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Enterprise Viability & Sustainability Diagnostic Toolkit

Understand Current Performance | Data Requirements

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Objective of this document

Specify the data requirements and potential sources of data for implementing the three activities which are part of the *Understand Current Performance* module.

- Profit & Loss Statement Preparation
- Profit & Loss Statement Analysis
- Enterprise Classification

Please refer to the PDF documents for each of the activities for details on implementing the modules and rationale for the data required. Additionally, please refer to the *Sample In-Depth Research Interview Guide for Entrepreneurs* to get a suggested list and format of questions to ask enterprises to gather data.

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Data requirements for *Profit & Loss Statement Preparation*

A Profit and Loss (P&L) Statement is a financial statement that summarizes the revenues earned, less the expenses incurred, and the resulting profit (or loss) by an enterprise in a specific time period (typically a year or a quarter).

MBS programs need to collect several data points to construct a P&L statement. The data can be collected through interviews with entrepreneurs who run sanitation enterprises.

Illustrative section of P&L statement

Data points are needed to calculate each line item of the P&L statement

P&L statement summary	
Revenue	
Revenue from toilet sales	4,400.0
Revenue from related services	0.0
Cost of goods sold	
Raw materials	2,181.7
Direct labor	650.0
Transport of raw materials	90.0
Damaged components	102.3
Gross profit	1,478.3
Gross margin	*34%*
Operating expenses	
Transport for delivery	310.0
Land rent	192.0
Utilities	40.0
Marketing (commissions)	45.0
Marketing (non-commission)	0.0
Repairs	36.0
Bad debts	16.0
Depreciation	12.8
Operating profit	826.5
Operating margin	*19%*
Other expenses	
Interest	85.4
Net profit	741.1
Net margin	*17%*
Cash net profit	753.9
Cash net margin	*17%*

Tip

- P&L statements are typically constructed for an annual duration and hence, several data points requested in the P&L statement template are annual. If the P&L statement is constructed for a different duration, data points should be requested for the relevant duration
- Several P&L statement line items can be calculated using different methodologies. Users of the template should first ascertain the methodology appropriate for a given entrepreneur and accordingly ask for data

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
General business information	• Number of business lines	Entrepreneur interview
	• % revenue breakdown across business lines	Entrepreneur interview
Revenue from toilet sales	• Method of sale: Toilets as a package or individual components or both	Entrepreneur interview
	<u>Revenue from toilet package sold</u> *(for each toilet package sold)* • Name of package • Units sold (annually) • Price (per unit)	Entrepreneur interview
	<u>Revenue from individual components sold</u> *(for each individual component sold)* • Name of component sold • Units of individual component sold (annually) • Price (per unit)	Entrepreneur interview

Tip

- Sometimes, entrepreneurs may not be able to express annual data (such as packages units sold annually). In such cases, it may be helpful to ask for month data and use that to calculate annual data
- In calculating annual data from monthly data, interviewers should account for seasonality, i.e., not all months experience the same revenue and costs – peak business months may experience higher revenue and costs as compared to lean business months

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Revenue from related services	**<u>Method 1: Flat rate method</u>** *(for each toilet package/individual component sold)* • % of toilet packages / individual components delivered • % of toilet packages / individual components delivered that are also installed • Delivery charge (per unit of toilet package/individual component sold) • Installation charge (per unit of toilet package/individual component sold) **<u>Method 2:Variable rate method</u>** *(for each toilet package/individual component sold)* • % of toilet packages / individual components delivered • % of toilet packages / individual components delivered that are also installed • Range (km) to which toilet packages/individual components are typically delivered/installed • % of deliveries in each range • Delivery and installation charge per delivery range	Entrepreneur interview

Tip

- Enterprises may not be able to share the percentage of toilets delivered/installed for each toilet package/individual component. In such a case, the same value can be used for all products
- Enterprises may not have different installation charges for different ranges. In such a case, the same charge can be used for all ranges

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source

Cost of raw materials	**<u>For each toilet package sold</u>**
	• Name of all components within the package
	• Nature of component sold – Traded or manufactured?
	• For traded components
	  • Cost price (per unit of component)
	• For manufactured components
	  • Quantity of raw materials used (per unit of component)
	  • Cost per unit of raw material
	
	<u>For components sold individually</u>
	• Name of all components sold individually
	• Nature of component sold – Traded or manufactured?
	• For traded components
	  • Cost price (per unit of component)
	• For manufactured components
	  • Quantity of raw materials used (per unit of component)
	  • Cost per unit of raw material
		Entrepreneur interview

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Direct labor	**Method 1: Fixed salary method** *(for each laborer hired)* • Salary of laborer (annual) • Time spent by laborer for the sanitation enterprise (%) **Method 2: Per toilet package/individual component method** *(for each toilet package)* • Units of toilet package manufactured (annually) • Wages paid to manufacture one unit of toilet package *(for each individual component)* • Units of component manufactured (annually) • Wages paid to manufacture one unit of component	Entrepreneur interview

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Transport of raw materials	**Method 1: Owned transport** • Number of trips to input supplier (annually) • Average distance to input supplier (km) • Fuel cost (per km) **Method 2: Hired transport from supplier/transporter** *(in case, hired transport is paid per trip)* • Number of trips to input supplier (annually) • Fee paid for hired transport from supplier/transporter (per trip) *(in case, hired transport is paid per toilet package/component procured)* • Cost of transporting raw materials per toilet package / per individual component (annually) • Units of toilet packages / individual components sold	Entrepreneur interview
Damaged components	• Name of damaged component • Total units of component sold (annually) • Cost of damaged component (per unit) • % of units sold that get damaged	Entrepreneur interview

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Transport for delivery	**Method 1: Owned transport** • % of toilet packages / individual components delivered • Units of toilet packages / individual components sold • Number of trips made to customer (per toilet package / individual component sold) • Average one-way distance to customer (km) • Fuel cost (per km) **Method 2: Hired transport from transporter** • % of toilet packages / individual components delivered • Units of toilet packages / individual components sold • Fee paid for hired transport from transporter (per trip)	Entrepreneur interview

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Land rent	**For each land parcel** • Shared / Non-shared land parcel • Rent (annual) • Revenue from sanitation enterprise (as a % of total entrepreneur revenue) (for apportioning in case of shared land)	Entrepreneur interview
Utilities	**For each utility** • Shared / Non-shared utility • Cost of utility (annual) • Revenue from sanitation enterprise (as a % of total entrepreneur revenue) (for apportioning in case of shared utility)	Entrepreneur interview

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Marketing (commissions)	**Method 1: Commission per toilet sold / individual component sold** *(for each toilet package/individual component sold)* • % of units of toilet package / individual component sold through sales agents • Units of toilet package / individual component sold • Commission paid to sales agent (per unit of toilet package / individual component sold) **Method 2: Share of price charged to customers** *(for each toilet package/individual component sold)* • Revenue from sale of units of toilet package / individual component sold (annual) • % of units of toilet package / individual component sold through sales agents • % of price of toilet package / individual component shared with sales agent	Entrepreneur interview

Tip

Enterprises may not be able to share the percentage of toilets sold through agents for each toilet package/individual component. In such a case, the same value can be used for all products

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Marketing (non-commission)	**For marketing collateral** • Number of advertisements printed • Average cost of printing (per advertisement) **For organizing village meeting** • Number of village meetings organized • Average cost of organization (per village meeting) **Any other marketing (non-commission) expenses**	Entrepreneur interview
Repairs	**For each asset repaired** • Shared / non-shared asset • Repair cost of asset (annual) • Revenue from sanitation enterprise (as a % of total entrepreneur revenue) (for apportioning in case of shared assets)	Entrepreneur interview

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Bad debts	**For each toilet package/individual component sold** • % of units of toilet package / individual component sold on credit • Units of toilet package / individual component sold • % of customers of toilet package / individual component that have stopped paying • Average unrecoverable amount from customers per unit of toilet package / individual component sold on credit	Entrepreneur interview
Depreciation	**For each asset** • Shared / non-shared asset • Purchase price of asset • Salvage value of asset • Useful life of asset • Age of asset • Revenue from sanitation enterprise (as a % of total entrepreneur revenue) (for apportioning in case of shared assets)	Entrepreneur interview, local accounting and taxation rules

Data requirements for *Profit & Loss Statement Preparation*

Data category	Data required	Potential source
Interest	**Method 1: EMI** *(for each loan taken by enterprise)* • Principal amount • Start date of loan • Duration of loan (months) • EMI of loan • P&L statement duration **Method 2: Principal** *(for each loan taken by enterprise)* • Principal amount • Interest rate of loan • P&L statement duration	Entrepreneur interview

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Data requirements for *Profit & Loss Statement Analysis*

Profit & Loss Statement Analysis **is the study of select financial ratios derived from the profit & loss statement that contributes to understanding the performance of sanitation enterprises.**

Profit & Loss Statement Analysis **requires completed profit & loss statements of enterprises as a data source.**

Illustrative P&L statement

P&L statement summary	
Revenue	
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Ratios in P&L analysis require a completed P&L as data source

Data requirements for *Profit & Loss Statement Analysis*

Data category	Data required	Potential source
Ratios	**For gross margin** • Gross profit • Total revenue **For operating margin** • Operating profit • Total revenue **For net margin** • Net profit • Total revenue **For cash net margin** • Cash net profit • Total revenue	Completed P&L statement

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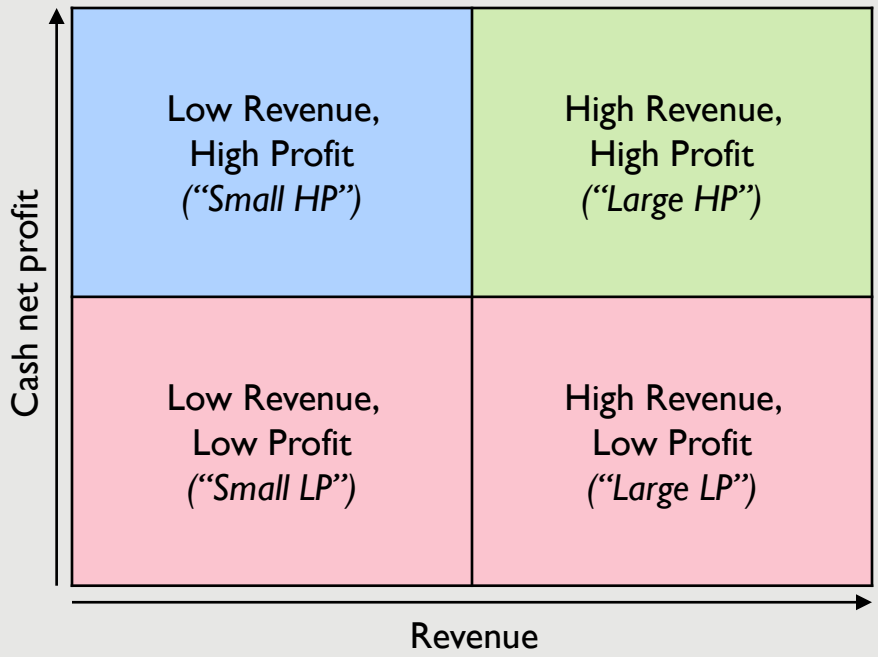
Data requirements for *Enterprise Classification*

Enterprise classification is the process of categorizing enterprises as "high" and "low" on two dimensions—their cash net profits and their revenues. The classification leads to four categories of enterprises.

Enterprise classification requires data on cash net profits and revenues from completed profit & loss statements of enterprises. It may also require macroeconomic data to identify appropriate segmentation values for cash net profits.



Data requirements for *Enterprise Classification*

Data category	Data required	Potential source
Segmentation values for cash net profits	• Cash net profits of all enterprises that need to be categorized	Completed P&L statement

	• Relevant macroeconomic benchmarks, such as
	  • GPD per capita
	  • Annual household income
	• Alternative occupation benchmarks, such as
	  • Annual wage of construction worker
		Government sources, such as Ministry of Statistics

Segmentation values for revenues	• Sales revenues of all enterprises that need to be categorized	Completed P&L statement