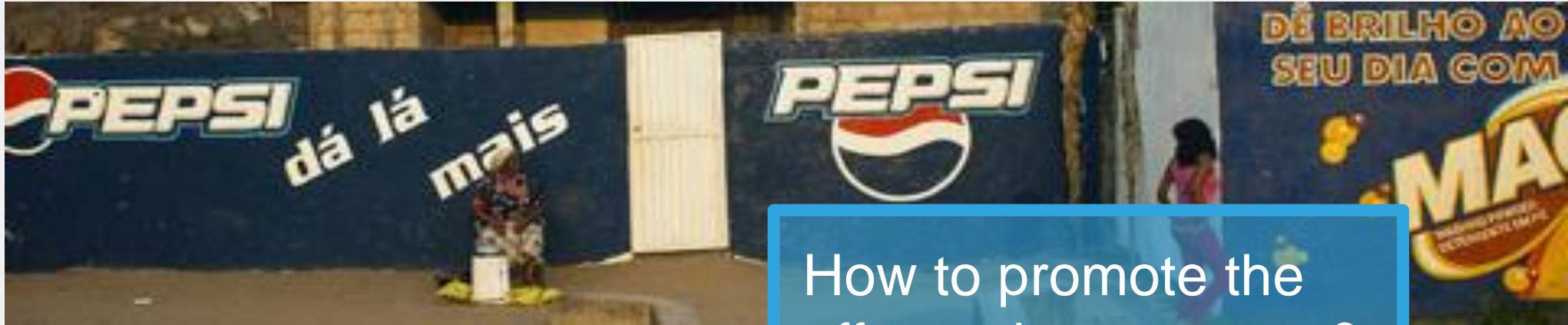


Which channels to interact with customers?

❖ Place

The place describes the **channels** of the business model, through which the business interacts with the customer.

- ♻️ Awareness: Where do we raise awareness about our company's offer?
- ♻️ Purchase: Where do we allow customers to purchase specific offer?
- ♻️ Delivery: Where do we deliver a product to customers?
- ♻️ After sales: Where do we provide post-purchase customer support?
- ♻️ Evaluation: Where can customers evaluate our company's offer?

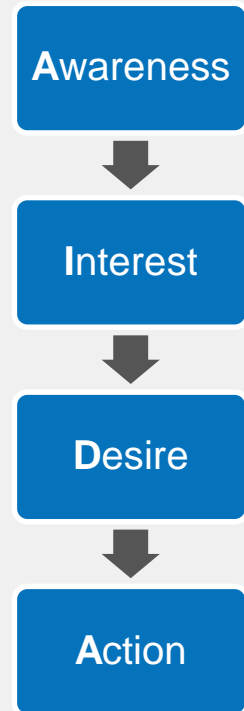


How to promote the offer to the customer?

❖ Promotion

The promotion describes the **relationships** the business establishes with the customer to promote the offer and through which **channel** it promotes.

- ♻️ How to raise awareness about the brand by using an eyecatcher or an irresistible discount?
- ♻️ How to create interest by highlighting a need and providing information on key features?
- ♻️ How to generate desire by convincing customers of its added value and uniqueness?
- ♻️ How to make the customer take action and purchase the offer?



❖ Promotion tactics

Advertising

- ♻️ Often (but not always) requires \$
- ♻️ Limited scope for personal messaging
- ♻️ Use of mass media (TV, radio, etc.) and other physical channels (posters, brochures and post)
- ♻️ Traditionally, one sided communication - but growing scope for interactivity

Public Relations & Sponsorship

- ♻️ Aimed at building brand awareness and influencing public opinion
- ♻️ Includes public relations and sponsorship, also called Word-of-Mouth



Personal selling

- ♻️ Mainly used for high value or custom-made products

Sales promotions

- ♻️ Short term strategic activities to boost sales.
- ♻️ 'Buy one get one free', seasonal discounts, competitions, samples or vouchers.

2. Financial Planning!

Why it is important?

- ♻️ It is important to have a FSM business idea and model
- ♻️ But you need to convert your model into numbers
- ♻️ Numbers will allow you to take better decisions (Financial Feasibility)

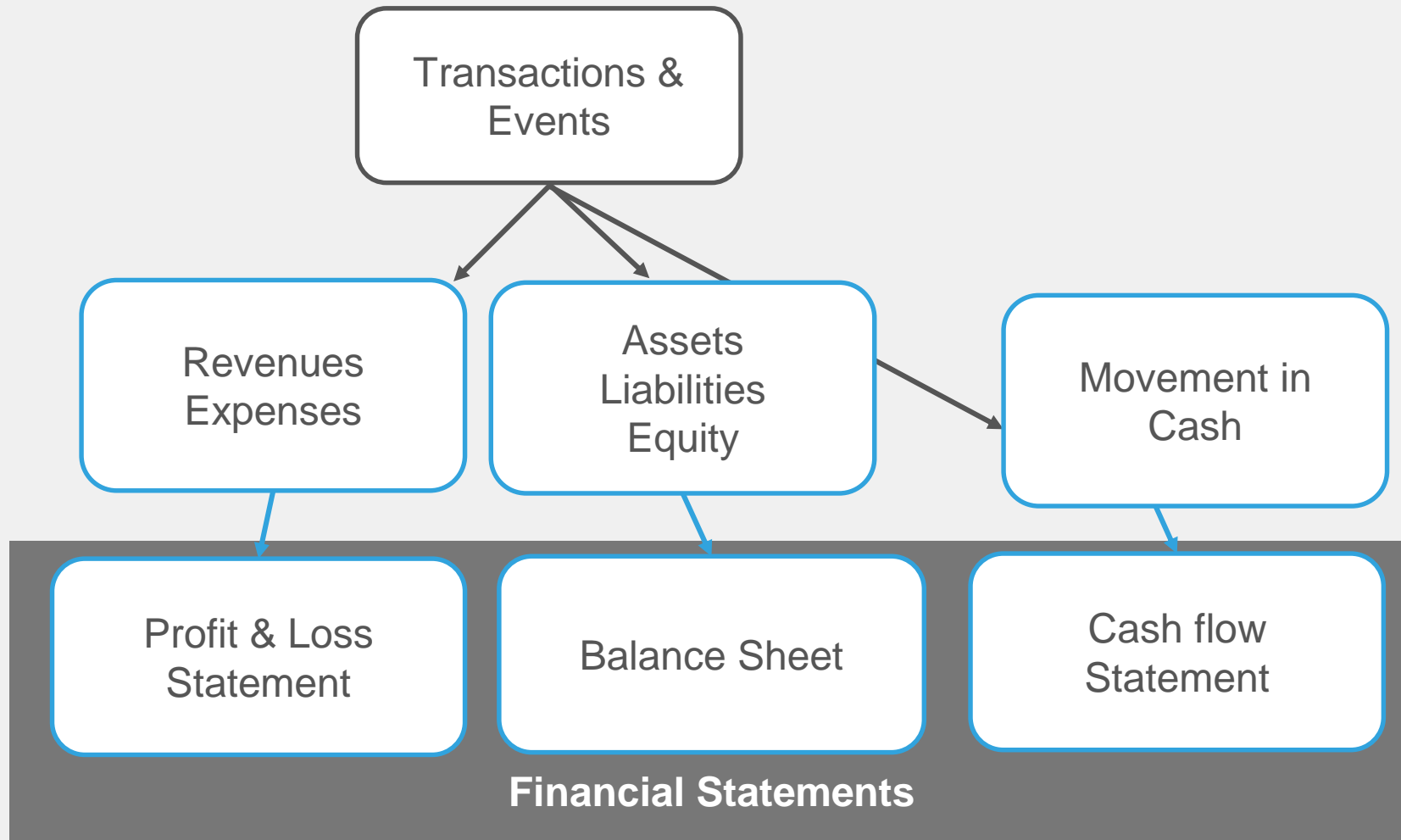
Financial planning involves the preparation of:

- ♻️ Profit & Loss statement
- ♻️ Balance Sheet
- ♻️ Cash flow statement
- ♻️ Startup budget (Financing)



❖ Financial Planning

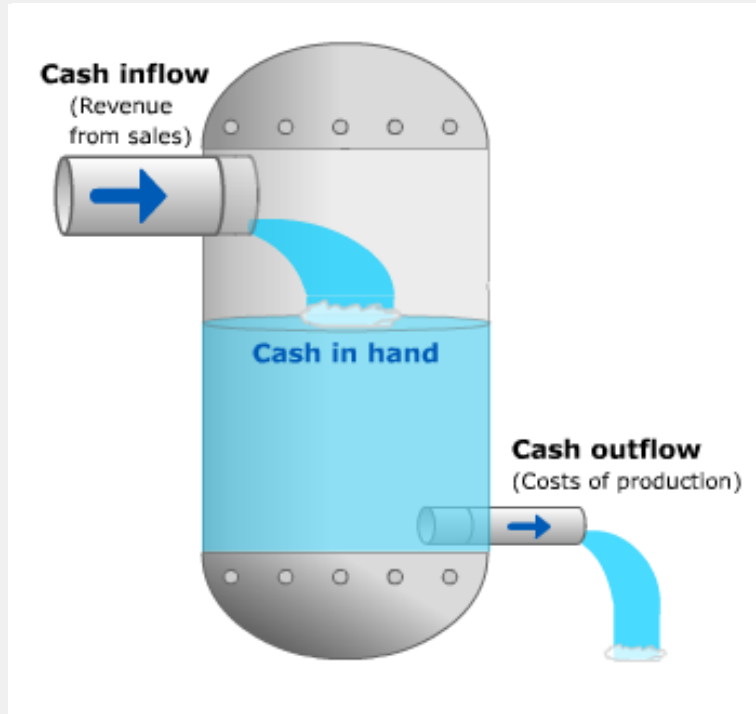
How do we get financial statements?



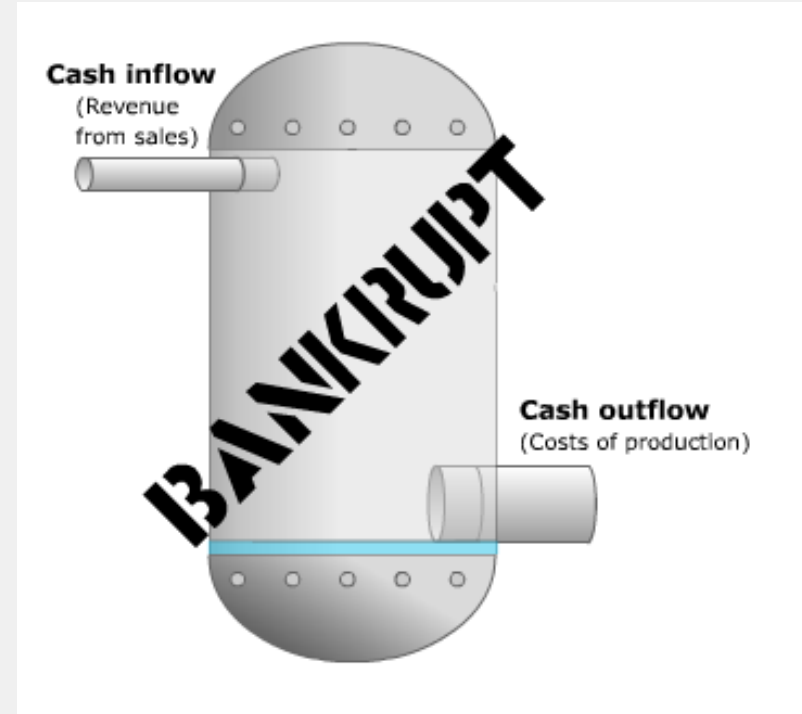
❖ Cash flow statement

Illustration

Positive cash flow



Negative cash flow



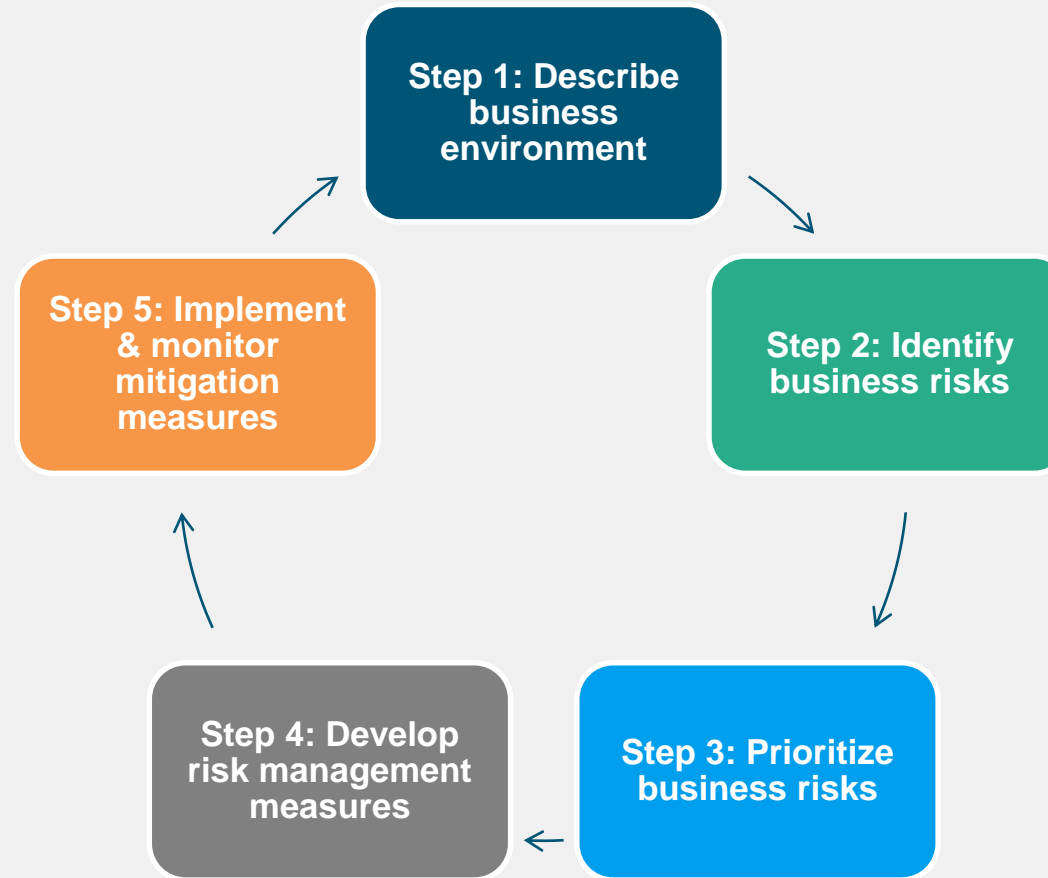
4. Risk Management for FSM businesses



What is a risk?

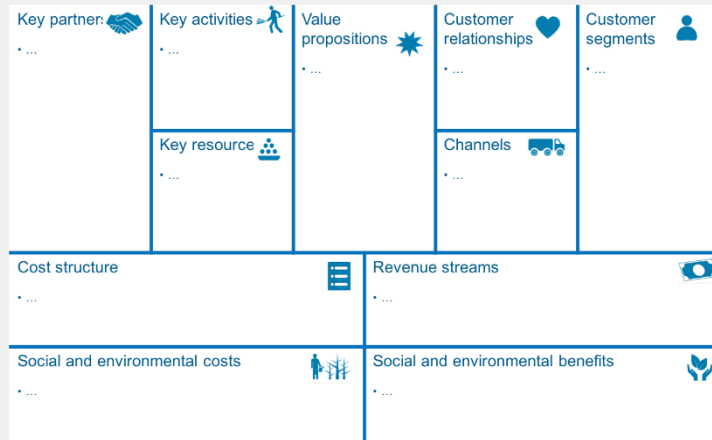
- ♻️ A situation involving exposure to danger (“flouting the law was too much of a risk”)
- ♻️ The possibility that something unpleasant or unwelcome will happen. (“reduce the risk of heart disease”)
- ♻️ A person or thing regarded as a threat or likely source of danger. (He/she's a security risk”)

❖ How does risk management work?



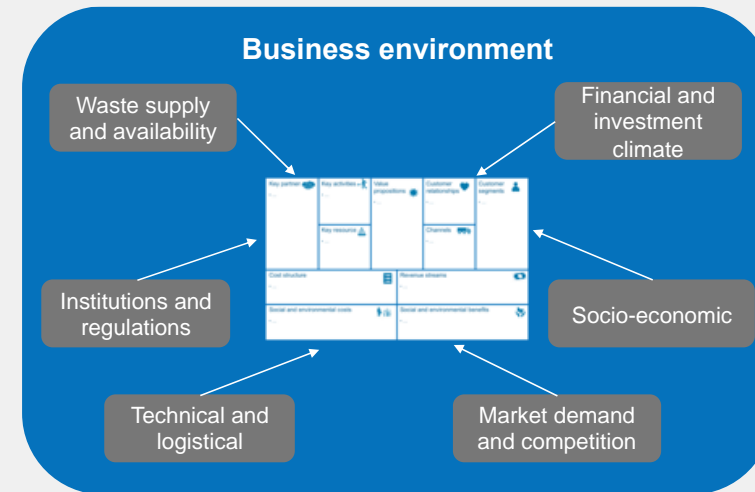
❖ Step 1: Describe business environment

Internal and external environment



Business model

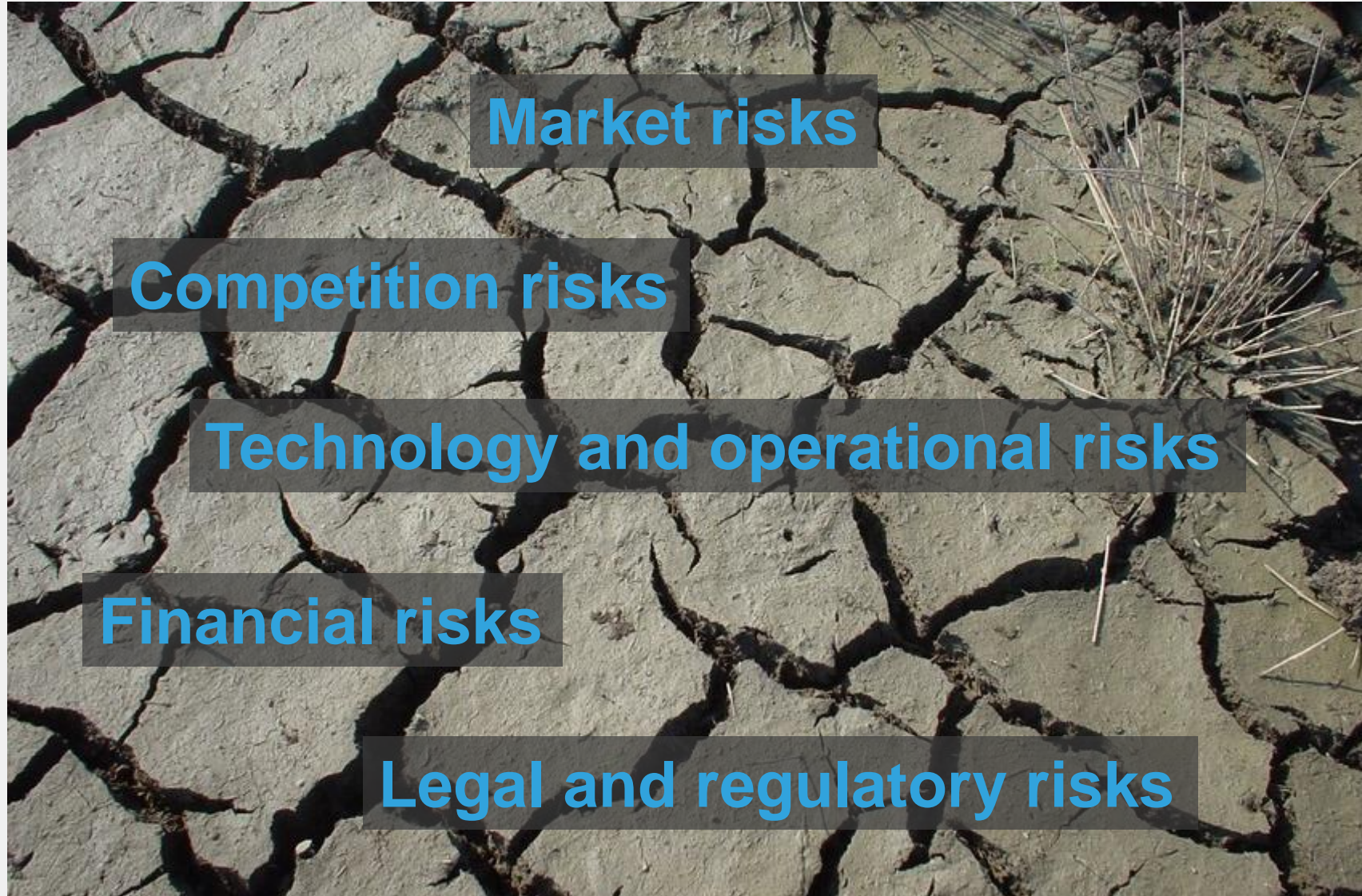
By studying the internal environment (i.e. the business model), we can identify **risks that come from within the business**



Business environment

By studying the external business environment, we can identify **risks that come from outside the business**

❖ Step 2: Identify business risks



❖ Types of Risks

Market risks

Demand side

- ❏ Lack of demand for what you have to offer at the price you set
- ❏ No product/service will ever be "finished" in the sense that it will make all users completely happy

Supply side

- ❏ A spike in the cost of fuel or other production input material (e.g. spare parts)

Competitive risks

- ❏ Competitive value proposition
- ❏ Competitive advantage your staff, your market, your marketing
- ❏ Know your Weaknesses, Opportunities, Threats (SWOT)
- ❏ Whether you have a quality, or competitive advantage, focus on maintaining your leadership in that category

Technology & operational risk

- ❏ Establish Standard Operating Procedures (SOP)

Financial risks

- ❏ Investors and lenders say no (financing risk)
- ❏ Limited revenues to cover costs before you run out of money (revenue risk)
- ❏ Customers default on your invoices (credit risk)
- ❏ High cost of raw materials & equipment (commodity risk)



❖ Types of Risks

Legal and regulatory risks

Possible legal or regulatory problems is almost endless:

- ♻️ Tax complications
- ♻️ Disputes arising from poorly structured agreements
- ♻️ Bribery risks in public procurement
- ♻️ Speed money to get access to public services
- ♻️ Manipulation of public documents
- ♻️ Non-compliance with regulations



❖ Step 3: Prioritize business risks

4 dimensions of risk

🔄 likelihood of occurrence

Ignorable Risks

🔄 Risks with relatively minor consequences and a relatively low likelihood of occurring

Insurable Risks

🔄 Risks that could have major consequences but are relatively unlikely to happen are often insurable

Nuisance Risks

🔄 little things that often seem to go wrong, but whose impacts are easy enough to minimize through straightforward changes in behavior


The Company Killers


🔄 the risks with both a relatively high likelihood of occurrence and major consequences


		SEVERITY (S)				
		Insignificant	Minor	Moderate	Major	Catastrophic
LIKELIHOOD (L)	Very unlikely	1	2	4	8	16
	Unlikely	2	4	8	16	32
	Possible	3	6	12	24	48
	Likely	4	8	16	32	64
	Almost Certain	5	10	20	40	80
Risk Score R = (L) x (S)		<6	7-12	13-32	>32	
Risk level		Low Risk	Medium Risk	High Risk	Very High Risk	


❖ Step 4: Develop management measures

Risk management methods

 **Risk Avoidance:** eliminating the risk is abandoning or refusing to undertake an activity in which the risk seems too costly

 **Risk Reduction:** using various methods to reduce the probability that a given event will occur.

 **Risk Transfer:** shifting the consequences of a risk to persons or organizations outside your business.

 **Risk Assumption:** involves the planned acceptance of the risk of loss

How can business risks be managed?

- Diversify customer base

- Provide Personal Protective Equipment (PPE) to workers
- Safety training for staff
- Have SOPs in place

- Get insurance (e.g. fire, work accidents, etc.)

- Accounting for clients defaulting on invoices in cash flow statement

❖ Risk management

Risk management plan

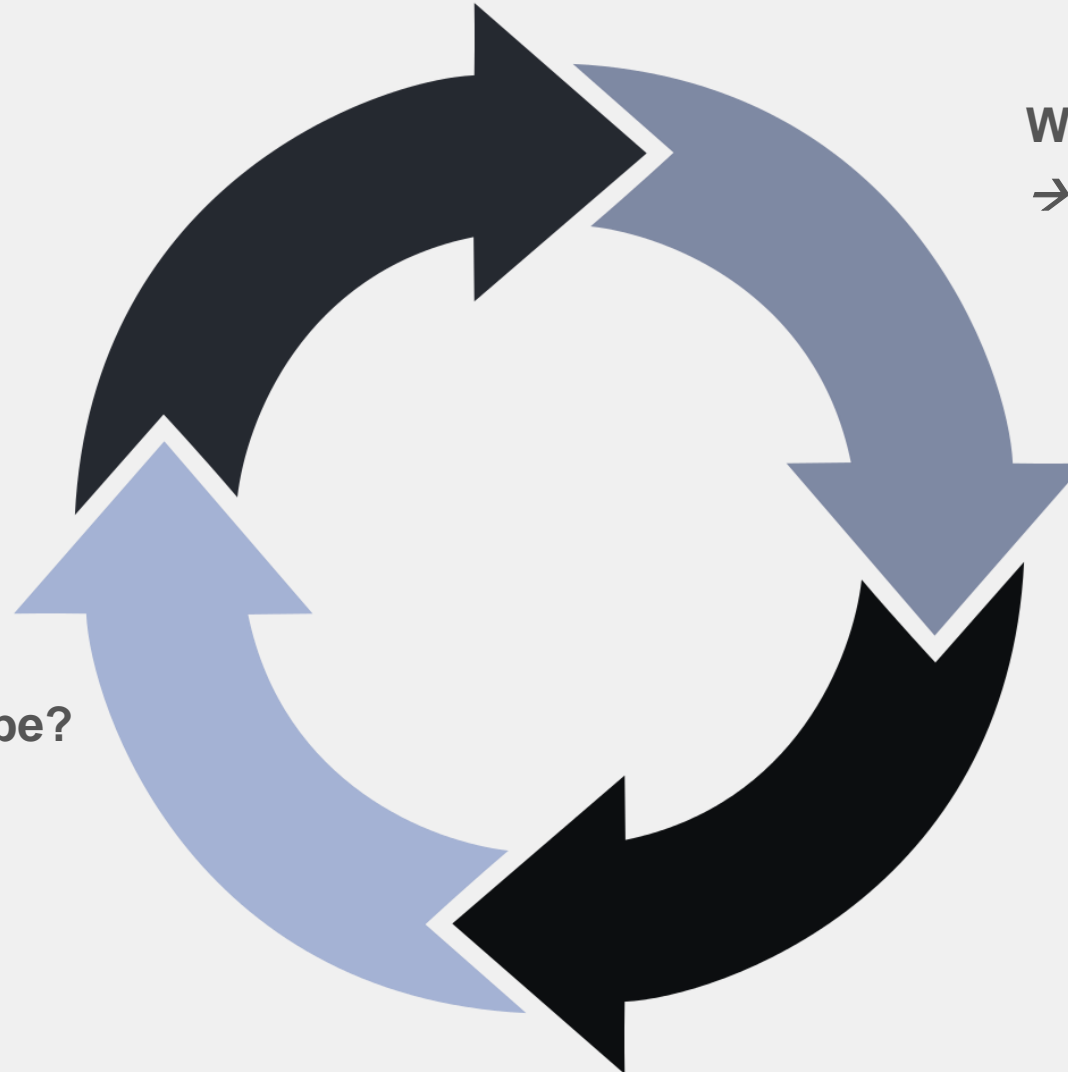
Priority	Risk	Likelihood	Severity	Management tactics	Cost of tactic
1					
2					
3					
4					
5					

■ Strategic and Action planning

The process

Taking action
→ *Step 4: Implement and adapt your plan*

How do I get to where I want to be?
→ *Step 3: Plan actions*



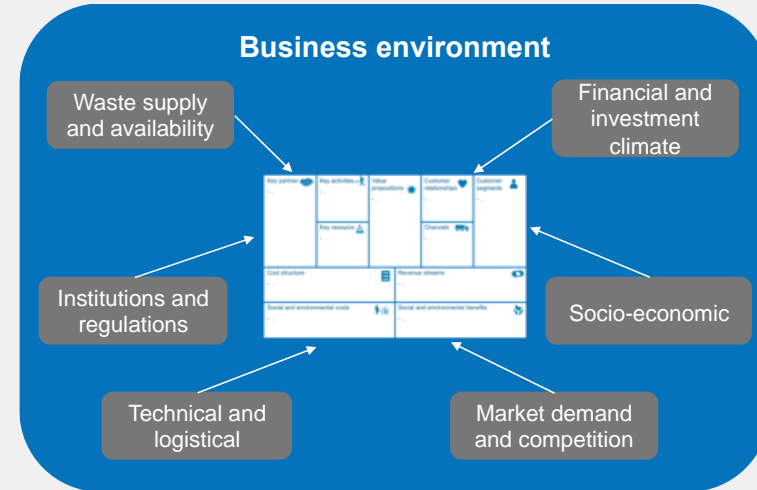
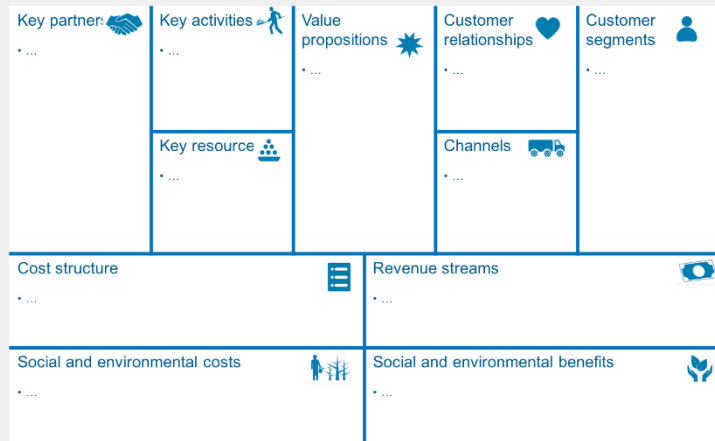
Where am I now?
→ *Step 1: Analyse SWOT*

Where do I want to be?
→ *Step 2: Set business objectives*

Where am I now?

❖ Step 1: SWOT Analysis

Internal versus external factors



Strengths and Weaknesses

By studying the internal environment (i.e. the business model), we identify the **factors we can directly influence**

Opportunities and Threats

By studying the external business environment, we identify the **factors that we can react to**

❖ SWOT Analysis

External factors



Strengths
Opportunities
Factors in the business model that
Factors in the business environment
give it an **advantage** over others
that could **benefit** the business.

Growing low-income populations and neighborhoods



Weaknesses
Threats
Factors in the business model that
Factors in the business environment
place the business at a **disadvantage**
that could **harm** the business.

A lack of appropriate regulatory framework and policy

Where do I want to be?

❖ Step 2: Business objectives

Financial objectives

Survival: key financial objective of any start-up

- ♻️ Generate USD1,000/m for basic operations in next 12 months

Profitability: revenues are higher than costs (break-even!)

- ♻️ Reduce operational costs by 20% while maintaining total revenues in next 12 months

Revenue growth: once established, you might decide to grow

- ♻️ Increase revenue by 20% each year for first 5 years

Marketing objectives

Market share: Buying customers in relation to competitors

- ♻️ Increase market share from 5% to 20% by end of year

Innovations: Excel through new and improved offers

- ♻️ Develop new processes or 2 business models by end of year

Promotion: once established, you might decide to grow

- ♻️ Build customer list of 20,000 contacts within the next 12 months

Where do I want to be?

❖ Step 2: Business objectives

Operational objectives

Resources: acquisition, use and maintenance of physical and financial resources

- ♻️ Desludging and worker safety equipment available within 3 months

Functionality: affects your operations and ultimately your reputation and sales

- ♻️ Decrease machine break-down by 10% by end of year

Productivity: increasing production relative to amount of production resources

- ♻️ Increase productivity ratio by 10% in next 12 months

Stakeholder objectives

Customer satisfaction: related to customer retention

- ♻️ Keep customer satisfaction at 80% for next 12 months

Employee satisfaction: related to loyal employees and turnover

- ♻️ Decrease staff turnover by 30% over next 12 months

Public responsibility: improving the way general public views company

- ♻️ Establish a positive social media presence in next 12 months

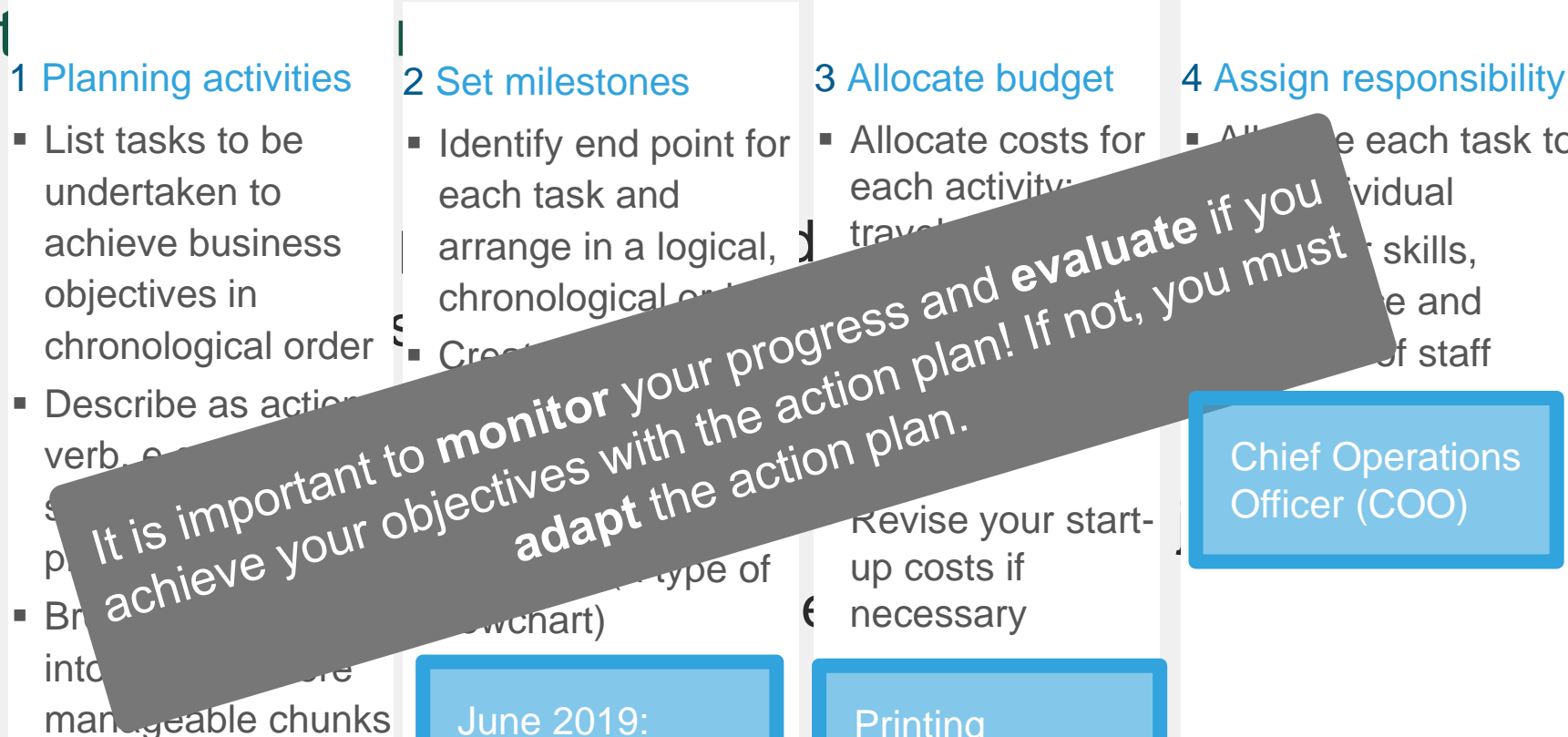
SMART Objectives!

How do I get to where I want to be?

❖ Step 3: Action Planning

How to develop an action plan?

What







Instruct and train employees in safe operation of new machine

June 2019: Machine operated without errors

Printing operation manual 5\$, fees trainer 200\$

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