
Analysing business opportunities in the Madang Lagoon area

Allan Sumb

Abstract

This article reports on a study that explored income generating opportunities and activities for people living in the Lagoon area of Madang. A survey was conducted of people living in Siar, Sek, Kranket, and Riwo village communities. Males and females were equally represented in the sample. Almost all respondents reported working in the informal sector of PNG's economy with betel-nut and fish sales dominating other forms of income generation. However, the study found that people were taking advantage of being close to a major town and using their income to start small businesses such as public motor vehicles, accommodation rental, trade stores, fuel sales, alcohol sales and street stalls. The study explored people's reasons for starting businesses and their plans for future developments.

Key words: opportunity, business, strategy, goals, development, finance

Introduction

Small business is defined as a “privately-owned and operated business with relatively small turnover and staff numbers, typically seen as constituting part of a specific commercial or economic sector” (Oxford Dictionary, 2014). The people of Madang Lagoon area have opportunities to start small businesses. Their villages are strategically located near the town of Madang. They have easy access to major services such as banks, electricity, roads, hospitals, schools and shopping centres. Many people from other provinces come to Madang to access services and to find opportunities to do small business. In the process of development, the urban areas receive more attention than rural areas, thus PNG has urban-drift as village people seek improved lifestyle opportunities in towns.

A survey conducted by World Vision and the World Wide Fund for Nature (Waft, 2013) revealed that many people in the Madang Lagoon area were unemployed, land availability was limited, and most people relied on fish sales for their livelihood. Based on the survey recommendations, Inshore Fish Aggregating Devices were made possible by the Papua New Guinea National Fisheries Authority. The Madang Lagoon communities now benefit from the Inshore Fish Aggregating Devices through increased inshore fish catches. The proceeds from fish sales have been used to undertake other income generating activities. People have started small businesses ranging from public transport to rental accommodation. Their main purposes for starting small businesses are to generate income and support their families.

Previous studies

Madang Lagoon people have opportunities to start small businesses as they are living within the vicinity of the Madang town. Angasa (2003) confirmed that Madang had the potential for small businesses like fishing, vegetable farming, trade stores, transport services and agriculture. The Government of Papua New Guinea is supporting indigenous business in its Medium Term Development Strategy 2011-2015.

Economic growth based on extracting natural resources is unsustainable in the longer term. Therefore there needs to be a strong focus on developing other sectors of the economy through the private sector and small and medium enterprises (SME) in particular. SMEs are vital if PNG is to realise development that is broad-based and sustainable.

(Department of National Planning and Monitoring, 2010, p.82)

Mining companies such as Ramu NiCo and the proposed Pacific Marine Industrial Zone in the Madang Province offer opportunities for local people to engage in small and medium enterprises. The spin-off opportunities include trucking, catering, fresh food marketing, accommodation and transport services but it is unknown to what extent these benefits have reached village people. It has been suggested that the people who benefited from spin-offs are “government officials and educated elites” (Gibbs, Basse & Warr, 2013, p. 42).

Telfer and Sharpley (2008) claimed that a top-down planning approach in developing countries had greatest benefit for governments and larger firms. This has resulted in foreign companies dominating the economy and the marginalization of local people. Gibbs, Basse and Warr (2013) found that not many local people had benefited from RD Tuna Fishing operations in Madang. The local people had expressed disappointment with the social and environmental impacts of the RD Tuna fishing operations. Thus people prefer a bottom-up planning approach, which would give them the opportunity to express their views in the planning process. It is important that this occurs during the initial planning stage. Gibbs, Basse and Warr (2013) highlighted possible problems including land issues, illegal settlers, political issues, law and order, alcohol, drugs, prostitution, health issues including HIV and AIDS, environmental pollution, access to the sea, cultural change and the unequal distribution of goods and services. To address these social and environmental issues, companies must consult the people and involve them in the decision making process and establish equitable planning guidelines and standards.

Zimmerer and Scarborough (1994) discussed ways to do business that benefit local communities, the government and companies. Negotiations need to involve the local people in the planning process, allow them to state their views and opinions, and for developers to respect the views expressed. This will help local people to take ownership of projects and support company operations. Developers need to establish and maintain ethical standards. This means

creating a workplace culture that reflects ethical behaviour and moral attitudes. This promotes good relations between the company and the local people.

Sumb (2014) has argued that not many people in the Madang Lagoon area have benefited from either government initiatives or activities of the RD Tuna Fishing Company. He further stated that the Madang Lagoon people should be assisted to access loan facilities from the National Development Bank and other commercial banks to enter into small to medium enterprises. These could bring positive benefits such as creating employment for people, improving their living standard, alleviating poverty and increasing income generating opportunities.

The people of Madang Lagoon have serious land problems and over-population on small islands such as Kranket and Bilia. On these two islands, people find it difficult to grow cash crops for consumption and sale in the market. They rely on seafood and store goods (Wafy, 2013). Due to the effects of climate change, the sea has claimed part of the land. Thus, people rely heavily on their marine resources. This has resulted in over-fishing and the destruction of marine resources.

Methodology

The purpose of this research was to analyze business opportunities available to people in the Madang Lagoon area. The survey was focused on four villages in Madang Lagoon area: Riwo, Kranket/Bilia, Siar and Sek. The main instrument for collecting data was a questionnaire. The questionnaire was self-explanatory and easy to administer. The targeted villages were visited and questionnaires were distributed to respondents who were available during the selected days. The methodology for this study was a convenient sampling of small business people in the Madang Lagoon area due to availability of people during the selected days in different villages. This method was used because data collection was fast, easy, readily available and cost effective.

Findings and analysis

General demographic household

A total of 100 respondents in four villages were surveyed using a specifically designed questionnaire to obtain the desired information. Of the 100 respondents surveyed, 50 were male adults and 50 were female adults. Kranket had the highest number of female respondents and that was about 75% female and 25% male. Riwo has the highest number of male respondents about 68% male and 32% female. Table 1 shows general demographic data in percentages. Most respondents were in the 25-35 age range and virtually all were engaged in generating income in the informal sector of the economy.

Table 1: General demographic information

| Village | Siar | Riwo | Sek | Kranket |
|----------------|-------------|-------------|------------|----------------|
| Male | 40% | 68% | 64% | 25% |
| Female | 60% | 32% | 36% | 75% |
| Total | 100% | 100% | 100% | 100% |
| Age | | | | |
| 18-24 | 9% | 17% | 26% | 4% |
| 25-35 | 64% | 43% | 65% | 42% |
| 35-50 | 9% | 30% | 9% | 38% |
| Over 50 | 18% | 10% | 0 | 16% |
| Total | 100% | 100% | 100% | 100% |
| Sector | | | | |
| Formal | 6% | 8% | 8% | 4% |
| Informal | 94% | 92% | 92% | 96% |
| Total | 100% | 100% | 100% | 100% |

Types of small business

The respondents were asked to identify the types of small businesses in which they were engaged. The survey results (Table 2) show that respondents were engaged in a range of income generating activities in all the four villages. The common income generating activities in all the four villages were betel-nut sales (20%), fish sales (15%), small stores (13%) and 52% other small business activities.

Table 1. Types of small businesses in four village communities

| Business Type | Siar | Riwo | Sek | Kranket | Total |
|---|-------------|-------------|------------|----------------|--------------|
| PMV | | 1 | 2 | | 3 |
| Boat ferry | | | 1 | 4 | 5 |
| Mini trade store | 1 | 6 | 4 | 4 | 15 |
| Bottle shop, liquor sales | | 3 | | 2 | 5 |
| Trade store | 3 | 1 | 1 | 1 | 6 |
| House rental | 3 | | | 2 | 5 |
| Betel nut seller | 4 | 7 | 3 | 8 | 22 |
| Fuel sales | | | 1 | 1 | 2 |
| Soft drinks | 1 | | 5 | 7 | 13 |
| Chicken, poultry | | 1 | | 3 | 4 |
| Mini finance | | | 1 | 1 | 2 |
| Fish sales | | 5 | 4 | 8 | 17 |
| Guest house | 2 | | 2 | | 4 |
| Table market (pre-paid phone cards, cigarettes) | 8 | | | | 8 |
| Total | 22 | 24 | 24 | 41 | 111 |

Year businesses started

Respondents were asked to indicate how long they had been engaged in the various forms of business activities. Results are represented in Figure 1. Some traditional businesses, such as selling fish had been started in 1999 or earlier. Many different businesses started in the years 2001-2010 particularly in Siar, Riwo and Kranket communities. In recent years, 2011-2014, new businesses emerged in Siar, Riwo and Sek in particular. The finding of the study is that, over the years, people are continuing to find ways to start businesses.

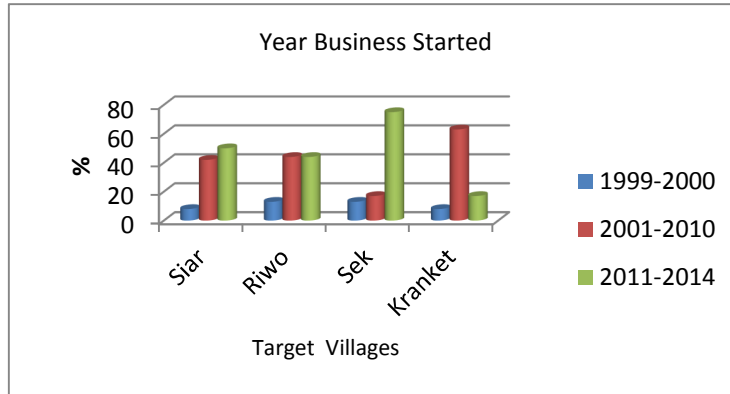


Figure 1: Year business started

Reason for starting a small business

The main reasons that respondents gave for starting a small business were: (1) to support their families, (2) to earn additional income, (3) to provide a service to the people, and (4) when government funding became available. Figure 2 indicates a different profile for Sek compared to other communities, where government funding and earning an extra income featured more prominently than to support families or provide service.

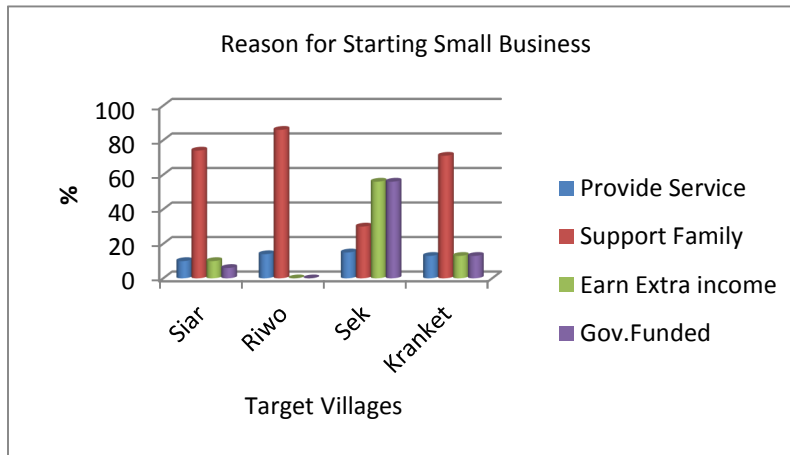


Figure 1: Reason for starting a small business

Source of funding

Respondents were asked to indicate how their businesses were funded. The study found that small businesses were overwhelmingly self-funded, about 92% of respondents in Siar, Riwo, and Sek and 76% in Kranket (Figure 3). This indicates that people are self-reliant and do not wait for assistance from government or other donor agencies. They use their own initiative to start small businesses.

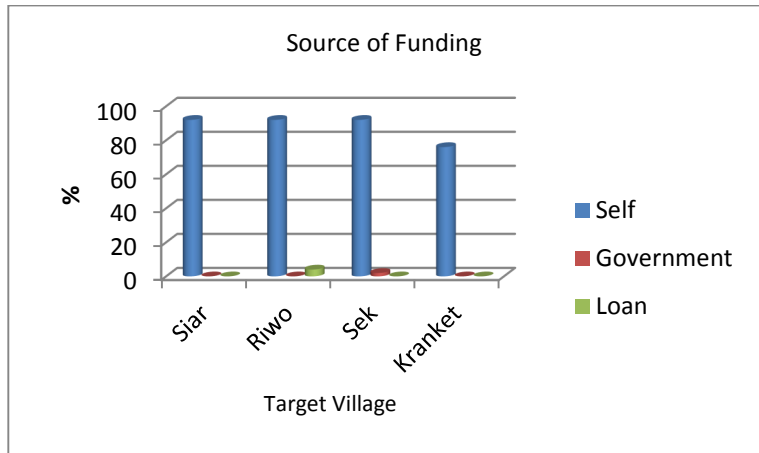


Figure 2: Source of funding

Initial capital for small business

Respondents were asked how much money was needed to start their businesses. A few respondents stated that they started businesses with K1000.00 or more. However, many started with as little as K50 to K100, and others K100 to K1000 (Figure 4).

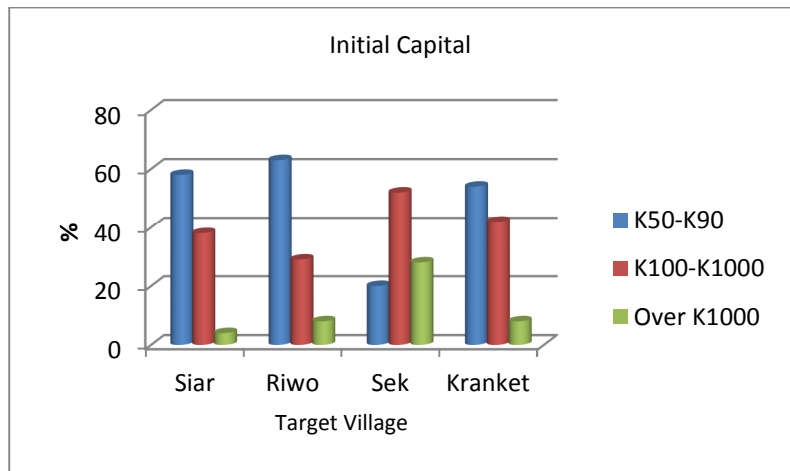


Figure 3. Initial capital

Problems and challenges

Respondents indicated that dealing with problems and challenges was a regular occurrence in running a business. The survey asked respondents about how they overcame business challenges and solved problems. Results in Figure 5 indicate that people mostly solved problems themselves or sought help from community members. Only in the Riwo community was external help reported to be used to resolve problems.

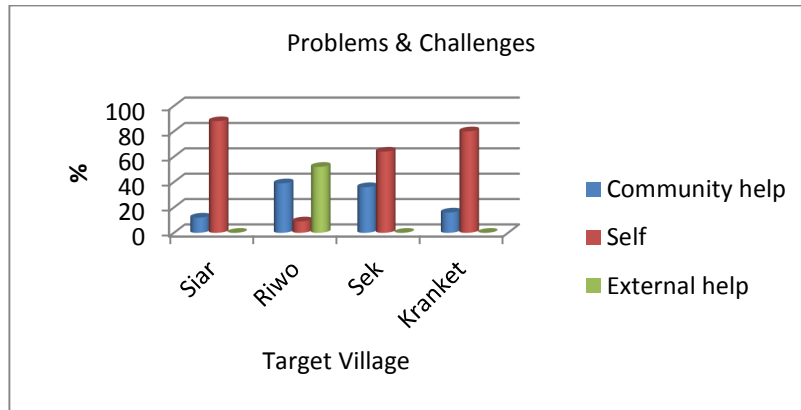


Figure 4: Problems and challenges

Expectations or goals of business

From the survey, it was revealed that all respondents had visions and goals for what they hoped to achieve from their business activities. In Siar, Sek and Kranket communities, the study found that respondents were keen to expand their businesses. In Siar and Riwo, respondents had 10 year plans. In Siar, Riwo and Kranket, the respondents hoped to diversify their products and services. Figure 6 indicates degrees of similarities and differences.

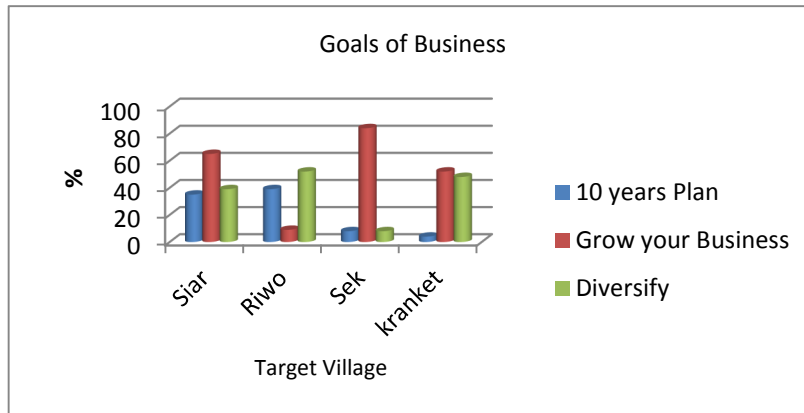


Figure 5. Goals of business

Strategies

Respondents were asked about strategies they used to achieve their goals. Three strategies were identified: saving money, minimising expenses and having a business plan. Saving money was seen as important to avoid being in debt. For a business to be sustainable, it was seen to be important to have profit margins that ensured savings.



Figure 6: Strategies to achieve goals

Future plans

Respondents were asked if they had plans for the future development of their businesses. This study found a strong response from Siar, Riwo and Sek respondents, but not from Kranket respondents (Figure 8). This is evident from the responses of respondents in Siar, 96% in Riwo, 92% in Sek, 72% in Sek and 32% in Kranket. They stated that they had plans and wanted to expand their existing small businesses.

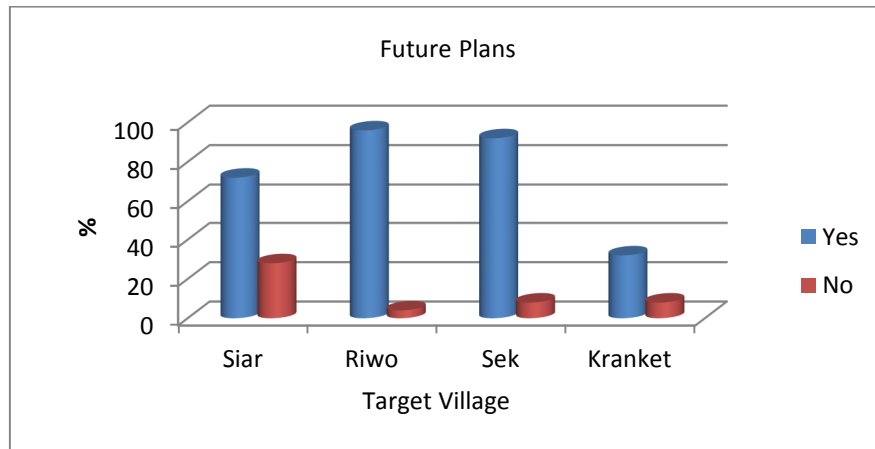


Figure 7: Future plans

Employees

Respondents were asked if they employed staff for their businesses. Based on the survey, it was found that the majority of the respondents were not employing other people. Most of the people engaged in the informal sector were family members or owners; about 88% in Siar, 96% in Riwo, 74% in Sek and 88% in Kranket (Figure 9). The high response rate can be interpreted as the tendency of small entrepreneurs to cut costs by not employing other people or due to the size of the business. Most of the small businesses are relatively small enterprises, which can be managed by family members.

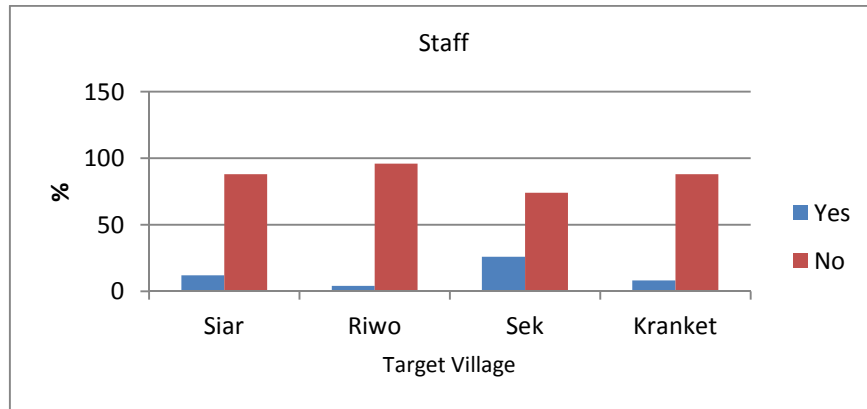


Figure 8: Employees

Target market

Respondents were asked to identify their target customers, which reflected the type of products they were selling. The results revealed that target customers included village people, people in paid employment and students (Figure 10). Most of the respondents stated that their main customers were village people. This feedback was given by 61% from Siar, 76% from Riwo, 88% from Sek and 68% from Kranket.

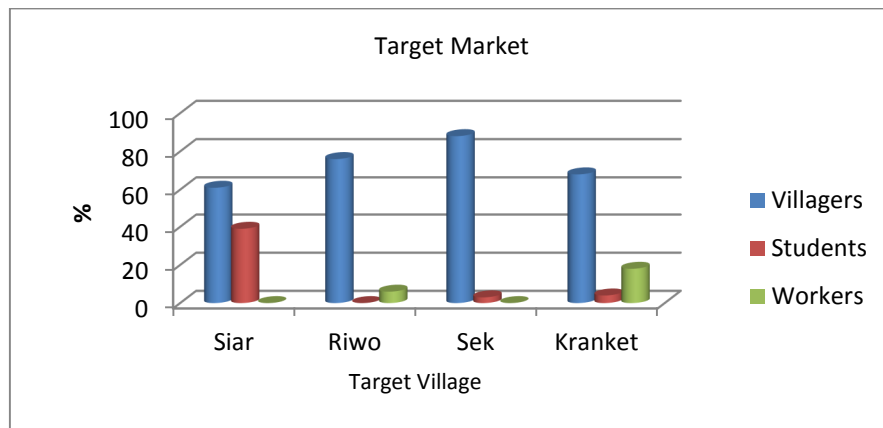


Figure 9: Target market

Competition

The respondents were asked to indicate the level of competition they experienced. The study found that there was a high level of competition because many of them were selling the same products, such as cigarettes and betel-nut. This situation was reported by 96% of respondents in Siar, 96% in Riwo, 63% in Sek and 92% in Kranket (Figure 11). They stated that many people copy from others and sell the same products to meet market demand.

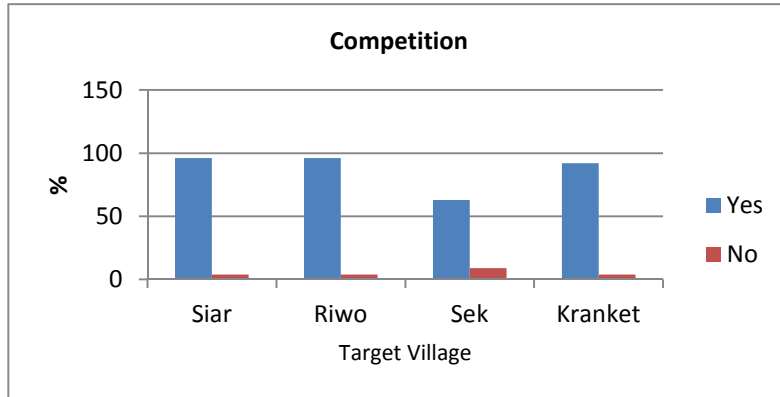


Figure 10: Competition

Marketing strategies

Respondents were asked to identify marketing activities they used. About 95% of respondents stated that they had not spent money on any marketing campaign but used only word of mouth. In business, word of mouth is a very powerful tool to promote products and services. It was evident from the results that 95% of the respondents used word of mouth to promote their products and only 5% used other marketing tools (Figure 12).

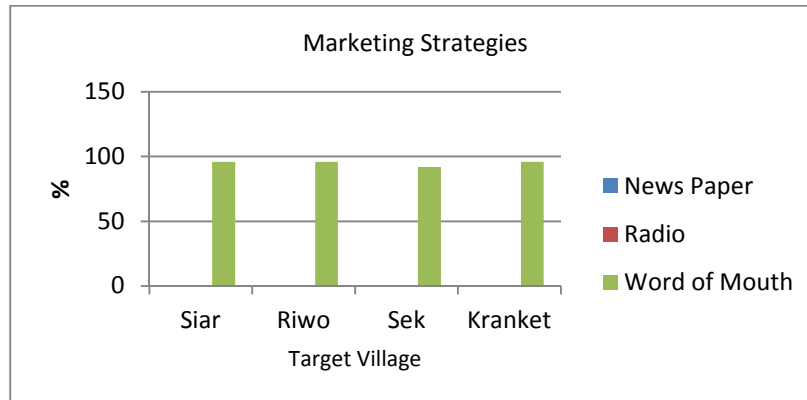


Figure 11: Marketing strategies

Business registration

Respondents were asked if they had registered their business. The results clearly show that most respondents had not registered their business: 91% of the respondents from Siar, Riwo and Sek respectively and 88% from Kranket (Figure 13). This may be because people do not feel the need to register their business or know how to do it. The benefit of registering a business helps government to recognize businesses and provide support services.

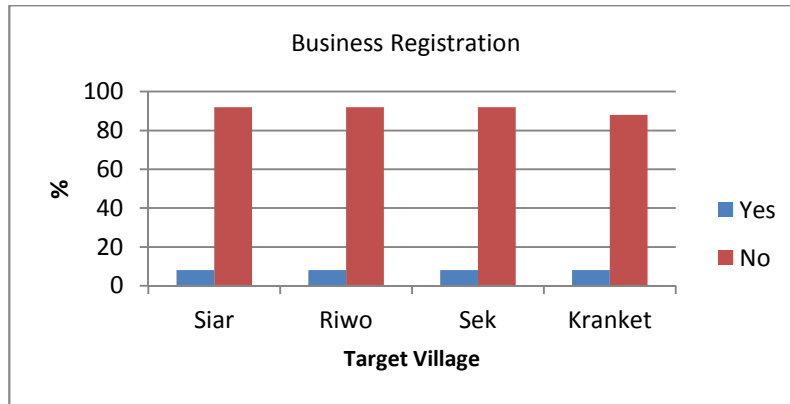


Figure 12: Business registration

Revenue

Respondents were asked how much money they made weekly from their small businesses. For many their income was K50 to K200 weekly: 92% in Siar, 36% in Riwo, 60% in Sek and 65% in Kranket. This was mainly from selling products such as fish, betel nut and cigarettes. A few respondents made between K200.00 to K249.00 in a week. A few respondents owned a mini bus service or boat ferry and they made more than K250.00 a week. There is a correlation between the revenue and the type of small business in which they were engaged.

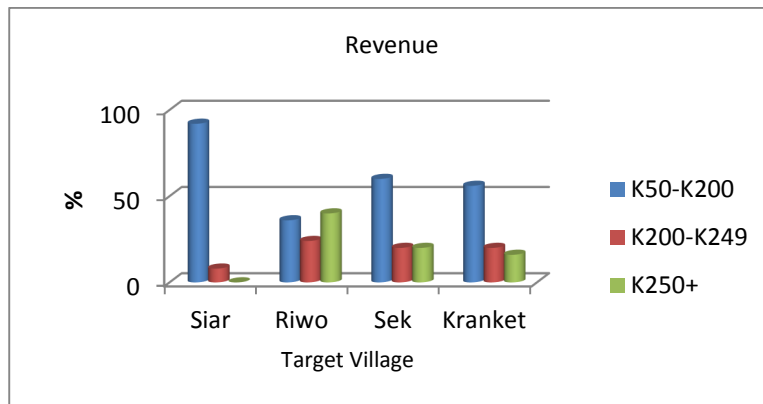


Figure 13: Revenue

Recommendations

From the findings of this study it is recommended that more could be done to assist village people to undertake and sustain small and medium enterprises. The local Madang Lagoon communities are interested in doing business but need seed funding from relevant authorities to expand or diversify their small businesses. Some of the respondents stated that they wanted to use proceeds from fish sales to buy a motor boat or a public motor vehicle but lacked enough funding. Financial Institutions need to consider village people and make their loan criteria flexible for small business people to obtain loans and start or expand their businesses. Currently, the criteria used by commercial banks mainly target business and working class people.

A major issue with the informal sector is competition with almost all the surveyed mothers selling the same products. To address this issue, it is recommended that mothers establish a mothers' group or association and register with the Investment Promotion Authority (IPA). This association could organize mothers to sell different types of food or do different types of business. In addition, through this organization, they could seek funding from government and other donor agencies.

Conclusion

The survey results showed that Madang Lagoon people have many opportunities to venture into different types of small businesses. The common types of small businesses included sales of fish, chickens, betel-nut, pre-paid phone cards, cigarettes, soft drinks and trade store items. Less common small businesses were public motor vehicles, boat ferries, fuel sales, house rental, bottle shop liquor sales and mini loan schemes. Competition was high where business owners sold the same products as others. The bottom line for all businesses was to make a profit. The proceeds from the businesses were used to support family needs and for business expansion. The entrepreneurs have the desire to expand their businesses but have difficulty in securing enough finance. While small business people demonstrate a high level of self-reliance, they need some form of assistance from the government and other agencies to help them achieve their goals.

References

- Angasa, M. (2003). *The emerging rural economy case study analysis of small-scale business in Madang Province*. Madang: DWU Press.
- Department of National Planning and Monitoring (2010). *The medium term development Plan 2011-2015; Building the foundations for prosperity*. Port Moresby: Department of National Planning & Monitoring.
- Gibbs, P., Basse, L. & Warr, T. (2012). PMIZ promise and plight. *Contemporary PNG Studies DWU Journal, Volume 16*, pp. 37-49. Madang: DWU Press.
- National Development Bank. (2014). *Loan application*. Retrieved November 10, 2014, from <http://www.ndbpng.files.wordpress.com/2012/04/consumerapplicationform.pdf>
- National Development Bank (2014). *Boost for credit scheme*. Retrieved November 10, 2014, from www.ndbpng.wordpress.com/?s=nixon+duban

-
- Ross, L. D. & Lashley, C. (2008). *Entrepreneurship and small business management in the hospitality industry*. Retrieved October 22, 2014 from <http://www.elsevier.com/books/entrepreneurship-and-small-business-management-in-the-hospitality-industry/lee-ross/978-0-7506-8448-4>
- Schapter, M. & Volery, T. (2004). *Entrepreneurship and small business: A Pacific perspective*. Sydney: John Wiley & Sons Australia, Ltd.
- Sullivan, N. (2003). *Report on RD tuna canners PTY Ltd and RD fishing PNG Pty*. Retrieved October 22, 2014 from <http://www.rdtunapng.com/docs/sullivanreport.htm>.
- Sumb, A. (2014). *Socio-economic baseline survey: improving livelihood and food security of Madang Lagoon Community*. Madang: WWF.
- Telfer, D. J., & Sharpley, R. (2008). *Tourism and development in the developing world*. New York: Routledge.
- Wafy, A. (2013). *Socio-economic baseline survey: improving livelihood and food security of Madang Lagoon Community*. Madang: World Vision.
- Zimmerer, T. W., & Scarborough, N. M. (1994). *Essentials of small business management*. New Jersey: Macmillan Publishing Company.

Author

Allan Sumb is a senior tutor in the Tourism and Hospitality Department at Divine Word University. He comes from the Western Highlands Province of Papua New Guinea, and is the recipient of a scholarship from New Zealand Pacific Scholarships to study towards a Master's degree in Tourism at Otago University, New Zealand. Email: asumb@dwu.ac.pg