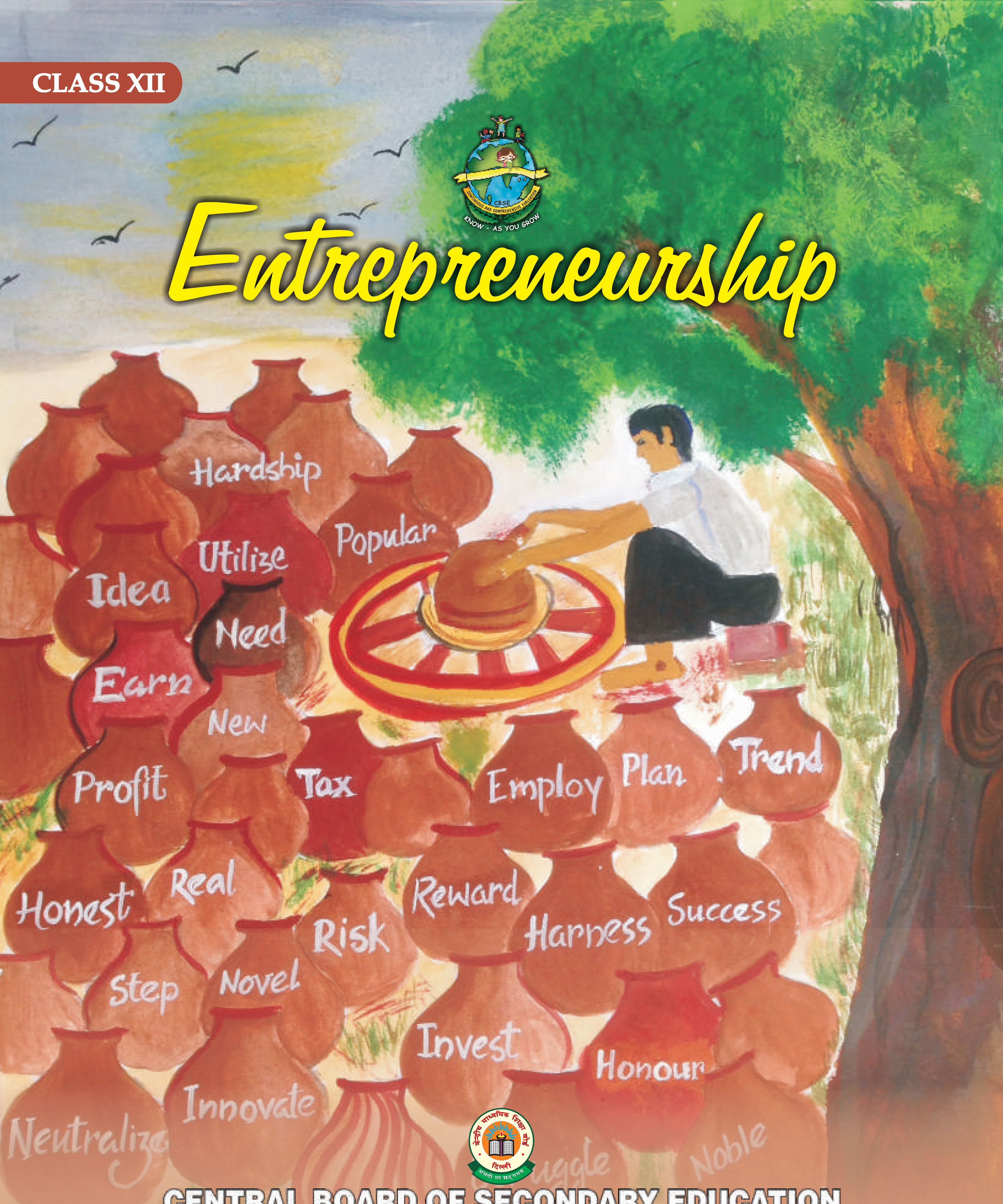
CLASS XII

Entrepreneurship



CENTRAL BOARD OF SECONDARY EDUCATION
Shiksha Kendra, 2, Community Centre, Preet Vihar, Delhi-110 301 India

नया आगाज़

आज समय की माँग पर
आगाज़ नया इक होगा
निरंतर योग्यता के निर्णय से
परिणाम आकलन होगा।

परिवर्तन नियम जीवन का
नियम अब नया बनेगा
अब परिणामों के भय से
नहीं बालक कोई डरेगा

निरंतर योग्यता के निर्णय से
परिणाम आकलन होगा।

बदले शिक्षा का स्वरूप
नई खिले आशा की धूप
अब किसी कोमल-से मन पर
कोई बोझ न होगा

निरंतर योग्यता के निर्णय से
परिणाम आकलन होगा।
नई राह पर चलकर मंज़िल को हमें पाना है
इस नए प्रयास को हमने सफल बनाना है
बेहतर शिक्षा से बदले देश, ऐसे इसे अपनाए
शिक्षक, शिक्षा और शिक्षित
बस आगे बढते जाएँ
बस आगे बढते जाएँ
बस आगे बढते जाएँ.........

ENTREPRENEURSHIP

Class-XII

E enterprising
N novelty
T trends
R risks
E employment
P profits
R rewards
E empowerment
N new
E emerging
U utilize
R record
S struggle
H harness
I innovation
P popular

CENTRAL BOARD OF SECONDARY EDUCATION

Shiksha Kendra, 2, Community Centre, Preet Vihar, Delhi-110 301 India

ENTREPRENEURSHIP

Entrepreneurship Class XII

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भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक सम्पूर्ण [1]प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य बनाने के लिए, तथा उसके समस्त नागरिकों को:

सामाजिक, आर्थिक और राजनैतिक न्याय,
विचार, अभिव्यक्ति, विश्वास, धर्म
और उपासना की स्वतंत्रता,
प्रतिष्ठा और अवसर की समता
प्राप्त कराने के लिए
तथा उन सब में व्यक्ति की गरिमा
[2]और राष्ट्र की एकता और अखंडता
सुनिश्चित करने वाली बंधुता बढ़ाने के लिए

दृढ़संकल्प होकर अपनी इस संविधान सभा में आज तारीख 26 नवम्बर, 1949 ई॰ को एतद्द्वारा इस संविधान को अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।

---

1. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977) से "प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य" के स्थान पर प्रतिस्थापित।
2. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977) से "राष्ट्र की एकता" के स्थान पर प्रतिस्थापित।

भाग 4 क

मूल कर्त्तव्य

51 क. मूल कर्त्तव्य – भारत के प्रत्येक नागरिक का यह कर्त्तव्य होगा कि वह –

(क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;

(ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;

(ग) भारत की प्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण रखे;

(घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;

(ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभाव से परे हों, ऐसी प्रथाओं का त्याग करे जो स्त्रियों के सम्मान के विरुद्ध हैं;

(च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे;

(छ) प्राकृतिक पर्यावरण की जिसके अंतर्गत वन, झील, नदी, और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणी मात्र के प्रति दयाभाव रखे;

(ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;

(झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;

(ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई उंचाइयों को छू ले;

[1](ट) यदि माता-पिता या संरक्षक है, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य के लिये शिक्षा के अवसर प्रदान करे।

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1. संविधान (छयासीवां संशोधन) अधिनियम, 2002 की धारा 4 द्वारा प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a [1]**SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the[2] unity and integrity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

---

1. Subs, by the Constitution (Forty-Second Amendment) Act. 1976, sec. 2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs, by the Constitution (Forty-Second Amendment) Act. 1976, sec. 2, for "unity of the Nation" (w.e.f. 3.1.1977)

THE CONSTITUTION OF INDIA

Chapter IV A

FUNDAMENTAL DUTIES

ARTICLE 51A

Fundamental Duties - It shall be the duty of every citizen of India-

(a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;

(b) to cherish and follow the noble ideals which inspired our national struggle for freedom;

(c) to uphold and protect the sovereignty, unity and integrity of India;

(d) to defend the country and render national service when called upon to do so;

(e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;

(f) to value and preserve the rich heritage of our composite culture;

(g) to protect and improve the natural environment including forests, lakes, rivers, wild life and to have compassion for living creatures;

(h) to develop the scientific temper, humanism and the spirit of inquiry and reform;

(i) to safeguard public property and to abjure violence;

(j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;

[1](k) to provide opportunities for education to his/her child or, as the case may be, ward between age of 6 and 14 years.

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1. Subs. by the Constitution (Eighty - Sixth Amendment) Act, 2002

Foreword to the Revised Edition

"You are the makers of your own fortunes. You make yourselves suffer, you make good and evil, and it is you who put your hands before your eyes and say it is dark. Take your hands away and see the light."

– Swami Vivekanand

The CBSE's Entrepreneurship curriculum for classes XI and XII, stands out for its strong dynamism, continuous evolution and development. Since 2001, the curriculum has been changed by adopting the functional approach. In the current climate of psychological, social and economic changes, society is influenced by explosive knowledge creation and exponential technology growth. Thus the need to modify and infuse changes in the Entrepreneurship Curriculum at +2 level is a necessary step in the upgradation and updation of the existing curriculum.

The course aims at providing the basic concepts of entrepreneurship, thereby equipping the students with entrepreneurial values, attitudes, motivation and competencies so that they can pursue a career that also calls for creativity and innovation. To accelerate the pace of development of our economy, we need, more entrepreneurs who generate wealth and job opportunities for the country. Infact the entire world needs 'job providers'.

The increasing use of the internet also impacts on our objectives to give our learners a greater autonomy in their learning and enabling differentiated instruction, and, its transformational impact on the teaching methods and deployment of assessment tools, consistent with those objectives. At +2 level, students begin to contemplate and introspect on their choice of subjects for higher studies. For some students, this stage may be the end of their formal education, leading to the world of work and employment; for others, the foundation for higher education. They may choose either a specialized academic course or job-oriented vocational courses. Entrepreneurship would equip them with the necessary skills to make a meaningful contribution towards their personal and professional growth in future.

The revised edition of Entrepreneurship incorporates new chapters that introduce students to market dynamics and encourage their hidden entrepreneurial skills. The revision aims at providing some background information, case studies, activities, new templates and basic concepts to help the students attain a better understanding of higher-order concepts that are being dealt with in greater detail in the curriculum of class XII.

Teachers handling the course need to inform themselves regarding the effective use of course content, teaching methodology, management of group work and independent individual work, management of large classes, appropriate use of assessment tools, grading and record-keeping to benefit their students.

The revision of this book would never have been possible but for the sincere effort, devotion and leadership of Dr. Sadhana Parashar, Professor & Director [Academics, Research, Training & Innovation], CBSE and Mr. Sandeep Sethi, Education Officer with his team. Any further suggestions are welcome and will be incorporated in the future editions.

Vineet Joshi
Chairman, CBSE

E enterprising
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E emerging
U utilize
R record
S struggle
H harness
I innovation
P popular

Acknowledgement

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POEM

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BACK PAGE

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E N T R E P R E N E U R S H I P

Content

Entrepreneurship Poem

With thousands of dreams abound
And means only limited and sound
Eager to go and gain some ground
Was far away an entrepreneur found

The need to work but the want for power
To ponder and permute as the tallest tower
The twists and turns to evolve and empower
Bloomed an entrepreneur like from bud, a flower

Struggle and conflict was eventually faced
As towards the dream the entrepreneur hastily raced
Learning to believe that life ain't that white laced
The need to stand apart emblazoned where the entrepreneur based
Wiped own wounds and stood there emboldened and braced

Through the roads of creativity and innovation
Came an idea, a product of strategic gestation
Wrapped in the clothes of astound and aberration
The responsibility to work hard and well for an entire nation

The entrepreneur's child the world said
Obstacles are mere opportunities that bind the thread
Busy creating jobs and walking ahead
Dignity and pride for one and all the entrepreneur bred
Turning the world around feeding mouths never fed

For all those who want to flourish and find,
For all those who from the crowd want to unbind
Who were born to walk ahead and reap much more of the grind,
They learnt these secrets- not known to many minds

A voyage in this textbook as to how shall we reach
The change the world craved, we shall teach
What ordinary subjects merely can preach
We shall practice and persevere, everyone and each

As the book reveals much wisdom, it decides to confess
It lays down quite clearly all keys to success
Most of the world we shall learn through this subject as it shall fluoresce

UNIT–1: ENTREPRENEURIAL OPPORTUNITY

"The best way to predict the future is to create it."

– Peter Drucker

Learning Objectives

The learner would be able to:

- Understand the concept and elements of business opportunity
- Understand the factors involved in sensing opportunities
- Understand the concept of environment scanning
- Enlist the various factors affecting business environment
- Understand the meaning of idea fields
- Enlist the various sources of idea fields
- Understand the technique of transformation of ideas into opportunities
- Understand what is trend spotting
- Elaborate on the creative and innovative processes

Content

- **Sensing Entrepreneurial opportunities**
- **Environment scanning**
- **Problem identification**
- **Spotting trends**
- **Creativity and Innovation**
- **Selecting the right opportunity**

Case Study-I
Bull in a China Shop

La Opala is India's only opal glassware maker and ready to take on global competition.

In the 19th century, it was common to import good china crockery in return for opium exports from Calcutta. However, bone china crockery never really caught on, because it used cow bone ash. Even today, food is served on glass plates at traditional weddings for this reason.

La Opala

The porcelain and glass tableware market in India has always been strong. However, after independence and under foreign exchange restrictions, crockery imports tapered off and the market was filled with small manufacturers with products of suspect quality.

A small glass kiln, Radha Glass, at Madhupur in Bihar, has been making tea shop glasses, jars that are found in the neighbourhood grocery shop, and hurricane- lamp shades for decades. The eldest son of the family, Sushil Jhunjhunwala, inherited his father's business in the mid-1980s. Jhunjhunwala realised that nothing big could had happen, if he stuck to traditional glass products and was persuaded to look around. He got an idea when, in late 1980s, during a trip to South Korea, he came across an opaque white glass called 'Opal'. Impressed by its look, he decided to manufacture it with the use of imported machinery – and La Opala was born in 1988.

Jhunjhunwala's timing was almost perfect because liberalisation and the Indian middle-class affluence began to bloom after 1991, and every middle-class home was gifted one or two La Opala sets at a wedding. "The idea was to bring out an elegant product, Indianise it and make it readily available at an affordable price. Also, the attractive oven – proof designs were a welcome change from the heavy porcelain and china tableware that dominated the Indian market at that time" recalls Jhunjhunwala.

In 1996, Jhunjhunwala started a handmade lead-crystal glassware unit in collaboration with Doosan of South Korea. It was a well-placed investment because labour rates in the main crystal manufacturing countries were high and also because the Indian middle classes were developing a penchant for good glasses. Solitaire, hand-made, lead-crystal glassware making has now matured with 1,100 tpa production and annual sales at ₹18 crore. There are about 150 skilled workers who hand-carve crystal at the Madhupur plant.

In 2007, Jhunjhunwala started a second plant in Sitarganj near Haldwani in Uttrakhand, attracted by the hill-state tax regime and its proximity to Delhi's fancy market. Now, the plant capacity has just been doubled to 8000 tpa at an investment of ₹22 crore. La Opala, a silent performer, has reported sales of ₹157.66 crore and a PAT of ₹22.8 crore for the year ended March 2013- an increase of 34% in revenue from ₹117.5 crore sales, with PAT of ₹12.6 crore, in the previous year. La Opala is the only opal glassware manufacturer in India and holds 40% of the ₹400 crore estimated opal glassware market, in competition with global brands like Corelle of Corning, US and Luminarc of France.

Courtesy: Business India magazine, May 27 to June 9, 2013 issue

Peter F. Drucker defined entrepreneur as one who always searches for an opportunity. The basic test of a successful entrepreneur is the identification of business opportunity in the environment and initiating steps to produce and sell goods and services to make the best use of that opportunity.

Entrepreneur →	Entrepreneurship →	Enterprise
The Person	The Process	The Outcome

What is a business opportunity?

There are a lot of opportunities in the world of business, which everyone might not be able to spot. An entrepreneur should be able to spot it. Business opportunity can be described as an economic idea which can be implemented to create a business enterprise and earn profits. Before selecting an opportunity, the entrepreneur has to ensure two things-

- There is a good market for the product he is going to produce
- The rate of return on the investment is attractive to be accepted by him

Only when the entrepreneur is able to fulfil these two criteria, he/she can be successful. Quite often, a question arises - Can all ideas be converted into opportunities? Mostly entrepreneurs conceive an idea and start their business without even analysing the market which often leads to satisfying their own ego, and the result is that they launch a product that has very few customers.

Elements of a business opportunity

A business opportunity may be described as an attractive economic idea which could be implemented to create a business, earn profits and ensure further growth. A business opportunity has five elements which are as follows:

- Assured market scope
- An attractive and acceptable rate of return on investment
- Practicability of the idea
- Competence of the entrepreneur to encash it
- Potential of future growth

Case Study-II
Meals-on-Wheels

How many of you have travelled long distance in Indian trains? Wouldn't it be great to order food of your choice online while booking your train ticket so that it can be delivered at your seat in the train? That's exactly the service TravelKhana offers to train travellers.

The Idea

Travel is a passion for the founders of TravelKhana and there is considerable work done in the Indian internet space in this sector. However, they felt, once a passenger buys a ticket, there is very little that technology has to offer in terms of the passenger's needs being fulfilled for food, local transport and local lodging. This is an even bigger problem for the train passengers and there is a huge gap between demand and supply. Being someone who has suffered several times while travelling, Pushpinder came up with this idea of capitalizing on this opportunity.

TravelKhana is a marketplace that connects passengers with several restaurants on the Indian rail network. It offers a variety of choices to a railway passenger so that the passengers can order food as per their liking and at their price point while they are travelling. Travelkhana.com is a Service for transforming the experience of the railway passenger. TravelKhana aims to solve a "food-on-the-move" issue by making available fresh, tasteful food to Indian Railways' commuters. Travel in India inefficiency and their mission is to remove those inefficiencies through operational excellence.

The Founder

Pushpinder Singh, CEO & Chief Architect of TravelKhana has a Masters degree in Computer Science from BITS-Pilani and a B.Tech from IT-BHU. He has over 15 years of software and technology industry experience, particularly focused around the product industry, besides having played the role of CTO in 2 of his earlier successful ventures.

Pushpinder was most recently the V.P Technology and acting CTO for INCA Informatics. He has, in the past, provided sustenance, continuity and providing thrust to an existing world leading product (Quark Xpress). Creation & contribution has been a hallmark of his career and he has been instrumental in creating and taking to market multiple products of repute at Quark, ARI Labs and Aplion Networks.

Pushpinder Singh

Start-up and Growth

We all know that Indian Railway is one of the biggest networks in the world. It's been a backbone of Indian transport for more than 50 years and will always be. There are new trains launched after every budget, along with new or extended train routes. 8 billion people travel in India by train annually and of them 10% are premium users.

The TravelKhana automated platform, tracks trains in real time across India and ensures that fresh food is delivered to the passenger as per their choice in real time. It also helps vendors and restaurants in terms of effective and efficient fulfilment. Additionally, it completes an entire fulfilment cycle right from the point of ordering to delivery, customer feedback and reconciliation.

TravelKhana currently operates by offering a call center interface as well as a web interface to passengers. The web version is currently in beta and still undergoing changes. These interfaces will be followed with a Mobile App and an SMS versions. TravelKhana will take your order with a minimum of one hour of lead time before the train arrival at a particular station.

The company tied up with travel agents who sell railway tickets. Travelkhana.com provides them free paper to print their tickets in return for advertisement space on the back of the ticket. What better way to reach out to your target audience! Travelkhana.com also offers each agent a login ID to the travelkhana.com website in case passengers want to book their meals while booking their tickets.

TravelKhana currently operates in 30 cities and is rapidly expanding across the railway network. Now, they are looking at adding several cities across the Indian map and increasing the market size. They also plan to focus on acquiring the Internet customer using a focused marketing campaign and to work along with vendors such that a delightful customer experience can be provided to the customers each time with reliable deliveries and excellent quality of products each time an order is placed. This will require efficient logistics as well managing that the quality of food is consistent with each delivery. TravelKhana has tie-ups with about 200 vendors across 50 railway stations in the north and west and has plans to expand to other regions by pulling in venture capital. Once the rail business stabilises, Singh also intends to extend the convenience to bus passengers.

Funding

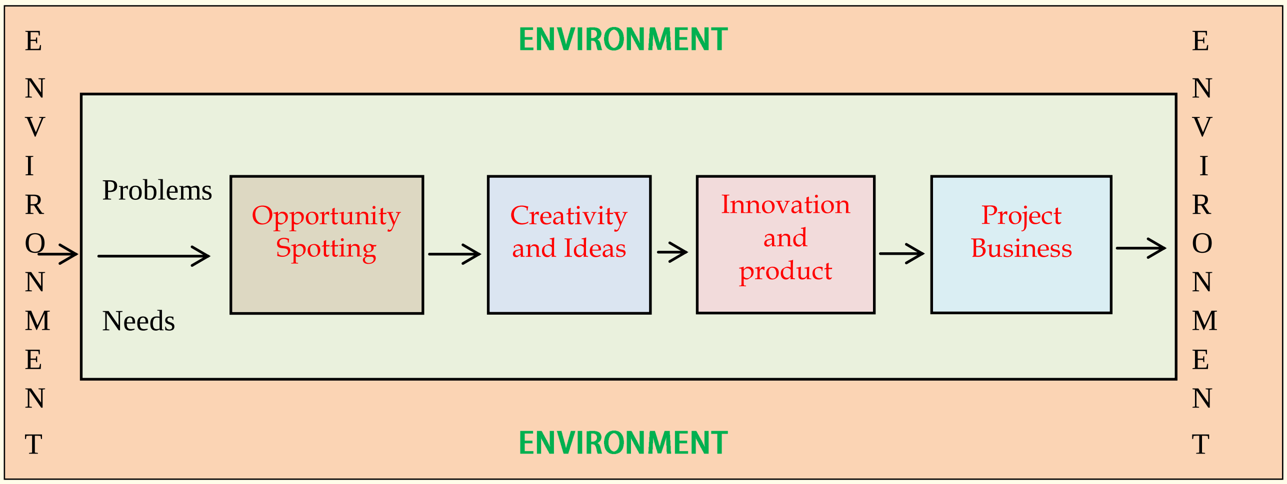
The founders have invested ₹ 20 lakhs (approximately) so far in addition to the accrued revenues from services. The promoters have further committed ₹ 30 Lakhs to the venture. They are also looking for raising an angel round now and are at various stages of discussions with potential investors.

Challenges

While starting up, they faced several challenges such as focused customer acquisition, training the vendors with the process, operations and logistics management and resistance from existing and established players. While the aspects related to logistics management are aided by the platform technology, TravelKhana continues to work on others.

Exploring opportunities in the environment

A prospective entrepreneur has to find an opportunity which would be suitable for him/her in terms of customers to be served and profits expected. An opportunity may be derived from the needs and problems of the society.



Enterprise Process Diagram

This diagram shows the following stages:

i) Opportunity spotting by analysing the needs and problems that exist in the environment

ii) Evaluating the ideas received from different sources to find a creative solution

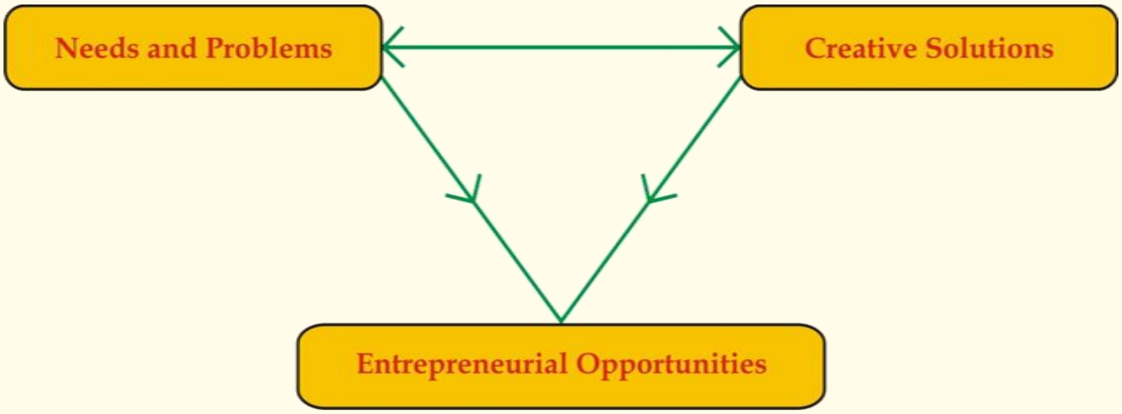
iii) Identifying a product or service through innovation

iv) Setting up a project and nurturing it to success

Sensing entrepreneurial opportunities is thus a process of converting an idea into an opportunity and then into an enterprise. We can see clearly that the first stage is to spot the needs by looking into the needs and problems that exist. For example, in the second case study on TravelKhana, we can clearly see that the entrepreneur struck on the idea of starting the venture when he faced problems himself, while travelling. It is then he saw the opportunity that people are ready to pay money for good quality food while travelling.

Perceiving and sensing opportunities

The entrepreneurs perceive opportunities, synthesize the available information and analyse emerging patterns that escape the attention of other people. They are people with vision, capable of persuading others such as customers, partners, employees and suppliers to see the opportunity, share and support it.



Factors involved in sensing opportunities

To sense an entrepreneurial opportunity, an entrepreneur employs his/her sharpened skills of observation, analysis and synthesis to identify an opening. The most important factors involved in the process are:

1. Ability to perceive and preserve basic ideas which could be used commercially
2. Ability to harness different sources of information
3. Vision and creativity

Ability to perceive and preserve basic ideas

Spotting an idea often triggers the process of sensing an opportunity. The following are the various sources which lead to the emergence of basic ideas.

a) **Problems:** When a problem exists, an idea leads to a solution to resolve that problem, it emerges as a business opportunity.

b) **Change:** A change in social, legal, technological aspects etc. leads to new opportunities to start a business.

c) **Inventions:** New products or services leads to new business opportunities.

d) **Competition:** Competition often results in emergence of new and better ideas that result in new business opportunities.

e) **Innovation:** Creating new things of value as well as new and creative processes that add value to the existing products or services. For example, computers to tablets.

Ability to harness different sources of information

Various sources like magazines, journals, books, seminars, trade shows, family members, customers, friends etc. help in getting information that results in evolution of basic ideas. Bring together various sources of information and knowledge, and analyze it to the best possible extent. The analysis helps in the identification of the right opportunity to start a new business.

Vision and creativity

Creativity in innovating a solution and vision. The entrepreneur should be able to creatively identify an idea to generate a valuable solution to a problem. Once the solution is identified their vision to convert the solution into business opportunity helps them to move forward, overcoming all the obstacles. They constantly

a) overcome adversity

b) exercise control over the business

c) make a significant difference.

Environment scanning

Business environment may be defined as all those conditions and forces external to a business unit under which it operates. Entrepreneurship does not emerge and grow spontaneously. Rather, it is dependent upon several economic, social, political, legal and other factors.

What is environment scanning?

Careful monitoring of an organization's internal and external environment for detecting early signs of opportunities and threats that may influence its current and future plans.

Why do we need to scan our environment?

In a rapidly changing environment, one rule of thumb applies: If you don't adapt, you don't endure. This is the core idea behind environmental scanning. Definitions of the term refers to the means by which organizations gather information on changing conditions and incorporate those observations into a process where necessary changes are made. The right information, combined with the right adaptations, can determine an organization's future viability. If an entrepreneur is not aware of the environment surrounding his/her business, he/she is sure to fail.

Importance of environment

Sensitivity to environmental factors is crucial for an entrepreneur. If a company is able to adapt to its environment, it would succeed in the long run. For example, Sony is failing to understand the changing trends in mobile phones and therefore losing it's market share. The benefits of understanding the relevant environment of business are:

i) Identification of opportunities to get first mover advantage:

By keeping in touch with the changes in the external environment, an enterprise can identify opportunities and find strategies to capitalise on the opportunities at the earliest. For example, Volvo, the Swedish brand, has 74% share in the luxury bus segment as it had entered India earlier.

ii) Formulation of strategies and policies:

It helps in identifying threats and opportunities in the market. These can serve as the basis of formulation of strategies to counter threats and capitalise on opportunities in the market.

iii) Tapping useful resources:

If the company has a thorough knowledge of the external environment, it can tap raw materials, technology and even financial resources from the market at economical prices, at the right time.

iv) **Better performance:**

Proper understanding of the various elements of the external environment is necessary to take timely action to deal with threats and avail opportunities for the purpose of improvement in the performance of the firm.

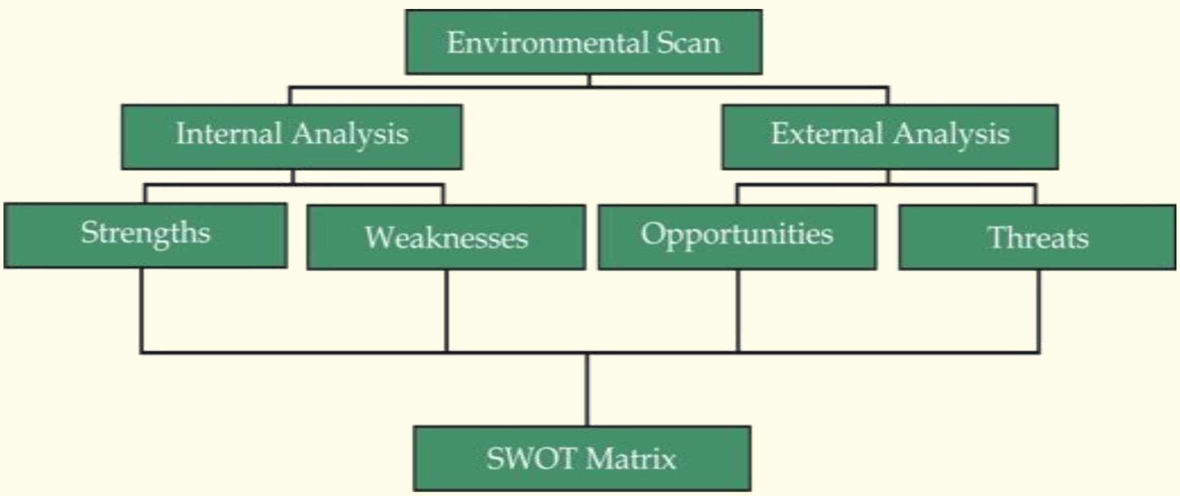
v) **Sensitisation of entrepreneurs to cope up with rapid changes:**

A keen watch on the trends in the environment would help sensitise the entrepreneur to changing technology, competition, government policies and changing needs of the customers. For example, trends in clothing.

i) **Image building:**

If a company is sensitive to the external environment, it will come out with new products and services to meet the requirements of the customers. This would build the image or reputation of the firm in the eyes of the general public. For example, call–radio taxis with additional features like GPS systems, online booking etc.

SWOT Analysis Framework



Analysis of environment

Environment analysis is the process of monitoring the economic and non-economic environment, to determine the opportunities and threats to an organisation. Such an analysis involves data collection, information processing and forecasting to provide a rational basis for developing goals and strategies for business survival and growth.

Information for environmental scanning can be collected from several sources. These include

a) verbal information from customers, wholesalers, retailers, distributors, consultants, etc.

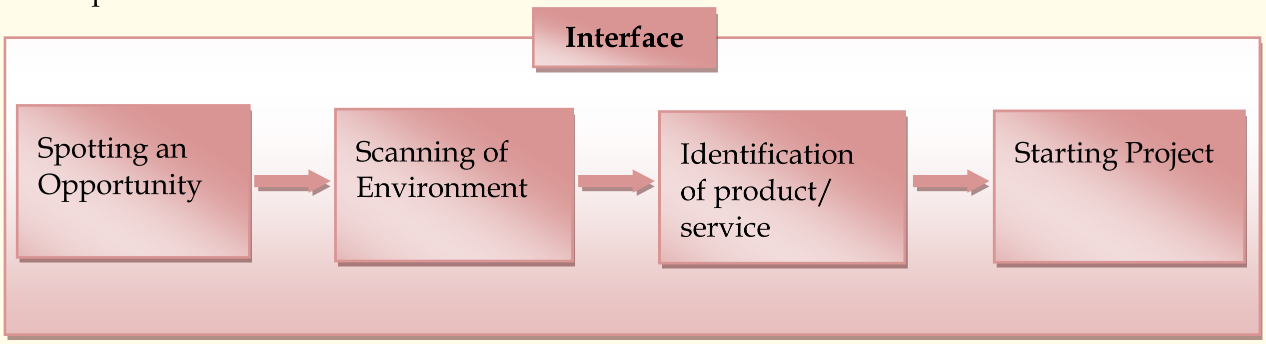
b) records of companies

c) government publications

d) publications by various financial institutions

e) formal studies conducted by strategic planners

The data, so obtained, is processed and analysed with the help of quantitative and qualitative techniques.



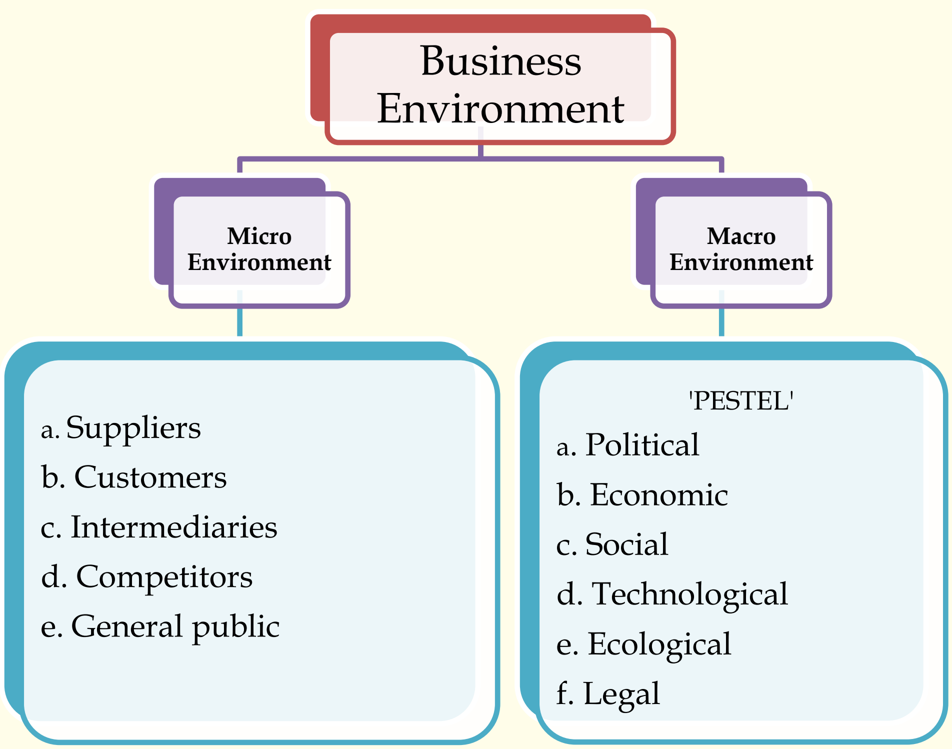
Opportunity – Project Interface

The flow chart shows that an opportunity received by the entrepreneur should be tested against important environmental parameters to arrive at a sound business choice. This interface is an evaluative process leading to a judgement. Is it a viable idea? Does it make sound business sense? If yes, the entrepreneur can proceed to the next stage of product or service identification.

Environmental factors

Entrepreneurship environment refers to the various forces within which various small, medium and large enterprises operate. These factors exert influence upon each other and do not operate in isolation.

Business environment consists of two levels, i.e., micro environment and macro environment.



The micro factors have been discussed in class XI, so we move on to factors affecting the macro environment.

The PESTEL Model

Political: The political environment includes taxation policy, government stability and foreign trade regulations.

Economic: The economic environment includes interest rates, inflation, business cycles, unemployment, disposable, income, energy, availability and cost.

Social: The social/cultural environment includes population demographics, social mobility, income distribution, lifestyle changes, attitudes to work and leisure, levels of education and consumerism.

Technological: It is influenced by government spending on research, new discoveries and development, government and industry focus of technological effort, speed of technological transfer and rates of obsolescence.

Ecological: It considers the ways in which the organisation can produce its goods or services with minimum environmental damage.

Legal: It covers areas such as taxation, employment, law, monopoly, legislation and environmental protection laws.

For example, an airline is planning to expand over the next five years. The following would be some of the PESTEL factors it should consider:

Political: Political unrest, terrorism, landing rights in foreign countries.

Economic: Oil prices, exchange rates, taxation (For example, VAT on fuel), economic boom or depression (airline revenues are very sensitive to business traffic)

Social: Change in population size, fashion (For example, increasing willingness to go on short breaks)

Technological: Engine efficiency, new aircraft being planned, better and cheaper video conferencing.

Ecological: Concern about the impact of carbon emissions from jet engines, noise, resistance to airport expansion.

Legal: Health and safety regulations, consumer legislation (For example, compensation for cancelled flights), safety and security legislations.

Problem identification

A *problem* is a roadblock in a situation, something that sets up a conflict and forces you to find a solution. When an entrepreneur identifies such a road block, he/she is said to have identified the problem.

Objectives of problem identification:

- It should clearly state the problem
- Identify target group facing the problem

- Find the market acceptability of the solution to the problem

Uses of problem Identification

It helps the entrepreneur to:

1. Bring out new products in the market
2. Understand the problems and needs of the market
3. Be creative
4. Increase employment generation
4. Increase national income (of the country)

For example, in our everyday lives, we face a number of problems for which we wish sometimes for instant solutions. If we look carefully, there is an array of instant food products flooding the market on a daily basis. Some of them are very successful, the reason being that, the younger generation is highly career–oriented and does not have time to cook. New websites came into operation which were results of problems faced by the entrepreneur herself. For example: www.nurseryadmissions.com.

Ready to eat food

Idea generation

The process of creating, developing, and communicating ideas which are abstract, concrete, or visual. It includes the process of constructing through the idea, innovating the concept, developing the process, and bringing the concept to reality.

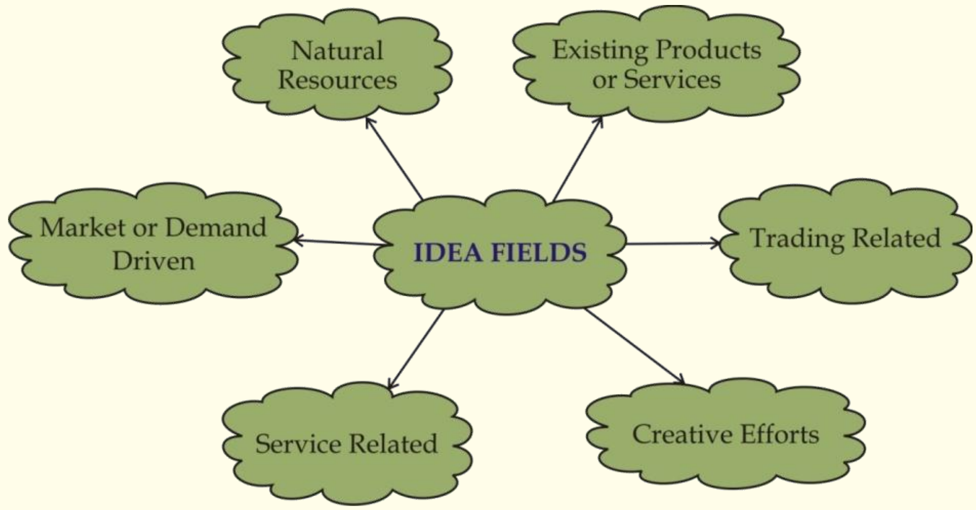
Business ideas are all around you. Some business ideas come from a careful analysis of market trends and consumer needs; others come from serendipity. If you are interested in starting a business, but don't know what product or service you might sell, exploring the ways of getting business ideas will help you choose.

Idea fields

By following different ways for generating ideas an entrepreneur collects a number of ideas. The process of generation of ideas can be streamlined by developing an awareness for different ‘idea fields’. This will help the entrepreneur in enlarging the scope of thinking, at the same time structuring the ideas according to convenient frames of reference.

Idea Fields can be described as: 'Convenient frames of reference for streamlining the process of generation of ideas.'

Various sources of idea fields



a) Natural resources

Ideas can be generated based on natural resources. A product or service may be desired from forest resources, agriculture, horticulture, mineral, animal husbandry, wind, sun and human resource. A further exercise with a field may generate many useful product ideas.

Natural Resource	Existing Use	Potential Use
Lumber	Timber	Furniture and other wood based products
Horticulture	Plant cultivation	Food preservation, canning, freezing and pickling
Citrus and other fruits	Juices	• Selling of preserved fruits for supermarkets; • Bottled local juices for sale
Medicinal herbs	Remedies	Medicines and bio fertilizers
Clay	Soil	Ceramics
Flowers	Selling in market	Selling at a wider scale, to provide to floral decorators
Water resources (sulphur spring, waterfalls)	Domestic and recreational use	• Paid tours for visitors and tourists • Opening of a water plant

b) Existing products or services:

A great business idea combines skills with imagination and market demand. A business opportunity or idea often comes from everyday problems that someone solves. Successful businesses find a need and fill it by providing a service or product. Entrepreneurs who look at ways to make an existing product or service better can be as successful as those who create or invent products.

There is a constant and consistent effort on the part of all entrepreneurs to improve the products and services already existing in the markets.

Often, a company will improve or change its existing products. There are many reasons for doing this. It can make a substantial difference in the success of the company and even take it in a whole new direction. However, it can also spell disaster if not done correctly.

How do you improve or change existing products? Change or improvement can come about in many ways. Perhaps you sell a skincare line and would like to change the ingredients around a little. Or maybe you run a math tutoring business and would like to expand into other subjects, like science or commerce.

While it may seem like only good can come from improving, adding to, or changing different products around, this is not always the case. It must be done skillfully, or else other problems can arise. There are a number of pros to changing or improving your existing product line, including:

Keep up with the competition: If you provide services or products in an industry that is constantly changing, it's important to stay aware of the latest in industry trends so you can continue to be competitive; for example, you own a hair product supply store that sells flat irons for straightening hair. More and more places are selling ceramic irons as hair experts say they are better for hair. In this case, it would be advantageous to update the products to reflect the latest in technology.

Increase sales: The main reason people will change and improve their existing product line is to increase their sales and ultimately, their revenue. By adding to the product line, you can take your company in a new direction by increasing sales. Let's take the example of the tutoring business. While you may have a good number of clients, they are all math students. Just as many students will need extra help in other disciplines. Expanding the existing service will only result in increased profits.

So thinking about existing product and service can generate a number of ideas to improve them or to provide cheaper substitutes or to bring about a reduction in price.

c) Market driven or demand driven ideas

We have already seen that one of the important methods for generating ideas is to carry out a market research. Such a study yields valuable data about trends of supply, demand and consumer preferences.

Market research is any organized effort to gather information about target markets or customers. It is a very important component of business strategy. The term is commonly interchanged with marketing research; however, expert practitioners may wish to draw a distinction, in that marketing research is concerned specifically about marketing processes, while market research is concerned specifically with markets.

Market research is a key factor to maintain competitiveness over competitors. Market research provides important information to identify and analyze the market need, market size and competition.

Market research, which includes social and opinion research, is the systematic gathering and interpretation of information about individuals or organizations using statistical and analytical methods and techniques of the applied social sciences to gain insight or support decision–making.

Whatever the source of information about the market, it is a promising field for generation of ideas. Idea generation is knowledgeable, creative and systematic. It develops from knowledge of the consumer, the market, the technology and the general environment, and it creates newness in product, production and marketing. It systematically develops product ideas to satisfy the aim of the project and therefore the business strategy.

d) Trading related ideas

Trading these days is not limited to ordinary grocer or distributor outlets. With increasing consumerism, the scope and nature of trade has enlarged; local trade, import and export, e-commerce are all making trading a very wide area of enterprise. Trade, in simple terms, is buying goods and services and selling them to consumers at a profit. One big advantage that trading has over other types of businesses is that, it is easier to launch and less risky.

It is however, necessary for a prospective trader to be aware of the trends in an economy. With the opening of the market to International Companies, large size departmental stores, chain shops and umbrella markets have become omnipresent; competition has become intense and to survive in the market, new entrants will have to acquire skills, competencies and knowledge required to launch, manage and expand business opportunities.

e) Service sector ideas

Entrepreneurial opportunities are not only restricted to the manufacturer. Service sector is the most growing field these days, the world over, thanks to emerging knowledge societies and advancements in Information and Technology. So, new opportunities can be identified by understanding the linkages to different business activities.

The list of opportunities ready for the taking in the food and other service areas is rather long. Amongst the most interesting ones in the food sector are the following:

- **Indian fast food/finger food:** While 'pizzas' and 'burgers' and popcorn may find a lot of favour from Indians across India, and across all age and income groups, the fact remains that almost all regions of India still have their own local fast food options and far outsell the "imports".

  McDonald's and Pizza Hut can be the role models in terms of efficiency of service, hygiene, quality, and overall value, but the menu should be "Indian" rather than Indianised version of American food.

- **Family dinner:** These can be based on the ubiquitous American Dinner concept or even the Indian version like Nirula's offering Indian style "Plated or Combo" meals, with table service and overall good price-value equation.
- **Sandwich and salad parlours:** Subway's success in select locations, despite somewhat inconsistent product quality, poor service, and high prices, indicates the tremendous opportunity in this segment. Prêt a Manger (A McDonald business, operating largely in the UK) seems like an interesting format for India.
- **Ice-cream and juice/beverage parlours:** Sadly, there have been many start-ups and some continue to do well. However, there is a glaring gap between the appropriate price/value, need and the available options.

  Lack of success in the recent past of some of the start-ups only highlights the need for better conceptualisation and execution of the format, rather than a lack of market opportunity.
- **Indian "desserts" and "snack food" chains:** Lastly, in the genre of food and food service chains, one of the biggest opportunities remains in starting national or at least regional chains offering Indian sweets, *namkeen/farsans*, and snack-foods such as *pakodas* and *samosas*. Haldiram's success should certainly put any doubt on this opportunity to rest. What is needed is a belief that the Haldiram business model can be replicated (and certainly improved upon from the customer service perspective) by even large business houses such as ITC and others.
- **Speciality tourism:** India is incredibly blessed with one of the most diverse set of options when it comes to tourism. Fortunately, the perception of India as a tourist destination is also undergoing a very big positive change outside India.

  Creating specialised options for high-end tourists (from abroad) offers a tremendous potential, with many segmentation possibilities based on the target market as well as special interests.
- **Personal grooming salons:** It may surprise some that the biggest organised player for personal grooming, with focus on hair care, example, Habib's to talk about.
- **Career counselling centres:** With over 25 million births per year, and at least 3 million of these likely to go for studies beyond the 12th grade, but having little idea about the job and vocation trends in India and beyond, this is one sector that is poised for rapid growth.
- **Chain of repair and maintenance services for electrical/electronic products:** India is seeing a massive increase in the penetration of electrical/information technology products.

  Yet, the ambient infrastructure, as well as relatively low income levels, requires most of these gadgets to be given for repair unlike the more affluent countries where many faulty appliances/gadgets may just be "written off" by the consumer in view of the high cost of repairs.

  India's low labour–related service costs can provide a cost-effective solution to the millions, while generating good returns on investment for the entrepreneur.

f) Creative efforts

We have seen that creativity is an important and key component of the talents and abilities needed for an entrepreneur. Apart from applying creativity to spot and harness opportunities, it can also be applied to develop new products and services.

There are basically five ways in which creative ideas can be generated:

1. Develop a new product or service.
2. Improve an existing product or service
3. Find a new process or resource for manufacturing a product.
4. Find new markets for existing products or services.
5. Find a new use of an existing product or service.

A very useful concept to bear in mind is that, most often creative products and services are born as results of problem solving. Someone found that while tightening screws, over tightening often resulted in damage to the fixtures. Here was a problem and the solution came in the form of a self-adjusting screwdriver which prevented over tightening. Similarly when doctors found monitoring of dosage of medicine to be administered to patients on a regular basis through traditional methods using a syringe cumbersome, a pharmaceutical firm developed a new process of implanting the required medicine in the patient for constant discharge of regulated and required dosage in to the blood stream.

Bill Gates, who as an undergraduate at Harvard, developed BASIC for the first microcomputer. He later found Microsoft in 1975. During the 1980s, IBM contracted with Gates to provide the operating system for its computers, a system now known as MS-DOS. Gates procured the software from another firm, essentially turning the thirty-dollar pair of jeans into a multibillion-dollar product. Microsoft's Office and Windows operating software now run on about 90 percent of the world's computers. By making software that increases human productivity, Gates expanded our ability to generate output (and income), resulting in a higher standard of living for all.

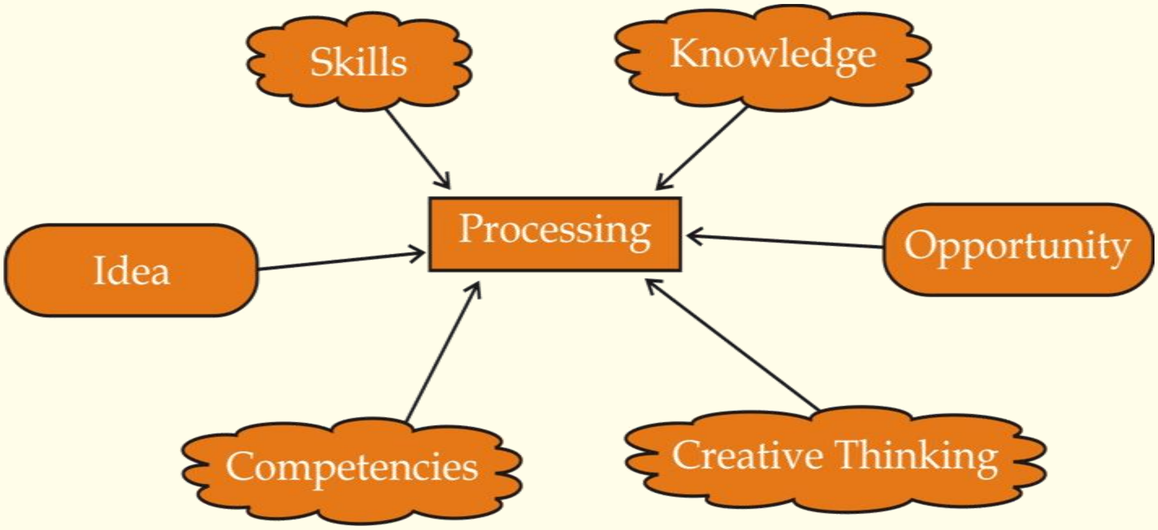
Sam Walton, the founder of Wal-Mart, was another entrepreneur who touched millions of lives in a positive way. His innovations in distribution warehouse centers and inventory control allowed Wal-Mart to grow, in less than thirty years, from a single store in Arkansas to the nation's largest retail chain. Shoppers benefit from the low prices and convenient locations that Walton's Wal-Marts provide. Along with other entrepreneurs such as Ted Turner (CNN), Henry Ford (Ford automobiles), Ray Kroc (McDonald's franchising), and Fred Smith (FedEx), Walton significantly improved the everyday life of millions of people all over the world.

Product identification

After opportunity spotting and scanning of the environment, an entrepreneurial idea should lead to a definite product.

Transformation of ideas into opportunities

While the initial spotting of ideas (i.e., basic idea) is of a random nature, the development of ideas after scanning the environment (i.e., post scanning) idea is a more purposeful activity. Thus the former is an experiential process while the latter is a strategic process. All basic ideas have to undergo a vigorous process of examination, evaluation, analysis and synthesis to identify viable opportunities. This process of a basic idea becoming an opportunity is shown in the diagram below:



Conversion of idea into opportunity

The above figure shows that a strategic positioning is required to convert an idea into an opportunity. This simply means that knowledge, skills, competencies and creative thinking needed to develop an idea are backed by factors critical for market success. When knowledge, skills, competencies and creativity are strategically applied or market orientation, a viable venture is born.

Idea and opportunity assessment

In a sense generating ideas is relatively an easy exercise, especially if it is done in groups. However, this process can also become a wild goose chase because all ideas need not necessarily become sound business opportunities. We have to assess it in terms of the potentiality of the opportunity. The steps involved in this type of investigation are discussed below:

1. Product identification

Bracelet Pendrive

An idea should lead the entrepreneur to a definite product/service which he can sell. So the first step is to obtain a concept of the product or service suggested by one idea. We should also see whether this product is already available in the market or not. If it is, then we should identify the reason for introducing the same product or service in the market. For example, innovating a new pendrive especially for teachers which will have a built in antivirus and which can be worn like a watch so it minimises the problem of losing the pendrive.

2. **Application and use**

Ideas should be examined for their real life use and application. If it already exists in the market, we will have to find out its present use, then we may think of modifying it for better use. In the above mentioned example, we can clearly see that even though there are many companies manufacturing pendrives, the latest will be in consonance with the upcoming trends.

3. **Level of operation**

This is a crucial test for product/service identification. Depending on the use of the product/service the entrepreneur will produce it in a cottage industry or a small scale–industry or a large–scale industry.

4. **Cost**

What is the per unit cost of the product at particular level of operation? Whether this cost is comparable with that of other competitive products? These are some of the questions that have to be answered. This will ultimately decide the sale price.

5. **Competition**

Any product or service will face market competition at some stage. So market competition should be assessed through a study of the trends in demand and supply.

6. **Technical complexity**

What type of technology is required to produce the product? Whether training and application of such technology will be locally available or will it have to be supported from other places? What would be the position of supply of plant and machinery for such a technology? These are important issues that have to be resolved.

7. **Annual turnover and profit margin**

Ideas should also have to be examined on the basis of expected annual turnover. This will also indicate the market share of the product or service.

Once the entrepreneur has assessed the opportunities on these basis he/she should go ahead and assess the market also.

Market assessment

Selection of a product or service will depend upon many factors. While assessing the market, an entrepreneur has to prepare details on the following lines:

1. **Demand**

The demand assessment will be based on the size of market being targeted, i.e., local markets, market at state level or national/international market. It will also involve a study of the target groups of consumers, their preferences, tastes and other related variables.

2. **Supply and nature of competition**

While assessing market, supply position is also studied by entrepreneurs. By supply position what is meant is the complete picture of quantities of the product made available in the market by all the existing players. It should take into account future supplies from possible entrants in the field.

3. **Cost and price of product**

It is important to determine the cost of the product and its comparison with available products in the market. Cost variable of competitors in terms of transportation delays, wastage, storage etc., have to be studied to spot cost advantage. This will influence the delivery mechanism of the identified product or service.

4. **Project innovation and change**

Market assessment will require a study of prevailing innovations and changes being carried out by existing entrepreneurs. Technological advancements in the field have to be analysed because they may change the quality and influence the cost and price ultimately.

Trend spotting

It means identification of new trends. This will help the entrepreneur to understand the market and produce goods or provide services in sync with the market trends. But how do we spot trends?

One of the keys to business success is to anticipate what the market will want or need before the entrepreneurs are aware of it themselves. Since it's unlikely for an entrepreneur to see into the future, the best way to do this is to become a trend-spotter.

Professional trend-spotters charge big money for reports and industry trend updates. But there are some entrepreneurs who spot these trends themselves.There are so many ways to spot trends.

Ways in which an entrepreneur spots trends

1. **Read trends**

They regularly read the leading publications and websites affecting their business. This could include industry publications, trade association sites, major newspapers, key business magazines, thought leaders and influential bloggers. So many trends start overseas (London, Paris, Tokyo), so they make sure that they read about what is going on in those cities. At first, they scan information from a wide variety of sources - from international news on down to niche bloggers focused on specific aspects of their industry. Obviously, there's a tsunami of information available. They use tech–tools like RSS feeds, e-mail newsletters or websites and forums to keep on top out of all and get the information they want. They understand quickly which sources are valuable and which should be avoided.

2. Talk trends

Talking to people is an equally important trend-spotting tactic. They get involved in specific industry's trade association and attending events both online and offline. They also take advantage of social networking tools like social network websites and forums. They even start or join groups on the networks and see what people are buzzing about and about the latest trends.

It's also important to talk to customers and prospective customers, both online and offline. They use social media or online surveys to get input on what customers are thinking, buying, craving and doing. They also use social network websites and forums to identify key influencers and trendsetters in their target markets. In addition, they pay attention to ratings and review sites -- not just what customers are saying about the business, but what they're saying about the competitor's business.

3. Watch trends

There's no substitute for getting out in the marketplace. They make it a point to regularly go where their target customers hang out. If the customers are teenagers, that might be the local mall. If they are business people, it might be the region's "power lunch" restaurant or office park restaurant center. The entrepreneur spends some time simply watching and observing. What are people eating, doing, wearing, using? What stores or restaurants draw crowds and which sit empty? Trade shows are a great place to get trend ideas, too even if they are not looking to buy product, they attend many shows simply to see what's hot.

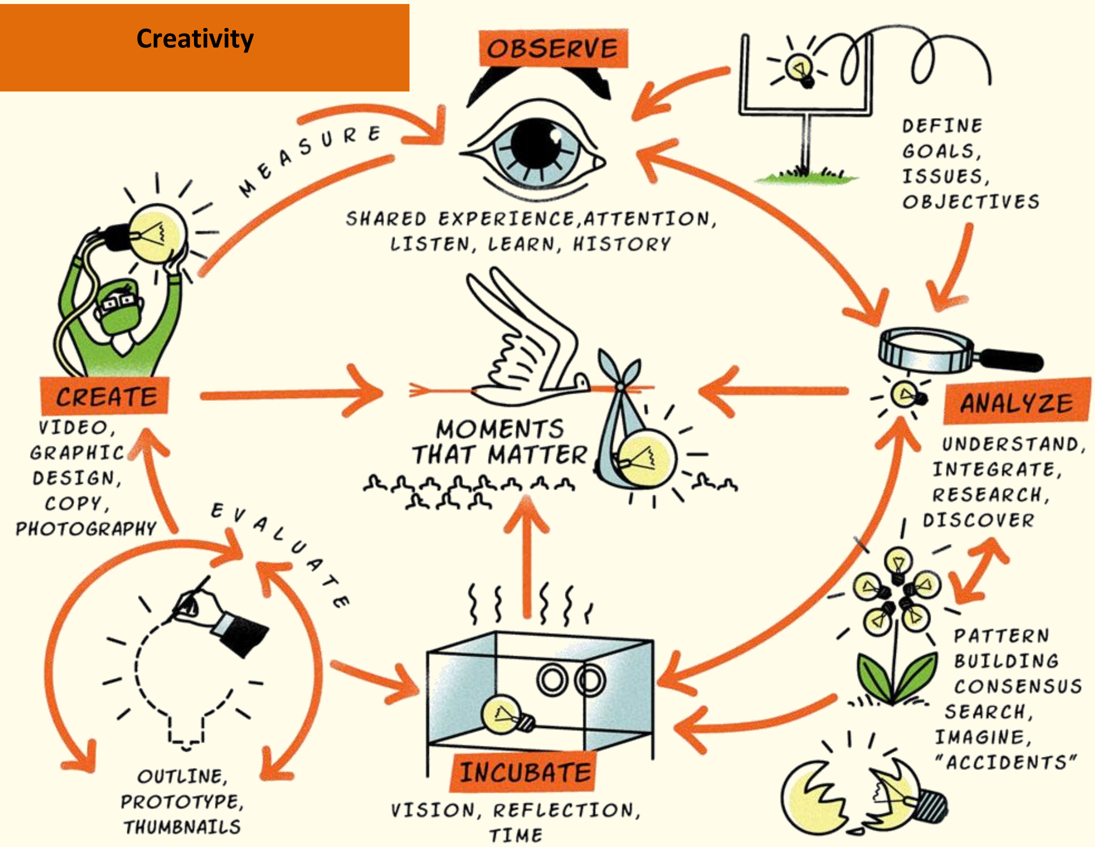
4. Think trends

As an entrepreneur begins gathering all these information regularly, they will start to develop a "trend-spotter mind." As they absorb and mull about what they've read, heard and observed, they'll start to make connections and observations that will lead to business-boosting insights. The news about rising shrimp prices, the lines out the door at the Asian-fusion restaurant downtown, and something one of the customers said last week will all come together and they'll have a great idea for a new menu item, a new product line or even a whole new business.

Creativity

Creativity is important to entrepreneurs because it is the first stage in the process of innovation, providing the stimulus for opportunity discovery and new venture creation. As new entrants, entrepreneurs often justify themselves upon the same dimensions as creativity: novelty, usefulness, and appropriateness. Arguably, one of the first tasks demanded of an entrepreneur is to manifest creative ability through the conceiving of new product-market opportunities and unique value propositions. From these initial acts of creativity, entrepreneurs must build effective organizations that can repeatedly bring ideas to commercially valuable forms in order to survive and grow.

Creativity



The creative process:

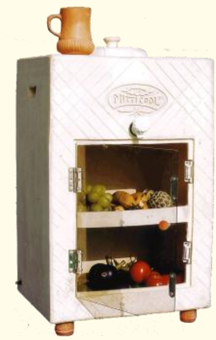
Idea Germination → Preparation → Incubation → Illumination → Verification

The process of creativity involves five steps: 1. Idea germination, 2. Preparation, 3. Incubation, 4. Illumination and 5. Verification.

Idea germination: This is the seeding stage of a new idea. It is the stage where the entrepreneur recognises that an opportunity exists. The idea germination takes place according to interest, curiosity of the entrepreneur according to which opportunity is explored and exploited to its best potential. Creative idea germinates besides the interest, the need of a specific problem or area of study.

Like Mansukhbhai Prajapati, who thought of a non-stick pan made from clay and a clay refrigerator that works without electricity. He wanted to explore the idea of making the refrigerator which will be eco-friendly. He conceived this idea in 2001, but the final product could take shape only in 2004. (Reference: Class–XI, Unit–I)

Preparation: On the basis of the idea, interest and curiosity the need is adjudged by the entrepreneur and he starts looking for the answer to implement the idea. If the idea is to launch a new product or service then market research is conducted. That happens because the seed of curiosity has taken form of an idea, the entrepreneurs foresee the future of the product.



In the aforesaid story of Mansukhbhai since his wife could not afford to buy a non-stick TAVA (pan). Mansukhbhai's brain stormed immediately that, like his wife there must be thousands of homemakers who would need a non-stick-TAVA. And the idea of clay fridge was considered equally strong and he decided to go ahead.

Incubation: This is the subconscious assimilation of information. This is the transition period. The entrepreneur starts thinking about the idea and implementation in his sub-conscious mind. Manshukhbhai went through the process of studying the pros and cons of manufacturing the product before he had launched it.

Illumination: In this period of illumination the idea re-surfaces in realistic way and entrepreneur comes out with viable plan to give practical shape by collecting raw-material, arranging funds, policy–making for the implementation of idea.

In this case of Mansukhbhai it was important to have enough of funds in hand to buy and keep in store enough raw-material.

Verification: Also called the validation or testing stage. This is where the idea is verified to prove that it has value. This is the most difficult phase of creativity as obstacles begin to appear. This is the developing stage in which knowledge is developed into application.

In this case, when the fridge was developed acceptance in the market for such a product was a big obstacle.

Innovation: It is the process of entrepreneurship which involves the translation of a useful idea into an application which has commercial value. It takes persistent effort to work out analytically the details of the enterprise or service, to develop marketing strategies, to organize finances and strategize operations.

Elements in the innovation process:

- **Analytical planning:** Carefully identifying the product or service features, design as well as the resources that will be needed.
- **Resource organization:** Obtaining the required resources, materials, technology, human or capital resources.
- **Implementation:** Applying the resources in order to accomplish the plans and delivering results.

- **Commercial application:** The provision of value to customers, reward employees, and satisfy the stake holders.

Selecting the right opportunity

The entrepreneur should look into various factors before deciding on the opportunity. Even if the opportunity looks promising, an entrepreneur should look into the environmental factors before choosing the best opportunity.

SUMMARY

Business Opportunity

Business opportunity can be described as an economic idea which can be implemented to create a business enterprises and earn profits.

Elements of business opportunity

- *Assured market scope*
- *An attractive and acceptable rate of return on investment*
- *Practicability of the entrepreneur to encash it*
- *Competence of the entrepreneur to encash it*
- *Potential of future growth*

Exploring opportunities in the environment

- *Opportunity spotting by analyzing the needs and problems that exist in the environment*
- *Evaluating the ideas received from different sources to find a creative solution*
- *Identifying a product or service through innovation*

Factors involved in securing opportunities

- *Ability to perceive and preserve basic ideas which could be used commercially*
- *Ability to harness different sources of information*
- *Vision and creativity*

Various sources which lead to the basic ideas

- *Problem*
- *Inventions*
- *Innovation*
- *Change*
- *Competition*

Importance of environment

- *Identification of opportunities to get first mover advantage*
- *Formulation of strategies and policies*
- *Tapping useful resources*
- *Better performance*

- *Sensitization of entrepreneurs to cope up with rapid changes*
- *Image building*

Analysis of environment

- *Verbal information from customers, wholesalers, retailers distribution, consultants, etc.*
- *Record of companies*
- *Government publications*
- *Publications by various financial institutions*
- *Formal studies conducted by strategic planners*

Environmental factors

- *Internal factors (Micro environment)*
- *External Factors (Macro environment)*

Pestel Model

- *Political*
- *Economic*
- *Social*
- *Technological*
- *Ecological*
- *Legal*

Idea Generation

The process of creating, developing and communicating ideas which are abstract, concrete or visual

Sources of business ideas

- *Examine your own skill set for business ideas*
- *Keep up with current events and be ready to take advantage of business opportunities*
- *Invent a new product or service*
- *Add value to an existing product*
- *Investigate others markets*
- *Improve an existing product or service*
- *Get on the band wagon*

Ideas fields

- *Natural resources*
- *Existing products*
- *Market driven ideas*
- *Funds related ideas*
- *Service sector ideas*
- *Creative effort of the entrepreneur*

Steps involved in idea and opportunity assessment

- *Product identification*
- *Application and use*

- *Level of operation*
- *Cost*
- *Competition*
- *Technical complexity*
- *Annual turnover and profit margin*

Factors to be kept in mind while assessing the market

- *Demand*
- *Supply and nature of competition*
- *Cost and price of product*
- *Project innovation and change*

Ways to spot trends

- *Read trends*
- *Talk trends*
- *Watch trends*
- *Think trends*

Creative process

- *Idea germination*
- *Preparation*
- *Incubation*
- *Illumination*
- *Verification*

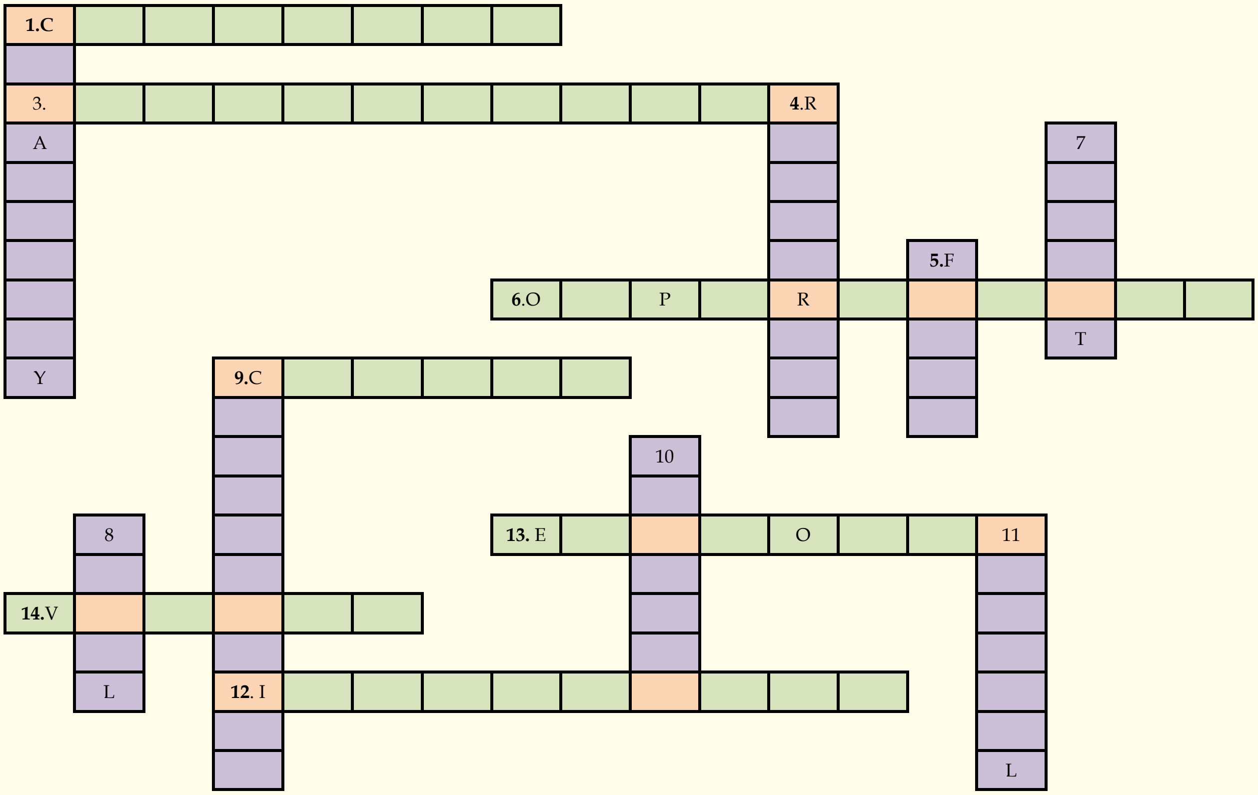
Innovation process

- *Analytical planning*
- *Organising resources*
- *Implementation*
- *Commercial application*

"It's fine to celebrate success, but it is more important to heed the lessons of failure."

– Bill Gates

REVIEW CROSSWORD PUZZLE



Across:

1. The recipient of a service/product obtained from a seller.
3. Someone who organizes a business venture and assumes the risk for it.
6. Set of circumstances that make it possible to do something.
9. Process through which something becomes different.
12. Make changes in something established, especially by introducing new methods.
13. Synonym for feasible.
14. The ability to plan the future with wisdom/imagination.

Down:

2. Synonym of inventiveness.
4. An economic or productive factor required to accomplish an activity.
5. A sum of money saved or made available for a particular purpose.
7. Financial gain.
8. The ability to do something well; expertise.
9. Synonym of rivalry.
10. Something that can be offered to a market that might satisfy a want or need.
11. Amount invested in business.

LET'S REVISE

A. Very short answers. Answers to these questions should not exceed 15 words.

1. What is a business opportunity?
2. What factors are involved in the process of sensing an entrepreneurial opportunity?
3. Define the term environment scanning.
4. List the environmental factors affecting external environment.
5. What is the meaning of trend spotting?
6. What is required to convert an idea into opportunity?
7. What is Idea generation?

B. Short answers. Answers to these questions should not exceed 50 words.

1. What is the purpose to scan the environment?
2. What are the factors involved in sensing opportunities?
3. Draw the enterprise process diagram.
4. What is PESTEL model? Explain it.

C. Short answers. Answers to these questions should not exceed 75 words.

1. Enlist the various sources which lead to the emergence of basic ideas.
2. Write the meaning of product identification in terms of business opportunity.
3. What are the factors an entrepreneur has to keep in mind whilst assessing the market?
4. What are the various ways in which an entrepreneur spots trends?

D. Long answers. Answers to these questions should not exceed 150 words.

1. "An opportunity may be derived from the needs and problems of the society.'" Comment
2. "Sensitivity to environmental factors is essential for an entrepreneur." In light of above statement explain the importance of environment scanning.
3. Entrepreneurship does not emerge and grow spontaneously. Rather it is dependent upon several various environmental factors. Explain them.
4. Explain creative process.
5. What is Innovation and explain the elements of innovation process?

E. Very long answers. Answers to these questions should not exceed 250 words.

1. Elaborate the factors involved in sensing opportunities.
2. Examine the sources from where business ideas emerge.
3. Discuss the steps involved in the investigation of ideas.

4. What do you understand by Trend Spotting? What are the ways by which entrepreneurs can spot trends?
5. Explain in detail Idea Fields.

F. Higher Order Thinking Skills (HOTS) questions:

1. Aditi started her boutique business near an industrial area and she was not getting clients as she had expected. What are the factors which have been ignored before starting the boutique? Suggest the various factors that she has to look into before venturing into business.
2. Mr. Raghav had always wanted to manufacture an innovative, energy efficient fan. He was looking into various options and has finally narrowed it down to one option. He understands that the entire idea would have to follow a process. Identify and explain the process.
3. These are 'convenient frames of reference for streamlining the process of generation of ideas.' Identify them and explain any three briefly.
4. Varun decided to start his own venture and was looking into various ideas. Explain to him various sources from where he can get some good business ideas.

G. Evaluation and multi-disciplinary - (appraise, judge, and/or justify the value or worth of a decision or outcome, or to predict outcomes based on values)

1. 'Environmental factors exert influence upon each other and do not operate in isolation? Discuss.
2. "If you don't adapt, you don't endure" Evaluate the validity of the statement.

H. Application–based questions:

1. Vinay was a young entrepreneur who wanted to start a new business with an initial investment of 25 lakhs. He was not sure of what business he has to undertake. His friend suggested seeking the help of professionals who would spot the latest trends in the market and give him an idea, but Vinay decided to do it by himself. Suggest the various ways by which he can do it.

I. Activities:

1. Interview an entrepreneur, ask him/her the keys to successful entrepreneurship. Also ask him/her whether he/she attributes the success of his business to luck or hard work.
2. Conduct a survey in your colony by asking people if they face any particular problem and see if you can find a solution to that problem.
3. Think of an innovative product and conduct a survey in your colony and analyse whether it will be accepted in your neighbourhood. (For example, new Idea for waste disposal)

❀ ❀ ❀

UNIT–2: ENTREPRENEURIAL PLANNING

"Logic will get you from A to B. Imagination will take you everywhere."

– Albert Einstein

Learning Objectives

The learner would be able to:

- Enlist the type of economic activities
- Understand the forms of business organization
- Understand the meaning of business plan
- Understand the format of business plan
- Understand the organizational plan
- Understand the production plan
- Understand the human resources plan
- Understand the operational plan
- Understand the financial plan
- Understand the marketing plan
- Enlist the various formalities required for starting a business

Content

- **Forms of Business Entities**
- **Creating the Plan**
- **Business Plan**
- **Organizational Plan**
- **Production Plan**
- **Marketing Plan**
- **Operational Plan**
- **Financial Marketing Plan**
- **Human Resource Planning**
- **Formalities for starting a business**

Human life is built around work. Because of being a bundle of recurring needs and wants, every person is engaged in some kind of activity with a view to earn his living and satisfy the material and social requirements. Activity, a symbol of human life may broadly be categorized into:

a) Economic Activities:

Activities undertaken to earn monetary gains are called economic i.e. activities primarily concerned with:

- Production
- Distribution and/or
- Consumption of goods and services.

b) Non-Economic activities:

Activities done out of love, care, affection, self-satisfaction, emotions, sympathy, patriotism etc. but not for money, are known as non-economic.

Types of Economic Activities

Activities which are inspired mainly by economic consideration can be classified in three broad categories:

1) Profession
2) Employment
3) Business

1) Profession

"Profession is that occupation in which one professes to have acquired specialized knowledge, which is used either in instructing, guiding or advising others," says the Webster's Dictionary.

Examples: Lawyers, Doctors, Chartered Accountants, Company Secretaries, etc. Thus, the occupation/activity which requires an individual to apply special knowledge and skills is said to be a profession.

2) Employment

An activity in which an individual works regularly for others and get remuneration in return, undertaking personal services as per the agreement of employment.

3) Business

This is our key area of study. 'A state of being busy or occupied', is what 'Business literally means'. In a way all economic activities related to the production and distribution of goods and services undertaken for monetary gains, are said to be business.

Activities which are inspired mainly by economic consideration can be classified in three broad categories:

1) Manufacturing
2) Service
3) Trading

1) Manufacturing:

Production of merchandise for use or sale using labour and machines, tools, chemical and biological processing, or formulation, may also refer to a range of human activity, from handicraft to high tech, but is most commonly applied to industrial production, in which raw materials are transformed into finished goods on a large scale. Such finished goods may be used for manufacturing other, more complex products, such as aircrafts, house hold appliances or automobiles, or sold to wholesalers, who in turn sell them to retailers, who then sell them to end users – the "CONSUMERS".

Manufacturing takes turns under all types of economic system. In a free market economy, manufacturing is usually directed toward the mass production of products for sale to consumers at a profit. In a collectivist economy, manufacturing is more frequently directed by the state to supply a centrally planned economy. In mixed market economies, manufacturing occurs under some degree of government regulation.

2) Service:

An intangible commodity a type of economic activity that is intangible is not stored and does not result in ownership. A service is consumed at the point of sale. Services are one of the two key components of economics, the other being goods. Examples of services include the transfer of goods, such as the postal service–delivering mail, and the use of expertise or experience, such as a person visiting a doctor.

Service sector includes commercial firms engaged in banking, communication, transport, insurance, warehousing etc. This sector constitutes the basic infrastructure which is a must for smooth flow of business activities. In the recent past, the role of service sector in the Indian economy is growing faster than agriculture and industry.

3) Trading:

Not a new phenomenon we've been doing it for centuries! The trade that occurred among the most primitive humans has evolved considerably over time. Trading is;

- the activity or process of buying, selling, or exchanging goods or services
- the amount of things or services that are bought and sold : the money made by buying and selling things or services
- the act of exchanging one thing for another

Thus, in nutshell, our key area of study is - BUSINESS. 'A state of being busy or occupied', is what 'Business literally means'. In a way all economic activities related to the production and distribution of goods and services undertaken for monetary gains are said to be business.

Different Authors, Different Opinions

Business is "whole complex field of commerce and industry, the basic industries, process and manufacturing and the network of ancillary services, distribution, banking, insurance, transport and so on which serve and interpenetrate the world of business as a whole." – *F.C. Hooper*

Business may be defined as "an activity in which different persons exchange something of value whether goods and services for mutual gain or profit." – *Peterson and Plowman*

"An institution organized and operated to provide goods and services to the society under the incentive of private gain", is said to be business. – *Wheeler*

Business is a continuous human economic activity with an objective to earn profit by producing, buying and selling of goods and services. Irrespective of size, nature, scale or ownership, an activity is referred as business if it exhibits the following essential characteristics:

1) Entrepreneur's presence

There must be someone/person to take initiative for establishing a business and undertake the risk associated with the same.

2) Economic activity

All those activities related to the production and/or distribution of goods and services, with economic motive i.e. profit can form part of business.

3) Production or procurement of goods and services

A business which either produces or procures goods and services for offering them to consumers, could be:

a) Consumer's goods

b) Producer's goods

c) Services

4) Sale or exchange of goods and services

A business must involve sale, exchange or transfer of goods and/or services for the satisfaction of human needs against a value/price. Goods/services purchased or produced for personal/self-consumption, is not a business.

5) Regularity

One time transaction or dealing in goods and services is not business, even if one earns profit in return. Business must be done regularly.

6) Utility creation

Business activities result in creation of utilities i.e.

a) Form utility – Changing the form of raw material into finished product creates form utility.

b) Place utility – From the place of production, transporting goods to the place of consumption results in place utility.

c) Time utility – The process of storing the goods when not required to supplying them when required generates time utility.

7) Profit earning

Profit is the reward for undertaking a business activity as no business can survive for long without earning profits.

8) Uncertainty of return

Business does not guarantee for the return of either principal amount invested in the business or the profit.

9) Element of risk

Business involves risk i.e., uncertainty. 'Higher the risk, higher the profit' goes the old proverb. The actual business situation is affected by a variety of uncontrollable external factors casting favourable or unfavourable impact on business. Thus, the risk element keeps a businessman vigilant and going.

Forms of business organisation

Setting-up a business is not an easy task. An enterprise is a separate and distinct unit, institutionally arranged to conduct any type of business activity.

It needs to combine the necessary things such as materials, tools, equipment, working space and bring together all of them in a systematic and effective manner to accomplish the entrepreneur's desired objective.

Thus, every business entity needs to select an appropriate legal structure or framework to work in. This legal structure determines the extent of ownership and responsibility of proprietor(s). Appropriate form of organisation strongly influences the enterprise's success and future prospects.

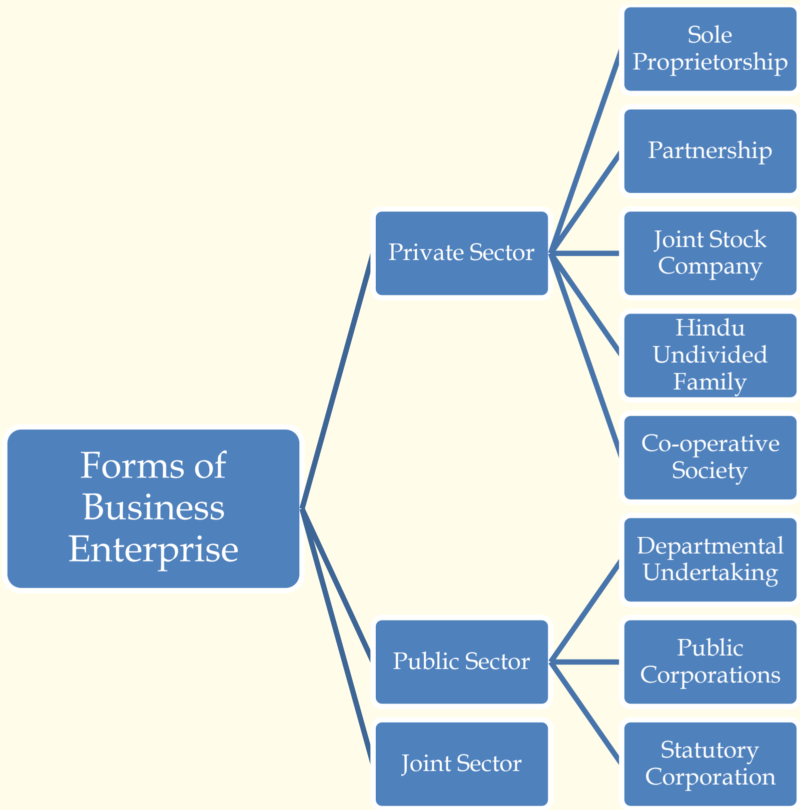
Once selected, changing the 'form' is quite a complex, time consuming and costly affair.

Forms of enterprises

From the point of view of ownership and management, business enterprises may be broadly classified under three categories.

1) Private sector enterprises
2) Public sector enterprises
3) Joint sector

1) Private sector enterprises



The enterprises which are owned, controlled, and managed by private individuals, with the main objective of earning profit comes under this category.

Private individuals thus could start a venture as:

a) Sole-proprietorship
b) Partnership
c) Joint Hindu family business

d) Co-operative

e) Company

2) Public sector enterprises

When business enterprises are owned, controlled and operated by public authorities, with welfare as primary and profit as secondary goals, they are called as public sector enterprises.

Either the whole or most of the investment in these undertakings is done by the Government(s). These enterprises have the following forms of organisation:

a) Departmental undertaking

b) Public corporations

c) Government companies

3) Joint sector enterprises

Joint sector is a form of partnership between the private sector and the government where management is generally in the hands of private sector, with enough representation on Board of Directors by the Government too. Resources are mostly borne equally.

Thus, one of the first decisions that an entrepreneur will have to make for his new venture is how the business should be structured. We know all businesses must adopt some legal configuration that defines the:

a) Control,

b) Personal liability,

c) Rights and liabilities of participants in the business's ownership

d) Life span

e) Financial structure.

This decision will have long-term implications. So an entrepreneur may consult experts and professionals and seek help to select the form of ownership that is right for him/her. In making a choice, entrepreneur will want to take into account the following:

1) Vision regarding the size and nature of the business.

2) The level of control the entrepreneur wishes to have.

3) The level of "structure" entrepreneur is willing to deal with.

4) The business vulnerability to lawsuits.

5) Tax implications of the different organizational structures.

6) Expected profit (or loss) of the business.

From the entrepreneur's point of view the most commonly opted out forms for starting a new venture are:

1) Sole proprietorship

2) Partnership

3) Company

As entrepreneurs are strongly motivated by monetary gains and independence, these three forms fulfill the basic requirement of entrepreneurs well, making them the most desirable structure to commence a venture.

An overview of the five basic legal forms of organization is as follows:

I. Sole proprietorship

"The one-man control is the best in the world if that man is big enough to manage everything." – W.R. Basset.

One Man Show

Tom Monaghan, the founder of Domino's Pizza, had a tough childhood, was raised in orphanages and foster homes. In 1960, Monaghan and his brother Jim BORROWED $ 900 and bought a foundering Pizzeria in Ypsilanti, Michigan.

Jim left within the year, but Tom hung on, surviving two near - bankruptcies and a fire.

Monaghan worked eighteen hours a day seven days a week, whole heartedly making Domino's Pizza – A GIANT MNC world over a household name. Started as sole and today a MNC – a long successful journey of 'one big man'.

Historically, it appears that business first started with this form of organization. One of the oldest, simplest and most commonly used forms of business organization which is owned financed, controlled and managed by only one person is called as sole proprietorship, single entrepreneurship or Individual proprietorship.

"Sole proprietorship is a business initiated, and operated by one individual who carries all financial and administrative responsibilities, employing such assistants as may be necessary.

– E.T. Elbourne

"Sole proprietorship is a business unit whose ownership and management are vested in one person. The individual assumes all risks of loss or failure of the enterprise and receives all profits from its successful operations.

– Edward Elbourne.

Characteristics of sole proprietorship:

As 'sole' means single and 'proprietor' means owner, this type of business is one person show exhibiting following features:

1) **Individual ownership:** This business is exclusively owned by a single person.

2) **Individual management and control:** "What is to be done, how it is to be done, and when it is to be done" - all affairs are managed and controlled by the sole proprietor. Though, competent people can also be employed for efficient management.

3) **Individual financing:** All investment is made by the proprietor. Though, if required he/she has access to loans and debts to procure funds for business.

4) **No separate legal entity:** Legally, the proprietor and proprietorship are one and the same business and owner exists together, thus with owner's death, business too dies.

5) **Unlimited liability:** The proprietor is liable/responsible for all losses arising from business. In case the business assets are insufficient to pay off liabilities, his/her personal property can be called upon to pay his business debts.

6) **Sole beneficiary:** The sole proprietor alone is entitled to all the profits and losses of business. So he/she puts his/her heart and soul to increase his/her profits.

7) **Easy formation and closure:** Sole proprietorship is subjected to minimum legal formalities and regulations both at the time of commencing and/or closing.

8) **Limited area of operation:** This form of business generally has a limited area of operation due to:

- limited finance availability
- limited managerial abilities

Suitability of sole proprietorship form of business

The success or failure of an enterprise depends upon the intelligence, competence and sensible decision making capacity of the entrepreneur. Before opting for sole proprietorship, an entrepreneur should carefully compare and evaluate pros and cons of this form. Basically, this type of form is suitable when:

1. Capital requirement is limited
2. Confidentiality / secrecy is important
3. Market is local
4. Goods are of artistic nature or demands customized approach
5. Quick decision–making is necessary
6. Size of the venture is small.

Every Big Business Started Small

Shipping tycoon Aristotle Onassis, was one of the richest men in the world in the 1960s. As a youngster, Onassis had immigrated to Argentina from Greece. He learned Spanish at night and sold tobacco by day.

At merely 15, he landed a big tobacco order and reinvested in his petty business. As he accumulated more money, his small business was eventually built into his great financial empire.

Legal formalities involved

Sole proprietorship registration procedure

A sole proprietorship does not need to be registered **(so yes, 'registration of a sole proprietorship' is a wrong thing to say)** and is therefore an inexpensive manner of commencing business.

However, in order to start a sole proprietorship an entrepreneur requires certain industry specific licenses. A few general factors are:

1. **Business name:** Sole proprietors are under no obligations to select a trade name for their business. How so ever they are free to do so if they desire to.
2. **Service tax registration:** Form ST 1 is to be filled for registration if the taxable services are more than 10 lakh for a financial year.
3. **VAT/CST registration:** If proprietorship is selling tangible goods within a state then VAT applies, if it is inter-state then CST applies. The threshold for registration for VAT varies depending on the city in which entrepreneur commences business but a CST registration is imperative if he/she affect an inter-state transfer.
4. **Others:** PAN Card no. of the sole proprietor, bank account no. in the name of sole proprietorship business, Shops & Establishment License, Employee Provident Fund Registration or Importer Exporter Code (if in export-import business) as and where applicable, have to be complied with.
5. **Payment of taxes:** A sole trader has to ensure his/her business meets the state and federal taxation requirements. Due to the fact that legally, a sole tradership and a sole trader are a single entity, the sole trader bears the taxes of the business.

Case Study-I

Satya Barta Dey: SHREE LEATHERS

Satya Brata Dey

Ever seen a long time outside a shoe store? People waiting in the scorching heat just to buy a pair of shoes? If you haven't, you'll see it outside Satya Brata Dey's Shree Leather Shoe Stores in Calcutta.

From Rags to Riches

One dreary November morning in 1986, Satya left his home in Jamshedpur and came to Calcutta with little more than the clothes on his back. He wore a pair of corduroy pants, a shirt and a pair of sturdy shoes made by his father. Before he left home, his mother had pressed in his hands a few hundred-rupee notes, which he brought with him. Today, Satya Brata Dey is a millionaire, a crorepati. And what gives him the greatest satisfaction is that, he provides jobs for people in Wes t Bengal-a state where there are very few industries and over five million unemployed.

Parents had a strong influence on his life

Satya's mother was always a strong woman and still is, even at age eighty. She believed in herself and encouraged Satya to do the same. "Son, she would say stroking his unruly hair into place, "No matter what you do, always win. Remember that. Always win." Satya learned his lesson well. He won. And he won against great odds.

Saya's father owned a small shop in Jamshedpur where he made shoes. His shoes were so sturdy that they could last twenty years. As a teenager, Satya often went to his father's shop and helped him make shoes. That's where he learned the fine art of making sturdy, good looking shoes at a reasonable cost. It was this apprenticeship under a master shoemaker like his father that taught Satya very early in life, a priceless craft. Little did he know then, that what he was learning in his father's humble shop in Jamshedpur, would someday make him a millionaire, a "crorepati' in Calcutta. He would have laughed if someone had told him back then, that someday, he would create jobs for hundreds of people with this priceless craft that he learned from his father. When he remembers his father bending over his worktable making shoes day after day, tears glisten in his eyes. Tears of love and pride. He remembers his father's hands that had, over the years become hard and tough like the leather he worked with. Today, Satya would give anything to be able to hold those callused, wrinkled hands in his own and invite him to come and see the little boy. But Satya's father is no more. Whereas Satya manages a business worth crores, what he is most proud of is that even today he can make shoes with his own hands.

From his beloved father, Satya learned another important lesson that would come in very handy for him later in life – the dignity of labour. The value and worth of working with one's own hands. Because of his background, Satya has great respect for the working man. In his business, he treats his employees and workmen like family members and they in turn give him their undying loyalty. That is one of the secrets of his success.

What? Start your own business? That's despicable

In Satya's Bengali community, running one's own business was not much respected. Starting a business was looked down upon. Businessmen were seen as people who amassed wealth at the cost of others. They took too much risk. What if the business failed? What would you do then? On the other hand, a secure government job was quite another thing. Becoming a 'babu' in a government department was coveted. Once you got your foot in the door, nobody could fire you and whether you worked or not the government paid you and even when you retired the government paid you and even when you retired the government took care of you. It gave you a pension. It was like your father-in-law's house. You were always a well-looked after guest.

The second best thing to being a government employee was being in 'service,' getting a job in someone else's business. Of course, if you had a job in somebody's private business enterprise, you did not get good marriage proposals as the government employee would, but there was still hope for you. You had a job.

Making shoes was low in the prestige ladder

It was bad enough to do a risky thing like running one's own business, but making shoes? That was truly low down in the prestige ladder of the community. Satya had faced this kind of prejudice before. He remembers well the days he used to go to his father's shop after school to help out. One day his father's friend said to him, "Why do you let your son come here and waste his time? Doesn't he have anything better to do? He should learn skills that would get him a job instead of doing this.'

Satya remembered this comment made by his father's friend as he wandered down the streets of Calcutta looking for a place where he could start a business making shoes. Thank goodness he had learned the trade and art of making good shoes. There were no jobs available and last thing he wanted to do was join the ranks of the unemployed. But Satya had never considered looking for a job.

Satya dreamed big but reality hit hard

Ever since Satya was four or five he knew he wanted to have his own business. In Jamshedpur he would look at the TISCO (Tata Iron and Steel Company) Plant and say to himself, "Someday I will have a factory like this."

Hot, tired and hungry, Satya wandered down the streets of Calcutta looking for a place that could be his "showroom" or shop. At the corner of a deserted street, he spotted a rundown showroom that was for rent. He used the money his mother gave him to pay the rent and moved in. It was his home and 'show room' rolled in one. The 'show room' was rat and cockroach infested. The paint on the walls was peeling. It was dingy, dirty and dimly lit. The windows were filthy and you could hardly see through them. The floor had several layers of dust caked with moisture. But for Satya, it was his dream showroom. It was his place.

Every night Satya washed his pants and shirt and hung them to dry. Often his corduroy pants were still wet in the morning. He wore the wet pants anyway and hoped that his body heat would dry them during the course of the day. "I was sweeper, painter, salesman, owner everything rolled into one, "says Satya.

Never be afraid to dream big, "he advises. "You can make your dreams come true."

Even as he dreamed his big dreams, he continued to live in the filthy, run-down "show room." He set about cleaning and fixing it. He swept and mopped until the floor shone. Then he cleaned the windows with soap and water until they sparkled and finally he painted the walls until the "showroom" looked bright and attractive and ready for business.

Satya Starts his business

Satya starts his business venture with buying six pairs of ladies' chappals. He was determined not to borrow money from anybody. He sold the chappals at Rs. 69 each and made a little profit, which he invested to buy more chappals. After a few months Satya made a profit of Rs. 300 which thrilled him to no end. Now he was really in business

Satya's business philosophy develops

Satya's showroom was in New Market. In those days New Market used to close by 6 pm. After 6 or 7 pm the whole area used to be dark and deserted. But Satya opened his shop before anyone else and kept it open long after others had closed theirs. He did this even if there were no customers. What if there was one customer who needed shoes late in the day when the other shops were closed?

Gradually over a period of time, Satya started to manufacture the shoes that he sold in his store. He positioned his shoes as poor man's shoes-good quality and inexpensive. He kept his margins low so that he could attract a large number of customers. Even though his shoes were meant to attract the low-income customers, many ministers and businesspeople also bought his shoes. Soon satisfied customers brought their friends and family and his business started to grow by leaps and bounds. He had a winning combination for success-the quality was good and the price was right.

A shrewd businessman that Satya is, he kept other manufacturers products as well, so the customers could compare and see that sreeleathers shoes were cheaper and better.

Customer service is of prime importance

Customer service is always very important at Sree leathers stores. Satya offers his customers tea, coffee or coke at his stores so that they would sit, spend some time and buy more than they had originally come to buy. Satya told me the story of a woman who was standing outside his store one day waiting for a sari shop across the street to open. His salesman invited her in and asked her to sit and wait in the store. She came in and sat down in the comfortably air-conditioned store. The salesman offered her coffee. She had some. She started to look at the different shoes displayed in the store. Without anyone trying to sell her anything, she ended up buying 12 pairs of shoes.

"We don't just sell shoes. We make our customers feel good. That's what brings them back,' says Satya Brata Dey.

One day a man was in a hurry to catch a train to Raipur. He came to the store bought his shoes and rushed to the train station. But soon he came back and bought four more pairs. He continues to come back to the store every time he is in Calcuta and is one of Satya's best customers. About 15% of his customers are from out of town.

Cut out the middleman

Since Satya manufactures his own shoes there are no middlemen to pay. He can afford to sell his shoes at a lower price than Bata and other large companies who have huge overheads. If he has to import something from abroad such as material for soles, which he gets from the UK, he imports it directly from the manufacturer there. Thus once again he avoids paying the middlemen.

He keeps his employees happy and motivated

Satya firmly believes that motivating the staff and keeping them happy is critical for the success of any business. A disgruntled or unhappy employee will not provide good customer service. And customer service is what keeps people coming back and that is what makes the business successful.

"How do you motivate your staff?" I asked

"I have staff who have been with me right from the very beginning. I treat them like family. I keep them in good humour. I spend time talking with them and help solve their problems. My staff members don't feel like employees. They feel like they are the owners."

Satya has a small team of dedicated managers who work long hours, sometimes as much as from 6 a.m until midnight

The third important key to a successful business is paying the vendors and suppliers on time, says Satya. He loses his temper if his vendors and suppliers are not paid on time.

Sources of stress

Some of Satya's biggest sources of stress are government authorities. The small bureaucrats and government employees harass for no reason whatsoever, he says. To illustrate his point he told me the following story.

Satya was getting a new showroom constructed. He had taken permission from the Calcutta Municipal Corporation and everything was legal and above board. The construction started and then one day out of the blue, some policemen arrived and ordered the work to be stopped. They demanded a huge bribe. Satya's manager negotiated and settled for a lower sum. But when Satya came to know of it he was furious and refused to pay a single paisa. He said he wasn't going to bribe. He contacted some higher authorities in the police department and the government and the policemen left. The work continued. Then one day a couple of the Calcutta municipal corporation employees arrived. They started finding faults with the construction. Now they wanted a bribe. Once again he had to approach the higher authorities to solve the problem. These kinds of harassment and hassles cause unnecessary delays and make doing business stressful.

Growing, growing ,franchising

Sree leathers has about 15 outlets in Eastern India. He has only one showroom of his own; the rest are all franchises. There is such a great demand for his franchises that people come with recommendations from the Prime Minister and the Finance Minister. Some people come with briefcases full of money requesting a franchise. But Satya Brata is very choosy about giving franchises because the quality and his hard won reputation are very important to him.

Satya's shoes are sold in many countries abroad such as Greece, Austria, Netherlands, Germany, UK, USA, Singapore and Saudi Arabia. But in these countries they are sold as non-brand name shoes.

Satya has reached a point in life when expansion has taken on a new meaning and purpose. Expansion for its own sake doesn't mean much to him. He makes enough money and expansion would only mean more stress for him. But creating jobs is important to him. West Bengal doesn't have many industries and jobs are scarce. He feels that it would be selfish of him not to expand. He wants to create as many jobs as he can. He believes that creating jobs is the best service he can do for the society. He employs about 150 people in his factory and outlets and in addition, if each of his fifteen franchises employs about ten people, then Satya has created employment for at least 300 people. It's a win-win situation.

Sree leathers is worth several crores today. The young man who came to Calcutta with only the clothes on his back and a fistful of money has come a long way. His secret? Hard work, dignity of labour and big dreams.

II. Partnership

"TWO HEADS BEING BETTER THAN ONE."

Growing Trend – Partner Up!

TATA wants to make HBO the most sought after premium subscriber – based channel in India.

Apart from HBO, the company also has two other channels, both HD HBO Hits and HBO Defined, in partnership with Eros.

WHO SAYS PARTNERSHIP IS RESTRICTED TO INDIVIDUALS ALONE?

Partnership form of organisation has developed due to the inherent limitations of sole proprietorship i.e.

a) Limited capital

b) Limited managerial ability

c) Limited continuity

In this era of specialization, expansion and diversification, expecting one man to combat them all is not possible. Business acumen and wealth seldom meet in one person. This, desirable combination probably led to the emergence of Partnership form of business.

Meaning:

A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses.

Thus, two or more persons may form a partnership by making a written or oral agreement to carry a business jointly and share its proceeds.

To Quote Authors....

"Two or more individuals may form partnership by making written or oral agreement that they will jointly assume full responsibility for the conduct of business."

– John A. Shubin

"The relationship between persons who agree to carry on a business in common with a view to private gain is partnership."

– L.H. Haney

"Partnership is a relationship between persons who have agreed to share the profits of a business carried on by all, or any of them acting for all."

– Indian Partnership Act, 1932.

Characteristics of partnership:

The essential features of partnership are as follows:

1) **Two or more persons:**

   Partnership is the outcome of a contract. Thus:

   a) There must be at least 2 persons to enter into contract to form partnership.

   b) Minors cannot form a partnership firm as they are incompetent to enter into contract but can be admitted to the benefits of a running firm.

   c) If these people intend to do banking business, the maximum number can be ten otherwise twenty for the other business.

2) **Agreement:**

   The relation of partnership arises from contract and not from status. Though oral agreement is even acceptable but in practice written agreement is much more advisable as disputes can be resolved better with it.

3) **Profit sharing:**

   The objective of the business is to make profits and distribute the same amongst partners. Any association initiated to do charity work is not partnership.

4) **Unlimited liability:**

   Mostly, the liability of the partners of a firm is unlimited. Their personal properties can be disposed off to pay the debts of the firm if required. The creditors can claim their dues from any one of the partner or from all of them, meaning partners are liable:

   - Individually
   - Collectively

5) **Implied authority:**

   There is an implied authority that any partner can act on behalf of the firm. The firm stands bound by the acts of partners.

6) **Mutual agency:**

   The business of partnership can be carried on by all the partners or any one of them acting for all. Thus, every partner is principal as well as agent of other partners and of the firm. Thus, (i) Each partner is liable for acts performed by other partners, (ii) Each partner can bind other partners and the firm by his acts done in the ordinary course of business.

7) **Utmost good faith:**

   Every partner is supposed to act honestly and give proper accounts to other partners. Thus, mutual faith and confidence in one another is the main strength of partnership.

8) **Restriction on transfer of shares:**

No partner can sell or transfer his share to anybody else without the consent of the other partners. By giving a notice for dissolution of the firm, a partner can show intention to discontinue as partner.

9) **Continuity:**

A partnership continues up to the time that all partners desire to continue it. Legally, a firm dissolves on the retirement, death, bankruptcy lunacy, or disability of a partner if not otherwise provided for in the partnership deed.

Take a Partner when you trust your Partner

Steve Perlman, the inventor of Web TV, built his first home computer when he was only fifteen years old. In 1995, he created a working prototype of the Web TV box.

He and a fried Bruce Leak, started a firm with another friend Phil Goldman and began to sell Web TV out of the guest bedroom in Perlman's house.

Perlmann, being something of a mad scientist, buried himself in development and let his partners worry about the money. By 1997, Perlman had raised and burned through $ 46 million developing Web TV. Luckily, that's when Microsoft's came calling. Joining Microsoft's team netted Perlman and his two partners around $ 70 million apiece.

TRUST AND CONFIDENCE ARE THE PILLARS FOR GREAT PARTNERSHIP.

Suitability

The use of better sophisticated production techniques has necessitated more investments. Complex nature of businesses needs expert managerial hands. Thus, partnership form of a business is an ideal choice for starting a new venture, if the entrepreneur's–

1) capital and managerial requirements are higher as compared to that of sole proprietorship,
2) enterprise falls in the category of either being a small or a medium scale enterprise,
3) direct contact with the customers is essential.

Consequences for non–registration of a partnership firm:

Partnership firms in India are governed by the Indian Partnership Act, 1932. While it is not compulsory to register your partnership firm as there are no penalties for non-registration, it is advisable since the following rights are denied to an unregistered firm:

1) A partner cannot file a suit in any court against the firm or other partners for the enforcement of any right arising from a contract or right conferred by the Partnership Act.
2) A right arising from a contract cannot be enforced in any Court by or on behalf of the firm against any third party.

3) Further, the firm or any of its partners cannot claim a set off (i.e. mutual adjustment of debts owned by the disputant parties to one another) or other proceedings in a dispute with a third party.

Drafting of partnership deed:

Partnership is an agreement between persons to carry on a business, entered into either orally or in writing. It is always desirable to have a written agreement so as to avoid misunderstandings and unnecessary litigations in future. When the agreement is in written form, it is called a '*Partnership Deed*'. It must be duly signed by the partners, stamped and registered. Any alteration in one partnership deed can be made with the mutual consent of all the partners.

Although it is left to the choice of the partners of the firm to decide themselves as to what should be mentioned in their partnership deed, yet a partnership deed generally contains the following:

1. Name of the firm.
2. Nature of the business.
3. Name of partners.
4. Place of the business.
5. Amount of capital to be contributed by each partner.
6. Profit sharing ratio between the partners.
7. Loans and advances from the partners and the rate of interest thereon.
8. Drawings allowed to the partners and the rate of interest thereon.
9. Amount of salary and commission, if any, payable to the partners.
10. Duties, powers and obligations of partners.
11. Maintenance of accounts and arrangement for their audit.
12. Mode of valuation of goodwill in the event of admission, retirement and death of a partner.
13. Settlement of accounts in the case of dissolution of the firm.
14. Arbitration of case of disputes among the partners.
15. Arrangements in case a partner becomes insolvent.

Registration procedure

A partnership firm can be registered whether at the time of its formation or even subsequently. Entrepreneur needs to file an application with the Registrar of Firms of the area in which his/her business is located.

Step: 1

Application for partnership registration should include the following information:

1) Name of the firm
2) Name of the place where business is carried on
3) Names of any other place where business is carried on
4) Date of partners joining the firm
5) Full name and permanent address of partners.
6) Duration of the firm

Step: 2

Every partner needs to verify and sign the application. Ensure that the following documents and prescribed fees are enclosed with the registration application.

a) Application for registration in the prescribed form-I.
b) Duly filled specimen of affidavit
c) Certified copy of the partnership deed
d) Proof of ownership of the place of business or the rental/lease agreement thereof

It may be noted here that, the name of the partnership firm should not "contain any words which may express or imply the approval or patronage of the government except where the government has given its written consent for the use of such words as part of the firm's name."

Once the Registrar of Firms is satisfied that the application procedure has been duly complied with, he/she shall record an entry of the statement in the Registrar of Firms and issue a Certificate of Registration.

III. Joint Stock Company

ONCE "ILLEGAL .... TODAY LEGALLY MOST DESIRABLE!!!

Joint stock company organisation was started first in Italy in the thirteenth century. During seventeenth and eighteenth centuries, joint stock companies were formed in ENGLAND under ROYAL CHARTER OR ACTS OF PARLIAMENT.

The joint stock company form of organisation got a great set back when "BUBBLES ACT OF 1720" declared promotion of companies as ILLEGAL by ENGLAND'S PARLIAMENT.

It was much later in 1844, that the company form regained status after passage of THE JOINT STOCK COMPANIES ACT IN 1844 and LIMITED LIABILITY granted only in 1855.

The first Companies Act was passed in India in 1850 and the principle limited liability was introduced only in 1857.

Much later in 1956, a comprehensive bill was passed and any firm incorporated under this Act was started to be referred as "COMPANY".

Resources and the life span of both sole proprietorship and partnership form of organisation stands limited with liabilities being unlimited.

To comply with these growing needs, the demand was on rise for:

1) Capital

2) Managerial talent and skills

3) Limited liability

Thus, joint stock company as a modern form of business organisation emerged to meet the requirements of large sized business.

Meaning:

In common prevalence, a company means a voluntary association of a person formed for some common object with capital divisible into units of equal value called 'shares' and with limited liability. Company is a creation of law that is the birth of this artificial human being is by law and it can be put to death by law only.

Definitions Well Known

"A joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

– Prof. L.H. Haney

"A company is an association of many persons who contribute money or money's worth to a common stock and employ it is some trade or business, and, who share the profit and loss arising there from."

– James Stephenson

According to section 3 of Indian companies act, 1956, "A company means a company formed and registered under this act or any previous act."

Thus, a company is an association of persons who contribute money in the shape of shares and the company gets a legal entity and enjoys a permanent existence.

Characteristics of a Company

A company is distinctive from other forms of organisation because of the following features:

1) Voluntary association

A single person cannot constitute a company. At least two persons, voluntarily, must join hands to form a private company, while a minimum of seven persons are required for a public company.

2) Artificial person

A company is created by law. Though, it has no body and no conscience, it still exists as a person, having a distinct personality of its own.

Because like a human being it can buy, sell and own property, sue others, be sued by others, its called as an artificial person.

3) Separate legal entity

A company has an independent status, different from its members. This implies that a company cannot be held liable for the actions of its members and vice-versa. Company has a distinct entity separate from its members.

4) Common seal

Being an artificial person, company cannot sign the documents. Hence, it uses a common seal on which its name is engraved. Putting the common seal on papers, is equivalent to that of signatures of a human being, making them binding on the company.

5) Limited liability

The liability of the shareholders of a company is normally limited to the amount of shares held or guarantee given by them.

6) Transferability of shares

No shareholder is forever wedded to the company. Subject to certain conditions, the shares are freely transferable. The private companies do impose some restrictions on the transfer of shares.

7) Diffusion of ownership and management

In this form of organisation, entrepreneur should clearly understand there exists separation of ownership from management.

As the shareholders could be scattered across country here, they give the right to the directors to manage the company's affairs.

8) Number of members

Private company:

Minimum required members	:	2
Maximum members	:	50 (excluding employees)

Public company:

Minimum requirement	:	7
Maximum number	:	No limit

9) Limitation of action

The scope of this artificial person is determined by:

a) The Indian Companies Act

b) Memorandum of Association

c) Articles of Association

Any work done beyond what is stated in these documents can lead to winding up of the process of the company.

10) **Winding up**

The mode of incorporation and termination (winding up) is both as per the Companies Act only. It's born out of law and can be liquidated only by law.

Choice to be made:

An entrepreneur, under the 'Company' form of organisation has a further choice to incorporate an enterprise either as either a:

a) Private company or,

b) Public company

A) Private company

A private company:

1) has a minimum of two and a maximum of fifty members excluding its past and present employees.
2) restricts the right of its members to transfer shares.
3) prohibits an invitation to the public to subscribe for any shares or debentures of the company, or accept any deposits from persons other than its directors, members or relatives.
4) has a minimum paid up capital of one lakh rupees (subject to change)
5) uses the word 'Pvt. Ltd.' at the end of its name.

B) Public company

Under Section 3(i) (ii) of the Companies Act, a public company is a company which is not a private company. By implication, a public company:

1) has minimum seven people to commence with no upper limit to membership
2) does not restrict any transfer of shares
3) invites public to subscribe for its shares, debentures and public deposits.
4) has a minimum paid up capital of five lakh rupees.
5) uses the word 'Ltd.' at the end of its name.

Why private company is more desirable

Inspite of certain restrictions imposed on a private company, it enjoys certain privileges under the Companies Act. A substantial number of entrepreneurs prefer to form a private company because of the following important privileges:

1) Only two members are required to form a private company.
2) Only two directors are required to constitute the quorum to validate the proceedings of the meetings.

3) Such company can file a statement in lieu of prospectus with the Registrar of Companies.

4) It can commence its business immediately after incorporation.

5) Holding of a statutory meeting or filing of a statutory report is required by a private company.

6) A non-member cannot inspect the copies of the profit and loss A/c filed with the Registrar.

7) Limit on payment of maximum managerial remuneration does not apply to a private company.

8) Restrictions on appointment and reappointment of managing director do not apply.

9) Maintaining of index of members is not required by a private company.

10) Directors of the private company need not have qualification shares.

The company form of organisation has shown phenomenal increase in almost all countries of the world in the twentieth century.

Case Study-II

Quest for Independence effects Form's Selection

William C. Durant, the founder of General Motors, started a variety of entrepreneurial ventures, primarily in the fields of insurance, real estate and construction. None of them really took off.

Once he hitched a ride to work with a friend, nothing that his friend's new 'buggy' rode smoother than any he had been in. New design in the buggy's springs was the reason for this..

Durant, on learning that the Coldwater Road Cart Company made the buggies with the improved springs, immediately offered to buy the company for $ 1500. For this, he had to borrow $ 2000 from Citizen National Bank of Flint and made two sample buggy carts. Within a week, the buggy was sold, leaving orders for 600 buggy carts and there was no turning back and the turning point came in 1904, with BUICK MANUFACTURING COMPANY offering Durant partnership, as they were both in need of fresh source of capital and the famed selling abilities of Durant.

But, Durant agreed to come in only if he could have absolute managerial control and finally took over the BUICK COMPANY.

Suitability

On comparing the advantages and limitations of company form of business, it is suggested that an entrepreneur should choose this form provided his/her:

1) Venture is a heavy and basic industry type

2) Large-scale operations are involved

3) Business requires huge funds

4) Enterprise involves heavy risks

5) Enterprise is technologically complex and sophisticated, banking heavily upon experts and professionals.

To commence a "Company" in India

The idea of forming a company is conceived either by a person or by a group of persons known as promoters. Our entrepreneurs are basically the promoters as they are the ones who:

a) Conceive the idea.

b) Scan it against the environmental forces to establish its feasibility and viability.

c) Procures the resources essential for its commencement.

d) Ensure the incorporation of the enterprise.

e) Arrange for commencing of the business.

g) Plans out expansion and diversification strategies.

The concept of the company is born in the entrepreneur's mind – they investigate the potential and take a lead for bringing human resources, money, materials, machinery and methods together for converting his/her dream into reality.

Legal formalities expected to be complied by the entrepreneur:

A heavy responsibility rests on the entrepreneur in translating his idea into a working reality. The sphere of activities done during this stage is very wide encompassing:

1. Obtain PAN number from Income Tax Department

What is PAN?

Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued by the Income Tax Department.

PAN enables the department to link all transactions of the "person" with the department. These transactions include tax payments, TDS/TCS credits, returns of income/wealth/gift/FBT, specified transactions, correspondence, and so on. PAN, thus acts as an identifier for the "person" with the tax department.

It is mandatory to quote PAN in all documents pertaining to financial transactions.

Who must have PAN?

i) All existing assesses or taxpayers or persons who are required to furnish a return of income, even on behalf of others, must obtain PAN.

ii) Any person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed five lakh rupees in any previous year;

iii) Any person, who intends to enter into financial transaction where quoting PAN is mandatory, must also obtain PAN.

iv) The Assessing Officer may allot PAN to any person either on his/her own or on a specific request from such person.

2. Open a current account

Who can open a current account

i) Any person, competent to contract and satisfactorily introduced to the Bank may open an account in his/her own name. He/she may not open more than one such account. Accounts may be opened in the names of two or more persons and may be made payable to.

ii) Accounts can be opened for sole proprietorship firms, partnership firms, private limited and public limited companies, Joint Hindu families, trusts, clubs, associates etc. satisfactorily introduced to the Bank and on fulfilling laid down procedures and tendering required credentials.

iii) Accounts can be opened by minors of 14 years and above, if able to read and write, in their sole names.

Basic common documentation

- Proof of Identity: PAN Card, Voter Id Card, Passport, Driving License
- Proof of Address: Latest Telephone Bill or Electricity Bill

Public or private limited companies

- Certificate of incorporation and commencement of business
- Memorandum and Articles of Association
- Board resolution authorising the opening and operation of the account
- PAN or GIR No. or completed Form 60
- List of directors with residential addresses

3. Register your company (Pvt. Ltd/Public limited Company)

The following steps are involved in incorporating a private or public company in India

1. Name of the business entity
2. Register for e-filing at MCA (Ministry of Corporate Affairs) portal
3. Apply for Director Identification Number (DIN)
4. Obtain Digital Signature Certificate (DSC)
5. Register DSC at MCA website
6. Apply for approval of the name of the company
7. Formulate Memorandum of Association
8. Formulate Articles of Association
9. Verify, stamp and sign Articles of Association
10. Verify the various forms required for incorporation of the company

4. **Register for service tax**

Service tax is, as the name suggests, a tax on Services. It is a tax levied on the transaction of certain services specified by the Central Government under the Finance Act, 1994.

It is an indirect tax (akin to Excise Duty or Sales Tax), which means that normally, the service provider pays the tax and recovers the amount from the recipient of taxable service.

5. **Register for VAT/sales tax**

Value added tax (VAT)

- VAT is a multi-point destination based system of taxation, with tax being levied on value addition at each stage of transaction in the production/ distribution chain.
- The term 'value addition' implies the increase in value of goods and services at each stage of production or transfer of goods and services.
- VAT is a tax on the final consumption of goods or services and is ultimately borne by the consumer.

For identification/registration of dealers under VAT, the Tax Payer's Identification Number (TIN) is used. TIN consists of 11 digit numerals throughout the country. Its first two characters represent the State Code and the set-up of the next nine characters can vary in different States.

Sales tax

Sales tax is levied on the sale of a commodity, which is produced or imported and sold for the first time. If the product is sold subsequently without being processed further, it is exempted from sales tax.

Sales tax is paid by every dealer on the sale of any goods made by him in the course of inter-state trade or commerce, despite the fact that no liability to tax is raised on the sale of goods under the tax laws of the appropriate state.

Sales tax ID number

A state Sales Tax ID number is essentially a business version of your PAN number, under which you collect and pay tax for any service or product you sell, which in turn, qualifies for taxation in your state.

6. Excise duty (If applicable)

What is excise duty? Is it collected by the State Government or the Central Government? How is it different from sales tax?

Excise duty is a tax on manufacture or production of goods. Excise duty on alcohol, alcoholic preparations, and narcotic substances is collected by the State Government and is called "State Excise" duty. The Excise duty on rest of goods is called "Central Excise" duty and is collected in terms of Section 3 of the Central Excise Act, 1944. Sales Tax is different from the Excise duty as former is a tax on the act of sale while the latter is a tax on the act of manufacture or production of goods.

What categories of persons are required to obtain registration with the Central Excise department?

Subject to specified conditions, generally the following categories of persons are required to get themselves registered with the central excise department:

i) Every manufacturer of dutiable excisable goods;

ii) First and second stage dealers or importers desiring to issue Cenvatable invoices;

iii) Persons holding bonded warehouses for storing non-duty paid goods;

iv) Persons who obtain excisable goods for availing end-use based exemption.

What is the procedure for obtaining registration?

Apply to the nearest central excise division office in form A.1 along with a self-attested copy of the PAN issued by the income tax department. After post verification, a regular registration certificate in form RC is normally issued immediately, as far as possible.

7. Customs duty

Customs Duty is a type of indirect tax levied on goods imported either in or to India, not both, as well as on goods exported from India. Taxable event is imported into or exported from India. Import of goods means bringing goods to India from a place outside India. India includes the territorial waters of India which extend up to 12 nautical miles into the sea to the coast of India. Export of goods means taking goods out of India to a place outside India.

8. File entrepreneurship memorandum at DIC (optional)

Although not mandatory, you may file part I of entrepreneurs memorandum to the district industries centre. This may be necessary for claiming certain incentives / subsidies and for certain formalities at the state level.

9. Apply for TAN

TAN or tax deduction and collection account number is a 10 digit alpha numeric number required to be obtained by all persons who are responsible for deducting or collecting tax. It is compulsory to quote TAN in TDS/TCS return (including any e-TDS/TCS return), any TDS/TCS payment challan and TDS/TCS certificates.

Who must apply for TAN?

All those persons who are required to deduct tax at source or collect tax at source on behalf of Income Tax Department are required to apply for and obtain TAN.

10. Permissions required at the construction stage

These are some permissions which are required to be obtained from the government:

- Application for plot/shed, offer letter, payment of earnest money deposit
- Allotment of plot/shed, payment of balance occupancy price, taking over possession thereof
- Application for issuance of NOC/SSI registration
- Execution of lease agreement
- Application for grant of connection for construction water
- Application for grant of connection for construction power

Post construction clearances

- Building completion/drainage completion/tree plantation certificate
- Permission for mortgage
- NOC from Pollution Control Board
- Final fire clearance
- NOC from environment department
- Industrial safety permit
- Sanction of permanent power
- Sanction of permanent water and sewerage connection

11. Employee's Provident Fund (EPF)

Applicable for establishments employing 20 or more persons and engaged in industry.

12. Employee's State Insurance (ESI) scheme

The Act is applicable to non-seasonal factories employing 10 or more persons.

The scheme has been extended to shops, hotels, restaurants, cinemas including preview theatres, road-motor transport undertakings and newspaper establishments employing 20 or more persons.

Steps involved in starting business in Mumbai

Registration requirements:

No.	Procedure	Time to complete	Cost to complete
1.	Obtain director identification number (DIN) online from the Ministry of Corporate Affairs portal (National)	1 day	INR 100
2.	Obtain digital signature certificate online from private agency authorized by the Ministry of Corporate Affairs (National)	3 days	INR 1,500
3.	Reserve the company name online with the Registrar of Companies (ROC) (National)	2 days	INR 500
4.	Stamp the company documents at the State Treasury (State) or authorized bank (Private)	1 day	INR 1,300 (INR 200 for MOA + INR 1,000 for AOA for every INR 500.000 of shares capital or part thereof + INR 100 for stamp paper for declaration Form 1)
5.	Get the certificate of incorporation from the Registrar of Companies, Ministry of Corporate Affairs (National)	5 days	INR 14,133 (See comments)
6.	Make a seal (Private)	1 day	INR 350 (cost depends on the number of seals required and the time period for delivery)
7.	Obtain a permanent account number (PAN) from an authorized franchise or agent appointed by the National Securities Depository Ltd. (NSDL) or the Unit Trust of India (UIT) Investors Services Ltd. as outsourced by the Income Tax Department (National)	7 days	INR 67 (INR 60 application fee + 12.36% service tax + INR 5 for application form, if not downloaded)

8.	Obtain a Tax Account Number (TAN) for income taxes deducted at source from the Assessing Office in the Mumbai Income Tax Department	7 days	INR 57 (INR 50 application fee + 12.36% service tax)
9.	Register with the Office of Inspector, Shops and Establishment Act (State/ Municipal)	2 days	INR 6,500 (INR 2000 + 3 times registration fee for trade refuse charges)
10.	Register for Value-Added Tax (VAT) at the Commercial Tax Office (State)	12 days	INR 5,100 (registration fee INR 5000 + stamp duty INR 1000)
11.	Register for Profession Tax at the Profession Tax Office (State)	2 days	No cost
12.	Register with Employees' Provident Fund Organization (National)	12 days	No cost
13.	Register for medical insurance at the regional office of the Employees' State Insurance Corporation (National)	9 days	No cost

***Source:** Take in the India Biz-Tech Buzz*

Though the most commonly opted out forms of business had already been discussed, yet there are two more forms prevalent in India, to start venture. They are:

IV. Joint Hindu family / firm (HUFs):

Joint Hindu family or Hindu Undivided Family Business is a unique form of business organisation prevailing only in India. It is governed by Hindu law and represents a form which is owned, managed and controlled by the male members of a joint Hindu family.

Meaning of HUFs: The HUFs have been defined under the Hindu law "as a family, which consists of male lineally descended from a common ancestor and included their wives and unmarried daughters." The relation of HUFs arises from the status not from legal contracts. Creating HUFs are the best possible way to save taxes.

Schools of law under HUF: Two schools of law are there in order to create a HUF:

a) **Dayabhaga –** It is prevalent in West Bengal and Assam. As per this school of law, the son acquires the right in the family property only after the death of his father.

b) **Mitaakshara –** It is prevalent in rest of India under which, the son acquires the right in the family property right from his birth.

There are two conditions for existence of HUFs. They are:

1) Minimum two members must be there in the family.

2) Existence of some ancestral property.

Characteristics of Hindu undivided family

The main features of HUF are as follows:

1) **Creation:** It arises by status or operation of Hindu Law.

2) **Membership:** A male member becomes a member merely by his birth. By adoption, an outsider can be admitted to its membership but not otherwise.

3) **Management:** The senior most male member of the family known as 'Karta' manages the affairs, having unlimited powers. The other male members called 'Coparceners' have no right to deal with outsiders or inspect accounts.

4) **Liability:** The liability of Karta is unlimited and that of coparceners is limited to the extent of their share in property which is jointly held by the family. The self-acquired property of any member cannot be taken in order to satisfy business liabilities.

5) **Right of Accounts:** The members other than Karta do not have right to inspect and/or copy contents of the account books.

6) **Minor as member:** A male from the time of his birth becomes the member in this form of enterprise.

7) **Dissolution:** The HUF continues to operate forever as death of members does not effect it. As upper links are removed by death, the lower ones are added by birth. So there is no limit to its membership. But if all members want to mutually dissolve the firm, they can do so.

8) **Implied Authority:** Only the Karta has implied authority to bind the HUF by acts done in the ordinary course of the business of the firm. That's why he alone has unlimited liability.

Legal formalities involved

Steps involved in creation of HUFs

Entrepreneur who is interested to operate his/her enterprise as an HUF is required to comply with following requirement.

1) **Capital and members**: For an HUF to be created the major requirements is the capital and persons. Capital can be in the form of ancestral property, assets gifted by relatives and friends, or received by the HUF through a will. The minimum no. of members required is two.

2) **Select a suitable name:** The HUF to be created should have proper name. Entrepreneur should select a proper name for the HUF, ensuring it does not violate the laws or have any negative impact.

3) **Form a Deed:** Formation of HUF should be embodied in a deed which provides that a proper legal deed or agreement is required before creating a HUF, disclosing the name of Karta, coparceners, address and source of funds in the corpus.

4) **Apply of PAN:** Application of PAN (Permanent Account Number) is also an important step to be undertaken while forming a HUF. After executing the deed, the Karta is required to obtain a permanent account number PAN for the HUF. Obtaining PAN is a mandatory requirement as all financial transactions shall carry PAN.

5) **Open a Bank Account:** After PAN has been allotted, the Karta is required to open a Bank a/c in the name of the HUF. It is also advisable to get some stationery printed for official communication. The HUF is now ready to function. The Karta will have to invest in tax saving instruments and file tax returns on behalf of the HUF. Only the money related to the business of HUF shall be invested in such Bank accounts.

Some Interesting Information

1. *The daughter after her marriage ceases to be a member of her father's HUF. After marriage she becomes the member of her husband's HUF.*
2. *Adopted child can become the member but he cannot become the coparcener.*
3. *The HUF continues to exist in the hands of the female members after the death of the male member.*
4. *A widow cannot be the Karta of the HUF as she is not the coparcener.*
5. *HUF is a separate entity for income tax purposes under the provisions of Section 2(31) of the Income Tax Act.*

V. Co-operative Organisations

A co-operative is a different form of business enterprise as here, the main motive is not earning profit but mutual help. It works with the principle of each for all and all for each.

> *"Co-operation is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interest of themselves."*
>
> *– H.C. Calvert*

The Indian Co-operative Societies Act, 1912 defines co-operative in section 4 as, "Society which has its objectives as the promotion of economic interests of its members in accordance with co-operative principle."

Features

Co-operative is a self-help as well as mutual help system, exhibiting following characteristics:

1. **Voluntary organisation:** Co-operative organisation is a voluntary association of persons desirous of pursuing a common objective. They can come and leave the organisation at their own will without any coercion or intimidation.

2. **Democratic management:** The management of a co-operative organisation is vested in the hands of the managing committee elected by the members on the basis of 'one member-one vote'. Democracy is, thus, the keynote of the management of a co-operative society.

3. **Service motive:** Rendering services to its members rather than to earn profit as the primary objective is the feature that distinguishes a cooperative organisation from the other forms of business. The primary objective of a co-operative society is to render services to its members rather than to earn profits.

4. **Capital and return thereon:** The capital is procured from its members in the form of share capital. A member can subscribe subject to a maximum of 10% of the total share capital or Rs. 1,000 whichever is higher. Shares cannot be transferred but surrendered to the organisation. The rate of dividends paid to the members/ shareholders is restricted to 9% as per the Co-operative Societies Act, 1912.

5. **Government control:** In India, the activities of co-operative societies are regulated by the Co-operative Societies Act and the State Co-operative Societies Acts. Co-operative societies are required to submit their annual report and accounts to the Registrar of Co-operatives.

6. **Distribution of surplus:** After giving dividends to the members, the surplus of profits, if any, is distributed among the members on the basis of goods purchased by each member from the society.

Entrepreneur does not find this form as a very desirable structure to start a new venture because of his / her:

a) Quest for excellence

b) Drive for independence

c) Tendency to be project champion

d) Strong desire to succeed and earn profit

e) Creative and innovative nature

f) "Must be own boss", attitude.

g) Love for being a 'Leader' in the field.

h) Zeal to capture major market share.

Amazing Similarities!

Ray Kroc, founder of McDonald's, was selling milkshake machines when he was inspired to turn the McDonald brothers hamburger restaurant into a International operation.

William C. Durant, the founder of General Motors, began his career as a buggy salesman.

King C. Gillette was a traveling salesman when he invented the safety razor.

No form is without merits and limitations. Entrepreneur needs to understand it better that no form is the best form. Thus, selection of an appropriate form of business orgnisation is a very difficult decision. With regards to special requirements of the enterprise if any, mostly the selection of a form is to a great extent affected by:

1) Capital requirement of the enterprise
2) Risk and liability involved
3) Managerial control desired
4) Scale of operations involved
5) Continuity and stability demanded
6) Government regulations involved
7) Tax burden on the entrepreneur/enterprise
8) Nature of business
9) Confidentiality required
10) Flexibility desirable.

No single factor can help to decide the form. Thus, it's a summative effect of the factors to be taken into consideration before opting the form of business ownership.

BUSINESS PLAN

"WHAT TO DO? HOW TO DO? WHO IS TO DO?" IS BASIC TO ANY ACTIVITY

Close your eyes for a while and suppose you are trying to decide a visit to SHIMLA in a car. As a vigilant traveller, you must make some important decisions and gather information before undertaking the journey as there might be a number of possible time frames and costs involved.

As a traveller, you should consider various factors which might be:

I) EXTERNAL: *The factors which are basically uncontrollable by you but must be considered in your plan, viz.*

- *i) Emergency car repair*
- *ii) Weather and road conditions*
- *iii) Hotels availability and bookings*
- *iv) Available rights to exercise and food availability*
- *v) Political conditions prevailing etc. (i.e. unrest/peaceful)*

II) INTERNAL: *i.e. the factors which are, to an extent, controllable by you, viz.*

- *i) Availability of money and time,*
- *ii) Clothes to be taken*

iii) Number of members to accompany

iv) Choosing between hotels and routes and highways

v) Who will be driving and which type of vehicle

Thus, your travel plan responded to three important issues:

(i) WHERE AM I NOW? (ii) WHERE AM I GOING? (iii) HOW DO I GET THERE?

Planning, can thus be defined as "thinking in advance, what is to be done, when it is to be done, how it is to be done and by whom it should be done."

Like the traveller, the entrepreneur must make some important decisions and gather information about the external and internal factors so as to address the integration and co-ordination of effective business objectives and strategies related to his proposed venture. We know, planning is a process that never ends. It's an intellectual thinking process, with the organized foresight, the vision based on facts and experience, which is quite essential for an intelligent action. Planning bridges the gap between where we are standing and where we want to reach.

"Entrepreneurship is personal. It is what you can do almost by yourself."

- John H. Johnson
American publisher of Ebony and Jet magazines

This is possible only if the entrepreneur is capable of effectively planning where he/she is, and where he/she would like to be and how? Some kind of a 'game plan' or a 'road map' is required to let the venture evolve from an early start-up to a mature business. Thus, an entrepreneur needs to workout in detail all the relevant external and internal elements involved in starting a new venture and then running it successfully. He/she needs to develop a road map for himself/herself called a "Business Plan".

What is the business plan

The business plan is a comprehensively written down document prepared by the entrepreneur describing formally all the relevant external and internal elements involved in starting a new venture.

It's a formal statement of a set of business goals, the reasons they are believed attainable and the plan for reaching those goals along with the background information about the organization or/and team attempting to reach those goals.

Thus, a business plan is a comprehensive project report which not only encompasses the entire range of activities which are being planned in the business, but also:

a) helps to understand the feasibility and viability of the proposed venture,

b) facilitates in assessing and making provisions for the bottlenecks in the progress and implementation of the idea,

c) discusses the potential for success of the project along with the risk factors involved.

Business plans are decision-making tools:

1) Describing all necessary inputs for the enterprise.

2) Explaining the mode of utilization of the resources.

3) Detailing the strategies for the execution of the project.

4) Outlining the desired goals

5) Assessing market sensitivity and the profitability of the venture.

Thus, the content and the format of the business plan is such which is able to represent all these aspects of the business planning process.

Who should write the plan?

A business plan represents all aspects of the business planning process declaring vision and strategy alongside sub-plans to cover:

- Marketing
- Finance
- Operations
- Human resources
- Legal compliance
- Intellectual property rights, etc.

As such preparing a business plan draws on a wide range of knowledge from many different business disciplines, requiring, the entrepreneur to consult with many other expert professional sources in its preparation like:

i) Lawyers,

ii) Accountants,

iii) Marketing consultants,

iv) Engineers

v) Internet sites

vi) Officially appointed or/and set-up Banks, Specialized financial institutions or Agencies to promote entrepreneurship

vii) Friends, relatives, mentors etc.

Though the business plan should be prepared by the entrepreneur, to determine whether to hire a consultant or to make use of other resources, the entrepreneur can make an objective assessment of his her own skills, to determine where is he/she lacking and needs assistance.

Importance of the business plan

The business plan is valuable to the entrepreneur, potential investors, venture capitalists, banks, financial institutions, new personnel's suppliers, customers, advisors and others who are trying to familiarize themselves with the venture, its goals, and objectives. The business plan –

a) helps in determining the viability of the venture in a designated market

b) helps in providing guidance to the entrepreneur in organizing his/her planning activities as such:

   i) identifying the resources required

   ii) enabling obtaining of licenses if required etc.

   iii) working out with legal requirements as desired by the government.

c) helps in satisfying the concerns, queries, and issues of each group of people interested in the venture.

d) provides room for self-assessment and self-evaluation, requiring entrepreneur to think through various scenarios and plan ways to avoid obstacles.

e) though not desirable, at times, business plan helps to realize the obstacles which cannot be avoided or overcome, suggesting to terminate the venture while still on paper without investing further time and money.

f) as the investors/lenders focus on the four Cs of credit : character, cash flow, collateral and equity contribution, it is the business plan which reflects the entrepreneur's credit history, the ability to meet debt and interest payments, and the amount of personal equity invested thus serving as an important tool in funds procurement.

Hence, a business plan gives adequate clarity to the entrepreneur, investor(s) and the government of:

- What an entrepreneur is doing
- Why he/she is doing it
- How he/she will do that

It's well said that "writing a good business plan can't guarantee success, but it can go a long way toward reducing the odds of failure."

Formats of a business plan:

The depth and detail in the business plan depends on the size and scope of the proposed new venture. There is no fixed content for a business plan as it varies according to the entrepreneur's goals and audience (i.e. who are being targeted).

Thus, it is common for especially start-ups to have three or four formats as follows for the same business plan.

i) **Elevator pitch:** It is a three minute summary of the business plan's executive summary. This is often used as a teaser to awaken the interest of potential funders, customers, or strategic partners.

ii) **A pitch deck with oral narrative** : A hopeful, entertaining slide show and oral narrative that is meant to trigger discussion and interest potential investors in reading the written presentation, i.e. the executive summary and a few key graphs showing financial trends and key decision making benchmark.

iii) **A written presentation for external stakeholders:** A detailed, well written, and pleasingly formatted plan targeted at external stakeholders.

iv) **An internal operational plan:** A detailed plan describing planning details that are needed by management but may not be of interest to external stakeholders.

Depending upon the entrepreneur's experience, knowledge and purpose, generally a business plan outlines sequentially following components or parts:

1) Introductory cover page/general introduction
2) Business venture
3) Organisational plan
4) Production plan
5) Operational plan
6) Human resource plan
7) Marketing plan
8) Financial plan
9) Miscellaneous/appendix

These are discussed in detail below:

I. Introductory profile /general introduction

This is the title or cover page that provides a brief summary of business plan's contents. The information of general nature contained in the introductory profile includes:

a) Entrepreneur's bio-data:

- Name and address of the promoter
- His/her qualifications,
- Experience and other capabilities
- In case of partners – their names, number, addresses, designation etc. individually

b) **Industry's profile:**

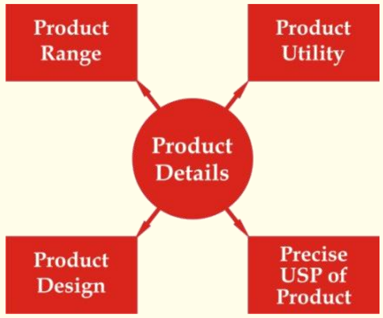
- The name and address of the enterprise.
- Telephone numbers/Fax/e-mail/website address.
- The nature of business.
- Any branches/sister concerns.

c) **Constitution and organisation:**

The constitution and organizational structure of the enterprise i.e. the legal form of the proposed enterprise-sole, partnership, company or any other form, along with registrations details.

d) **Product details:**

- Product utility
- Product range
- Product design
- Precise USP of product



II. Description of venture/business venture

This section of the business plan generally begins with the "mission statement" by the entrepreneur describing the size, scope and nature of the enterprise.

What the entrepreneur hopes to accomplish with that business, along with a clear description about the following key elements is covered under project description.

a) **Site:** Location of enterprise, owned or leasehold land, industrial area, no objection certificate from the Municipal Authorities if required, needs to be determined.

b) **Physical infrastructure:** Availability of the following items of infrastructure should be mentioned in the business plan.

i) **Raw material:** Whether indigenous or imported, sources of supply etc.

ii) **Labour:** Type of labour required, provision for their training, number of manpower required etc.

iii) **Utilities:** These include: power, fuel, water, gas, electricity, etc. Business plan needs to clearly state: (a) type of utilities required, (b) load sanctioned (c) sources and quality of water used quantum of coal, coke, oil etc. required and the suppliers of the same.

iv) **Pollution control:** The sewage system, and the sewage treatment plant, water harvesting system, arrangement for dumping and disposing of the other types of waste or emission all need to be discussed in the plan.

v) **Transport and communication system:** Requirements for transportation and communication facilities, modes and means opted for, bottlenecks etc. are duly covered in by the business plan.

vi) **Machinery and equipments:** A complete list of items of machinery and equipments required indicating their size, capacity, type, cost and sources of their supply should be disclosed.

vii) **Production process:** A mention of the process involved in production, the installed licensed capacity of the plant, the technology to be used, whether available locally or imported, shifts involved, needs to be present in the business plan.

The target of this section of the plan is to save the entrepreneur from a potential disaster of time and cost later on. Here in the entrepreneur is able to assess and evaluate whether idea is feasible or not.

Describing the venture

1. *What is the mission of the new venture?*
2. *What are your reasons for going into business?*
3. *Why will you be successful in this venture?*
4. *What development work has been completed to date?*
5. *What are your product(s) and/or service(s)?*
6. *Describe the product(s) and/or service(s), including patent copyright, or trademark status.*
7. *Where will the business be located?*
8. *Is your building new? old? in need of renovations? (if renovation is needed, state costs.)*
9. *Is the building leased or owned? (State the terms)*
10. *Why is this building and location right for your business?*
11. *What office equipment will be needed?*
12. *Will equipment be purchased or leased?*
13. *What experience do you have and/or will you need to successfully implement the business plan?*

Source: Entrepreneurship by The McGraw Hill Companies.

III. Production Plan

"The planning of industrial operations involves four considerations, namely, what work shall be done, how the work shall be done and lastly, when and by whom the work shall be done."

– Kimball and Kimball Jr.

Production, the most important activity of an enterprise, because it is here that transformation of raw material into finished product takes place with the help of energy, capital, manpower and machinery.

Being highly complex and tedious, the manufacturing operation needs to be well planned. No doubt it will be nature of venture which will decide the magnitude of importance and disclosure required under the production plan. Most likely there are three situations before the venture viz.

a) **No manufacturing involved:** If the new venture does not include any manufacturing function, say it's a trading firm or a service provider, then this section will stand eliminated from the plan.

b) **Partial manufacturing:** If some or all the manufacturing process is to be subcontracted or outsourced, then the production plan should describe:

   i) Name and location of subcontractor(s)

   ii) Reasons for their selection

   iii) Cost and time involved

   iv) Any contracts that have been completed etc.

   In such cases, a clear mention of what entrepreneur intends to do himself and what he plans to get it done from outside is required.

c) **Complete Manufacturing:** If the manufacturing is to be carried out in whole by the entrepreneur, he/she will need to describe:

   i) the physical plant layout,

   ii) the machinery and equipment required to perform the manufacturing operations,

   iii) raw materials and suppliers names, addresses, terms and conditions,

   iv) cost of manufacturing

   v) any future capital equipment required etc.

"Picturising ahead every step in a long series of separate operations, each step to be taken in the right place of the right degree, and at the right time and each operation to be done at maximum efficiency", quoted Alford and Beathy, is the objective of a production plan.

Hence, a production plan helps to plan the work in such a manner that one can clearly form an idea about:

a) Production schedule and/or budget

b) Machinery, equipment requirement

c) Manufacturing method and process involved

d) Plant layout

e) Time, motion and work study

f) Manpower requirement

g) Inventory requirement

Production plan

1. Will you be responsible for all or part of the manufacturing operation?
2. If some manufacturing is subcontracted, who will be the subcontractors? (Give names and address)
3. Why were these subcontractors selected?
4. What are the costs of the subcontracted manufacturing? (Include copies of any written contracts)
5. What will be the layout of the production process? (Illustrate steps if possible)
6. What equipment will be needed immediately for manufacturing?
7. What raw materials will be needed for manufacturing?
8. Who are the suppliers of new materials and what are the appropriate costs?
9. What are the costs of manufacturing the product?
10. What are the future capital equipment needs of the venture?

If a retail operation or service:

1. From whom will merchandise be purchased?
2. How will the inventory control system operate?
3. What are the storage needs of the venture and how will they be promoted?
4. How will the goods flow to the customer?
5. Chronologically, what are the steps involved in a business transaction?
6. What are the technology utilization requirements to service customers effectively?

Source : Entrepreneurship by The McGraw-Hill Companies

IV. Operational plan

Operational plan is a system whereby there is achieved a smooth and coordinated flow of work within the factory so that, by planning and control of all the productive operations in all the stages of manufacture, the final product is completed in accordance with the plans.

– *Wright*

Where the production plan aims at "plan your work", there operations plan ensures "work your plan". It is actually a blue print prepared right in advance of actual operations —

i) Ensuing orderly flow of materials in the manufacturing process from the beginning (raw state) to the end (the finished products)

ii) Facilitating continuous production, lesser work-in-progress and minimization of wastage.

iii) Co–ordinating the work of engineering, purchasing, production, selling and inventory management.

iv) Describing the flow of goods / services from production point to the consumers.

v) Introducing a proper system of quality control

vi) Undertaking the best and most economic production policies and methods.

Thus, the operational plan organizes for the movement of material, performance of machines and operations of labour, however sub-divided, into a defined direction, co–ordinating for the desired manufacturing results in terms of:

a) Quantity

b) Quality

c) Time

d) Place and

e) Cost

Elements of operational plan:

The operation plan, in a way is planning:

i) For production in advance of operations.

ii) Establishing the exact route of each individual item, part of assembly.

iii) Setting starting and finishing dates for each important assignment/work.

iv) Regulating the orderly movement of goods through the entire manufacturing cycle i.e. right from procurement of all materials to the shipping of finished goods.

Thus, to obtain the above mentioned objectives, entrepreneur specifically pays attention to the following elements of the plan:

1) Routing

Routing is a process concerned with determining exact route or path a product/ service has to follow right from raw material till its transformation into finished product.

2) Scheduling

Scheduling, simply means fixation of time, day, date when each operation is to be commenced and completed. In general, it's the determination of the time that should be required to perform each operation.

3) Dispatching

The process of initiating production in accordance with pre-conceived production plan is said to be dispatching. This includes issuing necessary orders instructions, guidelines and/or information to work pertaining to giving practical shape to the production plan.

4) Follow-Up

Follow-up or expediting function relates to evaluation and appraisal of work performed. A properly planned follow-up procedure is helpful in dispatching errors and defects in the work. Follow-up element helps the entrepreneurs in:

a) Developing ways to review the present situation with regard to materials, work-in-progress and finished goods.

b) Evolving ways to expedite the performance of those departments which lag behind.

c) Removing obstacles in the way of production by suggesting remedial measures.

5) Inspection

Inspection is the art of comparing materials, product or performance with established standards. This element helps the entrepreneur to set up laboratories or evolve strategies/methods to ensure predetermined quality of product/service.

6) Shipping

This section goes beyond the manufacturing process and describes the flow of goods / services from production to the consumers.

This part is a detailed presentation by the entrepreneur explaining the chronological steps in completing a business transaction efficiently and profitably. Operation plan is greatly effected by:

a) Nature of venture

b) Type of product/service

c) Scale of operation, and

d) Technology involved

V. Organizational plan

You may start any kind of business, but surprisingly, all of them will fall into one of the four basic categories:

a) Manufacturing – a business that makes a tangible product.

b) Wholesale – a business that buys products in bulk from the manufacturers to be sold in smaller lot to retailers.

c) Retail – a business that sells directly to the final consumer for final satisfaction.

d) Service – a business that sells intangible such as time or expertise.

Thus, the organizational plan is that part of the business plan that describes the proposed venture's form of ownership.

Each type of business differs significantly in terms of:

a) Commencement procedures

b) Legal constraints

c) Financial requirement

d) Accounting methods

e) Marketing and promotional strategies

f) Risk and liability

That's why it is important to be able to categorise the business first and then to carefully choose a legal structure for it. As already dealt in detail in the beginning of the chapter, the entrepreneur have access to following forms to choose from to start his/her venture:

a) Sole proprietorship

b) Partnership

c) Joint Hindu family

d) Cooperative, or

e) Corporation

We know, each of these forms has important implications on (i) Taxes (ii) Liability (iii) Continuity (iv) Financing (v) Ownership. You are already familiar with the merits and demerits associated with the different forms of organisation. No form is the best form. Entrepreneur in light of multiple factors (as already discussed) decides the legal structure, best suited to attain his/her dream.

Thus, the organizational plan is that part of the business plan that describes the proposed venture's opted from of ownership adequately mentioning:

i) the terms and conditions associated with the selected form

ii) lines of authority and responsibility of members of the new venture

iii) the names, designation, addresses and resumes of the members

iv) stake of members in the organisation

v) roles and responsibilities of each member

vi) procedure for solving conflicts/disputes amongst members

vii) forms of payment for the members of the organisation

viii) voting rights, managerial and controlling rights of the members.

All this information provides the potential investor with a clear understanding of who controls the organisation and how other members will interact in performing their management functions.

As it is important to begin the new venture with a strong management team, committed to the goals of the enterprise, it is the organizational plan that helps the entrepreneur to carefully evaluate and decide that legal structure for his organization that could affect :

- Long-term effectiveness of the enterprise, and
- Profitability.

To conclude, both the entrepreneur and the potential investors stands to gain from the organizational plan as the design of the organization so opted helps even in:

i) Specifying the types of skills needed and the roles that must be filled by the members i.e. helps to decide the enterprise's formal organisation, and

ii) representing the attitudes, behaviours, dress, communication styles etc., thus chalking out informal organisation or culture.

Organization Structure

1. *What is the form of ownership of the organization?*
2. *In a partnership, who are the partners and what are the terms of agreement?*
3. *If incorporated, who are the principal shareholders and how much stock do they own?*
4. *How many and what type of shares of voting or non–voting stock have been issued?*
5. *Who are the members of the board of directors? (Give names, addresses, and resumes)*
6. *Who has the check-signing authority or control?*
7. *Who are the members of the management team and what are their backgrounds?*
8. *What are the role and responsibilities of each member of the management team?*
9. *What are the salaries, bonuses, or other forms of payment for each member of the management team?*

Source: *Entrepreneurship by The McGraw Hill Companies.*

VI. Financial plan

Finance is one of the most important pre-requisites to establish an enterprise. Availability of finance facilities the entrepreneur to bring together men, material, machines and methods to produce goods/services.

As timely availability of funds in right volume is key to entrepreneurial success, the entrepreneur should develop a sound financial plan discussing:

a) Financial requirements

b) Sources of raising funds

c) Exact assessment of the revenue, cost, profits, cash flow dynamics, stock of inventory loans etc.

E N T R E P R E N E U R S H I P

Troublesome Money

King C. Gillette invented the disposable razor and started the Gillette Company, which is a multibillion business today. But way back in 1901, Gillette's fledgling company was $ 12,500 in debt – a lot of money then.

"We were backed upto the wall with our creditors lined up in front waiting for the signal to fired" – recalls Gillette.

Gillette managed to secure financing from a Boston Millionaire and saved his company.

THUS, AN ENTREPRENEUR MAY FACE EQUALLY INTENSE FINANCIAL CHALLENGES MANY TIMES.

Financial plan is a projection of key financial data about:

a) The potential investment commitment needed for the new venture, and

b) Economic feasibility of the enterprise

To simplify, the financial plan is so designed that the entrepreneur and the investors could have a clear picture of:

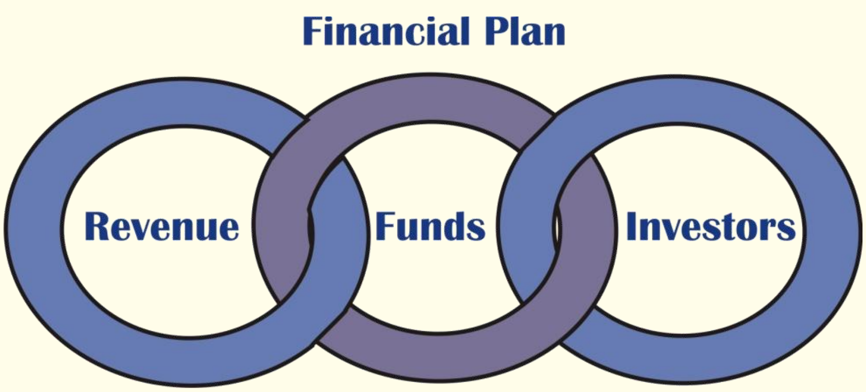
a) How much funds are required?

b) Where will funds come from?

c) How are they disbursed?

d) The amount of cash available

e) General financial well-being of the new venture i.e. probable revenue forecast for the first year at least.



As the financial plan must explain to any potential investor how the entrepreneur plans to meet all financial obligations and maintain its liquidity in order to either pay off debt or provide good return on investment, several financial projection techniques and tools are made use of by the entrepreneur. In general, the financial plan will need three years of projected financial data to satisfy any outside investors.

HENRY FORD went bankrupt twice before the FORD MOTOR COMPANY succeeded.

Components of financial plan

Major financial items that should be included in the financial plan are:

a) Proforma investment decisions

b) Proforma financing decisions

c) Proforma income statements

d) Proforma cash flow

e) Proforma balance sheet

f) Break-even analysis

g) Economic and social variables

A) Proforma investment decisions:

This part of financial plan relates to how the enterprise's funds are invested in different assets so that the enterprise is able to earn the highest possible returns on investment. An estimate of various components of capital nature i.e. fixed assets and of working capital should be clearly mentioned in this part of business plan.

Carefully, clearly and sequentially the entrepreneur should mention investment required in for:

i) Land and building

ii) Machinery and plant

iii) Installation cost

iv) Preliminary expenses

v) Margin for working capital

vi) Expenses on research and development

vii) Investment in short-term assets viz. raw material, level of cash, etc.

This part helps to understand the total amount of finance required by the entrepreneur. Inadequate funds or excess funds, both have the capacity to severely damage the financial fortune of a business. Therefore, these decisions must be taken with utmost care.

B) Proforma financing decisions

This section summarizes all the projected sources of funds available to the venture to raise finance from, which you have already studied in previous class.

Typically, sources of funds are:

i) owners i.e. Owner's funds

ii) outsiders i.e. Borrowed funds

The entrepreneur's job is to ensure the selection of the best overall mix of financing for the enterprise so that:

a) the cost of capital and the financial risk stands minimized,

b) return on investment and profitability stands maximized.

C) Proforma income statement

The proforma income statement is the projected net profit calculated from projected revenue minus projected costs and expenses. Basically, it summarizes all the profit data during the first year of operations of the new enterprises.

In preparing the proforma income statement, 'sales by month' must be calculated first, making use of forecasting techniques as the basis. Following are the most commonly adopted techniques for forecasting:

1) Marketing research
2) Industry sales
3) Survey of buyers' intentions
4) Expert opinions
5) Financial data on similar start-ups
6) Some trial experience of self or others.

While calculating the projected sales and expenses, it is not important to be conservative for initial planning purposes. A reasonable profit that is earned with conservative estimates lends credibility to the potential success of the new venture.

D) Proforma cash flow

Profit and cash flow are not the same, when from sales we subtract expenses, the result is profit and when from cash receipts we subtract cash payments, the resultant figure is the cash flow. Proforma cash flow reflects the projected cash available with the enterprise as a result of subtracting projected cash disbursements from projected cash accumulations.

Cash flows only when actual payments are received or made. Mere sale which might be on credit, will not generate cash. Similarly, all bills are not paid immediately by the enterprises.

For simplification and internal monitoring of cash flow purposes, many new entrepreneurs prefer a simple determination of "Cash in LESS cash out", giving them a fast indication of cash position. The entrepreneurs find it difficult to project cash flows as determining the exact monthly receipts and disbursement is not so easy. Thus, while working out the cash flows, an entrepreneur normally follows a conservative approach, making some necessary assumptions so that enough funds could be maintained to cover the negative cash months.

E) Proforma balance sheet

This document helps the enterprise to reflect the position of the business at the end of its first year. A summary of the projected assets, liabilities and net worth of the entrepreneur is depicted through proforma balance sheet.

F) Break–even point

Every firm wants to maximise its profits. The Breakeven point is that level of volume of production at which firm neither makes a profit nor a loss. Here, the total revenue is equal to the total cost of a firm, at the given level of capacity.

Thus, calculation of BEP is quite useful for the entrepreneur as it helps in assessing:

1) The minimum level of output to be produced.
2) The effect of change in quantity of output upon the profits.
3) The selling price of the product.
4) The profitable options in line of production.

Thus, the break-even analysis is a useful technique for determining how many units must be sold or how much sales volume must be achieved in order to break–even. It helps to indicate the volume of sales needed to cover total variable and fixed expenses by the new enterprise.

G) Economic and social variables

In view of the social responsibility of business, the abatement costs, i.e. the cost of controlling the environmental damage should also be stated in the plan. It's always advisable to mention in the business plan, the socio-economic benefits expected to acquire from the proposed investment like:

1) Employment generation
2) Import substitution
3) Ancillarisation
4) Export promotion
5) Local resource utilization
6) Development of the area

Wherever, it is not possible to quantify the expected benefits, they should be analyzed and their importance emphasized.

VII. Manpower planning

Every organisation comes into existence when a number of persons join hands. All these people work to achieve the organizational goals set by the entrepreneur. Human resource is of paramount importance for the success of any organisation.

> "*The people working in a firm make it what it is.*"
>
> — Hicks and Gullet

An organisation's performance and resulting productivity are directly proportional to the quantity and quality of its manpower. Thus, the best assurance that the enterprise will flourish, requires the entrepreneur to properly plan out for a rich and continuous supply of qualified personnel. In order to build up loyal, efficient and dedicated personnel, entrepreneur needs to pay adequate and proper attention to human resource planning.

This planning is a process by which an entrepreneur ensures that he/she has the right number of people, and the right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.

Manpower planning thus helps to assess:

1) What kind of people are required?

2) How many people are required?

3) How will they be selected?

1) What kind of people are required?

To carry on its work, each organisation needs personnel with the necessary qualifications, skills, knowledge, experience and aptitude for work.

Thus, as the most basic thing, the entrepreneur must clearly state: (a) what kind/type of person is required to be hired for getting his work done. (b) as each person would have a different positions, duties and responsibilities, it becomes imperative for the entrepreneur to clearly workout a wide range of personnel ranging from managers, supervisors, administrators, engineers, technical, skilled and unskilled class. (c) Nature of business activity helps entrepreneur to a large extent in deciding the type of manpower required.

2) How many people are required?

This question deals with the quantity of personnel the enterprise needs. The number of people required for various positions throughout the enterprise gets affected by:

a) The total work to be done.

b) How much work can an average person do in a specified period of time.

c) Level of absenteeism expected.

d) Rate of labour turnover.

e) The present number of employees.

f) The future plans for expansion and diversification.

3) How to procure personnel?

As the next step in manpower planning, entrepreneur clearly mentions the strategies, methods, policies, rules and regulations pertaining to personnels:

- Recruitment
- Selection
- Training.

Procurement of "right person, at right job, at right time" is the objective of human resource plan.

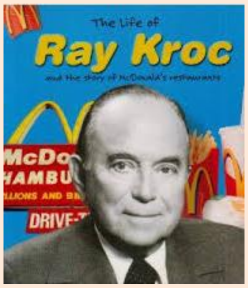
VIII. Marketing plan

Case Study-III

EXACTLY 3.875 Inches Across WEIGHS 1.6 OUNCES

HAVE 178 SESAME SEEDS AND 19% FAT IN EVERY

MCDONALD BURGER WORLD ACROSS



Ray Kroc, the president of McDonald's, did not invent or even improve the hamburger. He invented a new way of marketing hamburgers.

The Original McDonald's restaurant was a small hamburger stand in San Bernardino, California. Two brothers, Maurice and Richard McDonald, ran the stand.

Kroc was a fifty-two years old salesman of Multimixers, the mixers the McDonald brothers used to make their shakes. When Kroc received an order for eight multimixers – enough to make forty milkshakes at once from these brothers, he flew out to see the business for himself.

With sales of over $ 350,000 a year, McDonald's was one of the most successful little restaurants in America, which had the potential to expand around the country – BUT BOTH BROTHERS HATED TO FLY.

When Kroc flew in and formed a partnership with them and took care of franchising their business, they signed on the dotted line. Kroc's marketing strategy aided around –

1) *rigidly following McDonald brothers' original recipes even after buying them out.*
2) *rigidly ensuring that every customer from Anchorage to Miami get an identical product.*

MANY GREAT FORTUNES HAVE BEEN BASED ON A SINGLE MARKETING INSIGHT.

This section goes beyond the production process by describing the market conditions and strategies related to how:

a) Products/services will be distributed,

b) Priced

c) Promoted.

This valuable document is a guideline regarding the marketing objectives, strategies and activities to be followed by the new enterprise. The marketing plan represents a significant element in the business plan for a new venture as it effectively establishes how the entrepreneur will complete and operate in the market place by providing answers to three basic questions:

1) Where have we been?

This segment focuses on:

- Some history of the market place,

- Marketing strengths and weaknesses of the new venture,
- Market opportunities and threats.

2) Where do we want to go?

This primarily addresses the marketing objectives and goals of the enterprise in the next 12 months.

3) How do we get there?

This question discusses:

a) the specific marketing strategy that will be implemented,

b) when it will occur,

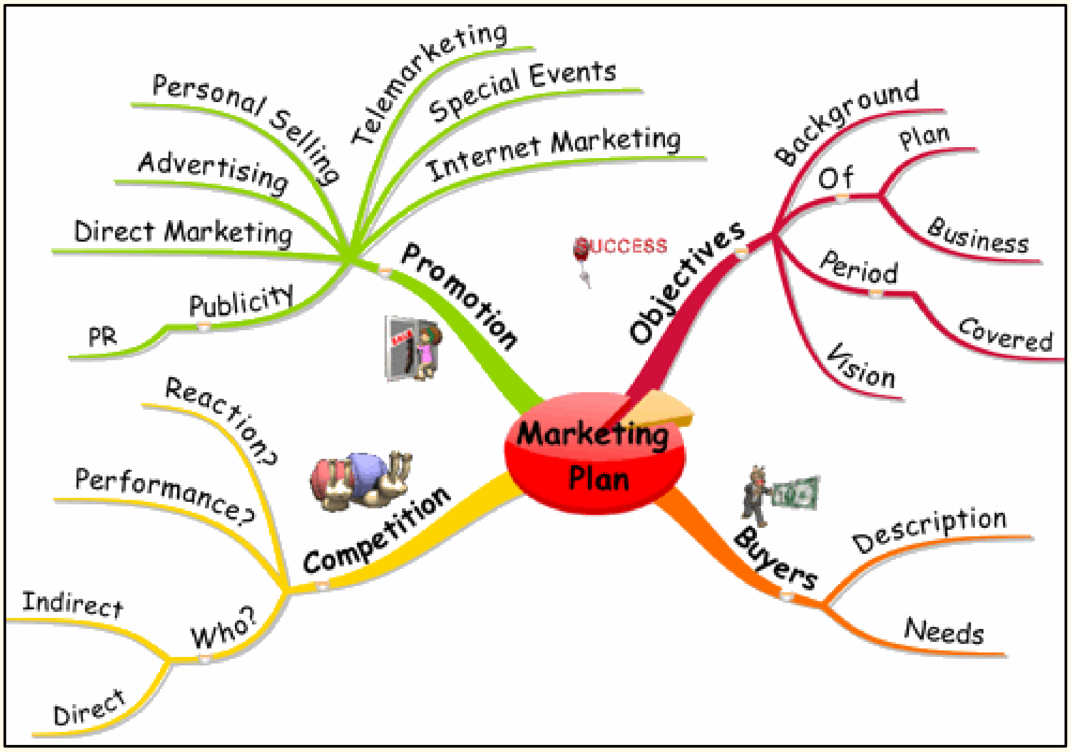
c) who will be responsible for the monitoring of activities.

Normally, each year the entrepreneur should prepare an annual marketing plan so as to gel well with the changing business environment and its forces.

Facts Needed for Market Planning

- Who are the users, where are they located, how much do they buy, from whom do they buy, and why?
- How have promotion and advertising been employed and which approach has been most effective?
- What are the pricing changes in the market, who has initiated these changes, and why?
- What are the market's attitudes concerning competitive products?
- What channels of distribution supply consumers, and how do they function?
- Who are the competitors, where are they located, and what advantages/ disadvantages do they have?
- What marketing techniques are used by the most successful competitors and by the least successful?
- What are the overall objectives of the company for the next year and five years hence?
- What are the company's strengths and weaknesses?
- What are one's production capabilities by product?

Source: Entrepreneurship by The McGraw-Hill Companies



Steps in preparing the marketing plan

Potential investors regard the marketing plan as critical to the success of the new venture. Thus, the entrepreneur should make every effort to prepare it as comprehensive and detailed. Generally, procedure for preparing the marketing plan involves following steps:

1) Business situation analysis

'Where we have been?' – is the question responded to as the first step in designing the marketing plan. Mostly a review of past performance and achievements of the enterprise are stated here in but for a new venture, focus shifts rather towards:

a) Personal profile of the entrepreneur

b) Emphasis on products development

c) What 'need' it satisfies

d) Any other enterprise/experience of the entrepreneur

e) Any marketing segmentation, if planned.

2) Identify the target market

For a new venture, it's very essential to define clearly the specific group of potential customers whose needs the enterprise aims to fulfill. This identification of the "target market" is pretty tedious task as it involves:

a) Deciding what the general market or industry entrepreneur wishes to pursue is based, on market research or industry analysis done and complied with by competent people or the entrepreneurs.

b) Divide the market into smaller groups based on:

i) Consumer's characteristics viz.

- Geographic (State, Country etc.)
- Demographic (Sex, age, etc.)
- Psychographics (Personality, life style, etc.)

ii) Buying situations viz.

- Buying conditions (time available etc.)
- Usage
- Desired benefits (features of product)

c) Select segment or segments to target.

d) Develop a marketing plan integrating according to product, price, distribution, promotion.

3) Conduct SWOT analysis

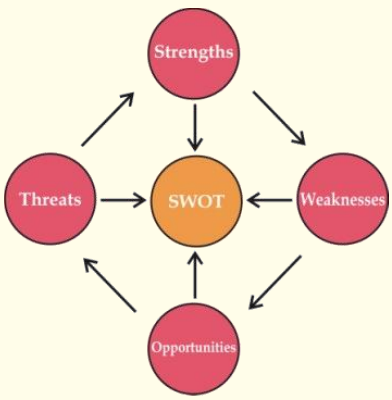
It is important for the entrepreneur to consider in the 'target market' his/her enterprise's:

a) Strengths

b) Weaknesses

c) Opportunities

d) Threats



Marketing plan needs to consider the strengths and weaknesses of the new venture to ensure its success.

4) Establish goals

"Where do we want to go?" is answered well by establishing –

a) realistic, attainable and well defined goals and objectives for the enterprises,

b) quantifying the goals so that they could be measured for control purposes.

c) setting standards to measure those goals which are qualitative in nature.

d) limiting the goals to a specific number so that there are no chaos, confusions or overlapping. Otherwise, even controlling and monitoring will be difficult.

5) Define marketing strategy

"How do we get there?" demands specific activities to be outlined to meet the enterprise's so established goals and objectives. The marketing strategy and action plan comprise of decisions pertaining to the following 4 P's:

a) Product b) Price c) Promotion d) Place

6) Implementation and monitoring of the plan

Evolving a marketing plan is not a mere formality. It is meant to be a commitment by the entrepreneur to a specific strategy. It is important for the entrepreneur to be flexible and be prepared to make adjustments if necessary in the plan.

Outline for a marketing plan

1. Situation analysis
   - Background of venture
   - Strengths and weaknesses of venture
   - Market opportunities and threats
   - Competitor analysis
2. Marketing objectives and goals
3. Marketing strategy and action programs
4. Budgets
5. Controls

Source: Entrepreneurship by The McGraw-Hill Companies.

IX. Assessment of risk

There are some hazards, risks, or/and obstacles always present in the competitive environment. In a business plan, entrepreneur should:

1) identify potential hazards
2) develop alternative strategies to either prevent minimize or respond to the risk.

X. Appendix

The appendix of the business plan generally contains any backup material that is not necessary in the text of the document as:

a) Letters from customers, distributors etc.
b) Any primary or secondary research data
c) Copies of contracts, agreements or any price lists if received.

At times, businesses fail because of the entrepreneur's inability to plan effectively. Intelligent planning is not difficult or impossible for an experienced entrepreneur. With the proper commitment and support from many experts these days preparing an effective plan is no more a Herculean task.

Outline of a Business Plan

I. Introductory page

   A. Name and address of business

   B. Name(s) and address(s) of principal(s)

   C. Nature of business

   D. Statement of financing needed

   E. Statement of confidentiality of report

II. Executive summary – Three to four pages summarizing the complete business plan

III. Industry analysis

   A. Future outlook and trends

   B. Analysis of competitors

   C. Market segmentation

   D. Industry and market forecasts

IV. Description of venture

   A. Product(s)

   B. Service(s)

   C. Size of business

   D. Office equipment and personnel

   E. Background of entrepreneurs

V. Production plan

   A. Manufacturing process (amount subcontracted)

   B. Physical plant

   C. Machinery and equipment

   D. Names of suppliers of raw materials

VI. Operational plan

   A. Description of company's operation

   B. Flow of orders for goods and/or services

   C. Technology utilization

VII. Marketing plan

   A. Pricing

   B. Distribution

   C. Promotion

   D. Product forecasts

   E. Controls

VIII. Organizational plan

   A. Form of ownership

   B. Identification of partners or principal shareholders

C. Authority of principals

D. Management-team background

E. Roles and responsibilities of members or organization

IX. Assessment of risk

A. Evaluate weakness of business

B. New technologies

C. Contingency plans

X. Financial plan

A. Proforma income statement

B. Cash flow projections

C. Proforma balance sheet

D. Break-even analysis

E. Sources and applications of funds

XI. Appendix (contains backup material)

A. Letters

B. Market research data

C. Leases or contracts

D. Price lists from suppliers

Source: Entrepreneurship by The McGraw Hill Companies.

SUMMARY

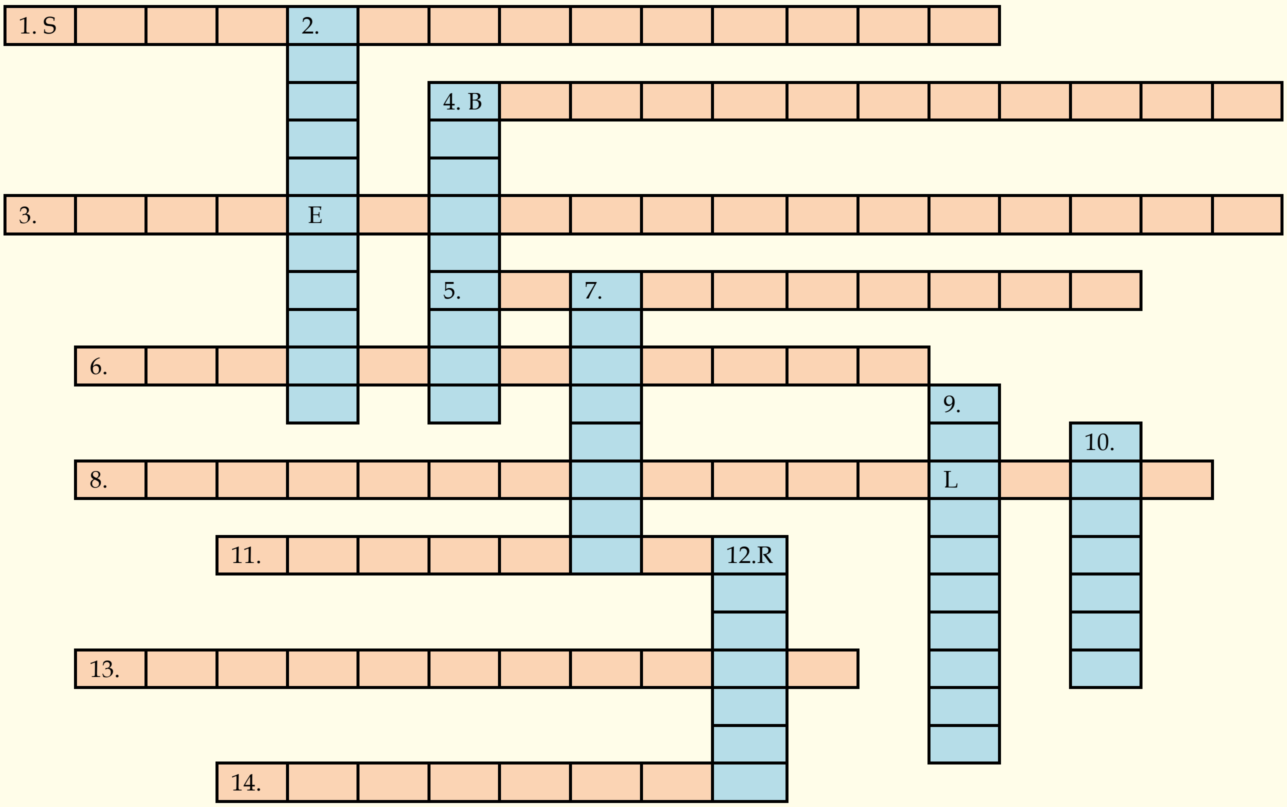
- *Entrepreneurial activities are divided into three major categories: manufacturing, trading and service providing.*
- *Activities undertaken to earn monetary benefits are called economic activities.*
- *Activities done out of love and affection and not to earn monetary benefits are called non-economic activities.*
- *There are three main forms of enterprises: public sector, private sector, joint sector*
- *The business plan is a comprehensively written down document prepared by the entrepreneurship.*
- *It describes the internal & external elements involved in a new venture.*
- *It represents all aspects of business planning process.*
- *It embodies sub plans from diverse avenues of business, namely;*
  - *Marketing*
  - *Finance*
  - *Operations*
  - *Human*
  - *Legal*
- *A business plan is prepared by an entrepreneur with the assistance of experts & professionals from diversified fields*
- *A business plan is valuable not only to the enterprise but all the stakeholders who may be directly or indirectly associated with the enterprise.*
- *The four Cs of credit are: character, cash flow, collateral and contribution (equity)*

- ❖ The depth & detail in the business plan depend on the size & scope of the proposed new venture.
- ❖ Depending upon the entrepreneur's experience, knowledge and purpose, following are the basic components/parts of a business plan.
  - Executive summary
  - Description of venture
  - Operation plan
  - Financial plan
  - Manpower plan
  - Industrial analysis
  - Production plan
  - Organisational plan
  - Marketing plan
- ❖ The executive summary highlights in a concrete and convincing manner the key provisions in the business plan, yet stimulating the potential investors that the entire plan is worth reading.
- ❖ The objective of the production plan is to plan the work in a manner that each step to be taken in the right place, right degree, right time and more efficiently.
- ❖ The operations plan is the soul of business plan
- ❖ The organizational plan is that part of business plan that describes to proposed venture's form of ownership
- ❖ The financial plan is a projection of the financial data about the potential investment commitment needed for the new venture & economic feasibility of the enterprise.
- ❖ In order to build up loyal, efficient and dedicated personnel, entrepreneurs need to pay adequate and proper attention to human resource planning.
- ❖ The marketing plan is a guideline regarding the marketing objectives, strategies and activities to be followed by any enterprise
- ❖ Formalities for starting a business
  - Obtain a PAN Number from Income Tax Department
  - Open a current account
  - Register your company (Pvt. Ltd / Public Limited Company)
  - Register for Service Tax
  - Register for VAT / Sales Tax
  - Excise Duty (Check Applicability)
  - Customs Duty
  - File Entrepreneurship Memorandum at DIC (Optional)
  - Apply for TAN
  - Employees State Insurance (ESI) Scheme

"Success is walking from failure to failure with no loss of enthusiasm."

– Winston Churchill

REVIEW CROSSWORD PUZZLE



Across:

1. A business unit whose ownership and management are vested in one person.
3. AMUL comes under this form of business
4. A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time.
5. Tax on the sale, or production for sale, of specific goods
6. A comprehensively written document prepared by the entrepreneur
8. Type of liability that does not exceed the amount invested
11. Total supply of personnel available
13. A tax levied on imports by the customs authorities of a country
14. The process of transporting an item, usually through by mail.

Down:

2. An association of two or more people
4. A point in a business venture when the profits are equal to the costs
7. The total amount of money being transferred into and out of a business
9. Something pledged as security for repayment of a loan
10. Synonym of 'useful'
12. Process concerned with determining the exact route or path of a product

LET'S REVISE

A. Very short type question: (10 words)

1. Give any two contents of a business plan?
2. Who can write the business plan?
3. How many formats are available to design a successful business plan?
4. What is the meaning of shipping in the process of operational plan?
5. What is a proforma income statement?
6. What is break–even analysis?
7. What is meant by a target market?
8. What is TAN?

B. Short type questions (50 words)

1. What is a business plan?
2. What is elevator pitch?
3. What is a production plan?
4. Name the factors which affect the operational plan.
5. How many sources of funds are available for arranging funds for business enterprises?

C. Short type questions (75 words)

1. Briefly, explain the objectives of an operational plan.
2. Describe the contents of an organisational plan.
3. Which common techniques are required to calculate the forecasting income?
4. Write the steps in preparing a marketing plan.
5. What is PAN? Why is it required?

D. Long type questions (100 words)

1. What is an operational plan? Discuss its blue print.
2. Define organisational plan? A business can be classified in how many categories?
3. How many choices are there to start a business by a business man? Explain each of them
4. What are the key areas, for a sound financial plan to work?
5. What are the major financial items that should be included in the financial plan?

E. Long type questions (250 words)

1. What is a business plan? Explain its importance.
2. Describe the different elements of an operational plan.
3. What is a financial plan? What are its objectives?

4. Explain the investment decision under the financial plan? In which areas should the investment should be on the basis of priority?
5. What is manpower planning? Why is it necessary for every business unit?
6. What is a marketing plan? Why is it required in business enterprises?
7. Explain, in detail, the various formalities required to start a business.

F. HOTS (High Order Thinking Skills)

1. A person has decided to start a small leather belt manufacturing unit. He/she is not aware of the various formalities involved in the process of setting up the unit. Explain to him/her the procedure.

G. Value based questions

1. The first stage of a business plan is to come up with a business name supposing you are an entrepreneur, who is in the stage of deciding a business name for your enterprise would you:
   a) Keep the name of your enterprise, similar to one of the enterprises that are already doing really well in the same line of business?
   b) Select/create a completely new name for your enterprise and create a brand name of your own? Give reasons. (Honestly)
2. An entrepreneur is doing an industry analysis. While he/she is analyzing his/her competitions in his/her line of business, he realises that the competitors are far better in their business plans and their execution. Should the entrepreneur add unique selling point in the existing plan to get a creative niche above others or should he/she go for a completely different line of business where the competition is less and he/she is easily able to place his/her feet in the market? Give reasons. (creativity and problem solving)
3. You are an entrepreneur who is deciding the operational plan for your business. While deciding the technology to be used, you come across three alternatives:
   a) Use a cheaper technology which lets you dispose of the waste water and lets you fix the price of your product low.
   b) Use a technology that is a little expensive as it lets you recycle that waste water into water fit for drinking. In this case, you will have to fix the price a little higher in order to earn profits.
   c) Use the technology that recycles the waste, do not change the price. And go about cost cutting though efficient utilization of resources.

   Give reasons for your selection of an alternative
4. An individual wants to start an enterprise that manufactures steam iron which can be imported from Germany. The material available in Germany is a little better in quality. However, there are no safety issues with the one available in India, which material would you go for and why? (social responsibility, import substitution).

5. While doing the manpower planning an entrepreneur, decides to keep less qualified manpower and give them low wages and salaries to enable higher profits. Do you think his/her approach is correct and justified, why?

6. According to you, what kind of organisational set up is better – an autocratic form of an organization where there is absolute centralization of power and the communication from is from top to bottom.

   OR

   A democratic form of an organization where power is decentralized and communication from both the ends. Justify?

7. Raghav, an entrepreneur realises that the enterprise he wants to start, has a potential risk of fire accidents because the production process poses such a threat. Should he develop strategies to:

   a) Prevent the risk

   b) Respond to the risk

   c) Prevent as well as respond to the risk? Give reasons

H. Activity based questions

1. There are a lot of firms that use corporate social responsibility (CSR) as a tool for marketing and promotion. For example ITC, P & G etc.

   Devise a marketing plan for a clothing brand which uses CSR as a tool for marketing. Your marketing plan should include:

   i) Pricing

   ii) Place

   iii) Promotion

   iv) Production forecasts

   v) Controls

2. You are an individual who wants to create an enterprise that produces chocolates. Develop a competition analysis, considering the giants that almost control the market (Nestle, Cadbury etc). Prepare a detailed SWOT (strengths, weaknesses, opportunities and threats) analysis of your enterprise and devise a strategy that gives you an edge over your competitors.

❀ ❀ ❀

Unit–3: Enterprise Marketing

"Formal education will make you a living; self-education will make you a fortune."

– Jim Rohn

Learning Objectives

The learner will be able to:

- Understand what are goal–setting and SMART goals
- Enlist the various marketing strategies used in a firm
- Understand in detail the 4P's of marketing
- Enlist the various selling strategies used in a firm
- Understand the various concepts like brand, logo and tagline
- Understand the meaning and methods of negotiation
- Understand the importance of customer
- Understand the importance of employee and vendor management in a firm
- Understand the importance of quality in customer satisfaction
- Enumerate the various reasons for business failure

Content

- **Goals of Business; Goal Setting; SMART Goals**
- **Marketing and Sales strategy**
- **Branding - Business Name, logo, tagline**
- **Promotion strategy**
- **Negotiation - Importance and methods**
- **Customer Relations**
- **Employee and vendor management**
- **Quality, timeliness and customer satisfaction**
- **Business failure - reasons**

Case Study-I
Creating Value through Marketing Mix

In increasingly competitive markets, consumers have a greater choice of where they buy their goods and services. For an organisation to meet its business objectives, it has to find out what the consumers require and then identify the best way in which it can satisfy these needs and wants. Creating a competitive advantage can be difficult. A unique marketing strategy with clear objectives is vital to ensure effective promotional activity. Since opening its first store in 1913, Aldi has established itself as one of the most reputable retailers in the global business market by providing great value and quality. Aldi's goal is simple; 'To provide our customers with the products they buy regularly and ensure that those products are of the highest possible quality at guaranteed low prices.'

Aldi's products are sourced from hand-picked suppliers whose products are sold under Aldi's own brand labels. Aldi's main marketing objective is to grow its market share within the UK

grocery market. With the economic crisis came an increased demand for value for money. Market research identified that 80% of Aldi's customer base also shopped at other Supermarkets. These customers spent around £20 billion per year in the other stores. Aldi's marketing strategies therefore focus on generating customer loyalty. Aldi focuses its marketing efforts on encouraging customers that are already familiar with the brand to Shop at Aldi more often.

Another key focus of Aldi's marketing strategy is on demonstrating that Aldi brands are of equal quality to well known brands such as Heinz and Fairy Liquid. To do this Aldi ran blind taste tests amongst a cross section of shoppers. These confirmed that the majority of consumers that liked the famous brands also liked Aldi's brands. These findings formed the basis to Aldi's 'LikeBrands' marketing campaign. This provided Aldi with a platform to communicate its quality and value messages effectively. Aldi's immediate challenge for the 'Like Brands' campaign was to increase market share from 2.3% to 2.5%. Although this sounds very little, the retail grocery market is very large. A single 0.1% is worth an extra £65 million revenue.

This case study focuses on the marketing strategies used by Aldi to increase its market share and encourage loyal customers.

The marketing mix

The chartered institute of marketing describes the term marketing as 'The process responsible for identifying, anticipating and satisfying consumer requirements profitably.' This places consumers at the heart of every organization. The marketing mix is often referred to as the four Ps. It involves creating a unique blend of the right product, sold at the right price, in the right place, using the most suitable methods of promotion. A marketing mix is a complex set of variables. The marketing mix of every business will be different. Aldi's mix focuses on providing high quality products that are cheaper alternatives to famous brands.

Aldi's marketing mix therefore focuses on:

- *Product – high quality 'Like Brands'.*
- *Price – Aldi offers lower prices than its competitors, without compromising on quality.*
- *Place – Aldi outlets are expanding globally.*
- *Promotions – Aldi uses a combination of above-the-line and below-the-line promotions with a focus on its 'Like Brands' and 'Swap & Save' campaigns.*

Balancing the mix

Organisations need a balanced marketing mix to meet the needs of their customers. Aldi's focus is on offering the best possible quality products at the lowest possible prices. Every buyer for

Aldi, from fresh fruits and vegetables to meats and electronics, is an expert in his field. They look for products from around the world. This enables them to get the finest quality products that Aldi then sells under its own brand labels. Selecting the prices is one of the most difficult considerations when developing a marketing mix.

Different pricing strategies that are commonly used include:

- *Market penetration – charging lower prices for new products to help them enter the market and gain market share quickly.*
- *Competitive pricing – pricing at a slightly lower prices than competitors.*
- *Strategic pricing – emphasising the quality or brand positioning of a product to allow a higher price to be charged.*

Competitive pricing is a key strategy for Aldi. Aldi is able to offer quality products at low prices as it buys in great volume. The fact that Aldi buys such large quantities of these products allows great leverage for negotiating the best possible prices with its suppliers.

This is called economies of scale. Buying large quantities of each product allows Aldi to pass these savings to its customers.

The place element of the marketing mix involves identifying where the product or service will be sold. Aldi keeps its store layouts simple to limit waste and keeps the costs down. This means Aldi can focus on offering its customers the lowest possible prices for its products. When considering new store locations, Aldi takes into account:

- *the number of people visiting an area as well as the demography of the area – for example, the population of the area should be more than 30,000 people*
- *the position of store – Aldi focuses on edge of the town centre locations with good visibility from a main road and not too much competition*
- *the accessibility of the store and its public transport links*
- *the number of parking spaces available.*

Above-the-line promotion

For Aldi to achieve its objective of increasing its market share, it had to ensure its promotional activity demonstrated the balance of its marketing mix. For example, to increase customer loyalty it had to communicate its key quality and value messages. Promotion helps to:

- *increase awareness and improve brand recognition*
- *increase demand for products*
- *improve brand image*
- *highlight the superiority of products and services.*

Above-the-line promotions are paid-for advertising aimed at a mass audience. These include the media such as television, radio, magazines and newspapers that reach a large number of people. This form of promotion can be costly. It can also be difficult to target specific audiences. Aldi uses a range of above-the-line methods to reach its customers and potential customers.

These include:

Advertising on TV. The 'Like Brands' campaign features 20 second TV adverts which focus on a particular product. The adverts show a famous brand as a benchmark for quality side-by-side *with an Aldi brand product. They use the slogan 'Like Brands, Only Cheaper'. This reinforces the message that Aldi products are cheaper than leading brands but equal in terms of quality. The adverts provide personality to the Aldi brand use humour which helps to build trust and an emotional connection with target audiences.*

Printed leaflets are distributed within stores (1 million copies printed per week) and also to customers living in areas surrounding the stores. These leaflets help to reinforce the 'Like Brands' campaign. They also showcase products with limited availability and seasonal offers available in stores.

Newspaper adverts extend the 'Like Brands' campaign and help to showcase a variety of product categories. They also communicate Aldi's 'Swap and Save' message. This campaign demonstrates the amount that shoppers could save if they swapped their weekly shop to Aldi. They compare Aldi products to famous brands to demonstrate Aldi's value for money message.

In–store posters are also used to highlight the 'Swap and Save' message. Below-the-line promotion uses different ways to engage with customers. These methods can be more easily targeted to specific audiences than above-the-line methods. They offer organisations a greater level of control over their communications.

Aldi uses a range of below-the-line methods. These include:

- *social media*
- *targeted e-mails to customers*
- *3rd party endorsement and awards*
- *public relations and media relations*

Aldi's Facebook and Twitter pages encourage two-way communication with customers. These social media channels provide a platform through which Aldi can interact with customers. It can then assess their opinions about the brand. One objective of this form of promotion is to create 'Aldi Advocates'. These are consumers who recommend Aldi to others, through stimulating interactions about the high quality and low prices of Aldi products. For example, the 'I Love Aldi' campaign asked fans to send a virtual Aldi Valentines card to a Facebook friend. This was encouraged by providing rewards. The campaign gave consumers the chance to win a £10 voucher. They could also win a box of Aldi chocolates for their Valentine. The campaign also encouraged consumers to complete the sentence 'I love Aldi because...' directly onto Aldi's Facebook page to encourage positive brand feedback.

Aldi also uses direct e-mails. These e-mails allow Aldi to communicate a variety of messages to target customers. For example, they can convey the 'Swap and Save' message as well as to promote seasonal messages such as products associated with Pancake Day. Aldi's website is an integral part of its below-the-line promotion. It features all of Aldi's key promotional messages as well as additional content to engage consumers. Examples include recipe ideas and weekly offers. Aldi developed the www.likealdi.co.uk micro-website to further encourage brand engagement with the 'Like Brands' TV campaign. The site provides consumers with the opportunity to upload their ideas for the next Aldi TV campaign.

Aldi also uses a dedicated recruitment website to promote its employer brand messages and career opportunities.

A further below-the-line method used to highlight the quality of Aldi's products is positive 3rd party endorsements. Aldi has entered over 1,000 of its products into awards such as Grocer Golds, Pizza and Pasta Awards (PAPA) and the British Frozen Food Federation Awards. In 2012 Aldi was awarded 'Best Supermarket' by Consumer Watchdog. It beat competition from Marks & Spencer and Waitrose. Further positive endorsements for production TV and in the press reaffirm the message that Aldi products are of the highest quality and also are great value for money. For example, Aldi's Christmas pudding was awarded runner-up and acknowledged as a 'bargain' in a taste test comparison in Good Housekeeping magazine. Effective public and media relations help to create positive press exposure. Aldi has secured record coverage through hard working and innovative media relations. Journalists from newspapers such as The Grocer, The Financial Times and The Times were invited for exclusive interviews with Aldi's Group of Managing Directors. They discussed record breaking sales results.

Aldi: Creating value through the marketing mix

Further coverage was gained through targeting key media at specific times with seasonal promotional messages. The 'Swap and Save' campaign highlighted the savings available through shopping at Aldi at times when value for money is high on the agenda. This was particularly relevant with its 'Back to School' and Christmas products.

Conclusion

Aldi has a distinct approach to retailing that has given it a competitive advantage in a crowded marketplace. Aldi's unique balance of the marketing mix enables it to provide high quality, own branded products at the lowest possible price. Aldi's innovative 'Like Brands' and 'Swap & Save' marketing campaigns are improving brand perceptions. They are aiding the achievement of Aldi's marketing objectives. The campaigns have increased Aldi's sales per store by +100% over 3 years through creating more loyal customers. Its multi-channel promotional activity is engaging consumers and creating positive feedback.

Courtesy: The Times 100 Business Case Studies

A. What is the goal of business?

Fundamental goal of business is to make **profit;** this always need not be in terms of money but improved customer relations, goodwill etc.,

What is goal setting?

Definition of goal setting:

"Establishing short or long term objectives, usually incorporating deadlines and quantifiable measures."

Why is goal setting important?

- Goal Setting is an important exercise for ensuring the appropriate performance.

- Goal setting ensures clarity of vision, alignment to the organisational goals, clarity of purpose and higher probability of achieving the goals.
- Goal setting allows us to be proactive, instead of just being reactive.

However, goal setting isn't enough. Goal setting is just the first step to achievement. Imagine, for instance, that your goal is to lose weight. Knowing that goals need to be specific if you're going to have any chance of success, you decide that you will lose 15 pounds by a date set four months from now. Time passes. Four months later, you get on the scale. Are you surprised to discover that you haven't lost any weight?

Goals need action

Without a goal setting strategy, or series of actions, that you are going to use to work towards the goal, whether or not you achieve the goal you have set is just a matter of blind chance. And blind chance is no way to run a successful business. To be successful, you need to make things happen, not just let things happen.

Like setting personal goals, setting business goals provides us with direction and motivation. But only if we set the right goals, goals that will keep our business on track rather than derail it. How do we know that we're setting the right business goals?

Rules for goal setting:

1) **Business goals need to be relevant.**

   Business owners sometimes make the mistake of choosing business goals that are pointless. To be relevant, a business goal has to be profitable in some fashion. That's not to say that every business goal has to be measurable in rupees, but it does have to possess a clear advantage or benefit to the specific business.

2) **Business goals need to be actionable.**

   An even more common mistake when setting business goals is to choose business goals that are too vague or abstract. When you're setting business goals, be sure that you have developed them from general statements, such as in the example above, to specific actions that can be performed and evaluated. Goals without action plans are just pretty words.

3) **Business goals need to be achievable stretches.**

   The purpose of business goals is to move the businesses forward. So we have to position the bar very carefully when we're setting business goals. If the bar is set too high, we set ourselves up for failure and disappointment and many of us, recognising this in advance, will just stop trying.

   On the other hand, if the bar is set too low, and all we have to do is step over it, we might not bother to do it as we won't get enough satisfaction or recognition from the accomplishment. A goal has to stretch us to be worth doing. Recognize that a business goal has to 'feel' worthwhile and set business goals that will accomplish the dual purpose.

What are smart goals?

www.thuftysocialworker.com

S.M.A.R.T. is an acronym for the 5 steps of specific, measurable, achievable, relevant, and time-based goals. It's a simple tool used by businesses to go beyond the realm of fuzzy goal-setting into an actionable plan for results.

Specific: Great goals are well-defined and focused. "Obtain 2 crore worth corporate clients in the Delhi property insurance market" is more meaningful to mobilize your team than "Get more business." The moment you focus on a goal, your goal becomes a magnet, pulling you and your resources towards it. The more focused your energies, the more power you generate."

Measurable: A goal without a measurable outcome is like a sports competition without a scoreboard or scorekeeper. Numbers are an essential part of business. Put concrete numbers in your goals to know if you're on track.

Attainable: Far too often, small businesses can set goals beyond reach. No one has ever built a multi–crore business overnight. Venture capitalists and angel investors discard countless business plans of companies with outlandish goals. Dream big and aim for the stars but keep one foot firmly based in reality. Check with your industry association to get a handle on realistic growth in your industry to set smart goals.

Relevant: Achievable business goals are based on the current conditions and realities of the business climate. You may desire to have your best year in business or increase revenue by 50%, but if a recession is looming and three new competitors opened in your market, then your goals aren't relevant to the realities of the market.

Time-Based: Business goals and objectives just don't get done when there's no time frame tied to the goal-setting process. Whether your business goal is to increase revenue by 20% or find 5 new clients, choose a time-frame to accomplish your goal.

B. Marketing Strategy

Marketing strategy is defined by David Aaker as "a process that can allow an organization to concentrate its resources on the optimal opportunities with the goals of increasing sales and achieving a sustainable competitive advantage."

What does the Marketing strategy of a company include?

Marketing strategy includes all basic and long-term activities in the field of marketing that deal with the analysis of the strategic initial situation of a company.

It also includes the formulation, evaluation and selection of market-oriented strategies and therefore contributes to the goals of the company and its marketing objectives.

A marketing strategy is composed of several strategies for growth as well as interrelated components called the marketing mix. At the school level, we will limit it to the components of marketing mix.

The marketing mix refers to the ingredients or the tools on the variables which the marketing mixes in order to interact with a particular market.

Components of marketing mix:

Definition

According to W. J. Stanton, "*Marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system: the product, the price structure, the promotional activities, and the distribution system.*"

According to Philip Kotler, "*A Marketing mix is the mixture of controllable marketing variables that the firm uses to pursue the sought level of sales in the target market.*"

The 4Ps that make up a typical marketing mix are – Price, Product, Promotion and Place. However, nowadays, the marketing mix increasingly includes several other Ps like Packaging, Positioning, People and even Politics as vital mix elements. We will be concentrating only on the typical 4Ps.

Product: This refers to the item actually being sold. The product must deliver a minimum level of performances, otherwise even the best work on the other elements of the marketing mix won't do any good. The product will typically look into the following factors:

Product/service

- What does the customer want from the product/service? What needs does it satisfy?
- What features does it have to meet these needs?
  - Are there any features you've missed out?
  - Are you including costly features that the customer won't actually use?
- How and where will the customer use it?
- What does it look like? How will customers experience it?
- What size(s), color(s), and so on, should it be?
- What is it to be called?
- How is it branded?
- How is it differentiated from the competitors?

The components of Product mix are: Branding, Labelling and Packaging.

Branding

Introduction

We know, a product is anything that can be offered to a market for attention, acquisition, or consumption. It includes physical objects, services, personalities, places, organisations and ideas.

The character of the product may be seen differently by the buyer and the seller.

As a product is any tangible and/or intangible offering that is required to satisfy the needs or aspirations of a consumer, thus it is important to understand:

a) the "underlying motives" behind "buying" of the product,

b) to ascertain whether the buyer is really satisfied by having the same product.

Alternatively, one may say that, a product satisfies a 'generic' requirement. Generic requirement is the core benefit, a product offers to the customer. For example: a refrigerator offers the generic benefits of storing, preserving and cooling food or similar items. Also, the cell phone is a device used to facilitate communication. You can also refer to the case study of Satya Barta Dey - SHREE LEATHERS Unit 2, 'sub head' **Satya's business philosophy develops** where the importance of a good quality product is discussed.

If products were sold by generic names, it would be very difficult for the marketers to distinguish their products from that of competitors. Therefore, most marketers give a "name" (brand) to their products, which helps in identifying and distinguishing their products from that of the competitors. Thus, branding is an effective differentiation strategy commonly adopted by marketers when dealing with the products which cannot be easily distinguished in terms of tangible features.

As we know that the entrepreneur has to take a look at the total product mix and decide whether it is balanced in terms of contents, profit, risk and growth or not. The development of the product mix is a key element of marketing strategy. Thus, product mix will be a futile attempt if it doesn't discuss the following most crucial components.

1. Branding
2. Logo and tagline
3. Labelling
4. Packaging

Branding as a Concept

"BRANDR", Norwegian word meaning "to burn" led to the origin of the word "Brand". In olden days, the farmers used to put some kind of an identification mark (using burning hot iron) on the body of the livestock to distinguish their possession from that of others.

Similarly, marketers started resorting to branding in order to distinguish their offerings from that of their competitors.

Thus, a brand is "a name, term, sign, symbol, or design or a combination of them which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of the competitors."

Ponder over this	
Generic Name	**Brand Names**
Detergents	Nirma, Suf, Ariel, Rin etc.
Pen	Parker, Rottomac, Cello, Reynold etc.
Car	BMW, Honda, Maruti, etc.
Refrigerator	LG, Whirlpool, Godrej, etc.
Television	Sony, LG, Videocon, Samsung, etc.
Milk products	Amul, Saras, Mother Diary etc.
Cosmetics	Ponds, Lakme, Revlon, etc.

So, the minute a brand name is used, identification of the product becomes easy.

Various terms relating to branding

Definition: 'Branding' is a process, a tool, a strategy, an orientation whereby a name, a sign, or a symbol etc. is given to a product by the entrepreneur so as to differentiate his/her product from the rival products. Once a brand name is established in the market, then it becomes difficult to compete with it.

Common terms related to branding are:

Brand

'Brand' is a comprehensive term. It is used to denote a name, term, sign, symbol, design or combination of them to:

1) Identify the products of one firm, and
2) Differentiate them from those of the competitors.

Brand has three components

a) Brand name

A brand name is "that part of a brand which can be vocalized i.e. can be spoken. It is like naming a newborn child. Mercedes, Woodland, Asian Paints, Pepsi, Maggie, Uncle Chips etc. are few examples of the brand names.

b) Brand mark

A brand mark is that part of a brand which can be recognized but cannot be vocalized i.e. is non-utterable. It appears in the form of a symbol, design or distinct colour scheme. For example:

'Girl' of Amul, 'Maharaja' of Air India, 'Ronald' of McDonald etc.

c) Trade mark

A brand or part of a brand that is given legal protection against its use by other firms is called a trade mark. Thus, a trade mark is essentially a legal term, protecting the seller's exclusive right to use the brand name/mark.

Qualities of a good brand

A good brand name should basically possess qualities of distinctiveness. It should have the capability to stand out amongst a host of competing names.

Thus, in selecting a brand name, entrepreneur should ask himself/herself what he/she wants to achieve from it. While selecting a brand name, entrepreneur should choose a name which is :

a) Short, simple and easy to pronounce.
b) Noticeable, easy to recognize and remember.
c) Pleasing, impressive when uttered.
d) Neither obscene, negative, offensive or vulgar.
e) Adaptable to packaging, labelling requirements, to different advertising media and languages.
f) Linked to product, symbolically eye catching.
g) Contemporary, capable of being registered and protected legally.

Short, sweet and catchy!!!!!

Brand names like, Lux, Vim, Rin, VIP, Amul, Titan, Konica, Sx, Liv52, Quickfix, Band-aid, Sunflame, Surf, Dalda and many more have earned a reputation for good quality.

Entrepreneur's perspective on brand name

Entrepreneur can follow different policies in choosing brand name keeping in mind the range of products offered by him/her. The new product is given a name so that it can get public attention. Thus, as, the whole meaning and direction of a company can be explained through its brand management strategy, an entrepreneur should be very careful in deciding/in choosing its brand strategy. Various types of brands available are:

1) **Individual brand name**

Here entrepreneur can choose distinct names for each of his offering, i.e. every product is promoted on the basis of a separate brand name.

*Hindustan Unilever Ltd. has been concentrating on its core business areas i.e. soaps and detergents, and has emerged as the clear leader in the toilet soap industry. The company has launched many line extensions and variants to **LEVERAGE THE HIGH BRAND EQUITY** of its **POWERFUL BRAND NAMES**, viz....*

Lifebuoy – brand standing for 'Good health' Lifebuoy liquid, Lifebuoy Personal, Lifebuoy Plus and Lifebuoy Gold to cover various price sub-segments in the health segment.

Liril – brand name with the "freshness" concept.

Lux – brand name for "beauty soap for film stars"

Thus, HUL has ensured for itself a presence in all segments using new brand launches.

2) **Family brand name**

Entrepreneur can opt to use a common or successful family name for their several products. Either the entrepreneur's name or the company's name may be used for all the products. It is even referred as Umbrella branding.

***PONDS,** is a mother brand name used for shampoos, talcum powder, cold creams, soaps etc.*

***MAGGI,** is brand name for noodles, sauces, masalas etc.*

***AMUL,** has been used to market a large variety of dairy products viz. milk, ghee, butter, chocolates etc.*

3) **Corporate names**

Entrepreneur can choose to utilise their corporate name or logo together with some brand names of individual products for example, Godrej, Tata, Bajaj, etc.

4) Alpha-numeric names

In many industrial products, an alpha-numeric name often signifies its physical characteristics, thus creating a distinctive identify of the product. Entrepreneur has an option available to brand his/her products alpha-numerically too. For example, SX4, Liv52, ANX Grindlay, i10, i20, etc.

Popular brands are susceptible to imitation. Thus, to be on the safer side, the entrepreneur should legally protect his/her brand name or mark through trade mark. A trade mark is meant to guard against ditto imitations.

The best way for a new brand to succeed is to carry the mantle from the old brand, if any.

Logos and tag lines

McDonald's golden arch (M) is a famous logo. When people see the golden (yellowish) arches, they expect fast service, inexpensive prices, and a specific type of food around the corner.

This logo gives McDonald's restaurants a competitive advantage over less recognizable restaurants. Customers head for the golden arches because they know what to expect there.

The entrepreneur, through his diverse and coordinated actions, tries to influence and impart a distinct identity to his own brand, to make it stand out among the competitors. For this, he/she strongly makes use of:

a) Logo

b) Tagline

a) Logo

'Logo' (Short for Logotype) is an identifying symbol for a product or business. It can be any distinctive design, mark, sign which stands associated with the entrepreneur's offering. 'Logo' is an important feature or part of branding.

Thus, a logo is a graphic mark or emblem commonly used by commercial enterprises, organisations and even individuals to aid and promote instant public recognition. Logos are either purely graphic (symbols/icons) or are composed of the name of the organisation (a logotype or word mark).

Purpose

1) Logos are a critical aspect of business marketing. As the company's major graphical representation, a logo anchors company's brand.

2) Corporate Logo are intended to be the "Identity" of an enterprise because of displaying graphically enterprise's uniqueness.

3) Through a set color combination, fonts, images, impression and/or pattern, logos provide essential information about a company that allows customers to relate with the enterprise's core brand.

4) Enterprises normally resort to logos' as a short path for advertising and other marketing materials.

5) Logos act as the key visual component of an enterprise's overall brand identify.

b) Tagline

Magical Slogan

Balsara Hygiene products, launched their 'Promise toothpaste in 1978 and took an aggressive stand against all multinationals and Colgate Palmolive in particular.

Soon, it commanded the second highest market share. Could you assess the reason – It was the slogan (tagline) - "The unique toothpaste with time-tested clove-oil."

As clove oil in India is a traditional and herbal remedy for the prevention of dental ailments and toothaches. This powerful connotation succeeded.

'Tagline', 'tag line' and 'tag' are American terms. In U.K., they are called 'end lines', 'endlines', or 'straplines'. Germans call them as 'Claims', French refer them as 'Signatures' while, Belgians call them 'baselines'.

By whatever name they are referred, taglines are basically simple but powerful messages that help to communicate an enterprise's goals, mission, distinct qualities and so much more. Thus, a 'tagline' is a small amount of text which serves to clarify a thought and is designed with a dramatic effect. They can come in the form of:

- Questions
- Statements
- Exclamations

The whole idea behind the concept is to create a memorable dramatic phrase that will sum up the product.

They do interest us

Amul's message – "A gift for someone you love."

Rasna – "I love you, Rasna."

"I'm lovin it" – McDonald

Weekender – "Wear your attitude."

Raymond's Suiting – "The complete man."

Yamaha Bike – "The rugged personality."

Savdhan India – "India fights back."

State Bank of India	रा.कै.को NCC एकता और अनुशासन
इंडियनऑयल IndianOil	CBSE CONTINUOUS AND COMPREHENSIVE EVALUATION KNOW - AS YOU GROW
AADHAAR	MOTHER DAIRY
दिल्ली विश्वविद्यालय ◆ UNIVERSITY OF DELHI ◆ निष्ठा धृतिः सत्यम्	भारतीय रिज़र्व बैंक RESERVE BANK OF INDIA

Packaging

Packaging is often the key element in assisting, mainly consumer goods companies, to achieve a comparative advantage.

The critical decisions that must be made on the package are concerned with the functions, the product pack will perform as well as with the mix of packaging components best able to perform in different degrees, the particular functions of the packaging.

Labelling

It is the display of information about a product on its container, packaging, or the product itself.

Importance of Intellectual Property for an entrepreneur

An entrepreneur whilst selecting a product keeping in mind the above mentioned factors should also understood that he should take care of intellectual property rights.

Intellectual property (IP) rights are the legally recognized exclusive rights to creations of the mind. Under this law, owners are granted certain exclusive rights to a variety of intangible assets.

Common types of intellectual property rights include copyrights, trademark, patents, industrial design rights and trade secrets.

Patents

It grants an inventor the right to exclude others from making, using, selling, offering to sell, and importing an invention for a limited period of time, in exchange for the public disclosure of the invention.

Inventions patentable

- Art, Process, Method or Manner of manufacture;
- Machine, Apparatus or other Articles;
- Substances produced by Manufacturing
- Computer Software which has Technical application to Industry or is used with Hardware

Product Patent for Food/Chemical/Medicines or Drugs

Copyright

It gives the creator of original work exclusive rights to it, usually for a limited time. It means apply to a wide range of creative, intellectual or artistic forms or work. For example, musical composition, literary work such as poems, plays etc.

Industrial design

It protects the visual design of objects that are not purely utilitarian. It can be a two or three dimensional pattern used to produce a product, industrial commodity or handicraft.

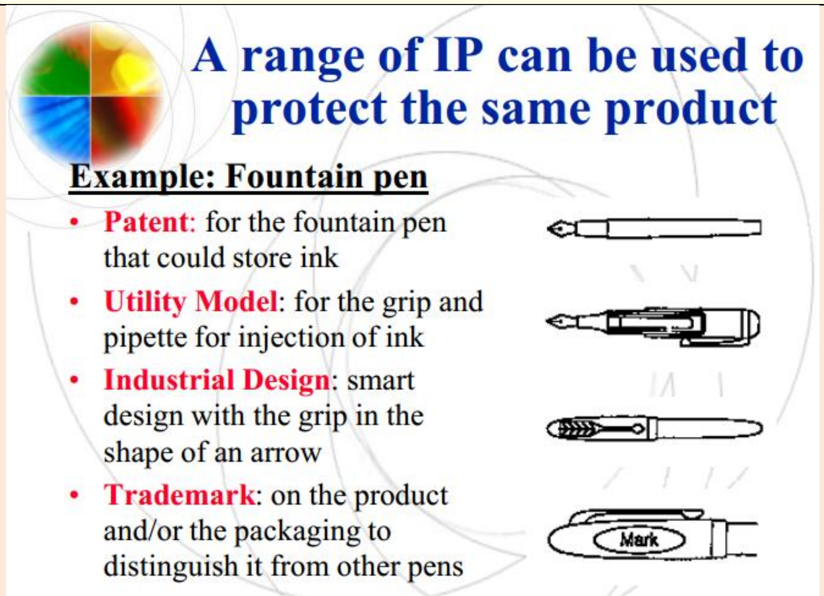
Trademark

It is a recognizable sign, design or expression which distinguished products or services of a particular trades from the similar products or services of other traders.

Trade Secret

Any confidential business information which provides an enterprise a competitive edge may be considered a trade secret.

For example, Coca-Cola formula



Source: http://www.wipo.int/edocs/mdocs/sme/en/wipo_ip_bak_03/wipo_ip_bak_03_www_34147.pdf

Price

Price refers to the value that is put on a product. It depends on cost of production, segment targeted, ability of the market to pay, supply - demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used as a demarcation, to differentiate and enhance the image of a product.

Price is the only revenue generating element among the four Ps, the rest being cost centres. Some methods of pricing which are used in pricing decisions are as follows:

1. Cost-plus pricing

The most common technique is cost-plus pricing, where the manufacturer charges a price to cover the cost of producing a product plus a reasonable profit. The cost-plus method is simple, but it does not encourage the efficient use of resources.

Cost-plus pricing is typically based on a manufacturing estimate. Estimates of the costs associated with manufacturing tasks are made for many reasons. For example, to:

- justify planned capital expenditure

- determine likely production costs for new or modified products
- focus attention on areas of high cost

In principle, estimates are made of the resources required (For example, materials, labour and equipment), the cost of those resources and the time for which they will be used. From these factors, an estimate of the costs of carrying out a manufacturing process is made. Accounting methods are usually used for depreciation and cash-flow analysis when capital-expenditure justifications are to be made.

Advantages of cost plus pricing

1. Biggest advantage of this is that company knows exactly the amount of expenditure that has incurred on making a product and therefore they can add profit margin accordingly which helps in achieving the desired revenue for a firm. So, for example if a company has incurred expenses of ₹ 1000 and they want to earn profit margin of 10 % than the company will sell the product at ₹ 1100.
2. It is the simplest method to decide the price for a product because one has just to add up all the cost and then add profit which you want to earn which will give the price for a product.
3. Since the company is using its own data for deciding cost which makes it easier for a company to evaluate the reasons for escalations in expenses and therefore it can take corrective action immediately.

Disadvantages of cost plus pricing

1. This method does not take into account the future demand for a product which should be the base before deciding on the price of a product and therefore a serious limitation of this method.
2. It also does not take into account the competitors actions and their effect on pricing of the product, because in today's competitive world if one solely depends on cost plus pricing it can lead to failure of company’s product in the market.
3. It can result in the company overestimating the price of a product because this method includes sunk cost and ignores opportunity cost also while calculating cost there is an element of personal bias while deciding the profit margin which is to be added to a product.

2. Penetration pricing

Penetration pricing is a pricing strategy where the price of a product is initially set at a price lower than the eventual market price to attract new customers. The strategy works on the expectations that customers will switch to the new brand because of the lower price. Penetration pricing is most commonly associated with a marketing objective of increasing market share or sales volume, rather than to make profit in the short term. The price will be raised later once this market share is gained. For example, toothpaste sold in a remote rural area.

The advantages of penetration pricing to the firm are:

- It can result in fast diffusion and adoption. This can achieve high market rates quickly. This can take the competitors by surprise, not giving them time to react.
- It can create goodwill among the early adopters segment. This can create more trade by word of mouth.
- It creates cost control and cost reduction pressures from the start, leading to greater efficiency.
- It discourages the entry of competitors. Low prices act as a barrier to entry
- It can create high stock turnover throughout the distribution channel
- This can create critically important enthusiasm and support in the channel.

Disadvantages or penetrating price method:

- The main disadvantage with penetration pricing is that it establishes long–term price expectations for the product and image preconceptions for the brand and company. This makes it difficult to eventually raise prices. Some commentators claim that penetration pricing attracts only the switchers (bargain hunters), and that they will switch away as soon as the price rises. There is much controversy over whether it is better to raise prices gradually over a period of years (so that consumers don't notice), or employ a single large price increase. A common solution to this problem is to set the initial price at the long term market price, but include an initial discount coupon. In this way, the perceived price points remain high even though the actual selling price is low.
- Another potential disadvantage is that the low profit margins may not be sustainable long enough for the strategy to be effective.

3. Creaming or skimming

In most skimming, goods are sold at higher prices so that fewer sales are needed to break even. Selling a product at a high price, sacrificing high sales to gain a high profit is therefore "skimming" the market. Skimming is usually employed to reimburse the cost of investment of the original research into the product commonly used in electronic markets when a new range, such as smart phones, are firstly dispatched into the market at a high price. This strategy is often used to target "early adopters" of a product or service. Early adopters generally have a relatively lower price-sensitivity. This can be attributed to their need for the product outweighing their need to economics, a greater understanding of the product's value, or simply having a higher disposable income.

This strategy is employed only for a limited duration to recover most of the investment made to build the product. To gain further market share, a seller must use other pricing tactics such as economy or penetration. This method can have some setbacks as it could leave the product at a high price against the competition.

Advantages of skimming price

1. Price skimming helps the company in recovering the research and development costs which are associated with the development of a new product.

2. If the company caters to consumers who are quality conscious rather than price conscious, then this type of strategy can work in a great way for a company.

Disadvantages of skimming price

1. This strategy can backfire if there are close competitors and they also introduce same products at lower price then consumers will think that the company always sells the products at higher prices which will result in consumers abandoning other products of the company also.
2. Price skimming is not a viable option when there are strict legal and government regulations regarding consumer rights.
3. If the company has history of price skimming then consumers will never buy a product when it is newly launched, they would rather wait for a few months and buy the product at lower price.

4. Variable price method

Variable pricing is a marketing approach that permits different rates to be extended to different customers for the same goods or services. The approach is often employed in cultures where dickering over the price of goods is considered the norm, or potential buyers are allowed to participate in a bidding situation, such as in an auction. Even in countries where fixed pricing is the standard, variable pricing may come into play when the customer is committing to the purchase of large volumes of goods or services. When this is the case, the customer must usually comply with specific criteria in order to enjoy pricing that varies from the standard cost.

One of the classic examples of the use of variable pricing has to do with street vendors who sell various types of small goods. Often, there is a standard price posted for each item on sale. If the vendor really wants to sell an item, and determines that a prospective buyer is not willing to pay the posted price, he or she may engage the individual in a negotiation of the sale price. Sometimes referred to as dickering, the buyer and seller make offers back and forth until they can settle on a price that both believe is fair. Throughout the process, the buyer tries to drive the price down as much as possible, while the seller attempts to obtain the highest possible return from the sale.

The real estate market also functions with the use of variable pricing. Prospective home–owners will often submit bids for properties that are less than the posted asking prices, in the hopes that the owners will accept a smaller amount. This often leads to a series of offers and counteroffers that sometimes results in a sale taking place. At other times, the two parties are unable to come to terms, and no sale takes place.

Examples:

1. Difference in order size by the customers

   The soft drink bottle of 200 ml of a company is placed at Rs. 8, while a 2000 ml/2 litre bottle is placed at ₹ 55.

2. Difference in the anticipated business from different customers

   The school fee for the second child and other siblings are charged at a lower rate by the schools.

3. Difference in the bargaining power of the customer

   The price of unbranded/assembled items of computers are charged differently depending upon the awareness and bargaining power of the customers.

4. Difference in the ability of the consumers to pay

   Different price is charged by the public distribution shops run by the government for wheat, rice and other variety of food items depending on the income groups.

Variable pricing does provide some benefits, but also has the potential for drawbacks. On one hand, sellers can use this pricing strategy to move goods or services that have failed to perform as originally anticipated, allowing them to earn a modest profit or at least recoup their investment in the products. A possible down side to variable pricing is that it can lead to losing other customers who paid full price for their purchases, if they find out that a more recent customer was able to receive a lower price.

Place: refers to the point of sale. In every industry, catching the eye of the consumer and making it easy for her to buy is the main aim of a good distribution or 'place' strategy. Retailers pay a premium for the right location. In fact, the mantra of a successful retail business is 'location, location, location'.

Place mix (distribution)

A channel of distribution or trade channel is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users. In other words, it is a distribution network through which the producer puts his products in the market and passes it to the actual users. This channel consists of: producers, consumers or users and the various middlemen like wholesalers, selling agents and retailers (dealers) who intervene between the producers and consumers. Therefore, the channel serves to bridge the gap between the point of production and the point of consumption thereby creating time, place and possession utilities.

A channel of distribution consists of three types of flows:

- Downward flow of goods from producers to consumers
- Upward flow of cash payments for goods from consumers to producers
- Flow of marketing information in both downward and upward direction i.e. Flow of information on new products, new uses of existing products, etc from producers to consumers. And flow of information in the form of feedback on the wants, suggestions, complaints, etc from consumers/users to producers.

An entrepreneur has a number of alternative channels available to him for distributing his products. These channels vary in the number and types of middlemen involved. Some channels are short and directly link producers with customers whereas other channels are long and indirectly link the two through one or more middlemen.

These channels of distribution are broadly divided into four types:

- **Producer-customer (Direct channel-zero level)**: This is the simplest and shortest channel in which no middlemen is involved and producers directly sell their products to the consumers. It is fast and economical channel of distribution. Under it, the producer or entrepreneur performs all the marketing activities himself and has full control over distribution. A producer may sell directly to consumers through door-to-door sales persons, direct mail or through his own retail stores. Big firms adopt this channel to cut distribution costs and to sell industrial products of high value. Small producers and producers of perishable commodities also sell directly to local consumers. Can also refer to the case study of Satya Barta Dey - SHREE LEATHERS Unit 2, sub–heading '**Cut out the middle man'** to understand the importance of zero level channel of distribution.

  Producer → Customer

- **Producer-retailer-customer (Indirect-one level)**: This channel of distribution involves only one middlemen called 'retailer'. Under it, the producer sells his/ her product to big retailers (or retailers who buy goods in large quantities) who in turn sell to the ultimate consumers. This channel relieves the manufacturer from burden of selling the goods himself and at the same time gives him control over the process of distribution. This is often suited for distribution of consumer durables and products of high value.

  Producer → Retailer → Customer

- **Producer-wholesaler-retailer-customer (Two levels)**: This is the most common and traditional channel of distribution. Under it, two middlemen i.e. wholesalers and retailers are involved. Here, the producer sells his product to wholesalers, who in turn sell it to retailers. And, retailers finally sell the product to the ultimate consumers. This channel is suitable for the producers who have limited finance, narrow product line and need expert services and promotional support of wholesalers. This is mostly used for the products with widely scattered market.

  Producer → Wholesaler → Retailer → Customer

- **Producer-agent-wholesaler-retailer-customer (Three levels)**: This is the longest channel of distribution in which three middlemen are involved. This is used when the producer wants to be fully relieved of the problem of distribution and thus hands over his/her entire output to the selling agents. The agents distribute the product among a few wholesalers. Each wholesaler distributes the product among a number of retailers who finally sell it to the ultimate consumers. This channel is suitable for wider distribution of various industrial products.

  Producer → Agent → Wholesaler → Retailer → Consumer

An entrepreneur has to choose a suitable channel of distribution for his/her product such that the channel chosen is flexible, effective and consistent with the declared marketing policies and programmes of the firm. While selecting a distribution channel, the entrepreneur should compare the costs, sales volume and profits expected from alternative channels of distribution and take into account the following factors:

I) Considerations related to product

When a manufacturer selects some channel of distribution he/she should take care of such factors which are related to the quality and nature of the product. They are as follows:

1. Unit value of the product

When the product is very costly it is best to use a small distribution channel. For example, industrial machinery or gold ornaments are very costly products that is why for their distribution small distribution channel is used. On the other hand, for less costly products long distribution channel is used.

2. Standardised or customised product

Standardised products are those for which cost is pre-determined and there is no scope for alteration. For example: utensils of MILTON. To sell this long distribution channel is used.

On the other hand, customised products are those which are made according to the discretion of the consumer and also there is a scope for alteration, for example; furniture. For such products face-to-face interaction between the manufacturer and the consumer is essential. So for these direct sales is a good option.

3. Perishability

A manufacturer should choose minimum or no middlemen as channel of distribution for such an item or product which is of highly perishable nature. On the contrary, a long distribution channel can be selected for durable goods.

4. Technical nature

If a product is of technical nature, then it is better to supply it directly to the consumer. This will help the user to know the necessary technicalities of the product.

II) Considerations related to market

Market considerations are given below

1. Number of buyers

If the number of buyers is large then it is better to take the services of middlemen for the distribution of the goods. On the contrary, the distribution should be done by the manufacturer directly if the number of buyers is less.

2. Types of buyers

Buyers can be of two types: General Buyers and Industrial Buyers. If the more buyers of the product belong to general category then there can be more middlemen. But in case of industrial buyers there can be fewer middlemen.

3. **Buying habits**

A manufacturer should take the services of middlemen if his/her financial position does not permit him/her to sell goods on credit to those consumers who are in the habit of purchasing goods on credit.

4. **Buying quantity**

It is useful for the manufacturer to rely on the services of middlemen if the goods are bought in smaller quantity.

5. **Size of market**

If the market area of the product is scattered fairly, then the producer must take the help of middlemen.

III) Considerations related to manufacturer/company

Considerations related to manufacturer are given below:

1. **Goodwill**

Manufacturer's goodwill also affects the selection of channel of distribution. A manufacturer enjoying good reputation need not depend on the middlemen as he can open his own branches easily.

2. **Desire to control the channel of distribution**

A manufacturer's ambition to control the channel of distribution affects its selection. Consumers should be approached directly by such type of manufacturer. For example, electronic goods sector with a motive to control the service levels provided to the customers at the point of sale are resorting to company owned retail counters.

3. **Financial strength**

A company which has a strong financial base can evolve its own channels. On the other hand, financially weak companies would have to depend upon middlemen.

IV) Considerations related to government

Considerations related to the government also affect the selection of channel of distribution. For example, only a license holder can sell medicines in the market according to the law of the government.

In this situation, the manufacturer of medicines should take care that the distribution of his product takes place only through such middlemen who have the relevant license.

V) Others

1. **Cost**

A manufacturer should select such a channel of distribution which is less costly and also useful from other angles.

2. **Availability**

Sometimes some other channel of distribution can be selected if the desired one is not available.

3. Possibilities of sales

Such a channel which has a possibility of large sale should be given weightage. The challenges that an Entrepreneur faces are many in taking the great idea or invention all the way to a finished product. Many hurdles are in the way such as patents, financing, marketing, trademarks, product branding, manufacture and distribution.

Promotion

This refers to all the activities undertaken to make the product or service known to the user and trade. This can include advertising, word of mouth, press reports, incentives, commissions and awards to the trade. It can also include consumer schemes, direct marketing, contests and prizes. This will be discussed in detail in promotion strategy.

C. Sales strategy

A sales strategy consists of a plan that positions a company's brand or product to gain a competitive advantage. Successful strategies help the sales force focus on target market customers and communicate with them in relevant and meaningful ways. Sales representatives need to know how their products or services can solve customer's problems. A successful sales strategy conveys this so that the sales force spends time targeting the correct customers at the right time.

Significance

Planning and creating an effective sales strategy requires looking at long-term sales goals and analyzing the business sales cycle, as well as meeting with sales people about their personal career goals. Going through these exercises helps business owners and managers gain a more intimate knowledge of the sales intervals, seasonal changes and what motivates the sales team. After creating the long-term sales strategy based on long-term goals, sales managers should create monthly and weekly sales strategies based on the long-term strategy. This allows for short-term performance measurement of the sales team.

Types

Businesses employ one of two basic types of sales strategies to their overall plan: direct or indirect. With the **direct sales strategy**, sales people attack the competition head on when talking to the customer. They talk about each feature of the competition's product and compare it to theirs. The term "negative selling" refers to the direct sales approach.

Indirect sales approaches apply more subtle techniques by demonstrating features and benefits not available with the competition's products or services without ever mentioning them by name. This more sophisticated, positive sales strategy requires research and analysis of the competition.

Components

Product placement and promotion create brand awareness by using the various marketing channels available today. Social media networks offer a free platform for increasing brand awareness. Business owners can utilize these tools effectively by spending time each day to communicate with fans and followers on their social network pages. Customer testimonials readily available for prospects to read or watch lend authority to a small business and the products and services it offers.

Function

Regardless of whether a business uses a direct or indirect sales strategy, or a combination of the two, sales managers need to work with sales people on techniques. New customer acquisition and customer retention require two approaches. A sales strategy lays out the steps and methods necessary for customers in different stages. Potential customers need communication that introduces the brand and product or service in ways that show how it can solve his or her problems. Current customers require more personal communication about new features or benefits to keep them engaged. Promotions and referral discounts work to motivate current customers to spend their money and to spread the word to others.

Considerations

Creating an effective sales strategy requires market knowledge, awareness of competitor activities, awareness of current trends and detailed business analysis. Small business owners wishing to create and implement a sales strategy for the first time may want to hire a professional business consultant to help guide the process.

D. Promotion strategy

Promotion is the method to spread the word about the product or service to customers, stakeholders and the broader public.

There are various approaches a company can use to promote its products viz.,

1. Above-the-line
2. Below-the-line
3. Through-the-line

1. **Above-the-line**

Above-the-line promotions use mass media methods. This type of promotion focuses on advertising to a large audience. It includes conventional media like print, online, television and cinema advertising.

Above-the-line activities include advertisements in the press. They also produce online banner advertisements, place advertisements on billboards and use their website to meet the needs of their consumers.

Making a message memorable to a large audience is not always easy. It is difficult to tailor a promotion to a specific group of consumers through above-the-line promotions. This is because it is viewed by a mass audience with different tastes and needs. Above-the-line promotion is also very expensive.

2. **Below-the-line**

Below-the-line methods are very specific, memorable activities focused on targeted groups of consumers. They are under the control of the organisation. The purpose of these activities has been to develop the brand by creating awareness and building a brand profile, which include:

- sponsorship
- sales promotions
- public relations
- personal selling
- direct marketing

3. **Through-the-line**

"Through the line" refers to an advertising strategy involving both above-and below-the-line communications in which one form of advertising points the target to another form of advertising thereby crossing the "line".

Difference between above the line (ATL) and below the line (BTL)

Bases	Above the line	Below the line
Target	Mass audience	Identified small groups
Promotions	Establishing brand identity	Can lead to an actual sale
Measurability	Difficult to measure	Easy to measure
Examples	Print, online, television and cinema advertising	Sponsorship, sales promotions, public relations, personal selling, direct marketing

Note: Please refer to the first case study on Aldi to understand how these approaches are used in reality in a firm.

Once we have identified the target market, we have to think of the best way to reach them, but most businesses use a mix of advertising, personal selling, referrals, sales promotion and public relations to promote their products or services.

1. Advertising
2. Personal Selling
3. Sales Promotion
4. Public Relations

1. Advertising

Advertising is a paid form of communication designed to persuade potential customers to choose the product or service over that of a competitor. Successful advertising involves making the products or services positively known by that section of the public most likely to purchase them.

It should be a planned, consistent activity that keeps the name of the business and the benefits of products or services uppermost in the mind of the consumer.

Objectives

The objective of advertising is to increase profit by increasing sales. Advertising aims to:

- Make business and product name familiar to the public

- Create goodwill and build a favourable image
- Educate and inform the public
- Offer specific products or services
- Attract customers to find out more about your product or service

The rules

There are four rules to consider when planning any advertising activity – i.e. before we prepare and book any form of advertising.

Aim - What is the primary purpose of the advertisement? Is it to inform, sell, produce listings or improve the image of the business?

Target - Who is the target? From which sector of the public are we trying to achieve a response? For example, is it male, female, adult, teenager, child, mother, father etc.

Media – Bearing the aim and target in mind, which are of the media available is the most suitable – i.e. TV, radio, press or Internet?

Competitors – What are the competitors doing? Which media channel do they use? Are they successful? Can you improve on their approach and beat them in competition?

Developing effective advertising (AIDA)

Good advertising generally elicits the following four responses:

Attention – It catches the eye or ear and stands out amid the clutter of competing advertisements.

Interest – It arouses interest and delivers sufficient impact in the message or offering.

Desire – It creates a desire to learn more or crave ownership.

Action – It spurs an action which leads to achievement of the ad's original objective – i.e. it prompts potential customers to purchase or use your product or service.

Commonly used media

There are many media options open to advertisers. Which media we use will depend on who we are trying to reach, what we want to say looking into the budget. Often a combination of media (the media mix) can be used to good effect. Remember we have to keep branding and message consistent across all media. This includes use of colours, logos, design elements and fonts.

- **Stationary**

  Stationary, which includes letterheads, envelopes and business cards, is a means by which the business image or "name identification" is projected. Good quality stationery, used with care and attention and with a high standard of presentation, is an everyday means of presenting the business image.

- **Window display or office front**

  The external presentation of the business office or shop is one of the principal ways of establishing the business image. An attractive, well maintained exterior with clear, bold sign writing is an essential start. Windows should be bright, attractively presented, scrupulously clean and well lit at night. The display should be arranged neatly and aimed at projecting an attractive company image and providing a reason to buy your products or services. Above all, it should have sufficient impact to attract attention.

- **Press advertising**

  This is a commonly used form of general advertising and includes advertising in all press such as newspapers, magazines and journals. Press advertising is suitable for image building, information dissemination and sales campaigns. It is also a very affordable option for small businesses.

- **Radio**

  Radio is considered by many advertisers as an ideal medium due to its ability to reach specific target groups for example teenagers, racing followers or grocery buyers. Radio advertising covers spot adverts (usually 15 or 30 seconds), promotions or talkback/RJ discussions. Most radio stations offer packages which include production and extension of the radio campaign through their websites.

- **Television**

  Television is a powerful advertising medium because it creates impact through sight, sound and movement. However, the cost of producing the advertisement and procuring sufficient air time to allow the campaign to work often makes it prohibitive for small businesses.

- **Direct mail**

  This is a broad category covering direct communication with the consumer through email, post or fax. It can include newsletters, catalogues and letters.

- **Outdoor**

  This is any type of advertising which is done outdoors, including static advertising such as billboards, backs of street benches and bus shelters or mobile advertising displayed on buses, trains, taxis or towed signage.

- **Ambient**

  Refers to any form of advertising that occurs in a non-standard medium outside the home, and usually where your consumers are likely to be. It's limited only by imagination and includes things like advertising on the back of shopping receipts or toilet doors at the cinema, placing branded coasters at the local clubs, projecting onto buildings, advertising inside lifts or distributing branded cups.

- **Cinema**

  We can purchase cinema advertising by individual cinemas or screens for a set amount of screenings or "runs". Most providers offer packages which include production and screening of your advertisement

- **Point of sale**

  Advertising at the point where the consumer makes a purchase decision eg: floor stickers, in-store digital advertising, shopping trolley signage, shelf or counter posters or playing interviews about your product in store.

- **Online**

  The options for online advertising continue to grow rapidly. They include advertising on your website, advertising on other websites, creating links to your website from other websites, publishing blogs, offering online product games, social networks and forums.

- **Directory listings**

  Many consumers use business directories to find a supplier. Directories include the yellow or white pages, union directories, trade directories or local business directories.

2. Personal selling

It means selling products personally. It involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. Companies appoint salesperson to contact prospective buyers and create awareness about the company's product. Thus a salesperson plays three different roles

- Be persuasive
- A service provider
- Be informative

3. Sales promotion

Sales promotion relates to short–term incentives or activities that encourage the purchase or sale of a product or service. Sales promotions initiatives are often referred to as "below the line" activities.

The major sales promotion activities

Sales promotion activities can be targeted towards final buyers (consumer promotions), business customers (business promotions), retailers and wholesalers (trade promotions) and members of the sales force (sales force promotions). Here are some typical sales promotion activities:

Consumer promotions

- Point of purchase display material
- In-store demonstrations, samplings and celebrity appearances
- Competitions, coupons, sweepstakes and games
- On-pack offers, multi-packs and bonuses
- Loyalty reward programmes

Business promotions

- Seminars and workshops

- Conference presentations
- Trade show displays
- Telemarketing and direct mail campaigns
- Newsletters
- Event sponsorship
- Capability documents

Trade promotions

- Reward incentives linked to purchases or sales
- Reseller staff incentives
- Competitions
- Corporate entertainment
- Bonus stock

Sales force promotions

- Commissions
- Sales competitions with prizes or awards
- Back to top

4. Public relations

It is the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organisation (or individual) and its (or their) public.

Put more simply, public relations is about building good relations with the stakeholders (public) of the business by obtaining favourable publicity, building a good corporate image and handling or heading off unfavourable rumours, stories and events.

By building good relationships with the stakeholders, particularly customers, we can generate positive word of mouth and referrals from satisfied customers.

A stakeholder

Stakeholders are the various groups in a society which can influence or pressure your business decision making and have an impact on its marketing performance. These groups include:

- Clients/customers
- Shareholders
- Media
- Local community
- Community groups
- Staff
- Strategic partners
- Government
- Financial institutions

The main public relations tools

Typical public relations tools include:

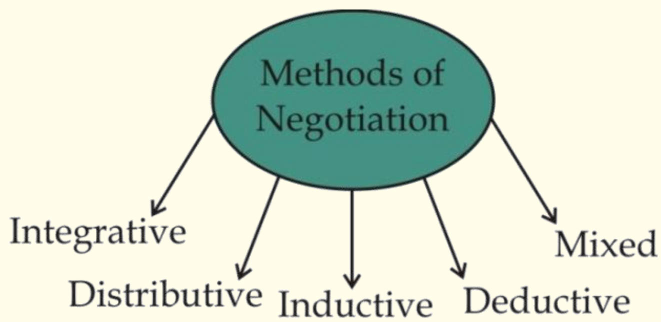
- News creation and distribution (media releases)
- Special events such as news conferences, grand openings and product launches
- Speeches and presentations
- Educational programs
- Annual reports, brochures, newsletters, magazines and Audio–visual presentations
- Community activities and sponsorships

E. Negotiation

Negotiation is a process where two or more parties with different needs and goals discuss an issue to find a mutually acceptable solution. In business, negotiation skills are important in both informal day-to-day interactions and formal transactions such as negotiating conditions of sale, lease, service delivery, and other legal contracts.

Good negotiations contribute significantly to business success, as they:

- help in building better relationships
- deliver lasting, quality solutions - rather than poor short-term solutions that do not satisfy the needs of either party
- help in avoiding future problems and conflicts.



Negotiation can be categorized in different ways, such as:

Integrative

Integrative negotiations are commonly referred to as "win-win." In this type of negotiation, each side is working towards a solution where everyone wins something. They can make tradeoffs, look at multiple issues, and try to expand the pie rather than divide it. Integrative negotiations foster trust and good working relationships.

Distributive

Distributive negotiations are referred to as "win-lose." One party gets what they want, and the other party has to give something up. This can be the case when you negotiate a lease on office space, for example. If you feel like you got a good deal and the property manager had to give something up for you, you "won." If you feel like the property manager had the upper hand and you got ripped off, you "lost." The parties' interests often seem to be opposed (although this may not be the case once you look at things creatively), and so this type of negotiation does not lead to lasting or positive relationships.

Inductive

The inductive method involves starting on small details and working upward until a settlement is reached. This can be the case where, for example, an employer and labour union are negotiating the details of an employee pension and investment plan. Small details are addressed one at a time.

Deductive

Deductive negotiations start with an agreed upon strategy. They rely on established principles and a formula to frame the negotiation while the parties work out the details.

Mixed

Mixed negotiations are the most common, they are a blend of inductive and deductive methods.

F. Customer relations

CRM is the abbreviation for ***customer relationship management***. It entails all aspects of interaction that a company has with its customer, whether it is sales or service-related. It is the process of carefully managing detailed information about individual customers in order to manage loyalty.

CRM is often thought of as a business strategy that enables businesses to:

- understand the customer
- retain customers through better customer experience
- attract new customer
- win new clients and contracts
- increase profitability
- decrease customer management costs

How CRM is used today

Customer relationship management solutions enable companies to provide excellent real-time customer service through the effective use of individual account information. Based on what they know about each valued customer, companies can customize market offerings, services, programs, messages and media. CRM is important because a major driver of company profitability is the aggregate value of the company's customer base.

The impact of technology on CRM

Technology and the Web has changed the way companies approach CRM strategies because advancement in technology have also changed consumer buying behavior and offers new ways for companies to communicate with customers and collect data about them. With each new advancement in technology—especially the proliferation of self-service channels like the Web and smartphones, customer relationship is being managed electronically.

Many aspects of CRM relies heavily on technology; however the strategies and processes of a good CRM system will collect, manage and link information about the customer with the goal of letting you market and sell services effectively.

The benefits of CRM

The biggest benefit most businesses realize when moving to a CRM system comes directly from having all your business data stored and accessed from a single location. Before CRM systems, customer data was spread out over office productivity suite documents, email systems, mobile phone data and even paper note cards. Storing all the data from all departments (For example, sales, marketing, customer service and HR) in a central location gives management and employees immediate access to the most recent data when they need it. Departments can collaborate with ease and it helps organization to develop efficient automated process to improve business processes.

Other benefits include a 360-degree view of all customer information, knowledge of what customers and the general market wants and integration with your existing applications to consolidate all business information.

G. Employee management

Employee relationship management is a process that companies use to effectively manage all interactions with employees, ultimately to achieve the goals of the organisation. The human resources department can play a critical role in this process, both in terms of training and coaching managers and executives on how to effectively establish and nurture relationships with employees and in measuring and monitoring those relationships to determine whether objectives are being met.

Factors which lead to effective employee relationship

1. Identifying objectives

Employee relationship management is a general term that means a lot of different things to a lot of different people. At the outset, it is important to define what is meant by employee relationship management and, specifically, what areas of the relationship will be managed. For most companies, relationship management centers around items like attracting and retaining employees. Common measures of the effectiveness of these relationships include time to hire, turnover and employee satisfaction.

2. Determining employee needs

It is not enough to assume that a company or even its HR professionals know what is important to employees. Needs vary greatly depending on employee characteristics--age, gender, etc. as well as the type of job being performed. It is a good idea to find out directly from employees what their needs are. This can be done on one-on-one conversations that take place informally throughout the year, during formal employee evaluation meetings and through surveys and polls that can provide a quantitative indication of employee needs.

3. Balancing work and life needs

There is a widespread recognition in the 21st century that effective employee relationship management requires consideration of the whole employee. That means taking steps to ensure that the employee's work-life needs are well balanced. This can occur through creative staffing that might involve part-time, flex–time or even off-site work assignments.

4. Open and honest communication

Communication is critical to establishing strong employee relationships. Managers must be committed to communicating regularly and honestly with employees about the issues that impact their work. The more open organizations can be, the more likely they are to establish strong relationships that lead to increased loyalty and productivity among employees and decreased turnover and dissatisfaction.

5. Measuring and monitoring results

Effective employee relationship management requires ongoing attention. That means that managers and their HR departments should be alert at all times for signs of discontent, which can be subjective, as well as carefully monitoring the results of more formal assessments. These results should also be shared with employees. Too often employees are asked to complete surveys and are not informed of the results - or what will be done with the results.

6. **Relationships are interpersonal**

Ultimately, employee relationship management requires the same skills and processes required to manage any relationship; a clear understanding of employees' needs and a desire to meet those needs is foundational. Then steps must be taken to interact effectively with employees through a variety of communication channels, both interpersonal and formal (For example, intranet site, employee newsletters, etc.). Finally, measurement of the effectiveness of these efforts should be frequent and ongoing, with improvements and adjustments made when results are not showing continual improvement or satisfactory levels of performance.

H. Vendor management

Vendors are individuals or businesses that supply goods or services to other individuals or businesses. Vendor management is a term used to describe the process of finding, qualifying and doing business with vendors. Common activities include researching vendors, negotiating contracts, obtaining quotes, evaluating performance, creating and updating vendor files, and ensuring that payments are made properly.

Once a business determines that it has a need that must be outsourced, vendor management begins. The company must find one or more vendors that can supply the good or service needed and evaluate each vendor based on pricing, capabilities, turn-around time, quality of work, and company reputation. This process often entails requesting pricing, checking references, and researching the company through online resources. It may also include checking on the potential vendor's financial stability, insurance, and certifications.

After vendors are selected, vendor management is a matter of managing a pool of vendors, assigning jobs or contracts as needs arise, monitoring vendor performance, and ensuring that contract terms are followed. In large companies, a vendor manager often has more than one vendor in the pool for each type of product of service. Certain vendors might be preferred, means that they are the first choice when a project arises. Others might be backup vendors, who will be called upon if the preferred vendor cannot accept a given project or fails to perform.

Vendor management often involves a great deal of electronic or manual paperwork. Many accounts payable systems require vendors to be set up in a database. This might require collection of vendor contact information, certificates of insurance and taxpayer identification numbers. If the vendor will have access to proprietary or private information, a non-disclosure or other such agreement must usually be signed and placed in the vendor files. Many companies require vendor files to be updated annually, so a vendor manager will need to ensure that current documents are obtained each year.

The term vendor management is usually used within the context of business operations, but individuals may also need to manage vendors from time to time. A homeowner, for example, may need to contract with a roofer or an interior designer; in this situation, he/she will need to obtain bids, choose a vendor, monitor quality of work, and process payment, just as a business would. Hair salons, insurance agents, childcare facilities, and similar personal services are also examples of vendors with whom an individual might work frequently.

Quality, timeliness and customer satisfaction

Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. A company that satisfies most of its customer needs most of the time is called a quality company.

Impact of quality:

Product and service quality, customer satisfaction and company profitability are intimately connected. Higher level of quality results in higher level of customer satisfaction, which supports higher prices and (often) lower costs. Companies that have lowered costs to cut corners have paid the price when the quality of the customer experience suffers.

Quality is clearly the key to value creation and customer satisfaction.

I. Business failure

Business failure refers to a company ceasing operations following its inability to make a profit or to bring in enough revenue to cover its expenses. A profitable business can fail if it does not generate adequate cash flow to meet expenses.

Case Study-II
Subhiksha

Subhiksha *was founded in 1997 by R. Subramanian, an IIT-IIM graduate. It operated over 1600 outlets selling groceries, fruits, vegetables, medicines and mobile phones and positioned itself as value retail chain. It adopted strategy to cut price, focus on lower and upper middle class, and opened shops near catchment area of customers. It started with one store in Chennai and within a short span the count reached to 1600 outlets (2008).*

> ***Why did Subhiksha super market fail?***
>
> - *Rapid store expansion in various formats like groceries, medicines, mobiles, electronics, consumer durables and IT without sufficient fund in hand.*
> - *Operated on very slim or zero margins resulting in higher cash outflow whereas inflows were almost nil.*
> - *Not much attention to customer service resulted in bad quality service at store level.*
> - *Downstream supply chain was not integrated resulting in lower fill rates and customer dissatisfaction.*
> - *Expanded business through debt (₹7500million debt).*
> - *In October, 2008 the company did not have enough funds to manage its operations.*
> - *Poor inventory management resulted in defective inventory, breakages, lower fill days and pile up inventory.*

The 12 broad causes that lead to a business failure are summarized below.

1. Lack of industry experience

Every business has an environment in which it operates. The internal resources of a firm must match the needs of the environment to which the firm caters. Lack of experience in the industry will lead to poor organization of a firm and its resources. The structure of the industry in which the organisation operates substantially influences small firm performance outcomes.

2. Inadequate financing

Financing is the lifeblood for growing a business whether in the start up phase or in a later stage. Many businesses fail due to lack of proper financing channels. It is not a matter of unavailability of funding, but the lack of planning for funding to support opportunities for growth. Planning in advance, rather than looking for financing just when needed, is a good practice. Trouble results when entrepreneurs do not have sufficient awareness of the costs involved in raising capital, are not prepared with alternative sources in case of rejection from financiers, fail to consider using a combination of debt and equity to fund the business or, in general, fail to plan for growing their business to avoid the crisis of financing.

> **Case Study-III**
>
> **Boo.com**
>
> *Boo.com launched in the autumn of 1999 sold branded fashion apparel over the Internet. The company spent $135 million of venture capital in just 18 months and it was placed into receivership on 18 May 2000 and liquidated. The fundamental problem was that the company was following an extremely aggressive growth plan, launching simultaneously in multiple European countries. This plan was founded on the assumption of the ready availability of venture capital money to see the company through the first few years of trading until sales caught up with*

operating expenses. Such capital ceased to be available for all practical purposes in the second quarter of 2000 following dramatic falls in the NASDAQ presaging the "dot crash" following the Dot-com bubble. Boo.com's sales did not match expectations, partly due to a higher-than-expected rate of product returns (a service that was offered for free, but charged for by their logistics supplier Deutsche Post)

3. Lack of adequate cash flow

Cash flow is the measure of a firm's ability to maintain sufficient funding to meet its expenses for the day-to-day activities of the business. Many small businesses fail because owners have a difficult time projecting what cash will come in every month, and thus, how much can go out. It is vitally important for an entrepreneur to learn some basic accounting disciplines and be able to make cash flow projections that will help them understand how much they can afford to spend every month.

4. Poor business planning

Nine out of ten business failures are caused by a lack of general business management skills and planning. A good business plan helps identify the mission; cost structure; market; external influences; and strengths and weaknesses of a business. The business plan can separately include a marketing plan, operating plan, etc.

5. Management incompetence

Ninety percent of business failures are associated with "management inadequacy", which consist of either management inexperience or incompetence. Good management efficiently implements and monitors the strategic and operational plan of a business. .A good strategic plan is only good as the management's ability to implement changes in day to day operations.

Case Study-IV
Chrysler

Top management in all divisions overspent, especially in new product development, and generous union contracts were continually signed year after year. Vehicle prices soared with little consumer incentives and franchised dealers were placed in the position of moving product which consumers didn't want.

The Chrysler Crossfire, when introduced was fine but had many mechanical problems, as did the Sebring. When the PT Cruisers came out, the marketing was great but the assembly lines couldn't keep up with the demand and many turned to other manufactures who were tired of waiting for PT Cruisers to hit showroom floors. Too many product lines were dropped or modified leaving Chrysler fans up in arms. Loyal Jeep owners weren't pleased with the stoppage of the base Cherokee. Still, spending continued with little concern for regaining profits to pay expenses. In the end, Chrysler, LLC was forced through a bankruptcy restructuring and now ownership is very diverse including the entering Fiat. Still, brand loyalty for Chrysler is at an all time low.

6. **Ignoring the competition**

Customers are always looking for the best deal, or at least, a better deal. And if the competition offers better products, services, or prices, the customers will succeed at the expense of the business. Keeping an eye on competitors and positioning the products accordingly is vital to staying in business.

Case Study-V
Corfam Fake Leather

In the 1960s the company DuPont promoted Corfam, a fake leather substitute. They used the material for women shoes but didn't take into account comfort. The product was although cheaper but was very uncomfortable. Competitors responded by lowering the price of leather and increasing the quality and so the need for a fake substitute was lost and Corfam failed.

7. **Unworkable goals**

It is one thing to set goals and another thing to set workable goals. Entrepreneurial initiatives are fundamentally influenced by uncertainty. Setting realistic goals, within the bounds of acceptable risk taking and optimism, is important.

8. **Diminished customer base**

Competition can cause the customer base to diminish. From a small business's perspective, it is good to focus on a customer strategy that works well for their business. At the same time it is also dangerous to focus only on one recipe for success. Diversifying the customer base is an important factor in building the business. Being flexible enough to adapt to new trends and ideas is important for staying in business.

9. **Uncontrolled growth**

Uncontrolled growth of the business can also cause it to fail if not handled appropriately. Obesity is a problem in business as it is in an individual's health. Proper planning must be in place even for business growth. Successful growth requires a professional management team, flexible organization, and proper systems and controls.

10. **Inappropriate location**

The old real estate maxim - location, location, location - may be even truer in the small business world. Even the best-run retail establishment will have a difficult time succeeding if it is in a poor location. Location may not be applicable to all types of businesses, but when it is, it may be critically important.

Case Study-VI
Blockbuster

This case study also applies to lack of agility but it's essentially location that has led to the downfall of Blockbuster. The company that delivers movies to 15 million doorsteps these days isn't

Blockbuster – the retail chain that once dominated the industry – but an upstart, Netflix, that used little more than a website and knowledge of the postal service to topple a far more powerful and wealthy rival.

The place for a video rental store these days is not on the high street but on the internet.

Some fundamental rules changed and Blockbuster didn't get it fast enough. Whatever performance yardstick Blockbuster was using to measure business success and guide strategic planning underestimated the impact of the change.

11. Poor system of control

While setting proper goals to manage the business, a system of controls is also needed to measure performance. Checks and metrics help owners manage organizational activities. A firm cannot control the external factors affecting its environment such as customers and competitors but it can adapt its internal organizational activities. A lack of proper control on internal activities can eventually lead to business failure. Controls can be implemented in several aspects of the business. Controls can be set in place to measure the quality and quantity of production. Certain financial controls are needed to measure the overall financial performance of the business. A good control system will establish standards, measure performance, compare performance against standards and then provide for a way to correct procedures where needed.

12. Lack of entrepreneurial skills

Mostly during the start up phase of a new business, lack of entrepreneurial skills in an owner can cause a business to fail. This may not be true during the later growth and maturity periods of business where more administrative and management skills are required. A small firm's performance outcome is a function of many variables, including individual owner characteristics, owner behaviour, and environmental influences. Entrepreneurs generally have a high need for achievement and social awareness, and they are high risk takers. Consequently, the personal and personality characteristics of an owner can be the cause of business failure.

Case Study-VII
Google Wave

Google Wave started out with a bang. An Internet giant like Google doesn't need to market its product, because a lot of influential internet users are willing to do that for them and that too for free. The reason behind this is that Google has made a reputation of a company which makes products and services that revolutionise the way we use the internet. Google wanted to enter the booming social media market and wanted to compete with social media giants like Facebook and Twitter. The concept behind Google Wave was to start a social form of Gmail, where a group of people can communicate with each other in a single thread and can post videos, images and files in real time. It was the amalgamation of chat, file sharing and social networking.

Months before being launched, articles from sites like Techcrunch and Mashable gave us a sneak peek to the new application and showed us what the application had in store for us. It was such an interesting concept that Twitter was flooded with tweets minutes after the news was out.

Google Wave was launched with a lot of speculation. It started out as an invite only application and the first users who got an invitation were the ones using Sandbox. In the first few weeks, everybody was dying to get their hands on the new product by Google. Many weeks have gone by and Google Wave has opened their gates to everyone. But as the mystery of the Google Wave has unfolded, it has turned out that Google Wave has failed expectations. The reasons why Google Wave failed are manifold, and the major ones are:

1. ***Too much conversation:*** *In Google Wave, any user can comment on any part of the thread. The problem occurs when multiple users comment at the same time. And think of a situation when you receive 5 chats in one second. For a normal human being, it is a really difficult task to follow these many conversations in a very short span of time. And in the end, it results into a heap of chats which resembles more like a trash bin. Yes, one can use the playback feature to replay chats, but it would be an arduous task to read and follow all these waves.*

2. ***Prone to excessive spamming:*** *If one has another person's Google Wave id, he/she can easily add the other user and can wave at him/her. This feature makes it a heaven for spammers. As one can wave at anybody, waving can become a spammer's paradise. Being constantly waved by spammers makes the Google Wave experience even worse.*

3. ***Real time chatting:*** *A unique feature of Google Wave is to chat in real time. In this real time chat, one user can see what other user is typing at that particular moment and it is not clear why this feature is required. It has no usefulness, but yes it just increases the chances of getting noticed for making spelling mistakes.*

4. ***Applications affect load time:*** *Gmail is known for its light design and fast loading capability. But Google Wave works the other way around. The ability to add applications and extensions to Google Wave, instead of being a useful feature, acts as a hindrance in the overall loading of the Waves.*

SUMMARY

- *Goal Setting: Establishing short or long term objectives, usually incorporating deadlines and quantifiable measures*
- *SMART goals: specific, measurable, achievable, relevant, and time-based goals.*
- ***Marketing strategy*** *is defined by David Aaker as a process that can allow an organisation to concentrate its resources on the optimal opportunities with the goals of increasing sales and achieving a sustainable competitive advantage.*
- ***Marketing Mix:*** *Product, Price, Place and Promotion*
- ***Product*** *refers to the item actually being sold. The product must deliver a minimum level of performance; otherwise even the best work on the other elements of the marketing mix won't do any good.*

- *The components of Product mix: Branding, labelling and packaging*
- ***Trade mark** is a word, phrase, symbol or design, or a combination of them, that identifies and distinguishes the source of the goods of one party from those of others.*
- ***Service mark** is the same as a trade mark, except that it identifies and distinguishes the source of a service rather than a product.*
- ***Price** refers to the value that is put for a product. It depends on cost of production, segment targeted, ability of the market to pay, supply - demand and a host of other direct and indirect factors.*
- *Pricing strategies:*
  - *Cost Plus Pricing*
  - *Penetration Pricing*
  - *Creaming or skimming*
  - *Variable Price method*
- ***Place mix (distribution)***
- *A channel of distribution or trade channel is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users.*
- ***A sales strategy** consists of a plan that positions a company's brand or product to gain a competitive advantage. Successful strategies help the sales, force focus on target market customers and communicate with them in relevant, meaningful ways.*
- ***Types of sales strategy:** Direct and Indirect*
- ***Branding** is a process, a tool, a strategy, an orientation whereby a name, a sign, or a symbol etc. is given to a product by the entrepreneur so as to differentiate his/her product from the rival products.*
- ***Brand name:***
  - *A brand name is "that part of a brand which can be vocalized i.e. can be spoken.*
- ***Brand mark:***
- *A brand mark is that part of a brand which can be recognised but cannot be vocalised i.e. is non-utter able. It appears in the form of a symbol, design, or distinct colour scheme.*
- ***Trade mark:***
- *A brand or part of a brand that is given legal protection against its use by other firms is called trade mark*
- ***Individual brand name:***
  - *Here entrepreneur can choose distinct names for each of his offering, i.e. every product is promoted on the basis of a separate brand name.*
- ***Family brand name:***
- *Entrepreneur can opt to use a common or successful family name for their several products. Either the entrepreneur's name or the company's name may be used for all the products*
- ***Corporate names:***
- *Entrepreneur can choose to utilise their corporate name or logo together with some brand names of individual products*

- ***Alpha-numeric names:***
- *In many industrial products, an alpha-numeric name often signifies its physical characteristics, thus creating a distinctive identify of the product. Entrepreneur has an option available to brand his/her products alpha-numerically too.*
- ***'Logo'*** *(Short for Logotype) is an identifying symbol for a product or business.*
- ***Taglines*** *are basically simple but give a powerful message that helps to communicate enterprise's goals, mission, district qualities and so much more.*
- ***Promotion*** *is the method through which we spread the word about the product or service to customers, stakeholders and the broader public.*
- ***Components of promotion mix:***
- *Advertising; personal selling; sales promotion; public relations*

  ATL- Above-the-line promotions use mass media methods. This type of promotion focuses on advertising to a large audience. It includes print, online media, television and cinema advertising.
- *BTL- Below-the-line methods are very specific, memorable activities focused on targeted groups of consumers. They are under the control of the organisation.*

  Below-the-line methods include:
- *Sponsorship, sales promotions, public relations, personal selling, direct marketing.*

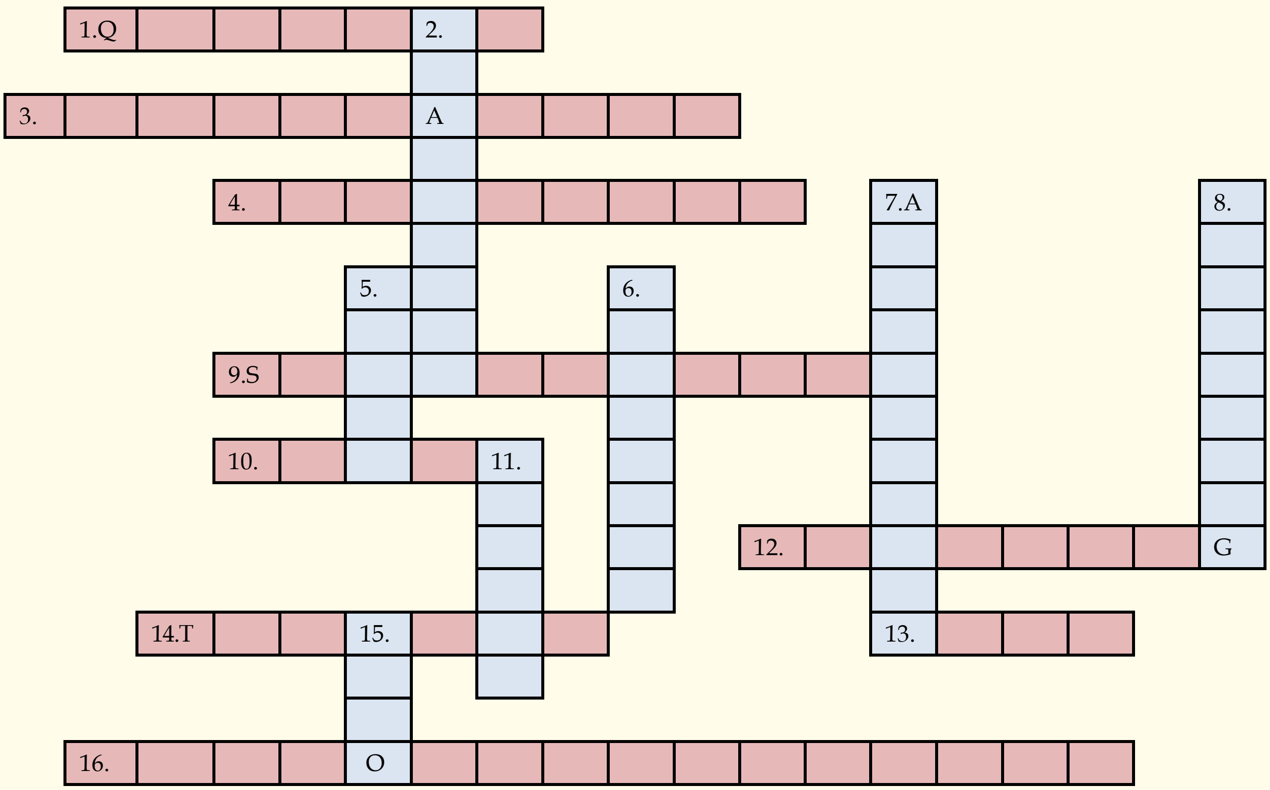
  TTL - "Through the line" refers to an advertising strategy involving both above and below the line communications in which one form of advertising points the target to another form of advertising thereby crossing the "line"."
- *Advertising is a form of communication designed to persuade potential customers to choose the product or service over that of a competitor.*
  - *Commonly used media in advertising*
  - *Window display or office front*
  - *Radio*
  - *Direct mail*
  - *Ambient*
  - *Point of sale*
  - *Directory listings*
  - *Stationery*
  - *Press advertising*
  - *Television*
  - *Outdoor*
  - *Cinema*
  - *Online*
- ***Personal selling*** *It means-'selling products personally'. It involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. Thus a salesperson plays three different roles*
- *Persuasive role*
- *Service role*
- *Informative role*
- ***Sales promotion*** *relates to short term incentives or activities that encourage the purchase or sale of a product or service.*

- ***Public relations*** *is the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organisation (or individual) and its (or their) public.*
- ***Negotiation*** *is a process where two or more parties with different needs and goals discuss an issue to find a mutually acceptable solution.*
- ***Methods of negotiation:***
  - ***Integrative*** *is referred to as "win-win."*
  - ***Distributive*** *is referred to as "win-lose."*
  - ***Inductive*** *is the inductive method where in involves starting on small details and working upward until a settlement is reached.*
  - ***Deductive -*** *Start with an agreed upon strategy.*
  - ***Mixed -****Mixed negotiations are the most common; they are a blend of inductive and deductive methods.*
- ***CRM -*** *It is the process of carefully managing detailed information about individual customers in order to manage loyalty.*
- ***Employee relationship management*** *is a process that companies use to effectively manage all interactions with employees to ultimately achieve the goals of the organization.*
- ***Factors which lead to effective employee relationship***
  - *Identifying objectives*
  - *Determining employee needs*
  - *Balancing work and life needs*
  - *Open, honest communication*
  - *Measuring and monitoring results*
  - *Relationships are interpersonal*
- ***Vendor management*** *is a term used to describe the process of finding, qualifying and doing business with vendors.*
- ***Business failure*** *refers to a company ceasing operations following its inability to make a profit or to bring in enough revenue to cover its expenses.*
- ***The 12 broad causes that lead to a business failure are summarized below.***
  - *Lack of industry experience*
  - *Inadequate financing*
  - *Lack of adequate cash flow*
  - *Poor business planning*
  - *Management incompetence*
  - *Ignoring the competition*
  - *Unworkable goals*
  - *Diminished customer base*
  - *Uncontrolled growth*
  - *Inappropriate location*
  - *Poor system of control*
  - *Lack of entrepreneurial skills*

"Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover."

– Mark Twain

REVIEW CROSSWORD PUZZLE



Across:

1. The standard of something as measured against other things of a similar kind
3. Discussion aimed at reaching an agreement
4. Display of information about a product on its container
9. A person with an interest or concern a business
10. Ideal medium of advertising due to its ability to reach specific target groups
12. Selling a product at a high price, sacrificing high sales to gain a high profit
13. An aim
14. A catch phrase or slogan as used in advertising
16. It includes all aspects of interaction that a company has with its customer

Down:

2. A symbol, a word legally registered or established by use as representing a company or product.
5. A name given to their products, which helps in identifying and distinguishing products from that of the competitors.
6. The established reputation of a business.
7. The activity of attracting public attention to a product or business
8. Materials used to wrap or protect goods
11. The kind of advertising used by social networking sites
15. Design adopted by an organization to identify its products

LET'S REVISE

A. Very short answers. Answers to these questions should not exceed 15 words.

1. What is meant by goal setting?
2. What is marketing strategy?
3. What are the components of marketing mix?
4. Which is the shortest channel of distribution?
5. What are the components to a successful sales strategy?
6. Define branding.
7. Why is a logo important for a company?
8. Give the meaning of tagline with the help of an example.
9. Explain the term packaging.
10. What is labelling?
11. Define advertising?
12. What is negotiation?
13. Explain the meaning of CRM.
14. When do we conclude that a business has failed?
15. Explain the following term: ATL.
16. Give the meaning of BTL.
17. What is TTL?

B. Short answers. Answers to these questions should not exceed 50 words.

1. What are the rules for goal setting?
2. What does the marketing strategy of a company include?
3. What is sales strategy?
4. Explain the different types of sales strategies.
5. Differentiate between trade mark and brand mark.
6. What is the purpose of logo?
7. Why should we advertise?
8. What is employee management?
9. Is vendor management different from employee management? Enumerate.
10. Differentiate between ATL and BTL.

C. Short answers. Answers to these questions should not exceed 75 words.

1. Explain in detail SMART goals.
2. Explain the disadvantages of skimming price method.
3. What are the qualities of a good brand name?
4. What are the rules for advertising?

5. What is AIDA?
6. What are the different roles played by a salesperson?
7. What are Public Relations?
8. Who is a stakeholder?
9. What are the main public relations tools?
10. Explain the benefits of CRM?

D. Long answers. Answers to these questions should not exceed 150 words.

1. What is penetration pricing method and enlist it's advantages and disadvantages.
2. What are the various types of brand names from the entrepreneur's perspective?
3. What are the various factors which help in employee management?
4. How is vendor management done?

E. Very long answers. Answers to these questions should not exceed 250 words.

1. Explain in detail any 3 pricing strategies.
2. Explain the important factors affecting the choice of channels of distribution by the manufacturer.
3. Explain Promotional mix in detail
4. Explain any 6 commonly used media options.
5. Enlist some typical sales promotion activities.
6. Explain the methods of negotiation.
7. Explain the reasons for business failures.

F. HOTS (High Order Thinking Skills)

1. Varshini started her high end boutique in a posh locality, but she was not aware of how to make her boutique popular in the area. Suggest some measures for it.

G. Application based questions

1. Arvind has started his Italian food based restaurant. Does he have to register his trademark? And give the reasons for the same.
2. Imagine that you have started selling FMCG goods then what kind of promotional strategies will you be using?

H. Activities

1. Create your own product with a brand name, logo and tagline.
2. Pick any two rival companies (For example, Coke and Pepsi) and find their marketing and promotional strategies.

❀ ❀ ❀

Unit–4: Enterprise Growth Strategies

"Entrepreneurship is living a few years of your life like most people won't so you can spend the rest of your life like most people can't."

– Warren G. Tracy's student

Learning Objectives:

The learner would be able to:

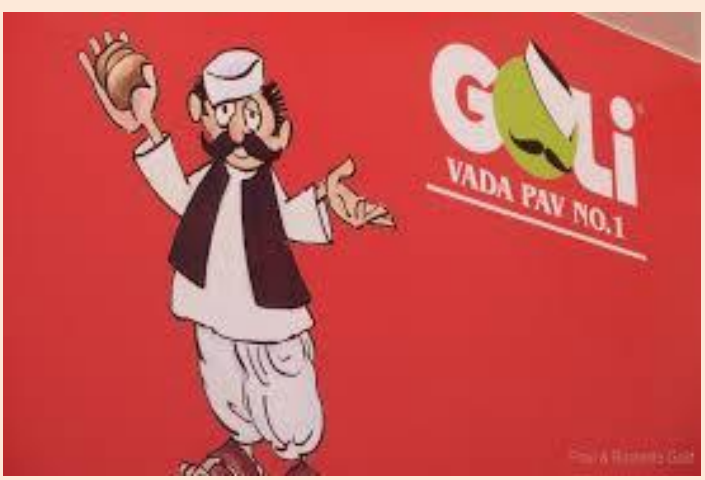
- Explain in detail about franchising
- Understand the types of franchising
- Understand how growth of a firm is possible through mergers and acquisitions
- Enlist the types of mergers
- Elaborate on the meaning and types of acquisitions
- Understand the reasons for mergers and acquisitions
- Understand the reasons for failure of mergers and acquisitions
- Explain the concept of value addition
- Understand the meaning of value chain
- Understand the requirements for value chain management

Content

- **Franchising**
- **Mergers and Acquisitions**
- **Value Addition and moving up the Value Chain**

Case Study-I
Goli Vada Pav

Launched in 2004, Goli Vada Pav repackaged 'Vada Pav', a humble street-food popular in Mumbai, into a branded fast food concept. It follows franchise business model and today is uniquely positioned in Indian QSR (quick service restaurant) segment. Read on to discover more about the brand's success and growth journey.



Origin and Concept

Goli Vada Pav, a quick serve food concept with authentic Indian touch, originated in Mumbai in 2004. The brand’s founders, Venkatesh Iyer and Shiv Menon, realised the huge scope of business in tapping the adult and lower income customers by selling widely popular local street food ‘Vada Pav’ to them, in an organised way. Thus, the idea of Indian finger food Goli Vada Pav Pvt Ltd was born that retailed the humble mouth watering spicy ethnic delicacy, which was pocket friendly as well as prepared and served in hygienic conditions. Indian QSR market is flooded with brands like McDonald’s, Subway and Quiznos but the success of Brand – Goli Vada Pav No. 1 reaffirms the fact that a strong home grown concept can not only thrive but also compete with International Brands.

What makes concept so special?

Vada Pav is basically a spicy vegetable patty in bun sold by street-food vendors. The brand Goli Vada Pav No. 1 has pioneered the concept of selling vada pav through retail outlet. The brand’s stores offer quality and hygienic fast food which is quite affordable. It has successfully branded the traditional street food. It sells hygienically prepared food items made in fully automated ‘HACCP’ certified handsfree plant with an authentic touch. ‘Goli Vada Pav’ is a typical finger food made of spices, vegetables, and mashed potatoes packed in 'vada pav'. Today, it is known to be an established, reputed, and popular Indian fast-food brand that offers a clean and ethnic finger food for those who have less money and time.

Popular products

The brand offers wide assortment of items to cater to varied taste buds and preferences of customers. Its outlets serve different finger dishes like sweet chutney, dry chutney, and fried green chilly. Its famous dishes include Goli Schezwan Vada Pav, Goli Cheese Vada Pav, Goli Sabudana Vada, Goli Mix Veg. Vada Pav, Goli Tikki Vada Pav, Goli Palak Makkai Tikki, Goli Cheese Ungli, and Goli Masala Vada Pav. As the name suggests vada is a common thing, which is mixed with other thing for different taste. The company’s food offerings not only entice the taste buds of consumers, but they are also touted to be nutritional.

Success journey till now

The brand has opted for franchise business models to grab a quick bite into the Indian quick serve business. Today, Goli Vada Pav has extensive presence across 40 Indian cities in six states. Goli Vada Pav No. 1 outlets are spread across the length and breadth of the country. Its stores can be found in cities like Aurangabad, Ahmednagar, Bangaluru, Belgaum, Chandrapur, Chennai, Coimbatore, Dhulia, Hubli, Hyderabad, Jalgaon, Kolhapur, Mumbai, Pune and many more. It operates about 150 stores, of which over 140 are via franchise route.

Lucrative business opportunity

The brand’s concept offers lucrative business opportunity for aspiring franchisees. The factors that make this concept a money spinner are:

Vada Pavs are popular all-time favourite and convenient fast food. The product is hygienic and less oil fried snack having universal appeal. It’s a standard tasty food that can be consumed 365 days of the year. The store format and operations are relatively less cumbersome. The product is easy to make and it being a finger food one doesn't require plates, spoons, tables and chairs to eat it. It is a mobile food that can be consumed while walking, talking, standing or travelling, and is therefore preferred by people on the move. Therefore, the franchisee store owner would not require huge investments like infrastructure, kitchen and restaurant etc which substantially cut the input costs.

Franchising facts

The company is looking to strengthen its pan India franchisee network. It is targetting especially tier I, tier II, tier III cities and small towns for expansion and opening more number of stores. It would like to partner with potential franchise partners who can invest ₹ 10-20 lakh. For opening a Goli Vada Pav No. 1 store, area requirement is about 350 sq ft. The preferred location for opening an outlet is a high street traffic areas like market, colleges, business areas and residential catchments.

Franchisee training and support

The franchisee will get the eight-year old well established brand name with standard operating procedures in all aspects of business. The company will provide initial and refresher training for business owners and store staff and end-to-end logistics support & regular replenishment of stocks and operational support to monitor and drive business.

Franchising adds flavour to further growth

The brand's offerings are economical and for the masses, therefore it has access to a large customer base. It is committed to take vada pav from the Mumbai streets to a brand which will be known all over the world. Growing popularity of the concept has encouraged Goli Vada Pav No. 1 to continue with its expansion plans. The brand encourages entrepreneurship and offers lucrative franchise opportunities across India. The company plans to have 500 outlets by the end of the year 2015.

Courtesy: Franchiseindia.com

A. Growth and development of an enterprise

Growth is always essential for the existence of a business concern. A concern is bound to die if it does not try to expand its activities. The entrepreneur is an endless challenge seeker. Once their small business is humming along, growth is the next exciting challenge. The decision to extend the scope of one's business must be a result of thoughtful consideration of various factors, including the financial, logistical, even his/her emotional readiness. The rule of thumb is that one should only expand when there are untapped opportunities that can benefit the business. There may be a niche that

you want to capture or a location not serviced even by your competitors. Expansion is often one of the most daunting challenges a successful business will face.

Ron Sommer, former president, Sony Corporation of India: says "Where a company comes from is less important than where it is going, as boundaries are erased, corporate birth certificate won't count much." The successful entrepreneur will make sure there is a constant flow of new ideas and a commitment to try out at least some of these new ideas. An organization has to maintain its momentum through interplay of flexibility and change. This calls for growth and development which in essence is achieved through constant strife.

An entrepreneur has a dual role to play- one, that of a leader and the other of a manager. The former provides direction and energy while the latter processes the input and gives the output. To ensure the continued efficiency and profitable functioning and growth of enterprise, extra managerial ability is required.

The expansion of a concern may be in the activities or acquisition of ownership and control of other concerns. Thus, expansion may be;

- Internal Expansion
- External Expansion

i) Internal expansion

Internal expansion results from the gradual increase in the activities of the concern. The concern may expand its present production capacity by adding more machines or by replacing old machines with the new machines with higher productive capacity. The internal expansion can also be undertaken by taking up the production of more units or by entering new fields on the production and marketing sides. Internal expansion may be financed by the issue of more share capital, generating funds from old profits or by issuing long–term securities. The net result of internal expansion is the increase in business activities and broadening the present capital structure.

ii) External expansion or business combination

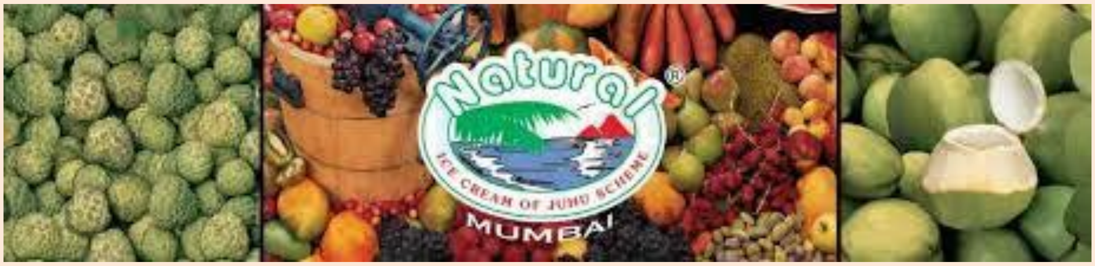
External expansion refers to business combination where two or more concerns combine and expand their business activities. In the process of combination, two or more units engage in similar business or related process or stages. Sometimes stages of the same business join with a view to carry on their activities or shape, their polices on common basis some other or in coordination for mutual benefit or maximum profits. The combination may be among competing units or units engaged in different processes. After combination, the constituted firm pursues some common objectives or goals.

In this unit, we will focus on the main forms of external expansion which are

a) Franchising

b) Mergers and Acquisitions

Case Study-II
It's natural. It's yummy: It's NATURAL ICE CREAM



It's natural. It's yummy. Those who have tasted it, swear by it. The unique feature of the ice creams manufactured by Natural Ice Cream is that they contain no artificial flavours, preservatives or stabilisers, only fresh fruit pulp or dry fruits.

Started as a 300-sq-ft ice cream parlour at Juhu, a northwest Mumbai suburb, in 1984, the brand is a runaway success. It now has 89 franchise outlets across West and South India: 47 in Mumbai, 29 in the neighbouring urban clusters of Navi Mumbai, Thane and Pune, and the rest scattered across selected cities of Maharashtra and neighbouring states. Ten more will be opened in the current financial year. Natural's revenues have grown from ₹14 lakh in 1986 to ₹40 crore in 2010-11. The franchises may be many, but the manufacturing hub is just one, located in another Mumbai suburb, Kandivali. Every morning, a fleet of trucks rolls out from the factory carrying the ice cream to all the Natural outlets, thus ensuring quality is not compromised.

The store at Juhu has been renovated and expanded repeatedly, and is now more than three times its original size. "It is a landmark in the area," says a beaming Kamath. It all began after Kamath broke away from his elder brother's ice cream business, Gokul Ice Cream, in 1983. "I took my share of the inheritance and set up Natural," says Kamath. From the start he was at enormous pains to keep to quality - a trait he maintains to this day. Seasonal fruits are bought in bulk daily from the market, with only the best quality ones being chosen. The extracted pulp is heated, to get rid of unwanted bacteria, and then stored in aluminium-sealed packages.

Kamath, who from the start involved himself in every aspect of manufacture and distribution, says he has experimented with 60 different kinds of fruit. (In case of non-seasonal fruits, however, Kamath has no choice but to buy pulp and get it machine processed.)

The means Natural uses to enforce quality control, however, impose their own limits on the brand's expansion. All the temperature control in the world cannot preserve the taste - and more importantly the freshness - of ice cream beyond a specified number of hours, during which Natural's trucks can cover only a finite distance. This explains why Natural's outlets are largely in Western India, and it has no outlet yet in the national capital, despite the obvious business opportunity Delhi presents. "The National Capital Region has remained an elusive destination," admits Pai.

But the scenario may soon change. Though Natural officials are reluctant to share details of their financial relationship with the franchises, they do reveal that plans are afoot for a major change in operational strategy. The man responsible is Kamath's son, Srinivas, who was inducted into the business in 2009. Srinivas, 27, believes that since it is dealing in perishable products such as ice cream, Natural has to set up manufacturing units in other locations, if it wants to keep expanding.

Srinivas wants to set up 'mega shops' in faraway cities and towns, which will both manufacture Natural ice cream and sell it. "Raw material will be supplied from here, as well as trained workers who will make the ice cream at the mega shops," says Srinivas. "Frozen, non-perishable fruit pulp and processed milk can be stored for a maximum of four days without harm. That is enough time to transport them to wherever the mega shops are opened."

Again, in a change of strategy, Natural intends to open only one shop in these faraway areas. "Instead of investing in multiple franchises, Natural will have just one mega shop per town," Srinivas adds. Natural will also impose its conditions: the outlet must have at least 2,000 square feet floor space and must be located in a central area. The first such outlet is set to open shortly in Chandigarh; depending on its success, more such shops will follow.

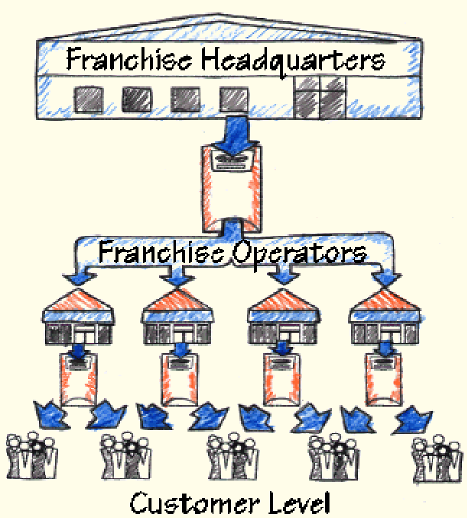
Natural is in no hurry to get to Delhi, but it has big plans when it does. "Delhi is a very big market. To meet its demand, we'll have to double our existing capacity," says Pai. Natural's ambitions go even further. "Our founder wants Delhi to be the launch pad for Natural's global ventures, especially in West Asia," he adds.

***Resource Credits:** http://businesstoday.intoday.in*

Franchising

Franchising began back in the 1850's when Isaac Singer invented the sewing machine. In order to distribute his machines outside of his geographical area, and also provide training to customers, Singer began selling licenses to entrepreneurs in different parts of the country. In 1955 Ray Kroc took over a small chain of food franchises and built it into today's most successful fast food franchise in the world, now known as McDonald's. McDonald's currently has the most franchise units worldwide of any franchise system.

Today, franchising is helping thousands of individuals be their own boss and own and operate their own business. Franchising allows entrepreneurs to be in business for themselves, but not by themselves. There is usually a much higher likelihood of success when an individual opens a franchise as opposed to a mom and pop business, since a proven business formula is in place. The products, services, and business operations have already been established.



Franchising opportunities have often evolved from changes in the environment as well as important social trends.

Franchising is as "an arrangement whereby the manufacturer or sole distributor of a trademarked product or service gives exclusive rights of local distribution to independent retailers in return for their payment of royalties and conformance to standardized operating procedures". The person offering the franchise is known as the *franchisor.* The *franchisee* is the person who purchases the franchise and is given the opportunity to enter a new business with a better chance to success than if he or she were to start a new business from scratch. Foundation of this relationship is the Franchise Agreement.

A *franchise agreement* is the legal document that binds the franchisor and franchisee together. This document explains what the franchisor expects from the franchisee in running the business. The agreement is designed to assure that all of the franchisees within an organization are treated equitably. The expectations must be uniform throughout the system.

The main ingredients of a franchise agreement:

- **Contract Explanation:** The contract explanation is the part of the agreement that outlines the type of relationship a franchisee is entering into with the franchisor.
- **Operations Manual:** The operations manual is the section of the agreement that details the guidelines that the franchisee must legally follow in operating the business as outlined by the franchisor. From time to time amendments may be made and the franchisee must be prepared to adjust operations accordingly. The franchisee needs to be aware that the contents of the document are confidential.
- **Proprietary Statements:** Proprietary statements outline how the franchise name is to be used, as well as the marketing and advertising procedures in place that the franchisee will be required to follow. Also, the franchisor documents how much the franchisee will be required to contribute toward national advertising efforts.
- **Ongoing Site Maintenance:** Ongoing site maintenance is another item that is outlined in the agreement. Included are the types and timeframes regarding various maintenance items and upgrades that must be made to the franchisee's location.

As in any legal document, it is recommended that you have your attorney review the franchise agreement before signing.

Big brands make head towards for franchising

The big corporate houses that have opted for a franchise route consider franchising as an easy mode of expansion with commitment level of the franchisor and the franchisees. It is a powerful and ideal way to expand business, for a company which does not have any capital, manpower or time to build the network of company-owned outlets.

However, Dabur is not the first big established brand that has taken up franchising for expansion. There are various other corporate houses that have been into franchising for quite some time now and have marked their presence not just pan-India, but also global.

Raymond Ltd, a company started in 1925 as a woollen and readymade garment industry, has achieved phenomenal success with more than 500 stores. As Anirudh Deshmukh, President, Raymond Ltd, says, 'Raymond can be called the "absolute leaders" in the fabric industry as consumers had faith on us for the last 50 years and still we are growing stronger. We basically opted for franchise model for expanding in smaller towns as these are not affected by recession and the franchised stores can be driven by local entrepreneurs who are aware of the preferences of the local customers.

NIIT, a well-known name in the IT education industry, has a franchising network of more than 12,500 centres spread over in more than 40 countries worldwide, apart from India. As per G. Raghavan, President, Global Learning Solutions, NIIT, 'A large part of this success has been possible due to our business partners, who have been a crucial element of our fabric. The Business Partner Network not only helped NIIT expand its presence across India and reach the unreached, it also fuelled the fire of entrepreneurship in the country.

JSW Steel Ltd., the third-largest Steel manufacturer in India, operates through 174 JSW Shoppe outlets that work on the franchise model. Now, the company is planning to take the count of its JSW Shoppe outlets to 340 by 2011.

Mahindra & Mahindra Ltd. a part of the India industrial conglomerate Mahindra Group, has taken the franchise route to expand its 100 per cent subsidiary, Mahindra First Choice, a multi-brand car-servicing company. The company is planning to take the count of its outlets to 450 in the next four years. The new outlets will be a mix of both company-owned and franchise outlets. Can also refer to the Case study of Satya Barta Dey – SHREE LEATHERS Unit 2, sub–heading **Growing, growing, franchising,** to understand aptly what is meant by' if you do not grow, you cannot endure'.

Types of franchising

Before you dive head first into your franchise business opportunity search, it's important that you understand the four different types of franchising opportunities available to you.

Product franchise business opportunity: Manufacturers use the product franchise to govern how a retailer distributes their products. The manufacturer grants a store owner the authority to distribute goods by the manufacturer and allows the owner to use the name and trademark owned by the manufacturer. The store owner must pay a fee or purchase a minimum inventory of stock in return for these rights. Some tire stores are good examples of this type of franchise.

Manufacturing franchise opportunity: These types of franchises provide an organization with the right to manufacture a product and sell it to the public, using the franchisor's name and trademark. This type of franchise is found most often in the food and beverage industry. Most bottlers of soft drinks receive a franchise from a company and must use its ingredients to produce, bottle and distribute the soft drinks.

Business franchise opportunity ventures: These ventures typically require that a business owner purchases and distributes the products for one specific company. The company must provide customers or accounts to the business owner, and in return, the business owner pays a fee or other consideration as compensation. Examples include vending machine routes and distributorships.

Business format franchise opportunity: This is the most popular form of franchising. In this approach, a company provides a business owner with a proven method for operating a business using the name and trademark of the company. The company usually provides a significant amount of assistance to the business owner in starting and managing the company. The business owner pays a fee or royalty in return. Typically, a company also requires the owner to purchase supplies from the company.

How Franchising help start-ups:

1. Franchising changed the working of the startups because already the product carriers a name in the market already which is the most difficult part of business to establish. That is why the startups pay royalty to the franchisor. Since the startups offer an established product that struggling time and money involved in the process. Startups save that.
2. Startups take up training to understand the product and franchisors make franchises fully conversant with the product/services that they have to offer. It is very important that the Sales-man must know his/her product. In this case, start-ups are the sales person. And franchisors charge a fee for this purpose, franchisors motive is at every step 'Pay and Smile. That is not a bad bargain.
3. The start-ups can grow fast without having to increase labour, operating costs and blocking running expenses because normally buyers straight walk up to them.
4. In practical Franchises work for the benefit of franchisors in other words they turn up one plus one eleven. Both are all out open to help each other. Franchisors' efforts to boast their franchises are always sincere, so there is no–clash of interest.

Advantages of franchising

One of the most important advantages of buying a franchise is that the entrepreneur does not have to incur all the risks associated with creating a new business. Typically, the areas that entrepreneurs have problems with in starting a new venture are product acceptance, management expertise, meeting capital requirements, knowledge of the market, and operating and structural controls. In franchising, the risks associated with each are minimized through the franchise relationship, as discussed below.

Advantages to the franchisee

1. **Product acceptance**

   The franchisee usually enters into a business that has an accepted name, product or service. In the case of Subway, any person buying a franchise will be using the Subway name, which is well known and established throughout the United States. The franchisee does not have to spend resources trying to establish the credibility of the business. That credibility already exists based on the years the franchise has existed. Subway has also spent millions of dollars in advertising, thus building a favourable image of the products and services offered. An entrepreneur who tries to start a sandwich shop would be unknown to the potential customers and would require significant effort and resources to build credibility and a reputation in the market.

2. Management expertise

Another important advantage to the franchisee is the managerial assistance provided by the franchisor. Each new franchisee is often required to take a training program on all aspects of operating the franchise. This training could include classes in accounting, personnel management marketing and production. McDonald's, for example, requires all its franchisees to spend time at its school, where everyone takes classes in these areas. In addition, some franchisors require their new franchisees to actually work with an existing franchise owner or at a company-owned store or facility to get on-the job training. Once the franchise has been started, most franchisors will offer managerial assistance on the basis of need. Toll-free numbers are also available so that the franchisee can ask questions anytime. Local offices for the larger franchises continually visit the local franchisees to offer advice and keep the owners informed of new development.

The training and education offered is actually an important criterion that the entrepreneur should consider in evaluating any franchise opportunity. If the assistance in start-up is not good, the entrepreneur should probably look elsewhere for opportunities unless he or she already has extensive experience in the field.

3. Capital requirements

As we've seen in previous chapters, starting a new venture can be costly in terms of both time and money. The franchise offers an opportunity to start a new venture with up-front support that could save the entrepreneur's significant time and possibly capital. Some franchisors conduct location analysis and market research of the area that might include an assessment of traffic, demographics, business condition and competition. In some cases, the franchisor also finances the initial investment to start the franchise operation. The initial capital required to purchase a franchise generally reflects a fee for the franchise, construction costs and the purchase of equipment.

The layout of the facility, control of stock and inventory and the potential buying power of the entire franchise operation can save the entrepreneur significant funds. The size of the parent company can be advantageous in the purchase of health care and business insurance, since the entrepreneur would be considered a participant in the entire franchise organization. Savings in start-up are also reflected in the pooling of money by individual franchisees for advertising and sales promotion. The contribution by each franchisee is usually the function of the volume and the number of franchises owned. This allows advertising on both local as well as national scale to enhance the image and credibility of the business, something that would be impossible for a single operation.

4. Knowledge of the market

Any established franchise business offers the entrepreneur years of experience in the business and knowledge of the market. This knowledge is usually reflected in a plan offered to the franchisee that details the profile of the target customer and the strategies that should be implemented once the operation has begun. This is particularly important because of regional and local differences in markets. Competition, media effectiveness, and tastes can vary widely from one market to another. Given their experience, franchisors can provide advice and assistance in accommodating any of these differences.

Most franchisors constantly evaluate market conditions and determine the most effective strategies to communicate to the franchisees. Newsletters and other publications that reflect new ideas and developments in the overall market are continually sent to franchisees.

5. Operating and structural controls

Two problems that many entrepreneurs have in starting a new venture are maintaining quality control of products and services and establishing effective managerial controls. The franchisor, particularly in the food business, identifies purveyors and suppliers that meet the quality standards established. In some instances, the supplies are actually provided by the franchisor. Standardization in the supplies, products and services provided helps ensure that the entrepreneur will maintain quality standards that are so important. Standardization also supports a consistent image on which the franchise business depends for expansion.

Administrative controls unusually involve financial decisions related to costs, inventory and cash flow and personnel issues such as criteria for hiring/firing, scheduling and training to ensure consistent service to the customer. These controls are usually outlined in manual supplied to the franchisee upon completion of the franchise deal.

Although all the above are advantages to the franchisee, they also represent important strategic considerations for an entrepreneur who is considering growing the business by selling franchises. Since there are so many franchise options available for an entrepreneur, the franchisor will need to offer all of the above services in order to succeed in the sale of franchises. One of the reasons for the success of such franchises as McDonald's, Burger King, KFC, Boston Market, Subway, Midas, Jiffy Lube, Holiday Inn, Mail Boxes and Merry Maids is that, all these firms have established an excellent franchise system that effectively provides the necessary services to the franchisee.

Advantages of franchising to the franchisor

The advantages a franchisor gains through franchising are related to expansion risk, capital requirements and cost advantages that result from extensive buying power. It is clear from the Subway example that Fred DeLuca would not have been able to achieve the size and scope of his business without franchising it. In order to use franchising as an expansion method, the franchisor must have established value and credibility that someone else is willing to buy.

Quick expansion

The most obvious advantage of franchising for an entrepreneur is that it allows the venture to expand quickly using little capital. This advantage is significant when we reflect on the problems and issues that an entrepreneur faces in trying to manage and grow a new venture. A franchisor can expand a business nationally and even internationally by authorizing and selling franchises in selected locations. The capital necessary for this expansion is much less than it would be without franchising. Just think of the capital needed by DeLuca to build 8,300 Subway sandwich shops!

The value of the franchise depends on the track record of the franchisor and on the services offered to the entrepreneur or franchisee. Subway's low franchise fee has enhanced expansion opportunities, as more people can afford it.

Operating a franchised business requires fewer employees than a non-franchised business. Headquarters and regional offices can be lightly staffed, primary to support the needs of the franchisees. This allows the franchisor to maintain low payroll and minimizes personnel issues and problems.

Cost advantages

The mere size of a franchised company offers many advantages to the franchisees. The franchisor can purchase supplies in large quantities, thus achieving economies of scale that would not have been possible otherwise. Many franchise businesses produce parts, accessories, packaging and raw materials in large quantities, then in turn sell these to the franchisees. The franchisee are usually required to purchase these items as part of the franchise agreement and they usually benefit from lower prices.

One of the biggest cost advantages of franchising a business is the ability to commit larger sums of money to advertising. Each franchisee contributes a percentage of sales (1 to 2 %) to an advertising pool. This pooling of resources allows the franchisor to conduct advertising in major media across a wide geographic area. If the business had not been franchised, the company would have to provide funds for the entire advertising budget.

Disadvantages of franchising to the franchisee

Since there are multiple advantages of growing a business through the franchise mode, certain disadvantages also exist that need to be carefully examined. The greatest problem mainly arises as an outcome of differences between the franchisor and franchisee in terms of certain formal and informal commitments that do not get operationalized. Some of the key disadvantages of this mode of expansion are:

- **Right and the only way of doing things:** Entering into a franchise contract limits the degree of freedom for the franchise. As such, one gets an over-guided and over-influenced degree of control exerted by the franchisor. This results in losing the freedom to innovate to some extent.
- **Continuing cost implication:** Over and above the original franchise fee and royalties, a percentage of revenue gets shared perpetually with the franchisor. The franchisor may also charge additional amounts towards sharing the cost for services provided such as advertising and training. As such, entering into franchise contracts with a well-known franchisor becomes a very expensive proposition because of a tendency on their part to exploit the franchisee.

- **Risk of franchisor getting bought:** The franchisee faces serious problems and difficulties when the franchisor either fails or gets bought out by another company.

> *No one knows this better than Vicent Niagra, an owner of three Window Works franchises. Niagra had invested about $1 million in these franchises, when the franchise was sold in 1988 to Apogee Enterprises and then resold in 1992 to a group of investors. This caused many franchises to fail, leaving a total of 50. The failure of these franchises has made it difficult for Niagra to continue because customers are apprehensive about doing business with him for fear that he will go out of business. No support services that had been promised were available.*

- **Inability to provide services:** The disadvantages to the franchisee usually centre around the inability of the franchisor to provide services advertising and location. When promises made in the franchise agreement are not kept, the franchisee may be left without any support in important areas. For example, Curtis Bean bought a dozen franchises in Checkers of America Inc., a firm that provides auto inspection services. After losing $200,000, Bean and other franchisees filed a lawsuit claiming that the franchisor had misrepresented advertising costs and had made false claims including that no experience was necessary to own a franchise.

Disadvantage to the franchisor

Difficulty in identifying quality franchisees: Above all, even the franchisor may find it difficult to identify quality franchisees. Even after extending all support towards training and providing capital, poor management may lead to the failure of the franchisee and in turn, adversely affect the franchise system as a whole.

> **Case Study-III**
>
> **Indian franchise boom**
>
> *For small and first time entrepreneurs in India, taking up franchise of a well-established brand is a good proposition. Buying a franchise of an established brand is a good alternative to starting on a new idea from scratch or could offer a faster way to take an existing business to the next level. To list a few;*
>
> ***Gift a flower… …and a cake….and a candle….***
>
> *Ferns N Petals, founded by Vikaas Gutgutia, a Delhi based company, and the leading brand of floral boutiques in India is marked as a one-stop-shop for all flower requirements, whether it is for daily or occasional gifting, for floral decoration in weddings, corporate events or for an individual parties. Floral boutiques are aesthetically designed and its air – conditioned outlets reflect style and high taste to cater to elite customers. FNP's floral boutique offers a vast variety of fresh cut flowers and unique flower arrangements, artificial & dry flowers, and an exclusive range of object d'art such as scented candles, candle stands, imported Italian glass vases, wooden gift accessories with intricate carving, photo-frames, miniature exportable gift items, fragrance items based on aromatherapy and potpourris, etc. These boutiques offer a vast variety of exquisite flower arrangements and displays to match the distinct needs and tastes of the customers. Growth of FNP, too, is attributable to franchising.*

Food Courts work well with franchising models

Haldiram Franchise – A Profitable Business Opportunity

The food and beverage industry has not experienced any crunch, mainly because the people are spending money in a big way on eating out, together with entertainment. The Indian economy is growing rapidly, automatically creating more room for the growth of this industry.

The Haldiram Marketing franchise is associated with sweets and namkeens for the discerning consumers for the past six decades in India and across the world. The food and beverage franchise made a modest start in the beginning of 1941 in Bikaner in the State of Rajasthan in India. According to the sweet and savory products franchise, sweet and salt are opposite to each other, but they perform wonders on the taste buds.

The Haldiram Marketing franchise uses both sweet and salt in its foods, with mithais (sweets) and namkeens (salty snacks). This unique concept of the food and beverage franchise has made it to be a leader in the sweet industry and it has also maintained this position for many years. The sweet and savoury products franchise has been synonymous with sweets similar as Cadbury is to Chocolates.

The Haldiram Marketing franchise can by default be termed as taste of tradition of India. The sweet and savoury products franchise has certain prospective markets, such as those in China, Russia, the United Kingdom, Madagascar and Ukraine, for promoting and marketing the brand of Haldirams.

Among various food joints from domestic sector, Haldiram franchise has carved a separate niche for themselves. Haldiram made a humble beginning, when it commenced its business in Bikaner, in the state of Rajasthan. Since then, the food and beverage franchise has witnessed phenomenal growth and is currently a renowned manufacturer of sweets across the globe. The sweet and savory products franchise has a chain of restaurants and is also anticipated to start amusement parks.

The Haldiram franchise is the flag bearer of the traditional Indian sweet. This food and beverage franchise was started by Shri Ganga Bisanji Agarwal alias Haldiram Agarwal. He is the grandfather of Shri Shivkisan Agrawal, who was responsible for the fame and success of the sweet and savory products franchise. Moreover, he made the brand of Haldirams a household name in the Indian subcontinent.

Hotel Saravana Bhavan

Hotel Saravana Bhavan is the largest vegetarian restaurant chain in the world, founded in 1981 by Rajagopal, offers south Indian cuisine. They have more than 20 outlets in Chennai, 33 in India and 47 around the world (including USA, Canada, United Kingdom, France, Germany, Singapore, Malaysia, and the Middle East. There are plans to open 5-star Vegetarian-Hotels. This chain is also an example of successful model of Franchising.

Jumboking

Jumboking began its journey to brand the Vada Pav on 23rd August 2001. Jumboking in its 12th year of operations is a pioneer in the food retail company in India in the QSR (Quick Service Restaurants) segment.

Inspired by western models and applying it to Indian food, Jumbo King believes that the common man has the constitutional right to get hygienic food at an affordable price!

Jumboking has been founded by Dheeraj Gupta. Jumboking has a team of people spanning the functional areas of operations, business development, franchisee relations and marketing.

They have 51 operational outlets across India. It plans to put up a total of 500 stores by December 2018. Says Dheeraj Gupta, Founder and MD Jumboking: "We feel the Indian market can support more than 1000 Jumboking stores".

The company has appointed City Master Franchisees/single unit franchisees in Aurangabad, Mumbai, Banglore, Delhi, Indore, Raipur, Amravati, Goa, and Mysore.

Examples of other franchises which are taking India and the world by storm include Chi Kitchen & Bar (cuisine), Mahindra First Choice Wheels (used cars), Van Heusen (clothing), EduKart.com (education), Koutons Retail (fashion), The Yellow Chilli (restaurant chain) and VLCC (beauty and wellness).

Growth through mergers and acquisitions (M&A)

Mergers and Acquisitions (M&A) is a potential strategy for ensuring the accelerated growth of a business. There are various reasons that firms may choose to grow through M&A instead of expanding internally. The growth process is accelerated by acquiring a target in a line of business in which the bidding company wants to enlarge when compared with internal expansion, because the company already exists in place, with its own production capacity, distribution network and clientele. This saves a lot of time and investment for the growing company. Above all, growing through M&A may usually turn out to be less expensive compared with internal expansion, particularly when the replacement cost of assets is higher than the market value of target assets.

Mergers

A ***merger*** is a combination of two companies into one larger company. This action involves stock swap or cash payment to the target. In merger, the acquiring company takes over the assets and liabilities of the merged company. All the combining companies are dissolved and only the new entity continues to operate. In general, when the combination involves firms that are of similar size, the term, *consolidation,* is applied. When the two firms differ significantly by size, the term *merger* is used. Merger commonly **takes two forms**. In the first form *amalgamation,* two entities combine together and form a new entity, extinguishing both the existing entities. In the second form *absorption,* one entity gets absorbed into another. The latter does not lose its entity. Thus, in any type of merger at least one entity loses its entity.

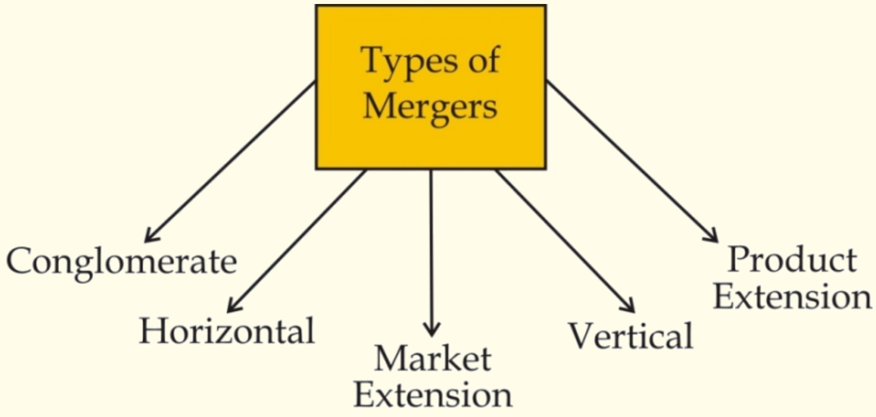
Hence, A + B = A, where company B is merged into company A (Absorption)

A + B = C, where C is an entirely new company (Amalgamation or Consolidation)

Usually, mergers occur in a consensual setting, where executives from the target company help those from the purchaser in a *due diligence* process to ensure that the deal is beneficial to both the parties. In a merger, the boards of directors of the two firms agree to combine and seek stockholder approval for the combination. In most cases, at least 50% of the shareholders of the target and the bidding firms have to agree to the merger. The target firm ceases to exist and becomes part of the acquiring firm.

For example, Digital Computers was absorbed by Compaq after it was acquired in 1997. The merger of TOMCO Ltd. with HLL is a classic example of absorption. In a consolidation, a new firm is created after the merger, and both the acquiring firm and the target firm stockholders receive stock in this firm; Citi Group, for instance, was created after the consolidation of Citicorp and Travelers Insurance Group.

Types of mergers



The term chosen to describe the merger depends on the economic function, purpose of the business transaction and relationship between the merging companies.

1. Conglomerate

A merger between firms that are involved in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

Example: A leading manufacturer of athletic shoes merges with a soft drink firm. The resulting company is faced with the same competition in each of its two markets after the merger as the individual firms were before the merger. One example of a conglomerate merger was the merger between the Walt Disney Company and the American Broadcasting Company.

2. Horizontal merger

A merger occurring between companies in the same industry. Horizontal merger is a business consolidation that occurs between firms which operate in the same space, often as competitors offering the same goods or service. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much greater for merging firms in such an industry.

Example: A merger between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature. The goal of a horizontal merger is to create a new, larger organization with more market share. If the merging companies' business operations are very similar, there may be opportunities to join certain operations, such as manufacturing and reduce costs.

3. Market extension mergers

A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.

Example: A very good example of market extension merger is the acquisition of Eagle Bancshares Inc. by the RBC Centura. Eagle Bancshares is headquartered at Atlanta, Georgia and has 283 workers. It has almost 90,000 accounts and looks after assets worth US $1.1 billion.

Eagle Bancshares also holds the Tucker Federal Bank, which is one of the ten biggest banks in the metropolitan Atlanta region as far as deposit market share is concerned. One of the major benefits of this acquisition is that this acquisition enables the RBC to go ahead with its growth operations in the North American market.

With the help of this acquisition RBC has got a chance to deal in the financial market of Atlanta , which is among the leading upcoming financial markets in the USA. This move would allow RBC to diversify its base of operations.

4. **Product extension mergers**

A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits.

Example: The acquisition of Mobilink Telecom Inc. by Broadcom is a proper example of product extension merger. Broadcom deals in the manufacturing of Bluetooth personal area network hardware systems and chips for IEEE 802.11b wireless LAN.

Mobilink Telecom Inc. deals in the manufacturing of product designs meant for handsets that are equipped with the Global System for Mobile Communications technology. It is also in the process of being certified to produce wireless networking chips that have high speed and General Packet Radio Service technology. It is expected that the products of Mobilink Telecom Inc. would be complementing the wireless products of Broadcom.

5. **Vertical merger**

A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one.

Example: A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business.

Synergy, the idea that the value and performance of two companies combined will be greater than the sum of the separate individual parts is one of the reasons companies merge.

Case Study-IV
Kraft's takeover of Cadbury

By Scott Moeller

The story: *In 2009, US food company Kraft Foods launched a hostile bid for Cadbury, the UK-listed chocolate maker. It became clear almost exactly two years later in August 2011, Cadbury was the final acquisition necessary to allow Kraft to be restructured and indeed split into two companies by the end of 2012: a grocery business worth approximately $16bn; and a $32bn global snacks business. Kraft needed Cadbury to provide scale for the snacks business, especially in emerging markets such as India. The challenge for Kraft was how to buy Cadbury when it was not for sale.*

The history

Kraft itself was the product of acquisitions that started in 1916 with the purchase of a Canadian cheese company. By the time of the offer for Cadbury, it was the world's second-largest food conglomerate, with seven brands that each generated annual revenues of more than $1bn.

Cadbury, founded by John Cadbury in 1824 in Birmingham, England, had also grown through mergers and demergers. It too had recently embarked on a strategy that was just beginning to show results. Ownership of the company was 49 per cent from the US, despite its UK listing and headquarters. Only 5 per cent of its shares were owned by short-term traders at the time of the Kraft bid.

The challenge

Not only was Cadbury not for sale, but it actively resisted the Kraft takeover.

Sir Roger Carr, the Chairman of Cadbury, was experienced in takeover defences and immediately put together a strong defensive advisory team. Its first act was to brand the 745 pence-per-share offer "unattractive", saying that it "fundamentally undervalued the company". The team made clear that even if the company had to succumb to an unwanted takeover, almost any other confectionery company (Nestlé, Ferrero and Hershey were all mentioned) would be preferred as the buyer. In addition, Lord Mandelson, then the UK's business secretary, publicly declared that the government would oppose any buyer who failed to "respect" the historic confectioner.

The response

Cadbury's own defence documents stated that shareholders should reject Kraft's offer because the chocolate company would be "absorbed into Kraft's low growth conglomerate business model – an unappealing prospect that sharply contrasts with the Cadbury strategy of a pure play confectionery company".

Little did Cadbury's management know that Kraft's plan was to split it into two to eliminate its conglomerate nature and become two more focused businesses, thereby creating more value for its shareholders.

The result

The Cadbury team determined that a majority of shareholders would sell at a price of roughly 830 pence a share. A deal was struck between the two chairmen on January 18 2010 at 840 pence per share plus a special 10 pence per share dividend. This was approved by 72 per cent of Cadbury shareholders two weeks later.

The key lessons

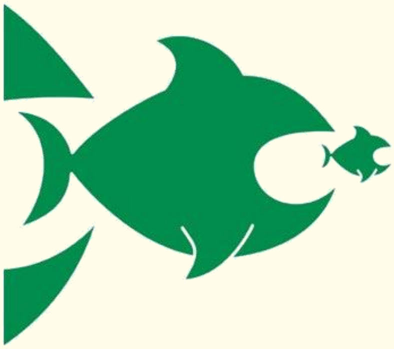
In any takeover, especially a cross-border deal in which the acquired company is as well known as Cadbury was in the UK, the transaction will be front-page news. In this case, it was the lead business story for at least four months. Fortunately, this deal had no monopoly or competition issues, otherwise those regulators could also have been involved.

But aside from any regulators, most other commentators will largely be distractions. It is important for the acquiring company's management and advisers to stay focused on the deal itself and the real decision-makers – the shareholders of the target company.

As this deal demonstrates, these shareholders may not (and often will not) be the long-term traditional owners of the target company stock, but rather very rational hedge funds and other arbitrageurs (in Cadbury's case, owning 31 per cent of the shares at the end), who are swayed only by the offer price and how quickly the deal can be completed.

Other stakeholders may have legitimate concerns that need to be addressed but this can usually be done after the deal is completed, as Kraft did.

Acquisitions



Acquisition is a more general term, enveloping in itself a range of acquisition transactions. It could be acquisition of control, leading to takeover of a company. It could be acquisition of tangible assets, intangible assets, rights and other kinds of obligations. They could also be independent transactions and may not lead to any kind of takeovers or mergers.

Meaning: A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions are often paid in cash, the acquiring company's stock or a combination of both. An acquisition, also known as a *takeover,* is the buying of one company (the target) by another.

Types

There are four types of acquisitions:

1. **Friendly acquisition**

   Both the companies approve of the acquisition under friendly terms. There is no forceful acquisition and the entire process is cordial.

2. **Reverse acquisition**

   A private company takes over a public company.

3. **Back flip acquisition**

   A very rare case of acquisition in which the purchasing company becomes a subsidiary of the purchased company.

4. **Hostile acquisition**

   Here, as the name suggests, the entire process is done by force. The smaller company is either driven to such a condition that it has no option but to say yes to the acquisition to save its skin or the bigger company just buys off all its share, thereby establishing majority and hence initiating the acquisition.

Reasons for mergers and acquisitions

While one often hears CEOs saying that M & As are inspired by a desire to diversify or achieve higher growth rate, the reasons could be varied. Some of the commonly identified reasons are:

1. **Synergy**

   Synergy is the most essential component of mergers. In mergers, synergy between the participating firms determines the increase in value of the combined entity. In other words, it refers to the difference between the value of the combined firm and the value of the sum of the participants. Synergy accrues in the form of revenue enhancement and cost savings. For example, if firms A and B merge and the value of the combined entity—V(AB)—is expected to be greater than (VA+VB), the sum of the independent values of A and B, the combined entity is said to be benefitting through synergy.

Synergies between TATA Steel and Corus

There were a lot of apparent synergies between Tata Steel which was a low cost steel producer in fast developing region of the world and Corus which was a high value product manufacturer in the region of the world demanding value products. Some of the prominent synergies that could arise from the deal were as follows :

- *Tata was one of the low cost steel producers in the world and had self-sufficiency in raw material. Corus was fighting to keep its production costs under control and was on the lookout for sources of iron ore.*
- *Tata had a strong retail and distribution network in India and SE Asia. This would give the European manufacturer an in-road into the emerging Asian markets. Tata was a major supplier to the Indian auto industry and the demand for value added steel products was growing in this market. Hence, there would be a powerful combination of high quality development and low cost high growth markets.*
- *There would be technology transfer and cross-fertilization of R&D capabilities between the two companies that specialized in different areas of the value chain*
- *There was a strong culture fit between the two organizations, both of which highly emphasized on continuous improvement and ethics. Tata steel's Continuous Improvement Programme 'Aspire' with the core values: trusteeship, integrity, respect for individual, credibility and excellence. Corus's Continuous Improvement Programme 'The Corus Way' with the core values: code of ethics, integrity, creating value in steel, customer focus, selective growth and respect for our people.*

Synergy can take the following forms:

a) Operating synergy

This refers to the cost savings that come through economies of scale or increased sales and profits. It leads to the overall growth of the firm.

b) Financial synergy

This is the direct result of financial factors such as lower taxes, higher debt capacity or better use of idle cash. When a firm with accumulated losses or unabsorbed depreciation merges with a profitable firm and the combined firm can set off such losses against its profits, a financial synergy, known as tax shield, occurs. The following are some examples:

- When Hindustan Unilever Company acquired Lakme, it helped HUL to enter the cosmetics market through an established brand.

- When Glaxo and Smithkline Beecham merged, they not only gained market share but also eliminated competition between each other.
- Tata Tea acquired Tetley to leverage Tetley's international marketing strengths.

2. **Acquiring new technology**

To remain competitive, companies need to constantly upgrade their technology and business applications. To upgrade technology, a company need not always acquire technology. By buying another company with unique technology, the buying company can maintain or develop a competitive edge. A good example is a merger of a logistics company such as a land transport entity with an air-line cargo company. Another example is a merger between Blackberry and Treo which can incorporate cell phone capability and e–mail connectivity in one device; palm pilots and tablet laptops can provide benefits to both the entities.

3. **Improved profitability**

Companies explore the possibilities of a merger when they anticipate that it will improve their profitability. The results of the International Business Owners Survey, 2004, carried out by Grant Thompson, conducted across 26 countries in Europe, Africa, Asia-Pacific, and the US, showed that 34% of business use M&A to maintain or improve profitability. For example, European Media Group Betelsmann, Pearson, and others have driven their growth by expanding into the US though M&As.

4. **Acquiring a competency**

Companies also opt for M&A to acquire a competency or capability that they do not have and which the other firm does. For example, the ICICI ITC alliance made the retailer network and depositor base available to the merging entity. Similarly, IBM merged with Daksh for acquiring competencies that the latter possessed.

5. **Entry into new markets**

Mergers are often looked upon as a tool for hassle-free entry into new markets. Under normal conditions, a company can enter a new market, but may have to face stiff competition from the existing companies and may have to battle out for a share in the existing market. However, if the merger route is adopted, one can enter the market with greater case and avoid too much competition. For example, the merger of Orange, Hutch, and Vodafone took place to achieve this objective.

6. **Access to funds**

Often a company finds it difficult to access funds from the capital market. This weakness deprives the company of funds to pursue its growth objectives effectively. In such cases, a company may decide to merge with another company that is viewed as fund-rich. For example, TDPL (Tamil Nadu Dadha Pharmaceuticals) merged with Sun Pharma since TDPL did not have funds to launch new products.

7. Tax benefits

Mergers are also adopted to reduce tax liabilities. By merging with a loss-making entity, a company with a high tax liability can set off the accumulated losses of the target against its profits gaining tax benefits. For example, Ashok Leyland Information Technology (ALIT) was acquired by Hinduja Finance, a group company, so that it could set off the accumulated losses in ALITs books against its profits.

Reasons for failure of merger and acquistions

While there is often a great hype when a merger or acquisition is announced, the end result is not always positive. The most common reasons for failure are as follows:

1. Unrealistic price paid for target

The process of M&A involves valuation of the target company and paying a price for taking over the assets of the company. Quite often one finds that the price paid to the target company is much more than what should have been paid. While the shareholders of the target company stand benefited, the shareholders of the acquirer end up on the losing side. This is because they have to carry the burden of the overpriced assets of the target company which dilutes the future earnings of the acquirer. Having bid over-enthusiastically, the buyer may find that the premium paid for the acquired company's shares, the so-called 'winner's curse' wipes out any gains made from the acquisition.

This phenomenon is generally noticed in the later years when the acquirer has to revalue the assets and write goodwill booked at the time of M&A.

2. Difficulties in cultural integration

Every merger involves combining of two or more different entities. These entities reflect different corporate cultures, styles of leadership, differing employee expectations and functional differences. If the merger is implemented in a way that does not deal sensitively with the companies people and their different corporate cultures, the process may turn out to be a disaster. There may be acute contrasts between the attitudes and values of the two companies, especially if the new partnership crosses national boundaries. While the process is being executed, these differences are known but often ignored. As years pass by and the combined entity tries to synergize the operations, these differences surface and often lead to failure of the merger. For example, the merger of Daimler Benz with Chrysler. While Daimler-Benz's culture stressed on a more formal and structured management style, Chrysler favoured a more relaxed, freewheeling style.

3. Overstated synergies

Mergers and acquisitions are looked upon as an important instrument for creating synergies through increased revenue, reduced costs and reduction in networking capital and improvement in the investment intensity. Overestimation for these can lead to failure of mergers.

4. **Integration difficulties**

Companies very often face integration difficulties, i.e., the combined entity has to adapt to a new set of challenges given by the changed circumstances. To do this, the company prepares plans to integrate the operations of the combining entities. If the information available on related issues is inadequate or inaccurate, integration becomes difficult.

5. **Poor business fit**

Mergers and acquisitions also fail when the products or services of the merging entities do not naturally fit into the acquirer's overall business plan. This delays efficient and effective integration and causes failure.

6. **Inadequate due diligence**

Due diligence is a crucial component of the M&A process as it helps in detecting financial and business risks that the acquirer inherits from the target company. Inaccurate estimation of the related risk can result in failure of the merger.

7. **High leverage**

One of the most crucial elements of an effective acquisition strategy is planning how one intends to finance the deal through an ideal capital structure. The acquirer may decide to acquire the target through cash. To pay the price of acquisition, the acquirer may borrow heavily from the market. This creates a very high leveraged structure and increases the interest burden of the company. This increased interest cost may consume a big portion of the earnings and defeat the very purpose of acquisition.

8. **Boardroom split**

When a merger is planned, it is crucial to evaluate the composition of the boardroom and compatibility of the directors. Managers or directors who are suddenly deprived of authority can be particularly bitter. Specific personality clashes between executives in the two companies are also very common. This may prove to be a major problem, slowing down or preventing integration of the entities.

9. **Regulatory issues**

The entire process of merger requires legal approvals. If any of the stakeholders are not in favour of the merger, they might create legal obstacles and slow down the entire process. This results in regulatory delays and increases the risk of deterioration for the business. While evaluating a merger proposal, care should be taken to ensure that regulatory hassles do not crop up.

10. Human resources issues

A merger or acquisition is identified with job losses, restructuring and the imposition of a new corporate culture and identity. This can create uncertainty, anxiety and resentment among the company's employees. Companies often pay undue attention to the short term legal and financial considerations involved in a merger or acquisition, and neglect crucial HR issues related to corporate identity and communication, which in turn impact the worker's morale and productivity. These HR issues are crucial to the success of M&As.

B. Value addition

Business add values to goods and services by modifying them in a particular way to create a new product of greater value to customers.

Added value, from a financial point of view, represents the difference between the value of goods and services that are used as inputs to a production process and the value of the outputs of that process.

Added value, from a marketing perspective, means adding value that turns a commodity into a branded product. Branded products and services can also have value added by enhancing their design, characteristics or range of features.

Commodities are basically unprocessed raw products such as crude oil, meat carcasses, fresh fruit and cotton balls. To add value to a commodity, it needs to be processed in some way to turn it into a branded product that consumers are willing to pay more for than the raw product. For example, a food processor could purchase milk from a dairy farmer and make it into cheese. The packaged cheese has added value and becomes a branded good.

The value people place on goods and services determine the quantitative value (the money people are willing to exchange for the product) and the qualitative value (the desirability of the product).

Common examples of adding value include:

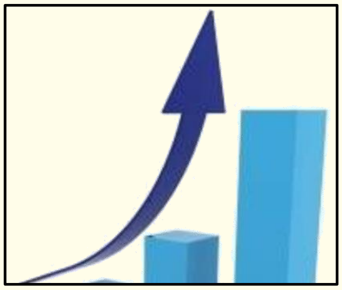
- Turning cotton into fabric
- Turning milk into cheese
- Packaging ready-to-use grated cheese into serving size packets
- Turning wood into paper
- Designing a mobile phone that can also take photographs
- Fortifying food with vitamins and minerals

Adding Value is a Business Strategy for Growth (Kevinzhengli)

Types of added value

There are several types of added values that a business can employ to improve its products and services.

- Quality
- Environmental



Value based growth

- Cause-related
- Cultural

The different types of added value are not mutually exclusive and can be employed at any phase of the production or service cycle.

1. **Quality added value**

   Quality added value is basically adding convenience, ease of use or other desirable characteristics that customers value. For example, turning a commodity into a branded product or design enhancements like pull tabs for easy opening or sipper tops on beverage bottles.

2. **Environmental added value**

   Environmental added value employs methods or systems that do not harm the environment or are less harmful than those commonly used. For example, using less electricity, using less fuel and using recycled material for packaging.

3. **Cause-related added value**

   Cause-related added value is a social marketing strategy where business contributes part of the revenue from a product or service to a cause. For example, a business may donate a percentage of revenue from each transaction to a cause such as an educational facility for disadvantaged children or a wildlife sanctuary.

4. **Cultural added value**

   Cultural added value is also a social marketing strategy that employs methods or systems of production involving cultural aspects or allow for the needs and sensitivities of cultural groups. For example, producing kosher food (in accord with Jewish law) or using a combination of English and the language of other ethnic groups in a community in written communications.

   Adding value can be used as a marketing strategy to differentiate a product from competing products. Such strategies should be fully researched and included in a business plan to show the potential benefits to a business.

C. Moving-up the value chain

A value chain is the whole series of activities that create and build value at every step. The total value delivered by the company is the sum total of the value built up all throughout the company. Michael Porter developed this concept in his 1980 book 'Competitive Advantage'. In simple words **'Value Chain'** is a high level model of how business receive raw-materials, add value to the raw-materials through various processes and sell as finished products to customers. 'Value Chain' analysis looks at every step of business, from raw-materials to the eventual end users, with one goal to deliver maximum value.

Michael Porter introduced the value chain analysis concept in his 1985 book 'The Competitive Advantage'. Porter suggested that activities within an organisation add value to the service and products that the organisation produces and all these activities should be run at optimum level if the organisation is to gain any real competitive advantage. If they are run efficiently, the value obtained should exceed the costs of running them i.e. customers should return to the organisation and transact freely and willingly. Michael Porter suggested that the organisation is split into 'primary activities' and 'support activities'.

Primary activities

Inbound logistics: Goods being obtained from the organisation's suppliers and to be used for producing the end product.

Operations: Raw materials and goods are manufactured into the final product. Value is added to the product at this stage as it moves through the production line.

Outbound logistics: Once the products have been manufactured, they are ready to be distributed to distribution centres, wholesalers, retailers or customers. Distribution of finished goods is known as outbound logistics.

Marketing and sales: Marketing must make sure that the product is targeted towards the correct customer group. The marketing mix is used to establish an effective strategy, any competitive advantage is clearly communicated to the target group through the promotional mix.

Services: After the product/service has been sold, what support services does the organisation offer customers? This may come in the form of after sales training, guarantees and warranties.

With the above activities, any or a combination of them are essential if the firm has to develop the "competitive advantage" which Porter talks about in his book.

Support activities

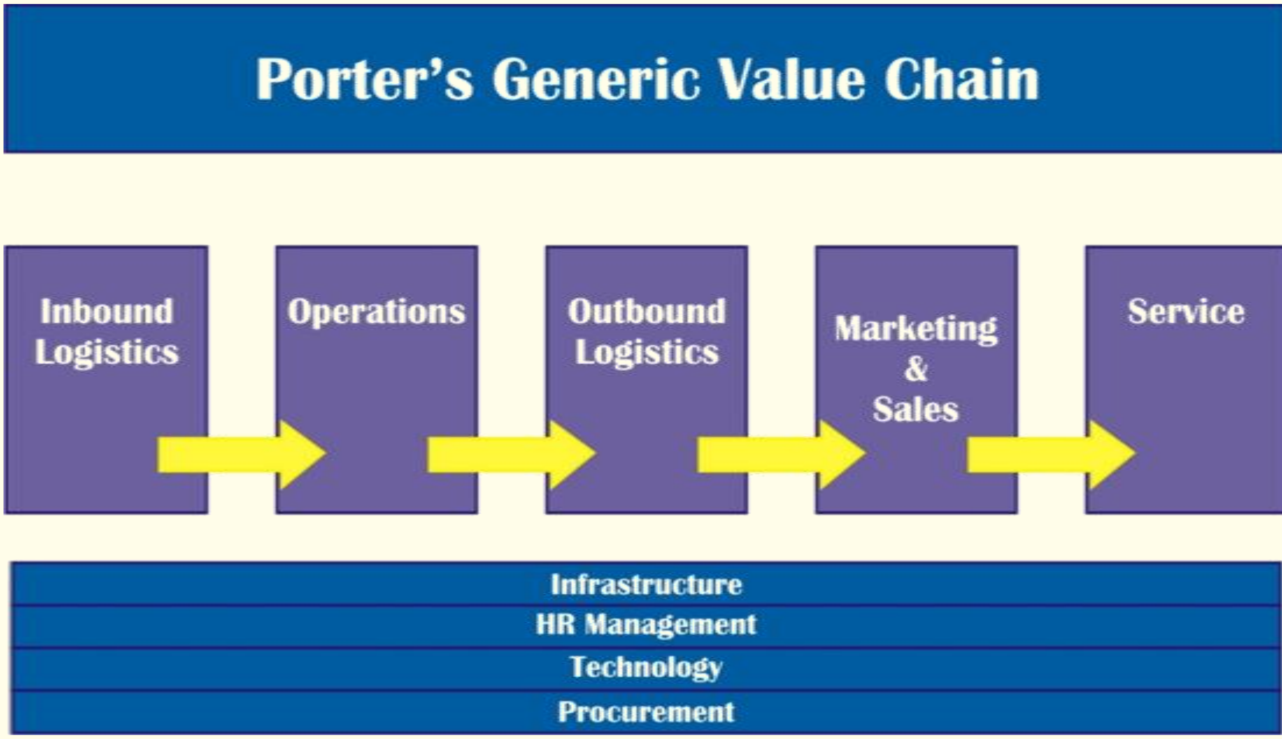
Support activities assist the primary activities in helping the organisation achieve its competitive advantage. They include:

Procurement: This department must source raw materials for the business and obtain the best price for doing so. The challenge for procurement is to obtain the best possible quality available (on the market) for their budget.

Technological development: The use of technology to obtain a competitive advantage is very important in today's technology driven environment. Technology can be used in many ways, including production, to reduce cost and thus adding value, research and development to develop new products on the internet so that customers can have 24/7 access to the firm.

Human resource management: The organisation will have to recruit, train and develop the right people for the organisation to be successful. Staff will have to be motivated and paid the 'market rate', if they are to stay with the organisation and add value. Within the service sector such as the airline industry, employees are at the competitive advantage as customers are purchasing a service, which is provided by employees; there isn't a product for the customer to take away with them.

Firm infrastructure: Every organisation needs to ensure that their finances, legal structure and management structure work efficiently and help drive the organisation forward. Inefficient infrastructure's waste resources could affect the firm's reputation and even leave it open to fines and sanctions.



Six requirements for value chain management

Value chain managers are always looking for ways to improve the company's processes.

1. Coordination and collaboration

To increase efficiency within an organization, coordination and collaboration is essential. Coordinate work groups to ensure efforts are not duplicated. Utilize the theory that the whole is greater than the sum of its parts by collaborating with other groups and individuals to achieve a common goal.

2. Technology investment

Technology plays a large role in manufacturing and distribution. With outdated technology, such as old computers or machinery, an organization's competitiveness is weakened due to a loss in productivity.

3. Organizational process

In value chain management, every aspect of an organization's process is identified. Improvement in processes through better technology and greater procedural knowledge is important to the present and future success of a company.

4. Leadership

Strong leaders are crucial to the success in value chain management. Good leaders earn the respect of their employees through sound management practices. Conflict management, motivation and direction are traits that strong leaders display.

5. **Employee/human resources**

A central hub of information on benefits, company policies, hiring and conflict management is also necessary for a corporation to function properly. Without a knowledgeable and active human resources department, employees may feel they don't have a voice within the company. Many times, an employee is hesitant to go directly to the supervisor with issues; a human resources employee can act as a liaison in many situations.

6. **Organizational culture and attitudes**

Organizations that foster strong cultural identity with positive attitudes tend to attract and retain top employees. Regular corporate sponsored activities are suggested to help build cultural unity and keep attitudes positive while boosting productivity.

SUMMARY

- *Growth of an enterprise can be either through a. internal expansion or b. external expansion*
- *Main forms of external expansion are :*

  a. Franchising; b. merger; c. acquisition
- ***Franchising** is "an arrangement whereby the manufacturer or sole distributor of a trademarked product or service gives exclusive rights of local distribution to independent retailers in return for their payment of royalties and conformance to standardized operating procedures".*
- ***Four types of franchising***

  a. Product franchise business opportunity

  b. Manufacturing franchise opportunity

  c. Business franchise opportunity ventures

  d. Business format franchise opportunity
- ***Advantages to the franchisee***
  - *Product acceptance*
  - *Management expertise*
  - *Capital requirements*
  - *Knowledge of the market*
  - *Operating and structural controls*
- ***Advantages to the Franchisor***
  - *Quick expansion*
  - *Cost advantages*
- ***Disadvantages to the franchisee***
  - *Right and the only way of doing things*
  - *Continuing cost implication*
  - *Risk of franchisor getting bought*
  - *Inability to provide services*
- ***Disadvantage to the franchisor***

  Difficulty in finding quality franchisee's
- *A **merger** is a combination of two companies into one larger company.*

- ***Types of mergers:***

  1. Conglomerate; 2. Vertical; 3. Market extension; 4. Horizontal; 5. Product extension

- ***Acquisition***

  It is a corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm.

- *Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own.*

- *Acquisitions are often paid in cash, the acquiring company's stock or a combination of both. An acquisition, also known as a takeover, is the buying of one company (the target) by another.*

- ***Types of acquisition***

  a. Friendly acquisition; b. Reverse acquisition; c. Back flip acquisition; d. Hostile acquisition

- ***Reasons for mergers and acquisitions***

  - *Synergy - operating synergy and financial synergy*
  - *Acquiring new technology*
  - *Improved profitability*
  - *Acquiring a competency*
  - *Entry into new markets*
  - *Access to funds*
  - *Tax benefits*

- ***Reasons for failure of merger and acquistions***

  - *Unrealistic price paid for target*
  - *Difficulties in cultural integration*
  - *Overstated synergies*
  - *Integration difficulties*
  - *Inconsistent strategy*
  - *Poor business fit*
  - *Inadequate due diligence*
  - *High leverage*
  - *Boardroom split*
  - *Regulatory issues*
  - *Human resource issues*

- ***Value addition***

  Businesses add value to goods and services by modifying them in a particular way to create a new product of greater value to customers.

- ***Types of added value***

  - *Quality*
  - *Environmental*
  - *Cause-related*
  - *Cultural*

- ***Value Chain**: It is the whole series of activities that create and build value at every step.*

  Michael Porter introduced the value chain analysis concept in his 1985 book 'The Competitive Advantage'. Porter suggested that activities within an organisation add value to the service and *products that the organisation produces, and all these activities should be run at optimum level if the organisation is to gain any real competitive advantage. If they are run efficiently, the value obtained should exceed the costs of running them i.e. customers should return to the organisation and transact freely and willingly.*

- *Michael Porter suggested that the organisation is split into 'primary activities' and 'support activities'.*
- ***Primary activities***

  1. Inbound logistics; 2.Operations; 3.Outbound logistics; 4. Marketing and sales; 5. Services
- ***Support activities***

  1. Procurement 2. Technology development 3. Human resource management 4. Firm infrastructure
- ***Six requirements for value chain management***

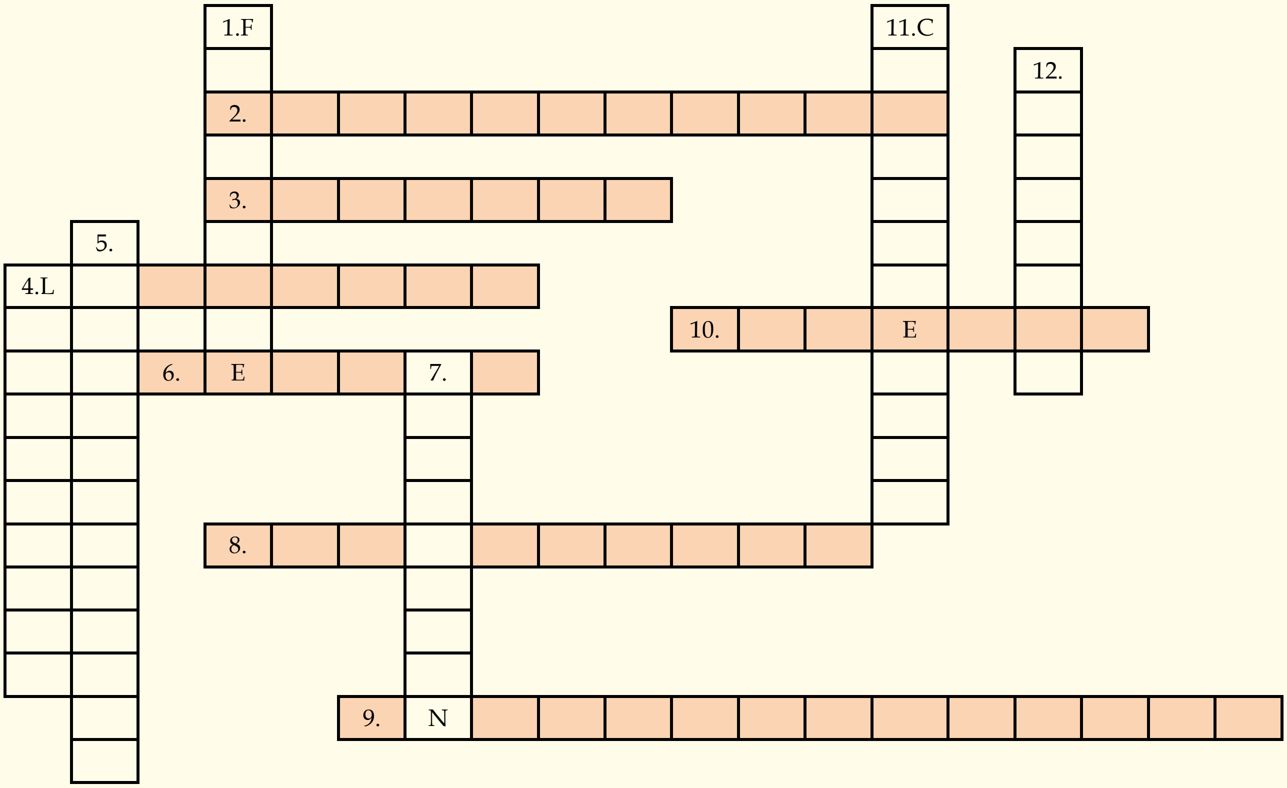
  1. Coordination and Collaboration 2. Technology Investment 3. Organizational Process
  4. Leadership 5. Employee/Human Resources 6. Organizational Culture and Attitudes

"The price of success is hard work, dedication to the job at hand, and the determination that whether we win or lose, we have applied the best of ourselves to the task at hand."

- Vince Lombardi

E N T R E P R E N E U R S H I P

REVIEW CROSSWORD PUZZLE



Across:

2. A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm
3. The way of life of the people
4. The management of the flow of goods between the point of origin and the point of consumption in order to meet some requirements
6. A combination of two companies into one larger company
8. The company that allows an individual (known as the franchisee) to run a location of their business
9. The basic physical and organizational structures and facilities
10. It refers to the difference between the value of the combined firm and the value of the sum of the participants

Down:

1. McDonald's works under this arrangement
4. The action of leading a group of people
5. The action of working with someone to get something done
7. The action of becoming larger or more extensive
11. A company that comprises multiple different corporations.
12. The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.

LET'S REVISE

A. Answer each of these questions in about fifteen words:

1. What are the two ways in which an organization can expand?
2. Who is a franchisor?
3. Who is a franchisee?
4. What is franchising?
5. Which is the most popular form of franchising?
6. What is acquisition?

B. Answer each of these questions in about fifty words:

1. Explain in brief the three ways in which an organization can expand externally.
2. Enumerate the importance of franchising.
3. Differentiate between consolidation and merger.
4. Name the two forms that merger can take place.
5. Explain the types of acquisition.
6. What is value addition? Explain by giving examples.

C. Answer each of these questions in about one hundred and fifty words:

1. Explain the types of franchising.
2. What are the disadvantages of franchising to the franchisee?
3. What is synergy? In what forms can it take place?
4. What are the different types of value added?

D. Answer each of these questions in about two hundred and fifty words:

1. Explain the advantages of franchising, both for the franchisor and franchisee
2. Explain in detail the types of mergers
3. What do you think are the reasons for failure of merger and acquisition?
4. What is meant by moving up the value chain? Explain with the help of an example.
5. Explain in detail Porter's Generic Value Chain with the help of a diagram.
6. Explain the requirements for value chain management.

E. HOTS (High Order Thinking Skills)

In the following cases identify the type of merger:

a) A merger between firms that are involved in totally unrelated business activities.

b) A merger occurring between companies in the same industry.

c) It takes place between two companies that deal in the same products but in separate markets.

d) It takes place between two business organizations that deal in products that are related to each other and operate in the same market.

e) It is between two companies producing different goods or services for one specific finished product.

F. Application Based Questions

1. ABC Company, manufacturing shoes, has taken over XYZ Company which also manufactures shoes at a small scale. What do you think will be the reason for this kind of takeover?
2. Vimal Company Ltd., were earlier producing pencils, now they have decided to further venture into the field of notebooks and paper. What do you think is the company attempting to do? Identify and explain the concept.

G. Activities

1. Look around in the market for a product of your interest. Suggest some ways in which the company can move up their value chain.
2. Find out in your area if there are any shops which are run on the franchise model and assess the success of those firms.
3. Make a list of major companies which have merged or have acquired some other company and state whether they are successful or unsuccessful, giving reasons.

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UNIT–5: BUSINESS ARITHMETIC

"Take risks in your life. If you win, you can lead. If you lose, you can guide."

– Swami Vivekanand

Learning objectives:

The learner will be able to:

- Understand the concept of unit price
- Calculate Break even point for Multiple products
- Understand the meaning of inventory control and Economic Order Quantity
- Enumerate the meaning of cash flow projection
- Explain the concept of working capital
- Understand the terminologies- financial management and budgets
- Calculate Return on Investment
- Explain the concept of Return on Equity

Content

- **Unit of sale, Unit cost, Unit price for multiple products**
- **Break even analysis for multiple products or services**
- **Importance and use of cash flow projections**
- **Budgeting and managing of finances**
- **Computation of working capital**
- **Inventory control and EOQ**
- **Return on Investment (ROI) and Return on equity (ROE)**

Unit of sale, unit price and unit cost (multiple products or services)

Unit of sale, we learnt last year, is required to understand the economics of the business in an easy and standardized manner and for tracking progress, comparing past with the future and to be able to take corrective action. In short, it is a management tool.

We also learnt that when the shop or a business sells only one item – say milk (in packets) or mangoes or oranges, it is easy to determine the unit of sale and use it in variety of ways for proper management action. The unit of sale in these examples could be "quantity – for example, one or a dozen" or "weight – say kilograms" and the entrepreneur will use it for pricing, determining the cost per unit, gross profit per unit, establishing the sales trend, fixing sales target etc.

Real world is not so simple. While some businesses may deal in only one item, the majority of them deal in many or large number of items. Let us review some examples.

A grocery shop has hundreds of items on its shelves and if it is a super market, it has thousands of items. A restaurant will have the menu card that runs to a few pages and each page may have 10 to 20 items. Thus, has a few hundred of items. A beauty parlor offers many treatments for the customers.

In spite of such large number of items, the business person needs some quick and easy way of checking the progress of the business or plan corrective actions. How does one do it?

Defining the unit of sale, unit price and unit cost & resultant gross profit in a meaningful way is the answer. Let us see how!

In the examples used above, we all know that a customer does not buy all the items from the grocer at a given time, nor does he/she order all the items on the menu when visiting a restaurant. A customer coming to the beauty parlor does not avail of all the offered services. Neither do all customers buy or order or avail of same items or services. If this be the case, and it is, how does the business owner figure out what is going on in his/her business?

This is when "averages" come in to play and help the business owner.

Let us take the example of a grocery store. Observe the process, as it will be applicable to many similar situations. Each customer coming in to buy things will have different requirements. This, then results in the "billed amount" (or invoiced amount) being different for different people. For example, at the end of the day, the shop keeper found out the following.

Number of customers	Per customer billed amount (₹)	Total billed amount (₹)
5	500	2,500
10	700	7,000
15	1,000	15,000
10	1,450	14,500
25	2,000	50,000
5	2,500	12,500
10	3,100	31,000
15	3,500	52,500
5	5,000	25,000
Total	*Weighted Average*	*Total*
100	2,100	2,10,000

In other words, 100 customers bought items worth ₹ 2,10,000/- , thus giving an average of ₹ 2,100/- per customer. You would notice that no one bought items worth "exactly" ₹ 2,100. However, the collective purchase by all of them yielded this average we arrived at. It is conceivable that on another day the average could be different. In a month, the average (derived on a daily basis) at the beginning of the month could be higher than towards the end. If the average is arrived for all the customers in a month then that could give a more realistic picture as the sample (total customers) would be larger.

In this particular case, "Customer" is the "unit of sale" and the average purchase made by one customer (not the actual bill but total billed amount divided by total number of customers) is the "Unit Price". Taking the same example, the Unit Price per Customer (or per Unit of Sale) would be ₹ 2,100/-.

In the case of a restaurant, the "unit of sale" would be a "Diner". This is different from the person who pays the bill. A group my consist of 10 people or 5 or 2. At times it may even be one. In each case, the number of persons paying the bill would most likely be one. So it is more accurate to go by the number of "Diners". The "Diner" is the "Unit of Sale" and the average amount billed per "Diner" would be the "Unit Price". In the case of a restaurant that provides only Buffet Lunch or Dinner, life is simple. It is like a single product business.

You can now visualize how a beauty parlor or saloon can also use the same concept. The "Customer" is the "Unit of Sale" and average billing per customer is "Unit Price".

So we have understood Unit of Sale and Unit Price in multi product environment. What about Unit Cost.

As you would recollect from your earlier study, unit cost refers to variable cost (also referred to as cost of goods sold). How do we calculate the unit cost in the case of multi product or service situations? If we understood the way we calculated the unit price, it should give us a clue. Let us take the grocery store again.

Grocery store is a Trading Business. One buys and sells. So, the cost at which the items are purchased is known (just as its MRP at which you are selling). Therefore, at the end of the day, it is possible to know the purchase price of all the items and quantities that were sold. Let us suppose that it works out to ₹ 1,70,000/-. There were 100 units of Sale. So the unit cost is ₹ 1,700/-.

In some cases, there could be another way. For every item, if the purchase price is 80% of selling price, then in that particular case, the Unit Cost would be ₹ 1,680/- (= 80% of ₹ 2,100/-).

Gross Profit would then be ₹ 400/- per unit of sale (₹ 2,100 - ₹ 1,700) in the first case and ₹ 420/- per Unit of sale (₹ 2,100- ₹ 1,680) in the second case. This will depend on the industry specifics.

Many industries have their unique thumb rules for the relationship between Unit Price and Unit Cost. In Fast Moving Consumer Goods Industry it could be 80 or 85% (cost as percentage age of selling price). In food industry, it could be 30 to 35% (COG as percentage age of selling price). Electronic items may have a different thumb rule. Where none exists, you may be able to develop your own. However, the more accurate way is to actually compute the costs as explained.

An exercise

A stationery store sold in one day the following items at the prices indicated.

Products	Price per unit (₹)	Quantity sold
Student note book	40	35
Reynolds pens	40	40
Erasers	5	5

Scale (12" plastic)	15	10
Flip chart	10	5
Sketch pens (one DOZEN)	25	3

The shopkeeper also found out, based on the number of bills issued by him, that there were 50 customers. If customer is the unit of sale, what is the "Unit Price" in this case? If the cost of each stationery item is 75% of its selling price, calculate the "Unit Cost" and the "Gross Margin" per unit of sale.

Exercises for practice

Illustration 1: Beauty parlor

A Beauty parlor had varying number of customers during 5 weeks. This information and the total weekly billing are in the following table. What are the "Unit of sale" and the "Unit Price" in this case? If the cost of goods sold or variable cost is 60% of the sale price, calculate the "Unit Cost" and the "Gross Margin" per Unit of Sale.

Week #	No. of customers	Total amount billed (₹)	Average amount billed (₹) per customer
Week 1	10	1,000	100
Week 2	17	1,445	85
Week 3	13	923	71
Week 4	22	5,082	231
Week 5	18	3,150	175
Total	**80**	**11,600**	

Illustration 2: Restaurant

Number of people who took their meals and the total billing for each of the 5 weeks is in the following table. What are the "Unit of sale" and the "Unit Price" in this case? If the variable cost is 50% of the sale price, calculate the "Unit Cost" and the "Gross Margin" per Unit of Sale.

Weeks	No. of people taking meals	Total amount billed (₹)	Average amount billed (₹)
Week 1	120	18,000	150
Week 2	60	12,300	205
Week 3	70	10,220	146
Week 4	80	17,680	221
Week 5	90	21,600	240
Total	**420**	**79,800**	

Some formulas:

1. Unit Price per customer = $\dfrac{\text{Total Billed Amount}}{\text{Number of Customers}}$

2. Unit Cost perproduct = $\dfrac{\text{Total Sale}}{\text{Number of Unit Sold}}$

3. Gross Profit = Selling price per unit-cost price per unit

Break even analysis

(Multiple products or services)

We have understood the meaning and importance of & method of determining breakeven Point in our earlier lesson (Std XI). That related to single product or service business.

Just to recap, breakeven point is the level of sales (or revenue generated) that equals all the expenses required for generating that revenue. It is not more than the expenses (i.e. no profit) nor is it less than the expenses (i.e. no loss). In other words there is neither loss nor profit.

At the breakeven level

Total revenue = Total expenses

(Qty x Unit Price) = (Qty x Unit Cost) + Fixed Exp

Qty x (Unit Price – Unit Cost) = Fixed Exp

Qty x Gross Margin (*or Profit*) per Unit = Fixed Exp

B.E. Qty for a single product =

Fixed expenses

Selling price per unit – variable cost per unit

B.E. quantity for multiple products

Fixed expenses

Weighted average selling price per unit – Weighted Average variable cost per unit

Please note: Gross margin and gross profit are one and the same.

Usefulness of break–even analysis continues to be the same whether you are operating a single product or multiple product business. It helps in setting profit goal and sales target. In a manufacturing environment, it helps in determining the products that are not contributing to meet the fixed expenses and thus brings up the item for discussion in management meetings about its continuity.

Sales mix break-even point calculation

Sales mix is the proportion in which two or more products are sold. For the calculation of break-even point for sales mix, **following assumptions** are made:

1. The proportion of sales mix must be predetermined.
2. The sales mix must not change within the relevant time period.

3. All cost can be categorized as variable or fixed.

4. Sales price per unit, variable cost per unit and total fixed cost are constant.

5. All units produced are sold.

The calculation method for the break-even point of sales mix is based on the contribution approach method. Since we have multiple products in sales mix therefore it is most likely that we will be dealing with products with different contribution margin per unit and contribution margin ratios. This problem is overcome by calculating weighted average contribution margin per unit and contribution margin ratio. These are then used to calculate the break-even point for sales mix.

The calculation procedure and the formulas are discussed via following example:

Example: Formulas and calculation procedure

Following information is related to sales mix of product A, B and C.

Product	A	B	C
Sales price per unit	₹15/–	₹21/–	₹36/–
Variable cost per unit	₹9/–	₹14/–	₹19/–
Sales mix percentage	20%	20%	60%
Total fixed cost	₹40,000/–		

Calculate the break-even point in units and in rupees.

Calculation:

Step 1: Calculate the contribution margin per unit for each product:

Product	A	B	C
Sales price per unit	₹15/–	₹21/–	₹36/–
− Variable cost per unit	₹9/–	₹14/–	₹19/–
Contribution margin per unit	₹6/–	₹7/–	₹17/–

Step 2: Calculate the weighted-average contribution margin per unit for the sales mix using the following formula:

Product A CM (contribution mix) per Unit × Product a sales mix percentage
+ Product B CM per unit × Product B sales mix percentage
+ Product C CM per unit × Product C sales mix percentage
= Weighted average unit contribution margin

Product	A	B	C
Sales price per unit	₹15/–	₹21/–	₹36/–
− Variable cost per unit	₹9/–	₹14/–	₹19/–
Contribution margin per unit	₹6/–	₹7/–	₹17/–
× Sales mix percentage	20%	20%	60%
	₹1.2/–	₹1.4/–	₹10.2/–
Sum: Weighted average CM per unit	₹12.80/–		

Step 3: Calculate total units of sales mix required to break-even using the formula:

Break-even point in units of sales mix = Total fixed cost ÷ Weighted average CM per unit

Total fixed cost	₹40,000/–
÷ Weighted average CM per unit	₹12.80/–
Break-even point in units of sales mix	₹3,125/–

Step 4: Calculate number units of product A, B and C at break-even point:

Product	A	B	C
Sales mix ratio	20%	20%	60%
× Total break-even units	3,125	3,125	3,125
Product units at break-even point	625	625	1,875

Step 5: Calculate break-even point in rupees as follows:

Product	A	B	C
Product units at break-even point	625	625	1,875
× Price per unit	₹15/–	₹21/–	₹36/–
Product sales in rupees	₹9,375/–	₹13,125/–	₹67,500/–
Sum: Break-even point in rupees	₹90,000/–		

BE analysis helps in such decision making. Please note that such decisions are product related and not business related. So it is clear from the above calculations as to how we can calculate weighted average sales price per unit and weighted average variable cost so that we can arrive at breakeven point.

Below is another sum for more clarification:

Multiple-product break even analysis

Toy craft produces toy alligators and toy dolphins. Fixed costs are ₹12,90,000 per year. Sales revenue and variable costs per unit are as follow:

	Alligators	Dolphins
Sales Price	₹20/–	₹25/–
Variable Costs	₹8/–	₹10/–

Questions:

A. Suppose the company currently sells 140,000 alligators per year and 60,000 dolphins per year (Sales Mix Percentage 14:6). Assuming the sales mix stays constant how many alligators and Dolphins must the company sell to break even?

B. Suppose the company currently sells 60,000 alligators per year and 140,000 dolphins per year (Sales mix percentage 6:14). Assuming the sales mix stays constant, how many alligators and dolphins must the company sell to break even per year?

C. Explain why the total number of toys needed to break even in (a) is the same as or different from the number in (b).

Solution:

A.

Units	140000	60000	200000
Sales price per unit	₹20/–	₹25/–	
Variable Cost per unit	₹8/–	₹10/–	
	Alligators	**Dolphins**	**TOTAL**
Sales(A)	₹28,00,000/–	₹15,00,000/–	₹43,00,000/–
Variable cost(B)	₹11,20,000/–	₹6,00,000/–	₹17,20,000/–
Contribution Margin (A-B)	₹16,80,000/–	₹9,00,000/–	₹25,80,000/–
Less :Fixed cost			₹12,90,000/–
Net income			₹12,90,000/–

Weighted Average Contribution margin: Total Contribution/Total units

= ₹2580000/200000

= ₹12.90/–

Breakeven Point = Fixed Cost/Weighted Average Contribution

= ₹1,290,000/₹12.90

= 100000 units

Allocating TOTAL UNITS to each product based on EXPECTED UNITS PROPORTION= 14:6

Alligators to be produced for Breakeven $= 100000 \times \frac{14}{20}$

= 70000 units

Dolphins to be produced for Breakeven $= 100000 \times \frac{6}{20}$

= 30000 units

So, Toy Crafts has to produce 70000 toy alligators and 30000 toy dolphins for breakeven.

B.

Units	60000	140000	200000
Sales price per unit	₹20/–	₹25/–	
Variable Cost per unit	₹8/–	₹10/–	
	Alligators	**Dolphins**	**TOTAL**
Sales(A)	₹12,00,000/–	₹35,00,000/–	₹47,00,000/–
Variable cost(B)	₹4,80,000/–	₹14,00,000/–	₹18,80,000/–
Contribution Margin(A-B)	₹7,20,000/–	₹21,00,000/–	₹28,20,000/–
Less :Fixed cost			₹12,90,000/–
Net income			**₹15,30,000/–**

Weighted Average Contribution margin: Total Contribution/Total units

= ₹2820000/200000

= ₹14.10/–

Breakeven Point = Fixed Cost/Weighted Average Contribution

= ₹1,290,000/₹14.10

= 91489 units

Allocating TOTAL UNITS to each product based on EXPECTED UNITS PROPORTION = 6:14

Alligators to be produced for Breakeven $= 91489 \times \frac{6}{20}$

= 27446 units

Dolphins to be produced for Breakeven $= 91489 \times \frac{14}{20}$

$= 64042$ units

So, Toy Crafts has to produce 27446 toy alligators and 64042 toy dolphins for breakeven.

C. The total number of toys needed to break even in (a) is different from the number in (b) and lower also. This is due to the reason as weighted contribution per unit has increased; fixed cost spreads over greater number of rupees letting the breakeven to be achieved early. Perhaps (b) sales mix is more efficient and gives the firm a hint to produce toy dolphins more as contribution per unit of a toy dolphin is also higher.

Table 1:

Total Revenue = Total Expenses

(Qty x Unit Price) = (Qty x Unit Cost) + Fixed Exp

Qty x (Unit Price- Unit Cost) = Fixed Exp

Qty x Gross Margin (*or Profit*) per Unit = Fixed Exp

B.E. Qty = $\frac{FixedExpenses}{Gross\ \ Margin\ \ Per\ \ Unit}$

Table 1.1:

Here are some more examples for practice

Let us look at a manufacturing plant that produces four different types of machine tools and their cost, price and BE Qty. The fixed costs are allocated – taking in to consideration the utilization of common resources for different products.

Here is the basic data:

Products: A, B, C and D

Selling Price: ₹100,000; ₹50,000; ₹70,000 and ₹200,000 respectively

Variable Cost: ₹30,000; ₹25,000; ₹30,000 and ₹100,000 respectively

Allocated Fixed Expenses per month: ₹350,000; ₹250,000; ₹1,000,000 and ₹1,500,000 respectively

Computation of Break Even Level would show the following.

	A	B	C	D
Unit Selling Price	₹100,000	₹50,000	₹70,000	₹200,000
Unit Variable Cost	₹30,000	₹25,000	₹30,000	₹100,000
Gross Profit per Unit	₹70,000	₹25,000	₹40,000	₹100,000
Fixed Exp Per Month	₹350,000	₹250,000	₹1,000,000	₹1,500,000
BE Qty per Month	**5**	**10**	**25**	**15**

Each product has it's BE level. If a particular product consistently fails to move beyond the BE level, then it is a candidate for some management discussion – how to increase sales or reduce costs (variable as well as fixed) etc. If all else fails, then dropping the product is the preferred management action.

BE analysis helps in such decision making. Please note that such decisions are product related and not business related.

Exercise for practice

Illustration 1: Textile shop - please calculate breakeven point.

Garments sold are silk saris, cotton saris, suit materials, kids wear.

Selling prices (in ₹) are:

Silk saris: ₹3,500/sari

Cotton saris: ₹900/sari

Suit materials: ₹1,800/suit

Kids wear: ₹450/wear

Variable cost:

Silk saris: 1,050 pieces

Cotton saris: 270 pieces

Suit materials: 540 pieces

Kids wear: 135 pieces

Allocated fixed expenses:

Silk saris: ₹2, 45,000/-

Cotton saris: ₹15, 7500/-

Suit material: ₹63,000/-

Kids wear: ₹70,875/-

Importance and use of cash flow projections

Cash (or money, which means both currency and checks) is the lifeblood of every business. It is the most important asset for the operations of a business. **Cash Flow** refers to the **movement of money** in and out of a business during a specific period of time. It is a record of a company's inflows and outflows. **Cash inflow** is defined as the movement of money into a business and cash outflow is defined as the movement of money out of a business. As you have seen in earlier lessons, there are various ways in which money comes in to and goes out of business.

Cash Flow Projection shows how cash is **expected to flow in and out of your business**. For you, it's an important tool for cash management, letting you know when your outflows are too high or when you might want to arrange short term investment to deal with a cash surplus. As part of your business plan, a Cash Flow Projection will give you a much better idea of how much capital investment your business idea needs.

Please do not confuse a **Cash Flow Projection** with a **Cash Flow Statement**. The Cash Flow Statement shows how cash has flowed in and out of your business. In other words, it describes the cash flow that has **occurred in the past**. The Cash Flow Projection shows the cash that is **anticipated to be generated or expended** over a chosen period of time in the future.

Cash Flow Statement, like Balance Sheet and Income Statement, deals with the past. It does not help in managing the current, day to day requirement. Cash Flow Projection, on the other hand, is a very critical management tool for the successful operation of the business.

Why cash flow projection?

Every business must want to manage its affairs in a very efficient manner. Which means it must pay its suppliers as per agreed terms, pay the employees their wages on stipulated dates, pay government levies etc as per rules, procure services and pay for the same, pay utility bills & rent etc on time. The list is endless. Similarly it must collect what is due to it also in a timely manner. It should strive to sell more so it can collect more.

Very often, when business is expanding, your outflows can be more than in your inflows. This is so because there is always a lag between your spending (on raw materials, labor etc) and your receiving the sales revenue. Receipt of sales revenue may be delayed because you might have given credit or you have produced ahead of the sales (to cater to the high demand during festive season) and are temporarily holding finished goods stock. In such situations, you should be equipped with sufficient information to be able to arrange for needed funds.(More on this in *Working Capital* lesson).

Very nature of any business is uncertainty. You base your calculations on certain (hopefully realistic) assumptions. You plan the funds required using these assumptions. However, your actual performance, say of sales, could be higher or lower than your plan. It will rarely be exactly per plan. Or your collection from credit customers has lagged and you are running short of funds. There could be many other reasons as to why your well laid out funding plan has gone for a toss.

To avoid such situations and be on top of things, reviewing your projections periodically and **recasting the future based the current status** (and not assumptions of the past) and what is likely to happen in the near future is very crucial. Cash Flow Projections is not a static document. It must be used as a dynamic tool.

An important question that arises is about the frequency and period (unit of time) of preparing Cash flow projections. The answer depends on the **purpose for which the projection will be used**.

- If it is for a **Business Plan** (to attract investors and lenders), it will be prepared at the initial stage – monthly for the first year, quarterly for the next two years and annual thereafter. These projections are not of much use for day to day cash management but meant for demonstrating the fluctuating need of the short term funds (working capital or overdraft facility). In fact, it almost takes the form of Cash Flow Statement and because it is for the future, it is also referred to as Pro-Forma Cash Flow Statement. (Pro Forma, a Latin word, means potential or expected in relation to a planned act).

- If it is for **running the day to day operations**, then the projections would cover a much shorter period of say 3 to 6 months (13 to 26 weeks). The unit of time could be a month or even a week. The length of the period is closely related to the volatility of the business and one's ability to forecast accurately.
- Once you have decided on the frequency of preparing a Cash Flow Projection, say weekly (period) to cover 13 weeks (horizon), or monthly to cover 6 months or even daily to cover a month, develop a format that suits your business. While there are generic formats, it will be helpful to develop one appropriate for your business, keeping the generic ones in mind.
- As you would be preparing this projection on periodic basis, please make sure that when one "period" is over, it is dropped and a new period is added, keeping the length of the horizon intact.
- How accurate a *Cash Flow Projection* is depends on the period and horizon involved. A forecast covering the next 30 days could be taken as extremely reliable as the payments due to be made and received during that time may already be known. This means that the forecast will be extremely accurate unless there are unforeseen issues such as a customer going out of business before paying their bills. A forecast for the next 12 months may be less reliable as it will include estimates of future sales. This does not make the forecast worthless: even if overall sales are unpredictable, a business owner may still have a very good idea of seasonal variations.

How to develop a cash flow projection?

- Based on your business charateristics, decide on the frequency & period (day, week or month) as well as horizon (month, 13 weeks or 6 months).
- Develop the format, with items appropriate for your business, which will be used for developing the projection. You may take help from the formats attached here as sample.
- A *projected* cash flow begins with the existing cash balance for the business. It then lists the sources of inflow and the anticipated payment dates. For example, if you supply goods on credit, you will know at the start of February that you will receive a certain amount during the month covering sales from January – based on credit terms. You may have other inflows – interest on your deposits, sale of scrap,rent from space sub-let etc. In this manner, you add up all your inflows.
- The statement then looks at forthcoming expenditure. Some of this will be a fixed, regular sum such as staff costs. Other expenses will be known but only payable at certain times, such as taxes. There will also be variable costs such as buying stock or materials.
- Where payment dates are variable, it is usually safest to work on the basis that you will pay suppliers as soon as possible but not receive payment from customers until the last possible date. In short, be conservative in your assumptions.
- Adding all outflows then enables you arrive at the surplus or deficit for the period. This, when combined with the opening balance, leads to deriving the closing balance – which becomes opening balance for the next period.

Budgeting & managing the finances

What is financial management?

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

Objectives of financial management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

Main objective of Wealth maximization of shareholder's wealth.

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.

To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital as well as long term and short term uses and sources.

Process of financial management

There are three key elements to the process of financial management:

1) Financial planning

Management need to ensure that enough funding is available at the right time to meet the needs of the business. In the short term, funding may be needed to invest in equipment and stocks, pay employees and fund sales made on credit.

In the medium and long term, funding may be required for significant additions to the productive capacity of the business or to make acquisitions.

2) Financial control

Financial control is a critically important activity to help the business ensure that the business is meeting its objectives. Financial control addresses questions such as:

- Are assets being used efficiently?
- Are the businesses assets secure?
- Does management act in the best interest of shareholders and in accordance with business rules?

3) Financial decision-making

The key aspects of financial decision-making relate to investment, financing and dividends:

- Investments must be financed in some way – however there are always financing alternatives that can be considered. For example it is possible to raise finance from selling new shares, borrowing from banks or taking credit from suppliers
- A key financing decision is whether profits earned by the business should be retained rather than distributed to shareholders via dividends.
- If dividends are too high, the business may be starved of funding to reinvest in growing revenues and profits further.

  Focus of our discussion in the remaining paragraphs would be on planning and control aspects.

Budgeting

One of the important tools for good financial management (i.e. planning and controlling) is the budgeting process.

The word "Budget" is used in common parlance to mean "allocation of resources". A housewife allocates the money for different items like grocery, rent, Easy monthly installments for housing loan, school fees, entertainment etc. The idea is to make sure you monitor your expenses and stay within the available resources. School administration allocates periods for different subjects and various activities, within the overall time available for contact purposes. Students should allocate (read budget) time for studying different subjects, based on the need. So we all understand what budget or budgeting means.

French word ***bougette***, meaning purse (so obviously referring to money), is the origin of the word budget. Though it might have started with only money, today we use it in context of many resources as seen above.

For any business, a **budget** is a quantitative expression of a **plan** for a defined period of **time**. It may include planned sales volumes and revenues, resource quantities, costs and expenses etc.

Essentials of budget include:

- To control resources
- To communicate plans to various responsibility center managers.
- To motivate managers to strive to achieve budget goals.
- To evaluate the performance of managers
- For accountability

Types of budgets include

- **Sales budget** – an estimate of future sales, often broken down into both units and currency. It is used to create company sales goals.
- **Production budget** – an estimate of the number of units that must be manufactured to meet the sales goals. The production budget also estimates the various costs involved with manufacturing those units, including labor and material.

- **Capital budget** - used to determine whether an organization's long term investments such as new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing.
- **Cash flow/cash budget** – a prediction of future cash receipts and expenditures for a particular time period. It usually covers a period in the short term future. The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.
- **Marketing budget** – an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.
- **Project budget** – a prediction of the costs associated with a particular company project. These costs include labour, materials, and other related expenses. The project budget is often broken down into specific tasks, with task budgets assigned to each. A cost estimate is used to establish a project budget.

While budget is the final product, the process of arriving at a budget is the budgeting process.

Is there only one way to prepare a budget or are there different ways and what are their pros and cons?

Let us review what ***Inc. Magazine*** has to say on this

Budgets and budgeting

In the broadest sense, a budget is an allocation of money for some purpose. Modern formal budgets not only limit expenditures; they also predict income, profits, and returns on investment a year ahead. They have evolved into tools of control and are also used as a means of determining such rewards as profit-sharing and bonuses. Unless the budgetary process is managed with extreme skill and care, the very virtues of budgeting can turn into negatives

Budgeting as a process

In large corporations, budgeting is a collective process in which operating units prepare their plans in conformity with corporate goals published by top management. Each unit plan is intended to contribute to the achievement of the corporate goals. Unit managers prepare projections of sales, operating costs, overhead costs, and capital requirements. They calculate operating profits and returns on the investment they intend to use.

The budget itself is the projection of these values for the next calendar or fiscal year. As part of this process, each unit presents its plans and budget to a reviewing upper management panel and may, thereafter, make whatever changes result from instructions from or negotiations with the higher level.

Texts presenting, documenting, and defending the rationales underlying the numbers are usually part of the planning document. Approved budgets then become the road-map for operations in the coming year. Ideally monthly or quarterly budget reviews track performance against the budget. As part of such reviews, changes to the budget may be approved. At year-end managers are judged by their performance against the budget.

ENTREPRENEURSHIP

Benefits of budgeting

For startup entrepreneurs, a budget is like a roadmap that can help them set goals and assess the validity of their business concept.

For established small businesses, a budget can be used to take the pulse of the business, determining how the business is performing through the years, and helping identify possible future investments.

By regularly consulting a budget, business leaders can compare actual figures and catch potential business shortfalls or other problems early. Budgets can also be instrumental in winning over investors, convincing banks your business is a good loan risk, or bringing on new partners or customers.

The single-most potential benefit of formal budgeting lies in ensuring that responsible managers take time each year (and then at fixed intervals throughout the year) in thinking about their operation by looking at all of its aspects. Budgeting creates a comprehensive picture of the future and makes both opportunities and barriers conscious. This foreknowledge then helps guide day-to-day activities.

Cost of budgeting

The chief cost of the budget process is time. In some corporations the process takes on a life of its own and becomes a convoluted exercise of excessive complexity which, moreover, prevents unit managers from doing any thinking: their time is consumed in efforts to comply with a vast array of requirements dictated from above.

Much of the negative attitude that has developed concerning this activity has its roots in unnecessary bureaucratic impositions on the one hand and unreliability because of rapid change a few months out.

Forms budgeting process

The two dominant forms of budgeting processes are traditional and zero-based. Business planning is usually a combination of the two. ***Traditional* budgeting** is based on a review of historical performance and then the projection of such findings to the future with modifications. If inflation is high, for instance, cost trends of the last several years are projected forward but with adjustments both for inflation and for projected growth or decline in business activity. Historical sales patterns, using established trends in sales growth, are projected; new sales from planned new product introductions are then added. ***Zero-based* budgeting** is the creation of a completely new budget from the ground up—as if no history existed. When using this method, the operation must justify and document every item of expenditure and income anew.

Table 2:

For the small business, different types of budgets can be drafted to monitor various financial aspects of the business.

- **Operational budget** - An operational budget is the most common type of budget used. It forecasts and tries to pretty closely predict yearly revenue and expenses for a business.

This budget can be updated with actual figures on a monthly basis and then you can revise your figures for the year, if needed.

- **Cash flow budget -** A cash flow budget details the amount of cash you collect and pay out. This is generally tallied on a monthly basis, but some businesses tabulate this weekly. In this budget, you track your sales and other receivables from income sources and contrast those against how much you pay to suppliers and in expenses. A positive cash flow is essential to grow your business. (Also see chapter on importance and use of Cash Flow Projections).
- **Capital budget -** The capital budget helps you figure out how much money you need to put in place new equipment or procedures to launch new products or increase production or services. This budget estimates the value of capital purchases you need for your business to grow and increase revenues.

Budgeting is an important and integral part of running a business. Various future strategies planned in the business must be translated in to numbers – sales qty and revenue, costs, resources required, fixed expenses and many other. The common denominator is money and the vehicle is budget, which is the result of budgeting process.

Budget and budgeting help one manage the business by numbers and not the seat of pants. One of the reasons businesses fail is due to lack of discipline – in terms of strict budgetary process.

Working capital

While one needs a good idea and a well laid out implementation plan, for the business to run successfully it needs adequate capital (among other things).

Need for capital

a) For procuring or investing in longer term assets – land, building, machinery, equipment etc. These are typically known as Fixed Assets. Once pressed in to service, they last over a reasonably longer period. These are placed in service for carrying out the main activity of the business – production and sales or service etc – and are not traded or sold to receive money (except when they have outlived their life). In other words, money invested on these items does not result in direct cash inflow for the business.

b) For buying raw materials, packing materials, paying rent, insurance premium, utility bills, wages and salaries and for many other services and/or materials used in the production or service. In other words this is the money needed for the day-to-day operations of the business.

Money needed to fund the normal, day to day operations of a business is known as the **Working Capital**. It ensures you have enough cash to pay your debts and expenses as they fall due, particularly during start-up period as very few new businesses are profitable as soon as they open their doors. It takes time to reach breakeven point and start making a profit.

Our discussion here is limited to Working Capital – how to compute, where to source it and such other related issues.

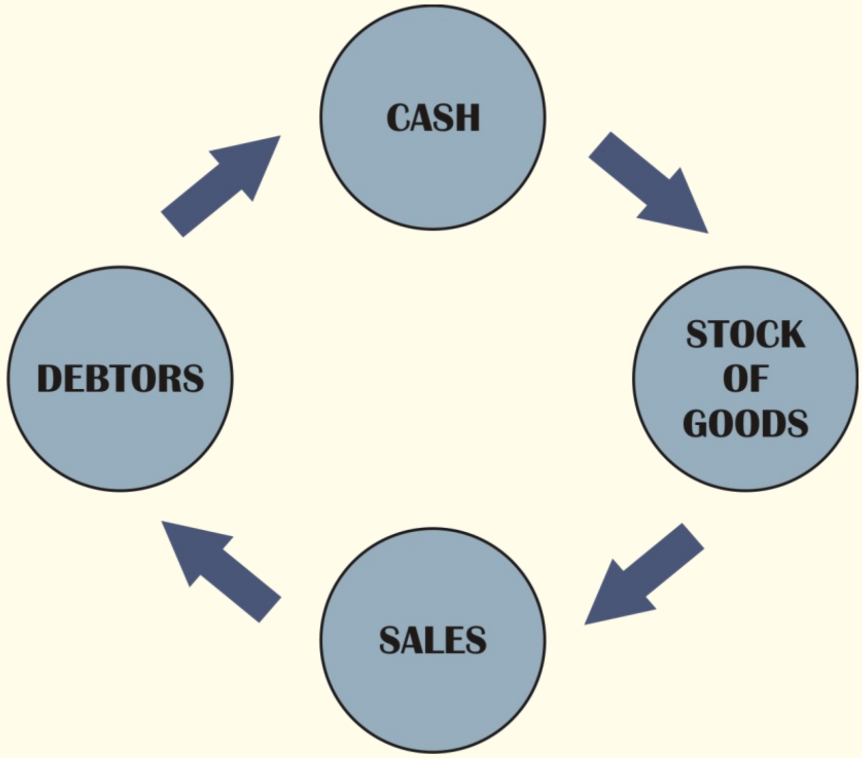
First let us understand why there is **need for working capital**.

If one is involved in manufacturing activity, one starts with buying raw materials and packing materials etc. These materials are then "converted" in to the end product. During the time required to convert raw material to end product, various expenses like wages, rent, salary, utility bill, insurance etc are to be paid. Once the end product is ready, it has to be sold and money received from the customer. If it is a cash sale, the money is received immediately and for credit sale, it is received after the credit period. The duration between buying the raw material and receiving the cash from the customer is known as the "**Operating Cycle**". It is also referred to as the **Cash Conversion Cycle.**

The cash conversion cycle (**CCC** or **Operating Cycle**) is the length of time between a firm's purchase of inventory and the receipt of cash from accounts receivable. It is the time required for a business to turn purchases into cash receipts from customers. CCC represents the number of days a firm's cash remains tied up within the operations of the business.

Different products will have different operating cycles. If the conversion takes longer then the cycle will be longer. For trading, where there is no manufacturing (or conversion), the operating cycle will be shorter. Longer the operating cycle, working capital quantum is more; shorter the cycle, less working capital is needed.

Following two diagrams show the composition of operating cycles for trading operation and manufacturing operations respectively. These are simplified versions; in real life there can be more stages and sub-flows like operating expenses, bad debt, pilferage of material, manufacturing defects etc. But the simplified version is good enough for understanding the concept.



Operating cycle or cash conversion cycle for trading business

Operating cycle or cash conversion cycle for manufacturing business

Gross and net working capital

Let us understand the terms **gross working capital**

For starters, first is the "financial concept".

Gross working capital (also known as current capital or circulating capital) is the sum total of all current assets of the business. These include cash, inventory (raw materials, work in process, finished goods, spares etc) and accounts receivable (or trade debtors). Current assets comprise items that would get converted in to cash in the short-run, say, within the normal operating cycle (or cash conversion cycle) of the business.

Current liabilities represent short-term source of funds and are expected to fall due or mature for payment in a short period, generally within a year. These typically consist of payables to vendors and service providers, employees, other short term borrowings and provisions.

A list of current assets and current liabilities for your reference:	
Current assets:	Current liabilities:
Stock	Trade creditors
Debtors	Short term loans
Cash	Outstanding expenses
Short term investment	

Inventory control and economic order quantity

Inventory

The word inventory conjures up the image of collection of things and a list of those items in our mind. In fact, the dictionary meaning of inventory is: "Detailed list of articles, goods, property etc". Which means we can have an inventory of vehicles we own (Assets), or list of our friends, list of movies seen etc. While that is the general meaning of the term inventory, in the present context we will be talking of raw materials, semi-finished goods, consumables, spare parts, finished goods etc. In other words, **inventory** are required directly or indirectly to make a sale (of the end product) and may also represent different stages in the process of getting the final product.

Inventory, in this context, deals with tangible items. One could have inventory of intangible items like quality or traits one possesses, or happy memories of childhood etc. Those are not the subject matter of our discussion. Similarly, our discussion would be limited to two types of businesses – manufacturing and trading (wholesale or retail) and not service. In certain service industries there may be use of tangible material – like spare parts in repair shop. But then, these are two distinct businesses – trading of spares and repair (which is a service). Various consumables like rags, solvents, lubricants etc are required and they will get similar treatment as other items being discussed here later.

In the accounting jargon, inventory refers to the value of all the items in the inventory list that is owned by the business. Ownership is the determining factor. Location may be your premises or vendor premises; that makes no difference. Similarly you may have other people's material on your premises. That is not part of your inventory (in terms of value), but you have responsibility for that material.

There are different valuation methods for accounting purposes. We will not be dealing with those issues here.

Control

When we use the word "things are under control", we are trying to convey that they are as per our expectations. What the expectations are or "what kind of behavior or event we expect" will be specific to the situation or class. Any system that helps in achieving "expected behavior" is a control system. So an inventory control system is expected to help achieve "desirable behavior" of the inventory items. Higher the conformance with the "desirable behavior" using a system, that system can be labeled as a better system.

What is the desirable behavior of any inventory item? Intuitively, we can say that there should never be any stock out. In other words, moment the need (demand) arises we should be able to supply the item – without losing any time. If this was the only expectation, then it would be very simple – hold in stock "huge quantity" for any and all eventuality! But there is another expectation – it should be at the lowest possible cost! Now that could be a challenge.

A well conceived and thought through system can help in achieving the control of inventory. Let us keep in mind that there are different aspects of control – physical and fiscal (or monetary). We will discuss both in subsequent paragraphs.

Items that make up the inventory

For a good inventory control system, we need to take care of both physical and fiscal aspects. But before we deal with those two, let us understand the nature of items that make up the inventory.

- **Stock keeping unit (SKU) code**

  Each and every "item" in the inventory is to be identified with a **unique code** which signifies certain aspects of the item. It can be color, size, weight or any other characteristic that is of importance in its use. The SKU code can be a combination of alpha and numeric.

  SKU is the very basic unit for data collection and further manipulation for deriving meaningful statistics and decision making. Bar Codes and RFID (Radio Frequency Identification) tags are used in tracking etc using SKU.

- **Motley crowd**

  While we refer to inventory in one monetary value in the accounting statement, behind it are myriad numbers of SKUs – that can be classified as Raw Materials, Packing Materials, Spare Parts, Semi Finished Goods (or WIP – Work In Progress), Finished Goods, Consumables etc. The SKU code should definitely help us identify which class the item belongs but not much else. The treatment for each class will have to be different, keeping in mind some of the factors identified here.

- **Space**

  Space requirement for all items will not be identical; neither will it have proportionate relationship with the cost of the item. There can be many bulky items with low value (For example, straw for use in paper mill) as well as high value items with low volume (For example, Diamonds). Good Inventory Control system will have to take due note of this.

- **Value**

  Not all SKUs have same value. See more about the value distribution under Pareto Principle later.

- **Lead time**

  Lead time to manufacture or procure an item depends on many factors. Combined effect of these factors - like standard or special raw material, processing time, scheduling of machines, distance between source and user point etc - makes up the lead time for an item. Also, it is not always the same for a given item; variability in different factors contributing to the total lead time can make the lead time vary.

- **Standard vs made to order**

  Some of the items in the inventory could be commodity items – no significant differentiation and hence easy to substitute, or many suppliers produce to same specifications and hence easy to choose from. Others may be specifically made to order and hence possibly limited sources to order from.

- **Seasonality of supply**

  If the item is an agricultural product (grains, vegetables, fruits etc.), the supply would be seasonal. This can play a role in designing the inventory control system.

- **Demand not uniform or not predictable**

  Demand for an item could be seasonal – weather, festival seasons, events, school opening etc can play a significant part in this. In some cases it is easy to forecast – raw material for items produced to order; but in others not so easy – requirement of a spare part.

- **Shelf life**

  Items like vegetables, fruits, flowers and fish are perishable in nature. This calls for special storage conditions and equipments – cold storage, freezers etc. These have financial implications. Similarly some of the manufactured food or medicinal products have expiry dates – beyond which they are not fit for consumption. This imposes certain constraints on inventory management.

- **Safety aspects**

  Some of the items are hazardous in nature and special precautions have to be taken in their storage. Examples are – gasoline, other combustible items, some hazardous chemicals etc. In a factory manufacturing safety matches, phosphorous and potassium chlorate are not stored in the same or even adjoining areas, for fear of accidental mix up. In fact, even their path of delivery to the respective end use points do not cross.

- **Obsolescence**

  Due to advancement in technology, certain items may not be used and their demand drops off.

  These are the various characteristics of SKUs that have to be kept in mind while designing inventory control systems – one size will not fit all. Systems (rules and guidelines) will have to be different for raw materials, consumables, spare parts, packing materials etc. We will discuss some more about these later. But let us now look at one common thread that can run through systems for these different classes or categories.

Pareto's Principle and ABC analysis for control

Whether or not you're familiar with the economic principle known as **Pareto's Principle**, you may have observed its effects. This principle holds that in a given system, a relative handful of "causes" will produce the majority of "effects." For example, one may find that 20 percent of customers are responsible for 80 percent of sales, or that 30 percent of the product lines result in 70 percent of returns.

The principle is named for Vilfredo Pareto, an Italian economist who studied land ownership in Italy in the early 1900's and found that roughly 20 percent of the population held title to about 80 percent of the land. Legend has it that he further developed the theory upon observing that 20 percent of the pea pods in his garden produced 80 percent of the peas. For this reason, Pareto's Principle is often referred to as the "80/20" rule. There's nothing "magic" about the 80 percent figure, though. Many business systems do in fact show an 80/20 relationship; others don't. But the overall point still stands: **A relatively handful of things will generate the bulk of the results or in any group will have "vital few and trivial many".**

Pareto's law has applications throughout science as well as business, including inventory control, where it forms the basis for a technique called ABC analysis.

The value of the Pareto Principle in management is in reminding us to stay focused on the "20 percent that matters".

Examining inventory

Businesses that maintain an inventory of goods to sell to customers or for use in manufacturing commonly observe a Pareto distribution in the value of that inventory. For example, a company might determine that 20 percent of the products in its inventory account for 80 percent of the total value of inventory. Managing inventory is time-consuming and expensive. By understanding that a few items represent the vast majority of inventory value, a company can get the most bang for its buck by focusing its inventory control efforts on those particular items.

ABC analysis

The inventory control technique known as ABC analysis builds on Pareto's Principle. In ABC analysis, a company reviews its inventory and sorts all SKUs into three categories, called "A" , "B" and "C" items. The typical breakdown might look like this: "A" inventory: 20 percent of SKUs, 80 percent of value. "B" inventory: 30 percent of SKUs, 15 percent of value. "C" inventory: 50 percent of SKUs, 5 percent of value. Again, a particular company's numbers may be different, but we should be able to discern a similar kind of pattern.

Once a company has conducted its ABC analysis, it can devise an inventory-control strategy that focuses effort where it will have the greatest effect. Items in "A" inventory are tightly controlled, meaning the company keeps close tabs on how much it has in stock; pays close attention to current demand and forecasts for future demand; and carefully plans its ordering so that it neither runs out nor winds up with too much excess inventory that can become obsolete. Items in "B" inventory are also watched closely, but the company reviews its ordering strategy less often. Since items in "C" inventory are the least expensive, the company can order them in b**ulk and exercise minimal controls; all that really matters is that the company doesn't run out.**

A - outstandingly important; B - of average importance; C - relatively unimportant as a basis for a control scheme. Each category can and sometimes should be handled in a different way, with more attention being devoted to category A, less to B, and still less to C.

Thus, applied in the context of inventory, it's a determination of the relative ratios between the number of items and the currency value of the items purchased/consumed on a repetitive basis:

- 10-20% of the items (**'A' class**) account for 70-80% of the consumption.
- The next, 15-25% (**'B' class**) account for 10-20% of the consumption and.
- The balance, 65-75% (**'C' class**) account for 5-10% of the consumption.

'A' class items are closely monitored because of the value involved (70-80%!).

Suggested policy guidelines for A, B & C classes of items

(A) items (High Consumption Value)	(B) items (Moderate Consumption Value)	(C) item (Low Consumption Value)
Very strict consumption control	Moderate control	Loose control
No/very low safety stock	Low safety stock	High safety stock
Phased delivery (Weekly)	Once in three months	Once in 6 months
Weekly control report	Monthly control report	Quarterly report
Maximum follow up	Periodic follow up	Exceptional
As many sources as possible	Two or more reliable	Two reliable
Accurate forecasts	Estimates on past data	Rough estimate
Central purchasing /storage	Combination purchasing	Decentralised
Max. efforts to control LT	Moderate	Min. clerical efforts
To be handled by Sr. officers	Middle level	Can be delegated

ABC (Always **B**etter **C**ontrol) analysis can help you control your inventory better.

Economic order quantity

Keeping aside various other aspects (like security, safety etc) and considering only the monetary or financial implications, how does one design an effective Inventory Control System?

One of the objectives of such a system would be to ensure that there is no stock-out situation. If that were the only criteria, then it is easy to order "large qty" and be very safe. However, there is cost associated with ordering and holding inventory.

Assuming that the future demand is known, one needs to determine **when** to place an order (Reorder Point) and **how much** to order (Order Quantity). Reorder point takes due note of the lead time and demand during lead time. For example, if procurement or manufacturing lead time is 2 months, and demand during this period is expected to be 300 units per month, then an order is to be placed when the stock or inventory level reaches 600 pieces. This is the reorder point or level.

Reorder formula = Average daily usage rate × Lead time in days

Under utopian situation, the new quantity will arrive, just as the stock reaches zero. Real life is not that simple or straightforward. There is variability in the rate of demand (or consumption) as well as in the supply or manufacturing lead time etc. Therefore, it may reach a zero stock status, before the supply arrives. To cater to such variability, the concept of **safety stock** is used. In this particular case, 150 may be added as safety stock. The reorder level then would be 750 pieces i.e. place new order when the stock level reaches 750.

For every item, a level of safety stock is determined – keeping the possible variation in lead time and variation in demand during lead time in mind. As we will see later, the Safety Stock has no impact on the Economic Order Quantity. However, both are essential for good inventory control system.

Costs

There are two costs involved: **One for Ordering** (which includes paperwork for placing order, receiving, inspection, warehouse handling etc) and another for holding the inventory or **Inventory Carrying Cost** (which includes cost of money tied up i.e. interest, space cost, insurance etc).

Let us try to figure out the way to determine EOQ (Economic Order Qty).

The following model assumes:

1. Future demand is known and is uniform throughout the period.
2. Unit price of item does not vary with qty ordered. (In real life, the price varies. We will then have to use a different model. That is not discussed here.)

Let us use following symbols:

D: Annual demand for the item (SKU)

P: Cost of placing and receiving one order (does not include purchase price)

C: Inventory carrying cost per unit. This may be derived by multiplying the unit price of the item by the carrying cost expressed as %age of the unit price.

S: Safety Stock level for the item.

Q*: Economic order quantity

- Total number of orders being placed during the year will be = $\frac{D}{Q}$
- Total ordering cost = $\frac{P\,D}{Q}$
- Average inventory = **S** + $\frac{Q}{2}$
- Inventory carrying cost = **C** x (**S** + $\frac{Q}{2}$)

Total annual cost = $\frac{P\,D}{Q}$ **+ [C x (S +** $\frac{Q}{2}$**)]**

As you would recollect, the safety stock S is not dependent on Q. Irrespective of the value of Q, value of S depends on variability of lead time and demand rate. So it can be removed from the equation and get a modified total cost as follows:

Modified annual cost = $\frac{P\,D}{Q}$ **+ [Cx** $\frac{Q}{2}$**]**

Table 4:

The ordering cost $\left(\frac{PD}{Q}\right)$ and inventory carrying cost $\left(C \times \frac{Q}{2}\right)$ equal each other when the total cost is the lowest.

$$\frac{PD}{Q} = C \text{ x } \frac{Q}{2}$$

or

$2PD = CQ^2$

or

$$Q = \sqrt{\frac{2PD}{C}}$$

Therefore,

Those who have background of calculus can easily see that, the EOQ is the value when derivative of modified annual cost is zero. Therefore, differentiating the equation, with respect to Q,

$$O = -\frac{PD}{Q^2} + \frac{C}{2}$$

or

$$\frac{PD}{Q^2} = \frac{C}{2}$$

or

$$\frac{2PD}{C} = Q^2$$

or

$$Q = \sqrt{\frac{2PD}{C}}$$

Formula for calculating EOQ =

D: Annual Demand for the item (SKU)

P: Cost of placing and receiving one Order (does not include purchase price)

C: Inventory carrying cost per unit. This may be derived by multiplying the unit price of the item by the carrying cost expressed as %age of the unit price.

S: Safety Stock level for the item.

Q: Economic Order Quantity

$$Q = \sqrt{\frac{2PD}{C}}$$

Couple of numerical examples may further clarify the formula

Example 1:

Annual qty of jeans sold by a shop is 1,200 at the rate of ₹ 100/- per month. Cost of placing an order and receiving goods is ₹ 500/- per order. Inventory holding cost is ₹ 30/- per annum. What is the economic order Qty for the shop keeper?

Here, D = 1,200; P = 500 and C = 30.

So 2 x P x D = 12,00,000

This divided by 30 = 40,000.

Square root of which is = 200

So the EOQ is 200 jeans.

Example 2:

A book shop sells pens – 30,000 qty per year. Demand is uniform. Purchase cost is ₹ 6/- per pen. Holding cost per annum is 20% of purchase cost. Ordering cost is ₹500/- per order. What should be the EOQ for the shop keeper?

Here, D = 30,000; P = 500 and C = 1.2 (20% of 6)

So 2 x P x D = 3,00,00,000

This divided by 1.2 = 2,50,00,000

Square root of which is = 5,000

So the EOQ is 5,000 pens.

Final note on inventory control and EOQ

Inventory control, as explained earlier, has many facets – monetary, physical, safety and many others. It is crucial to understand these aspects in designing an inventory control system. ABC system is one such. There are other different system, including Just-in- time (JIT), perpetual inventory etc. These have not been elaborated here.

Economic ordering quantity is a key factor (but not the only one) in managing any inventory. However, the formula we have arrived at in the earlier pages is a simplified one. There are more advanced formulae available – that take care of seasonality of demand, fluctuations in lead time as well as price breaks based on quantity ordered etc. Those are beyond the scope of current discussion.

Return on investment and return on equity

Measure of profitability

The purpose of any economic activity is earning profit. At its very basic level, profitable business means earning more than what one spends. Of course, there are nuances to the words “earning” and “spending” to make it meaningful.

While profit is the motive, question arises as to how to measure or compare profit from one activity or project with profit from many others. Suppose we spend ₹ 1,000/- and earn a profit of ₹ 400/- in one case and in another case spend ₹ 100,000/- and earn profit of ₹ 10,000/- which makes **more profit**? The answer obviously is- the later one. However, if we ask which is more profitable then the answer is - the first one. That is because; relationship between profit and spending is being compared. And we have not even figured the timing issues which may exist – one may be in six months and another in 2 years!

So the need arises for some common understanding and yardstick or measurement technique.

Return on Investment (ROI) and Return on Equity (ROE) are two such critical profitability ratios. These measures are applicable to individual projects, such as the purchase and subsequent sale of an apartment, a small grocery business or a multinational conglomerate. Therefore, it pays to understand ROE and ROI.

Return on investment

Return on investment equals the net income from a business or a project divided by the total money invested in the venture multiplied by 100.

$$\text{ROI} = \frac{\text{Net Profit}}{\text{Total Capital Invested}} \times 100$$

If, for example, you spend ₹ 100,000/- to open a grocery shop and make a net profit of ₹ 20,000/- in one year, your annual ROI equals (20,000/100,000) x 100 = 20 percent. When calculating ROI, the investment will include not only what the investor spent out of his/her pocket, but also all borrowed funds. In the example, the owner might have invested ₹ 40, 000/- of his own money (equity) and secured a loan for ₹ 60, 000/-.

Return on equity

You can calculate ROE by dividing the net income by the equity of the investor and multiplying the result by 100. In the example, the grocery owner has an equity stake of ₹ 40,000/- in the business. He has borrowed ₹ 60,000/-. This will attract an interest of ₹ 6,000/- @ of 10% per annum. The net profit, then would be ₹ 14,000/- (= 20,000 – 6,000). So, ROE is (14,000 / 40,000) x 100 = 35 percent. This means that for every Rupee of own money the owner put into the business, he made 35 paisa. The ROI of 20 percent, on the other hand, means that for every Rupee of combined assets and loans invested, the business yielded a 20 paisa average profit per Rupee invested (equity plus loan).

$$\text{ROE} = \frac{\text{Net Income} \times 100}{\text{Equity}}$$

Which one to use? ROI or ROE:

Before discussing this, let us review an example.

Let us take the case of two people, A & B starting identical business and performing identically in terms of sales, variable cost, fixed costs etc. The only difference is A did not borrow any money and B did. Interest rate is 10% per annum. Here are some numbers for both A & B.

Table 5:

	A (₹)	B (₹)
Total investment = x	10,00,000	10,00,000
Source of funds		
Equity = y	10,00,000	4,00,000
Loan = z	–	6,00,000
Total	10,00,000	10,00,000
Interest rate per annum		10%
Income statement for 1 Yr		
Sales revenue (a)	7,00,000	7,00,000
Less cost of goods sold (b)	(3,00,000)	(3,00,000)
Gross margin c= (a-b)	4,00,000	4,00,000
Fixed expenses		
Salary etc	2,00,000	2,00,000
Rent, utility etc	50,000	50,000
Interest	–	60,000
Depreciation & amortization	10,000	10,000
Total fixed expense= (d)	2,60,000	3,20,000
Profit before tax = (c-d)	1,40,000	80,000
Tax @ 20% =e	28,000	16,000
Profit after tax = f= (c-d-e)	1,12,000	64,000
Some Ratios		
ROI =(f/x)	11.2%	6.4%
ROE = (f/y)	11.2%	16%
EBITDA= (PBT + Int + Dep & Amrt)	1,50,000	1,50,000
EBITDA/investment	15%	15%
EBITDA/equity	15%	37.5%
EBITDA – stands for Earnings Before interest, Tax, Depreciation and Amortization. This is arrived at by adding interest, depreciation and amortization to PBT. See the section below on EBITDA		

In this example, we can see that B makes less profit (whether before or after tax) than A. This is reflected in lower ROI for B. However, B has invested lesser amount than A and as a result, when we compare profit in relation to "own funds" or "equity", B comes out ahead of A – 16% Vs 11.2%.

For a true measure of how "own money" is being used, ROE is a good indicator.

ROI, on the other hand, gives an indication of how the "total money" is being used.

EBITDA

The acronym EBITDA stands for earnings before interest, taxes, depreciation and amortization. Why calculate EBITDA and what its utility is.

When financial statements are prepared, the results are a combination of different factors: some are managerial decisions, others entrepreneurial and some others are government policies. To measure or compare true effectiveness of one operation and the managerial decisions with another one, the extraneous factors must be normalized. Let us review these.

Interest

If one business is started with all equity and another one with some loan, the second one will have an interest element in its cost. This interest is strictly not because of the operational efficiency or otherwise, but due to the "funding decision". Adding back the interest to PBT, takes away the effect of this funding decision.

Taxes

Taxes are levied by the government. If you are comparing profits of one period to another, the rates might have changed. There may be other reasons why the "tax treatment" is different for two companies – state taxes, special levies etc. The business owner or manger has no control over these. To avoid distortion in the profit, tax component is added back to the profit.

Depreciation & amortization

There are different options available to depreciate (tangible asset) or amortize (intangible asset). One company may use a particular method and another one a totally different one. One may write off slowly and another one fast – both being allowed by the authorities. So to avoid distortion due to differing practices being followed, Depreciation & Amortization is added back.

When one wants to assess the efficiency of operations – either for acquisition or comparison with benchmarked operations or over different time periods, ability to generate cash by business is crucial. EBITDA is one such measurement. It is one of the most widely used measures for evaluating a business for acquisition etc.

Price for a business is often quoted in terms of a multiple of its EBITDA – **say (*M) x (EBITDA).*** M has numerical value that varies from industry to industry.

Note:

Valuation of business for buying or selling uses EBITDA as one of the criteria. Basic philosophy in this thought process is when someone buys a business, he or she buys the "future Cash Flows" from that *business. Hence they are willing to pay a "multiple" of the EBITDA. However, there are timing issues and people use concepts like DCF (Discounted Cash Flow) or IRR (Internal Rate of Return) etc. These are beyond the scope of the current topics.*

Illustration 1: Please calculate return on investment and return on equity.

You have newly started a beauty parlor business, you spend ₹1,50,000/- to open the parlor of which you invested ₹70,000/- of your own money and borrowed a loan for ₹80,000/-. Interest rate per annum is 7%. Sales revenue per month is ₹80,000/-. Cost of goods sold is ₹30,000/- per month. Fixed expenses is ₹30,000/- (salary ₹20,000/-, rent and utility ₹10,000/-), depreciation ₹3,000/- and tax @ 14%.

Illustration 2: Please calculate return on investment and return on equity.

You have newly started a restaurant business, you spend ₹10,00,000/- to open the restaurant. You have invested ₹4,00,000/- of your own money and borrowed a loan for ₹6,00,000/-. Interest rate per annum is 10%. Monthly sales revenue is ₹6,00,000/- and cost of goods sold is ₹3,00,000/-. Fixed expenses per month ₹2,00,000/- (salary ₹1,50,000/-, rent and utility ₹50,000/-), depreciation ₹10,000/- and tax @ 20%.

SUMMARY

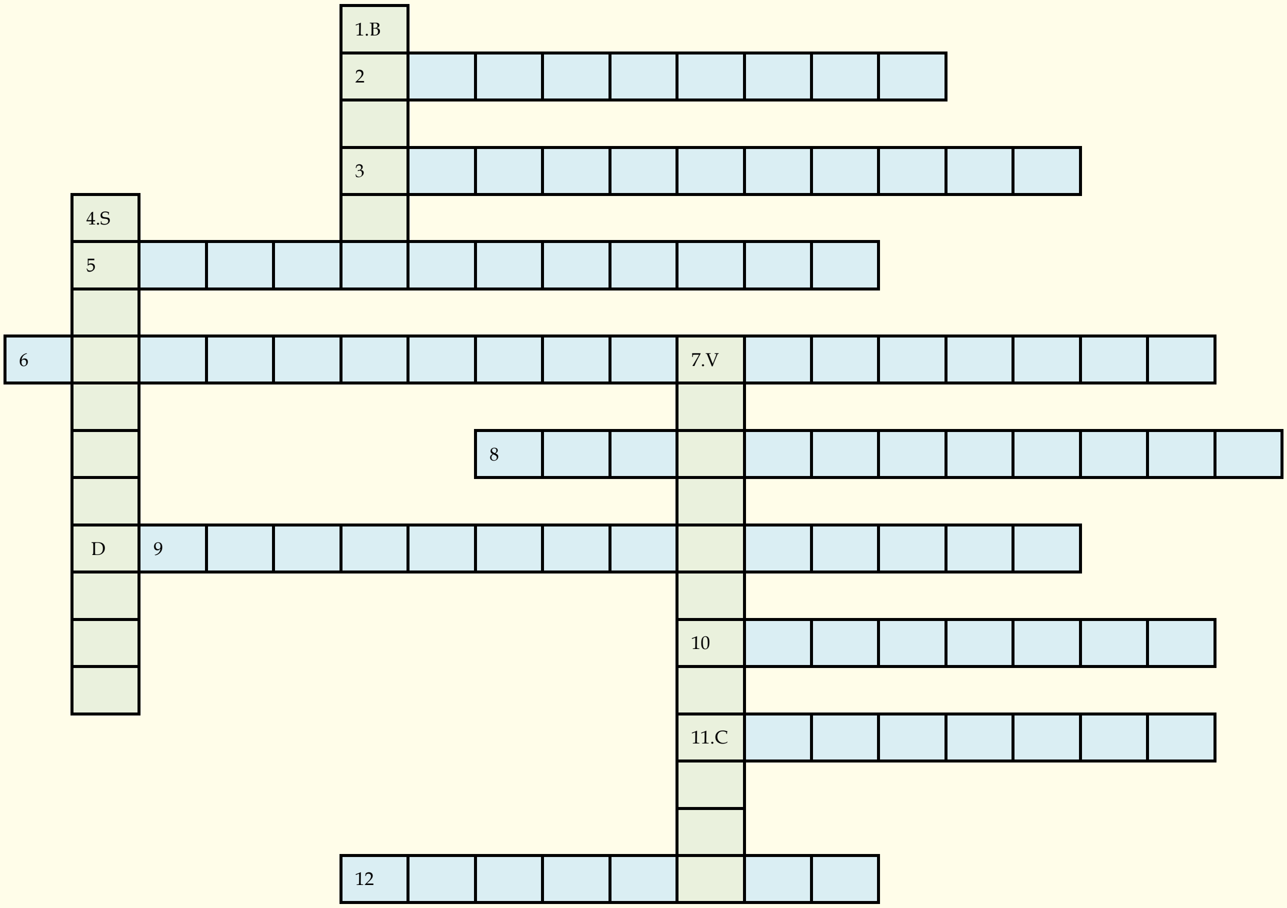
- *Cash flow refers to the movement of money in and out of business*
- *Cash flow projections show how cash is expected to flow in and out of business*
- *Financial management means planning, organizing, directing & controlling the financial activities such as procurement and utilization of fields of the enterprise.*
- *Budgeting means allocation of resources*
- *Traditional budgeting is based on review of historic performance and the projection of such finding to the future with modification.*
- *Zero based budgeting is the creation of a completion new budget from the ground up as is no history existed*
- *Funds needed for day to day operation of business know as working capital*
- *The decision between buying the raw material and receiving the cash from the customer (in form of sales) is known as the 'operating cycle'*
- *Operating cycle is also reference to as the cash consumer cycle*
- *The requirement of working capital depends up length of operating cycle, sales policy, credit policies, tax liabilities and nature of business*
- *Inventory control system is designed to bring about expected control over the inventory and its utilization*
- *Pareto principle: The pareto principle (also known as the 80–20 rule, the law of the vital few, and the principle of factor sparsity) states that, for many events, roughly 80% of the effects come from 20% of the causes.*

- *ABC analysis: The ABC approach states that, when reviewing inventory, a company should rate items from A to C, basing its ratings on the following rules:*
- *A-items are goods which annual consumption value is the highest. The top 70-80% of the annual consumption value of the company typically accounts for only 10-20% of total inventory items.*
- *C-items are, on the contrary, items with the lowest consumption value. The lower 5% of the annual consumption value typically accounts for 50% of total inventory items.*
- *B-items are the interclass items, with a medium consumption value. Those 15-25% of annual consumption value typically accounts for 30% of total inventory items.*
- ***A**lways **b**etter **c**ontrol can help you control you inventory better.*
- *Economic order quantity: Economic order quantity (EOQ) is the order quantity of inventory that minimizes the total cost of inventory management.*
- *Recorder point: The reorder point ("ROP") is the level of inventory when an order should be made with suppliers to bring the inventory up by the Economic order quantity ("EOQ").*
- *Carrying cost: In marketing, carrying cost refers to the total cost of holding inventory. This includes warehousing costs such as rent, utilities and salaries, financial costs such as opportunity cost, and inventory costs related to perishability, pilferage, shrinkage and insurance.*

"To win without risk is to triumph without glory."

– Corneille

REVIEW CROSSWORD PUZZLE



Across:

2. Collective process in which operating units prepare their plans in conformity with corporate goals published by top management.
3. Selling price per unit - cost price per unit
5. It takes place on intangible assets
6. Gain generated on an investment relative to the amount of money invested.
8. The concept by which monetary value of an asset decreases over time due to use, wear and tear or obsolescence
9. The money needed to fund the normal, day to day operations of your business
10. Time between the initiation of a process and its completion
11. The movement of money in and out of a business during a specific period of time.
12. A party to whom money is owed

Down:

1. A plan that shows how much one can spend against what they earn over a given time
4. An estimate of future sales, often broken down into both units and currency.
7. Costs that vary depending on a company's production volume

LET'S REVISE

A. Answers to these questions should not exceed 15 words:

1. Explain the following terms with proper example:
   - SKU
   - Cash flow
   - Cash inflow
   - Cash outflow
   - Re-order point
   - Cash flow projection
   - Cash conversion cycle
2. Pareto's Law formed the basis for a technique. Name it.

B. Answers to these questions should not exceed 30 words:

1. What is ABC analysis?
2. What is Pareto's Principle?
3. Differentiate between cash flow project & cash flow statement?
4. What is financial management? What is the main objective of financial management?

C. Answers to these questions should not exceed 75 words:

1. There are three key elements in the process of financial management. Explain them.
2. What are the key aspects of financial decision making?
3. What is a budget? What are the essentials of a budget?
4. Explain Inventory Control and state its objectives.

D. Answers to these questions should not exceed 250 words:

1. What is a budgeting process?
2. There is a Budget to suit every business and its need .Elucidate.
3. Explain the two dominant forms of budgeting process.
4. What is working capital? What is the need for a working capital?

E. HOTS (High Order Thinking Skills)

1. Calculate working capital Raja & Co. has the following items in its Balance sheet Stock -50,000: Trade creditors – 32,000; debtors – 75000; cash – 1,00000 Dividend payable – 50,000; Tax – 44,000; Short term loan – 61,000; Short term investments – 76,000 Calculate gross and net working capital.
2. Ramu is buying and selling ice-cream. Explain his working capital requirement.

UNIT–6: RESOURCE MOBILIZATION

"Education is the manifestation of the perfection already in man."

– Swami Vivekanand

Learning objectives:

The learner would be able to:

- Understand the various sources of funds required for a firm
- Raising funds through financial markets
- Understand the method of floatation for new issue
- Understand the relevance of stock exchange as a medium through which funds can be raised
- Understand the role of SEBI
- Explain the concept of angel investors
- Explain the concept of venture capital
- Explain the role played by IDBI, SIDBI, IFCI, NABARD, IIBI, SFC, TFCI, SIDC

Content

- **Angel Investor**
- **Venture Capital Funds**
- **Stock market-raising funds**
- **Specialized financial institutions**

Case Study-I
Twitter Tweets

Twitter – named after the sound of chirping birds in 2006, has today established itself as a cultural touchstone, growing from a few thousand geeky users to more than 200 million today.

Most of Twitter's revenue comes from advertising. Research firm eMarketer estimates that Twitter will generate $ 582.8 million in worldwide ad revenue for 2013, up from $ 288.3 million in 2012.

Twitter's money making potential has minted the company with an estimated market value of $ 10 billion, based on the appraisals of venture capitalists and other early investors who have been helping to fund the business so far.

Aiming for a sustainable future, Twitter, as has been long expected, tweets "IT WILL GO PUBLIC".

The law that allowed Twitter to file its initial IPO documents confidentially is called the Jumpstart Our Business Startups Act or JOBS; President Barack Obama signed the law in 2012. It is designed to make it easier for small businesses and startups to grow and create jobs. Do you understand the significance of all this......???

GOING PUBLIC COULD GIVE TWITTER THE MUSCLE TO BECOME THE NEXT FACEBOOK OR APPLE – says one analyst.

The capital gains from going public will likely allow the company to make solid investments across the board in hiring, operations and acquisitions – THAT'S THE POWER OF FINANCE.

Business is full of surprises. As an entrepreneur one may face situations that can catch them off guard. Any situation has the potential to become, either a 'disaster' or an 'opportunity'.

Whether running a home-based business or a mid-sized venture, the first thing required is money. One cannot imagine a world without money – every day's life and every activity of human being is dependent upon money.

Even, in a bid to minimize losses, it is essential to prepare for the "unexpected" by arranging and protecting the resources. Thus, 'Finance' refers to funds or monetary resources needed by individuals, business houses and the government. The significance of finance in enterprise is elucidated like a lubricant to the process of production. It's one of the most important pre-requisite to start an enterprise. Finance is the elixir that assists in the formation of new businesses, and allows businesses to take advantage of opportunities to grow and expand. Right from the very beginning i.e. conceiving an idea; finance is required to:

a) Promote or establish the business
b) Acquire fixed assets
c) Make market investigations
d) Develop product
e) Keep men and machines at work
f) Encourage management to make progress and create value.
g) Expand, diversify, improve and grow.
h) Be enough to meet unexpected/unplanned business expenses.

'Production', 'Marketing', and Financing', deemed as the most important factors for any business survival, rates "Financing" as the first because nothing can be done without money. Thus, the most critical element for success in business is 'Finance'. Before doing anything, an entrepreneur should clearly answer the following three questions:

1) How much money is required?
2) Where will money come from?
3) When does the money need to be available?

As regards, the money needed, it can be estimated by developing a statement of various assets required by the enterprise. Integral to total amount needed is to decide about its arrangement or sources.

Case Study-II
Source of finance

MONEY IS ALWAYS A PROBLEM

"Air India has defaulted on working capital loan interest payment of ₹200 crores due to the financial crisis that the airlines is facing", confirms Air India sources on 21st May 2011. Air India has high-cost loans worth about ₹40,000 crores.

Air India is facing a tight financial situation and is in talks with lenders to restructure its debt of ₹ 40,000 crore. The lenders have agreed to reduce interest rates on part of the debt that is linked to overseas borrowings. The future of the remaining debt is still uncertain, especially because lenders are seeking a conversion of their debt into equity or equity like instruments. This is perhaps the first time that the national carrier has defaulted on its payments to banks. Sources said the airline had approached banks for more loans but they have declined to help because of the airline's poor financial health.

And they say "Finance is difficult for new entrepreneurs ....". Its always a major concern.

We have already made mentioned about the various sources from which an in grade XI about the various sources from which an enterprise can raise the required funds. We know by now thoroughly that these sources could broadly be classified into 2 major categories.

1) Internal sources
2) External sources

We are even aware that not all of them are equally appropriate to all enterprises at all times as these different sources carry very different:

- Obligations
- Responsibilities
- Opportunities

Internal sources referred to as owner's own money is also known as 'equity'. Particularly in the case of small entrepreneurs the owner's money is very small. Therefore, an overwhelming portion of money is arranged from the external sources. Optimal financing of profitable new investment opportunities is key issue for all entrepreneurs today. The more successful entrepreneur is: the more money is required to remain further competitive and visible — NOT TO FORGET TWITTER'S IPO LAUNCH. Additional funds are "All time requirement". Nowadays a common growing practice is where the entrepreneur gives up part of his/her ownership in the enterprise and in return receive money to develop business.

Case Study-III
Financial gaming

Google purchased Motorola Mobility for 9,800,000,000 (in USD), Microsoft Corporation purchased Skype for 8,500,000,000 (in USD) and Nokia Handset and Service Business for 7,200,000,000 (in USD) as notable Merges and Amalgamations of 2011 because latters were in financial crisis and formers were financial strong looking for expansion strategies.

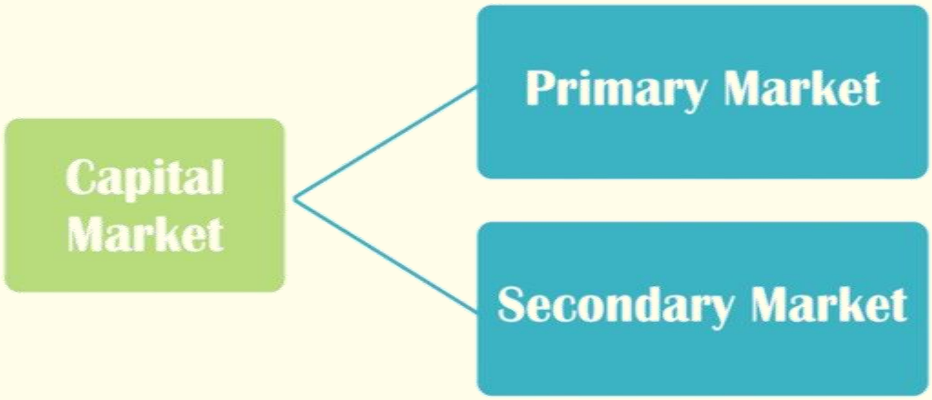
Thus, here we discuss some mushrooming sources available to an entrepreneur to raise finance:

a) Capital markets
b) Angel investors
c) Venture capital
d) Specialized financial institutions

I. Capital markets

At times, we have people that have money that they don't want to spend rather save for future use. On the other hand, there are people who want to spend money to undertake some economic activities but don't have the required amount of finance.

The role of transferring financial resources from the surplus units to the deficit units is what is referred to as "Financial Intermediation". Capital Markets play a very vital role of a financial intermediatary.



A capital market may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the investors to the entrepreneurs. Here, productive capital is raised and made available for industrial purposes.

Capital markets are the most important source of raising finance for the entrepreneurs as this market can:

a) Mobilize the financial resources on a nation-wide scale.

b) Secure the required foreign capital and know-how to promote economic growth at a faster rate.

c) Ensure the most effective allocation of the mobilized financial resources by directing the same either to such projects which are capable of the highest yield or to the underdeveloped priority areas where there is an urgent need to promote balanced and diversified industrialization.

The needs of entrepreneurs who actually use the savings for productive purposes are varied. The capital market satisfies the tastes of savers and the needs of investors through its various financial instruments and institutions. As per entrepreneurs requirement they enter either of the following markets available under capital market:

i) Primary market (new issues market)

Primary market is basically to facilitate transfer of resources from the savers to the entrepreneurs seeking funds for:

a) Setting new enterprises

b) Expanding

c) Diversifying

The 'new issues' may be issued by:

1) New companies – also called initial issues.

2) Old companies – also called further issues.

Initial issues

The entrepreneurs highly bank on this type of "issue" to generate funds. When for the first time, entrepreneur for the purpose of obtaining capital funds decides to issue securities to the public — its first sale is in the primary market. Such "issues of securities" are even referred as "new money issues".

Methods of flotation of new issues

An entrepreneur can raise the required capital in the primary market by the following methods:

1. Public issue
2. Rights issue
3. Private placement
4. Offer to the employees

1. Public issue / going public

Public issue is the most popular method of raising capital these days by the entrepreneurs. This involves raising of funds directly from the public through the issue of prospectus. An enterprise organizing itself as a public limited company can raise the required funds commonly by preparing a prospectus.

When an entrepreneur a offers shares to the public for subscription he/she is required to comply with all the restrictions and formalities pertaining to the initial issues, prospectus drafting and launch.

One of the most difficult problems in the new venture creation process is obtaining finance. When an entrepreneur decides to go public and become a public company, he/she tends to be in advantageous positions because of reaping the following benefits:

1) Access to capital

The primary advantage an entrepreneur stands to gain by going public is access to capital. In addition, the capital does not have to be repaid and does not involve an interest charge. The only reward the IPO investors seek is an appreciation of their investment and possibly **dividends**.

Entrepreneur can use the capital raised for a variety of purposes including:

(1) growth and expansion,

(2) retiring existing debt,

(3) corporate marketing and development

(4) acquisition capital.

An entrepreneur's financing alternatives stands greatly increased.

2) Other advantages

- **Mergers and acquisitions:** Public stock of a company can be used for businesses to grow through acquisitions.
- **Higher valuations:** Public companies are typically valued more than private companies.
- **Benchmark trading price:** The trading price of a public company's stock serves as a benchmark of the offer price of other securities.
- **Capital formation:** Raising capital later is typically easier because of the extra liquidity for the investors.
- **Incentives:** Stock options and stock incentives can be very helpful in attracting employees.
- **Reduced business requirements:** While an underwritten initial public offering requires significant earnings, the lack of earnings does not keep a private company from going public.
- **Less dilution:** There is less dilution of ownership control compared to an IPO.
- **Liquidity:** A public company provides liquidity for management, minority shareholders, and investors.
- **Prestige:** Added prestige and visibility with customers, suppliers, as well as the financial community.

> **Hungry to grab**
>
> *If there is one company which everyone is looking towards for a new Netscape moment, it is* ***FACEBOOK****. The company can pretty well go public any time it wants, as it is the* ***4th Largest Site*** *in the U.S. and in the world. So far it is said to be on track to beat its $ 550 million revenue projections.*
>
> *A Facebook IPO would certainly create a halo effect for other teaches offerings. Even if it doesn't go out in 2010, the prospect that it might could still help other companies go public as hungry investors grab what they can get.*

Drawbacks

While there are benefits to going public, it also means additional obligations and reporting requirements such as:

- Increasing accountability to public shareholders
- Need to maintain dividend and profit growth trends
- Becoming more vulnerable to an unwelcome takeover
- Need to observe and adhere strictly to the rules and regulations by governing bodies

- Increasing costs in complying with higher level of reporting requirements
- Relinquishing some control of the company following the public offering
- Suffering a loss of privacy as a result of media interest

As the owner of major shareholder of a private company, it is important to outweigh the benefits and costs of listing in the light of the plans and goals that have been set by the entrepreneur. Discussions with lawyers, independent accountants and other professional advisors will also provide better considerations.

Overall, going public is a complex decision that requires careful consideration and planning. Entrepreneurs should examine their current and future capital needs, and be aware of how an IPO will affect the availability of future financing.

Enhance your IQ......

I.P.O.'S (INITIAL PUBLIC OFFER)

A company proposing to raise resources by a public issue should first select the type of securities i.e. share and/or debentures to be issued by it. The decision regarding the issue of shares to be made at par or premium should be decided keeping in view the SEBI guidelines.

The whole process of issue of shares can be divided into two parts:

- *Pre issue activities, and*
- *Post issue activities*

All activities beginning with the planning of capital issues, till the opening of the subscription list are pre issue activities, while all activities subsequent to the opening of the subscription list may be called post issue activities.

The various steps involved in public issue of shares are enumerated below:

1. ***Compliance with the SEBI guidelines***

   Before making any issue of capital, it is to be ensured that the proposed issue complies with the provision of the SEBI guideline for disclosure and investor protection with regards to Pricing of issue, promoters, contribution, lock in period, reservation, etc.

2. ***Holding of general meeting***

   If it is required by the Articles of Association, that consent of shareholder is to be obtained, then meeting of the shareholder will be called.

3. ***Intimation to stock exchange***

   A copy of the Memorandum and Articles of Association of the company is to be sent to the Stock Exchanges where the shares are to be listed, for approval.

4. ***Appointment***

   A company, which issues shares, has to appoint one or more Merchant Bankers, who act as Lead managers to the public issues. The company may, also appoint, registrars, underwriter, brokers etc.

5. ***Drafting of prospectus***

Apart from the notice of offer to issue shares to public, prospectus should also disclose:

- *Justification of Premium, if called.*
- *Net Assets value (NAV)*
- *High and Low price of the shares of the company for the last two years.*
- *A clause that company shall refund the entire application money if minimum subscription is not received.*
- *A statement by the lead managers that in their opinion the assets of the underwriters are adequate to meet their obligations.*

6. ***Approval of prospectus***

The draft prospectus along with the application from the issue of shares should be approved by the solicitors/legal advisors/stock exchange [where application has been made seeking permission for shares to be draft in] of the company to ensure that it contains all disclosures and information as required by various statues, rules, notification, etc.

7. ***Approval of board of directors***

After the concerned parties/agencies have approved the draft prospectus and the application form, the board of directors of the company should approve the final draft, before filling the Registrar of companies.

8. ***Registration of prospectus with ROC***

Before the prospectus is issued to the public it must be filed with the registrar of companies, duly signed thereon by every director or proposed director of the company.

The prospectus must be registered with ROC within 3 months of vetting of SEBI.

9. ***Application to stock exchange to list shares***

Before filling prospectus with the registrar of companies, the company should submit on application to the stock exchange(s) for enlistment of securities offered to the public by the said issue. The fact that an application has/have been made to the stock exchange must be stated in the prospectus.

10. ***Printing and distribution of prospectus and application forms***

After receipt of acknowledgement card from the SEBI and the intimation from Registrar of Companies regarding registration of prospectus, the company should take steps to issue the prospectus within 90 days of it's registration with ROC.

For this compliance, requisite steps for printing and distribution amongst banker, underwriter public etc. should be made.

11. ***Announcements and advertisement***

Announcement regarding the proposed issue should be made at least ten (10) days before the subscription list opens.

No advertisement should include Brand Names for the issue except the normal commercial name of the company or commercial brand names of the company or commercial brand names of it's products already in use.

12. *Subscription list*

As stipulated by SEBI guidelines the subscription list for public issue is to be kept open for atleast three working days and for a total period of not exceeding ten working days, which is to be disclosed in prospectus as well.

13. *Separate bank account*

A SEPARATE Bank account is opened for the purpose of collecting the proceeds of the issue.

Further, the date of opening and closing of the subscription list should be intimated to all the collecting and controlling branches of the bank with whom the company has entered into an agreement for the collection of application forms.

14. *Minimum subscription*

As per the SEBI guidelines, if the company does not receive 90% of the issue amount from the public subscription including development from underwriters within 120 days from the date of the issue, the amount of subscription received is required to be refunded to the applications. In case of disputed development also, subscription is required to be refunded if 90% of the issued amount plus accepted.

Development from underwriters if any is not received within 120 days of the issue of prospectus, all the money received from the applicants for shares is required to be repaid forthwith without interest and if any such money is not so repaid in the next 10 days (after the expiry of 120 days), the directors of the company are jointly and severally liable to repay that money, with interest from the expiry of the 130 days.

The company should refund the amount within 10 weeks of the closing of the subscription list and pay interest, if refunds are delayed by more than 8 days after this period.

15. *Allotment of shares*

A return of allotment in form No. 2 of The Companies (central government's) General Rules and Form, 1956 should be filed with registrar of companies within 30 days of the date of allotment along with the fees payable, as prescribed in schedule X of the Act.

In case, the issue is over-subscribed, the basis of allotment has to be decided in consultation with the stock exchange authorities as per the guidelines laid down by the stock exchange.

16. *Over subscription*

The over-subscribed amount after the finalization of allotment, should be refunded to the applicants within 10 weeks of the closure of subscription list. If the money is not so refunded, the company is liable to refund the money with interest as specified from the expiry of the 8 days after 10 weeks of the closure of subscription list.

17. *Compliance report*

As stipulated by SEBI guidelines within 45 days of the closure of issue, a report in the prescribed form along with a compliance certificates from statutory auditor/practicing charted accountant or by a company secretary in practice is to be forwarded to SEBI by the lead managers.

Source: Advocate Khoj-Law Company

2. Rights issue

Rights issue is a method of raising additional finance from existing shareholders by offering securities to them on pro-rata basis i.e. giving them a right to a certain number of shares in proportion to the shares they are holding.

Normally, through a circular, rights issues are proposed to the existing shareholders and in case they are not willing to subscribe, they can renounce the same in favour of another person. This method of issuing securities is considered to be inexpensive as it does not require any brokers, agents, underwriters, prospectus or enlistment, etc.

3. Private placement

Private placement means the direct sale by a company of its securities to a limited number of sophisticated investors.

Entrepreneurs, herein, raise funds by selling the issues mainly to the institutional investors like:

i) Unit Trust of India

ii) Life Insurance Corporation of India

iii) General Insurance Corporation of India

iv) Army Group Insurance

v) State Level Financial Corporations, etc.

Entrepreneurs both from public limited and private limited sector, bank heavily upon raising funds through the issue of varied financial instruments under this segment as at times they do not wish to disclose information to the open market.

4. Offer to employees

Stock options or offering shares to the employees has gained much popularity in many countries of the world. This method enables employees to become shareholders and share the profits of the company leading to:

a) Higher efficiency

b) Low labour turnover

c) Better industrial locations

d) Low floatation cost

e) Wider/higher generation of funds.

ii) Secondary market

Capital markets aid in the mobilization of individual savings to make them readily available to those who need them in:

- Industry
- Trade
- Finance
- Government

Any transaction in shares or debentures subsequent to its primary offering is called "Secondary Transaction". Thus, the secondary capital market, which is also known as old securities market or stock exchange deals with buying and selling of old securities i.e. the market securities issued earlier are sold by existing investors in this market, thus paving way for the entrepreneurs that if they offer high returns to market, investors will remain inclined to invest therein.

The secondary market enhances the marketability of securities and thereby provides liquidity to investments.

From the investor's point of view, this market imparts liquidity to the long-term securities held by them by providing an auction market for these securities. It operates through the medium of stock exchanges which regulate the trading activities in this market and ensures a measure of safety and fair dealings to the investors.

Stock exchange

A stock exchange means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities."

Securities Contracts (Regulation) Act, 1956

Features of stock exchange

1) **Association of persons:** A stock exchange is an association of persons or body of individuals which may be registered or unregistered.

2) **Recognition from central government**: Stock exchange is an organized market. It requires recognition from the Central Government.

3) **Market for securities**: Stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.

4) **Deals in second hand securities**: It deals with shares, debenture, bonds and such securities already issued by the companies. In short it deals with existing or second hand securities and hence it is called secondary market.

5) **Regulates trade in securities**: Stock exchange does not buy or sell any securities on its own account. It merely provides the necessary infrastructure and facilities to its members and brokers who trade in securities. It regulates the trade activities so as to ensure free and fair trade.

6) **Allow dealings only in listed securities**: In fact, stock exchanges maintain an official list of securities that could be purchased and sold on its floor. Securities which do not figure in the official list of stock exchange are called unlisted securities. Such unlisted securities cannot be traded in the stock exchange.

7) **Transactions effected only through members**: All the transactions in securities at the stock exchange are effected only through its authorized brokers and members. Outsiders or direct investors are not allowed to enter in the trading circles of the stock exchange. Investors have to buy or sell the securities at the stock exchange through the authorized brokers only.

8) **Working as per rules**: Buying and selling transactions in securities at the stock exchange are governed by the rules and regulations of stock exchange as well as **SEBI Guidelines**. No deviation from the rules and guidelines is allowed in any case.

9) **Specific location**: Stock exchange is a particular market place where authorized brokers come together daily (i.e. on working days) on the floor of market called trading circles and conduct trading activities. The price of different securities traded are shown on electronic boards. After the working hours market is closed. All the working of stock exchange is conducted and controlled through computers and electronic system.

10) **Financial barometers**: Stock exchanges are the financial barometers and development indicators of national economy of the country. Industrial growth and stability is reflected in the index of stock exchange. Source: Kalyan City Life

Functions of a stock exchange

"Stock exchange are not merely the chief theaters of business transactions, they are also barometers which indicate the general conditions of the atmosphere of business."

MARSHAL

Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies. It is important functions are:

a) **Continuous and ready market for securities**

Stock exchange provides a central market for purchase and sale of securities. It provides ready and continuous outlet for buying and selling of securities. Buyers and sellers strongly believe that they would be able to buy and sell securities as and when they want.

b) **Facilitates evaluation of securities**

Stock exchange is useful for the evaluation of industrial securities. It publishes price quotation of the shares of the companies that have been listed with them after thorough analysis of demand and supply position. This enables investors to know the true worth of their holdings at any time.

c) **Checks on brokers**

Stock exchanges control the activities of brokers and protect the investors from being deceived. Now, if any broker is found indulging in malpractices as overcharging or giving wrong information, his/her licence may be cancelled.

d) **Provides safety and security in dealings**

Activities of the stock exchange are controlled by the provisions of the Securities Control (Regulation) Act and all this creates confidence in the minds of investors. As transactions are conducted as per well defined rules and regulations, fraudulent practices stands checked effectively ensuring safety, security and justice in dealings.

e) **Regulates company management**

Listed companies have to comply with rules and regulations of concerned stock exchange and work under the vigilance of stock exchange authorities.

f) **Intensifying capital formation**

Stock exchange accelerates the process of capital formation through creating the habit of saving, investing and risk taking among the investing class by converting their savings into profitable, safe investments.

g) **Facilitates raising of new capital**

Because of stock exchange, for either development, organisation or expansion, the need for more capital by the existing companies is easily met out.

h) **Facilitates public borrowing**

Stock exchange serves as a platform for marketing government securities. It enables government to raise public debt easily and quickly.

i) **Facilitates healthy speculation**

Healthy speculation, keeps the exchange active. Normal speculation is not dangerous but provides more business to the exchange. However, excessive speculation is undesirable as it is dangerous to investors & the growth of corporate sector.

j) **Serves as economic barometer**

Stock exchange indicates the state of health of companies and the national economy. It acts as a barometer of the economic situation/conditions and is thus referred as pulse of economy or economic mirror.

k) **Facilitates bank lending**

Banks easily know the prices of quoted securities. They offer loans to customers against corporate securities. This gives convenience to the owners of securities.

Importance of a stock exchange

Stock exchange indicates about the good or bad health of an economy. It is an investment intermediary which facilities economic and industrial development of a country.

For the smooth and orderly functioning of corporate sector in a free market economy, stock exchange are indispensable, because of the different roles played by them for different groups.

Importance of stock exchange

In the viewpoint of investors

Dissemination of useful Information
Ready Market
Investors Interests Protected
Genuine Guidance about the Securities Listed
Barriers of Distance Removed
Knowledge of Profit or Loss on Investments

From the viewpoint of companies

Recognition
Wide Market
Higher Share Value

From the viewpoint of societies

Rapid Capital Formation
Economic Development
National Projects

1. From the viewpoint of investors

(a) *Dissemination of useful information:* Stock exchange publishes useful information regarding price lists, quotations, etc., of securities through newspapers and journals. The interested persons buy and sell their securities on the basis of information provided by the stock exchanges.

(b) *Ready market*: Persons desirous of converting their shares into cash may easily do so through a member of stock exchange.

(c) *Investors' interests protected:* Stock exchanges formulate rules and regulations so that members may not exploit the investors.

(d) *Genuine guidance about the securities listed*: The investors can safely depend upon the information provided by the stock exchanges.

(e) *Barriers of distance removed:* Stock exchange removes the barriers of distance with regard to securities listed there. Without stock exchange the securities of a Delhi company may have a limited market in Delhi only.

(f) *Knowledge of profit or loss on investments:* The investors can estimate the profit or loss on the total amount of investments in securities, by comparing the original amount invested and the price of securities on a particular day.

2. From the viewpoint of entrepreneurs /companies

(a) *Recognition:* The market values of companies' shares are published in important dailies. This enhances the reputation of good companies/entrepreneurs.

(b) *Wide market:* The securities of some companies are listed in some stock exchanges. The market for the securities of such companies is considerably widened. Thus, larger amounts of capital may be raised from different types of investors.

(c) *Higher share values*: People have a tendency to buy shares that have some premium value. Demand of such shares increases. This leads to further increase in the price of such shares.

3. From the viewpoint of society

(a) *Rapid capital formation*: People get tempted to invest in securities when they study the trend of necessary prices of shares of good companies. This habit leads to investment of savings in corporate and government securities. The income from these securities may further be invested in buying more securities. This flow of funds leads to rapid capital formation.

(b) *Economic development:* Through easy funds mobilizing, the boosted production fetches more capital, enhancing economic development.

(c) *National projects:* As stock exchange promotes, the capital formation rate the projects which brings National Prosperity can be easily undertaken.

Organisation and management

The organisation, management, membership and functioning of stock exchanges in India are governed by the provisions of The Securities Contracts (Regulation) Act, 1956. This Act permits only recognized stock exchanges to function under the rules, regulations and by-laws approved by the Central Government

Stay alert

Stock exchanges in India

No.	*Name of stock exchange*	*Year of establishment*	*Year of recognition*	*Type of organisation*
1.	Bombay	1875	1956	Voluntary non-profit making persons
2	Ahmedabad	1894	1957	"
3	Calcutta	1908	1957	Public limited company
4.	Madras	1908	1957	"
5	Indore	1930	1958	Voluntary non-profit making association of persons
6	Hyderabad	1943	1958	Company limited by guarantee
7.	Delhi	1947	1957	Public limited company
8	Bangalore	1957	1963	"
9	Kochi (Cochin)	1978	1979	"
10	Kanpur	1982	1982	"
11	Pune	1982	1982	Company limited by guarantee
12	Ludhiana	1983	1983	Public limited company
13	Jaipur	1983	1989	"
14	Guwahati	1984	1984	"
15	Mangalore	1985	1985	"

16	Magadh	1986	1986	Company limited by guarantee
17	Bhubaneswar	1989	1989	"
18	Saurashtra	1989	1989	"
19	OTC Exchange of India	1989	1989	"
20.	Vadodara (Baroda)	1990	1990	Public limited company
21	Coimbatore	1991	1991	"
22	Meerut	1991	1991	"
23	National stock exchange (Delhi)	1992	1993	Company limited by guarantee
24	Inter-connected stock exchange of India	1998		

The governing body is responsible for policy formulation and proper functioning of the exchange, having wide range of powers viz.....

1) Elect the office bearers and set up committees.
2) Admit and expel members
3) Manage the properties and finance of the exchange
4) Interpret rules, regulations and by-laws
5) Adjudicate disputes
6) Conduct the affairs of the exchange.

Jargonic stock exchange

Common terms related to stock and stock market trading

Open *– The first price at which the stock opens when market starts in the morning.*

High *– The stock price reached at the highest price level in a day.*

Low *– The stock price reached the lowest price level in day.*

Close *– The stock price at which it remains after the end of market timings or the final price of the stock when the market closes for a day.*

Volume *– Volume is nothing but quantity of shares.*

Bid *– The Buying price is called as Bid price.*

Offer *– The selling price is called offer price.*

Bid quantity *– The total number of shares available for buying is called Bid Quantity.*

***Offer quantity** – The total number of shares available for selling is called Offer Quantity.*

***Buying and selling of shares** – Buying is also called as demand or bid and selling is also called as supply or offer.*

***Short selling** – First selling and then buying only happens in day trading or future trading.*

***Share trading** – Buying and selling of shares is called shares trading.*

***Transaction** – One cycle of buying and selling of stocks is called One Transaction.*

***Squaring off** – This term is used to complete one transaction. Means if you buy then have to sell (means square off) and if you sell then you have to buy (means square off).*

***Limit order** – The order get executes at your mentioned price.*

***Market order** – The order rate gets executes at current market rates.*

Securities and exchange board of India (SEBI)

*The **Securities and Exchange Board of India** (frequently abbreviated **SEBI**) is the regulator for the securities market in India. It was established on 12 April 1992 through the SEBI Act, 1992.*

History

SEBI was officially established by The Government of India in the year 1988 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament. SEBI has it's Headquarter at the business district of Bandra Kurla Complex in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad respectively.

Initially SEBI was a non–statutory body without any statutory power. However in the year of 1995, SEBI was given additional statutory powers by the Government of India through an amendment to the Securities and Exchange Board of India Act, 1992. In April, 1998 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India.

SEBI's establishment

SEBI was established as a supervising and regulatory body to curb certain malpractices and to promote the securities markets in India. SEBI is managed by its members, which consists of following: a) Chairman who is nominated by Union Government of India. b) Two members, i.e. Officers from Union Finance Ministry. c) One member from The Reserve Bank of India. d) The remaining 5 members are nominated by Union Government of India, out of them at least 3 shall be whole-time members.

SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi-executive. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity. Though this makes it very powerful, there is an appeal process to create accountability. There is a Securities Appellate Tribunal which is three-member tribunal. A second appeal lies directly to the Supreme Court.

Powers

For the discharge of its functions efficiently, SEBI has been vested with the following powers:

1. To approve by-laws of stock exchanges, SEBI
2. To enquire the stock exchange to amend their by-laws.
3. Inspect the books of accounts and call for periodical returns from recognized stock exchanges.
4. Inspect the books of accounts of financial intermediaries.
5. Compel certain companies to list their shares in one or more stocks exchanges.
6. Levy fees and other charges on the intermediaries for performing its functions.
7. Grant license to any person for the purpose of dealing in certain areas.
8. Delegate powers exercisable by it.
9. Prosecute and judge directly the violation of certain provisions of the Companies Act.
10. Power to impose monetary penalties.

Well to conclude, in going public, an entrepreneur should realize that he/she is at the bottom of the pyramid, with the institutional investors, underwriters, investment bankers, venture and angel capitalists being higher up. Similarly, young entrepreneurial companies are not always the spotlight companies in the IPO market. Outside capital should be sought only after all possible internal sources of funds have been explored.

Length of time, cost and amount of control of each alternative while considering financial markets as a source should be properly and expertly analysed.

II. Angel investors

High return potentiality is lucrative

*Building a car company takes massive amounts of Capital and **TESLA**, a **Silicon Valley's** electric car company is expected to hit the public markets. It has nearly raised $ 800 million so far, with most of it coming as a government loans, a lot of the capital from Partners **DIAMLER** and a **Billionaire Founder – ELON MUSK – ANGEL FOR TESLA**.*

If an opportunity has high return potential many could like to be its part.

Etymology and origin

The term 'angel' originally comes from Broadway, where it was used to describe wealthy individual who provide money for THEATRICAL PRODUCTIONS.

In 1978, Willam Wetzel, a professor at the University of New Hampshire and founder of its Center for Venture Research, completed a pioneering study on how entrepreneurs raised seed capital in the USA, and he began using the term 'Angel' to describe the investors who supported them.

Business angel or informal investor or an angel investor, is an affluent individual who provides capital for a business start-up and early stage companies having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.

Do you remember.....

Stages of business development funding

Early-stage financing

• *Seed capital*	*Relatively small amount to prove concepts and finance feasibility studies.*
• *Start-up*	*Product development and initial marketing, but with no commercial sales yet; funding to actually get company operations started.*
• ***Expansion or development financing***	
• *Second stage*	*Working capital for initial growth phase, but no clear profitability or cash flow yet.*
• *Third stage*	*Major expansion for company with rapid sales growth, at breakeven or positive profit levels but still private company.*
• *Fourth stage*	*Bridge financing to prepare company for public offering.*
• ***Acquisitions and leveraged buyout financing***	
• *Traditional acquisitions*	*Assuming ownership and control of another company*
• *Leveraged buyouts (LBOs)*	*Management of a company acquiring control by buying out the present owners.*
• *Going private*	*Some of the owners/managers of a company buying all the outstanding stock, making the company privately held again.*

Features of angel investors

The job of an angel investor is invaluable. They fill the gap in start-up or early stage financing between "friends and family", by providing seed funding and formal venture capital. Humorously, they were once given the acronym FFF – i.e. FRIENDS, FAMILY AND FOOLS. Although it is usually difficult to raise more than a few thousands from friends and family, even the venture capitalist are least interested to make investments. Thus, angel investments is a common second round of financing for high-growth start-ups or early stage companies.

1) Most angel investors are current or retired executives, business owners or high net worth individuals who have the knowledge, expertise, and funds that help start-ups match up to industry standards.

2) As angel investors bear extremely high risk and are usually subject to dilution from future investment rounds. They expect a very high return on investment.

3) Apart from investing funds, most angels provide proactive advice, guidance, industry connections and mentoring start-ups in its early days.

4) Their objective is to create great companies by providing value creation, and simultaneously helping investors realize a high return on investments.

5) They have a sharp inclination to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs by making use of their vast experience.

III. Venture capital

Case Study-IV
Interesting history

Before World War II, "Development Capital" were primarily the domain of wealthy individuals and families. It was not until after World War II that what is considered today to be true private equity investments began to emerge by the founding of the first two venture capital firms in 1946:

(i) American Research and Development Corporation (ARDC)

(ii) J.H. Whitney Company

ARDC was founded by George's Doriot, the "father of venture capitalism" (former dean of Harvard Business School and founder of INSEAD), with Ralph Flanders and Karl Compton (former President of MIT), to encourage private sector investments in businesses run by soldiers who were returning from World War II. ARDC's significance was primarily that it was the first institutional private equity investment firm that raised capital from sources other than wealthy families.

ARDC continued investing until 1971 with the retirement of Doriot. In 1972, Doriot merged ARDC with Textron after having invested in our 150 companies.

Venture capital is a type of private equity capital provided as seed funding to early-stage, high-potential, high risk, growth up companies/entrepreneurs who lack the necessary experience and funds to give shape to their ideas.

We know, the proposals involving new or substantially new or relatively untried technology put forward by professionally or technically qualified persons involving high risk factors may fail to attract investments from public, thus, resulting in their death even before they could be tried.

Thus, venture capital is an equity based investment in a growth-oriented small to medium business to enable the investors to accomplish objectives, in return for minority shareholding in the business or the irrevocable right to acquire. It is more accurate to view venture capital broadly as a professionally managed pool of equity capital. Venture capital is a way in which investors support entrepreneurial talent with finance and business skills to exploit market opportunities and obtain long-term capital gains.

As an industry, Venture Capital has originated in the United States, and American firms have traditionally been the largest participants in venture deals.

Venture capital has been used as a tool for economic development in a variety of developing regions. In many of these regions, with less developed financial sectors, venture capital plays a role in facilitating access to finance for small and medium enterprises (SMEs), which in most cases would not quality for receiving bank loans.

Features of venture – capital

Venture capital can best be characterized as a long-term investment discipline, usually occurring over a five-year period that helps in the creation of:

a) early-stage companies,

b) the expansion and revitalization of existing businesses, and

c) the financing of leveraged buyouts of existing divisions of major or privately owned enterprises.

Thus, venture capital finance has the following features:

1) It is basically equity finance in relatively new companies.

2) It is long-term investment in growth-oriented small or medium firms.

3) Venture capitalist not only provide capital but also business skills to investee firms.

4) It involves high risk-return spectrum.

5) It is a subset of private equity.

6) The venture capital institutions have a continuous involvement in the business after making the investment.

7) Such institutions disinvest the holdings either to the promoters or in the market.

Funding

Obtaining venture capital is substantially different from raising debt or a loan from a lender. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of the success or failure of a business.

But, a venture capital is invested in exchange for an equity stake in the business. Because of the strict requirements venture capitalists have for potential investments, entrepreneurs should seek funding from this source after a careful evaluation.

Venture capitalists are typically very selective in deciding what to invest in and as a rule of thumb:

1) They may invest in one in four hundred opportunities presented to it,

2) Looks for the extremely rare, yet sought after qualities, such as :

a) innovative technology,

b) potential for rapid growth,

c) a well-developed business model

d) an impressive management team.

3) Looks for an "exit" in the time frame of typically 3-7 years.

4) Is inclined towards ventures with exceptionally high growth potential.

Thus, entrepreneurs are expected to carry out detailed due diligence prior to seeking venture capital as a source of financing. As venture capitalists investments are illiquid, requiring extended time frame to harvest, an entrepreneur should carefully evaluate and analyse, the stage which he/she would require venture capitalist to assist in.

When to seek venture capital finance

Entrepreneurs can typically seek venture capital to assist at any of the following four stages in the company's development.

1) Early stage financing

This stage includes:

(a) Seed capital

(b) Pre-start up and start up

(c) Second-round financing.

a) Seed capital finance

It refers to the capital required by an entrepreneur for conducting research at pre-commercialization stage. During this stage, the entrepreneur has to convince the investor (VC) why his idea/product is worthwhile. The investor will investigate into the technical and the economical feasibility of the idea.

In some cases, there is some sort of prototype of the idea/product that is not fully developed or tested. As the risk element at this stage is very high, investor (VC) may deny to assist if he does not see any potential in the idea. Entrepreneur's ability, technological skills and competencies are required to match with the market opportunities so as to successfully convince about product/idea's feasibility to the venture capitalist.

Are you feasible

A Dutch venture named High 5 Business Solution V.O.F. wants to develop a portal which allows companies to order lunch. To open this portal, the venture needs some financial resources, they also need marketers and market researchers to investigate whether there is a market for the idea. To attract these financial and non-financial resources, the executives of the venture decide to approach ABN AMRO Bank to see if the bank is interested in their idea.

After a few meetings, the executive are successful in convincing the bank to take a look in the feasibility of the idea. ABN AMRO decides to put a few experts for investigation. After two weeks time, the bank decides to invest. They come to an agreement of invest a small amount of money into the venture. The bank also decides to provide a small team of marketers and market researchers and a supervisor. This is done to help the venture with the realization of their idea and to monitor the activities in the venture.

b) Start up finance

If the idea/product/process is qualified for further investigation and/or investment, the process will go to the second stage; this is also called the start-up stage. A business plan is presented by the entrepreneur to the VC firm. A management team is being formed to run the venture. If the company has a board of directors, a person from the VC firms will take seats at the board of directors.

While the organisation is being set up, the idea/product gets its form. The prototype is being developed and fully tested. In some cases, clients are being attracted for initial sales. The management-team establishes a feasible production line to produce the product. The VC firm monitors the feasibility of the product and the capability of the management-team from the board of directors.

The "Lunch" – sails

Now the venture has attracted and investor, the venture needs to satisfy the investor for further investment. To do that, the venture needs to provide the investor a clear business plan how to realize their idea and how the venture is planning to earn back the investment that is put into the venture, of course with a lucrative return.

Together with the market researchers, provided by the investor, the entrepreneur has to determine how big the market is their region. They have to find out who are the potential clients and if the market is big enough to realize the idea.

From market research, the venture comes to know that there are enough potential clients for their portal site. But there are no providers of lunches yet. To convince these providers, the venture decided to do interviews with providers and try to convince them to join.

With this knowledge, the venture can finish their business plan and determine a pretty good forecast of the revenue, the cost of developing and maintaining the site and the profit the venture will earn in the following five years.

After reading the business plan and consulting the entrepreneur, the investor decides that the idea is worth for further development.

c) Second-round financing

At this stage, we presume that the idea has been transformed into a product and is being produced and sold. This is the first encounter with the rest of the market, the competitors and attempt is to squeeze in the market and get some market share from the competitors.

The entrepreneur, at this stage, needs assistance from the Venture Capitalist for expansion, modernization, diversification so that the economies of scale and stability could be attained.

As this time, larger funds than the other early stage financing are required, entrepreneur should be extra careful because only if he and his management team is able to prove their capability of standing against the competition, only then is the VC firm interested in financing.

2) Last stage financing /bridge /pre-public stage

In general, this is the last stage of the venture capital financing process. The main goal of this stage is for the venture to go public so that investors can exit the venture with a profit commensurate with the risk they have taken.

At this stage, the venture achieves a certain amount of market share. This gives the venture some opportunities for example:

- Merger with other companies
- Keeping new competitors away from the market
- Eliminate competitors
- Development capital

The entrepreneur must examine the product's market position and, if possible, reposition it to attract new Market segmentation. He/she should introduce the follow-up product/ services to attract new client and markets, for only that is the way to create interest for VC firms seeks to get their assistance further.

Entrepreneurs to watch out

Unlike public companies, information regarding an entrepreneur's business is typically confidential and proprietary. As part of the due diligence process, most venture capitalists will require significant detail with respect to a company's business plan. Entrepreneurs must remain vigilant about sharing information with venture capitalists that are investors in their competitors. Most venture capitalists treat information confidentially, but as a matter of business practice, they do not typically enter into non–disclosure agreements because of the potential liability issues those agreements entail. Entrepreneurs are typically well-advised to protect truly proprietary intellectual property.

Mainly due to the increasing deregulation and the emergence of technocrat entrepreneurs, this source of financing which has so far not taken deep roots in India, is having enormous scope for progress.

You will be surprised

According to the study done by Venture Intelligence with the partnership of US-India Venture Capital Association, the venture capital firms in India invested $508 million across 92 deals in the country in the year of 2006. It was the IT sector and IT enabled sectors that lured the venture capital investors the *most in 2006 in India. 64 among 92 deals contributing to $367 million in the total investment was from IT and IT-enabled sectors. Other business sectors that attracted the investors were – financing services, healthcare and life sciences, manufacturing and food and beverages.*

Venture capital institutions in India

At present, many Venture Capital Companies / funds have been set up in India, in both the public and the private sectors, for example,

a) Industrial Development Bank of India's Venture Capital Fund

b) Technology Development and Information Company of India Ltd. (TDICI)

c) Risk Capital and Technology Finance Corporation Ltd.

d) Gujarat Venture Finance Ltd. (GVFL)

e) Andhra Pradesh Industrial Development Corporation (APIDC) Venture Capital Fund.

f) National Venture Fund for Software and IT Industry.

g) The Canbank Venture Capital Fund, The Credit Capital Venture Fund Ltd, etc.

IV. Specialised financial institutions

Industrial finance is a very complicated problem. To meet out the growing needs of the industries and entrepreneurs, heavy inflow of finance is required. The development of any country depends largely on the industrial development, which in turn depends upon availability of **finance.**

Certain sections of the industry face greater difficulties than others in procuring long-term finance. These include (a) Small and medium sized concerns, (b) new concerns set up by new entrepreneurial group, (c) specific industries, which required funds for modernization, (d) enterprises involved in innovation and new technological developments, (e) enterprises requiring extra-ordinarily large amounts of finance with a long gestation period, (f) Ventures in backward regions. SFIs were established to meet the long-term financial requirement of such enterprises on economic and social ground.

These Specialized Financial Institutions in India are not only committed to financial services but are also devoted towards playing a role of a promotional "mentor" & technical advisor to a wide range of the upcoming and existing entrepreneurs. Thus, these Specialized Financial Institutions (SFIs) make an important source of medium and long-term financing amongst all the financial institutions in India, to the industry.

Need for and Importance of Specialised Financial Institutions (SFIS)

As SFIs provide developmental finance, that is, finance for investment in fixed assets, they are also known as 'development banks' or 'development financial institutions'. Establishing of SFIs facilitated:

a) Provision of sufficient long-term funds in the desired sectors in accordance with planned priorities to the industrial units and entrepreneurs.

b) New and small entrepreneurs in setting up industry.

c) Development of (i) small scale industry and (ii) projects in backward areas.

d) Provision of technical and managerial advice to the entrepreneurs, facilitating thus, in identification, evaluation and execution of new investment enterprises.

e) Underwriting of and direct subscription to the issue of shares and debentures in the capital market of the upcoming ventures.

g) Establishment of enterprises which require extra-ordinarily large amount of finance for their projects with a long-gestation period.

Types of Specialised Financial Institutions

Entrepreneurs have access to any of the following SFIs to choose from, according to their needs and requirements:

A) At national level/all India development banks

(i) Industrial Development Bank of India (IDBI)

(ii) Small Industries Development Bank of India (SIDBI)

(iii) Industrial Finance Corporation of India (IFCI)

(iv) Industrial Credit and Investment Corporation of India (ICICI)

(v) National Bank for Agriculture and Rural Development (NABARD)

(vi) Industrial Investment Bank of India Ltd. (IIBI)

B) At state level

(i) State Financial Corporation (SFCs)

(ii) Tourism Finance Corporation of India (TFCI)

(iii) State Industrial Development Corporations (SIDC)

I. Industrial Development Bank of India (IDBI)

Introduction

The Industrial Development Bank of India was set up in July 1964 as a wholly owned subsidiary of the Reserve Bank of India. The purpose was to enable the new institution to benefit from the financial support and experience of RBI. Before 16th February, it was delinked from RBI in 1976 and was made an autonomous corporation. The objective was to allow RBI to concentrate on its central banking function and allow IDBI to grow into a development agency. Government's shareholding in IDBI stands at 72.14%.

Objectives

The main objectives of IDBI is to serve as the apex institution for term finance for industry in India. Its objectives include:

1) Co-ordination, regulation and supervision of the working of other financial institutions such as IFCI, ICICI, UTI, LIC, Commercial Banks and SFCs.

2) Supplementing the resources of other financial institutions and thereby widening the scope of their assistance.

3) Planning, promotion and development of key industries and diversifications of industrial growth.

4) Devising and enforcing a system of industrial growth that conforms to national priorities.

Functions

The IDBI has been established to perform the following functions –

1) To grant loans and advances to IFCI, SFCs or any other financial institution by way of refinancing of loans granted by such institutions which are repayable within 25 years.

2) To grant loans and advances to scheduled banks or state co-operative banks by way of refinancing of loans granted by such institutions which are repayable in 15 years.

3) To grant loans and advances to IFCI, SFCs, other institutions, scheduled banks, state co-operative banks by way of refinancing of loans granted by such institution to industrial concerns for exports.

4) To discount or rediscount bills of industrial concerns.

5) To underwrite or to subscribe to shares or debentures of industrial concerns.

6) To subscribe to or purchase stock, shares, bonds and debentures of other financial institutions.

7) To grant line of credit or loans and advances to other financial institutions such as IFCI, SFCs, etc.

8) To grant loans to any industrial concern.

9) To guarantee deferred payment due from any industrial concern.

10) To guarantee loans raised by industrial concerns in the market or from institutions.

11) To provide consultancy and merchant banking services in or outside India.

12) To provide technical, legal, marketing and administrative assistance to any industrial concern or person for promotion, management or expansion of any industry.

13) Planning, promoting and developing industries to fill up gaps in the industrial structure in India.

14) To act as trustee for the holders of debentures or other securities.

II. Small Industries Development Bank of India (SIDBI)

SIDBI was established in April 1990, as a wholly owned subsidiary of IDBI, under the Small Industries Development Bank of India Act, 1990. SIDBI is the principal financial institution for promotion, financing and development of small-scale industries in India.

Objectives

SIDBI's objectives are:

1) Initiate steps for technological upgradation, and/or modernization of existing units.
2) Expand channels for marketing of SSI sector products in India and abroad.
3) Promote employment – oriented industries.

Functions

The financial assistance of SIDBI to the small scale sector is channelised through the following two routes:

i) Indirect assistance
ii) Direct assistance

SIDBI has taken over the responsibility of administering following two funds which were previously administered by IDBI i.e.

i) Small Industries Development Fund
ii) Small Industries Development Assistance Fund

1) SIDBI's financial assistance to SSS is primarily channelised through the existing credit delivery system consisting of commercial banks, co-operative banks, RRBs and SFCs.
2) Refinance loans and advances extended by the primary lending institutions to small scale industrial units, alongwith providing them even resource support.
3) Discounts and rediscounts bills arising from sale of machinery to or its manufacture by industrial units in the small-scale sector.
4) All forms of business organisation are eligible for refinance assistance for:
    a) Setting up of new venture
    b) Expansion
    c) Modernisation
    d) Diversification of existing units for all activities
5) Extends seed capital/loan assistance under the National Equity Fund Mahila Udyan Nidhi and Mahila Vikas Nidhi and seed capital scheme through specified lending agencies.
6) Grants direct assistance as well as refinance loans extended by Primary Lending Institutions for financing export of products manufactured by industrial concerns in the Small Scale Sector.
7) Provide Venture Capital assistance to the entrepreneurs for their innovative ventures if they have a sound management team, long term competitive advantage.
8) Leasing and factoring to small-scale units are also provided for by SIDBI.

III. Industrial Finance Corporation of India (IFCI)

IFCI was established as a statutory corporation on 1st July 1948 by a special Act passed in the Parliament, IFCI Act, 1948. It was converted into a public limited company on July 1,

1993. Its main objects is to provide medium and long term credit to eligible industrial enterprises in corporate sectors of the economy, particularly to those industries to which banking facilities are not available.

Objectives

The primary role of IFCI is to provide 'direct financial assistance' on medium and long term basis to industrial projects in the corporate and co-operative sectors. The objectives of the corporation are stated below.

a) To provide long and medium-term credit to industrial concerns engaged in manufacturing, mining, shipping and electricity generation and distribution.

b) The period of credit can be as long as 25 years and should not exceed that period;

c) To grant credit to a single concern up to a maximum amount of rupees one crore. This limit can be exceeded with the permission of the government under certain circumstances;

d) Guarantee loans and deferred payments;

e) Underwrite and directly subscribe to shares and debentures issued by companies;

f) Assist in setting up new projects as well as modernization of existing industrial concerns in medium and large scale sector;

g) Assist project under co-operatives and in backward areas.

Functions

The main functions of I.F.C.I. are as under:

i) Granting loans and advances for the establishment, expansion, diversification and modernization of industries in corporate and co-operative sectors.

ii) Guaranteeing loans raised by industrial concerns in the capital market, both in rupees and foreign currencies.

iii) Subscribing or underwriting the issue of shares and debentures by industries. Such investment can be held up to 7 years.

iv) Guaranteeing credit purchase of capital goods, imported as well as purchased within the country.

v) Providing assistance, under the soft loans scheme, to selected industries such as cement, cotton textiles, jute, engineering goods, etc.

vi) Providing technical, legal, marketing and administrative assistance to any industrial concern for the promotion, management and expansion of the industrial concern.

vii) Providing equipment (imported or indigenous) to the existing industrial concerns on lease under its 'equipment leasing scheme'.

viii) Procuring and reselling equipment to eligible exiting industrial concerns in corporate or co-operative sectors.

ix) Rendering merchant banking services to industrial concerns.

IV) Industrial Credit and Investment Corporation of India (ICICI)

Industrial Credit and Investment Corporation of India was established as a joint stock company in the private sector in 1955. Its share capital was contributed by banks, insurance companies and foreign institutions including the World Bank. Its major shareholders now are Unit Trust of India, Life Insurance Corporation of India and General Insurance Corporation and its subsidiaries. They together hold approximately 50% of the paid up shares capital of ICICI.

Objectives

The ICICI has been established to achieve the following objectives:

i) To assist in the formation, expansion and modernization of industrial units in the private sector;

ii) To stimulate and promote the participation of private capital (both Indian and foreign) in such industrial units;

iii) To furnish technical and managerial aid so as to increase production and expand employment opportunities.

Functions

i) It provides medium and long-term loans in Indian and foreign currency for importing capital equipment and technical services. Loans sanctioned generally go towards purchase of fixed assets like land, building and machinery;

ii) It subscribes to new issues of shares, generally by underwriting them or directly subscribing the same;

iii) It guarantees loans raised from private sources including deferred payment;

iv) It provides technical and managerial assistance to industrial units, along with consultancy services for new projects;

v) It provides assets on lease to industrial concerns. In other words, assets are owned by ICICI but allowed to be used by industrial concerns for a consideration called lease rent.

vi) It provides merchant banking services.

vii) Rs. 5 lakhs is the minimum amount sanctioned by it to a single concern and normally it does not go beyond the maximum limit of Rupees one crore.

V) National Bank for Agriculture and Rural Development (NABARD)

On 15th December, 1981, National Bank for Agriculture and Rural Development (NABARD) Bill was passed in the Parliament, which started functioning on 1st July, 1982.

NABARD was established according to the preamble to the Act, "for providing credit for the promotion of:

- Agriculture,
- Small-scale Industries

- Cottage and Village Industries
- Handicrafts and other rural crafts, and
- Other economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas...."

Objectives

1) The bank will serve as a financing institution for institutional credit such as long-term, short-term, and for the promotion of activities in rural areas.
2) To provide direct lending to any institution as may be approved by the Central Government.

Functions

The primary functions of NABARD can be classified under three heads –

I. Credit Functions

NABARD provides different types of refinance to eligible institutions. They assist entrepreneurs through:

a) Short-term credit to State Cooperative Banks, Regional Rural Banks and Other financial institutions approved by RBI for the following purposes:

   (i) Financing seasonal agricultural operations,

   (ii) Marketing of crops,

   (iii) Pisciculture activities

   (iv) Production/procurement and marketing of cooperative weavers and rural artisans societies and individually,

   (v) Production and marketing activities of industrial cooperatives.

b) Medium-term credit to State Cooperative Banks, State Land Development Banks, Regional Rural Banks and other approved financial institutions by RBI for converting short-term loans to medium-term for approved agricultural purposes.

c) Long-term credit to State Land Development Banks, Regional Rural Banks, Commercial Banks, State Cooperative Banks and other approved financial institutions.

d) Refinance to cottage/village/small-scale industries located in rural areas.

II. Developmental Functions

i) NABARD coordinates the operations of rural credit institutions

ii) It develops expertise to deal with agricultural and rural problems so as to assist in rural development efforts.

iii) It acts as an agent to the Government and RBI in the transaction of business in relevant areas and provide facilities for training, research and dissemination of information in rural banking and development.

iv) Contributes to the share capital of eligible institutions.

v) Provides direct loans to centrally approved cases.

III. Regulatory Functions

1) NABARD is empowered to undertake inspection of RRBs and Cooperative Banks, other than the Primary Cooperative Banks.

2) To open a new branch, a recommendation of NABARD is imperative by RRBs or Cooperative Banks to seek permission from RBI.

3) RRBs and Cooperative Banks, along with RBI, are required to file returns and documents with NABARD.

VI. Industrial Investment Bank of India Ltd. (IIBI)

The Industrial Investment Bank of India Ltd. (IIBI) was formed by transforming The Industrial Reconstruction Bank of India (IRBI). It was set up by IDBI at the instance of the Government of India in April 1971 for rehabilitation of sick industrial companies.

IRBI was incorporated under the Companies Act, 1956 and renamed as the Industrial Investment Bank of India Ltd. in March 1997.

Functions

IIBI offers a wide range of products and services such as:

1) Term-loan assistance for project finance.

2) Short duration non-project asset – backed financing working capital/other short term loans to companies,

3) Equity Subscription Asset Credit

4) Equipment finance

5) Investments in Capital Market and Money market instruments.

VII. State Financial Corporations (SFCs)

To meet the financial needs of small and medium enterprises, the government of India passed the State Financial Corporation Act in 1951, empowering the State governments to establish development banks for their respective regions. Under the Act, SFCs have been established by State governments to meet the financial requirements of medium and small sized enterprises. There are 18 SFCs at present.

Objectives

The objectives of state financial corporations are as under:

1) Provide financial assistance to small and medium industrial concerns. These may be from corporate or co-operative sectors as in case of IFCI or may be partnership, individual or joint Hindu family business, engaged not only in the manufacture, preservation or processing of goods, but also mining, hotel industry, transport undertakings, generation

or distribution of electricity, repairs and maintenance of machinery, setting up or development of an industrial area or industrial estate, etc.

2) Provide long and medium-term loan repayment ordinarily within a period not exceeding 20 years.

3) Grant financial assistance to any single industrial concern under corporate or co-operative sector with an aggregate upper limit of rupees Sixty lakhs. In any other case (partnership, sole proprietorship or joint Hindu family) the upper limit is rupees Thirty lakhs.

4) Provide Financial assistance generally to those industrial concerns whose paid up share capital and free reserves do not exceed ₹ 3 crore.

5) To lay special emphasis on the development of backward areas and small scale industries.

Functions

1) Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years, with option of conversion into shares or stock of the industrial concern.

2) Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.

3) Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.

4) Underwriting of the issue of stock, bonds or debentures by industrial concerns.

5) Subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern subject to a maximum of 30 percent of the subscribed capital, or 30 percent of paid up share capital and free reserve, whichever is less.

6) Act as agent of the Capital government, State government, IDBI, IFCI or any other financial institution in the matter of grant of loan or business of IDBI, IFCI or financial institution.

7) Providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.

8) Planning and assisting in the promotion and development of industries.

VIII. Tourism Finance Corporation of India (TFCI)

The Tourism Finance Corporation of India (TFCI) was born as a result of the Government of India's decision, in 1987, to promote a separate all-India financial institution for providing financial assistance to tourism-related activities/projects. It was incorporated as a public limited company under the Companies Act, 1956 on 27 January, 1989 and became operational with effect from 1 February, 1989. It is a specialized all-India development financial institution to cater to the needs to the needs of the tourism industry.

Functions

i) TFCI provides financial assistance to enterprises for setting up or the development of tourism-related projects, facilities and services such as hotels, restaurants, holiday resorts, amusement parks, entertainment centres, education and sports, rope ways, cultural centres, convention halls, transport, travel and tour operating agencies, air services, tourism emporia and sports facilities.

ii) It also provides advisory and merchant banking services in this field.

iii) The projects with a capital cost of ₹ 1 crore or above are generally eligible for assistance from TFCI. Smaller projects would also be considered.

iv) TFCI has sanctioned assistance to 2003 projects aggregating to ₹ 5.2 billion during the last five years, resulting in more than 12,217 hotel rooms and direct employment to 22,938 people.

IX. State Industrial Development Corporation (SIDCs)

Incorporated under the Companies Act 1956 SIDCs were setup in different states as wholly owned companies for promoting industrial development in their respective states. The main functions of SIDCs are as follows:

- Providing term finance to all small, medium, and large industrial enterprises set up in the state,
- Underwriting and directly subscribing to shares, and debentures of industrial enterprises being set up in the state,
- Preparing feasibility studies, conducting market surveys and motivating private entrepreneurs to set up their industrial ventures in the state;
- Collaborating with private entrepreneurs to set up industrial ventures in joint and assisted sector.
- Implementing IDBI's scheme of seed capital in the state.

Finance can be procured, just like any other resource, against a cost. Procurement of finance involves risk and formalities to comply with. Entrepreneurs need a careful attitude, to sensibly make a choice of sources to generate funds. No one source can be deemed to be the best source. Thus, it is always advisable to select a combination of sources so that both cost and risk can be kept at lowest.

SUMMARY

- *The role of transforming financial resources from the surplus units to the deficit units is referred as 'financial intermediation*
- *The place where the demand for and the supply of short term funds meet is called as money market*
- *A capital market may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the inventory to the entrepreneur*

- *Financial markets can be for initial issue and further issue*
- *Entrepreneurship may find it difficult to go for equity financing since the goodwill is not yet built up in the market*
- *Compliance with the SEBI guidelines is to be done for the investor protection*
- *Stock exchange is an investment intermediary & facilitate eco & industrial development of a country*
- *Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies*
- *Securities and Exchange Board of India (SEBI) was established as a supervising and regulatory body to curb certain malpractices and to promote the securities markets in India*
- *Angel investors: They fill the gap in start up between family and friends and venture capitalists.*
- *Venture capital is a type of private equity capital provided as seed funding to early stage, high potential, high risk, growth up companies/entrepreneurs who lack the necessary experience and funds to give shape to their ideas.*

Specialised Financial Institutions

National Level

1. Industrial Development Bank of India (IDBI) – established in 1964
2. Small Industries Development Bank of India (SIDBI) – established in 1990
3. Industrial Finance Corporation of India (IFCI) – established in 1948
4. Investment Credit and Investment Corporation of India (ICICI) – established in 1955
5. National Bank for Agriculture and Rural Development (NABARD) – established in 1982
6. Industrial Investment Bank of India (IIBI) – established in 1971

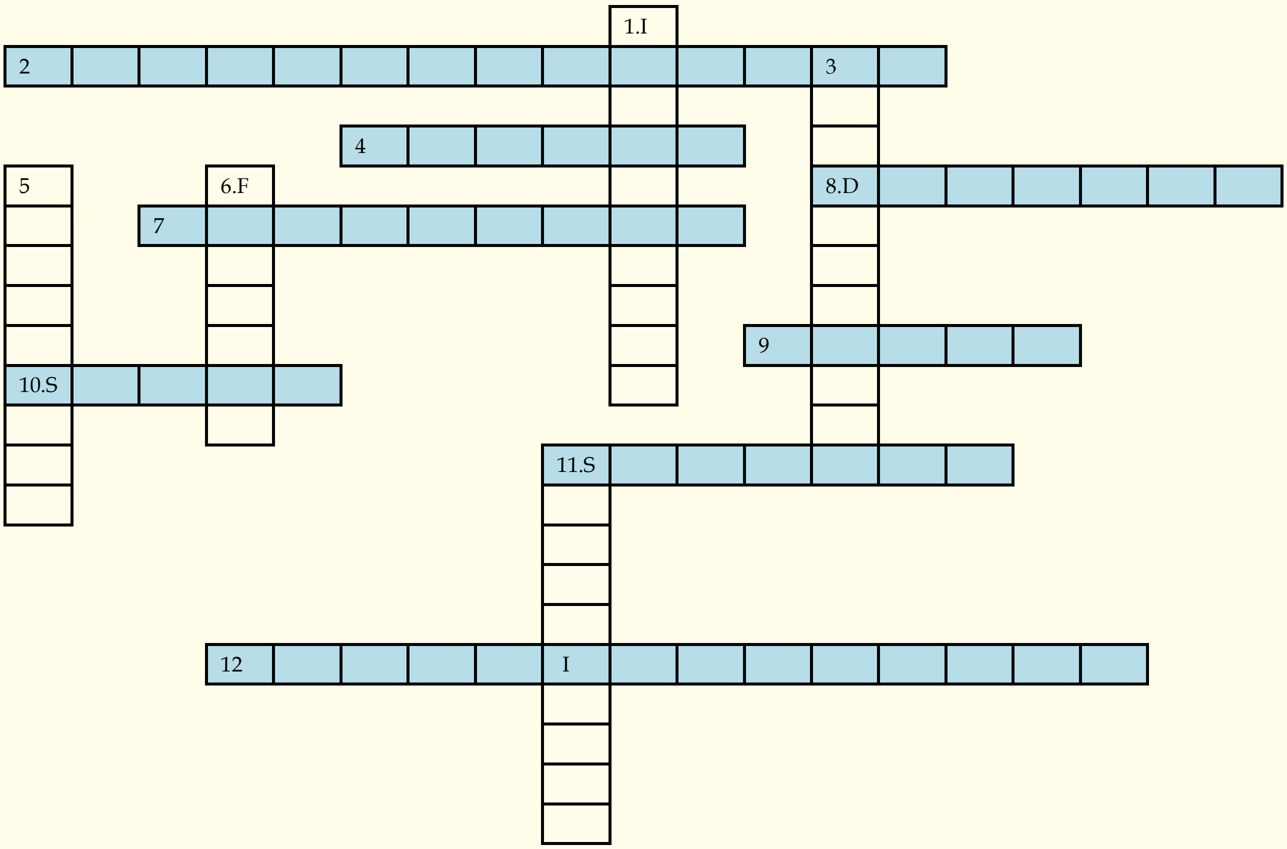
State Level

1. State Finance Corporations (SFC) – established in 1951
2. Tourism Finance Corporation of India (TFCI) – established in 1989
3. State Industrial Development Corporation (SIDC) – established in 1956

"The most valuable thing you can make is a mistake you can't learn anything from being perfect."

– Adam Osborne

REVIEW CROSSWORD PUZZLE



Across:

2. The costs that a company incurs when it makes a new issue of either stocks or bonds.
4. An individual or party that arranges transactions between a buyer and a seller for a commission when the deal is executed.
7. A measure of the ability of a debtor to pay their debts as and when they fall due.
8. An excess of expenditures over revenue.
9. An Index computed from performance of top stocks from different sectors listed on NSE.
10. It constitutes the equity stake of its owners.
11. Excess of revenue over expenditure
12. Affluent individual who provides capital for a Business start-ups and early stage companies using a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.

Down:

1. Something that motivates an individual to perform an action
3. The initial capital used to start a business
5. The action of becoming larger or more extensive.
6. The science of money management
11. A form of ownership that can be easily traded on a secondary market.

LET’S REVISE

Section–A: Finance

Q.1. Answer each of these questions in about fifteen words:

a) What do you understand by finance?

b) Give the significance of finance in an enterprise.

c) Name the most important pre-requisite to start an enterprise.

d) State the most important factors for the survival of any business enterprise.

e) State how sources can broadly be classified into 2 major categories.

f) What do you understand by internal sources of finance?

g) How will you differentiate between financial market with other market? Give one difference.

h) 'Production', 'Marketing', and Financing' – deemed as the most important factors for any business's survival rates. Among these name the most critical element and why?

Q.2. Answer each of these questions in about fifty words:

a) Which sources provide the supply for long-term funds?

b) Name the sources of demand for capital comes from.

c) Entrepreneur can use the capital raised for a variety of purposes, what are they?

d) How can an entrepreneur, raises funds by selling the issue mainly to the institutional investors?

e) How stock options lead to enable employees to become shareholders and share the profits of the company?

Q.3. Answer each of these questions in about two hundred and fifty words:

a) Explain some important sources of raising finance in business.

Section–B: Financial Markets

Q.1. Answer each of these questions in about fifteen words:

a) Define capital market.

b) Name the two players in the capital market.

c) Identify the reward IPO investors seek as an appreciation of their investment.

d) Identify the method of raising additional finance from existing shareholders by offering securities to them on pro-rata basis.

e) What do you understand by pro-rata allotment of securities?

f) What is Right Issue?

g) When the right issue are proposed to the existing shareholders and if they are not ready to subscribe what is the next step taken by an entrepreneur?

h) Why right issue method of issuing securities is considered to be inexpensive?

i) What do you understand by private placement?

j) What is meant by Stock options or offering shares to the employees?

k) Name the method which enables employees to become shareholders and share the profits of the company.

l) What is a secondary market?

m) What is the need of secondary market?

n) In what forms company can raise capital through primary market?

Q.2. Answer each of these questions in about fifty words:

a) For what purpose is finance required right from the very beginning i.e. conceiving an idea?

b) What is the need of finance?

c) An entrepreneur is a person who bears the risks, unites various factors of production and carries out a creative innovation, and for doing all these, what is the basic requirement to be reached to this extent.

d) State some mushrooming sources of raising finance in the business.

Q.3. Answer each of these questions in about one hundred and fifty words:

a) State the nature of money market. Who are the major participants in the money market?

b) Explain how Capital markets are the most important source of raising finance for an entrepreneur.

c) What do you understand by capital market? How can the capital market in India be broadly classified into different categories?

d) Write down the sectors of organized and un–organized market?

e) What is meant by primary market? Briefly explain the concept of 'Right Issue for existing companies'?

Q.4. Answer each of these questions in about two hundred and fifty words:

a) "An entrepreneur can raise the required capital in the primary market ". Explain the various methods of raising the funds in the primary market by an entrepreneur.

b) When an entrepreneur decides to go public and become a public company, he/she tends to be in advantageous positions and get many benefit out of it . Explain the benefits

c) While there are benefits to going public, at the same time additional obligations and reporting requirements on the companies and its directors means disadvantages too what are they? Explain.

Q.5. HOTS: (High Order Thinking Skills)

a) Why primary market is also known as new issue market? Give one reason.

Section–C: Stock Exchange

Q.1. Answer each of these questions in about fifteen words:

a) What are the responsibilities of governing body?

b) Name the stock exchanges were most of the stock trading in India is done.

c) What is a secondary capital market?

Q.2. Answer each of these questions in about fifty words:

a) What is the alternate name of stock used by different people?

Q.3. Answer each of these questions in about one hundred and fifty words:

a) Explain the importance of Stock Exchange from the viewpoint of companies.

b) Explain the importance of Stock Exchange from the viewpoint of investors.

c) Explain the importance of Stock Exchange from the viewpoint of society.

d) Rahil (Finance) and Anushk (HR) are doing MBA (IIM Indore) While reading the newspaper Anushk saw the heading 'Sensex goes up. But last week the heading was different that 'Sensex goes down. , now some confusion was going on his mind, immediately he asked his Friend Rahil the same? Now according to you how Rahil will clear the confusion of Anushk? Explain and give some value points

Q.4. Answer each of these questions in about two hundred and fifty words:

a) Write down the features of stock exchanges.

b) Explain the functions of stock exchange.

Q.5. HOTS: (High Order Thinking Skills)

a) Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies. Explain the important functions of stock exchanges.

Section-D: SEBI & Others

Q.1. Answer each of these questions in about fifteen words:

a) What do you mean by stock exchange?

b) What is SEBI?

c) State three functions of SEBI rolled into one body.

d) "Humorously, they were once given the acronym FFF for Angel Investors ". What is FFF stands for.

e) What do you understand by angel investors?

Q.2. Answer each of these questions in about fifty words:

a) What is SEBI and what is its role?

b) Who manages SEBI?

c) Explain briefly the three functions of SEBI rolled into one body.

d) What do you understand by venture capital?

e) Enlist several categories of financing possibilities in which smaller ventures sometimes rely on.

f) Why are Venture capitalists typically very selective in deciding while doing the investment?

Q.3. Answer each of these questions in about one hundred and fifty words:

a) Explain the powers SEBI has been vested wit for discharging of its functions efficiently.

b) What are the features of venture capital finance?

c) When can an entrepreneur seek venture capital financing?

Q.4. Answer each of these questions in about two hundred and fifty words:

a) Explain the characteristics of angle investors.

Q.5. HOTS: (High Order Thinking Skills)

a) Why it is said that "A venture capitalists investments are illiquid". Give reason.

Section–E: Specialised Financial Institutions

Q.1. Answer each of these questions in about fifteen words:

a) What is the role of Specialized Financial Institutions in India?

b) Enumerate the types of Specialised Financial Institutions from were entrepreneur can access capital according to their need and requirements.

c) When was SIDBI established?

Q.2. Answer each of these questions in about fifty words:

a) Explain the need and importance of Specialized Financial Institutions in India?

b) Explain the objectives and functions of SIDC.

b) Write the full form of & when it was established.

i) SIDC	ii) TFCI
iii) SFC's	iv) NABARD
v) IFCI	vi) IDBI
vii) ICICI	

Q.3. Answer each of these questions in about one hundred and fifty words:

a) Apoorva wants to start a new business near to her locality, for which she requires capital.

State different types of national level and state level financial institutions from where Apoorva can access capital according to her needs and requirements.

b) Write down the objectives of IDBI.

c) Write an explanatory note on the financing schemes of state level financial institutions and their importance in promotion of an entrepreneur in India.

d) Write a short note on IIBI.

e) Describe the form of assistance provided by SIDBI to the industrial concern.

Q.4. Answer each of these questions in about two hundred and fifty words:

a) Explain the main objectives and functions of ICICI.

b) Explain in detail objectives and three important Primary functions of NABARD.

Q.5. HOTS: (High Order Thinking Skills)

a) TFCI is playing vital role in the development of entrepreneurship in modern economy". Comment.

b) Hari is an entrepreneur who wants to start an amusement park in Indore. He knows that she needs a huge amount of initial capital. According to you which of the financial institution will be more suitable to him? Suggest and Explain why?

c) Assuming that you wish to start a small scale industry for manufacturing and selling detergent powder, discuss how would you seek support of financial institutions.

d) Discuss the advantages and disadvantages of financial institutions for an entrepreneur.

e) Distinguish between ICICI and SIDBI.

f) How NABARD is different from TFCI.

g) Company A goes for public issue of 10,000 shares @₹ 10 each. Application were received for only 5,000 shares. Can the company proceed with the process of issuing shares.

Value Based Question

Q1. Harish is working as the chief accountant in ABC infrastructure Ltd. He came to know that the company is planning to announce an interim dividend. He purchased 2000 shares of the Co. at the market price of ₹ 215 with the expectation of an appreciation in the market price. When the price increased to ₹ 537 he sold his holdings & made a handsome profit. Name the related concept which social values have been affected here?

Q2. By offering shares to its employers what values are promoted by a company

Q3. Mr. B the financial Manager of ABC Company purchases 100 shares of the Company just before the rights issue was announced. Is the behaviour of the manager ethical? What would you do as a legal advisor of the company.

Suggested Activities:

1. Role play

   A group of students can represent an entrepreneurial venture & another group individual should represent venture capitalists.

   The entrepreneurs have to present a business idea to seek funds

2. Prepare a fictitious prospectus for an IPO. You have to think of the business, promoters, future projects, investments initiated.

3. Find out 5 entrepreneurial ventures which have received financial assistance from IDBI.

4. Find out from an existing entrepreneur the problems faced by her/him while seeking finance.

5. Visit IFCI & enlist its major activities.

Solutions to Crossword Puzzles

Unit–1: Entrepreneurial Opportunity

Across:
1. Customer
3. Entrepreneur
6. Opportunity
9. Change
12. Innovation
13. Economic
14. Vision

Down:
1. Creativity
8. Skill
9. Competition
10. Product
4. Resources
5. Funds
7. Profit
11. Capital

Unit–2: Entrepreneurial Planning

Across:
1. Sole proprietor
4. Balance sheet
3. Co-operative society
5. Excise duty
6. Business plan
8. Limited Liability
11. Man power
13. Customer duty
14. Shipping

Down:
2. Partnership
4. Breakeven
7. Cash flow
9. Collateral
10. Utility
12. Routing

Unit–3: Entrepreneurial Marketing

Across:
1. Quality
3. Negotiation
4. Labelling
9. Stakeholder
10. Radio
12. Skimming
13. Goal
14. Tagline
16. Customer relation

Down:
2. Trademark
5. Brand
6. Goodwill
7. Advertising
8. Packaging
11. Online
15. Logo

Unit–4: Enterprise Growth Strategies

Across:
2. Acquisition
3. Culture
4. Logistic
6. Merger
8. Franchisor
9. Infrastructure
10. Synergy

Down:
1. Franchise
4. Leadership
5. Collaboration
7. Expansion
11. Conglomerate
12. Leverage

Unit–5: Business Arithmetic

Across:
1. Unit price
3. Gross profit
5. Amortization
6. Return on investment
8. Depreciation
9. Working capital
10. Lead time
11. Cash flow
12. Creditor

Down:
1. Budget
4. Sales budget
7. Variable cost

Unit–6: Resource Mobilization

Across:
2. Flotation cost
4. Broker
7. Liquidity
8. Deficit
9. Nifty
10. Stock
11. Surplus
12. Angel investors

Down:
1. Incentives
3. Seed capital
5. Expansion
6. Finance
11. Securities

❀ ❀ ❀

APPENDIX

Guidelines for Practical Examination

The main objective of the course in Entrepreneurship is to generate among students the initiative, creativity, self-reliance and enthusiasm so as to empower them to become entrepreneurs, both in spirit and performance. A number of skills such as observation, evaluation, communication, resource mobilization and management, risk assessment, teams building etc. are also to be developed in the students. Leadership qualities, sensitivity to business ethics and adherence to a positive value system are the core disciplines that the course highlights while presenting different concepts related to entrepreneurship.

Such a course should necessarily have a strong experiential component in the form of practical work. The objectives of the practical work are:

- To introduce the world of business by developing core skills and competencies required for an entrepreneur.
- To develop qualities such as leadership, confidence, initiative, facing uncertainties, commitment, creativity, people and team building, integrity and reliability.
- To enable the acquisition of skills and knowledge needed for conducting surveys, collecting, recording and interpreting data, and preparing simple estimates of demand for products and services.
- To enable students to prepare a Project Report.

  To equip students with the knowledge and skills needed to plan and manage an enterprise through case studies, conducted and recorded by the students in different fields such as resource assessment, market dynamics, finance management, cost determination, calculation of profit and loss etc.
- To instill important values and entrepreneurial discipline.

Project Details

Students will have to fulfill the following as a part of the project work:

I.	Market survey (options given)	10 marks
II.	Business plan	10 marks
III.	External practical written paper	5 marks
IV.	External viva	5 marks
		30 marks

I. Market Survey

Students will have to conduct the survey in any one of the below mentioned topics and follow the guidelines:

A. Conduct a simple market research with the objective of estimating demand for an existing product in the market. Students will have to give an innovative suggestion to the product.

B. Conduct a survey for a new innovative product.

C. Conduct a survey for study on

a) Smoking habits

b) Skill Trading Option in an economic backward neighborhood

c) Wearing Helmets

d) Attitudes of Road Users

e) Conservation of Electricity

f) Rainwater Harvesting

Guidelines for Survey No. A

Students will have to find out the demand for any one of given in the boxes:

Mosquito repellant cream	Towels	Powder	Papad
Milk	Wall clock	Ghee	Salt
Curds	Organic dals	Mineral water	Basmati rice
Ball	Umbrella	Dry fruits	Fitness equipment
Car tyres	Mattress	Hand blender	Frozen food
Bed sheets	Keyboard	Cookies	Tiles
Crayons	Lip balm	Cooking oil	Curtain materials
Educational Toys	Hair color	Plastic chairs	Microwave oven
Bathroom fittings	Non–stick cookware	Sweets	Toaster
Geyser	Cooker	Candy	
Water dispenser	Craft glue	Pickle	

- Students can also select any other product.
- An innovative idea regarding the product must be suggested by the student.
- The product, along with the innovation may be discussed in class and finalized.
- Avoid products whose use is discouraged/banned by the society and government like alcohol/pan masala, tobacco products, etc.

Identify one product from the given box which you like to manufacture [pre–assumption]. Now, make a project on the identified product, keeping in mind the following:

1. Think of an innovation in the selected product, (innovation could be in product content, feature, design, packaging, distribution, strategy, service etc.)
2. Test the feasibility of this innovation via market analysis, using an objective questionnaire.
3. Competition analysis (2–3 existing brands in the same category).
4. Questionnaire analysis
5. Recommendation to the company (For example, if you have chosen hair oil and if you want to find out the demand for Dabur Vatika then please give suggestions to the company as to how they can improve their product)

Two examples have been provided for students as to how questionnaires have to be framed and analysis to be done.

Market Survey on Hair Oil

Purpose of survey: To collect primary data for the preparation of class XII Entrepreneurship market survey report, the product being researched is "Hair oil". The idea of attaching a vibrating scalp massager to the hair oil bottle is also being researched here.

General instruction

1. Filling personal details is optional.
2. All the questions are compulsory.
3. Only one alternative option to be chosen other than the places specified.
4. Answer by tickingof the most appropriate option.

Disclaimer: All information provided will be treated as confidential.

Personal details

Name________________________________ Age__________________

Occupation______________________ Email_______________________

Q1. Do you use hair oil?

☐ Yes ☐ No

Q2. Which brand of hair oil do you use?

☐ Keokarpin ☐ Daburamla ☐ Bajaj almond drops

☐ Mustard oil ☐ Olive oil ☐ Coconut oil

any other please specify______________________

Q3. Are you satisfied with the hair oil you are using?

☐ Yes ☐ No

Q4. How frequently do you oil your hair?

☐ Daily ☐ 2–3 times per week ☐ Once a week ☐ Once a month

Q5. When do you apply oil on your hair?

☐ 10 hour before shampooing ☐ 3–6 hours before shampooing

☐ Overnight

Q6. What motivated you to buy this hair oil?

☐ Price ☐ Brand image ☐ Quality ☐ Any other please specify

Q7. Which informative source influences your decision to buy this hair oil?

☐ Family recommendation ☐ Beauty clinics ☐ Friends ☐ Advertisements

Q8. Which pack size do you prefer the most?

☐ 50 ml ☐ 100 ml ☐ 150 ml

☐ 200 ml ☐ 300 ml ☐ Any other please specify

Q9. According to you, what would be the reason for oiling hair regularly?

☐ to make it strong ☐ to improve hair luster ☐ to control hair fall

☐ to prevent dryness and dandruff ☐ to have long hair ☐ all the above

Q10. Will you prefer to buy a hair oil attached to a vibrating scalp massager and when you tilt the bottle on to bottle of head not only will the oil ooze out but your scalp will also get massaged, thus leaving you with clean hands even after using oil?

☐ Yes ☐ No

Thank you for your co–operation and precious time.

(As you can see in this questionnaire, the first question asks whether the person uses hair oil or not. In case more respondents say that they do not use hair oil, then the student has to change the product. The last question caters to the innovation associated with the product).

Market Survey
Product: Washing Detergent

Purpose of the survey: To collect primary data for preparation of Class–XII Entrepreneurship Market Survey Report. Feasibility of a newly innovated stain removing detergent patch is also being studied.

General instructions:

1. Filling personal details is optional.
2. All questions are mandatory.
3. Choose only one response.
4. Respond by ticking (√) the most appropriate option.

Disclaimer: All responses will be treated as confidential and used for academic purpose only.

Personal Details

Name:____ Age: ____________________

Gender: ☐ Male ☐ Female

Occupation________________________________ Email:______________________________

Questionnaire

1. How do you wash your clothes?

   ☐ Hand Wash ☐ Washing Machine

   ☐ Laundry ☐ Both hand wash and washing machine

2. Which washing machine detergent are you using now?

   ☐ Ariel ☐ Surf Excel

   ☐ Tide ☐ Rin

   ☐ Others_______________

3. Which hand wash detergent powder are you using now?

   ☐ Ariel ☐ Surf Excel

   ☐ Tide ☐ Rin

   ☐ Others_______________

4. What motivated you to buy this washing detergent?

☐ Price ☐ Quality

☐ Brand Image ☐ Any Others________________

5. From where did you come to know about your detergent?

☐ Friends ☐ Family

☐ Retailers ☐ Advertisements

6. Do promotional schemes (For example, Buy 1 get 1 free) influence you in buying the product?

☐ Yes ☐ No

7. Does your washing machine detergent remove stains from your clothes the very first time itself?

☐ Yes ☐ No

8. Have you faced difficulty in removing stains from clothes during the wash?

☐ Yes ☐ No

9. Do you think that stain can be removed only washing by hand?

☐ Yes ☐ No

10. Will you buy a new detergent patch (like band aid), which when put on stains on the clothes, will remove them immediately?

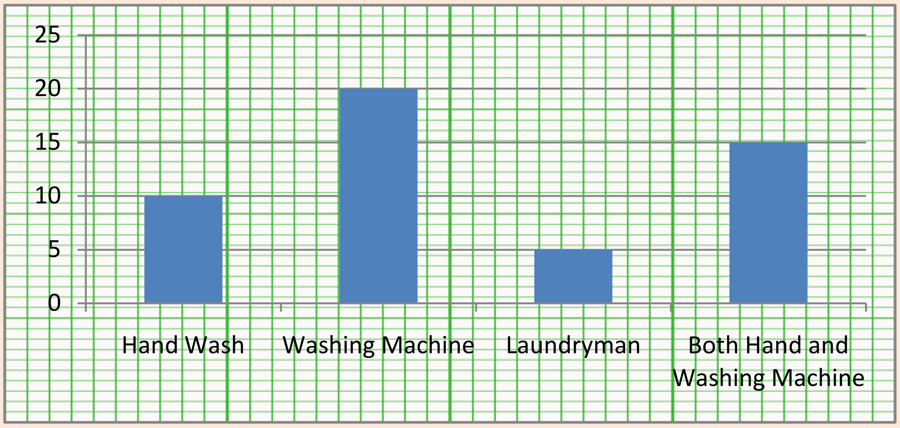
☐ Yes ☐ No

Stains on clothes

Examples for questionnaire analysis / suggested solutions:

Q1. How do you wash your clothes?

The questionnaire was surveyed from 50 respondents to know which method of washing clothes they prefer the most. Out of 50 respondents, 20 prefer using the washing machine whereas 10 respondents prefer to washing clothes by hand, 15 respondents wash their clothes both by hand and washing machine and only 5 respondents like to give their clothes to the laundryman. *So, we can conclude by saying that maximum number of women likes to wash their clothes with the help of washing machine on the other hand very few women likes to give their clothes to laundryman for washing.*

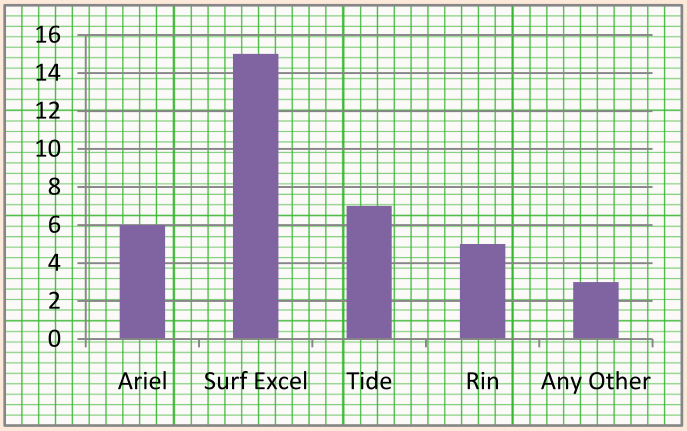


Preference of ways of washing clothes

Q2. Which washing machine detergent you are using now?

According to the survey conducted 35 women wash their clothes with the help of washing machine. Surf Excel is the detergent which is preferred most by 15 respondents. Tide is the next detergent which is preferred by 7 respondents whereas, Ariel and Rin are used by 6 and 4 respondents respectively.

So, we can conclude that Surf Excel washing machine detergent has the greatest demand in the market whereas Tide and Ariel are gaining demand among customers. There were a few more detergents like Asset,Amway etc. which are used by very fewrespondents.

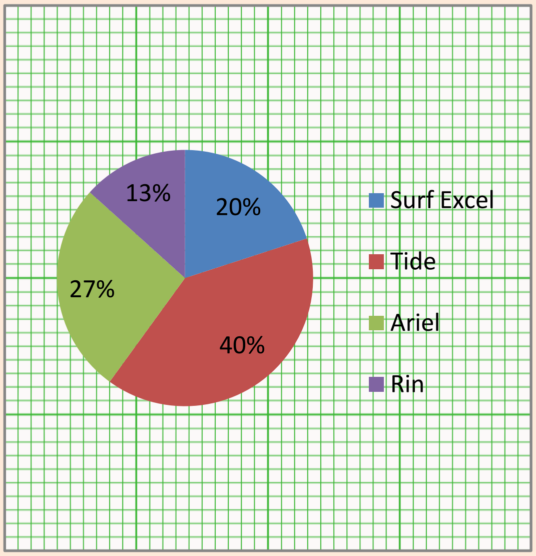


Preference of washing machine detergent

Q3. Which hand wash detergent are you using now?

As per the bar diagram alongside 15 respondents wash their clothes by hand. Tide is the detergent which is preferred most by 6 respondents whereas Ariel, Surf Excel and Rin are used by 4, 3, and 2 respondents respectively.

Tide is the detergent which has a great demand among the respondents who washclothes by hand. As it provides good quality at a reasonable price. Whereas Ariel, Surf Excel and Rin have to improve in order to gain market demand.

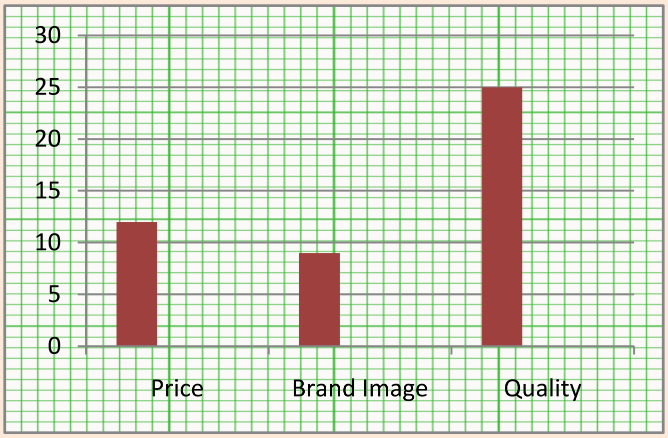


Preference of hand wash detergent

Q4. What motivated you to buy this washing detergent?

On the basis of the survey, the maximum numbers of respondents are motivated to buy a washing detergent because of the quality of detergent, 25 respondents look at quality whereas 12 and 8 respondents focus on price and brand image of the detergent, respectively.

So, we conclude that quality is the most important factor in selecting a detergent followed by brand image and price.

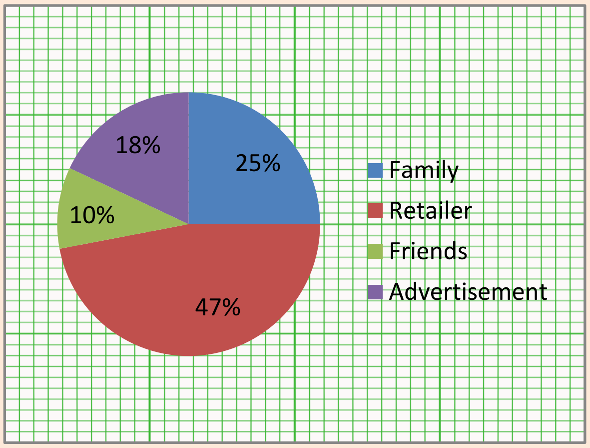


Factor motivating to buy the product

Q5. From where did you come to know about your detergent?

According to the survey, 47% of the 50 respondents came to know about the detergent from TV advertisements, whereas 12 and 4 respondents came to know about it from family and friends, respectively. 9 respondents came to know about their detergents from retailers.

As the maximum number of respondents got to know about their detergent from advertisements, this shows us how effective TV advertisements are as a means of promoting brands.

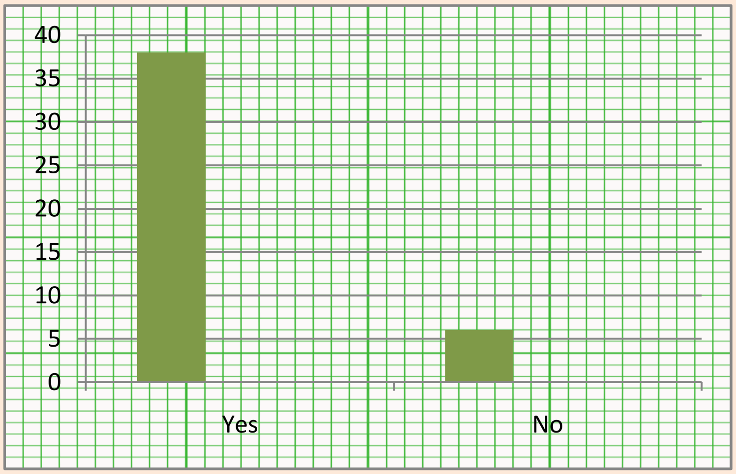


Source of information

Q6. Do promotional schemes (For example, Buy 1 get 2 free) influence you in buying the product?

As depicted in the bar diagram, maximum number of respondents i.e. 39 out of 45 respondents are influenced by the promotional schemes like buy 1 get 1 free, whereas 6 respondents are not influenced by such promotional schemes.

So we conclude say that promotional schemes play a major role in influencing customersbuying the product.

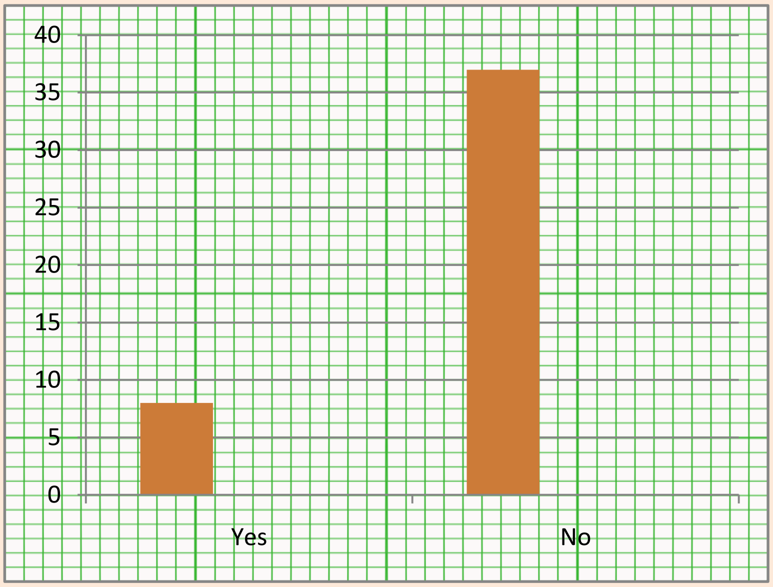


Effect of promotional schemes

Q7. Does your washing machine detergent remove stains from clothes after the very first use?

According to the survey, 37 respondents say that their washing machine detergent does not remove the stain from their clothes the very first time, whereas 8 insist that their washing machine detergent removes stains from their clothes the very first use.

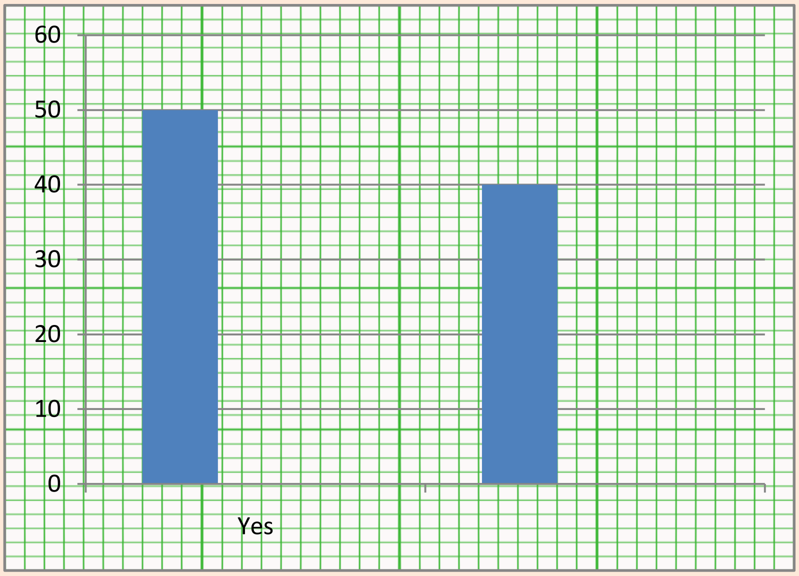
From this we infer that the maximum number of respondents face difficultieswhile removing stains from clothes.



Q8. Have you faced any difficulty in removing stains from your clothes while washing by hand?

According to the survey, 40 respondents face difficulty while washing by hand, whereas 5 respondents did not face any problem.

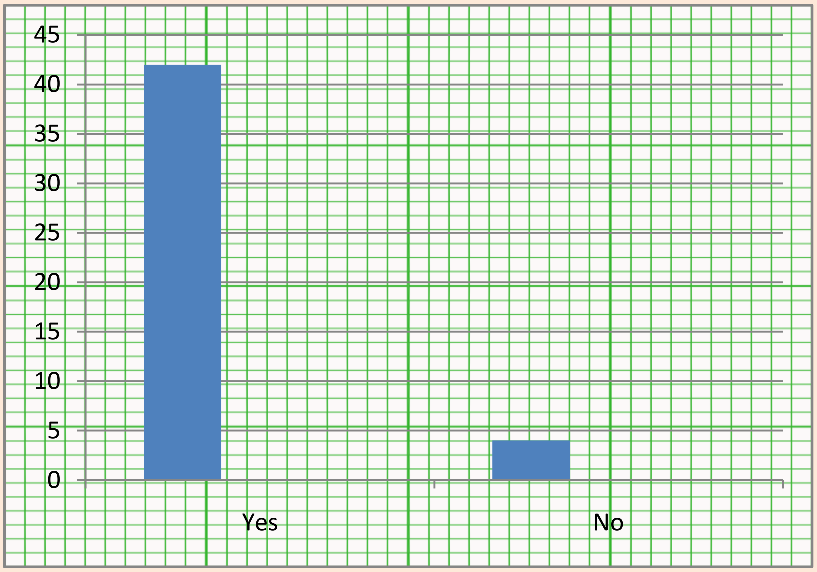
The maximum number of respondents face difficulty. If a new detergent patch is introduced which will remove stains people may accept that product.



Q9. Do you feel that stains can be removed only washing by hand?

According to the survey, 42 respondents believe that the stains can be removed only washing by hand, whereas 3 believe that the stain cannot be removed by washing by hand.

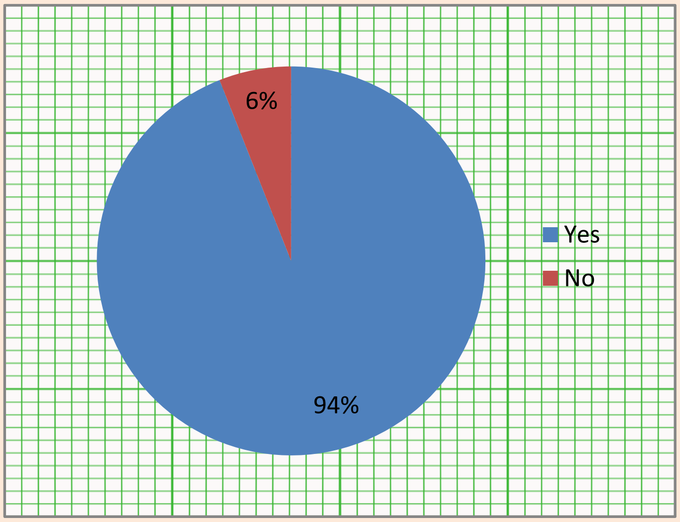
Can stains be removed only washing by hand?



Q10. Will you buy a new detergent patch (like band aid) which can be put on a stained portion of the cloth, to remove the stain immediately?

On the basis of survey, 43 respondents agree to use the new detergent patch which when puton a stained portion of cloth, will remove that stain immediately. On the other hand, 2 respondents did not accept the new detergent patch.

From this we conclude that if the product,the washing detergent patch, when introduced in the market will have a good demand.



Preference of new detergent patch

ENTREPRENEURSHIP

Guidelines for Survey no. B

Students can choose any new innovative product which does not exist in the market as of now, and find out the demand for that product.

1. Test the feasibility of this innovation via market analysis, using objective questionnaire as a tool.
2. Questionnaire analysis: Frame all the 4 P's of marketing:
   i) Product
      a) Features
      b) Design
      c) Brand name
      d) Logo – tagline
      e) Package
      f) Label
   ii) Price
      a) Pricing strategy
      b) Price to retailers, wholesalers
      c) Price for different segments
   iii) Place
      a) Transportation
      b) Warehousing
      c) Distribution strategy
      d) Channel
   iv) Promotion
      a) Techniques
      b) Strategy
      c) Design at least 5 advertisings using different mediums
3. Social responsibility/message

Market Survey
Product: Printer

Purpose of the survey: To collect primary data for the preparation for Class–XII Entrepreneurship project on Market Survey. The product being researched is a printer. Feasibility of a newly innovated pencil printer for home use by students, is also being studied.

General instructions:

1. Filling personal details is optional.
2. All questions are mandatory.
3. Only one answer has to be chosen, unless specified otherwise.
4. Answer by ticking (√) the most appropriate option.

Disclaimer: All information provided will be kept confidential and used for academic purpose only.

Personal Details

Name:____ Age: ____________________

Gender: ☐ Male ☐ Female

Occupation________________________________ Email:_____________________________

Questionnaire

1. Which brand of printer do you own?

   ☐ HP ☐ Dell ☐ Epson ☐ Lenovo ☐ Any other________________

2. What type of printer do you own?

   ☐ LaserJet ☐ Inkjet ☐ All–in–one printer (scanner, fax, printer)

3. Which printer do you prefer?

   ☐ Colour ☐ Black and White ☐ Both

4. For what do you use the printer?

   ☐ Printing pictures ☐ Printing assignments ☐ Printing documents

5. How many pages do you print in a month?

   ☐ 5–10 pages ☐ 10–20 pages ☐ 20–30 pages ☐ 50 and above

6. Who influenced you at home to buy the current printer?

   ☐ Own decision ☐ Family ☐ Friends ☐ Printer retailers ☐ Others

7. From where did you purchase it?

   ☐ Company showroom ☐ Online purchase ☐ Friends/relatives (second hand)

   ☐ Department store, like Croma etc. Abroad (specify where)___________

8. The price range of your printer is.

   ☐ ₹ 5000–10000 ☐ ₹ 10000–15000 ☐ ₹ 15000–20000 ☐ ₹ 20000 and above

9. What is most important feature of your current printer?

☐ Wi-fi connectivity ☐ Compatible with all types of computers

☐ Quality of printout ☐ Scanner, fax and photocopy features.

Any other____________________

10. What features do you consider while purchasing a printer?

	Most important	Somewhat important	Not important
Brand name			
Quality			
Price			
Size			
Speed			
Style/design			
Durability			
Guarantee			
Warranty			
After sales service			
Accessories			

11. Which new feature would you like in your (next) new printer? (tick if more than one is required)

☐ Speed ☐ Quality of print ☐ Wireless ☐ Light weight ☐ Ink free

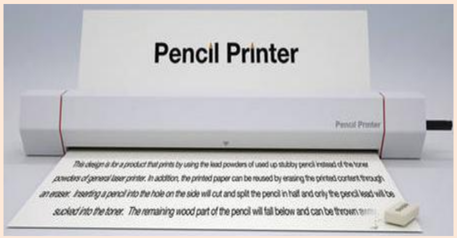
☐ Eco friendly (uses pencil for printing)

12. Do you face any problem in refilling the toner/frequent purchasing of toner/jamming of ink because of not using the printer for a long time?

☐ Yes ☐ No

13. Would you buy a printer which uses lead pencils for printing black and white prints and colour pencils for colour printouts?

☐ Yes ☐ No



Thank you for your co–operation and precious time.

Guidelines for Survey no. C

Students can choose any one of the given topics (mentioned on page 1) or any other topic suggested by the teacher which is of social relevance.

1. A questionnaire must be framed
2. Analysis for the questionnaire should be done
3. Solutions for the social problem to be given.

Outreach Programme: Survey Format for Parents

Name ______________________________

Age______________ Tel. No.________________________ Income____________________________

Occupation: Business/Profession/Service

1. No. of children.

   a) One b) Two c) Three

2. Which two wheeler have you given to your child?

   a) Scooty b) Scooter c) Bike d) Cycle

3. Which brand?

4. When did you get the vehicle for your child?

   a) 14 yrs b) 15 yrs c) 16 yrs d) 17 yrs e) 18 yrs

5. What was the reason for getting him the vehicle?

   a) School transport b) Evening transport c) reward

6. How did your ward convince you?

   a) Emotionally b) Good result c) Birthday gift d) Any other

7. Any mishaps? Extent:

8. Does your ward wear a helmet?

   a) Always b) At times c) rarely

9. Did your ward go through any formal training?

   a) Yes b) No

10. Do you feel that your city needs "Two wheeler" training school?

11. Did your child get his/her license himself/herself?

    a) Yes b) No

12. When did your child get his/her license?

    a) At 18 years b) After 18 years c) Before 18 years d) Not yet

13. What amount of money you spend monthly for the maintenance of two-wheeler?

    a) Less than ₹1000 b) ₹1000-1500 c) ₹1500-2000 d) More than ₹1000

14. Are you happy by giving him/her a two wheeler?

    a) Yes b) No

Format for Presentation of Market Survey Report

1. The project should be done individually.
2. The project should be hand written in white one side ruled sheet or single colored sheets only.
3. Page limit – 20 to 25.
4. The survey report should be original and proper analysis for all questions in the questionnaire should be done.
5. The format for presentation of report which should be arranged in the following sequence:
   a) External cover page
   b) Acknowledgement
   c) Executive summary
   d) Index
   e) Introduction to the topic *(Introduction, objectives)*
   f) Profile of the organization
   g) Data analysis and interpretation
   h) Conclusion and recommendation
   i) Photographs
   j) Bibliography
   k) Appendix
   l) Teacher's observation
   m) Signature of teacher

a) Example: Format for external cover page.

Market Survey Report on Hair Oil

Under the guidance of:	Submitted by:
(Name of the teacher)	(Name of the student)
	Roll No.:

(Logo of the school)
(Name and address of the school)
Batch 2014–15

b) Acknowledgement

I, (name of the student) do hereby declare that this project is my original work and I would like to thank (name of the teacher) for her wholehearted support and guidance for making it possible to complete this project on time.

I would also like to thank my friends and family members for their kind support and guidance without which this project would not have completed.

(Name and sign of student)

c) Executive summary

This should not be more than a page and it contains in a concise form the details about the entire project. Any person who wants to know about the project should be able to understand it once they read the executive summary.

d) Index

The entire chapter list should be indicated along with page numbers

e) Introduction to the topic

This will be around 1–2 pages having details about the project. For Example, *i*n the above mentioned topic you can write in detail about the reason as to why you have chosen hair oil (in this case) as your product and what do you expect to find out.

Objectives: 1 page (3–4 points)

For example:

- To understand the oil industry as a whole.
- To find out the possibility of marketing a new hair oil product in the market etc.

f) Profile of the organization/product

Write in detail about the organization/competitive product or brands that you have chosen. (Page limit for this chapter will depend upon the project).

g) Data Analysis and interpretation

A questionnaire should be prepared for the purpose of analysis

Guidelines for preparation of questionnaires:

i) The number of questions should be a minimum of 8 and maximum 12.

ii) Either typed or handwritten.

iii) All questions should be closed ended, except of one open–ended question.

iv) Minimum number of questionnaires to be filled should be least 20.

v) Analysis of all the questions to be done.

vi) Analysis in the form of a pie diagram or bar chart (on a graph sheet).

vii) Interpretations of the analyses based on the pie diagram/bar chart to be mentioned.

h) Conclusion and recommendations

The complete findings of the project is to be presented in this chapter, in point form (2 pages)

i) Bibliography

Names of books used and website addresses

j) Appendix

Definitions of terms used;

All the filled in questionnaires to be attached here

k) Market survey proforma

See attached proforma

Market Survey Evaluation Proforma (For teacher's use)

Student's name: ____________________________

Roll no.: ____________________________

Class: ____________________________

Section: ____________________________

Teacher's assessment

Basis	Maximum marks	Marks obtained
1. Initiative, cooperativeness and participation	2	
2. Creativity in presentation	2	
3. Content, observation and research work	3	
4. Analysis of situations	3	

Overall remarks

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Internal teacher's signature External teacher's signature

Date....................................... Date..

School stamp

Project–II Business Plan (10 Marks)

Outline for the Business Plan Presentation

1) Your business idea: (Main product or service)

Product	Services	Trading
Chocolates Soap Detergent powder/liquid soap Sandwiches	Tiffin service Crèche Pet care center	Stationery Flower shop

2) Name of your business, its logo and tagline

   (Refer to unit 3, Class XII Entrepreneurship Book)

3) Are there similar products or services in the market?

4) What is your competitive advantage and what is your unique selling proposition (USP)?

5) Your marketing plan:

   a) Your market research plan (Describe your competitor, demand for your product/service – is it available or you think you can create it?)

      Talk about atleast 3 competitors if it is an existing product. If it is a new product, then analyse the demand for the product.

   b) Your target customers and how will you reach them?

      Example: children, teenager, homemaker, working persons etc.

   c) Your advertising and promotion ideas

      Just mention the tools of promotion mix which you will be using.

   d) Packaging (if applicable)

      Eco-friendly packaging

   e) Distribution (How do you intend reaching your customers?)

      Channel of distribution – direct and indirect

   f) What does quality mean for your product or service?

      ISI, Agmark, FPO etc.

6) What is the cost per unit of your product or service? Also, show the computation or explain the logic.

   Compute fixed cost – ANY of the following details can be added

   1) Consultancy charges   *2) Salary*

   3) Rent   *4) Insurance*

   Variable cost – Any of the following details can be added

   1) Packing charges   *2) Raw material*

   3) Power   *4) Wages*

7) What is your selling price and your reason for it?

8) Give details of your start–up costs here.

1) Land *2) Building*
3) Computers *4) Equipment*
5) Machinery *6) Vehicles*
7) Vessels *8) Software*
9) Inauguration ceremony *10) Raw material*
11) Salary *12) Rent advance*

9) How would you meet your startup costs (be realistic)?

10) What are the likely risk factors in your business and how do you plan to mitigate them?

11) Suppose it is now a year since you started your business. Give us one month's profit and loss statement for the first month of the second year to cover the following main items: (All figures to be for one whole month.)

S. No.	Particulars	Units	Rupees
a)	Sales		
b)	Cost of sales		
c)	Gross profit = a–b		
	Fixed expenses (cash)		
	Salaries		
	Rent		
	Utilities		
	Monthly interest only on the loan taken		
	Transport		
	Miscellaneous		
d)	Total fixed expenses (cash)		
e)	Depreciation (non-cash)		
f)	Total fixed exp(cash &non-cash) = d+e		
g)	Operating profit or loss = c–f		
h)	Taxes = use 25% on profits only		
i)	Net profit/or loss = g–h		

12) What is the break-even point of your business? Show the computation assuring the selling price and units which will be sold.

Proforma for evaluation (For teacher's use)

Business plan evaluation proforma

Student's name: ____________________

Roll no.: ____________________

Class: ____________________

Section: ____________________

Teacher's assessment

Basis	Maximum marks	Marks obtained
1. Product selection and details	1	
2. Profit and loss statement	2	
3. Fixed and variable cost details	2	
4. Start up cost calculation	2	
5. Computation of breakeven point	3	

Overall remarks

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Internal teacher's signature External teacher's signature

Date....................................... Date.......................................

School stamp

III. External Practical Written Paper

Teachers who will be conducting the external practical examination should frame their questions for 5 marks from any one OR a combination of the following topics:

1. Calculation of EOQ
2. Calculation of working capital requirements
3. Calculation of breakeven point
4. Identification and calculation of start–up costs/fixed cost/variable cost

Permission Letter

Photo of student

In an attempt to facilitate better understanding of the subject "Entrepreneurship", CBSE has made it mandatory for the student opting for the subject, to undertake an "Industrial visit/Survey" as a part of the curriculum.

This is to certify that ....of class ....section..............is a bonafide student of .... and has been permitted within the framework of CBSE to undertake this visit.

Looking forward to your cooperation in making this activity a success and a great learning experience for the student.

Thanking you.

....
Principal

....
Teacher Incharge

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By: Vir Sanghavi

2. Women of Vision
By: Alam Srinivas

3. Stay Hungry Stay Foolish
By: Rashmi Bansal

4. Connect The Dots
   By: Rashmi Bansal
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   By: Rashmi Bansal
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7. Entrepedia
   By: Prof. Nandini Vaidyanathan
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   By: Ark Sarma
9. The Game Changers
   By: Yuvnesh Modi, Rahul Kumar, Alok Kothari
10. The Game Changer
    By: A.G. Lafely & Ram Charan

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HOW TO PLAY

- VYRAL is a game based on journey of entrepreneurship, its opportunities and challenges.
- The game can be played between 2-10 people.
- Players need a Dice, buttons (rubber and other small objects) as players on the board.
- Distribute 10 pieces of paper among players as representative money.
- Begin from the START point and reach to the END.
- Roll the dice and move equal number of digits shown on the dice.
- Player gets a second chance if the number 6 is shown on dice.
- Upon reaching the box No. 4 of Idea, write down your idea on a paper.
- Upon reaching the box No. 8, discuss your idea with other players and get their feedback.
- Upon reaching Box No. 15, ask other players if they like your idea and would like to lend some representative money (papers) to your idea.
- If you are crossing Box No. 18, put some representative money (papers) on the board.
- Upon reaching a box with RED virus, follow it downwards to its tail.
- Upon reaching a box with BLUE virus, follow it upwards to its tail.
- Upon reaching the boxes with "Question Mark" like 30, 35, 74, 81; you have a choice to go ahead or wait for another chance. If you decide to go ahead on that Box, you have to submit all your representative money on board.
- One who reaches to the END first, will win all the representative money

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