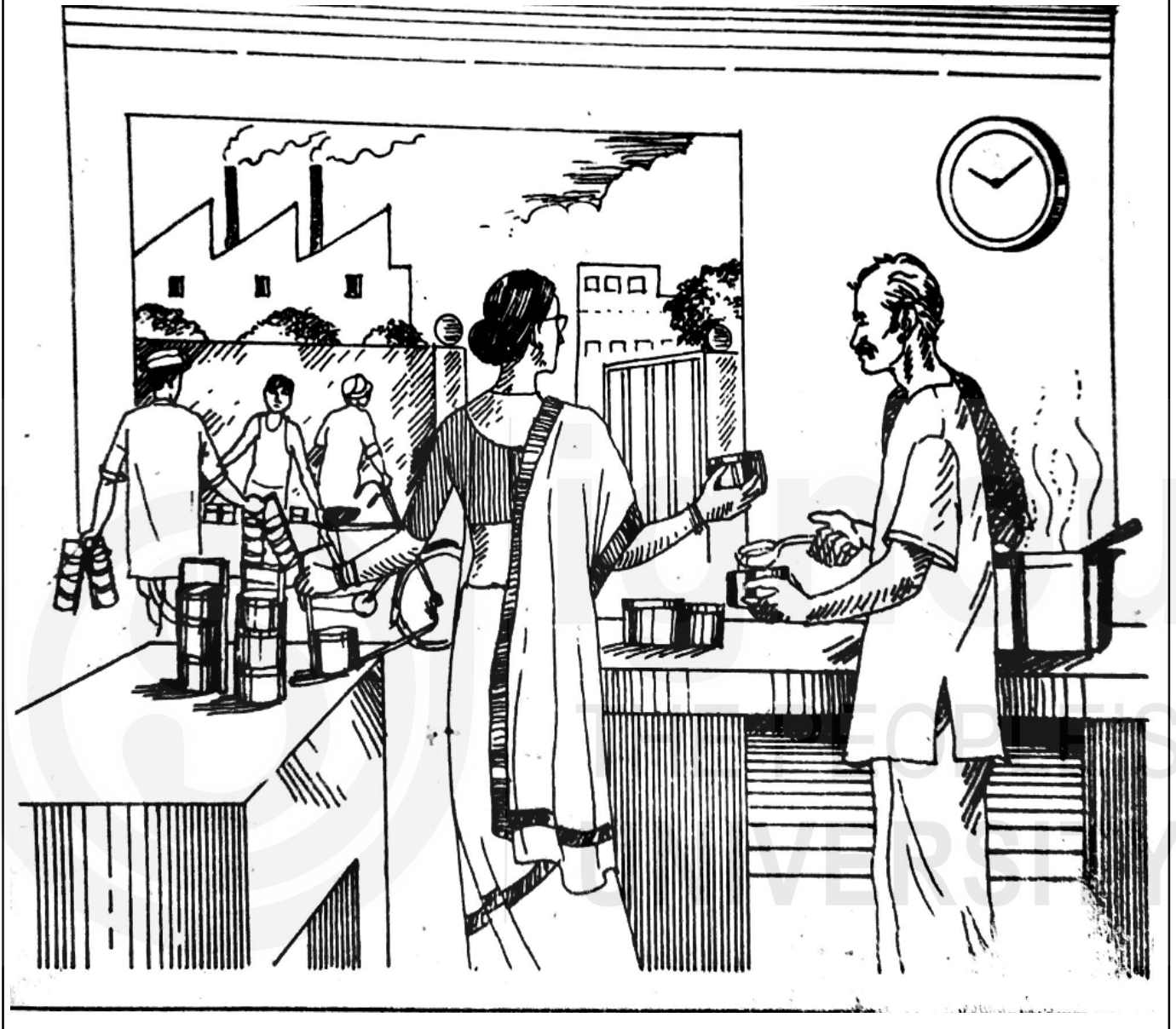


Section A: Case Study-I Office Packed Lunches





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UNIT 26 PLANNING THE FOOD SERVICE-ESTABLISHMENT

Structure

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26.1 INTRODUCTION

In this unit we begin with Lakshmi's story. As you go through the unit you will realize that Lakshmi adopted a very systematic approach and that is one of the major reasons for her success.

Before you plunge into this interesting tale let us say a few words about planning. Planning is a continuous process through which you:

- decide what you want to achieve (your goals and objectives)
- determine activities which will help you realize your goals
- look ahead to see how your establishment will work and to identify future trends.

What is the spark that sets off the planning process? It is generally an idea, the awareness that tells you "Here's a good opportunity. Let me take it!"

So what happened in Lakshmi's case? This unit discusses how Lakshmi got a good idea and how she acted on it. Since she was starting her enterprise she had nothing to look back at. So you'll see how she decided on her goal, identified the activities to be performed and looked ahead to see whether her enterprise would work and would generate enough profit. Learning from Lakshmi's experience can help you to plan your own enterprise as we mentioned earlier.

Objectives

Having read through this unit, you will be able to:

- identify potential customers through a market survey
- list the resources essential to run a food service establishment
- determine the amount of money required to start an enterprise
- make a budget and decide on the feasibility of an enterprise.

26.2 LAKSHMI'S IDEA

Lakshmi was a happy housewife, busy with her household chores and helping the children in their studies. As the children grew older, their dependency on her reduced. She had also engaged a part-time worker to help her in heavy household chores. This resulted in a lot of spare time becoming available to her and she did not know how to utilize this time. She was not the type to spend her leisure time idly. She, therefore, decided to do, something creative and challenging, which may also add to the family income to meet the educational and marriage expenses of her children.

Lakshmi realized that not being highly educated and proficient in any career oriented skills, it would be difficult for her to find a suitable job. She discussed the matter with her childhood friend Uma. As they talked, Lakshmi realized that she could make use of her talent in cooking snacks and meals to utilize her spare time and also to earn some income. Lakshmi, seriously thought about this idea as she was confident about her cooking talents. She discussed the matter with her husband and children, who encouraged her as they felt that this would give her an opportunity to develop and utilize her talents and also earn an additional income for the family. Her husband assured her full cooperation and promised her to find the necessary finances to start this venture.

26.3 SURVEYING THE MARKET AND MAKING INITIAL DECISIONS

Lakshmi was now determined and she decided to start the business to provide snacks and meals with the motive of generating an income. She was sure that she had the capability to produce tasty snacks and meals, which would be good enough to attract customers to buy them, but she was not aware as to who the customers would be and what type of snacks/meals they would prefer.

Lakshmi voiced this difficulty to Uma and after some discussions they decided to do a survey in the neighbouring areas to find out where she could sell her food products. First of all, they went to a nearby school to see whether she could provide her snacks to the children. There she found that a well established canteen under the school management was already functioning and that there was no scope for a second canteen. Then she visited a newly built stadium nearby to see whether she could open a snack bar there. But the high rental charges at the stadium discouraged her. At last,

she visited a new office complex and found that most of the people working there were eating from unhygienic wayside vendors or eating fruits and groundnuts. Lakshmi spoke to some of them and learnt that many of them did not bring lunch packets from home as either they did not like to eat cold food or they were starting from their distantly placed residences very early in the morning. They said that the only choice for them was to eat fruits or nuts or eat from the road-side vendors even at the risk of stomach disorders. All of them welcomed the idea of a hot plate of hygienic and wholesome lunch. Some of them wanted the lunch to reach their offices as no place for eating was available there. After this eye opening survey and talk, Lakshmi was convinced that she had found the right type of customers, who had a very specific type of need to be met.

Thus you have seen that the first thing Lakshmi did was to identify the type of customers who would be willing to buy her food. Therefore, to start a food service unit or establishment, the first thing to be done is *to survey the neighbourhood to assess which type of food service establishments are existing there and to see the type of customers patronizing them*. From such a survey you will be able to see that there are some type of people whose needs are not being met by the existing food service establishments. Such people will form your probable customers.

Now the next question is — what items should be offered?

How did Lakshmi find out? Let's read on.

26.3.1 Identifying Individual and Group Preferences

Having identified her customers to be office goers, the next thing Lakshmi did was to find out from them the type of food they desired to have. Lakshmi decided to get this information by having personal interviews with a few of them. During this interview she tried to get their preferences regarding the foods they would like to purchase and eat. For this Lakshmi had made a list of items, that were popularly eaten and which she could easily produce. At the time of interview with the probable customers, she tick marked the items the customers preferred. Thus she was able to prepare a list of the popular items that the customers wanted. Given below is the format by which Lakshmi was able to get the preferences of her customers:

1) <i>Vegetable Pulao with Raita Pakodi</i>	☒ ☒ ☒ ☒ ☒ ☒ ☒ ☒
2) <i>Dal stuffed paratha and raita</i>	☒ ☒ ☒ ☒ ☒ ☒ ☒ ☒ ☒
3) <i>Puri/Kulcha Chole and Salad</i>	☒ ☒ ☒ ☒ ☒
4) <i>Rice and mixed vegetable subji</i>	☒ ☒ ☒ ☒ ☒ ☒ ☒ ☒
5) <i>Rice, Rajmah and Vegetable</i>	☒ ☒ ☒ ☒ ☒ ☒ ☒ ☒ ☒
6) <i>Pau Bhaji and green chatny</i>	☒ ☒ ☒ ☒

Lakshmi indicated the preference of each person who was willing to take an item by a mark /against that item. When 5 people give their preferences for an item it was indicated with the mark (IIII). The preferences for vegetable pulao with raita was given by 27 people as indicated by five bundle (IIII III III III III III) markings and two II markings.

Check Your Progress Exercise 1

1) Suppose you want to survey the market for office packed lunches, what will you do? List the main steps that you would take to find out

a) individual preferences

.....

b) Group preferences

.....

2) Which would you give more importance — individual or group preferences?

.....

3) Alka interviewed 35 people to find out their preferences for snacks. The following chart illustrates the results:

<i>Item</i>	Tally
<i>Pakorras</i>	IIII IIII IIII
<i>Samosas</i>	IIII I
<i>Vadas</i>	IIII IIII IIII
<i>Sandwiches/Hamburgers</i>	IIII III

If Alka wants to offer three snacks which ones should she select? Why?

.....

From the above list it was evident that most of them preferred a plate lunch consisting of a cereal, pulse, and curd. Do you recall the discussions in Block 3 on packed lunches for adults? It was mentioned there that the packed lunches should provide atleast one food item for each of the three food groups that is energy-giving, body-building and protective/regulatory foods. The popular items according to the priority were found to be rice, rajmah, vegetable pulao, stuffed parantha, kadhi rice, puri chole and pau bhaji.

Other than these, certain items such as noodles, bread and cutlet, chapati and dal were preferred by a few persons. The preferences were obtained by Lakshmi on the basis of the survey conducted by her. Similarly if you conduct a survey at the place where you want to start an establishment, the preferences may change according to the food consumption patterns of that region. Here you have seen that the second thing Lakshmi did was to find out the preferences of the customers, that is the menu items the customers would like to buy and eat. Using these preferences Lakshmi decided to plan a menu for lunch including items which she could pack and which would satisfy the customer both in terms of quantity and quality.

26.3.2 Deciding on the Menu

While planning the menu, the following considerations were kept in mind:

The food should be:

- 1) familiar and acceptable and should reflect the customer's choice
- 2) able to satisfy the customer in quantity and quality
- 3) nutritionally adequate
- 4) relatively easy to cook
- 5) packable
- 6) reasonably priced

While planning the menu Lakshmi was careful to include only the items which she felt she was good at making. Familiar items such as poori, parantha, pulao and rice were cereals, which she often cooked even in quantities to feed 25-30 people. The pulse preparations selected were those that did not need any special skill and any one could easily make it. Vegetable preparations were planned to include items like raita and salads.

Lakshmi then determined the quantity that would be needed for each menu item. As a housewife she had a good idea of the amount of food that could bring satiety to a person. On this basis she established the amount that would be adequate for an adult man for lunch.

Now Lakshmi had learnt about the nutritive value of foodstuffs. She decided to apply this knowledge.

Lakshmi assessed the quantities of menu items to ensure that they provided the necessary amounts of calories, proteins and minerals and vitamins. Though she did not know the exact nutritive value of each food item, she realised that *a judicious combination of cereals, pulses, vegetables and milk*

products would provide the necessary nutrients. Accordingly, she planned to give items prepared with about 80-100g of cereal, 30g of pulse, 100-150g of vegetables and 100ml of curd per person. This she felt would *be adequate enough to provide about one-third of the recommended dietary allowances for a sedentary worker (office worker) in a day.*

Lakshmi then considered the type of preparation of each item with a view that they should be easily packable. She realized that to make food packable, the number of items and quantity of each item should be reasonable, should keep well for some time, should not lose its shape, texture and flavour. She also decided to avoid too many items with gravy since they were difficult to pack. Accordingly she decided to reduce the number of items by combining either a cereal and vegetables as in pulao or by combining pulse with curd as in pakodi raita and kadhi. She selected items such as poori, parantha and fried rice which generally kept well for some time.

She planned to minimize the gravy items to only one either as the pulse preparation or the raita so that it could be separately packed and the other items could be put together. By combining two or more items she would be able to provide a packed lunch with just two or three items.

Lakshmi made sure that the menu planned was based on the items for which the customers showed their preferences. In this way she made sure that the customers would be willing to buy her lunch packets.

Lakshmi was also able to find out during her survey and personal interviews that most of the people in the office complex were spending about Rs. 5-7 per day on meals. She, therefore, concluded that they would not hesitate to spend Rs. 6 per lunch packet and accordingly fixed the rate.

Having ensured that the selling price would be within the purchasing power of the customers, she then determined whether it would be possible to price the packed lunch with the decided menu items within Rs. 6. This selling price should include all the expenditure and also provide for a reasonable profit. This would be possible only if the cost of the raw material was kept within 50 percent of the selling price. For determining this the menu items were precosted. Let's see how Lakshmi did this.

26.3.3 Precosting of the Menu

Precosting of menu items means to find out the cost of producing the menu items. Very often the price at which the raw material is bought is an indication of the cost of the food item. Lakshmi listed the ingredients needed for each dish and calculated its cost using the rate at which the commodity was bought. The cost of the amount of each ingredient required for the menu item was noted down. The noted price of all the ingredients were totalled-to give the cost of the menu. This indicated whether it would be feasible to serve a particular item in the menu by limiting the food cost to 50 percent of the selling price. Likewise she precosted all the other items also to see whether she could produce them within a raw food cost of Rs. 3, so that it could be sold at Rs. 6.

Here you see that precosting of a menu using the current prices helped Lakshmi to plan the menu, which could be produced at a pre-determined cost. Thus it can be said that precosting of a menu helps to determine whether the items selected can be produced within the financial constraints.

You have observed that while planning the menu Lakshmi had kept certain factors in mind, *To ensure that the menu items were reasonably priced and to assess whether they were feasible to produce she precosted the menu so that the food cost remained within 50 percent of the selling price.* This aspect is very important because a sound basis for fixing the selling price is essential to obtain, adequate sales money to cover all expenditure. Precosting of one sample menu is given below:

Menu: Vegetable Pulao, Pakodi Raita

Item	Ingredient	Quantity (g)	Rate/kg (Rs.)	Cost Rs. P.
Vegetable Pulao	Rice	100	5.00	0.50
	Carrot	50	4.00	0.20
	Beans/Peas	30	6.00	0.18
	Cabbage	30	4.00	0.12
	Onions	15	3.00	0.05
	Potato	20	2.00	0.40
	Spices			0.10
	Oil	5	35.00	0.20
				1.75
Pakodi Raita	Besan	25	12.00	0.30
	Oil	10	35.00	0.35
	Curd	100	5.00	0.50
	Spices			0.10

Total cost of the menu item = 1.75 + 1.25 = Rs. 3.00

This is 50 percent of the selling price.

Check Your Progress Exercise 2

- 1) Shankar wants to supply packed lunches for office goers. These are the alternatives before him.
 - a) Dal stuffed paranthas
Potato-peas vegetable
 - b) Vegetable pulao
Paneer kofta curry

Precost these sample menus using the following charts (Alternatively select two suitable for your region).

Chart I: Alternative (a)				
I Item	2 Ingredient	3 Quantity(g)	4 Rate/kg	5 Cost

Chart II: Alternative (b)				
I Item	2 Ingredient	3 Quantity(g)	4 Rate/kg	5 Cost

*The menu should be precosted periodically to check that it is within the price or percentage specified. If the purchase price of certain items exceed the permissible limit, substitution of items which are within the cost can be made to keep the cost within the range. For example, in vegetable pulao, when the cost of green peas exceed Rs. 6 per kg it can be substituted by beans, which is selling at Rs. 6 per kg or use dehydrated peas instead of fresh peas. Dehydrated peas may cost about Rs. 12 per kg, but the quantity needed is less than half of the quantity of fresh beans. Therefore, it will remain within the budget. Here you have noticed that *the important function Lakshmi did after planning the menu was to precost it with provision for alternative substitution.**

It is important to note that all this time we were discussing menu items that have a very north-Indian bias. This is because the group Lakshmi had identified as her potential customers was the one usually found in cities like Delhi, Bombay or even in smaller north-Indian cities like Jaipur, Lucknow, Bhopal etc. If you belong to a region other than the northern region, the menu selected will differ as it will reflect the choice or preference of your customers. Let us assume that you are starting your establishment in Madras or Bangalore. Then the choice of your customers will be rice-based. You may get customer preferences for items such as lemon rice, curd rice, idli sambar, bisi bele huli anna, vegetable uppma, pongal etc. These items will then form your menu. Whatever be the regional differences, you have to identify your customers, study their preferences and plan a menu to satisfy their needs keeping their preferences in mind.

26.3.4 Determining the Number to be Served

After determining what the menu would cost her to make it, the next thing Lakshmi did was to find out how many people would be willing to buy her lunch. For this she went back to the office complex and told the way-side eaters she met earlier that she would be able to provide them hot packed lunches at their offices at a very reasonable price. At first the people were a little sceptical about her and their response was not very encouraging. Not disheartened by this initial lack of response, she made a few sample packets of lunches and gave them free to a few persons in the office complex, who were willing to taste it. The next day again she distributed a few more packets to another set of employees. She also distributed a few handbills and requested the employees, who had tasted her lunch packets to spread information about her lunch packets to other fellow employees. Lakshmi also obtained their opinion regarding the lunch packets in terms of quantity and quality and whether they were satisfied with it. This small publicity through free packets, handbills and opinions from persons, who had tasted it, helped her to get the first order for 25 packed lunches on the fourth day. Here you have seen that it was Lakshmi's determination and marketing skills which helped to get her initial customers. You will realise that the skills of being able to sell your product to an adequate number of customers is very important to make your venture feasible. Lakshmi's constant efforts, the quality of the food and prompt and hygienic services all contributed to the increase in the patronage. Today, as a result of her efforts she has been able to establish an establishment which providing about 300 lunches a day. The various stages of her progress and the methods adopted by her at every stage will be discussed in Units 27 and 28.

26.4 IDENTIFYING RESOURCES

In the previous discussion we saw how Lakshmi had decided to start a food service unit providing packed meals to office going people. We also found that Lakshmi used a step-by-step approach to making decisions about:

- where to start her enterprise
- whom she would cater to

- what she would serve
- how much the meals should cost depending on the menu.

In other words *her goal was to start and run a profitable establishment producing and distributing packed meals.*

Now she felt that it would be useful if she could put down on paper her specific objectives.

These are the objectives she listed:

- 1) To serve a packed vegetarian lunch
- 2) To give items based on cereal, pulse, vegetables and curd
- 3) To serve for 25 days in a month
- 4) To pack the meals in cartons, plastic sachets or aluminium foils
- 5) To deliver the packets at the premises of the customers
- 6) To give the packets on credit to customers on advance booking
- 7) To sell the packets @ Rs. 6.

Lakshmi listed these objectives to serve as guidelines. This exercise actually helped her to plan her course of action. It is, therefore, of great importance that the first thing, when you plan your operations should be to list your objectives as this will help you to plan your action. Here Lakshmi's objectives helped her to decide the nature of the food to be served, the mode of service and the method of payment. These objectives made her action clear and consistent. Here you will notice that establishing the objectives is an important function which is included in planning. This aspect of planning helped her to determine what to do and when to do it. It also helped her to plan the necessary steps to fulfil her objectives.

Check Your Progress Exercise 3

- 1) Why is it so necessary to clearly outline goals and objectives?
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.....
.....
.....
.....
- 2) Do you think the objectives listed by Lakshmi for her food enterprise were satisfactory? Could they be improved or modified in any way?
.....
.....
.....
.....
.....

Having listed her objectives, Lakshmi realized that to run her enterprise profitably she would require a few essential things. She knew that even to run her household, she needed a monthly allowance from her husband. This money was then utilized for getting the various things needed at home. Likewise, to run a food service establishment she would need money to get the necessary things for the unit. So it can be stated that the first commodity or resource she needed was *money*.

Lakshmi then listed the items for which she required the money. First of all she needed money to buy the required raw food material, which was to be used for making the finished menu items. Therefore, money was primarily needed for buying the materials namely the raw foodstuff.

To transform the raw food materials to cooked food she needed her own skill and also some additional help to handle the cooking, packing and the delivery of the food items. She thus realized that running a food service establishment is not a single handed affair. It is the combined effort of a number of people. So she would need money to hire the services of people who would help her to cook, pack and deliver the lunch packets. Therefore, she identified the next important resource as *manpower*.

The next thing that she planned was the necessary utensils and equipment that would enable her to work efficiently. To produce food in bulk she would need utensils other than those being normally used at home. She felt that to produce large quantities of food in time some labour saving devices would also be needed. This resource is a major one and without it she would find it difficult to function. She would, of course, need money to buy *utensils and equipment*.

From the above you would have understood that the major resources identified by Lakshmi were money, material (food), manpower and machines (equipment).

Other than these major resources, Lakshmi would have to be careful about yet another resource, that is minutes or time. The success of her operation would depend on her prompt delivery of food to the customer. For this she had to plan the best use of the time available with her for quality production of the food and prompt and satisfactory service of the finished food items to the customers. Thus you see that Lakshmi had to manage yet another resource that is time.

The last in the list of resources which was to be constantly watched was the market.

Market means the customer in the case of a food service establishment. She would have to constantly watch whether her customers were satisfied about the quality of the foodstuffs supplied by her and were happy about the services. She would also have to check that she had enough customers all the time to make her venture feasible. She would have to put all her efforts to maintain the quality of her foodstuffs and services to keep the customers happy.

Now to sum up, let us list the resources Lakshmi had to work with. The first resource Lakshmi needed was money. With money she would be able to buy raw food materials. This raw food material could be made into food items with the help of manpower. This manpower would be made efficient with the help of machines. Both men and machines would have to work together well in order to complete the job in time. The objective of the whole operation of using the resources well would be achieved through satisfying the market or the customer.

In the subsequent units you will learn in detail how Lakshmi planned each resource and how she effectively utilized them.

Check Your Progress Exercise 4

- 1) Construct flow charts which illustrate:
 - a) the types of resources needed for a food service establishment
 - b) the interrelationships between the resources

You must have observed that be it at home or in her food service establishment the first resource Lakshmi needed was money. It can be said that *money is the most important resource because all other resources can be bought with money.*

26.5 CALCULATING EXPENDITURE

We have just talked about how Lakshmi surveyed the market and made some crucial initial decisions. She then proceeded to identify the resources she needed. She soon realized that the main resource she needed was money.

How much money did she need? Let's see how she went about answering this question.

The first thing she did to assess her requirement of money was to list out the items of expenditure. Being a housewife she had a fairly good idea of how to plan the use of money for her establishment. First of all, she needed money to buy the raw food material, which could be made into finished food items. Money would be needed to pay the helper and the delivery boys. Money would also be required to buy the necessary utensils and labour saving devices. Accordingly, *she identified the heads of expenditure as food, labour, and equipment.*

Having identified the major items of expenditure, she worked out the amount of money needed under each head for a month. She realized that out of the three resources that were to be bought with money, equipment would be the one which would involve a large sum of money and that this would not be a monthly recurring expenditure. Therefore, she set out to estimate the expenditure involved in establishing the establishment with the necessary equipment.

Calculating expenditure on equipment

To find out the types of equipment and the number of utensils needed, she visited a canteen in a school, a nearby dhaba and a restaurant in a shopping

complex. With their help she was able to draw up a list of the equipment and utensils that would be necessary to run the establishments. She was also able to see some of this equipment in operation when she visited these establishments. After making this list of equipment and utensils, needed, she established the expenditure involved in purchasing these.

For this purpose, she visited the offices/shops of the manufacturers/dealers supplying equipment and utensils and obtained quotations from them about the prices and other services offered. From these she was able to calculate the approximate amount of money required for the equipment and utensils.

As the equipment and utensils were absolutely essential for the efficient running of the unit, it was given top priority while planning the estimated investment. The equipment, and utensils needed were listed and their approximate cost estimated. Large utensils for cooking including a pressure cooker and frying pan would cost about Rs. 5,000. The cost of labour-saving devices like an instant mixer-cum-blender and wet grinder came to about Rs. 5,000. A balance, hot case and a refrigerator would cost about Rs. 15,000. In addition she required about Rs. 2,000 for two gas cylinders and two commercial gas ranges. Adding the cost of these items Lakshmi estimated the money required for the equipments and utensils as Rs. 27,000.

She did not take into consideration the money required for a building since her kitchen at home was large enough to handle the large-scale cooking. She also had an adjacent room which could be used as a store and an enclosed veranda where packing could be done. This saved her a recurring expenditure of Rs. 500 to 1000 per month, which she would have otherwise spent as rent. Purchasing any premises for this purpose was beyond her means.

Calculating expenditure on food materials

The next item of expenditure was for purchasing the raw food materials. The amount of money to be spent on this account depended on factors such as the menu items, that number of people to be served, the amount of storage space and the method of purchasing adopted.

Lakshmi had planned to give a packed lunch comprising cereal, pulse, vegetables and curd. She proposed to bring about variety in the menu by changing the type of cereal, pulse and vegetables used each day. Initially she was able to obtain orders from 25 people with a possibility of it becoming 100 in a period of three months. But she planned the estimate on food expenditure for 100 persons per day so that she would have sufficient resources for expansion in the future.

As explained earlier, for the meal to be sold at Rs. 6 per packet, the raw food cost should not be more than Rs. 3 per packet, that is 50 percent of the selling price.

Therefore, for 100 people at the rate of Rs. 3 for 25 days the expense on raw food materials was estimated. Accordingly the projected food expenditure was estimated as Rs. 7,500.

The finished menu items were to be delivered packed in suitable packing material. Lakshmi decided to choose the best available packing material after

surveying the market. She decided to use cardboard cartons, aluminium foil, plastic containers and polythene sachets for packing the lunch. The cost of packing one lunch was estimated as 0.60 p after obtaining the rates from the dealers of these items. She estimated the cost of packing material for a month to be Rs. 1,500. Lakshmi planned to include this expenditure in the selling price by accounting it as 10 percent of the sales money.

You may note that the expenditure on raw food and for packing materials are recurring ones and from the second month onwards, the sales money coming in from the food packets would be sufficient to meet this expenditure. Therefore, there was need for estimating the raw food and the packing material cost for a month only, while computing the initial investment.

Calculating expenditure on manpower (labour)

After estimating the raw food cost the next item of expenditure to be worked out was the labour cost. Lakshmi felt that to handle the load of the production of the menu and to deliver the packed food to the customers she would need one helper and two delivery boys. She determined that the expenditure on the labour was not to exceed 15 percent of the sales money in every month. So she kept aside Rs. 2,250 per month to pay her workers. (Sales money from 100 packets @ Rs. 6 = Rs. 600; for 25 days $600 \times 25 = 15,000$; 15 percent of the sales money = $15,000 \times 15\% = 2250$). As in the case of raw food expenditure, from the second month onwards this expenditure normally would be met from the sales proceeds. Therefore, for calculating the initial investment the expenditure on labour for only one month was taken into consideration.

You must understand that Lakshmi planned to engage 3 persons as helpers on the assumption that she would sell 100 lunch packets in a day. But, as stated earlier, in the first month she got only 25 customers; but had to engage all the three helpers from the very beginning itself to maintain efficiency and satisfactory service. Therefore, in the initial months a part of the labour cost was met from the unutilized funds kept aside for raw food purchases since the sales money was not sufficient to meet all the expenses.

Lakshmi also needed about Rs. 750 (approximately 5 percent of the monthly sales proceeds) per month as overhead expenses to meet expenses like fuel, light, electricity, water, transportation charges and other miscellaneous expenditure. This expenditure was also to be computed for one month only and was to be met from the sales proceeds from the second month onwards.

In addition, 5 per cent of the sales money was to be set aside to be utilized for maintenance such as replacement of breakable items, repair of equipment and building etc. Very often, all this money earmarked per month may not be utilized in every month, but it provides a fund to facilitate repairs and also to supplement the available equipment as and when necessary.

26.6 MAKING A BUDGET

You have just seen how Lakshmi calculated expenditure. However, it is not enough to just calculate expenditure. We must know whether the enterprise will work. Let's see how Lakshmi decided on this aspect.

We have just seen how Lakshmi calculated the money needed for equipment, food materials and packaging as well as labour.

On the basis of this Lakshmi now has to prepare a total estimate of expenditure. This would give her an overall idea of how much she would have to spend.

Before we go on let us try to understand the meaning of two terms "recurring" and "non-recurring". Non-recurring expenditure means a one-time expenditure e.g. expenditure on equipment. You don't have to spend again and again on this. Recurring expenditure means expenditure that repeats day to day or week to week or month to month. Expenditure on food is an example. All the food needed cannot be purchased at one time. The food finishes or is used up and needs to be purchased again. Now let us return to the question of calculating total expenditure.

Putting all items of estimated expenditure together, Lakshmi required an initial investment of Rs. 40,000.00 as follows:

A) Capital investment (non-recurring)

Equipment and utensils - Rs. 27,000

B) Working capital (recurring)

- 1) Raw food cost for 100 persons for a month – Rs. 7,500 (approximately 50% of sales price)
- 2) Labour – Rs. 2,250 (approx. 15% of sales price)
- 3) Overheads – Rs. 750 (approx. 5% of sales price)
- 4) Maintenance – Rs. 750 (approx. 5% of sales price)
- 5) Packing material – Rs. 1,500 (approx. 10% of sales price)

Total	Rs. 39,750 or Rs. 40,000
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A capital of Rs. 40,000 was estimated on the assumption that it would be utilized to produce 100 lunch packets a day for 25 days, which would generate a sales income of Rs. 15,000 (6×100 (Customers) \times 25 days = 15,000) in a month. On this basis the estimate of working capital was worked out as a percentage of this sum. This sales income from the second month onwards was planned to be utilized as follows:

Raw food cost	50%	=	Rs. 7,500
Labour cost	15%	=	Rs. 2,250
Packing materials	10%	=	Rs. 1,500
Overheads	5%	=	Rs. 750
Maintenance	5%	=	Rs. 750
Profit	15%	=	Rs. 2,250
Total	100%	=	Rs. 15,000

26.7 IS THE ENTERPRISE FEASIBLE?

Would her enterprise work? Could she raise this much money? Lakshmi talked to the manager of a food service establishment who explained to her that the expenditure on food, labour, overheads, maintenance and provision for profit, which were proposed to be met from the sales proceeds would be possible only after a certain period of time. This would be possible only when she would be able to sell about 100 packets a day. This is how it was explained to her.

Month	Number of Packets in a month	Sales price Rs.	Food Cost 50% Rs.	Labour cost 15% Rs.	Packing expenses 10% Rs.	Moisten-ance 5% Rs.	Overhead 5% Rs.	Total Rs.	Profti/Loss Rs.
1 st	625	3,750	1,875	2,250	375	750	750	6,000	(-)2250
2 nd	1500	9,000	4,500	2,250	900	750	750	9,150	(-)150
3 rd	2500	15,000	7,500	2,250	1,500	750	750	12,750	(+)2250

While computing the profit and the loss, the labour cost, overheads and maintenance have been taken as constant on the basis of the sales price for 100 lunch packets. This is because in the initial months the infrastructure had to be provided for preparing 100 lunch packets per day even though the actual production may be much less.

From this you will see that initially the income was not enough to cover up all the expenditure, but by the third month it was expected that the income would be adequate to cover up all the expenditure and also to generate a reasonable profit.

In principle, therefore, the enterprise would break even only with a sale of about 100 packets a day. This was a target which Lakshmi felt she could achieve. In other words she decided that her enterprise was feasible.

Now, what next? Lakshmi had to begin the difficult task of finding people to help her in generating resources. She first directed her energy to finding the money since this was the prime resource. Once this problem was solved, she could hire labour, make food packets and distribute them to her customers.

Check Your Progress Exercise 5

- 1) How does computation of profit and loss help in assessing the feasibility of an enterprise?

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2) Which costs should be kept constant in computing profit and loss (provided infrastructural requirements remain the same)?

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3) If food costs increase by 20%, how many packets would Lakshmi need to sell per day in order to make a profit of Rs. 750? Use the same calculation as in the table in section 26.7. Assume that the sales income, labour cost, packing expenses, maintenance and overhead costs remain the same.

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26.8 GENERATING FUNDS

You would have appreciated the fact that it is relatively easy to estimate the expenditure and work out the capital needed. The problem for Lakshmi was how to raise the money needed. Who would provide it? In other words, what would be the sources of funds? Lakshmi asked her husband first. As promised, Lakshmi's husband gave her Rs. 10,000 by taking a loan from the Thrift and Credit Society in his office. Her brother, who learnt about her project, loaned Rs. 5,000 on nominal interest. Now she had Rs. 15,000 in hand and she wanted Rs. 25,000 more.

It was at this juncture of uncertainty that Uma, her friend again came to her rescue. She told Lakshmi about a news item in the newspapers that the nationalized banks were giving loans to women entrepreneurs. Lakshmi was delighted with this news and she visited the nearby branch of a nationalized bank the next day itself.

Lakshmi met the bank manager and discussed with him her project. She told the manager that she required an investment of Rs. 40,000 for the establishment and wanted to know how much loan she would be able to get from the bank. The bank manager was very helpful and explained to her that he could give a loan up to 70% of the investment needed, provided they were satisfied about the feasibility of the project. For this she was asked to give a project report containing the details of the estimated expenditure and the projected sales and profit to prove that the project was feasible and that she would be able to repay the loan from the profit earned through instalments spread over a period of time.

Lakshmi understood the broad outline of what was expected of her as these were the guidelines on which she had estimated the expenditure and income. She prepared a project report with the help of her husband and formulated the mode of repayment of the loans.

A 15% profit from sales was estimated on cent percent sales. When 100 packed lunches would be sold the profit would be Rs. 2,250 and out of this, Rs. 723.00 was proposed to be repaid to this bank in a month, if an amount of Rs. 25,000 was given by the bank as loan to her. In this way she would be able to repay the bank the entire loan with the concessional interest within a period of 40 months. (The monthly instalment and the interest due etc. are not actuals but approximations only.) She planned that the loan from her brother would be repaid with interest in the fifth year. The loan taken from the society would be deducted from his salary in easy instalments and would also be repaid fully in a period of 5 years.

The project report was presented to the bank and within a period of one month she was able to get the required amount of Rs. 25,000 as loan from the bank and had the capital to establish the establishment.

Check Your Progress Exercise 6

- 1) Lakshmi was asked to prepare a feasibility report for obtaining a bank loan. List the major points she should cover in her report.

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- SO, LAKSHMI WAS READY TO START HER FOOD SERVICE ESTABLISHMENT.

26.9 LEARNING FROM LAKSHMI'S EXPERIENCE

You would have observed that once Lakshmi had decided to start the venture, she first undertook a market survey to identify her probable customers. Once it was decided that her customers would be office going people, she sought their preferences for the meals, and decided to supply packed lunches to them. To fulfil this objective, she planned the resources. She realized that the prime resource was money and that all other resources could be obtained by it. So she set out to plan the money required for raw food material, labour and equipment. In planning each resource she went step-by-step through the prescribed procedure and finally made a budget. She then sought ways to get the necessary funds. Here the importance of planning has been emphasized.

So, on the basis of Lakshmi's experience what should you do? Think of your own situation and work through the following steps:

- 1) Surveying the market

- 2) Making initial decisions on the basis of type of clientele (customers), their preference and purchasing power
- 3) Identifying resources available and their utilization
- 4) Calculating expenditure.
- 5) Deciding on feasibility
- 6) Generating resources

26.10 GLOSSARY

Computation	:	Calculation.
Entrepreneur	:	A person who starts or undertakes a business or enterprise.
Expenditure	:	Amount spent.
Feasibility	:	Used in the context of: does the enterprise have a good chance of succeeding?
Infrastructure	:	The building or rooms used in which an enterprise is set up and the basic facilities needed for producing and selling a particular product.
Investment	:	The money put into a business or enterprise in order to generate profit/returns.
Labour	:	Men or women employed as workers in an enterprise.
Loss	:	The amount of money which is lost i.e. which cannot be recovered by an enterprise. In other words, loss occurs when an enterprise cannot sell enough to cover the cost of producing and selling foods and priority services.
Overheads	:	Expenses on rent of a building or room.
Planning	:	A term borrowed from the study of management which means the exercise of thinking about how one should proceed in order to achieve certain goals and objectives.

26.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) a) — identify potential customers
— conduct individual interviews
— distribute questionnaires
- b) — identify potential customers
— conduct individual interviews
— distribute questionnaires
— prepare tally charts based on individual preferences

- 2) Group preferences should be given more weightage because you would have to cater to the largest number of people.
- 3) The total tally for each item is as follows:

Samosas	15
Pakorras	6
Vadas	15
Sandwiches or Hamburgers	8

You would notice that the total does not come to 35. In other words some people indicated a preference for more than one snack. On the basis of these results Alka could decide to offer samosas, vadas and sandwiches or hamburgers.

Check Your Progress Exercise 2

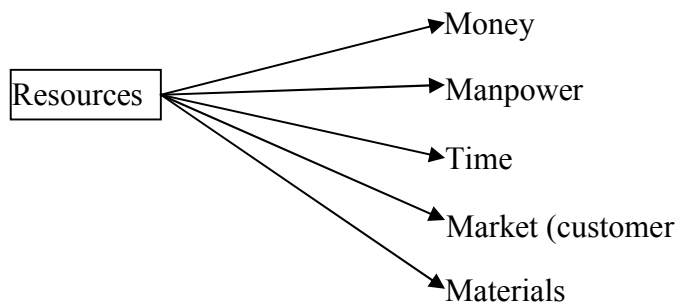
In column 1 list the items included in the menu. Then list the ingredients for each item and quantity of each ingredient in columns 2 and 3. Depending on the rates prevailing in your market, list the rate per kg. (column 4). On the basis of this, estimate the cost of each ingredient (column 5).

Check Your Progress Exercise 3

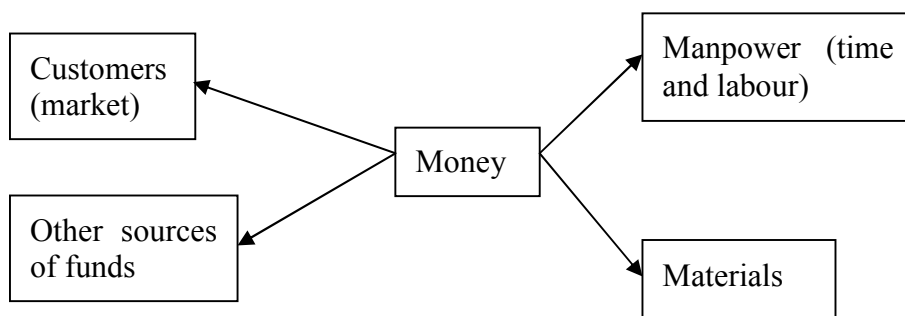
- 1) Setting out goals and objectives in the beginning helps you to make up your mind about what you want to achieve. This has several advantages in planning your future course of action and helps you to think through the various relevant aspects of running an enterprise.
- 2) From the operational viewpoint Lakshmi's objectives are quite satisfactory.
However aside from these immediate needs, she must also set longer term objectives. She has already thought about some of them e.g. her decision to employ three workers in anticipation of a demand for 100 lunch packets a day. She must also decide on how much time it will take before she can sell 100 lunch packets a day. A definite objective would help her work towards it.

Check Your Progress Exercise 4

- 1) Types of resources needed for a food service establishment.



b) Interrelationships between resources



Check Your Progress Exercise 5

- 1) The objective of any business enterprise is to generate profit. The more money that can be generated as profit the more successful the enterprise. Computing to find out how much sales would be required to generate profit is a very useful exercise. If it is reasonable to expect this level of sales, the enterprise is likely to be feasible.
- 2) Labour, overheads, maintenance
- 3) You can calculate for 625, 1500 and 2500 packets. If Lakshmi sells 2500 packets, she would make a profit of Rs. 750.

Check Your Progress Exercise 6

- 1)
 - i) Projected sales and profit
 - ii) Estimated expenditure on the enterprise — recurring and non-recurring
 - iii) Estimated investment necessary
 - iv) Sources of funds and extent of contribution
 - v) Ability to pay back the loan — personal resources available
 - vi) Progress made in setting up the establishment