

# Rice brokerage firm



## **Introduction and historical background**

### **Brief description of proposed entrepreneurial venture**

The venture into consideration is a rice brokerage firm which is a service providing firm regarding selling and purchasing of rice to and from different traders and rice mill owners. This firm will serve as a middleman and do not require investment in purchasing rice but this firm will charge 0.5% commission from each buyer and seller for a single transaction. The above said commission will be charged on account of providing services to rice traders and rice mill owners.

### **Context of the organization**

The business of rice brokerage firm lies in the service industry. The nature of rice brokerage firm is to facilitate people related to rice business to search for buyers and sellers of rice. This firm is aimed at providing best level of services to the clients while providing them value in every service they are seeking for.

There is a huge demand of rice in Pakistan and all around the world, and Pakistan produces enough rice to meet domestic rice needs and is able to export as well. Rice is an essential part of Pakistani meals, that's why consumer preferences is still there and they are ready to buy rice at prices that were never before. It is obvious that rice business and its industry will not end-up easily despite high rate of inflation. If domestic people eliminate rice from their lunch or dinner menu or switch to another commodity, the global demand will still be there because people around world like Basmati which is a product of Pakistan. This means that business of rice within

Pakistan seems to be a still growing business with profitable opportunities for entrepreneurs.

To have a start-up in the rice business, becoming a rice broker is a good option because trade facilitator are always at the safest edge of any business with a minimum investment of PKR: 10, 000/- (in this case).

### **Brief history of the industry**

Service industry is always there since the very start of every business in any industry. My firm is also in the service industry because this firm facilitates the clients trading in same commodity, which is rice, to get information and availability of rice in the market. When rice mill owners process the rice obtained from landlords in raw form to the finished product, it is then required to be supplied to wholesaler and other traders. To lessen the gap of communication and to ease the supply of rice to different ends of the chain brokerage firms are required. And, such services are demanded by many such like businesses to minimize overhead costs of different distribution channels.

### **Information about economy and different trends**

Rice is vital cash crop and is one of the major export items of Pakistan. It accounted for 5. 9 percent of value added sector and 1. 3 percent of GDP in FY09. Pakistan grows ample quantity of rice to meet its domestic requirements and also export the high quality rice around the world. The production soared by a commendable 25 percent that helped Pakistan earn sizeable foreign exchange revenue. Rice exports accounted for nearly 11. 21 percent of total export receipts FY09 and growers have achieved a bumper production of rice (6. 4 million tons) so far in this crop year. Rice harvest was <https://assignbuster.com/rice-brokerage-firm/>

significantly higher than estimated domestic consumption of 2.5 million tons as growers were encouraged by higher rice price in international market following imposition of ban on rice exports by competing countries.

### **Current status of the rice brokerage firms**

Every year Pakistan produces a decent quantity of rice and it contributes to major part of our country exports. Taking into consideration this fact, there are more and more people entering into this business because this business can be started with an investment of less than PKR 10,000/- and it is within the reach of common man nowadays. Another reason for the still growing business of rice brokerage is that there are wonderful growth opportunities and diversification of business in the field of exporting commodities to different parts of the world and there are examples of such successful people too in the present market have started from a commission agent to a successful rice exporter and rice mill owners, and hence successful entrepreneurs. So, people found this business very much profitable and most of people are still entering into this business.

### **Aim of the service**

It is reasonable to say here that everybody in rice business wants to purchase and sell rice at his/her doorstep and there is a need to provide the service of brokerage firm to fulfill that need. Most of the times, it is difficult for rice mill owners to go into the market to search for buyers and it incurs a cost to that mill owners, so they prefer to contact brokers like us to search for buyers because those brokers have already contacts of buyers and their requirement in the market accordingly. This approach saves time and cost of

every person involved in this business from rice mill owners to buyers to exporters.

In order to provide up-to-date information about market prices of rice to traders and mill owners and to ease the process of searching for buyers and sellers is surmised by me as a good opportunity to start a business with a much lesser investment and greater growth opportunities.

### **List of services to be provided**

- Up-to-date information about prices of rice to clients
- Quality check-up of rice being bought and sold by client by randomly checking samples from the lot
- Making rice available to clients at best prices

### **SWOT analysis of rice brokerage business**

#### **Strengths**

- Low investment
- Easy to operate
- ROI is high

#### **Weaknesses**

- Ease of entry
- High competition
- Low sustainability
- No consistency

#### **Opportunities**

- Diversification
- International trade opportunities

**Threats**

Forward and backward integration by major players in the industry

**Ease of entry into the business and competitor analysis**

There is a lot of competition in rice trade business because there is no barriers to entry this business. There is tough competition among all players in this business who provide brokerage services to rice traders as this can be done by anyone who can just coordinate between his/her clients. The only thing that matters in this area is trust and relationship building. This can only be made stronger by providing credible services and delivering on promises you have made to your clients because this will be the only differentiating factor that will set you apart from the competitors.

However, there is a lack of value added services in the offerings of current brokers in the market of rice business which creates a gap in the area of this business which can be filled by smart entrepreneurs by putting creative destruction into work. This could be a challenging as well as risky task to stand out in competition in such business where most of the major players run their organization in typical seth-way, but when there is a risk there is an opportunity and if it is seen as an opportunity then an entrepreneur has done almost half of its work.

**Mission**

To serve rice buyers and sellers through continuing efforts in bringing clients the very best which is available today and ease their process of prospecting. Providing them value in our services by satisfying their requirements of rice, meeting deadline of lead time, consulting them about changing business

environment and placing emphasis on trading properly and making money for clients.

### **Vision**

To become a leader in commodity brokerage firm business and earn loyalty of our clientele base by assisting them in becoming more successful in their commodity trading through continuous improvement in our services by innovation, professionalism and integration.

### **Management considerations**

#### **Personal expertise**

#### **Strengths**

- Problem seeker/ proactive
- Experience
- Believe in black and white
- Leadership skills
- Communication skills
- Negotiator
- Ability to make fun oriented environment
- Straight forward
- Multi linguistic

#### **Weaknesses**

- Can't wait
- Taking too much time in evaluating alternatives
- Do not socialize
- Straight forward

**Organizational design**

The proposed design for the venture is organic because of the smaller size and continuously changing outside environment. This is so because the success of the business depends upon the person who is at front end with the client and that person should be given freedom to customize services according to clients needs coping up with the challenges of uncertain external environment.

**Organizational culture**

- Innovation and risk taking is very high and it will enable us to outperform others in the present market situation
- There will be a high degree of emphasis on attention to detail to get work perfectly done because a little mistake can lose out our credibility
- High degree of outcome orientation is entailed within organization's culture to achieve objectives, milestones and vision
- People orientation will be optimal because founder of this organization will be at front face from the very start of this business to build and maintain the customer base
- Team orientation is highly appreciated to carry out operations smoothly
- A blend of cooperative and competitive strategies will be used to sustain and survive into the industry while embedding a bit of higher level of aggressiveness within organization's culture
- Stability within the organization will be optimal will be taking into account innovation and progress in order to imply a proactive approach



**Staffing requirements**

A lawyer will be hired on annual basis for filing sales tax and income tax returns at the end of each fiscal year. Apart from this, a quality control checker will be employed at a monthly salary of PKR: 10, 000/- whose responsibility will be to check quality of rice being bought and sold by our clients and to assure them for timely delivery of that quality of rice as demanded by the clients.

**Operational management issues**

The quality of services offered to the clients should be maintained to avoid any disappointment and shrinkage of customer base. Following dimensions of service quality are taken into consideration to maintain the consistency in our services:

- Timeliness: meeting deadlines of all clients
- Courtesy: giving clients a “ wow” experience
- Consistency: same and even better quality of service every time
- Convenience: providing all services at clients doorstep
- Completeness: taking feedback after successful completion of each job
- Accuracy: never making client unhappy by doing and providing non professional services

**Inventory management methods**

There is no inventory management in the proposed venture because this venture provides no-goods services and do not invest in purchasing commodities, hence there is no inventory.

**Equipments required**

Basic equipments required for this venture are personal computer, printer, fax machine and telephone set.

**Marketing considerations****Marketing plan**

In the commodity brokerage business, there is a high need of marketing to let people know that a new venture is established in this industry providing value added services other than the core activity of assisting and facilitating clients in buying and selling process of rice. The marketing of this firm focuses more on relationship building, communicating value and delivering on trustworthy promises to clients.

**Segmentation approaches****Demographic****Industry type**

There are no barriers to entry in the rice industry because it is a commodity market which comes into the market every year with no limitations on purchasing and selling this commodity. It is a still growing industry and people are still coming into this industry to settle their business. There are very least government restrictions on this industry because rice contribute to major part of our country exports.

**Company size**

Due to fewer barriers to entry, everybody regardless of what capital s/he has in the pocket can enter in this industry and can trade rice. Based on this fact, there are too many variations in company size. There are firms which supply rice to small scale retailers and there are firms which are rice mill owners

and large scale exporters. The company size may vary from PKR: 100, 000/- to PKR: 100 million worth of firm.

### **Location**

Almost all rice traders do their business in the area of New Chaali (behind I. I Chundrigarh road) and some of them are in Jodia Bazaar. Rice mills are situated throughout the province of Sind but they fulfill the requirements of nearby areas. The rice mills in the area of Gharo and Hyderabad are major supplier of rice to Karachi. Most of the mill owners have offices in Karachi at the above said areas.

### **Operating variables**

#### **Technology**

There is no such technology employed as standard in the rice industry but different firms in this industry are using computer software to maintain their books of records, accounting, billing and other related activities. For a private limited company it is necessary to employ software to maintain operational and non-operational activities. For the rice mill owners, new mills are being set up with latest improved technology equipments/machinery to do rice processing in a more efficient and cost effective manner.

#### **Customer capabilities**

Customer capabilities vary from customer to customer. The trade volume varies from 0. 5 metric tons to tens of metric tons of rice.

#### **Purchasing approaches**

#### **Purchasing department**

Some large scale rice trading firms have separate purchasing department which have a huge annual turnover as compared to others, while small scale

traders do not have separate purchase department. Most of the firms in rice industry are seth owned and they run their business in a typical seth way. They are responsible for all buying and selling activities. However, accounting activities are assigned to other employees but activities such as purchasing, negotiation, making payments and collecting payments are done by seth himself.

### **Purchasing policies**

Almost all buyers purchase rice on credit, there are very few who purchase on cash. In Pakistan rice industry, rice buyers make payments to the suppliers/sellers within 30 days but on an average the credit period may extend to 45 days.

### **Purchasing criteria**

There is no specific purchasing criterion for buying rice. Rice is being bought and sold in the market in a much simpler way, just make a phone call to a broker, s/he will note down buyer's requirements, the broker will arrange rice for the client and negotiate on payment terms and conditions with the buyer, receives advance amount of money to conform the deal, finalize the deal and supply the rice to buyer's warehouse.

### **Situational factors**

#### **Urgency**

For rice exporters, the concerned bank personnel, through which international letter of credit (ILOC) is opened and maintained by importer sitting abroad, checks the quality of rice being exported to assure whether the quality of rice meets the requirements of the importer. If those quality controllers reject the rice for not meeting the required quality, then in order

to avoid disappointed customers and delayed shipments exporters rush to the rice market and rice brokers to fulfill the order of the importer. At this instance, targeting such exporters who make mistakes in performing quality control check of rice may be profitable for rice brokerage venture.

### **Size of order**

If rice market falls short of rice then every trader will buy rice to stock it and then sell at higher rates to make more profits. This is very critical moment in the market and most of the traders want to take advantage of such opportunity, but such decision are based upon environmental scanning and quantity of rice exported versus domestic consumption and availability. In such scenario the size of order increases from normal orders that rice traders used to place for purchasing rice in normal situations.

### **Personal characteristic**

#### **Buyer-seller similarity**

There are a lot of similar characteristics among the traders in the rice industry. A buyer wants to buy and a seller wants to sell and the business goes on. The basic similarity among them is that everybody has to agree upon a specific on going market rate.

#### **Attitude towards risk**

There is no higher level of risk involved in the rice trade business because this is a commodity business. The rates of rice do fluctuate on daily basis but not at a higher level. The major increase in rates of rice occurs due to higher exports local/domestic market fall short of rice. Risk is involved when rice is sold at credit and buyer becomes defaulter in making payments to the supplier/seller. All rice traders are aware of risks involved in this business but

they believe that trust is the key driving factor of this business and they trust each other despite of having knowledge of all risks involved.

### **Loyalty**

There is no brand involved in the rice business to which loyalty can be associated. Business people in this industry are loyal to traders who are providing best services to their clients rather than just selling rice which can be done by providing value in their services.

### **Target market selection strategy**

The rice brokerage venture will adapt full market coverage strategy to meet the needs of all traders of rice because no such customer group is identified in the market that do not want or need to buy or sell rice to run their business.

### **Marketing mix strategies**

#### **Service description**

The service to be provided by the proposed venture is to facilitate buyer and seller to look for each other, to fulfill their business needs of rice and making rice available for them at best prices so that they may run their business profitably. The service charges are 0.5% of the overall amount of the rice being bought and sold, which will be charged from each client for a single deal transaction. This venture also caters to the rice mill owners by helping them to look for potential buyers of their processed rice. The said venture will also provide its services to rice growers and so that farmers and landlords may sell rice to rice mill owners at best rates and after processing the rice will be passed on to different channels for furthering its supply into

the market. According to product lifecycle, the rice brokerage business is at growth stage.

### **Pricing**

The cost of service to be charged from clients is based on going-rate pricing strategy. This pricing strategy is chosen for this venture because all competitors in the rice brokerage service industry are charging same rate of commission from buyers and sellers, therefore premium pricing and other pricing strategies will not be feasible for this type of venture. The value that client will get after using our services will help us to build and maintain our clientele base through word of mouth marketing. At the initial stage, the most feasible pricing strategy will be going-rate pricing in order to survive and maximizing sales growth.

### **Promotion**

All the promotional strategies for this venture focus on partnering with clients, value added selling, consultative selling and building long term sustainable relationship with the clients. All advertising will be done by personal visits to buyers and sellers premises so that interpersonal relationships can be strengthened by personal selling.

To make promotional activities strategies more effective, efficient and result oriented we will try to concentrate on customers, preparing ourselves for gathering information about competition, convince the clients about our services by providing guarantee and by delivering on the promises, offering benefits to the clients and handle objections of the clients by listening to them about our offered services which will help us to mould our services according to each client needs.

**Place****Overall marketing strategy**

Nowadays, business persons have become smart enough to opt for forward and backward integration. Traders buying and selling at large scale do not necessarily engage a rice broker for their trading operations. In such scenario, creating a place in the industry and market place can be a challenging and trivial task. To gain success, following strategies will be implemented for the business of rice brokerage business.

**Strategy 1**

Continuous visits to large and small scale rice traders for prospecting and give them information about advantages associated with services offered by a rice brokerage firm while providing them value in each service, cutting down costs in warehousing and storage of rice, making process of looking for buyers and sellers easy and enabling them to meet each business entity annual revenue targets and turnover goals.

**Strategy 2**

Creating a database of all existing and potential clients to keep individual's up-to-date record of all previous transactions, their feedback about services they have received which will enable us to take corrective measures to further improve on strategy and level of service.

**Tactics**

Regularly monitoring and evaluating of current market activities and to take actions accordingly in order to survive in the challenging business environment.



## **Legal considerations and business structure**

### **Type of firm**

The legal form of entrepreneurial venture into consideration is sole proprietorship because there are no complex legal requirements of establishing a rice brokerage venture. At the very start of establishing such service providing venture, we need a high level of direct control over operations and processes of business to convince and satisfy our clients about our services.

### **Terms and conditions**

- Goods are delivered at owner's risk
- Seller of rice is not responsible for any kind of unpleasant event regarding delivery of rice to buyer's destination
- 50% of service charges, which is commission in this case, will be charged at the rate of 0.5% of trade amount from each party, and the rest will be paid by the parties after successful execution and completion of the deal.
- Transportation charges are to be borne by the buyer
- Payment agreement will be carried out according to mutual understanding of both parties
- The broker itself is not responsible for quality of rice not meeting buyer's quality needs and requirements. However, we will try our level best to assure our clients about delivery of rice of required quality as decided at the time of finalizing the deal

### **Buyout**

A successful entrepreneur is the person who plans for a good profitable future and not forgetting to plan for coping up with challenges due to

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changing external environment. Therefore, in the worst case scenario if the proprietor ends up doing business with heavy losses then it is easy to exit from this business by shutting down the firm. Despite increased effective tax rate, unlimited liability and difficulties in raising funds, sole proprietorship form of organization still seems to be feasible for this venture.

### **Legal documents**

The basic legal documents for a sole proprietor venture are;

- National Tax Number (NTN)
- Sales Tax Registration Number (STRN)

### **Tax considerations**

### **Financial considerations**

### **Startup costs**

### **SOURCES OF**

### **CAPITAL**

### **Owners'**

<b>Investment (name and percent ownership)</b>	<b>PKR</b>
Raj Kumar	1,
100%	635
ownership	,
	000

1,  
635  
**Total  
Investment** ' 000

STARTUP

EXPENSES

**Capital  
Equipment  
List** PKR

Furniture  
(tables and  
chairs) 15, 000

Equipment  
(computer, 18,  
printer, fax & 650  
telephone)

Fixtures (fans 7,  
and lighting) 000

40,  
**Total Capital  
Equipment** 650

**Location and  
Admin  
Expenses**      PKR

Rental                      15,  
   000

Advance                    180  
deposit                      ,  
   000

Telephone  
connection                600  
charges

Mobile phone             1,  
   200

Stationary                 2,  
   580

   199

**Total  
Location and  
Admin  
Expenses**                ,  
   380

**Advertising  
and  
Promotional  
Expenses**                PKR

Advertising                10,

000  
 Travel/ 10,  
 entertainment000

**Total** 20,  
**Advertising/P**  
**romotional** 000  
**Expenses**

20,  
**Reserve for** 000  
**Contingencies**

**Working** -  
**Capital**

SUMMARY  
 STATEMENT

**Sources of** PKR  
**Capital**  
 Owners' 1,  
 investments 635,  
 000  
 1,  
**Total Source** 635,  
**of Funds** 000

<b>Startup Expenses</b>	PKR
Capital	40,
equipment	650
Location/ administratio n expenses	199, 380
Advertising/ promotional expenses	20, 000
Contingency fund	20, 000
Working capital	-
<b>Total Startup Expenses</b>	280, 030