

# So You Want to Become an Entrepreneur?



Pakistan Software Export Board

Just graduated? Congrats! You must be feeling on top of the world now, and why not? You are young, energetic, and above all, optimistic - all charged up to take the bull by the horns. Brimming with ideas, too? So why not set up your own IT business? Yes, your very own entity! Already thinking along the same lines, but not sure how to go about it? Read on!

This guide aims at providing some basic stuff that you, as a young technopreneur, or a new entrant in the IT business scene, should know before going ahead with your venture.

A word of caution - although entrepreneurship can be highly rewarding, it presents many challenges as well. So if you're a fresh graduate, and want to establish your own setup, but are unsure about which direction to move in, or have yet to formulate your business ideas and plans formally, not to worry. You can easily channel your energy and talent creatively by working with an existing company. Or you can collaborate with a company on a project basis. If you decide to opt for this, however, you must go through the contract drawn between you and the company in the minutest detail. Read the fine print, so to speak, before finalizing and signing anything and always keep a copy with you for your own record.

So the bottom-line is that if you decide to start a business venture, doing your homework is vital. Since you will, in all probability, have no prior experience of this, please carefully study and assess your business idea from all angles BEFORE taking the proverbial plunge into the IT business world. We don't want to discourage you. We only want to steer you in the right direction while simultaneously cautioning you against any pitfalls you might come across along the way.

Need a hand? PSEB can help. Pakistan Software Export Board (PSEB) is the entity within Government charged with the task of accelerating growth in the IT and IT-enabled Services (ITeS) industry. It develops creative synergies between the government, industry and academia. It achieves this by providing timely and relevant policy input and by supporting the IT industry in order to sustain momentum in this vital sector of the national economy.

## GETTING DOWN TO BASICS

### What is an entrepreneur?

If you have an idea for a business, can gather the resources to create the business, are able to risk the money and time to start it, and then manage or oversee it - you are an entrepreneur!<sup>1</sup>

### Can I become an entrepreneur?

Anyone can. An entrepreneur can be anyone from anywhere who is any age. It doesn't matter where you come from, how much (or how little) money or education you have or anything like that. What matters is that you have a **good workable idea** for a business and the **drive** to see that business spring to life.

There are many risks involved with starting a business, of course. There is no way to eliminate all the associated risks. You can, however, improve your chances of success with good planning and careful, prior preparation.<sup>1</sup>

### What makes a successful entrepreneur? Do I have what it takes to become one?

Before you begin this exciting yet challenging journey, you need to honestly ask yourself the following questions:

- Small business owners are required to make decisions constantly, often quickly, under pressure, and independently. Do you have decision-making ability?
- Business ownership can be fun and exciting. But it is also a lot of work. At times it could mean working 12-hour workdays six or seven days a week. Do you have the physical and emotional stamina required to run a business?
- Research indicates that many business failures could have been avoided through better planning. Careful organization of finances, inventory, schedules, and production can help avoid many pitfalls. Are you an organized person and do you believe in meticulous planning?
- Running a business can wear you down. Some business owners feel burned out by having to carry all the responsibility on their own shoulders. Strong motivation makes for a successful business; it will help you survive slowdowns as well as periods of burnout. Is your drive strong enough to maintain your motivation?<sup>1</sup>

Answered "Yes" to all the questions? You're on the right track!

## GETTING DOWN TO BUSINESS!

### What is a business plan and why do I need it?

A well-defined business plan is a must for starting a new business. What exactly is it? A business plan is a summary of how a business owner or an entrepreneur intends to organize his/her business, and implement activities which are necessary and sufficient for the venture to succeed. It is a written explanation of the company's business model. It is usually a collection of sub-plans, including a marketing plan, financial plan, production plan, and human resource plan.

Business plans are used internally for management and planning, and are also used to convince outsiders, such as banks or venture capitalists<sup>2</sup>, to invest money into a venture.

Business plans are noted for often quickly becoming out-of-date<sup>3</sup>. Make sure that yours is a flexible document, and that you are able to make changes in it as your business grows.

In order to read more about business plans, and to see what your business plan should basically look like, you can visit [Bplans.com](http://Bplans.com)<sup>4</sup>. Sample business plans are also available on this website. Do remember, however, that these business plans provide you with working guidelines only.

A pre-launch scrutiny and vetting of your business idea/plan by a well-versed individual(s) is strongly advised. It can help in tipping the odds in your favour, and result in breaking-even<sup>2</sup> sooner.

### How do I organize my business?

You can choose from one of the following four options:

#### 1. You can become a sole proprietor

This is the simplest and the least expensive form of business. You do not even have to register your business name if you use your own name for the business. By becoming a sole proprietor, you will basically be on your own. You will be personally liable for all your debts and obligations, and will carry out your business with your personal bank account instead of with a corporate bank account. No formal procedures are required in Pakistan in order to start functioning as a sole proprietor. All you have to do is acquire a National Tax Number (NTN) from the relevant Income Tax department. This will enable you to conveniently file your income tax when your business crosses the break-even point. Please visit the website of the Central Board of Revenue, to read more about NTN. A downloadable application for issuing you an NTN is also available on CBR's website.

2. **You can form a single-member company**

If you choose this type, you will carry out your business with your corporate bank account instead of with a personal bank account. With this comes the added and obvious advantage of not being personally liable for the company's debts and obligations. Also, as opposed to other forms of business organization, the ownership of a single-member company is easily transferable. Therefore, in this form of business you can enjoy the advantages of both sole proprietorship and a private limited company. However, it entails a formal registration process with the Securities and Exchange Commission of Pakistan (SECP)<sup>8</sup>.

3. **You can form a partnership**

Partnerships are formed by formal agreements between two to twenty persons. The capital<sup>2</sup> in this business type is provided by the partners. They are also liable for the total debts of the firms, and share the profits and losses of the business concern according to the terms of the partnership agreement.

A partnership is a more complicated form of business as compared to a sole proprietorship. Although it has the same low cost of formation as a sole proprietorship, formalities have to be completed in order to form and dissolve one. **The main factors in deciding whether to form a partnership are: Who are the partner(s)? Are you sure you can trust them? If not, do not get involved.**

4. **You can form a private limited company**

Forming a private limited company involves a more formal process, and you should go for it only if you believe that you have enough funds, and can sustain your business in the long run.

Private limited companies are formed by formal agreements between two to fifty persons. The upside is that the liability of its members is limited to the extent of their shares in the paid-up capital of the company. Private limited companies, and public limited companies, for that matter, are distinguished from sole proprietorships and partnerships in the sense that the former are legal entities separate from their owners. As a result, the company is responsible for its own debts, assets, and lawsuits. Proper records have to be maintained for various purposes, including taxation.

Although, it is generally preferred to form a private limited company in order to take full advantage of the Government of Pakistan's incentives, it goes without saying that, ultimately, it is your business decision as to what sort of corporate structure best suits your requirements and circumstances.

While there are many firms that offer consultancy services for setting up a partnership or a private limited company, PSEB does not recommend any one firm. However, auditing firms, of which you have a wide variety to choose from, can help you in getting started with the process.

### **If I need some money to start my business, where do I get it from?**

Finances should be your No. 1 priority before you launch your IT business. In order to sustain your IT business, you must ensure that you will be able to cover its initial start-up costs, such as advance rent for office accommodation, furniture, computers and other equipment, and also be able to cover running expenses, such as utility bills, connectivity costs, salaries, and other similar liabilities. **Having access to money is the key to making your business sustainable, as most start-up companies fail, not because they were unable to win contracts, but because they did not have the cash flows<sup>2</sup> needed to ensure the survival of their business.**

That is why getting funding for your venture beforehand is extremely critical; starting your business without even planning which source you are going to rely on is a bad idea. Your business plan must, therefore, incorporate the source and the required amount of capital.

It is not easy to obtain funding for a start-up. This is a global, not a Pakistan-specific phenomenon. In almost all cases, individuals without an established track record usually manage to obtain funds from family members and friends.

There are other sources as well, particularly for those of you who possess traditional forms of collateral<sup>2</sup>, such as property and other immovable assets. Commercial banks in Pakistan today are awash with credit, and interest rates are low, making it a very attractive option to obtain loans. If, however, you do not have access to such collateral, then this is not a feasible alternative.

There are very few venture capital firms in Pakistan. They will only fund a new entrant(s) if they think that his/her/their business case is very strong. One such firm in Pakistan is TMT Ventures<sup>5</sup>. But beware: even in the USA, and in other similar economies, which have mature venture capital markets, competition for these funds is extremely fierce.

Finally, if you think that your project contains a large component of research and development, then you can consider applying for a grant from Pakistan Telecommunication Company Limited's (PTCL) R&D Fund<sup>6</sup> which gives out grants in a variety of categories. You will typically require the support of a research institution, such as your university's academic department, since these are aimed at funding projects that are basically research-oriented.

**What kind of an office do I require?**

Your Information Technology-related services office should essentially have Internet connectivity and back-up electric power supply, apart from other basic utilities. You will find these facilities in Software Technology Parks (STPs). Setting up an office in an STP requires a lot of investment. Please contact PSEB's offices in Islamabad, Karachi and Lahore to inquire beforehand if you are eligible for any related subsidies offered by the Government of Pakistan.

**From where do I obtain bandwidth, and what is the current tariff?**

Bandwidth is easily and immediately available to IT companies in Pakistan. PSEB itself also provides bandwidth to IT companies located in Software Technology Parks (STPs).

For small companies, volume-based bandwidth (64 kbps - 512 kbps) is usually sufficient. Its tariff is approximately Rs. 4,100 - 26,000, and through it the subscriber is able to receive a fixed amount of data only, after which extra tariff is charged.

PTCL<sup>7</sup> provides bandwidth outside STPs.

**What about employing human resource? And how do I recruit them?**

You could initially start your IT business with a small group of friends or family members helping you out. Later, if you expand and require more staff, then to recruit entry-level staff, job fairs at universities and institutes of higher education present a good opportunity. Their respective placement offices may also be contacted to do the same. Advertising in newspapers is also a good mode, and this works for recruiting mid-level professionals as well. For engaging high-level professionals, word-of-mouth referrals are the best source.

## SERIOUSLY GETTING DOWN TO BUSINESS!

### Does PSEB register an IT firm/company?

No, PSEB does not do that. It only registers your firm/company with itself with a view to providing you with incentives offered by the Government of Pakistan. The formal registration of your company, after which it becomes a legal entity, is carried out by the Securities and Exchange Commission of Pakistan (SECP)<sup>8</sup>, and not by PSEB. The registration process with PSEB can only be initiated after your firm/company obtains registration from SECP first.

### What about taxes?

IT firms and companies which earn through exports are exempt from corporate taxes till 2016; personal income taxes of employees, however, have to be paid. Companies deriving revenues through the domestic IT market will be taxed.

Software houses/companies are exempt from customs duties and leviable taxes on import of hardware/software tools which are not manufactured locally and which are to be used for software development and export purposes.

### How do I know what to charge?

That is probably one of the hardest questions any entrepreneur has to answer. The normal business answer is "whatever the market will bear". But how do you find out what that is? A good idea would be to go for market research.

This involves looking at similar businesses to see what is being charged for similar products or services. All the costs involved in producing the products, or services, should also be looked into.

Setting prices slightly below the going rate is a good strategy for all you young entrepreneurs out there, as it can lead to the building up of a healthy customer base for your business.<sup>1</sup>

## INCENTIVES FOR THE IT/ITeS INDUSTRY

The Government of Pakistan has provided several incentives to investors for promoting the IT industry in the country. The establishment of a reliable IT infrastructure and the provision of an incentives package are instrumental in the development of the local IT industry. Other benefits provided to the IT companies are in the form of tax holidays for 15 years and 100% foreign equity ownership. Because of these incentives, an increasing number of foreign IT companies have chosen Pakistan for their outsourcing operations. Some of the areas in which the Government is facilitating the private sector companies include:

- Information technology parks with low rents, fiber optic connectivity, libraries and conference rooms
- Provision of funds for software companies to get quality certifications
- Provision of subsidy for training cost of human resource in the IT companies
- Tax exemption for IT companies till 2016
- 5% custom duties on import of IT-related equipment
- Seven years' tax holiday for Venture Capital funds
- The rate of depreciation of computer equipment is 30%
- The State Bank of Pakistan (SBP) has allowed the opening of Internet Merchant Accounts by banks
- Instant, reliable and high-speed connectivity available
- Over 85% of telecommunications infrastructure is available on fiber optic cables

A wealth of information is available on PSEB's website for young entrepreneurs, established companies, prospective investors and the academia regarding the rapidly evolving IT and IT-enabled Services (ITeS) industry.

If you need further information regarding entrepreneurship, please contact Ms. Asmaa Haye at [ahaye@pseb.org.pk](mailto:ahaye@pseb.org.pk) or please visit:

### **National links**

Islamic Republic of Pakistan

<http://www.pakistan.gov.pk/>

**Pakistan Software Export Board (PSEB)**

<http://www.pseb.org.pk/>

Board of Investment, Government of Pakistan

<http://www.pakboi.gov.pk/>

Central Board of Revenue, Government of Pakistan

<http://www.cbr.gov.pk/>

Pakistan Telecommunication Company Limited (PTCL)<sup>7</sup>

<http://www.ptcl.com.pk/>

PTCL R&D Fund<sup>6</sup>

<http://www.ptclrdf.org.pk/>

Securities and Exchange Commission of Pakistan (SECP)<sup>8</sup>

<http://www.secp.gov.pk/>

Small and Medium Enterprise Development Authority

<http://www.smeda.org.pk/>

TMT Ventures<sup>5</sup>

<http://www.tmtventures.net/>

### **International links**

Bplans.com<sup>4</sup>

<http://www.bplans.com/>

Inc.com

<http://www.inc.com/>

United States Small Business Administration (SBA)

<http://www.sba.gov/>

### **Reference Links**

investorwords.com<sup>2</sup>

<http://www.investorwords.com/>

Wikipedia<sup>3</sup>

<http://www.wikipedia.org/>

YoungBiz.com<sup>1</sup>

<http://www.youngbiz.com/>

**Pakistan Software Export Board (G) Ltd.  
Ministry of Information Technology  
Government of Pakistan**

**Head Office -Islamabad**  
2nd Floor, Evacuee Trust Building, F-5 Agha Khan Road, Islamabad  
Tel.: +92-51-9204074, Fax: +92-51-9204075

**Lahore Office**  
5th floor, Admin Block Awain-e-Iqbal Complex, Egerton Road, Lahore  
Tel: +92-42-6307825-6, Fax: +92-42-6307827

**Karachi Office**  
Room 1201, 12th Floor, National IT Park, Ceaser's Tower, Shahrah-e-Faisal, Karachi  
Tel: +92-21-2789908, Fax: +92-21-2789915

UAN: 111 333 666  
E-mail: [info@pseb.org.pk](mailto:info@pseb.org.pk)  
Website: <http://www.pseb.org.pk>

