

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Business plan for sheep wool processing in Kazakhstan**

**Nurken Maratov**

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# **BACHELOR THESIS ASSIGNMENT**

Nurken Maratov

Business Administration

Thesis title

**Business plan for sheep's wool processing in Kazakhstan**

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## **Objectives of thesis**

Main aim:

- prepare financial plan for a new sheep wool processing line in Kazakhstan

Partial objectives:

- to make an overview of global sheep wool market.
- to asses situation of a wool product and processing in Kazakhstan

## **Methodology**

First part – Theoretical

Literature overview connected to the wool market, wool production, and processing, both in the world and in Kazakhstan.

What are the conditions for setting up a new Business?

Special conditions for the wool processing industry.

2 part – Practical

Practical part will be mainly used of the following methods:

1) Budgeting

2) Investment analysis (net present value, Break-even point)

3) SWOT analysis



## The proposed extent of the thesis

40-50 pages

## Keywords

Sheep, wool, Agriculture, Processing , Entrepreneurship, business plan.

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## Recommended information sources

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### **Declaration**

I declare that I have worked on my bachelor thesis titled "Business plan for sheep wool processing in Kazakhstan" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 29.11.2019

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I would like to thank Pavel Kotzya, for advice and support during my diploma thesis work. Every time I asked him for help, he always responded kindly.

# **Business plan for sheep wool processing in Kazakhstan**

## **Abstract**

“SheepWoolProcessing” is highly equipped enterprise of wool production. The implementation of this project involves the construction of the enterprise and equipping it with new high-tech lines for better processing of wool and the allocation of cashmere, for the production of yarn, wool washing, as well as the reproduction of fine-wool and coarse-wool sheep in the East Kazakhstan region.

Main aims of the project are to prepare financial plan for a new sheep wool processing line in Kazakhstan, to make an overview of a global sheep wool market. Therefore, assess situation of a wool product and processing in Kazakhstan.

Gradual development of the textile cluster of the country has been increased demand for sheep down (cashmere) extracted from fine and semi-fine wool by deep processing, both in the domestic and foreign markets, hence the lack of domestic raw materials for the further production leads to the need to create and expand domestic processing production.

The creation of a farm dedicated to the breeding of purebred sheep, carrying out of breeding work wool direction with a further submission to the Ministry of agriculture of the Republic of Kazakhstan about recognition of the agricultural plant breeding of fine-wool sheep. In conclusion, the process of agricultural business establishment in Kazakhstan will be described, in accordance with valid Kazakh legal regulations. To sum up, the business plan introduced in this thesis is intended for a young farmer who would like to set up a small agricultural business in East Kazakhstan with focus on sheep wool production in the respective district. Based on the analysis and calculation, there is a fact, to assume that this business has big potential and it is estimated it will become profitable in the second year of business. In accordance with the indicators of financial evaluation, the project is socially significant, highly profitable and quickly recouped.

**Keywords:** business plan, entrepreneurship, agriculture, agricultural entrepreneurship, KZ funds, common agriculture.

# Zpracování ovčí vlny v Kazachstánu

## Abstrakt

„SheepWoolProcessing“ je vysoce vybavený podnik na výrobu vlny. Realizace tohoto projektu zahrnuje výstavbu podniku a jeho vybavení novými technologickými linkami pro lepší zpracování vlny a přidělování kašmíru, pro výrobu příze, praní vlny, jakož i pro reprodukci jemné vlny a ovce s hrubou vlnou ve východním Kazachstánu.

Hlavním cílem projektu je příprava finančního plánu na novou linku na zpracování ovčí vlny v Kazachstánu, vytvoření přehledu o globálním trhu s ovčí vlnou. Zjišťuje proto stav vlnového produktu a zpracování v Kazachstánu.

Postupným rozvojem textilního klastru v zemi byla zvýšená poptávka po ovčích dolů (kašmír) extrahovaných z jemné a polojemné vlny hlubokým zpracováním, a to jak na domácím, tak na zahraničním trhu, tedy nedostatek domácích surovin pro další výrobu vede k potřebě vytvářet a rozšiřovat tuzemskou zpracovatelskou výrobu.

Vytvoření farmy věnované chovu čistokrevných ovcí, provádění směrů pracovní vlny s dalším podáním žádosti Ministerstvu zemědělství Kazašské republiky o uznání šlechtění ovcí jemných vat. Závěrem bude popsán proces zakládání zemědělských podniků v Kazachstánu v souladu s platnými kazašskými právními předpisy. Stručně řečeno, podnikatelský plán představený v této práci je určen mladému zemědělci, který by chtěl založit malý zemědělský podnik ve východním Kazachstánu se zaměřením na produkci ovčí vlny v příslušném okrese. Na základě analýzy a výpočtu existuje skutečnost, že se předpokládá, že toto podnikání má velký potenciál, a odhaduje se, že se stane rentabilním ve druhém roce podnikání. V souladu s ukazateli finančního hodnocení je projekt společensky významný, vysoce ziskový a rychle kompenzovaný.

**Klíčová slova:** podnik, Ministerstvu zemědělství Kazašské, výrobu, projekt, zemědělské podnikání, podnik, podnikové plánování, rozvoj, marketingový plán, finanční plán, počáteční rozpočet.



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# 1 Introduction

From early days, Kazakh nomads roamed the lands as a way of life and felt was their only constant item. Felt is a textile that is made from the wool, especially sheep wool. It was evaluated highly because the thick fibres of it could provide the material with the whole qualities to be warm and soft. Sheep breeding played a vital role in nomadic lifestyle widely applied in each field of household. They used to wear clothes made of felt and it was a main tool for building traditional houses, called “Kigiz uy”. There was a special technology of the production that came from our ancestors. Kazakh people did not change it a lot, although there were number of circumstances that played an important role of establishing the sheep wool processing.

Sheep wool processing is one of the most significant spheres of farming sector. There is considered an appropriate sequence of actions that must be done by the workers. Originally, farmers divide the process into two parts. The most important sector is initial processing. It consists of sheep shearing, washing and collating the material. Another part is related to making clothes and necessary products, as well.

For the time being as a part of Soviet Union, the government overlooked production of wool in our country. There were not many sheep diversity, which could be relevant for the whole country production. As a result, our country grows only two species of sheep. However, Kazakhstan is an independent republic that keeps producing wool nowadays.

As it has been mentioned before, the government of Kazakhstan focuses the greatest attention for wool processing. Due to specific weather conditions southern and eastern regions are the most suitable areas where the enterprise can be established. Increased demand for sheep down (cashmere) and gradual development of the textile industry of our country may cause the necessity to develop and expand the production of wool processing line.

The diploma has two main parts, theoretical and practical. Theoretical part includes basic information of business, entrepreneurship and business planning in Kazakhstan, based on legal definition. This step will help to make a business plan with appropriate structure by considering the requirements of our country. In addition, the development will conduct a market research to understand world trends and modern technology in leading countries such as Australia, China and United Kingdom. Lastly, the development will examine the importance of sheep wool production in Kazakhstan and its economy for considering future impact of our business.

Practical part of our diploma thesis focuses on detailed description of our business, operations and analyses. There are different types of analyses like SWOT and PESTLE which can provide necessary information. Next, the enterprise considers different way of financial support for young entrepreneurs as governmental programs and bank loans. This step will help us to make financial analysis of our business.

## 2 Objectives and Methodology

### 2.1.1 Objectives

The main goal of the thesis is to develop the business plan for sheep wool processing in Kazakhstan. In order to succeed, it is necessary to conclude several aspects:

- Theoretical part of the thesis contains reliable literature and information about wool production in Kazakhstan and several lead countries in the world;
- The practical part is about market research in Kazakhstan to understand what external factors may influence the environment and to develop a business plan in accordance with all requirements in Kazakhstan.

In order to reach the aimed goals of the thesis, it is important to answer following research questions:

- What is the process of *sheep wool production* in Kazakhstan?
- What are the possibilities for a young entrepreneur to get the initial financial capital in Kazakhstan?
- Is it financially suitable for young entrepreneur to establish a processing line in Kazakhstan?

### 2.1.2 Methodology

Our thesis is divided into two main parts: theoretical and practical. In theoretical part, enterprise will focus on basic terminology and literature review to determine essential terms of business and entrepreneurship in Kazakhstan, the effects and importance for our country. Additionally, the company will examine rural types of businesses, and explore appropriate conditions for wool processing. Then, the company will compare different positions of farming sectors in relation to wool processing in Kazakhstan and three main countries in the world, like Australia, China and United Kingdom. The information was taken from literature overview. The enterprise wants to produce yarn from already cleaned wool. Prices are taken into count by the market. Prices for the technology are based on free online sources which are listed in the list of online sources. There is all sufficient information about technology the company wants to purchase. Inflation rates and depreciation is taken into the count by accordance of an accountant.

Practical part consists of statistical analysis based on SWOT, PESTLE and cash flow methods. There are financial analysis like cash flow methods, startup budget, break-even. All the information is given form statistical offices.

SWOT analysis is an incredibly simple, yet powerful tool to help developed business strategy. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. Main focus on characterization of funds in Kazakhstan aimed to stimulate creation of agricultural enterprise, especially in relation to young farmers support.

Opportunities and threats are external, usually they describe things happening outside a company. There is advantage of opportunities, an entrepreneur can take it as an advantage and protect against threats, but it is impossible to change them.

PESTLE analysis is a concept in marketing principles. PESTLE stands for P for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental. PESTLE can give bird's eye view of the whole environment from different angles that is need to check and keep a track of, while contemplating on a certain idea or plan.

The financial plan is the last and very important part of a business plan. The financial sections allows to find out how profitable the enterprise will be. What kind of investments are necessary, explains what expenses and revenues the business will have. (Pinson 2007).

The start-up includes following points (Pinson 2007): start-up budget, cash flow, break-even analysis, income projections.

Start-up budget is money business will need at the beginning, in other words, initial investment. Equipment and building to be purchased, transportation technology, technology for processing itself...

According to Pinson (2007), there are initial steps for cash flow planning:

- Revenue projection (products and service)
- Inventory purchases
- Variable expenses (including all expenses)
- Fixed costs (include all expected costs)

Calculations below are related to the possible gross margin and net profit:

$Gross\ margin = sales\ revenue - cost\ of\ sales$

$Net\ profit = gross\ profit\ margin - expenses - interest\ tax$

According to the Pinson (2007) break-even point analysis is used to determine point at which company's costs exactly match the sales volume and the point on which business has not got profit as well as loss. To calculate BEP, there are following projections:

- Fixed costs
- Variable costs
- Total sales volume

$$\underline{Break\text{-}even\ point = Total\ fixed\ costs / (selling\ price\ per\ unit - variable\ cost\ per\ unit)}$$

Further information will be described two types of dynamic evaluation methods: Net present value and internal rate of return.

There is a rule which says that, NPV is that the projects with the net present value is greater than 0 should be accepted, while negative NPV should be rejected. Net present value shows the result of an investment in today's monetary terms. (Geddes, 2002)

The first basis of NPV is present value of future cash flows at time "n". The formula is following:

$$Pv = \frac{CF_n}{(1+r)^n}, \text{ where } CF_n = \text{cash flow in period } 1, 2, \dots \text{ to period } n; r = \text{discount rate.}$$

The same as NPV of a project, considers the PV of future cash flows as well as initial investment. Net present value is the present value of cash flow of the project, net of the investment expenditure. It is derived by discounting the cash flow by discount rate of return "r" (Geddes, 2002).

$$Npv = CF_0 + \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_3}{(1+r)^3} + \frac{CF_n}{(1+r)^n}$$

$$\text{Thus, NPV} = \text{Sum of } \frac{CF_n}{(1+r)^n}, \text{ where } CF_0 = \text{initial cash flow}$$

$$CF_n = \text{cash flow in period } 1, 2, \dots \text{ to period } n, r = \text{discount rate.}$$

Internal rate of return is quite similar, IRR uses the same approach of discounted cash flows analysis as NPV. While NPV outcomes is in monetary terms, in IRR model the outcome is shown by percentage rate of return. Thus, IRR is the discount rate that makes the NPV of a project equal to zero. The rule of IRR is to accept the project if internal rate of



return “r” is greater than appropriate discount rate (Geddes, 2002). The formula is following:

$$0 = \sum_{t=0}^n \frac{CF_t}{(1+IRR)^t}$$

### **3 Literature Review**

In this chapter of the thesis, basic definitions of business will be concerned, its planning and give an explanation about legal requirements of business establishment in Kazakhstan. There is a plenty of evidence to examine relevance of sheep wool production in the world through analyzing three leading countries of this industry and to distinguish importance of sheep wool for Kazakhstan and for its economy.

In the first part of this chapter, the development focus on basic meaning of business, entrepreneurship, their differences and the structure of business planning. Legal description of “entrepreneurship” in Kazakhstan will help us to recognize main requirements that used in our country. What is more, rights and obligations of entrepreneurs in Kazakhstan is considered in this chapter too.

In order to set a business plan, the company need the basic structure of planning; moreover, the most important terms and how to introduce your business plan successfully is discussed.

The company concentrate our attention on the countries, which are lead in sheep breeding and its exportation all around the world; Australia and New Zealand, China and European countries take first three stages in the world market of sheep number and its processing. There is a big protentional to recognize the type of sheep that is used for breeding and the quality of wool; thus it is possible to create our own strategy of sheep breeding and processing the wool.

#### **3.1.1 Business, entrepreneurship and business planning**

Some people claim that there is not a significant difference between the meanings of “business” and “entrepreneurship”, so they may use those meanings in the same context. However, the definition of business sounds like a “stable and safe” than the definition of entrepreneurship. It can be indicated as an organization that implements existed ideas, not changing them at all.

As Peter Drucker said the entrepreneurship means, “Always searching, responding and developing opportunities”. The mention of “opportunity” became the main definition of entrepreneurship. The key difference between business and entrepreneurship is that business is owned and operated by an individual or a group of individuals whereas an entrepreneurship is defined as the process of designing, launching and operating

new products, which then can be exploited as a business, although, not every business can be developed as entrepreneurship.

In general, being an entrepreneur is associated with starting a business, although this is not correct determination, which has a much more significant meaning. The term “entrepreneur” originated in French economics as early as the 17th and 18th centuries. In French, it means someone who “undertakes,” not an “undertaker” in the sense of a funeral director, but someone who undertakes a significant project or activity. More specifically, the individuals who was not afraid of taking risks and stimulated economic progress by finding new and better ways of doing things. The French economist most commonly credited with giving the term this certain meaning is Jean Baptiste Say. She put it this way, “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.”

In order to become successful in specific fields of businesses the most important issue is writing a business plan. In other words, it can be defined as operating company on paper. In general, owners have an opportunity to identify potential problem, thus they can find solutions without real consequences (O’Connor, 1998).

The purpose of writing business plan is to define the business and explain detailed operation work of it. Not all owners resort to the planning, thus they have much more drawbacks than those who has well-developed plan with a big range of benefits (Arkebauer, 1995). Furthermore, business planning provides the direct communication regarding the initial goals and their organizations, by helping to focus on its objectives and strategies.

### **3.1.2 Legal definition of entrepreneurship in Kazakhstan**

Entrepreneur Code of Republic of Kazakhstan defines that the entrepreneurship is an independent and initiative activities of citizens, “oralmans” (an official term used by Kazakh authorities to describe ethnic Kazakhs who have immigrated to Kazakhstan since its independence in 1991) and legal entities aimed at obtaining pure income using property, sale of goods and service based on private and state enterprises. (Article 2, 2019)

Government and other organizations are taking measures to create an enabling environment to stimulate the development of domestic production of goods, works and services. In developing and examining projects of regulatory legal acts, formation of

international contracts and increasing the competitiveness Kazakhstan's national interests are involved. (Article 17, 2019)

According to Entrepreneurship Code of Kazakhstan Republic, entrepreneurs are citizens, oralmans and non-state commercial legal entities;

An individual, who is an entrepreneur, must be registered as an individual entrepreneur in the manner provided by the Code of Kazakhstan (Paragraph 2, Article 23, 2019). In addition, depending on the average number of employees and income, individual entrepreneurs are divided into three main categories:

- Small-sized business entities;
- Medium-sized business entities;
- Large-sized business entities.

The assignment of business entities to the categories specified in paragraph 1 of this article is used for the following goals:

- state statistics;
- provision of state support;
- application of other norms of the legislation of the Republic of Kazakhstan

**Table 1 Rights and obligations of entrepreneurs.**

<b>Rights of entrepreneurs</b>	<b>Obligations of entrepreneurs</b>
To carry out any types of entrepreneurial activities, to have freedom of access to the markets for goods, works and services;	To comply with the legislation of the Republic of Kazakhstan, the rights and legitimate interests of individuals and legal entities;
To carry out entrepreneurship using hired labour in accordance with the laws of the Republic of Kazakhstan;	To ensure the safety and quality of goods, works, services in accordance with the requirements of the legislation of the Republic of Kazakhstan;
To create branches and representative offices in the manner prescribed by the laws of the Republic of Kazakhstan;	To provide consumers with goods, works, services complete and accurate information about them;
Independently set prices for manufactured goods, works, services, except for cases established by this Code and the laws of the Republic of Kazakhstan;	To obtain permits or send notifications to start an activities or operation in accordance with the Law of the Republic of Kazakhstan “On Permits and Notifications”;
Independently monitor the quality of goods, works and services;	To protect environment nature and to treat natural resources with care;
To carry out foreign economic activities within their legal capacity;	To carry out compulsory insurance of civil liability in cases stipulated by the laws of the Republic of Kazakhstan;
To apply to law enforcement and other government agencies on matters of bringing to justice those who violated the rights and (or) prevented the realization of the legitimate interests of entrepreneurs.	To increase the efficiency of use of natural and energy resources and their management in the process of carrying out activities.

Source: self-producing

Table 1 based on code of entrepreneurship of Republic of Kazakhstan, illustrates and the rights of entrepreneurs and their obligations, which must be followed by code of entrepreneurship of Republic of Kazakhstan. Any violations of rights and rules of doing business can be punished by the legislation of Kazakhstan.

### 3.1.3 Business plan and its structure

Writing a business plan, originally, varies on the length of enterprise that is need to establish, although, it contains the same sections and follows an accepted format. One of the main objectives is not to overwhelm the reader with a too long context, it must be long enough to provide with all necessary information. In addition, there are many opinions about the structure of business planning. For instance, Arkebauer (1998) claims that must to be an appropriate text length for 40 pages, so it usually written from 6 months to 2 years. While the Small Business Association (SBA) (1998) points out that, there is no set length for business plan. However, SBA indicates that the average length of plan contains from 30 to 40 pages, including supporting documentary section. Business planning could be written by the owner of enterprise, consultant of his or by somebody else. In different cases, all possible benefits and drawbacks must be considered. Writing business plan with an expert is always beneficial; nevertheless, the American’s Woman Economic Development Association discussed the idea of writing plan by yourself. That feature has its benefits too. In time of being an expert of your own business, you will know all of industry trends that may help you in further expanding. You will get more information about operation system, your customers and business development, as well.

**Table 2. Sections of business planning.**

<b>Sections of business planning</b>					
<u>Introductory elements</u>			<u>The business description</u>		
<i>Title page</i>	<i>Table of contents</i>	<i>Executive summary</i>	<i>The business information</i>	<i>Financial information</i>	<i>The appendix</i>

Source: self-processing based on code of entrepreneur of Republic of Kazakhstan

Well-structured business planning has specific sections (following Table 2), which help writer to follow a structural plan and contain an appropriate information of his business, and to make the plan more attractive for investors.

## **Introductory elements**

As can it be seen on the table, business planning is divided into two main groups: introductory elements and the business description. The introductory elements contain of title page, table of contents and the executive summary.

### *Title page*

This part of introductory elements explains to the readers the business plan is about. Cover page is the first thing that financier will see, that's why it must contain information about the person who submits the plan, name of the business, company logo, address, telephone number, fax number and e-mail address.

### *Table of contents*

At the first sight, cover page and table of contents seem to be unnecessary. In many cases, they are underestimated in comparison of other parts of planning. All pages of business plan must be numbered. Whether investors need an appropriate information about the company, and they could not find it easily, the business may not receive the attention that it deserves.

### *Executive summary*

The purpose of executive summary is to have the reader, "read on". It is the first main section of the business plan, that investors start reading. If their interest is not peaked, they may not read further (Brown, 1996). It usually contains two or three pages.

## **The business description**

Three main parts are contained by the business section: business information, financial statements and the appendix. Those sections provide readers with all necessary information about the industry, description of management team and marketing strategies.

### *Industry*

This part of a chapter is about the whole industry that owners want to focus the readers' attention on. According to Sahlman (1997), investors want to realize whether the total market for the enterprise's product or service is rapidly growing or not. Investors look for rapidly growing markets, because it is much easier to manage growing company than to struggle against competitors.

### *The company*

Followed by the industry sector, the readers get specific information about the company in that part of business description. A precise statement should show a clear purpose, because a business that is focused has higher probability of success (O'Hara, 1995). In addition, there should be an overall objective: either to start a new company or to expand existing operations.

### *Marketing plan*

The section of market description includes an evaluation of target customers and competition. Investors, in general, look for the businesses, which know their customers and the problems they solve for them (Elkins, 1996). Customer data consists of target market, economic make-up of customers, where they live or work and where they purchase. In case of competitor information, that sector includes annual sales, market share, and how the competitors are or are not meeting customer needs (American Express Website for Small Businesses, 1998).

#### **3.1.4 Sheep wool industry in the world**

Sheep wool processing is becoming one of the most extensive types of farming sector. As livestock industry, it is the third largest in the world. It has an immediate impact on the economy of the countries. According to the latest data, the world population of sheep is about 1.2 billion and it increases its number every year. Depending on climate features, the countries of subtropical and tropical zones, which have large areas for grazing, are engaged in sheep breeding. In some cases, deserts are also suitable for sheep breeding too. Therefore, the placement of the sheep industry is extremely wide and diverse. Modern countries leaders in the number of sheep are China, Australia, the UK and New Zealand. In this chapter of the thesis, wool production in Australia will be concerned, China and the UK, the countries with different location, climate conditions and economical state of the country. In order to examine some statistics, following countries are presented there.

Australia and New Zealand had been remaining the largest producers of sheep wool since 1961. China is the big gainer too – it is second the biggest producer of wool and meat production after Australia. However, in 2007 China was fourfold increase in production (from 93 000 tons in 1961 to 395 000 tons in 2007) has propelled it to first place, so far from Australia, which had seen a large decline in production over this period. New Zealand's output has remained relatively stable (Vink, 2009).



China became the leader country of sheep wool production in the beginning of XXI century. It is currently estimated that there are 140 million sheep in China. China's massive agriculture market has enabled it to produce 400,000 metric tons of wool, which is why it takes the first place in wool production. Approximately 35-40 million of these are classified as fine-wool sheep. The sheep breeds used for fine-wool production have resulted from crossing native sheep with imported breeds. They are usually dual-purpose sheep reared for both meat and wool production (Cheng, 1984). Sheep are traditionally reared in areas not suitable for production of crops where climatic conditions are severe. Most fine-wool sheep are in northern China, where the north-west is characterized by extensive mountain ranges, while in the north east sheep graze undulating grasslands. Rainfall in these areas is low, winter temperatures are low too. Sheep in these areas depend on pastures for most of their nutritional requirements with variable amounts of supplements fed.

Within China, the wool industry is especially important because of its economic and political significance to people living in the pastoral region. Wool is the major source of cash income in some districts. Sheep meat is an important part of the food supply too. The balance between wool and sheep meat in the sheep industry affects the total quantity of wool produced and even the type of wool produced. The quality composition of the wool clip determines the types of products into which wool can be processed and thus the extent of competition between domestic wool and imported wool (Watson, 1998).

As it known, Merinos Sheep is the most suitable type to use in processing wool. In some previous years, China had been the most important buyer of Australian wool. In broad terms, exports of greasy wool and semi-manufactures from Australia to China accounted for around one-fifth of Australian production (Wool International, 2007). Nevertheless, today China is the biggest country of sheep wool industry.

Australia is an unusual country with specific climate conditions for breeding sheep. Within XX century, Australia took the first place among the countries around the world, which deal with sheep wool processing. It was the only country where population of sheep was higher than number of people. In 1990, their number was 170.3 million. Large changes have occurred to the Australian sheep flock over the last decade. The total sheep and lamb numbers are now around 100 Million, the lowest level since 1948 (ABS 2003). Over the past decade, wool production has declined in Australia as sheep numbers have fallen, but lamb production has increased. Sheep numbers have declined in response to recent, widespread drought conditions. However, wool is still the major product from the sheep

industry in Australia. In fact, almost of third of Australia's commercial farms continue to produce wool and the wool industry remains one of Australia's most important agricultural industries with \$2.5 billion export income (Barrett et al. 2003).

Specific climate conditions make that country to be the most suitable for sheep breeding. Australia is a continent that has four different climate zones: subequatorial is in the North, tropical – in the Central part, subtropical – in the South, and moderate – on the island of Tasmania. Comparing with South America and Africa, Australia is the driest country in the world. As being unpretentious, sheep industries are located, mostly in eastern and south-eastern regions. Hence, sheep processing is divided into three main groups: sheep wool enterprises placed in inhabited by citizens regions, such eastern areas, meat production enterprises are located in south and western regions of Australia are the most important areas in stock rearing (Barrett et al. 2003).

Australia is a country that widely known for a unique type of sheep, which is called Merino. However, not every person knows that Merino originated in 15th century in Spain. With the help of these sheep, Spain secured a large share of the wool and sheep industry, which had been dominated or centuries by Britain. For centuries, they were considered so valuable that it was a capital offense to export them from Spain. In 1765, a Spanish king sent 220 merinos to Saxony and 300 more were imported there nine years later. With these sheep, Germany became a dominating power in the European sheep industry by the 19th century. Most of the sheep taken to Australia and New Zealand were merinos. (Watson, 1998)

The first breed of the Australian Merino has a very thin and light like a fluff of wool, living mainly in lowlands with low temperatures and lots of precipitation. During the development of Australian Merino, four types were determined. They differ from each other not only in origin, but also in size, body shape, level of productivity, quality of wool, resistance to a number of diseases, reproductive abilities, adaptability to specific soil and climatic conditions. The main feature of these types of sheep is the fineness of wool. Based on those features, there are the following types of Australian Merino:

- superfine;
- fine;
- medium;
- strong.

These types of merino are most qualified wool in the world.

As being “a neighbor” to Australia, New Zealand became fourth country by wool production. From the history of its development, sheep breeding in New Zealand arose in the 30s of the XIX century, when a small herd of Merino was brought here from Australia. In the beginning of XX century, the number of sheep in New Zealand has reached 20 million, and the beginning of 90s has increased to 57.9 million sheep. It was second country, where number of sheep is higher than people living in New Zealand: 1 citizen = 17 sheep.

Currently, the number of sheep farms is about 20 thousand with an average farm size of 500 hectares and a population of 3,000 sheep. On the world market, New Zealand acts as the largest producer of lamb and wool.

New Zealand pastures are much more productive than Australian ones. They are constantly cared for, fertilize, and fight weeds and pests. Agricultural support programs provide great help to sheep farmers, the use of which New Zealand is one of the first places in the world. Therefore, labor productivity on local sheep farms is much higher than in Australia. First, this applies to sheep farms of the Northern Island, located at an altitude of several hundred meters above sea level. Here for every hectare of grazing has 8-10 sheep. On the South Island, the load on pastures is lower.

Secondly, there are a bid diversity of other sheep, which are bred in the country; merino is about 2 million heads. In this country, the area of pastures exceeds the area allocated for crops. That is why New Zealand have no difficulties with the area for breeding sheep.

Biggest part of Europe is in the zone of moderate and subtropical climate, which is characterized by a stable temperature and an acceptable level of precipitation throughout the year. These factors, as well as the availability of natural pastures, create favorable conditions for livestock farming. The main drawback in the development of the European industry is some limited agricultural land resources. However, according the statistics for the whole region, the share of livestock in total agricultural production is more than 50 per cent.

Wool production in the countries of Central and Eastern Europe (CEE) is a result of types of sheep bred in the region (Niznikowski et al. 2006).

**Table 3. Sheep population size (heads) in CEE Countries in 1990-2010**

<b>Countries:</b>	<b>Year:</b>				
	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>
Albania	1,646 300	2,480 000	1,939 000	1,760 000	1,806 000
Bosnia and Herzegovina	-	490,000	584,000	902,731	1,046 040
Bulgaria	8,130 310	3,397 610	2,548 880	1,692 510	1,400 250
Croatia	-	452,932	528,675	796,480	630,000
Czech Republic	-	134,004	90,241	148,412	205,923
Estonia	-	61,500	28,200	38,100	76,500
Hungary	2,069 200	947,000	934,000	1,397 000	1,223 000
Latvia	-	86,265	29,000	38,600	70,700
Lithuania	-	40,000	13,800	22,149	52,500
Poland	4,158 470	713,172	361,582	315,963	258,262
Romania	15,434 800	10,896 600	8,121 000	7,425 000	9,141 500
Serbia	-	-	-	-	1,475 400
Slovakia	-	397,043	340,346	321,227	376,978
Slovenia	-	29,077	72,533	119,264	138,108

Source: FAOSTAT, 2012

The decrease of sheep population was observed in Bulgaria and Poland before 2005. A continuous increase in sheep number during that period was practically recorded in Bosnia and Herzegovina and in Croatia and Slovenia as well. In the other countries, the decreasing trend in population size was recorded until the turn of 1995-2000, and in some even until 2005, with a subsequent increase of sheep population, then population afterwards. A similar situation was observed in production of wool (Table 4).

**Table 4. Production of greasy wool (tonnes) in CEE Countries in 1990-2010**

<b>Countries:</b>	<b>Year:</b>				
	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>
Albania	2,900	4,000	3,400	3,400	3,300
Bosnia and Herzegovina	-	500	730	1,220	1,382
Bulgaria	27,811	8,790	6,976	6,500	7,000
Croatia	-	351	458	758	660
Czech Republic	-	360	250	300	310
Estonia	-	174	71	93	154
Hungary	7,337	3,274	3,369	5,027	4,300
Latvia	-	166	72	94	40
Lithuania	-	78	30	44	109
Poland	14,783	2,323	1,322	998	950
Romania	38,167	24,323	17,997	17,600	17,600
Serbia	-	-	-	-	2,445
Slovakia	-	1,065	930	834	800
Slovenia	-	46	133	179	188

Source: FAOSTAT, 2012

Analysis of these figures showed that the years 1995 and 2000 were particularly difficult times in sheep production for many countries, which could be presented by the heavily exposed decreasing trends for Poland, Hungary and Bulgaria in 1995 as well as Baltic countries in 2000. The most stable situation in wool production was observed in Albania, Bosnia and Herzegovina, Croatia, Serbia, Slovakia and Slovenia.

Generally, the production of wool in the countries of Central and Eastern Europe presented different trends in the size of sheep population and wool production. In general, these trends led to drastic reductions in livestock and wool production in 1995-2000 and depending on the country for further growth. However, in the few countries in the region the continuous increase or continuous decrease in number of sheep and wool production was observed, which indicated the various systems of economic relations and the role of sheep and sheep farming in the region (FAOSTAT, 2012).

On the background of global trends, the level of wool production per one statistical sheep one was very interesting. This observation could distinguish countries of high wool yield per sheep (Bulgaria, Hungary and Poland), medium (Baltic States, Czech Republic, Romania and Slovakia) and low, which reflected the entrenchment of the wool productivity level until the early 20th century.

Europe was a world leader in the supply of high-quality wool, which was one of the most important items of income of this country. More than 83 per cent of all cultivated species belong to semi-fine sheep wool. This allows it to continue to take a prominent place among the world leaders in the production of high-quality wool materials. In total, 84 species of these domestic animals are grown on the territory of Central Europe.

The most popular kind of sheep that they used to breed is short-tailed sheep. The short-tailed sheep, native of an area from Russia to Ice- land, are generally considered a primitive type spread by Norse Vikings to several countries in this area from the late eighth century to the middle of the eleventh century AD (Ryder, 1983).

Table 3 below shows wool export destinations. From the member countries of European Union belonging to the Central and Eastern European region the raw wool is exported to Belgium, Bulgaria, Greece, Hungary, Netherlands, Italy and Slovakia. In addition, recipients of wool produced in the countries of the region are Turkey, India, China and Pakistan, and other European countries as Ukraine. The latest information showed (Niznikowski, 2012) that interest in purchasing wool from the Central and Eastern Europe was occurred in Ukraine, Russia and Belarus. This information was not yet confirmed by the statistical offices (except Ukraine), but in the field such negotiations has been leading recently. This is the way to manage only a part of harvested material. The managing of a substantial part of raw wool has been done through use of wool for local processing and the processing of the yarns for local clothing felts. The barrier, which came up, aroused due to small quantities of this material and fragmentation of sheep production in most countries of Central and Eastern Europe, excluding such countries as Albania, Bulgaria, Czech Republic, Hungary, Romania and Serbia. This condition makes it difficult to generate higher prices for raw wool (FAOSTAT, 2012).

**Table 5. Final markets for an export of raw wool in 2009 by FAO (FAOSTAT, 2012).**

<b>Countries:</b>	
<b>From:</b>	<b>To:</b>
Albania	Greece
Bosnia and Herzegovina	Italy, Turkey
Bulgaria	Italy
Croatia	Hungary
Czech Republic	Belgium, Italy
Estonia	-
Hungary	-
Latvia	-
Lithuania	-
Poland	Hungary, Slovakia
Romania	China, India, Turkey
Slovakia	Belgium, China, India, Netherlands, Pakistan, Ukraine
Slovenia	-

According to some statistics, there are a huge diversity of sheep breeding all around the world. However, specific climate conditions, the size of yields, even the technology of caring for sheep influence on productivity. The lead countries by number of sheep are China, Australia and New Zealand. Australia was an indisputable leader, although the droughts became a reason of taking the second place in the world scene.

## **4 Practical Part**

In this part of our work, it is necessary to develop a business plan for young entrepreneurs who want to establish an enterprise of sheep wool production with a help of different funds and government support in Kazakhstan. As it was mentioned before, practical part of business plan divided into 3 main chapters, which show the main purpose of enterprise development.

Practical part, in general, consists information of financial support of young entrepreneurs in certain country; government supportive programs and suitable bank loans may help entrepreneurs to be sure about financial provision. Young entrepreneurs generally have an opportunity to develop their business ideas into the business plan; hence, many investors and banks will help them in establishing their enterprises.

A clear image of the owner and enterprise of sheep wool processing will be described in title page and executive summary, which are ones of important aspects of business planning. There is a possibility to show the work inside, how it works, technologically and main equipment.

In terms of establishing the framework, several types of analyses were done, for instance, PESTLE and SWOT Analysis played a vital role in identifying risks and different ways how to overcome those threats.

### **4.1.1 Financial support**

### **4.1.2 Government support**

In order to succeed in the business establishment, young entrepreneurs have to know about possible means of financial support from the government.

There are many funds in Kazakhstan like DAMU, Nurly jer, Astana – ZhasStarT which help young entrepreneurs to build their businesses up. One of the most efficient is a fund called “DAMU”. It was established in 2001, as a directing program for small businesses, although it has developed into the largest fund in Kazakhstan, where the young entrepreneurs can apply for financial support. (Damu fund of development 2019)

Damu Fund provides financial and non-financial support to small and medium-sized businesses.



There are several main types of financial support:

- concessional lending through second-tier banks in the framework of targeted programs for regions and individual industries, microcredit through microcredit organizations;
- subsidies-reduction of interest rates on loans for business development issued by banks;
- Guarantee is provision of a partial guarantee as collateral for Bank loans.

In addition, “DAMU” Fund has non-financial support, which is carried out by the service Centers of entrepreneurs:

- free seminars and master classes in core business areas;
- free consulting and service support in the most important areas of business and state programs to support SMEs.

By the year of 2018, there is more than 20 thousand entrepreneurs received funding from the Fund "Damu".

The total amount of projects supported by the programs of the Fund "Damu" amounted to 450.1 billion tenge, that is 21 072 projects. 17 690 projects were supported for a total amount of loans of 248.5 billion tenge under the program of concessional financing through second-tier banks in 2018. The number of projects that received interest rate subsidies in 2018 reached in the framework of Business Road Map” 2020, which is 1432 projects worth loans 173,2 billion tenge approved subsidies; under the Program "Nurly jer" was 41 project and the United Nations development Programme 68 projects. The number of projects under the loan guarantee instrument increased by 48%. In 2018, the Fund "Damu" provided 1,950 guarantees for loans to entrepreneurs for 65 billion tenge.

Some Kazakhstan’s projects became famous and among the country and abroad with a great help of those programs of Damu. For example, “TASSAY” mineral water is used by all over the Kazakhstan. In 2014, the owners decided to expand their enterprises. The project was financed by JSC "Bank RBK" at 6% per annum. On the received funds, the company purchased equipment to produce beverages.

#### 4.1.3 **Bank loans**

Today, the programs, such as "Development of productive employment and mass entrepreneurship for 2017-2021" and "Business road map – 2020" are successfully implemented in Kazakhstan.

"Business road map 2020" is aimed to support small and medium businesses that operate in priority sectors of the economy. According to this program, the maximum loan amount is 2.5 billion tenge. The program is implemented through the second-tier banks. The interest rate today is 14%, which 8.4% is paid by the entrepreneur, 5.6% – by the government represented by the Fund "Damu".

Entrepreneurship development Fund "Damu" since 2015 within the framework of providing additional support and development of SMEs, stimulating the growth of the capital's economy, regional programs to support entrepreneurship aimed at the business that is not included in the list of priority sectors of the economy. Each program has its own conditions.

One of the programs is "Regional financing of small and medium-sized businesses in Astana". According to this program, the interest rate is not more than 8.5%. The maximum loan amount for one entrepreneur is up to 100 million tenge. The program of youth entrepreneurship development "Astana – ZhasStarT" is aimed at supporting young entrepreneurs up to 29 years. Here the interest rate is not more than 8.5%. The maximum amount of the loan that an entrepreneur can receive is up to 20 million tenge.

Financing of this project is expected at the expense of borrowed funds. The loan is planned to be obtained through the second-tier Bank, according to the program

"Business road map 2020", which makes it possible to reduce the cost of credit by subsidizing the state interest rate to the Bank for 7%. It is planned to provide fixed assets to secure the loan.

The investment cost of the project is 6 billion tenge. The funds are planned to be directed to:

- the construction of facilities;
- acquisition of production equipment and machinery;
- purchase of office furniture, office equipment.

**Table 6. Financial structure of the project**

<b>Loan currency</b>	Tenge
<b>Interest rate</b>	7% per annum
<b>Loan term</b>	10 years
<b>Payment of interest and principal</b>	monthly
<b>Own participation 10 % of the loan amount</b>	6 000 000
<b>Grace period for principal repayment of</b>	12 months
<b>Type of repayment</b>	in equal installments

The information was given above is a framework of financial support from the government.

#### 4.1.4 **Business plan**

#### 4.1.5 **Title page**

<b>Business name:</b>	Primary production of sheep wool
<b>Business subject:</b>	Sheep wool processing
<b>Owner:</b>	Nurken Maratov
<b>Business address:</b>	Kazakhstan Republic, southeastern region
<b>Contact:</b>	Tel. +7 777 777 77 17
<b>Legal personality:</b>	Self-employed

#### 4.1.6 **Executive summary**

“Sheep Wool Processing” is highly equipped enterprise of wool production. The implementation of this project involves the construction of the enterprise and equipping it with new high-tech lines for better processing of wool and the allocation of cashmere, for the production of yarn, wool washing, as well as the reproduction of fine-wool and coarse-wool sheep in the East Kazakhstan region.

Gradual development of the textile cluster of the country has been increased demand for sheep down (cashmere) extracted from fine and semi-fine wool by deep processing, both in the domestic and foreign markets, hence the lack of domestic raw materials for the further production leads to the need to create and expand domestic processing production.

The creation of a farm dedicated to the breeding of purebred sheep, carrying out of breeding work wool direction with a further submission to the Ministry of agriculture of the Republic of Kazakhstan about recognition of the agricultural plant breeding of fine-wool sheep.

#### 4.1.7 **Business subject description, subject description**

The business introduced within this business plan is unique in a way that it is the only one in focused on producing sheep wool, only the primary production line in south-eastern region in Kazakhstan. Perhaps, there is a high number of self-employed farmers, but not all of them is focused on primary processing.

Primary production line of sheep wool is not developed on the convenient level in

Kazakhstan as well. The technology of primary production of sheep wool consists of washing and drying sectors,

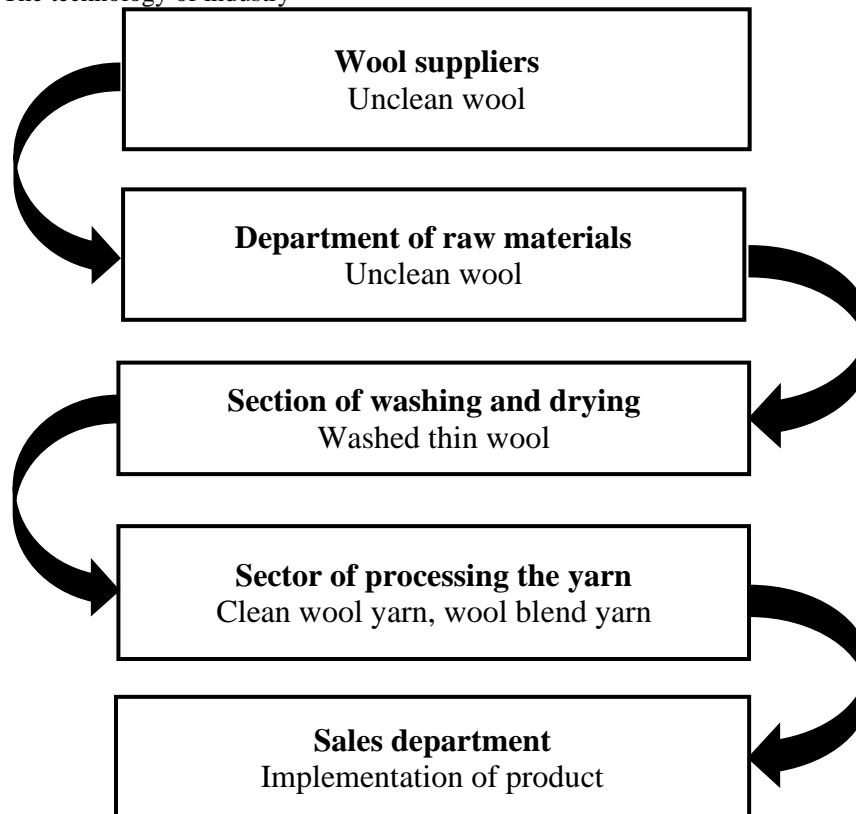
The business owner plans to produce cleaned wool in the first 5 years of the business. Then, the entrepreneur plans to extend the establishment of secondary wool production in the same region.

Peasant farms, agricultural enterprises and private individuals containing livestock in households are considered as the main suppliers of raw materials for the created enterprise.

To assess the available volumes of raw materials, scientifically based norms of wool yield from a unit of livestock received from the enterprises of the region engaged in animal husbandry and statistical data on the main products of agricultural processing were used.

Based on certain data, the available volumes of raw materials (sheep wool) were estimated. During the assessment, it is also assumed that to ensure the production of raw materials, the development will be able to attract no more than 52% of all wool volumes in the region.

**Figure 1:** The technology of industry



The cashmere dehairing line has been designed to separate the finest and highest quality fibers (14-15 microns) from the coarse outer coat fibers (called core fibers), which are not used in subsequent carding and spinning processes.

Both manufacturers and suppliers of cashmere fiber, as well as manufacturers of yarn, fabrics and knitwear made of cashmere intend this technology for use.

Main advantages:

1. Complete removal of coarse fibers. The percentage of coarse fibers remaining after processing is 0.1-0.2% - in accordance with the international quality standard.
2. Increased efficiency - up to 98% of the content of fine treated fibers at the end of the process
3. No damage to or shortening of the fibers
4. Significant reduction in the cost of purchasing raw materials for cashmere producers
5. Complete removal of dandruff and other possible contaminants present in the fiber

### **Classification of raw materials**

In the process of processing and production of finished products-purified wool, the following materials and raw materials are used, which are classified into the following groups:

main raw material: pet wool, including sheep wool;

auxiliary materials: technical detergents, twine for packaging;

energy resources consumed in the production process (water, steam, electricity).

The main raw material and the main item of current costs is sheep wool, which depending on the diameter is divided into thin (Merino), semi-thin, semi-coarse and coarse wool

Fine wool is cut from fine wool sheep and used to produce worsted yarn, which in turn is used to produce worsted fabric. This fabric is characterized by a smooth surface with a pronounced pattern of interlacing yarns, tightly adjacent to each other. Worsted fabrics have long wear ability, well retain the external shape. Worsted fabric is used to make costume and dress products.

Semi-coarse and coarse wool, obtained from coarse and semi - coarse breeds of sheep,

is used for the manufacture of a wide range of civil, uniform and technical cloth, carpets, coarse fabrics, felted shoes, felts and a large range of other goods.

#### 4.1.8 **Economic sector analysis**

#### 4.1.9 **PESTLE**

PESTLE Analysis is a tool, which can be used by different companies to track the environment they are operating in. It is expanded from denotes P for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental. It gives a wide view of the whole business plan from many different angles that an entrepreneur wants to check and keep a track of while contemplating on a certain idea.

#### 4.1.10 **Political factors**

In terms of political and legal aspects, it is highly important to identify main requirements for business establishment. Each entrepreneur as an owner of business must operate in accordance with valid laws of Kazakhstan. Young entrepreneurs need to acquire legal permit to conduct his/her entrepreneurship. There are some basic requirements:

- Age over 18,
- Legal capacity,
- Integrity.

Specific location of our enterprise allowed the owners to cooperate with a number of companies in eastern Kazakhstan, China, Russia and Central Asia countries.

Within almost three decades, Kazakhstan government has established relationship with its neighbor countries.

Diplomatic relations between Russia and Kazakhstan have fluctuated since the fall of the Soviet Union but both nations remain particularly strong partners in regional affairs and major supporters of the Collective Security Treaty Organization, the Shanghai Cooperation Organization and Union.

Overall money flow in a trade between Kazakhstan-Russia in 2018 is \$18 219 255 476, which is more than 2017's numbers by 5,68%. Export to Kazakhstan was 12 923 333 532 which is more than 2017's numbers by 4,86%. Export to Russia was 5 295 921 944 which is more than 2017's numbers by 7,71%.

Agricultural supplies are one of the main products of trade, in terms with mineral products, chemicals and shoes. The influx of Russian direct investment in the Republic of Kazakhstan for the period 2005-2014 amounted to 9.1 billion US dollars, and Kazakhstan in Russia - 2.9 billion US dollars.

In addition, Kazakhstan and Russia are both founding members of the Euro-Atlantic Partnership Council and the Commonwealth of Independent States. Both also founded the Eurasian Economic Union with Belarus.

The enterprise of primary wool production originally will be located near the neighbor China. The two nations signed their first boundary agreement in April 1994, and their second supplementary boundary agreement in July 1998 to mark their 1,700 km shared border.

Before the fall of the Soviet Union, the People's Republic of China and Kazakhstan were previously communist states.

The People's Republic of China and Kazakhstan formed diplomatic relations on January 3, 1992. In 1993, the first President of Kazakhstan Nursultan Nazarbayev made an official visit to Beijing at the invitation of the Chinese Jiang Zemin. In 1996, both nations became co-founders of the Shanghai Cooperation Organization.

On October 16 of 2013, the Kazakhstan Majilis and China's Standing Committee of the National People's Congress (NPCSC) signed a memorandum of understanding. The agreement is the most important legislations signed between the two nations that further bilateral relations. The legislation helps both parliaments meet together to discuss bilateral issues amongst one another.

Kazakhstan–Kyrgyzstan relations refers to the bilateral diplomatic relations between the Republic of Kazakhstan and the Kyrgyz Republic. Bilateral relationships between the countries are very strong, and Kyrgyz and Kazakh are very close in terms of language, culture and religion. Kyrgyz-Kazakh relationships have always been at very high level and economic and other formal unification of two countries have been greeted with strong appreciation by both nations since the two share a lot in common. On April 26 in 2007, the presidents of Kazakhstan and Kyrgyzstan signed an agreement to create an "International Supreme Council" between the two states.

Tariff regimes for export sheep wool yarn are the same to all directions, information was given from the free source of Kazakhstan state revenue committee. The export duty is 5 % from the price an entrepreneur wants to declare. Plus, there will be VAT of 12 %, so the overall is 18 %.



In conclusion, political relations between Kazakhstan and our neighbors, there is a plenty of evidence to emphasize that our government remains economic agreements and the enterprise owners have different chances to realize the project.

### **Economic factors**

Economic state of a country has a large impact on operation of the enterprises. This business plan has several goals:

To form an economic platform by providing guaranteed return funds spent;

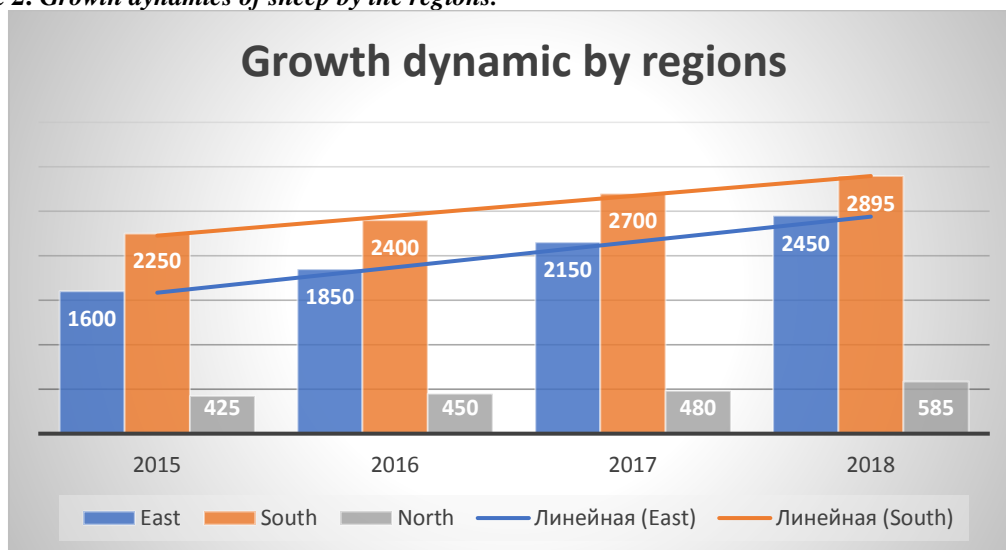
To develop production of wool in Kazakhstan and to establish working places;

To increase the profitability of the enterprise in the process of further development.

The economic policy of Kazakhstan aims to develop agricultural sector and reduce dependence on imports; in addition, by improving high-tech industries, and provides for the development of traditional industries, including livestock.

According to the Agency of the Republic of Kazakhstan on statistics, the livestock population has a constant growth dynamic.

**Figure 2: Growth dynamics of sheep by the regions.**



*Source: Statistics Agency of the Republic of Kazakhstan*

As can be seen, on the chart, number of sheep are increasing steadily. As a result, the enterprise of primary sheep wool processing has a constant rise. For example, in Almaty in southern region the number of sheep in 2018 increased compared to 2015 by 585 thousand heads, in East Kazakhstan by 590 thousand heads, in northern regions by 170 thousand heads.

Furthermore, currently the number of sheep in Kazakhstan is rough haired. Coarse wool is much less in demand in the domestic and foreign markets, respectively, and it is much cheaper. Therefore, it is necessary to develop production for deep processing of coarse and semi-coarse wool for its further use in finished products.

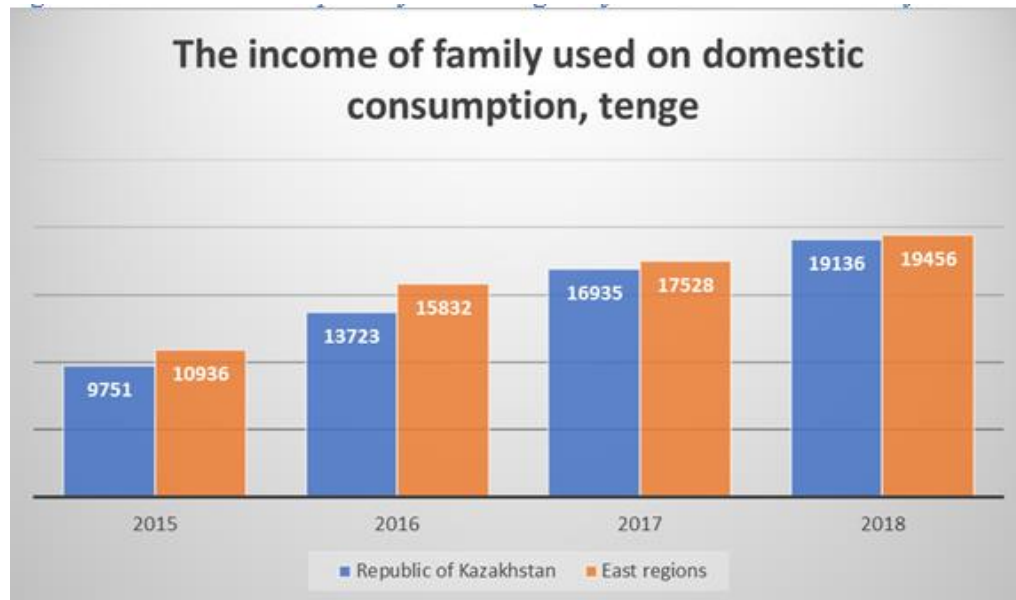
If the company consider the fine-wool sheep and fine wool production, the produced fine wool is almost all exported as a raw material. In addition, there is a decrease in the proportion of fine-wool sheep and, accordingly, the production of fine wool. Production of fine wool decreased from 61.5 thousand tons in 2007 to 7.48 thousand tons in 2018, or almost 8.5 times. With the growth of wool production over the past four years (2012-2018), the share of fine wool in total falls from 35.6% in 2012 to 22% in 2018. This is due to the deterioration of the breed and the lack of technical processing of wool. Kazakhstan does not have enough capacity for primary processing of wool, i.e. its washing. Therefore, it is now necessary to increase the capacity for its processing (tops - yarn - fabric). In parallel, funding is required to increase the share and quality of fine wool.

At the same time, there is an increase in the income of the average family used for

consumption,

both in the Republic as a whole and in the East Kazakhstan region.

**Figure 3: Domestic consumption by eastern region of Kazakhstan and a country.**



As this chart shows, revenues in 2018 increased compared to 2017 by 11% in the East Kazakhstan region, and 13% on average in Kazakhstan.

## SWOT analysis

SWOT analysis helps the enterprise owners to define strengths, weaknesses, opportunities and threats of the business. Based on the SWOT analysis, the enterprise can evaluate a lot of factors and information from internal and external environment.

The presence of manufacturing companies with similar activities in the market is not a stable indicator of market saturation, therefore, the company's opportunities and threats can play a significant role.

The implementation of this task will allow the project organizer to have a base for the successful further development of unique technologies related to the processing and production of natural wool products, to increase the existing capacity of the enterprise, and as a result, to take a firm, competitive position in this market.

**Table 7. SWOT analysis**

<b>Internal environment</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- Modern equipment;</li> <li>- High quality of products;</li> <li>- Availability of raw materials;</li> <li>- Highly skilled workers;</li> </ul>	<ul style="list-style-type: none"> <li>- Pollution</li> </ul>
<b>External environment</b>	
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- Availability of own raw material base;</li> <li>- Availability of highly qualified specialists and the possibility of continuous training;</li> <li>- An increase in demand for the planned products;</li> <li>- Acceptable price for the products;</li> <li>- Production of high-quality products, which will increase the market share in the future.</li> </ul>	<ul style="list-style-type: none"> <li>- Change in government tax policy - an increase in taxes will lead to an increase in prices, which will reduce the promotion of products to the market.</li> <li>- Entering the market of a large number of companies with similar products.</li> <li>- Incorrect assessment of the demand and prices of proposed products</li> <li>- Price fluctuations in the global wool market.</li> <li>- Possible crisis in the livestock sector.</li> </ul>

Source: self-produced.

### **Information about competitors**

Currently, in Kazakhstan, enterprises for primary processing of wool with a small capacity operate in Zhambyl, South Kazakhstan, Almaty, East Kazakhstan and other regions.

One of the largest enterprises for processing wool are:

"Semtex" (East Kazakhstan region, Semey)

" Primary Wool Production factory" (Zhambyl region, Taraz)

"DOS Maden" (Zhambyl region.)

"Kazruno" (East Kazakhstan region).

However, the production capacity of enterprises is used less than half. The main problems of wool processing enterprises are lack of working capital, high wear of technological equipment, lack of demand in the domestic market, low competitiveness and high cost of wool fiber.

### **Social and demographic factors**

These factors scrutinize the social environment of the market, and gauge determinants like cultural trends, demographics and population analytics. The enterprise is going to be

established in the eastern region of Kazakhstan. Because the weather conditions, efficient neighborhood and economic state of that region are the most suitable for the future expansion.

**Figure 4: The location of East Kazakhstan region.**



As can it be seen on the photo, chosen region borders with China, Russia and countries of Central Asia.

### **Technological factors**

The process of primary processing includes acceptance of wool by quantity and quality, sorting and washing. In order to receive highly qualified wool, there is must be the control classification with a selection of wool samples for laboratory testing. Not all of the wool can be appropriate for control classification, only 10-20%, the results apply to the entire incoming batch of raw materials.

Industrial sorting of wool is carried out manually on conveyor lines by separating the material into separate parts. There can be several varieties with different physical, mechanical and technological properties of the fiber (fineness, length, strength and color). By the end of the process of sorting, the material is prepared for primary processing and spinning.

Wool is the most contaminated fibrous material. It contains remains of fat and sweat, soil and manure pollution and plant impurities. Those components do not allow industrial processing on wool without chemical cleaning and washing.

The washing machines in aqueous solutions of detergents process wool washing.

Synthetic detergents provide a neutral washing environment. This factor keeps the fiber intact.

### **Technology**

The company describe a whole range of important technologies, their costs and chemicals in use.

Table shows, number of machines and their costs respectively.

**Table 8 Technology**

		Cost, tenge	Quantity	Total costs, tenge	Kg, per hour
1	Carding machine	2,693 440	1	2,693 440	40
2	Washing machine	3,298 000	1	3,298 000	30
3	Industrial drying machine	1,558 000	1	1,558 000	25
4	Electro pump(deep)	80,000	1	80,000	
5	Electro car	1,500 000	1	1,500 000	
6	Yarning machine	2,711 160	1	2,711 160	75
7	Total			11,840 600	

All-important equipment's are shown below. Total costs and quantity that is needed to produce the wool is founded.

## Carding machine



The carding machine prepares the fiber supplied in compressed bales for subsequent production processes. This device performs pre-loosening of the material, while carrying out continuous dosing, which contributes to increased productivity on the subsequent processing steps.

The loading section is a conveyor with adjustable speed. One or more bales of fiber can be placed on the loading surface.

An inclined conveyor equipped with a dosing roller and a precision unloading roller picks up the fiber.

Technical parameters:

- Surface width: 2.000 to 4.000 mm (optional on request)
- Surface length up to 15.000 mm (optional on request)

Productivity up to 30 kg / h depending on the type of fiber used and the working width of the line

## The washing machines

This machine is designed for washing wool. The drum of the washing machine is made of high-quality stainless steel. Temperature and time can be automatically controlled or can be set manually. High efficiency, low power consumption, low noise.

### Technical characteristics of the machine:

Hopper capacity 30 kg, washing time usually 40 minutes

The size of the drum (stainless steel) f660\*800mm

Engine power 1.1 kW

The speed of rotation of the drum 36 revolutions per minute

Cold water consumption 420 kg per hour

## **Preliminary dehairing**

Pre-dehairing is performed in order to prepare the cashmere fibers for final dewatering. Pre-dewatering combines the delicate action of loosening the fiber with the preliminary removal of coarser fibers. Thus, both the quality and performance of the dewatering process are significantly increased.

CAPACITY: up to 25 kg / hour depending on fiber type and coarse fiber content.

### **Industrial drying machine**

#### **Technical description:**

CAPACITY 25 kg

Tank: 20-200 KG/time

Heating system:

Steam

Heating

Electric heating

Function: Dry

Drum size (mm):660\*800 mm





## **Yarning machine**

The yarn spinning machine guarantees the production of high quality hardware yarn. The main advantages of this machine:



the process of continuous yarn drawing is carried out within a zone of 3 to 6 m, which is much higher than that of the ring spinning system. Experience, confirmed by laboratory tests, proves that the drawing occurs naturally (without damaging either the fiber or the yarn), since the pulling force is distributed over a much wider field;

Continuous yarn torsion. The yarn thread, both before and after winding on the spindle, is in a constant process of twisting, which avoids unevenness along the axis of winding the fiber and helps to maintain the value of uniformity in the fiber. At an extremely high level. The risk of yarn bursting during the drawing process is reduced when processing short and thin fibers, such as cashmere, or a mixture of fibers of different origins, different tones and lengths.

## **Environmental factors**

Environmental factors are the most important aspects in terms of setting the enterprises, which use harmful machines. They may affect the environment and people health. Nevertheless, our enterprise is fully commensurate with Ecological Code of Kazakhstan Republic.

Primary wool processing is formed mainly by two kinds of environmental pollutants: dry wastes of wool-washing and daily water. Dry waste is generated in the pre-processing and sorting of raw wool, when breaking the wool before washing (mineral, vegetable impurities, sheep experiments, short wool fiber cleavers, wool dust).

When primary processing of wool on the posh companies are formed mainly two kinds of environmental pollutants: dry wastes of wool-washing and daily water. Dry waste is formed during pretreatment and sorting of unwashed wool.

Normal dry residues are disposed of at the landfill site. There are technologies for processing such waste and obtaining fertilizers from them: such waste contains humus – 29-51%, nitrogen up to 3%, as well as phosphorus, potassium and other compounds.

Wool-washing water wastes contain sand, clay, balls of fat, wool fibers, humic substances, Soaps, surfactants, proteins, organic acids, grease, etc. They are in the form of coarse mechanical impurities, sols and high molecular weight solution and complete solutions. They have an unpleasant specific smell (there is a process of decay of organic impurities), are toxic and alkaline liquid.

Cleaning is usually carried out in two stages: first at the enterprises of washing, and then the pre-treated water is sent to the city drains, where it is subjected to biochemical, chemical cleaning. Purified water is used for growing forage crops.

In order to prevent and protect the environment, the use of a new detergent, significantly reduces the percentage of pollution of discharged wastewater, and the installation of a new washing and drying line based on the technology of closed water consumption, reduces the volume of discharged water.

The company will take all necessary measures to ensure working conditions and health protection of workers in accordance with the norms of the Republic of Kazakhstan, in the future will work to improve the working conditions of workers.

#### **4.1.11 Marketing mix**

Marketing mix is another important part of the business plan. It helps the entrepreneur to give some appropriate characteristics to the product.

**PRODUCT:** The business plans to produce yarns of sheep wool by high-technological equipment in initial five years. For the future three years, the company consider buying sheep wool form farmers. Produce yarn is profitable, because in Kazakhstan there are minimal number of yarn producers.

**PRICE:** Initial price of product will depend on the cost of raw materials, the prime cost of which is 40-50% that can fluctuate during the year. Nowadays, the initial average price for 1 kg wool is 700 tenge. Price is taken in between of the minimal 500 tenge and maximal 1000 tenge. The selling price would be 2000 tenge. According to the global sheep wool market, average price for yarn is 7-9 euro per kilogram, which is approximately 2900-3200 tenge. Moreover, the entrepreneur contacted one Chines textile company (Qianbaihui), and

they were able to buy yarn for 2300 tenge without transportation costs. So, 2000 tenge becomes more rational. Price is given based on the market situation in the current region. The company will be located at a considerable distance from the areas of wool harvesting. The company will concentrate all its resources on providing high quality products and customer service standards. Therefore, the main factors affecting the cost of washed wool availability of enough collection points of raw materials throughout the region transportation of raw materials from collection points to the location of the enterprise (Semey). Depending on the demand for yarn and the supply of raw materials, prices may vary.

**PLACEMENT:** The enterprise will be placed in southeastern region of Kazakhstan. In the history, that location is a crossroad of China, Russia and main countries of Central Asia. According to the growth dynamics by the regions above, there is big potential of the sheep wool industry in the selected region.

The approximate location of the factory for the primary processing of wool is the industrial zone of Semey, there is all the necessary infrastructure for the smooth operation of the enterprise. The enterprise will be guided by the raw materials delivered by points of collection of wool which will be in all regional centers and in Semey. The distance from the farthest wool collection point to the Semey industrial zone is about 750-800 km.

**PROMOTION:** Customer focus will be on small textile factories in Kazakhstan. Furthermore, there will be slight movement into export. The problem is that, enterprise cannot afford transportation to abroad in the first years, because of the profit. It is too costly. The entrepreneur plans to carry out the following promotional activities in order to implement this project in the market:

- Printed edition: newspapers, magazines;
- Direct negotiations with potential customers;
- Advertising on TV

There is famous magazine called “Agrarian sector”, the company will try creating one or more publications in month there. There will be small reviews on the regional TV channel called “Irbis”, about the process and overall quantity and quality description.

#### 4.1.12 Financial analysis

The most important part of each business plan is financial analysis. For the purposes of this business plan, an entrepreneur decided to make cash-flow analysis of the business for period of 5 years, considering the start of business in 2020.

The location of the Workplace will be in the Eastern region of Kazakhstan. Workplace also will have office room, storage room and kitchen.

**Figure 5: Screenshot of a Workplace**



Source: <https://krisha.kz/a/show/54251369>

Implementation of the clean wool will be sold out to local textile companies, like Asiatex, Tamish textile company, Altinbasak. Two of them are held in the same region. Asiatex is in Almaty, which is approximately 1200 km from the storage place. All the relevant information and websites you will find in list of used sources. There is a problem of transportation, although Kazakhstan has great relationships with bordering countries.

Tariff regimes for export sheep wool yarn are the same to all directions, information was given from the free source of Kazakhstan state revenue committee. The export duty is 5 % from the price an entrepreneur wants to declare. Plus, there will be VAT of 12 %, so the overall is 18 %.

On the other hand, there are lots of opportunities to sell our wool abroad, China has big potential need for wool, however, transportation cost and border fees are extremely high, comparing the costs of transportation in country, for this kind of production. Because, there are special veterinary supervision, and this kind of prospective has higher importing fees. The question is not even in money but in time. So, it is much profitable to implement our

product within country to our local firms, who are willing to have clean wool.

**Table 9: Cost of rent**

Rent				
		Cost per month, tenge	Number of months	Total, tenge
1	Workshop (800 m <sup>2</sup> )	500,000	12	6,000 000
2	Truck (driver included)	120,000	12	1,440 000

*Source: Author*

The best time to start is when cutting is done. Usually, cutting process is done through May, June and July. When the workplace is ready to start processing, an entrepreneur needs to buy unclean wool for the next year. According to our competitors, at average, monthly, there is need of 2 tons 362 kilograms of unclean wool (1 kg of unclean wool after washing and drying losses 17% of its weight), which means that, in one year the production will be approximately 18 tons of clean wool.

First, entrepreneur need to deal with transportation, however there is no big need for the truck itself. More profitable to hire a truck with the driver included.

According to the table below, 9 employees will be engaged in the workplace.

**Table 10: Employees**

	Employees	Quantity	Salary per person	Expenses on salary, before taxation,tenge	Total,tenge	Number of Working hours
1	Washer-dryer	2	60,000	72,000	144,000	9
2	Storekeeper	1	60,000	72,000	144,000	9
3	Stacker of inputs/outputs	2	40,000	48,000	96,000	6
4	Security	1	45,000	54,000	54,000	12
5	Repairman	1	70,000	84,000	84,000	9
6	Cleaning woman	2	40,000	80,000	96 000	6
7	Total				546,000	

Source: Author

- Washer-dryer: wash unclean wool and then dry clean wool
- Storekeeper: will manage the work process
- Stacker of inputs/outputs: deals with clean wool
- Security guard: working hours from 8 pm till 8 am
- Cleaning woman: working hours in the morning and in the evening 3 hours. Plus, they will cook for the stuff, lunch and dinner.

## Cost of Production

**Table 11: Cost of sheep wool**

	Quantity,kg	Average cost	Quantity per month,kg	Total cost, tenge
Sheep wool	1	700	2,362	17,003 520

Source: Author

The average cost of unclean sheep wool is 700 tenge. The amount of quantity per month is taking according to our competitors. The company will try to find farmers who sell wool in the cutting period, because in this period price is stable. However, there are also farmers who keep storage and might sell it whenever, but the price will fluctuate higher. It is much profitable to buy it all, moreover the workshop has enough place for storage.

**Table 12: Chemicals(detergent)**

	Cost per kg, tenge	Quantity per a washing cycle, kg	Number of washing cycles per day	Average number of working days	Total, tenge
Detergent for processing wool	200	9	8	24	345,600

Source: Author

In order to prevent and protect the environment, the use of a new detergent, significantly reduces the percentage of pollution of discharged wastewater. It will take several “rinses” with very hot water and detergent to get clean wool. Detergent will help to prolong the lifespan of wool fibers.

**Table 13: Furniture and equipment**

		Cost, tenge	Quantity	Total cost
1	Furniture (for director)	160,00	1	160,000
2	Computer	200,000	1	200,000
3	Printer and scanner	50,000	1	50,000
4	Refrigerator	90,000	1	90,000
5	Cupboard	20,000	6	180,000
6	Microwave	20,000	1	20,000
7	Electric kettle	3,000	1	3,000
8	Furniture for kitchen	100,000	1	100,000
	Total			743,000

Source: Author

## Services

**Table 14: One-time services**

		Cost, tenge
1	Preparation for inner space (special brigade)	30,000
2	Lawyer	150,000
3	Creation of website	185,000
4	Creation of logos	10,000
5	Dig a well (30 meters)	20,000
	Total	395,000

Source: Author

The company will use water by deflating it from the land with electro pump. For that it is needed to dig a well for approximately 30 meters down. Easy repair is required in the workplace. Whitewash the walls, need to take measurements for equipment. Prepare all needed safety precautions.

An entrepreneur found competent firm of creation websites; the cost is below average.

**Table 15: Each month services**

		Cost, tenge
1	Advertising on social networks	30,000
2	Accountant	80,000
	Total	110,000

Source: Author

Table upon shows that, each month company will spend 30,000 tenge on advertising. Mostly advertising will be for small textile companies. Company location will be indicated in the local map application with logo.

**Table 16: Other fixed costs**

		Cost per month, tenge	Number of months	Total, tenge
1	Internet, telephone	4000	12	48,000

Source: Author

Company who will provide internet and telephone services is local average mobile company called “Active”



**Table 17: Energy for building**

Energy	Kilowatt/hour	Cost of 1 kilowatt, tenge (without VAT)	Hours	Average number of working days	Total (without VAT), tenge	Total (with VAT), tenge
Building	30	13.79	12	24	119,146	133,443

*Source: Author*

#### 4.1.13 Variable cost

**Table 18: Utilities**

Energy	Kilowatt/hour	Cost of 1 kilowatt, tenge (without VAT)	Hours	Average number of working days	Total (without VAT), tenge	Total (with VAT), tenge
Carding machine	4	13.79	9	24	11,915	13,344
Washing machine	1.1	13.79	9	24	3,277	3,670
Industrial drying machine	1.1	13.79	9	24	3,277	3,670
Yarning machine	2.2	13.79	9	24	6,553	7,339
Water from well (electro pump)	2	13.79	9	24	5,957	15,250
Total						43,273

*Source: Author*

As I mentioned before, the company will use water by deflating it from the well by electro pump. This allows us to save a lot of money on water.

#### 4.1.14 Total costs

**Table 19: Total fixed costs including taxes**

	Cost per month including taxes, tenge
Rent	620,000
Salaries	606,000
Utilities	133,443
Accountant per month	80,000
Advertising per month	30,000
Internet, telephone	4000
Total per month	1,473 443
Total per year	17,681 316

*Source: Author*

**Table 20: Variable costs including taxes**

	Cost per month including taxes, tenge
Sheep wool	1,416 960
Utilities	43,273
Detergent	345,600
Total per month	1,805 833
Total per year	21, 669 996

*Source: Author*

**Table 21: Initial investment**

	Costs including taxes, tenge
Technology	11,840 600
Furniture and equipment	743,000
One-time services	395,000
Total	12,958 600

*Source: Author*

#### 4.1.15 Depreciation

**Table 22: Technology**

Years	1	2	3	4	5
Price, tenge	11,840 600	11,840 600	11,840 600	11,840 600	11,840 600
Depreciation rate, %	20	20	20	20	20
Depreciation, tenge	2,368 120	2,368 120	2,368 120	2,368 120	2,368 120
Accumulated depreciation, tenge	2,368 120	4,736 240	7,104 360	9,472 480	11,840 600
Residual price, tenge	9,472 480	7,104 360	4, 736 240	2,368 120	-

*Source: Author*

**Table 23: Furniture and equipment**

Years	1	2	3	4	5
Price, tenge	743,000	743,000	743,000	743,000	743,000
Depreciation rate, %	20	20	20	20	20
Depreciation, tenge	148,600	148,600	148,600	148,600	148,600
Accumulated depreciation, tenge	148,600	297,200	445,800	594,400	743,000
Residual price, tenge	594,400	445,800	297,200	148,600	-

*Source: Author*

The last point is depreciation of tangible assets. According to the tables upon, Total depreciation for each year will be 2,516 720 tenge.

#### 4.1.16 Startup budget

Initial investment will be 12,958 600 tenge. Fixed costs will be 17,681 316 tenge and variable costs 21,669 996 tenge.

#### 4.1.17 Revenue projections

The selling price will be 2000 tenge for 1kg of yarn. 1 kg of unclean wool after washing and drying losses 17% of its weight. According to statistics of sheep wool processing, at average manufactories produce about 2 tons of yarns per month. Performing at average

power in the 4<sup>th</sup> and 5<sup>th</sup> years and annual 10% growth rate during first three years. 1<sup>st</sup> year - 70%, 2<sup>nd</sup> year - 80% and 3<sup>rd</sup> year - 90%. Power at average of machines is 10.2 kg per hour. 12.3 kg of unclean wool gives 10.2 kg of clean wool.

**Table 24: Base scenario**

Years	1	2	3	4	5
<b>Costs</b>					
Fixed costs (5% inflation)	17 681 316	18 565 382	19 493 651	20 468 333	21 491 750
Variable costs	21 669 996	22 753 496	23 891 171	25 085 729	26 340 016
Total costs	39 351 312	41 318 878	43 384 821	45 554 063	47 831 766
<b>Revenue</b>					
Producing yarns per hour	8	10	11	12	13
Working hours per day	8	8	8	8	8
Working days per month	24	24	24	24	24
Failure	2% from revenue				
Producing yarns per month	1 536	1 920	2 112	2 304	2 496
Producing yarns per year	18 432	23 040	25 344	27 648	29 952
Price (kg)	2 000	2 000	2 000	2 000	2 000
Revenue	36 864 000	46 080 000	50 688 000	55 296 000	59 904 000
Operating profit	(2 487 312)	4 761 122	7 303 179	9 741 937	12 072 234
Depreciation	2 516 720	2 516 720	2 516 720	2 516 720	2 516 720
EBIT	(5 004 032)	2 244 402	4 786 459	7 225 217	9 555 514
Income tax, 15%	(750 605)	336 660	717 969	1 083 783	1 433 327
Operating profit after tax	(4 253 427)	1 907 742	4 068 490	6 141 435	8 122 187

The selling price 2000 tenge per 1kg of yarn. Performing at maximum power in the 4<sup>th</sup> and 5<sup>th</sup> years and annual 10% growth rate during first three years. 1<sup>st</sup> year - 70%, 2<sup>nd</sup> year - 80% and 3<sup>rd</sup> year - 90%. Maximum power of machines is 25 kg per hour. 25 kg of unclean wool gives 20.75 kg of clean wool.

**Table 25: Best scenario**

Years	1	2	3	4	5
<b>Costs</b>					
Fixed costs (5% inflation)	17 681 316	18 565 382	19 493 651	20 468 333	21 491 750
Variable costs	21 669 996	22 753 496	23 891 171	25 085 729	26 340 016
<b>Total costs</b>	<b>39 351 312</b>	<b>41 318 878</b>	<b>43 384 821</b>	<b>45 554 063</b>	<b>47 831 766</b>
<b>Revenue</b>					
Producing yarns per hour	13	15	17	19	20
Working hours per day	8	8	8	8	8
Working days per month	24	24	24	24	24
Producing yarns per month,kg	2 496	2 880	3 264	3 648	3 840
Producing yarns per year	29 952	34 560	39 168	43 776	46 080
Price	2 000	2 000	2 000	2 000	2 000
<b>Revenue</b>	<b>59 904 000</b>	<b>69 120 000</b>	<b>78 336 000</b>	<b>87 552 000</b>	<b>92 160 000</b>
Operating profit	20 552 688	27 801 122	34 951 179	41 997 937	44 328 234
Depreciation	2 516 720	2 516 720	2 516 720	2 516 720	2 516 720
EBIT	18 035 968	25 284 402	32 434 459	39 481 217	41 811 514
Income tax, 15%	2 705 395	3 792 660	4 865 169	5 922 183	6 271 727
<b>Operating profit after tax</b>	<b>15 330 573</b>	<b>21 491 742</b>	<b>27 569 290</b>	<b>33 559 035</b>	<b>35 539 787</b>

The selling price 2000 tenge per 1kg of yarn. According to statistics of sheep wool processing, at average manufactories produce about 2 tons of yarns per month. For this scenario maximum performance will be a half of average production 1 tons meter per month. Performing at average power in the 4th and 5th years and annual 10% growth rate during first three years. 1<sup>st</sup> year -70%, 2<sup>nd</sup> year - 80% and 3<sup>rd</sup> year - 90%. Power at average of machines is 10.2 kg per hour. 6.2 kg of unclean wool gives 5.1 kg of clean wool.

**Table 26: Worst scenario**

Years	1	2	3	4	5
<b>Costs</b>					
Fixed costs (5% inflation)	17 681 316	18 565 382	19 493 651	20 468 333	21 491 750
Variable costs	21 669 996	22 753 496	23 891 171	25 085 729	26 340 016
<b>Total costs</b>	<b>39 351 312</b>	<b>41 318 878</b>	<b>43 384 821</b>	<b>45 554 063</b>	<b>47 831 766</b>
<b>Revenue</b>					
Producing yarns per hour, kg	4	5	6	7	8
Working hours per day	8	8	8	8	8
Working days per month	24	24	24	24	24
Producing yarns per month	768	960	1 152	1 344	1 536
Producing yarns per year	9 216	11 520	13 824	16 128	18 432
Price	2 000	2 000	2 000	2 000	2 000
<b>Revenue</b>	<b>18 432 000</b>	<b>23 040 000</b>	<b>27 648 000</b>	<b>32 256 000</b>	<b>36 864 000</b>
Operating profit	(20 919 312)	(18 278 878)	(15 736 821)	(13 298 063)	(10 967 766)
Depreciation	2 516 720	2 516 720	2 516 720	2 516 720	2 516 720
EBIT	(23 436 032)	(20 795 598)	(18 253 541)	(15 814 783)	(13 484 486)
Income tax, 15%	(3 515 405)	(3 119 340)	(2 738 031)	(2 372 217)	(2 022 673)
<b>Operating profit after tax</b>	<b>(19 920 627)</b>	<b>(17 676 258)</b>	<b>(15 515 510)</b>	<b>(13 442 565)</b>	<b>(11 461 813)</b>

#### 4.1.18 Break-even point

Break-even point is the point where company has neither profit nor loss. The author presents break-even points based on annually basis. BEP on annually basis is 21,457 kg.

*Table 27: BEP*

Total fixed costs, tenge	17,681316
Total variable costs, tenge	21,669,996
Selling price, tenge	2,000

*Source: Author*

#### 4.1.19 Cash flow

**Table 27: Cash flow**

Cash Flow						
Year	0	1	2	3	4	5
Cash	52 309 912					
Total revenue	248 832 000	36 864 000	46 080 000	50 688 000	55 296 000	59 904 000
Capital expenditure	52 309 912					
Operational costs		39 351 312	41 318 878	43 384 821	45 554 063	47 837 766
Total costs	217 446 840	39 351 312	41 318 878	43 384 821	45 554 063	47 837 766
Operating profit		(2 487 312)	4 761 122	7 303 179	9 741 937	12 066 234
Depreciation		2 516 720	2 516 720	2 516 720	2 516 720	2 516 720
Gross profit		(5 004 032)	2 244 402	4 786 459	7 225 217	9 549 514
Tax 15%		(750 605)	336 660	717 969	1 083 783	1 432 427
Net profit	31 385 160	(4 253 427)	1 907 742	4 068 490	6 141 434	8 117 087
CF		(4 253 427)	1 907 742	4 068 490	6 141 434	8 117 087
NPV						
rate, %	5					
NPV	43 991 693		45 235 549			
IRR, %	8%					

Source: Author

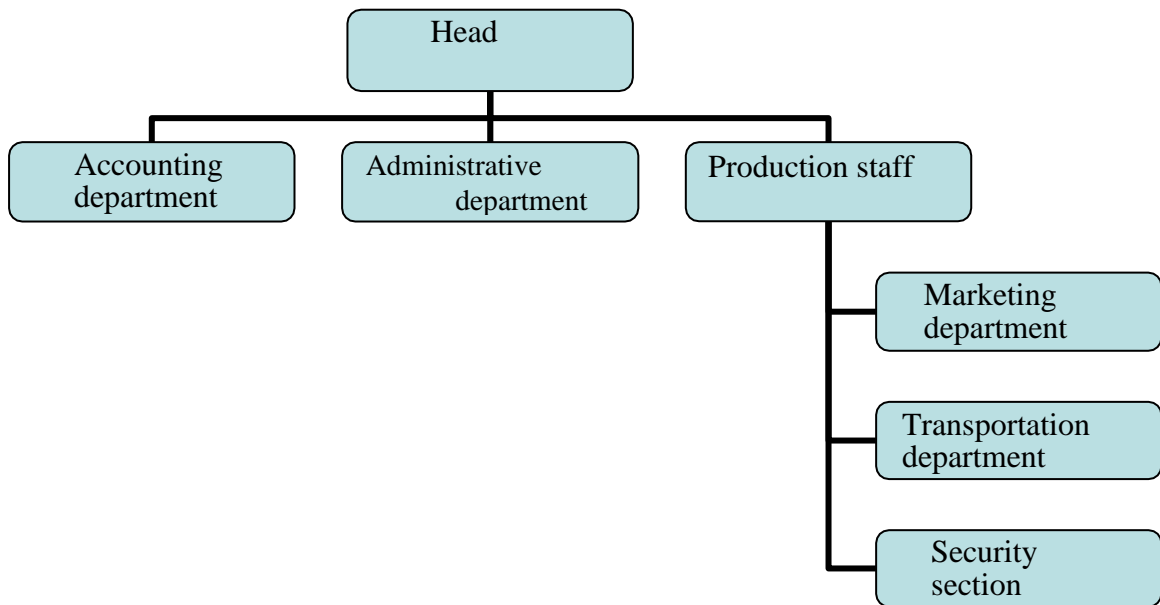
This calculation was made on basis of base scenario, where an entrepreneur took monthly production of 2 tons of clean wool, by selling price of 2000 tenge. The prediction is for 5 years. The fixed costs and variable costs are taken into the consideration with 5% of inflation rate. The most relevant type of consideration taken into count in accordance of the accountant. Nevertheless, the company took 2% of revenue for unpredictable failures. Therefore, business for the first year will have lesion of -4,253 427 tenge. However, in the second and next year's the enterprise will make stable and great profit of 1,970 742 tenge in the second year, 4,068 490 tenge for the third year, 6,141 434 tenge for fourth year and 8,177 087 tenge during fifth year.

As the table shows, projects NPV is 43,991 693 tenge, which is quite good for young entrepreneur. IRR of the project is 8%.

The source of return on investment is the net income from the sale of yarn from natural fibers.

In accordance with the indicators of financial evaluation, the project is socially significant, highly profitable and quickly recouped.

**Figure 6: Employees**



The company will have only one accountant in accounting department. Administrative department will include also one person (storekeeper). Production staff will include 7 people, cleaning women, repairman, washer-dryer. Marketing department will be organized by the head. Transportation department will include 1 driver with hired truck and in the security section the company will have 2 people. The head of the company exercises overall control over the implementation of decisions and ensures the coordinated work of all departments of the enterprise.

The accounting department monitors the financial condition of the enterprise; the administrative Department monitors the production process.

Production staff ensures the smooth operation of the departments, performs transport and security functions.



## 5 Results and Discussion

The purpose of the business plan is to prepare the entrepreneurs for how the business will behave to external and internal forces of the business environment and what can be expected as a result from the financial point of view that is analyzed in the business plan as well.

In order to the business plan, it was necessary to examine the project with appropriate economic analyses, such as PESTLE as an external environment and SWOT analyses showed an internal environment. Then it was necessary to evaluate the cash flow in initial five years of the business.

In the theoretical part, an entrepreneur distinguished basic terminology of business planning and the structure of its. Focused on the definitions of entrepreneurship and entrepreneurs by the law of Kazakhstan Republic. What is more, the rights and obligations of entrepreneurs were discussed in theoretical part as well.

Based on our research of sheep wool production in the world countries, especially among the leaders of the number of sheep and wool processing as China, Australia and European countries, there were examination of the basic data and statistic which helped us in setting the framework of our business project.

After defining basic terminology and legal requirements for business establishment, the enterprise proceed with the business plan elaboration. First, the consideration of financial support of government in Kazakhstan. There are several funds and programs which can be helpful in establishing the enterprise, such as Damu Fund and programs, like “Business road map-2020”.

After external analysis of the environment, it was necessary to create an internal analysis of the business based on SWOT analysis gave us strengths, weakness, opportunities and threats of the business. Using the strengths, the business can grab the opportunities, such as cooperation with other small farmers in the district, customers` interest in healthier and local products to succeed on the market and expand on regional level. However, it is also necessary to take into consideration the weaknesses. Lastly, it is necessary to use the strengths to eliminate the threats that in this case are sector sensibility.

Based on the external and internal analysis, created a base start in a form of Marketing mix to start the business. The production will be focused on sheep wool production, for which the prices are set appropriately to results found in PESTLE analysis.

To sum up, the business plan introduced in this thesis is intended for a young farmer who would like to set up a small agricultural business in East Kazakhstan with focus on sheep wool production in the respective district. Based on the analysis and calculation, the company assume that this business has big potential and it is estimated it will become profitable in the second year of business.

## 6 Conclusion

Diploma thesis is focused on business plan development for a young entrepreneur who would like to start agricultural business in Eastern region of Kazakhstan. The business plan is developed based on real market information and designed to evaluate the potential of the business.

In order to reach the main goal of the thesis, it was necessary to answer two research questions of the thesis. The first one was about what is the process of business establishment in Kazakhstan that was answered in the first part of the thesis, based on the theoretical background definitions.

The first part of the thesis was also focused on theoretical definition with relation to business, business planning, business establishment. The theoretical part also contains the definition and proposed structure of the business plan, as well as definition of individual analyses that are used in practical part.

The second research question was to analyze potential sources of financial contribution that a young farmer can apply for. The most important part of the thesis is the respective business plan that is designed for the young farmer based on analyses done within the practical part. According to these analyses, there were found no external factors with high influence for the business establishment in field of sheep breeding. In addition, based on the financial analyses' calculation provided in the business plan, the business itself represents potential market success for the young entrepreneur.

In conclusion, the process of agricultural business establishment in Kazakhstan was described, in accordance with valid Kazakh legal regulations. Next, the most suitable sources of initial financial contribution for young farmers were described and lastly, were designed specific business plan for an agricultural business establishment in rural area of East Kazakhstan with respective macroeconomic and financial analyses.

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