ENTREPRENEURSHIP

Class-XI

CENTRAL BOARD OF SECONDARY EDUCATION

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Entrepreneurship Class XI

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भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक [1][सम्पूर्ण 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 और [2][राष्ट्र की एकता और अखण्डता] 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 परीक्षण करे;

(छ) प्राकृतिक पर्यावरण की जिसके अंतर्गत वन, झील, नदी, और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र 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।

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 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.

Foreword to the Revised Edition

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 up gradation 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

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Content

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, team 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 for students are:

1. To introduce them to the world of business by developing in them the core skills and competencies required for an entrepreneur.
2. To develop qualities such as leadership, confidence, initiative, facing uncertainties, commitment, creativity, people and team building, integrity and reliability.
3. To acquire the skills and knowledge needed for conducting surveys, collecting, recording and interpreting data and preparing simple estimates of demand for products and services.
4. To prepare a Project Report.
5. To equip themselves 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.
6. To instill important values and entrepreneurial discipline.

FORMAT

Any three: **Total Marks: 30**

1. **Case Study**
2. **Learn to Earn**
3. **Exhibition**
4. **Visit and Report of a District Industries Center**

I. CASE STUDY

Procedure:

Instructions to students; X

- Select a business according to your interest.
- Identify your Role Model. (RM)
- Find a student of your stream with similar interest.
- Organize a meeting using references. (Respect their privacy; it can be with a prior appointment or use of networking skills).

Home Work:

Prepare 'snapshots' about your Role Model and details to help you in the process of conversation.

Example: his/her personal details, his/her business, family etc.

Questionnaire/ Question bank to be used by the student to seek details about the Role Model.

1. **Background:** Family; birth place; education; vision and ambitions in life
2. **Role Model:** Who and why? Did your option change with time? Give reasons.
3. **Experiences:** List the options available/thought of/tried and reasons for selecting the particular venture. Was it technical knowhow or hands on experience. What role did education play in the whole process? Is education more important than experience?
4. **Turning Point:** Road to success, cost of success. Having a mentor, his/her role in motivating when situations were against you.
5. **Achievements and Acknowledgements:** 1st achievement/mile stones.
6. **Changing Times:** Market and market trends; technology; environment factors (political, legal, socio cultural, economic). Business then and now. Local to global transformation; presence of competition; how to face competition. Plans for expansion: growth parameters; identifying the hurdles and finding solutions.
7. **Future:** Vision for the times to come; next generations
8. **Self-Actualization:** Contentment in life; giving back to the society (staff and labour welfare, environmental concerns).
9. **In Retrospect**: Three decisions you wish to change. Give reasons.
10. **Business Mantra:** What according to you is the reason for their success?
11. **Message to our Youth:** A few words of motivation for the young people.

Note to the teacher:

Choose a mixed group of entrepreneurs from different social and educational backgrounds. The chosen entrepreneur should be easily accessible, i.e., local entrepreneurs to be approached.

Allocation of Marks

S. No.	Basis	Marks
1	Presentation/Creativity	02
2	Content	04
3	Viva-voce	04
	Total	**10**

II. LEARN TO EARN

Objective:

To understand:

- The importance of earning, be it small or big
- How to sell
- The value of money
- Appreciating and respecting the effort put into generating income

Process:

The teacher discusses the advantages and disadvantages of manufacturing/trading/service.

The student identifies categories and works on the possibility of having different types of money generating activities within the limits of the school.

Options:

1. **Manufacturing**
   - Chocolates
   - Snacks - *bhelpuri, sevpuri,* sandwiches etc
   - Beverages -cold coffee, lemonade, ice tea
   - Handmade cards
   - Potted plant
   - Best out of waste
   - Syrups
   - Any other suggestion by the teacher
2. **Trading**
   - Stationery
   - Beads
   - Wrist bands
   - Sprouts, cereals and pulses
   - Craft work
   - Biscuits
   - Packaging material
   - Fruit juices
   - Seasonal and festival related specifics: *diyas, candles, rakhis, souvenirs, puppets of* various types/designs.
   - Any other suggestion by the teacher

3. **Services**

- Mehandi art
- Running the school canteen
- T-shirt painting
- Running the stationery shop
- Sale of saplings
- Games
- Sale of second hand books/novels
- Any other suggestion by the teacher

4. **Occasions**

- Parent Teachers Meet
- Carnivals, school fests
- Weekly canteen specials
- Important events in schools where parents and children are there and are a source of purchasing power.
- The students can think of innovative ways to promote such events.
- Important for the teacher to take permission from the Principal before planning such an event
- The School Head, Teacher and Students decide what to do with the profits thus generated.

Allocation of Marks

S. No.	Basis	Marks
1	Group Work	02
2	Presentation/Creativity	02
3	Understanding and Learning	02
4	Documentation of records	02
5	Viva-voce	02
	Total	**10**

III. AN EXHIBITION

The teacher divides the class into seven groups (1 for each unit). Each group is given a unit and asked to exhibit the content of that unit in any of the following forms.

(Teacher to keep the nature of unit content in mind while forming these groups)

1. Charts
2. Models
3. Acronyms
4. Skits
5. Quizzes
6. Puzzles
7. Games
8. Debates
9. Puppet shows
10. Power Point Presentation
11. Story Telling
12. Songs
13. Poetry
14. Film Clips/
15. Documentary

A date should be fixed in advance to allow more schools to be invited for the exhibition. Students can exhibit their case studies or any other project work done during the academic year. The exhibits have to be explained by the groups, making the concepts of their respective units simpler and easily understood even by a layman.

Allocation of Marks

S. No.	Basis	Marks
1	Group Work	03
2	Presentation/Creativity	04
3	Understanding/Delivery	02
4	Audience Response	01
	Total	**10**

IV. VISIT TO DISTRICT INDUSTRIES CENTRE (DIC)

Objective:

To understand

- The grants/schemes offered by the Government
- Various training centres for skill development
- Testing centres for quality assurance for helping the entrepreneurs
- Financial institutions offering assistance to the Entrepreneurs

Process:

- Teachers to arrange a trip for all the students to the District Industries Centre in their area, to understand the grants/schemes offered by the Government to Entrepreneurs

- Teachers to take permission from school administration for taking the students on a field visit to DIC
- Students prepare a list on what kind of information they would expect to find from DIC such as:
- Assistance provided for start-ups
- Whether mentorship is provided or not
- Level of technical assistance provided
- Setting up of a small scale industry
- Registrations required
- Grants/schemes provided
- Specific grants provided for women entrepreneurs
- Financial assistance provided
- After the students have noted all the points, they prepare the report on the basis of any small scale industry which they would like to start. For example: If the student wants to start an Export Oriented Unit, he/she must consider the legal procedures involved in it. As a woman entrepreneur why assistance is provided by the government.
- Students need to submit a report on the basis of all the points covered

Expected Learning Outcomes from the Project:

- Students learn the procedure of setting up of a small scale industry
- Understand the various statutory legislations involved in the process
- Understand the financial assistance provided for the enterprises

Allocation of Marks

S. No.	Basis	Marks
1	Content	08
2	Report	02
	Total	**10**

UNIT 1

Entrepreneurship: Concept and Functions

Learning Objectives:

After studying this lesson the students should be able to:

- Understand the concept of Entrepreneurship
- Explain the functions of Entrepreneurship
- Appreciate the need for Entrepreneurship in our economy
- State the myths, advantages and disadvantages of Entrepreneurship
- Describe the process of Entrepreneurship

Case Study

The Earth at this Innovator's Feet

Mansukhbhai Prajapati *remoulded his family's struggling pottery business to produce the* ***Mitticool*** *range of ingenious earthenware, including a fridge that works without electricity.*

Reporting on the devastation and thousands of lives lost during the 2001 earthquake in Gujarat, local newspapers had this intriguing headline describing the havoc wreaked at a potters' colony: 'Garibonna fridge no bhookon' (pieces of the poor people's fridge). *Among the debris were the shards of hundreds of broken clay pitchers.*

That headline proved to be a game-changer for Wakaner- based potter, Mansukhbhai Prajapati, who literally picked up the pieces to begin afresh on a remarkably innovative idea – the Mitticool refrigerator, which is made of mud/clay and works without electricity.

Originally from Morbi village in Rajkot, South Gujarat, Prajapati, a tenth-standard dropout, began working at a tea-stall after his father discouraged him from entering the family's pottery business as the income was negligible. Later, he became a supervisor at a roof-tile manufacturing company and eventually, in 1989, returned to his passion for pottery by producing tavdi or tawa (frying pan) from clay.

Although his father-in-law desired him to continue working at the roof-tile company, Prajapati's wife encouraged him to experiment with the family business all over again.

It was this abiding interest in innovation that led him to develop the Mitticool water filter, way back in 1997.

A lot of rigorous experimentation went into his work on the Mitticool refrigerator, which he launched in 2002.

Besides a tank for cooling and storing 10 litres of water, the earthenware refrigerator has two compartments for storing 5 kg of vegetables, fruits and other food.

It takes about seven days to make one Mitticool fridge. The special terracotta clay used is baked at 1,200 degree Celsius to harden it. Like any clay pot used to cool water, the fridge too works by keeping the inside temperature 10 degrees lower than the outside.

The natural cooling process keeps vegetables and fruits fresh for up to five days, and milk products for up to three days.

Measuring 27 inches high and 15 inches wide, the fridge costs between Rs.3,000 to Rs.3,500. As it works without electricity, it is especially useful in villages that experience frequent power cuts.

Entrepreneurship

Entrepreneurship is a ship on a voyage that has on board, innovative and creative men and women, who like to do all those constructive things which nobody could lay his/her hands on before. They make a fortune out of ideas. Success never goes to their heads and each set back makes them bold enough to carve their future, aiming for excellence. Entrepreneurship is the freedom to do what one likes to do, with all its attendant profits and risks. Entrepreneurship is defined by results and not by attributes. It is a passion and all about commercial risks. A true entrepreneur uses not only his/her senses one to five, but six, seven, eight and nine. Six to nine do not really exist, but he/she develops them through his/her exposure, experience, failures and following the concept of listening to understanding.

Are these people Entrepreneurs?

Vegetable vendor, Newspaper distributor, Laundry service.

To a large extent they are also risk takers. They may not be innovative, but they take risks up to their own potential and level.

Entrepreneurship has evolved through the centuries and it has been viewed differently according to conditions prevailing in the world economy. The new-age business ventures are more idea–centric and not just product-based. The key to success in business is not just inheritance; it is creation of more wealth and the constant innovation, from the prevailing to the next best practices. Accordingly, a wide range of small and mid-sized businesses have emerged and gained popularity with the affluent middle class, determined to spend more, as well as derive value out of every rupee spent.

Earlier, any business venture was product based – manufacturing of cars, production of dress material, watches etc. If we analyse carefully we find that there are many entrepreneurs found in these ventures, and there was a monopoly in certain areas. But as the economy grew, and companies started competing with one and another globally, we see a lot of idea-centric and need-based companies mushrooming all over the country. For instance, Mumbai's Dabbahwalaah, crèches, ready to eat food, instant noodles etc.

The Concept of Entrepreneurship

Entrepreneur →	Entrepreneurship →	Enterprise
↓	↓	↓
Person	Process or action	Outcome
(Subject)	(Verb)	(Object)

Concept of Entrepreneur

An entrepreneur is a person responsible for setting up a business or an enterprise. He has the initiative, skill for innovation and who looks for high achievements. He is a catalytic agent of change and works for the good of people. He puts up new green field projects that create wealth, opens up many employment opportunities and leads to growth of other sectors.

ENTREPRENEUR is a person who:

- Develops and owns his own enterprise.
- Is a moderate risk taker and works under uncertainty for achieving the goal.
- Is innovative.
- Is a persuader of deviant pursuits.
- Reflects a strong urge to be independent.
- Persistently tries to do something better.
- Is dissatisfied with routine activities.
- Is prepared to withstand the hard life.
- Is determined, but patient.
- Exhibits a sense of leadership.
- Exhibits a sense of competitiveness.
- Takes personal responsibility.
- Is oriented towards the future.
- Tends to persist in the face of adversity

An entrepreneur is a person who starts an enterprise and converts a situation into opportunity. He/she searches for change and responds to it. A number of definitions have been given of an entrepreneur. The economists view him/her as the fourth factor of production, along with land labour and capital.

Sociologists feel that certain communities and cultures promote entrepreneurship; for example, in India, we say that particular communities are very enterprising. Still others feel that entrepreneurs are innovators who come up with new ideas for products, markets or techniques.

To put it very simply, an entrepreneur is someone who perceives opportunity, organizes resources needed for exploiting that opportunity and exploits it. Computers, mobile phones, washing machines, ATMs, credit cards, courier services, and ready-to-eat foods, are all examples of entrepreneurial ideas that got converted into products or services.

The word '*entrepreneur*' is derived from the French word '*entreprendre*' which means 'to undertake' i.e. individuals who undertake the risk of a new enterprise. The word 'entrepreneur', therefore, first appeared in the French language in the beginning of the sixteenth century. The word was coined by Richard Cantillon, an Irishman, living in France.

Definitions of an entrepreneur

Richard Cantillon: *As a person, who pays a certain price to a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise.*

Adam Smith: *An individual, who undertakes the formation of an organization for commercial purposes by recognizing the potential demand for goods and services, and there by acts as an economic agent and transforms demand into supply.*

Joseph Schumpter: *Entrepreneurs are innovators, who use the process of entrepreneurship to shatter the status quo of the existing products and services, to set new products, new services. He describes entrepreneurs as innovators.*

Peter F. Drucker: *An entrepreneur is one who always searches for changes, responds to it and exploits it as an opportunity. He believes in increasing the value and consumer satisfaction. Thus, a professional manager who mobilises resources and allocates them to make a commercial gain from an opportunity, is also called an entrepreneur.*

To sum up, **entrepreneurship** may be defined as a systematic innovation which consists of the purposeful and organised search for changes, and a systematic analysis of the opportunities that such change might offer for economic and social transformation.

Enterprise

An entrepreneur is a person who starts an enterprise. The process of creation is called entrepreneurship. The entrepreneur is the actor and entrepreneurship is the act. The outcome of the actor and the act, is called the enterprise. An enterprise is the business organization that is formed and which provides goods and services, creates jobs, contributes to national income, exports and contributes to the overall economic development.

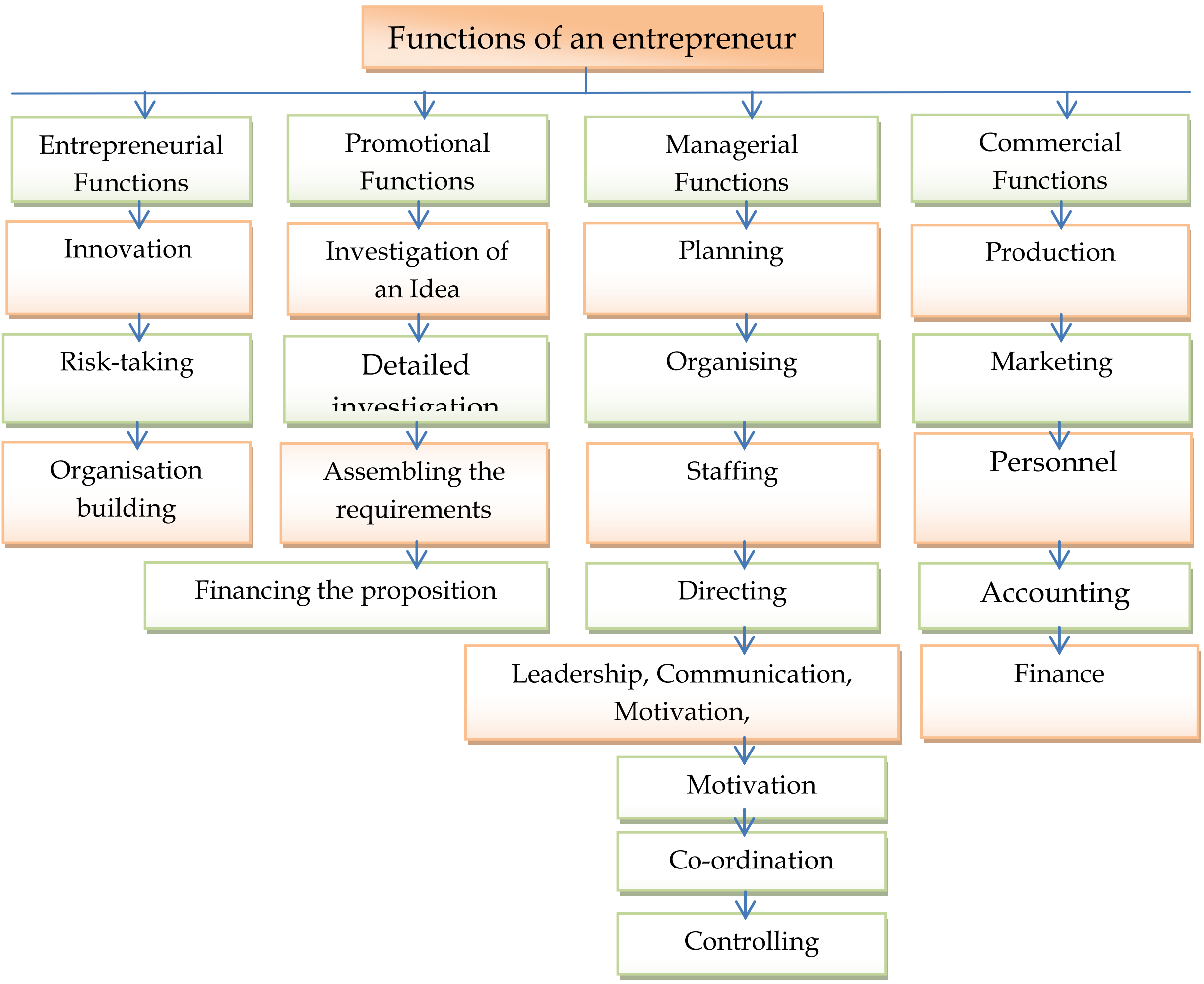
Entrepreneur versus entrepreneurship

The term 'entrepreneur' is often used interchangeably with 'entrepreneurship'' but, conceptually, they are different, yet they are just like the two sides of a coin. Both the terms are co-related.

An entrepreneur is a person who bears the risks, unites various factors of production and carries out creative innovations. He/she is an individual or one of a group of individuals who try to create something new. He/she always attempting to bring about change in terms of factor proportions, which is known as innovation.

On the contrary, entrepreneurship is the set of activities performed by an entrepreneur. It is process of identifying opportunities in the market place and marshalling the resources required to pursue these opportunities for long term gains. It is the attempt to create value.

Functions of an Entrepreneur



Rajesh Marwaha and **J. S. Mehandipur** in their book "*Entrepreneurship and Small Business*", have given a comprehensive classification of the functions of entrepreneurs.

A. Entrepreneurial functions

Innovation:

It is the basic function of an entrepreneur. As an innovator, the entrepreneur has to introduce new combinations of the means of production, new product, new market for a product and new sources of raw material. They introduce something new in any branch of economic activity. He/she foresees a potentially profitable opportunity and tries to exploit it.

Example: I-Pod, Smart phones, Induction cook top etc.

Risk-taking:

It refers to taking responsibility for a loss that may occur due to unforeseen contingencies in the future. An entrepreneur reduces uncertainty in his/her plan of investment, diversification of production and expansion of the enterprise. He/she is a self-confident and highly optimistic person, willing to assume the risks involved in innovations, new ventures and expansion of an existing venture.

For example, narrating an incident from Dhirubhai's life, his son Mukesh recalls that, when **Dhirubhai** was flown to Jamnagar and shown a piece of barren land, he asked why mangoes could not be grown there. The officials informed him that the land was not fertile enough for mango crop. Dhirubhai took it as a challenge and told those officials that it was for the same reason why mangoes ought to be grown there. After just a few years, the entire land of about 2000 acres had been converted green and 6000 tonnes of mango crop was harvested from the same land. So Dhirubhai took a risk here and believed in its success, thus translating it into the best of mango variety, the 'Alphonso', which is being grown in that region.

Organisation Building:

Organisation and management are the main functions of an entrepreneur. They refer to the bringing together of the various factors of production. The purpose is to allocate the productive resources in order to minimise losses and reduce costs in production. All decisions relating to an enterprise is taken by the entrepreneur. He/she alone determines the lines of business to expand and capital to employ. Thus, an entrepreneur is the final judge in the conduct of his/her business.

B. Promotional functions

Discovery of an idea:

The entrepreneur visualizes that there are opportunities for a particular type of business and it can be profitably run. The idea may be to exploit new areas of natural resources, more profitable venture, or an existing line of business. He/she develops the idea with the experts in the field, and if they are convinced, then he/she will go ahead with more exhaustive analysis.

For example, **Karsan Bhai Patel**, the creator of Nirma Washing Powder, who was working as a factory chemist in Gujarat Mineral Development Corporation, started making detergent powder in his kitchen for poor rural women of Gujarat and selling his product by visiting different villages. His efforts culminated in the whitish yellow detergent powder named Nirma. The idea behind was need and the problem of the society that could not afford other brands of detergent powders because of their high cost. Today, Nirma is one of the world's biggest detergent powder manufacturer. The brand sells over 8 lakh tonnes annually. It holds 40% of the Indian market, with a turnover of more than Rs. 2500/- crores. This is creative effort and risk taking ability of a person who turned out to be an entrepreneur. The strength of being capable is the plus point in an entrepreneur.

Detailed Investigation:

The entrepreneur will estimate the total demand for the product. After determining the prospective demand for goods, he/she will think of arranging finances for the venture, along with the availability of power, labour, raw materials and machinery. The work of estimation becomes complicated if it is a new line of business. The estimates should be based on proper analysis of various factors.

Assembling the Requirements:

After making sure that the proposition is practical and profitable, the entrepreneur proceeds to assemble the requirements. He persuades some more people to join him on board. He may also be required to acquire some patent rights if he has invented something new. The entrepreneur selects the factory site, decides about plant and machinery and contacts suppliers of raw materials. Preliminary contracts are finalised and project is set to begin.

Financing the Proposition:

The entrepreneur decides about the capital structure of the enterprise. The requirements of finances are estimated first, then the sources from which money will come up are determined. Long term and short term financial requirements are estimated and the type of source of funds is also decided- share, debenture, loan etc.

For example, when **Narayana Murthy** started Infosys in 1981, he had no capital and his wife **Sudha Murthy** gave him Rs. 10,000/- which she had saved for a rainy day.

C. Managerial functions

Planning:

It is the basic managerial function of an entrepreneur. It helps in determining the course of action to be followed to achieve various entrepreneurial objectives. Planning is concerned with the mental state of the entrepreneur. It is decision making in advance: what to do, when to do, how to do and who will do a particular task.

Organizing:

Every business enterprise needs the service of a number of persons to look after its different aspects. The entrepreneur sets up the objectives or goals to be achieved by its personnel. The function of organising is to arrange guide, co-ordinate, direct and control the activities of the factors of production.

Staffing:

The function involves making appointments for the positions created by the organisational process. It is concerned with the human resources of an enterprise. It consists of human resources, manpower planning, recruitment, selection and placement of manpower, human resource development, promotion, transfer, appraisal and determination of employee's remuneration.

Directing:

It is concerned with carrying out the desired plans. It initiates organised and planned action, and ensures effective performance by subordinates towards the accomplishment of group activities.

Leadership:

It is the process by which an entrepreneur imaginatively directs/guides and influences the work of others in choosing and attaining specified goals by mediating between the individual and organisation in such a manner that both will get the maximum satisfaction.

Communication:

It constitutes a very important function of the entrepreneur. It is observed to be the most prevalent problem among entrepreneurs today. It has been established that entrepreneurs spend 75% to 90% of their working time communicating with others. It refers to the exchange of ideas, feelings, emotions, knowledge and information between two or more persons. Nothing happens in management until effective communication takes place.

Motivation:

It is the psychological process of creating an urge among the subordinates to do certain things or behave in the desired manner. The importance of motivation can be realised from the fact that the performance of a worker depends upon his/her ability and the motivation. A sound motivational system must be productive, competitive, comprehensive and flexible, and it must consider the psychological, social, safety, ego and economic needs of the worker.

Supervision:

After issuing instructions, the entrepreneur has to see that the given instructions are carried out. Supervision refers to the job of overseeing subordinates at work to ensure the maximum utilisation of resources, to get the required and directed work done, and to correct the subordinates whenever they go wrong.

Co-ordination:

It is one of the most important functions, as, it is essential to channelize the activities of various individuals in the organisation, for the achievement of common goals. The entrepreneur has to make sure that the work of different segments is going according to pre-determined targets and corrective measures have to be initialised if there is any deviation.

Controlling:

Control is the process which enables the entrepreneur to get his/her company's policies implemented and take corrective action if performance is not according to the pre-determined standards. The process begins with establishing standards of performance, measuring actual performance, comparing the actual performance with the standard, finding variations and finally, taking corrective action.

D. Commercial Functions

Production:

It is the key function of an entrepreneur. The activities of production are independent of the size of the undertaking. In a small concern, one person may be undertaking this function whereas, in large organisations, this activity may be undertaken by various individuals or separate teams. It is the creation of goods and services. It consists of manufacturing, ancillary and advisory activities.

Finance:

It is the most important aspect in all enterprises. It remains a focus of all business activities. The need for money is continuous. It starts with the setting up of an enterprise and remains at all times. The development and expansion of an enterprise rather needs more commitment for funds. It is the duty of the entrepreneur to look and analyse into the various sources of finance and appropriately arrange for them as and when required.

Marketing:

It is primarily concerned with the movement of goods and services from the producer to the ultimate consumer. It is directed towards the satisfaction of consumer wants. Marketing plays a significant role in promoting the well-being of the business enterprise. So it is the role of the entrepreneur to strategically place his company in an advantageous position to secure the top position in the market.

Personnel:

This function is concerned with employment, development and compensation for the personnel, the provisions of working conditions and welfare measures to maintain a good work force in the organisation.

Accounting:

It is defined as a systematic recording of entrepreneurial transactions of an enterprise and the financial position of the enterprises. The entrepreneur should look into the record keeping of the entries of all transactions which take place in the organisation so that he/she is aware of his/her financial position.

Need For Entrepreneurship

The main need for entrepreneurship State in any country is for ***Economic Development***. In capitalist and developed countries, private entrepreneurs play an important role in economic development. In socialist countries, the state (Government) is the entrepreneur. In under-developed countries, private entrepreneurship is not encouraged because of the degree of risk involved. The government has to play a vital role in economic development. But in a developing country like India which follows a mixed economy, the role of both the government and the private entrepreneurs is equally important. The role of the private entrepreneurs has further increased because of the liberal economic policies followed by the Indian government since 1991.

Economic growth depends on the rate of innovation in the economic field, which in turn, depends on the number and quality of entrepreneurs in the society. ***Thus, entrepreneur is an agent of progress in the society***. The reason for slow progress of our Indian economy during the first four decades of independence is that, the Indian entrepreneur has been shy. But as our economy has been progressing, we have seen an upsurge in the number of entrepreneurs emerging in all fields, but more needs to be done for increased economic growth in our country.

The need for Entrepreneurship can be highlighted thus:

Life-line of a nation:

No country can progress without the development of entrepreneurship. Every country is trying to promote its trade so that it is able to share the benefits of development. Therefore, entrepreneurship is the yardstick to measure the level of development of a country.

Provides innovation:

Entrepreneurship provides new ideas, imagination and vision to the enterprise. An entrepreneur is an innovator as he tries to find new technology, products and markets. He increases the productivity of various resources. The entrepreneur stands at the centre of the whole process of economic development. He conceives business ideas and puts them into effect, to enhance the process of economic development.

Change of growth /Inclusive growth:

An enterprise operates in a changing environment. The entrepreneur moulds the enterprise in such a changing environment. The latter moulds not only the enterprise, but also alters the environment itself, to ensure the success of the enterprise. In order to meet the challenge of automation and the complexities of advanced technology, there is a need for the development of entrepreneurship.

Increased profits:

Profits can be increased in any enterprise, either by increasing the sales revenue or reducing cost. To increase the sales revenue is beyond the control of an enterprise. Entrepreneurship, by reducing costs, increases its profits and provides opportunities for future growth and development.

Employment opportunities:

Entrepreneurship and its activities provide the maximum employment potential. Large numbers of persons are employed in entrepreneurial activities in the country. The growths in these activities bring more and more employment opportunities.

Social Benefits:

It is not only beneficial to the business enterprise, but to the society at large. It raises the standard of living by providing good quality products and services at the lowest possible cost. It also makes the optimum use of scarce resources and promotes peace and prosperity in the society.

Myths of Entrepreneurship

According to **Guy Kawasaki**, many entrepreneurs believe a set of myths about entrepreneurship, the most common being:

1. Starting a business is easy

Actually it is not. Most people, who begin the process of starting a company, fail to get one up and running. Seven years after beginning the process of starting a business, only one-third of entrepreneurs have a new company with positive cash flow greater than the salary and expenses of the owner for more than three consecutive months. But small entrepreneurships are comparatively easier to start.

2. It takes a lot of money to finance a new business

The typical start-up only requires about Rs.1,50,000/- to get going. The successful entrepreneurs, who don't believe the myth, design their businesses to work with little cash. They rent instead of buying. And they turn fixed costs into variable costs by, say, paying people commissions instead of salaries for example**;** Infosys was started with only Rs. 10,000/-.

3. Start-ups can't be financed with debt

Actually, debt is more common than equity. A lot of entrepreneurs use debt rather than equity to fund their companies. However, the composition of debt and equity will have to be worked upon.

4. Banks don't lend money to start-ups

This is another myth. Banks and various government schemes have been implemented with the idea of providing finance to budding entrepreneurs.

5. Most entrepreneurs start businesses in attractive industries

Most entrepreneurs head right for different industries for start-ups. The correlation between the number of entrepreneurs starting businesses in an industry and the number of companies failing in the industry is 0.77. That means that most entrepreneurs are picking industries in which they are most likely to fail. **Mahima Mehra** started *Hathi Chaap*. It was totally a new venture where different raw materials were tried out to make handmade paper. After researching a lot, they found that elephant dung had more fibre content which made it easy to make handmade paper.

6. The growth of a start-up depends more on an entrepreneur's talent than on the business he chooses

This is not true as the industry that an entrepreneur chooses to work has a huge effect on the odds that it will grow. For instance, various dotcom companies mushroomed all over the world during the Y2K problem in the year 2000.

7. **Most enterprises are successful financially**

This is also another myth. Entrepreneurship creates a lot of wealth, but it is very unevenly distributed. The typical profit of an owner-managed business is Rs.2, 40,000 per year. Only the top ten percent of entrepreneurs earn more money than employees. And, the typical entrepreneur earns less money than he/she otherwise would have earned, working for someone else.

Advantages and Disadvantages of Entrepreneurship

To everything in life, there are advantages and disadvantages; entrepreneurship is no exception. As a matter of fact, entrepreneurship involves a lot of risk taking. Yet, it can pay off very well, with rewards such as profits, the opportunity to be your own boss and make your own decisions.

Here are some advantages and disadvantages to consider:

Advantages

Excitement: Due to its high capacity for risk, there is a lot of adventure for example, **Steve Jobs** left his position in Apple Inc., and started Pixar, which later turned out to be a successful venture.

Originality: Some feel that they can offer a new service or product that no one else has offered before, i.e., I-pod and I-pad

Independence: Some wish to be their own boss and make all the important decisions themselves.

Rational salary: They are not being paid what they are worth and would rather work on their own and earn the money they should be earning for their efforts.

Freedom: Entrepreneurs can work on any idea which they feel will eventually turn out to be a successful venture, for instance, **Richard Branson's** idea of space mission.

Disadvantages

Salary: Starting your own business means that you must be willing to give up the security of a regular pay check.

Benefits: There will undoubtedly be fewer benefits, especially when considering that your business will be just starting off.

Work schedule: The work schedule of an entrepreneur is never predictable; an emergency can come up in a matter of a second and late hours may become the norm.

Administration: All the decisions of the business must be made on his/her own; there is no one ranked higher on the chain of command in such a business, and the fear of a wrong decision can have its own effect.

Incompetent staff: Most of the time, the entrepreneurs will find themselves working with employees who "don't know the ropes" as well as they do, due to lack of experience.

Process of Entrepreneurship

Although enterprises are as different and unique as the entrepreneurs who create them, most of them appear to work through a process. The diagram given below describes the process through which most of them create their enterprise.

1. **Self-Discovery:**

   Learning what they enjoy doing; examining their strengths and weaknesses. Examining work experience and relating it to potential opportunities.

   ↓

2. **Identifying opportunities:**

   Looking for needs, wants, problems, and challenges that are not yet being met, or dealt effectively.

   ↓

3. **Generating and evaluating ideas:**

   Using creativity and past experience to devise new and innovative ways to solve a problem, or meet a need, and then narrowing the field to one best idea.

   ↓

4. **Planning:**

   Researching and identifying resources needed to turn the idea into a viable venture. Doing the research in the form of a written business plan preparing marketing strategies.

   ↓

5. **Raising Start-up capital:**

   Using the business plan to attract investors, venture capitalists and partners. This stage can involve producing prototypes or test-marketing services.

   ↓

6. **Start-Up:**

   Launching the venture, developing a customer base, and adjusting marketing and operational plans as required.

   ↓

7. **Growth:**

   Growing the business: developing and following strategic plans, adapting to new circumstances.

   ↓

8. **Harvest:**

   Selling the business and harvesting the rewards. For many entrepreneurs, this also means moving on to new venture and new challenges.

SUMMARY

1.0 ***Entrepreneurship*** *may be defined as a systematic innovation which consists of the purposeful and organised search for changes, and a systematic analysis of the opportunities that such change might offer for economic and social transformation.*

1.1 ***ENTERPRENEUR is a person who:***

- *Develops and owns his own enterprise*
- *Is a moderate risk taker and works under uncertainty for achieving the goal.*
- *Is innovative*
- *Is a Persuader of deviant pursuits*
- *Reflects a strong urge to be independent*
- *Persistently tries to do something better*
- *Is dissatisfied with routine activities.*
- *Is prepared to withstand the hard life.*
- *Is determined but patient*
- *Exhibits sense of leadership*
- *Exhibits sense of competitiveness*
- *Takes personal responsibility*
- *Is oriented towards the future.*
- *Tends to persist in the face of adversity*

Functions of an entrepreneur

A. Entrepreneurial Functions B. Promotional Functions C. Managerial Functions D. Commercial Functions

A. Entrepreneurial functions

- *Innovations*
- *Risk-taking*
- *Organisation building*

B. Promotional functions

- *Investigation of ideas*
- *Detailed investigation*
- *Assembling requirement*
- *Financing the proposition*

C. Managerial Function

- *Planning*
- *Organizing*

- *Staffing*
- *Directing*
- *Leadership*
- *Communication*
- *Motivation*
- *Supervision*
- *Co-ordination*
- *Controlling*

D. Commercial Functions

- *Production*
- *Finance*
- *Marketing*
- *Personnel*
- *Accounting*

E. Need for Entrepreneurship

- *Life-line of a nation*
- *Provides Innovation*
- *Change of Growth/Inclusive Growth*
- *Increased Profits*
- *Employment Opportunities*
- *Social Benefits*

1.2 Entrepreneurial Myths:

- *Starting a business is easy*
- *Takes a lot of money to finance a new business*
- *Start-ups can't be financed with debt*
- *Banks don't lend money to start-ups*
- *Start business in mostly attractive industries*
- *Growth of start-up depends more on entrepreneurial talent*
- *Success is assured financially*

1.3 Advantages

Excitement, Originality, Independence, Rational Salary, Freedom

1.4 Disadvantages

Salary, Benefits, Work Schedule, Administration, Incompetent staff

> **1.5 *Process of Entrepreneurship:***
> *Self-Discovery, Identifying Opportunities, Generating and Evaluating Ideas, Planning, Rising Start-up Capital, Start up, Growth, Harvest.*

Q.1. Answer each of these questions in about fifteen words:

(i) What is an enterprise?

(ii) Who is an Entrepreneur?

(iii) Who plays the role of an entrepreneur in a socialist country?

Q.2. Answer each of these questions in about fifty words:

(i) Explain any two advantages of being an Entrepreneur?

(ii) Explain any two disadvantages of being an Entrepreneur?

(iii) Differentiate between entrepreneur and entrepreneurship.

Q.3. Answer each of these questions in about one hundred and fifty words:

(i) Describe entrepreneurial functions of an entrepreneur?

(ii) What is the need of entrepreneurship in an economy?

(iii) Mehak wants to start a textile unit near Gurgaon. Discuss the commercial functions which she will require to plan and perform for the same.

(iv) Explain any four managerial functions of an entrepreneur?

(v) Explain any four promotional functions of an entrepreneur?

Q.4. Answer each of these questions in about two hundred and fifty words:

(i) Describe the process of entrepreneurship?

(ii) What is the need of entrepreneurship in an economy? Give at least six benefits.

Q.5. HOTS: (Higher Order Thinking)

(i) Differentiate between Entrepreneurial functions and Managerial functions of an Entrepreneur?

(ii) "Innovation is the hallmark of Entrepreneurship". Why is "innovation" referred as the basic function of an entrepreneur?

(iii) "Entrepreneurs, in their drive and pursuit to create something new, at times, results in causing major loss to the Nation's natural resources. Shouldn't they be discouraged? Justify giving reasons for your answers.

(iv) Starting a venture is not an easy task. A series of activities needs to be planned and undertaken to create an enterprise. Discuss them briefly.

(v) Why are Entrepreneurs called 'agents of progress' for a nation? What role do they play in the Nation's development?

Q.6. Application based exercise:

i) Shivi, a dropout from 10thstd is forced by her mother to start working as a domestic help. Shivi agrees on the condition to do only 'cooking' in 2-3 houses. One family turns out to be Punjabi, other Gujrati and the third one is Rajasthani. She cooked their kind of food for an year and to everyone's surprise, she expressed her desire to open up a small eating joint of her own. All alone, determined, she finally opens 'Apna Bhoj', a small eating joint with her savings and it became a hot spot because of the fusion food platter being offered. Do you think Shivi is an entrepreneur? Give reasons for your answers.

ii) Karan, a rural boy, identifies the potential of Organic Farming in the village. He meets the zonal agricultural officer, who, looking at the determination of this 20 years old, helps him arrange and procure multiple resources required for his farm land. Then Karan takes a loan of Rs. 50,000/- from SBI as his seed money of Rs. 10,000/- is not enough to cater the requirement. Karan ties up with a nearby city's vegetable shop owner to sell his yield. His hard work pays and the organic vegetables are a hit. This organic vegetable producer exhibits to be a good entrepreneur with good entrepreneurial skills. Do you agree? Justify giving reasons for your answers.

Q.7 Activities:

(i) Innovation:

"*Cherry shoe polish originally started with a wax tin, then they came up with an idea of liquid shoe polish, and then a shoe shiner with sponge and finally a shoe shiner with a brush*". List 5 such similar examples which have marked their place for innovation.

(ii) Creativity:

"*Multani Mitti, one of the most easily and reasonably available product is used by many cosmetic companies in the beautification products, just by modifying them into creative packaging and sold at high price*". Survey and list the reasons for buying the packed *multani mitti* instead of loose *multani mitti*, which is much cheaper. Also list any 5 items which fall in the same category.

(iii) List 10 people from whom you buy any product or service, for example, newspaper vendor, milk vendor, a grocer etc. Who do you think is an entrepreneur, if not, why?

(iv) Monopoly:

"*Amul Butter, utterly butterly delicious….*", is one of the leading brands of butter since years. Many companies made butters like Britannia, Mother Dairy, Parag in UP, Saras in Rajasthan, Aarey in Maharashtra, Vadilal etc. but they could not compete with Amul Butter, which is a leading brand. Survey and list the reasons for the success of Amul and failure of others.

(v) Contact an employer in your locality or family who has set up their own business and interview the proprietor/s. Report the results to the class.

UNIT 2

An Entrepreneur

Learning Objectives:

After reading the chapter the student will be able to:

- Differentiate between various types of entrepreneurs
- Explain the competencies of an Entrepreneur
- Understand the meaning of Ethical Entrepreneurship
- Appreciate the importance of Ethical Entrepreneurship
- Highlight the value of ethics to an entrepreneur
- Understand the values, attitudes and motivation required by an Entrepreneur
- Differentiate between Entrepreneur and an employee
- State the meaning and describe the importance of Intrapreneurship in an organisation

Case Study

Steve Jobs and Apple

At 20, he and a friend ***(Steve Wozniak)*** *started a company in a garage on April 1, 1976. Later that year, the duo debuted the Apple I at the Homebrew Computer Club in Palo Alto, California. A local store offered to buy 50 machines and to finance the production, the duo had to sell their most expensive possessions. Jobs sold his Volkswagen van while Wozniak sold his Hewlett-Packard scientific calculator.*

Jobs named their company – Apple in memory of a happy summer he had spent as an orchard worker in Oregon.

By 1982 however, his company sales sagged in the face of competition from IBM's new PC. Jobs and Wozniak unveiled their new creation, Lisa to increase the company's bottom line, only to be another expensive failure.

Not wanting to dwell on these successive failures, they worked on a new machine called the Macintosh. Jobs was reported to commandeer the project, ruthlessly pushing its computer engineers and flying a pirate flag above the building where the team worked.

By 1986 the Mac, which Jobs promised to be 'insanely great' was a huge success. After 10 years, starting from 2 kids working in a garage, Apple computer had grown into a $2 billion dollar company with over 4000 employees.

At 30 Jobs, however, was asked to leave the company he co-founded with Steve Wozniak. He left the company after losing a bitter battle over control with Apple's CEO, John Sculley (whom Jobs had recruited from Pepsi Cola).

ENTREPRENEURSHIP

After Apple

Apparently both had different views of how the company should be handled and in one meeting Sculley had told security analysts that Jobs would have no role in the operations of the company "now or in the future." When Jobs heard of the message he said, "You've probably had somebody punch you in the stomach and it knocks the wind out you and you cannot breathe. The harder you try to breathe, the more you cannot breathe. And you know that the only thing you can do is just relax so you can start breathing again."

Jobs sold over $20 million of his Apple stock, spent days bicycling along the beach, feeling sad and lost, toured Paris, and journeyed on to Italy.

Recalling this publicly heart-breaking episode Jobs said,

'I didn't see it then, but it turned out that getting fired from Apple was the best thing that could have ever happened to me. The heaviness of being successful was replaced by the lightness of being a beginner again, less sure about everything. It freed me to enter one of the most creative periods of my life.'

During the next five years he started two companies – NeXT Step and Pixar.

NeXT Step which produces NeXT, a $9,995 cube-shaped workstation, which aimed to create a workstation for research and higher, didn't do as well as Jobs had dreamed for. It did poorly and Jobs pulled the plug in 1993.

Pixar, however was a success story. The company produced the first computer-animated film, the Toy Story and when Pixar's stock went public, Jobs became an instant billionaire.

Jobs, back with a vengeance

Meanwhile, his old company, Apple was under immense pressure from rival Microsoft and in 1996 posted billions of dollars in losses. In December 1996 Jobs convinced Apple to buy NeXT and make its software the foundation of the next-generation Mac OS. The technology he developed at NeXT became the catalyst of Apple's comeback. Initially appointed as Apple's adviser, Steve Jobs was named Apple's interim CEO in 1997.

In 2004, he was diagnosed with cancer of the pancreas. Jobs was told that the cancer was incurable and he would only live for another three to six months. Later, a biopsy showed that he actually had a very rare form of pancreatic cancer that is curable with surgery. He had the surgery and survived.

Under his leadership, Apple returned to profitability and introduced innovations such as the iPod.

Steve Jobs' advice

"Sometimes life hits you in the head with a brick. Don't lose faith. I'm convinced that the only thing that kept me going was that I loved what I did. You've got to find what you love. Your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work.

And the only way to do great work is to love what you do. If you haven't found it yet, keep looking. Don't settle. As with all matters of the heart, you'll know when you find it. And, like any great relationship, it just gets better and better as the years roll on. So keep looking until you find it. Don't settle.

Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma-which is living with the results of other people's thinking. Don't let the noise of others' opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary".

Types of Entrepreneurs

Entrepreneurs can be of different types. Some may prefer to go it alone or share the risk in groups with others. They are found in every economic system and every form of economic activity as well as in other social and cultural activities. They are seen from amongst farmers, labourers, fishermen, tribes, artisans, artists, importers, exporters, bankers, professionals, politicians, bureaucrats and so many others. Based on the above features **C. Danhof** has broadly classified entrepreneurs into four types. These are discussed below.

1. Innovative Entrepreneur:

In the early phases of economic development, entrepreneurs have initiative to start new ventures and find innovative ways to start an enterprise. Thus, innovative entrepreneurs are those who introduces new products, new methods of production techniques, or discovers a new market or a new service or reorganises the enterprise. It is the innovative entrepreneurs who built the modern capitalism. They are commonly found in developed countries. They are aggressive in nature who exhibit cleverness in putting attractive possibilities into practice.

Example: **Walt Disney** who started huge theme parks such as the Disney Land.

2. Imitative Entrepreneur:

There is a second group, generally referred as imitative entrepreneurs. They usually copy or adopt suitable innovations made by innovative entrepreneurs. They are adaptive and more flexible. They are organisers of factors of production rather than creators. The imitative entrepreneurs are also revolutionary and important. They contribute to the development of underdeveloped economies. Example: The local mobile companies using the same technology as big companies to manufacture their products.

3. Fabian Entrepreneurs:

The third type are the Fabian Entrepreneurs. Such entrepreneurs are very shy and lazy. They are very cautious. They do not venture or take risks. They are rigid and fundamental in their approach. Usually, they are second generation entrepreneurs in a family business enterprise. They follow the footsteps of their predecessors. They imitate only when they are sure that failure to do so would result in a loss of the relative position in the enterprise.

4. Drone Entrepreneurs:

The fourth type is the Drone Entrepreneurs, who refuse to copy or use opportunities that come their way. They are conventional in their approach. They are not ready to make changes in their existing production methods even if they suffer losses. They resist changes. They may be termed as laggards.

Types of Business

Depending on the nature, size and type of business, entrepreneurs are divided into five categories:

1. **Business Entrepreneur:**

   Business entrepreneurs are those who develop an idea for a new product or service and then establish an enterprise to materialise their idea into reality. Most of the entrepreneurs belong to this category because majority of entrepreneurs are found in the field of small trading and manufacturing concerns.

2. **Trading Entrepreneur:**

   Entrepreneurs who undertake trading activities whether domestic or overseas are Trading Entrepreneurs. They have to identify the potential market for his product in order to stimulate the demand for the same. They push many ideas ahead of others in the form demonstration to promote their businesses.

3. **Industrial Entrepreneur:**

   Industrial entrepreneurs essentially manufacture products and offer services, which have an effective demand in the marketing. They have the ability to convert economic resources and technology into a profitable venture. For example: Enterprises like **Hero Motorcorp** and **Hyundai Corporation**.

4. **Corporate Entrepreneur:**

   Corporate Entrepreneurs are those who through their innovative ideas and skill able to organise, manage and control a corporate undertaking very effectively and efficiently. Usually, they are promoters of the undertakings/corporations, engaged in business, trade or industry.

5. **Agricultural Entrepreneur:**

   Agricultural entrepreneurs are those who undertake agricultural as well as allied activities in the field of agriculture. They engage in raising and marketing of crops, fertilisers and other inputs of agriculture through employment of modern techniques, machines and irrigation.

6. **Use of Technology:**

   The entrepreneurs may be classified into the following categories on the basis of application of new technology in various sectors of the economy.

   (i) Technical Entrepreneur:

   The entrepreneurs who are technical by nature in the sense of having the capability of developing new and improved quality of goods and services out of their own knowledge, skill and specialisation are called a technical entrepreneur. They are essentially compared to craftsmen who concentrate more on production than marketing.

(ii) Non-technical Entrepreneur:

Non-technical entrepreneurs are those who are mainly concerned with developing alternative marketing and distribution strategies to promote their business. They are not concerned with the technical aspects of the product and services they are dealing with.

7. Professional Entrepreneurs:

Professional entrepreneurs make it their profession to establish business enterprises with a purpose, to sell them once they are established. He/she is always looking forward to develop alternative projects by selling the running business. He/she is not interested in managing operations of the business established by him. He/she is very dynamic.

8. Motivation:

Based on their motivating factors, entrepreneurs can be classified into three types such as spontaneous, induced and motivated entrepreneurs.

(i) Spontaneous Entrepreneurs:

Spontaneous Entrepreneurs are otherwise known as pure entrepreneurs, who are motivated by their desire for self-fulfilment and to achieve or prove their excellence in job performance. They undertake entrepreneurial activities for their personal satisfaction in work, ego, or status. Their strength lies in their creative abilities. They are the natural entrepreneurs in any society. They do not need any external motivation.

(ii) Induced Entrepreneurs:

Induced entrepreneurs enter into entrepreneurship because of various governmental supports provided in terms of financial assistance, incentives, concessions and other facilities to the people who want to set up of their new enterprises. Sometimes prospective entrepreneurs are induced or even forced by their special circumstance, such as loss of job or inability to find a suitable job according to their talent and merit to adapt to entrepreneurship.

(iii) Motivated Entrepreneurs:

Motivated Entrepreneurs are motivated by their desire to make use of their technical and professional expertise and skill in performing the job or project they have taken up. They have enough confidence in their abilities. They are highly ambitious and are normally not satisfied by the slow progress in their jobs. They enter entrepreneurship because of the possibility of making and marketing of some new products or service for the use of the prospective consumers. If the product or service is developed to a saleable stage and the customers accept the same, the entrepreneur is then further motivated by reward in terms of profit.

Other Categories of Entrepreneurs:

1. First-Generation Entrepreneurs:

These entrepreneurs start their industrial unit by means of their own innovative skill and expertise. They usually combine different technologies to produce marketable products or services for the consumers. They are essentially innovators having no entrepreneurial background.

2. Inherited Entrepreneurs/ Second Generation Entrepreneurs:

Inherited Entrepreneurs or entrepreneurs by inheritance are seen in India where they inherit the family business through succession and pass it from one generation to another.

3. Third Generation Entrepreneurs:

These are those types of entrepreneurs wherein their grandparents and parents have been entrepreneurs and they have inherited the business. This model is very commonly found in India.

Competencies of an Entrepreneur

The entrepreneurial values and attitudes provide the necessary backdrop for acquiring the sense of enterprise. It is however necessary that a budding entrepreneur should have the necessary competencies so that he/she can venture into an enterprise.

Competency is a set of defined behaviours that provide a structured guide enabling the identification, evaluation and development of the behaviours in an individual.

The entrepreneurial competencies can be classified under the following categories:

Entrepreneurial Competencies:

These are certain basic competencies to be acquired by an entrepreneur. They relate to the type of behaviour exhibited in the performing of various tasks in the discharge of his functions. Some of these competencies are latent in the entrepreneur, which need to be identified, nursed and nurtured. Others are acquired through training and practice.

Initiative:

One of the most fundamental competencies required for the entrepreneurs is the ability to take initiative. It is rather the first step in the enterprise. An entrepreneur has to be keen observer of the society, the commercial trends, the product types, the change dynamics and the consumer trends. Once he/she decides to take the initiative, what matters is the speed with which he/she is going to function.

Creativity and Innovation:

Competency in creativity and innovation are sometimes basic traits of certain individuals. He/she might not have any new ideas. He/she may use the creative ideas and innovative products and services to meet the challenges of a situation, take advantage of the utility of an idea or a product to create wealth. Example, changes in the packaging of potato chips.

Risk Taking and Risk Management:

An entrepreneur ventures into new ideas and new service. He/she treads into areas of uncertainty. There are several elements such as demand supply in the market, resources availability, acceptability of the product design and service which throw a potential challenge to the entrepreneur. In order to attune oneself in the skill of risk taking and management he should practice in several areas of entrepreneurial functions such as entering into new market. For example, when Dhirubhai Ambani faced cash crunch he took the risk of issuing shares in 1977 to the public when they were not that aware about share market.

Problem Solving:

Once an entrepreneur is aware that he has ventured on a new area and has taken certain calculated risks, he/she should also be aware that many problems are bound to come in the path of progress. He/she should understand that there is more than one way of solving problems, look for alternative strategies or resources that would help to solve the problem, generate new ideas, products, services etc. For example: When an entrepreneur faces cash crunch he should look for alternative sources for receiving funds. Ratan Tata shifted the manufacturing plant of Nano cars from Singur to Sanand due to unforeseen complexities.

Leadership:

An entrepreneur should also be an effective leader who should be able to guide and motivate his/her entire team. Whenever a company faces problem it is the will power and effective business acumen and communication skills which oversees the success of the corporation.

Persistence:

In most cases, the entrepreneurial pursuits are new and need very close attention. Creating a need in the market for the enterprise is one of the main requirements of the entrepreneur. This calls for intense perseverance on the part of the entrepreneur. Roadblocks to success should not deter the entrepreneur. For example: Mixers when introduced, did not have many customers but today, we find it to be an essential part of kitchen accessories. When Mahima Mehra brought out her product – *Haathi Chaap*, she had experimented on various other material before using elephant dung to manufacture handmade paper.

Quality Performance:

Since entrepreneurs value outstanding performance, one of the behavioural skills necessary is the sensitivity to and concern for the 'standards' and 'quality of work'. One develops the skill of comparing the quality of the product/services with certain standards, which he/she himself evolves or are set by others. For example: Steve Jobs, the brain behind Apple and I-pod, is known to value quality in all the products introduced by the company.

Information Seeking:

Information plays a very crucial role at every stage of enterprise building and management. The quality and extent of information collected and the way these have been used to make various decisions by and large decides the success and failure of any entrepreneurial venture. They can get this information by personally conducting research, using feedback from previous related experience etc.

Systematic Planning:

Every entrepreneur has limited resources in terms of time, finance, and manpower. They invest their life's saving and total energy in creating entrepreneurial ventures and cannot afford to lose or waste these. Before putting the whole enterprise into operation, he is required to develop a detailed blueprint.

Persuasion and Influencing Others:

One of the important functions of an entrepreneur is to influence the environment comprising of individuals and institutions, for mobilizing resources, obtaining inputs, organising production and selling products and services. They have to practice highlighting the strong points of their products and services in the market explaining the technological competencies of their enterprise to produce quality goods and services.

Enterprise Launching Competencies:

Opportunities exist, but not all people respond to them. Large groups in society can perceive only the apparent and traditional openings of earning. Similarly, resources are also available to all members of the society, but very few make efforts to ensure best use of these resources. Entrepreneurs should identify and avail the facilities and resources needed to launch their enterprises.

Enterprise Management Competencies:

The enterprise may be small or big but it demands management abilities on the part of its owner or manager. Various management functions such as production, marketing, finance etc., are crucial functions to entrepreneurs. These influence the result directly, and therefore, are necessary determinants for the sustenance of an enterprise.

Case Study

Ethical Entrepreneurship

Read the following situations and write down what you feel about them

Three Character Types: Carly, Tonya, and Jane

Entrepreneurship is increasingly studied as a fundamental and foundational economic phenomenon. Schumpeter (1950) and Kirzner (1978) were pioneers, and their successors have generated a sizeable literature. Yet entrepreneurship has received less attention as a moral phenomenon and, correspondingly, less attention in the business ethics literature.

Consider the moral status of the entrepreneur in contrast to the two other types.

1. ***Carly:** As a student, Carly worked hard and received good grades. Upon graduation she took a job, but at the same time saved money and worked on her business plan. When she was ready, she took the entrepreneurial plunge and started her own business, which she developed successfully, and then, a few years later, sold for $10 million. She is now living the good life of travel, building her dream home, raising her family, and managing her portfolio of investments.*

2. ***Tonya:*** *Tonya also worked hard in college and, upon graduation, took a job in a financial institution. She discovered a flaw in its funds-routing procedures, which enabled her anonymously to divert $10 million to an offshore bank, from which it was quickly re-routed through several Caribbean and Swiss banks, ending up in account known only to Tonya. One year later, Tonya resigned from her position at the financial institution and is now living in discreet luxury somewhere in Europe.*

3. ***Jane:*** *While in college, Jane graduated with a good degree. Unfortunately, the summer after her graduation Jane's parents died suddenly. Fortunately, they left her $10 million in their wills, of which Jane immediately donated $9.9 million to charities devoted to the homeless, victims of floods, and to the planting trees in the Brazilian rainforest. Jane invested the remaining $100,000in a certificate of deposit earning 8% annually, the proceeds enabling her to live frugally and without too much discomfort.*

Let us now ask the ethics question: Which of the three is the most moral? Whom should we uphold as the ideal? Should we teach our children and students to admire and strive to be like Carly, Tonya, or Jane? All three require strength: It is not easy to build a successful business. It is not easy to figure out a con and get away with it. And it is not easy to give away all of one's money.

Tonya is representative of a predatory ethics; she harms others and uses the proceeds to benefit herself. She is representative of the zero-sum, gain-at-the expense-of-others practices widely condemned in the business ethics literature.

Jane is representative of an altruistic ethic: she is selfless, and she places what she has at the disposal of others in society, keeping only the minimum for herself. She is representative of the "social justice" practices widely praised in the business ethics literature.

Carly is the prototypical entrepreneur and is representative of a self-realization, egoistic ethic. She creates value, trades with others, and lives her dream life. Yet she is not discussed in the business ethics literature. She is the invisible woman.

Yet the character traits and value-producing activities of entrepreneurs at least implicitly inform an ethic. To make this ethic explicit, let us begin with a standard description of the entrepreneur.

During the past few decades, there has been an explosion of new interest in entrepreneurs and their activities. Yet, only recently, serious research attention is known to have been devoted (in some developed countries) to the ethical problems encountered by entrepreneurs and their organisations. Entrepreneurs face uniquely complex moral problems related to basic fairness, personnel and relationships, distribution dilemmas and other challenges that need to be addressed by all concerned through appropriate legal framework, social order and perhaps also a 'Moral Re-armament Movement.

In order to understand the role of ethics in entrepreneurship, we need to understand the concept of ethics in life. How should we live? Shall we aim at happiness or at knowledge, virtue or the creation of beautiful objects? If we choose happiness, will it be our own or the happiness of all? And what of the more particular questions that face us. Is it right to be Dishonest in a good cause?

Can we justify living in opulence while elsewhere in the world people are starving? If conscripted to fight in a war we do not support, should we disobey the law? What are our obligations to the other creatures with whom we share this planet and to the generations of humans who will come after us?

Ethics deals with such questions at all levels. Its subject consists of the fundamental issues of practical decision-making and its major concerns include the nature of ultimate value and the standards by which human actions can be judged right or wrong.

What are ethics?

Ethics refers to well-founded standards of right and wrong, that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness or specific virtues. Ethics, for instance means those standards that impose the reasonable obligations to refrain from stealing, murder, assault and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion and loyalty.

Ethics also refers to the study and development of one's ethical standards. It is necessary to constantly examine one's standards to ensure that they are reasonable and well founded. Ethics also means the continuous effort of our own moral beliefs and our moral conduct.

Definition of 'Business Ethics'

Business ethics comprises of the study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility and fiduciary responsibilities. Business ethics are often guided by law, while other times provide a basic framework that businesses may choose to follow in order to gain public acceptance.

Why is ethics important to an entrepreneur?

The belief that businesses have a social responsibility is quite common place now though it's a relatively new phenomenon. In the start of 1980's business ethics was introduced and the combination of ethics and entrepreneurship was highly unusual. According to **Johan Wempe**, "Ethical Entrepreneurship, in a nutshell, amounts to the achievement of ethical goals through entrepreneurship". There is little more to it than that and it merges with the terms **'Social Entrepreneurship', 'Social Corporate Entrepreneurship', and 'Corporate Social Responsibility'.**

There are many discussions about morals and ethics. It is a very complicated issue as people have different views of what is 'ethical' and 'moral', depending on their religious background, culture, education etc.

***Here is one story to explain how ethics prevails in Entrepreneurship**:*

"Amal and Kamal, father and son respectively, had built up a thriving retail grocery shop in Haldwani (Uttaranchal). One of their suppliers, having delivered a large consignment of rice and sugar, left the bill with Kamal. He kept that in a small cabinet in the shop. Then both the supplier and Kamal forgot

about it. After about eight months or so, at the end of March, Amal began to clear the backlog and looked carefully into the cabinet. He discovered the unpaid bill and informed Kamal. The latter was shocked. Amal asked Kamal to contact the supplier immediately and clear his dues. Kamal replied: "No Father, it is the supplier's duty to remember and collect his dues. Why should we chase him?"

Amal replied, "Son, that is not the way honorable people do business". It is the innermost belief, i.e., sense of values and business ethics, which guided Kamal to pay what is due to the supplier.

Entrepreneurs today encounter uniquely challenging ethical problems. They typically operate in stressful business environments and they often struggle to find time and perspective for focused ethical reflections. Entrepreneurs have limited time to focus on ethical issues. Often, they are not interested in ethical questions-beyond addressing an immediate business problem. However, most of them also agree that ethical behaviour is essential for an effective economic system

Entrepreneurs make choices and take actions that affect many, usually without the moral guidance available in established organisations. Their decisions can strengthen or seriously weaken a firm's future business viability. The cases of Enron, WorldCom, Anderson and other giants of USA are shining examples of results of unethical decisions by key personnel of those enterprises.

However, what exactly is the right thing? All of us know about integrity, promise keeping, commitment, and truthfulness. We learned these traits from childhood. An important question arises for us personally and in the business world. Do we practise integrity or do we have it imposed on us from an external source? The capital we use to build our business becomes consumed through production, but the capital of our character outlasts all material resources.

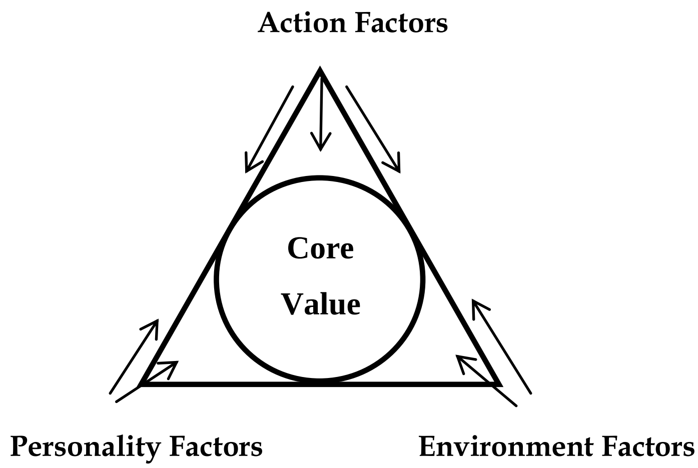
As entrepreneurs climb the ladder of success, they should not forget that for success to be long lasting they will have to follow some ethical standards in their business practices. Some examples to be followed can be:

a) Providing quality and correct quantity of goods to consumers
b) Keeping in mind the environmental issues during production
c) Paying the minimum and correct wages to the workers
d) Not to use child labour in their production
e) Judicious use of natural resources

Entrepreneurial Values, Attitudes and Motivation

Values:

Milton Rokeach has defined values as *"beliefs that guide actions and judgement across a variety of situations."* Values determine what people consider to be good or bad for a civilised society. A civilized society considers qualities like honesty, truthfulness, integrity etc., as important for happy a healthy living. These set of beliefs that provide standards which guide behaviour is known as values. In relation to business, social values define the objectives of business as well as the manner in which business affairs should be conducted. Entrepreneurs share some of these qualities that guide and direct them and hence they have come to be called entrepreneurial values. It can be summarised in the form of a diagram.



Core Values:

Some research studies have revealed four core values that are generally possessed by dynamic entrepreneurs. These values are:

1. Innovation and creativity
2. Independence or self-reliance
3. Respect for work
4. Quest for outstanding performance or achievement orientation

However, these values are not found in the same degree among all the entrepreneurs.

Innovation and Creativity:

These are the most important values found among most of the entrepreneurs. They are guided by these values when they come out with creative ideas, new products, services, processes etc., to solve specific problems of the society.

Creativity is the ability to see new ways of doing things and innovativeness is the ability to make it work in practice. For example, earlier, hair oil was available only in tins and introducing it in plastic small packs has become convenient for customers to carry and use. Innovativeness can be seen through actions such as:

a) Sachet Market – small sachet of shampoo, oil etc.

b) Experimenting with new ideas for example introduction of debit and credit cards in the banking sector

c) Facing uncertainty in order to try out new ideas

d) Not giving up or becoming upset when errors occur

e) Finding problems to solve

f) Finding new use for existing methods or equipment

g) Demonstrating originality

h) Introducing changes., Introducing gas cylinders for cooking

i) Providing critical inputs for a new idea

j) Providing evaluation of proposed ideas

Independence or ownership (self-reliance):

Analysts of entrepreneurial processes have found that a very strong and positive ego drive is involved in the action plan of all significant entrepreneurial ventures. It enables them to develop a 'mission' concept which drives them to achieve their goal with a clear vision. They drive great satisfaction in their sense of 'independence' or 'ownership'. Commitment, sense of complete identification, sincerity and hard work to achieve their 'mission' constitute the ingredients of the 'ownership' factor.

A young village boy, who wanted to clear the I.A.S. examination, could not succeed because he got stuck at the interview level. He opened an institute for aspiring youngsters. What started as a single teacher coaching center grew into a big education institute that provides tutorials to wide range of courses. The young man who could not achieve his dream of becoming a civil servant, has become an entrepreneur in the field of education.

Respect for work:

The entrepreneurs have great respect for work. Successful entrepreneurs believe that they can achieve anything through hard work. Look into the biography of any entrepreneur and you will surely find that all of them have achieved the pinnacle of success through hard work. This value provides goal direction which encourages them to pursue a path and career in which the rewards and incentives are linked to the degree and quality of efforts made.

Quest for outstanding performance:

Dynamic entrepreneurs are guided by the value of outstanding performance. It is the quest for outstanding performance on the part of **Narayana Murthy** that saw the emergence and speedy growth of Infosys.

When you read the success story of **Steve Jobs,** which is given in the beginning of the chapter, you understand that he always believed in outstanding performance, for example, when Apple phone was launched, he took great care to make the package eco-friendly and light weight with 3D (Three Dimensional) images on it. Such was his dedication for extraordinary performance.

Challenges seem to stimulate and motivate entrepreneurs. As they have strong motivation to succeed, they value performance of a high order. Thus the entrepreneur, due to his quest for excellence, is an 'over comer' who can resolve problems under pressure. They are persistent and hardworking when things go wrong.

Attitudes:

Attitudes constitute an important psychological attribute of individuals which shape their behaviour. It may be defined as the way a person feels about something-a person, a place, a commodity, a situation or an idea.

Read the following story

A young man was passing through a site of construction. He saw three labourers working in the site. He went to one of them and asked 'What are you doing here?' the worker answered, 'don't you see? I am pulling in to earn a living. I am working and earning.'

The young man moved towards the second. Now, he asked the second man the question 'What are you doing?' Pat came the reply 'Don't you see? I am constructing a wall'.

The young man now asked the third person the same question and he replied 'don't you see? I am building a beautiful mansion.'

All three men were doing the same work, but what differentiated them was their attitude towards work. So we can clearly see from the story that attitude is something we individually feel about some person, work, place etc.

Features of attitude:

1. Affects behaviour:

People have a natural tendency to maintain consistency between attitude and behaviour. Attitudes can lead to intended behaviour if there is no external intervention.

2. It is invisible:

It constitutes a psychological phenomenon which cannot be directly observed. However, we may observe an attitude indirectly through observing its consequences. For example, if a person is highly productive, we may infer that he has a positive attitude towards his/her work.

3. Attitudes are acquired:

Attitudes are gradually learnt over a period of time. The process of learning attitudes starts right from childhood and continues throughout the life of a person. However, in the beginning, the family members have a greater impact on the attitude of a child.

4. Attitudes are pervasive:

They are formed in the process of socialisation and may relate to anything in the world. For instance a person may have positive and negative attitudes towards religion, politics, politicians or countries.

Sources of attitudes:

The central idea running through the process of attitude formation is that, the thoughts, feelings and tendencies to behave are acquired or learned gradually. The attitudes are acquired from the following sources:

1. Direct personal experience:

The quality of a person's direct experience with the attitude object determines his/her attitude towards it. For example if a worker finds his/her job challenging, supervisors understanding and co-workers very cooperative then he/she will have a positive attitude towards his/her job because of the quality of his/her direct experience with the job.

2. Group Associations:

People are influenced to one degree or another by other members in the group to which they belong. Attitudes are one target for this influence. Their attitudes toward products ethics warfare and a multitude of other subjects are influenced strongly by groups that they value and with which they do or wish to associate. Several groups, including family, work, and peer groups, and cultural and sub-cultural groups, are important in affecting a person's attitudinal development.

3. Influential Others:

A consumer's attitude can be formed and changed through personal contact with influential persons such as respected friends relatives and experts. Opinion leaders are examples of people who are respected by their followers and who may strongly influence the attitudes and purchase behavior of followers.

To capitalize on this type of influence, advertisers often use actors and actresses who look similar to or act similar to their intended audiences. People tend to like others who are similar to themselves because they believe that they share the same problems, form the same judgments and use the same criteria for evaluating products. Another application which advertisers use to influence audience attitudes is the so called slice of life commercial. These advertisements show typical people confronting typical problems and finding solutions in the use of the advertised brand, some examples include the advertisement of a specialised shampoo (to solve dandruff problems).

Essential attitudes of an Entrepreneur:

The following twelve attitude attributes can put one in the right mindset for achieving entrepreneurial success.

1. Have passion for the business:

Work should be fun. One's passion will help to overcome difficult moments and will persuade people to work for you and want to do business with you. Passion can't be taught. When it wanes, as it surely will in difficult times, take some quiet time. Whether it be an hour or a week, take inventory of all the reasons one started the business and why one likes being one's own boss. That should renew one's passion.

2. **Set an example of trustworthiness:**

   People have confidence in trustworthy individuals and want to work for them in a culture of integrity. The same is true for customers.

3. **Be flexible, except with core values:**

   It's a fact that one's plans and strategies will change as time goes on. This flexibility for rapid change is an inherent advantage of small over large business. However, no matter what the pressure for immediate profits, do not compromise on core values.

4. **Don't let fear of failure hold one back:**

   Failure is an opportunity to learn. All things being equal, venture capitalists would rather invest money in an individual who tried and failed founding a company than in someone who never tried.

5. **Make timely decisions:**

   It's okay to use one's intuition. Planning and thought are good. But procrastination leads one to miss opportunities.

6. **The major company asset is oneself:**

   One should take care of oneself. One's health is more valuable than the most expensive machinery or computer software for the company. One doesn't have to choose between one's family or company, play or work. Maintain one's own health for balance and energy, which will, in turn, enhance one's outlook.

7. **Keep one's ego under control:**

   Don't take profits and spend them on expensive toys to impress others. Build a war chest for unexpected needs or opportunities. This also means hearing out new ideas and suggestions no matter how crazy they sound.

8. **Believe in oneself:**

   One needs to believe in one's own self, in one's company, and that one will be successful. One's confidence is contagious to one's employees, customers, stakeholders, suppliers and everyone one deals with.

9. **Encourage and accept criticism graciously. Admitting one's mistakes:**

   One needs to constantly work on convincing one's employees that its okay, even necessary to state their honest opinions even it if conflicts with the boss's opinion. Just stating it once or putting it in a mission statement persuade/convince most people.

10. **Maintain a strong work ethic:**

    One's employees will follow the lead. It will also help one beat one's competition by outworking them, particularly when the product or service is very similar.

11. **Rebound quickly from setbacks:**

    There surely will be plenty of ups and downs as one builds up the business. Learn from the setbacks and move on. One can't change the past.

12. **Periodically getting out of one's comfort zone to pursue something important:**

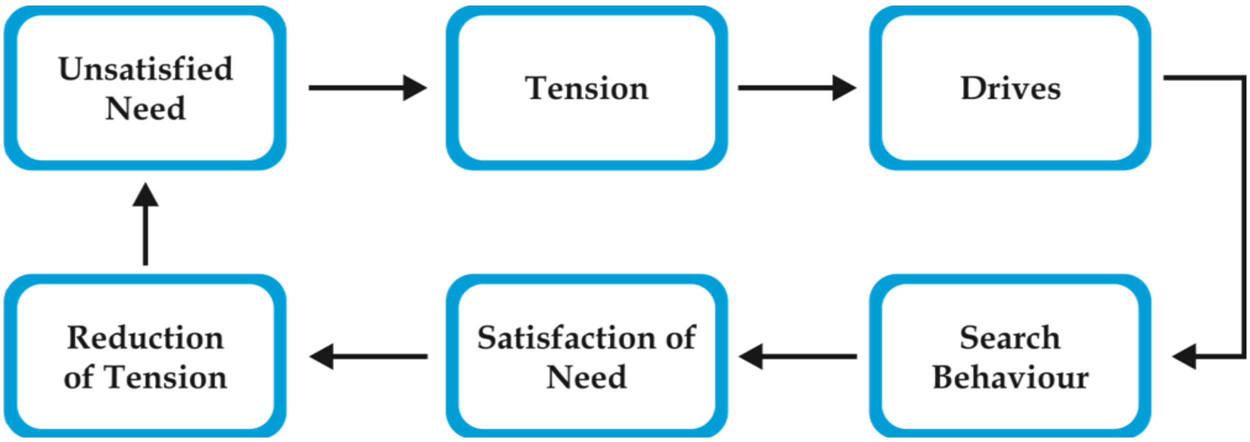
Many times one feels uncomfortable while implementing a needed change in technology, people, mission, competing, etc. For the company and one to grow personally, one sometimes has to step out of one's comfort zone.

Motivation

Entrepreneurial motivation may be defined as the process that activates the entrepreneurs to exert a high level of effort for the achievement of his/her goals. In other words, the entrepreneurial motivation refers to the drive or forces within an entrepreneur that affects his/her direction, intensity and persistence of voluntary behavior.

Process of Motivation:

Motivation is essentially a process. It can be well expressed in the form of a model.



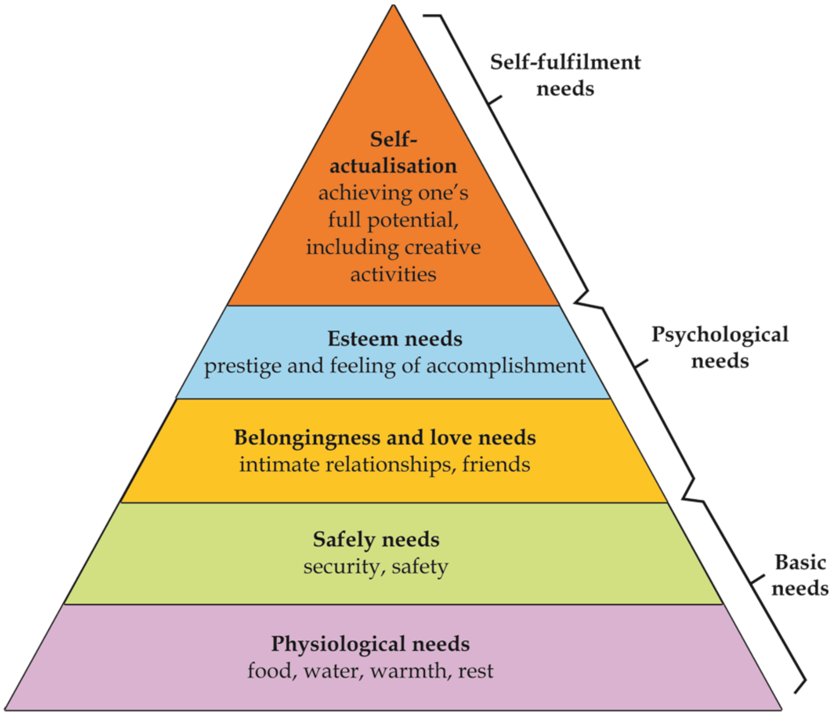
On a careful analysis of the model, it can be understood that every individual possesses an urge or a need, or a multitude of needs, desires or expectations. The unsatisfied need leads to tension within the individual and motivates one to search for ways to relieve one's own tension. That tension leads one to certain drives and searching alternatives to achieve one's goal which will eventually reduce tension.

Motivation Theories

There have been various theories of motivation which encourage an entrepreneur to continue his/her work in spite of all odds.

Maslow's Hierarchy of Needs Theory:

This theory was proposed by **Abraham Maslow** and is based on the assumption that people are motivated by a series of five universal needs. These needs are ranked, according to the order in which they influence human behaviour, in hierarchical fashion.



Physiological needs are deemed to be the lowest- level needs. These needs include the needs such as food and water.

- As long as physiological needs are unsatisfied, they exist as a driving or motivating force in a person's life. A hungry person has a felt need. This felt need sets up both psychological and physical tensions that manifest themselves in overt behaviours directed at reducing those tensions (getting something to eat). Once the hunger is sated, the tension is reduced, and the need for food ceases to motivate. At this point (assuming that other physiological requirements are also satisfied) the next higher order need becomes the motivating need.

  Safety needs -- the needs for shelter and security -- become the motivators of human behaviour.

- Safety needs include a desire for security, stability, dependency, protection, freedom from fear and anxiety, and a need for structure, order, and law. In the workplace this needs translates into a need for at least a minimal degree of employment security; the knowledge that we cannot be fired on a whim and that appropriate levels of effort and productivity will ensure continued employment.

  Social needs include the need for belongingness and love.

- Generally, as gregarious creatures, human have a need to belong. In the workplace, this need may be satisfied by an ability to interact with one's co-workers and perhaps to be able to work collaboratively with these colleagues.

  After social needs have been satisfied, **ego and esteem needs** become the motivating needs.

- Esteem needs include the desire for self-respect, self-esteem, and the esteem of others. When focused externally, these needs also include the desire for reputation, prestige, status, fame, glory, dominance, recognition, attention, importance, and appreciation.

  The highest need in Maslow's hierarchy is that of **self-actualization**;

- The need for self-realization, continuous self-development, and the process of becoming all that a person is capable of.

McClelland's Theory of Needs:

According to David McClelland, regardless of culture or gender, people are driven by three motives:

- **Achievement**
- **Affiliation**
- **Power**

Since McClelland's first experiments, over 1,000 studies relevant to achievement motivation have been conducted. These studies strongly support the theory.

Achievement:

The need for achievement is characterized by the wish to take responsibility for finding solutions to problems, master complex tasks, set goals and get feedback on level of success.

Affiliation:

The need for affiliation is characterized by a desire to belong, an enjoyment of teamwork, a concern about interpersonal relationships, and a need to reduce uncertainty.

Power:

The need for power is characterized by a drive to control and influence others, a need to win arguments, a need to persuade and prevail

According to **McClelland**, the presence of these motives or drives in an individual indicates a predisposition to behave in certain ways. Therefore, from a manager's perspective, recognizing which need is dominant in any particular individual affects the way in which that person can be motivated.

People with achievement motives are motivated by standards of excellence, delineated roles and responsibilities and concrete, timely feedback. Those with affiliation motives are motivated when they can accomplish things with people they know and trust. And the power motive is activated when people are allowed to have an impact, impress those in power, or beat competitors.

Difference between Entrepreneur and Employee

The decision to start career or lifestyle has never been easy. It takes a great deal of courage, energy, attitude and aptitude in decision making the career. There was a time when doctor's children were motivated to become doctors and an engineer's children were motivated to become engineers, so on and so forth the career used to be decided by parents. Nevertheless, the business and service class aspired to be doctors and engineer's entrepreneurship is the idea whose time has come now, entrepreneur's repute in India stands way ahead of the professional class. Not that all can become entrepreneurs, all those who cannot be entrepreneurs for their own different reasons, now, choose other options. Service class takes up employment in different enterprise of their choice according to their aptitude. Broadly the difference between entrepreneur and employee is that an entrepreneur is the owner of the enterprise and an employee is in the service of the enterprise and both work in the interest of the enterprise. The following are the basic differences:

1. **Motive:**

   The motive of an entrepreneur is to start a venture by setting up of an enterprise. One undertakes the venture for his personal gratification; whereas the employee's job is to render one's service in the ongoing or new enterprise set up by someone else.

2. **Status:**

   An Entrepreneur is the owner of the enterprise, whereas an employee is the servant in the enterprise owned by entrepreneur.

3. **Risk Bearing:**

   An entrepreneur being the owner of the enterprise assumes all risks and uncertainty involved in running the enterprise considers and thinks about one's business 24 hours, where as an employee being servant does not bear any risk, all that, can happen is one may lose one's job with or without some compensation. One thinks of one's enterprise that one is working on duty for certain hours only.

4. **Rewards:**

   The reward, an entrepreneur gets, for bearing risks involved in the enterprise is profit or at times handsome profit, which is uncertain, where as an employee gets rewarded for one's services rendered in the enterprise as salary which is fixed and certain as per appointment letter issued. In addition, one gets a bonus as per prescribed rules and festival tokens etc. in cash or kind, sometimes on performance.

5. **Innovations:**

   The entrepreneur himself/herself thinks over what and how to produce goods and services. One has to bear in mind about meeting the changing demands of the customers. Hence he acts as an innovator as well as a change agent, whereas employee executes the set plans as per given schedule. Thus one's job gets to meet up the targets decided by one's employees.

6. **Qualification:**

   An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, farsightedness, risk bearing abilities and much more where as an employee needs to possess qualification as per the status in the enterprise which are pre-set and detailed in black and white, like an accountant can be C.A/M.Com etc. and a manager may be an M.B.A. in Marketing/Finance or Human Resource etc as per the nature of the enterprise.

Intrapreneurship

An inside entrepreneur, or an entrepreneur within a large firm, who uses entrepreneurial skills without incurring the risks associated with those activities. Intrapreneurs are usually employees within a company who are assigned a special idea or project, and are instructed to develop the project like an entrepreneur would. Intrapreneurs usually have the resources and capabilities of the firm at their disposal. The intrapreneur's main job is to turn that special idea or project into a profitable venture for the company.

Also called corporate entrepreneurship. Coined in the 1980's by management consultant **Gifford Pinchot**, entrepreneurs are used by companies that are in great need of new, innovative ideas. An Intrapreneur is someone who has an entrepreneurial streak, but chooses to align his/her talents with a large organisation in place of creating his/her own. To the classic entrepreneur, this may be puzzling, but these are a growing class of 21st century 'employees'.

Smart organisations will seek out individuals who like to invent, innovate, and want to be on the front lines of change. These individuals can work independently but even more important can work seamlessly as part of an integrated team structure and also effectively embrace and embody the culture of the entrepreneur's host organisation. Intrapreneurs are most successful when management empowers and supports them and in turn the Intrapreneurs represent the best interests of their organisations, while earning the respect of corporate peers.

Why is Intrapreneurship necessary?

It is the best way to retain talented staff. Otherwise, most of them will just quit and develop these ideas on their own. It will be a win-win situation for both the organisation and the talented employee.

Google's Intrapreneurship program:

Through this Google Intrapreneurship program, all the employees are empowered and encouraged to spend 20% of their time on projects that interest them and that they think will benefit Google and their customers. The Google "Innovation Time Off" Intrapreneurship program has a formal process for their selection of entrepreneurial projects, for the formal evaluation process and the monitoring of each Google approved entrepreneurial project. For a Google employee, to participate in the program, he/she needs to submit a project proposal with a timeline.

It is critical to note that several of Google's newest products and services such as Gmail, Google news, Orkut and AdSense were all originated through this program.

In India also, Marico, manufacturers of Parachute Hair Oil, Saffola, Kaya Skin Clinic Industries have institutionalised innovation awards, where they receive 30-40 entries every year for innovations across the spectrum, including factories, brand, sales and HR, virtually covering the whole organisation. The company believes that there will be failures and unless one is ready to fail, one can never succeed.

Kinetic Engineering Limited is the flagship company of Firodia Group of companies, one of the pioneering groups in automobiles in India, founded in 1972 by **Mr. H. K. Firodia**. The company encourages employees to use their time efficiently for innovation in its upcoming products. The Kinetic Zing model of bicycle was the idea of an employee working in the corporation.

Consequences of not encouraging Intrapreneurship:

A classic case of entrepreneurs is that of the founders of Adobe, **John Warnock** and **Charles Geschke**. They both were employees of Xerox. As employees they were frustrated because their new product ideas were not encouraged. They quit Xerox in the early 1980s to begin their own business. Currently, Adobe has an annual turnover of over $3 billion.

SUMMARY

Types of entrepreneurs

According to Danh, there can be four types of entrepreneurs:

1. *Innovative* 2. *Imitative* 3. *Fabian* 4. *Drone*

On the basis of:

1. *Business* 2. *Trading* 3. *Industry* 4. *Corporate*
5. *Agriculture*

Technology

1. *Technical* 2. *Non-technical* 3. *Professional*

Motivation

1. *Spontaneous* 2. *Induced* 3. *Motivated*

Others

1. *First generation* 2. *Second generation* 3. *Third generation*

Competency *is a set of defined behaviours that provide a structured guide enabling the identification, evaluation and development of the behaviours in individual.*

Entrepreneurial competencies can be broadly classified as:

a. *Entrepreneurial*
b. *Enterprise launching*
c. *Enterprise managing*

Milton Rokeach has defined values as "beliefs that guide actions and judgement across a variety of situations.

Core values among entrepreneurs:

- *Innovation and creativity*
- *Independence or self-reliance*

- *Respect for work*
- *Quest for outstanding performance or achievement*

Attitude *is something we individually feel about some person, work, place etc.,*

Features:

- *Affects behaviour*
- *Invisible*
- *Pervasive*
- *Acquired*

Entrepreneurial ***motivation*** *may be defined as the process that activates the entrepreneurs to exert high level of efforts for the achievement of his/her goals.*

Motivation Theories:

- *Abraham Maslow:*

  Physiological Needs-Safety needs-Social Needs-Esteem Needs-Self Actualization needs
- *David McClelland*

Need for Achievement- Need for Affiliation- Need for Power

An ***Intrapreneur*** *is someone who has an entrepreneurial streak but chooses to align his or her talents with a large organisation in place of creating his or her own.*

Q.1. Answer the following in about 15 words

(i) Who is an Intrapreneur?

(ii) Define Entrepreneurial Motivation.

(iii) What do you mean by competency?

(iv) Which value provides goal direction to entrepreneurs?

(v) State one crucial feature of Fabian Entrepreneurs?

(vi) 'Hero Motocorp manufactures two wheelers and provide services.' This is an example of which type of entrepreneur?

(vii) "They are highly ambitious are normally not satisfied by slow progress in their jobs." This applies for which entrepreneurs?

(viii) "When it wanes, as it surely will in difficult times, take some guilt time." This statement shows which attitude of an entrepreneur.

Q.2. Answer the following in about 50 words

(i) Why attitude is called pervasive?

(ii) Explain any two features of attitude.

(iii) Explain these core values:

a) Respect for work

b) Innovation and creativity

(iv) Name the types of entrepreneurs according to Danhof.

(v) What is the importance of an Intrapreneur in an organization?

(vi) What is "Innovation time off" in an Intrapreneurship program?

Q.3. Answer the following in about 75 words

(i) "The thoughts feelings and tendencies to behave are acquired gradually." In the light of this statement describe the sources of attitudes.

(ii) "Attitude is not by birth; it is acquired" Explain.

(iii) "Entrepreneurs venture to take risks but some entrepreneurs are very shy and lazy by nature." Mention the name of such entrepreneurs and explain

(iv) "Innovation and creativity both are interrelated" Explain.

(v) "We can appoint an employee but not an entrepreneur." Describe difference between an employee and an entrepreneur in the light of this statement.

(vi) Differentiate between an Intrapreneur and Entrepreneur.

(vii) Explain the following Entrepreneurial Competencies:

a) Persistence

b) Leadership

c) Systematic planning

(viii) Why is systematic planning a must for an Entrepreneur?

(ix) Define Business Ethics? Why is it important to an entrepreneur.

(x) Explain types of entrepreneurs on the basis of use of technology.

(xi) Explain types of entrepreneurs on the basis of motivation.

(xii) What are the entrepreneurial values? Show by diagram.

(xiii) "Human beings require respect in the society." Explain the esteem needs in the Maslow - Hierarchy of Needs Theory.

(xiv) How competency in creativity and innovation helps an entrepreneur meet the challenges of a situation?

(xv) Do you think Intrapreneur is necessary for an organisation? Support your answer with strong reasons.

Q.4. Answer the following in about 150 words

(i) What do you mean by entrepreneurs? Mention the types of entrepreneurs.

(ii) Motivation is a process, explain by a model.

(iii) "Entrepreneurs cannot survive and grow without fulfilling the ethical responsibilities of the society." Explain.

(iv) Explain in detail the McClleland Theory of Motivation.

(v) Explain the types of business entrepreneurs.

(vi) Explain any four entrepreneurial competencies

(vii) Explain features of attitudes

(viii) How do systematic planning and persistence help entrepreneurs become effective leaders?

Q.5. Answer the following in about 250 words

(i) Explain any six essential attitudes of an entrepreneur

(ii) Explain Maslow's Theory of Motivation

(iii) Differentiate between an entrepreneur and an employee

(iv) "Competencies is a set of defined behaviors." State the types of competencies required by an entrepreneur? Explain.

(v) "Entrepreneur's decisions can strengthen or seriously weaken a firm's future business viability." Discuss this statement in the light of necessity of ethics for society and development of business.

Q.6. HOTS: (High Order Thinking)

(i) The government launched a programme for pollution free zones and provides financial assistance to entrepreneurs. By inducing such assistance, Ms. A was induced to enter into entrepreneurship. This included in which category? Explain.

(ii) What are the basic differences between Maslow's and McClelland's Theory of Needs?

(iii) "An entrepreneur who is fulfilling the ethics and moral responsibility towards society is an asset for society and should be survive and grow." Explain.

(iv) "Many problems are bound to come in the path of progress, Ratan Tata shifted the manufacturing plant for Nano Cars from Singur to Sanand due to unforeseen complexities". Which type of competency is shown here? Discuss.

(v) "Raju is a 16 year young boy, working hard to earn his living. He also tries to save some part of his earnings to acquire basic education". He falls in which level of Need as propounded by Maslow in his Motivational Theory?

Q.7. Application based exercise:

Read the following story

A young man was passing through a site of construction. He saw three labourers working at the site. He went to one of them and asked "What are you doing here?" The worker answered, "Don't you see? I am making out a living. I am working to earn."

The young man moved towards the second man and asked him the same question.

Pat came the reply "Don't you see? I am constructing a wall".

The young man moved towards the third man & repeated the question.

The labourer replied "Don't you see? I am building a beautiful mansion".

Answer the following questions:

A. All the three were doing the same work, then what differentiates them?

B. What is important to do a piece of work effectively and efficiently?

C. Whose answer reflected a positive attitude?

Q.8. Activities:

I. Collect articles about entrepreneurs from newspapers and magazines. Have students read the article and answer the following questions:

- How did the person get the ideas for the venture?
- What is the unique selling point of the good or service?
- What risks did the person take?
- Did this person have a mentor or "angel"?
- Did the person face any obstacles?
- Does this person have competition?

Group activity

II. Ask the class to form small groups of about 8 persons to work on ideas for ethical decision-making. Provide them with information about a business to use for the activity. This could be a local business, a business idea of your choice or theirs, or a business plan sample that they have been working with in the class. Ask each group to do the following:

(i) Identify problems the entrepreneur might encounter in running his/her business in an ethical manner.

(ii) Develop a 10-point code of ethics for business.

(iii) Discuss policies and procedures appropriate for this business that would support the code of ethics.

(iv) List as many ethical problems as possible that might be faced by employees during a normal work day. Discuss the possible solutions for the problems. Consider how a procedure guide might help employees to make the best decisions.

(v) Members of the group should then role-play the process of handling an ethical issue with a customer, with a supplier, with a competitor, and with the son of the owner. Discuss the results of the role-playing exercise. If necessary students may want to modify their code of ethics at this time.

(vi) Each group should present their code of ethics to the class and discuss major outcomes.

III. Your code of ethics will apply to all types of business operations including the following. What others can you add to this list?

- Handling cash and checks from customers
- "Negotiating" special prices for a friend without permission
- Accepting gifts from suppliers and business associates
- Selling damaged merchandise
- Warranties on products
- Merchandise return policies for customers
- Returning merchandise to suppliers
- Handling shoplifters
- Accounting procedures for cash sales
- Employee theft
- Insurance coverage adequate to protect the business and employees
- Supporting your advertising promises
- Checking in merchandise when received from suppliers
- Keeping the premises clean and free from harmful substances or germs.
- Handling employee performance problems
- Telling customers the truth

IV. Find examples of what innovative entrepreneurs, imitative entrepreneurs, Fabian entrepreneurs and Drone entrepreneurs.

V. Prepare a presentation through any medium for types of entrepreneurs according to the business.

VI. Write an article for a newspaper about the first, second and third generation of entrepreneurs with suitable examples from your city.

VII. Design a poster explaining Maslow's Theory and relate it to your favourite entrepreneur.

VIII. Select in group/individual to research on the CSR activities and its impact of the selected MNC/Local from the following MNC's and Local companies

Times have changed and so have the objectives of the MNC's and big industrial houses whose onus though primarily remains wealth maximisation, also focus on philanthropic activities as they have realised the importance of social support to successfully run their organisation. They now focus on fulfilling their Corporate Social Responsibility (CSR).

Given below are some prominent MNC's and local Companies of India. Select any one from the given list, though the list is not exhaustive, and do a detailed study and research about their activities beyond business i.e. activities for social welfare. Also study the impact of these activities on the internal working environment and its goodwill in the business world. Example: How was the goodwill of Infosys adversely affected when one of their directors was named in a scandal; how did the market shares of P&G react from the time they started the drive *"padhega India tabhi to bhadhega India"* and many more such examples to choose from.

This activity can be performed individually or can be conducted in a group.

- WIPRO
- INFOSYS
- BHARTI
- NTPC
- TATA
- HCL
- PEPSI
- Mc DONALD'S
- COKE
- RELIANCE
- PROCTOR & GAMBLE

Teacher can add more to this list.

UNIT 3

Entrepreneurial Journey

Learning objectives:

After studying this unit you will be able to:

- Understand the concept of Business Plan
- Identify various personality types for starting any venture
- Understand the role of society and family in the growth of an Entrepreneur
- Differentiate between Feasibility Study and Business Plan
- Understand the reasons for success and failure of Business Plan
- Understand the organisation and direction of activities in a business venture

Case Study

Nandita Bijur

'It's a dream come true'. People all around were saying, 'There goes Malti's daughter, the successful business woman'. Nandita was a brave child, a strong headed youngster who had a dream which has reaped successful results. She is the owner of Uma Food Products, an enterprise worth several crores of rupees today.

How do you convert childhood pain and humiliation into ammunition for success? How do you take many small negatives and turn it into a huge positive?

Nandita Bijur is the best person to answer these questions because this is exactly what she did. Tall and attractive, Nandita exudes strength, determination and drive. She started her business with an investment of only Rs. 5000 from her personal savings and through sheer grit and hard work, turned it into a huge success.

Nandita never had a childhood

Nandita's childhood was very traumatic and left many scars on her psyche. When she and her elder brother were only about six and eight, their mother, Malti, fell ill. It was a long drawn illness. Since their father was away at work most of the time and there was no one else to take care of her, Malti was moved to her father's house (Nandita's maternal grandfather's house.) Malti needed a great deal of care and attention and she lived in her father's house for over fifteen years. While still a child, Nandita was thrust into the role of the "women of the house." She never had much time to go out and play like the other little girls in the neighbourhood. She had to take care of her brother and father. They seemed to lean on her for support. She shopped and cooked and went to school. She was always tired and often it was a struggle to stay awake to do homework. Sometimes she was so tired in school that her eyes would automatically close and her head drop on her desk. She remembers wanting pretty dresses to wear and colourful ribbons in her hair like the other girls.

But there was no one around to take her for shopping. Her father did the best he could, but he couldn't do very much. She had two aunts who were kind and loving and she is eternally grateful to them.

The highlights of her life were those rare occasions when someone took her to visit her mother. She loved her mother dearly and her heart ached for her and she desperately wished she could wave a magic wand and make her well. But her mother's condition did not improve.

Nandita's inner strength and determination surfaces

Most relatives were not very kind and sometimes forgot she and her brother even existed. It hurt her deeply when they were not invited to their first cousin's wedding.

Relatives frequently referred to her as 'poor Nandita', which burned her up. Very early in her teens Nandita decided that she was not a 'poor thing' and refused to be called that. She would show 'them'. She decided that a day would come when the same people who now pointed to her and said, "There goes Malti's daughter, poor thing": would say instead, "There goes Malti's daughter, the successful businesswoman."

Nandita's husband, a good, kind man

Nandita married in her early 20's. Her husband was supportive. "He has a quiet strength that is very healing,' she says. That was the beginning of her turnaround. Nandita was a school teacher and her husband, Pramod, a chemist. Neither had any entrepreneurs in their families. But they had a shared dream-to start a small business of their own. However, there was one big problem. They didn't have the capital to invest in a business. Soon they had two children and they needed both their incomes to live a comfortable life.

The idea for an ice cream mix

One evening, on his way back from work, Pramod felt like eating some ice cream. He noticed an ice cream mix in a store and bought it. When he got home, he asked Nandita to make some ice cream using the mix, which she did. When they finished their dinner, they had the ice cream for dessert. Nandita was disappointed. It just didn't taste as good as the ice cream she had earlier made at home. That night when everyone went to sleep, Nandita tossed and turned in bed thinking about the perfect ingredients that would make a great ice cream mix.

At about 4 a.m she woke up, tiptoed into the dining room, and wrote down on a piece of paper the recipe for an ice cream mix. Little did she know then that this recipe that she penned down on a scrap of paper in the wee hours of the morning, would, a few years later, make them rich.

When Promod woke up in the morning, Nandita gave him the piece of paper with the recipe for the ice-cream mix and told him, 'I know what our business is going to be. We're going to make an excellent ice-cream mix that people are going to love. When she made the ice cream at home with her own recipe, her kids exclaimed, 'Mummy, this is yummy! She decided to call it "Yummy Ice-Cream." She took out Rs. 5000 from her savings account and invested it in buying the ingredients and packaging materials.

The start of a business

At first she made the ice cream mix at home in her own kitchen. She packaged it and sold it to friends and neighbours. She continued with her teaching job and made the ice cream mix in the evening. The demand for the ice cream grew in leaps and bounds. Soon it grew so big that she had to work all night and even enlist the help of her children and husband to meet the demand. She realized that she would have to quit her job and do this full time as she couldn't do both. She recognized that she would need to rent a place to make her products. She couldn't continue to do it at home. So she rented a small shed for her first factory in Jogeshwari. It covered an area of 550 square feet.

Malti's daughter becomes a businesswoman

Nandita got a bank loan for Rs. 70,000 for the factory premises and pledged her jewellery to get an additional loan for Rs. 40,000. "I was such a novice that I didn't even know that I needed a current account to run a business,' she says.

The first year was very tough. Since her business was new nobody gave her any credit. All her suppliers wanted cash, yet she had to supply her retailers and customers on credit. At first, she couldn't afford to hire many staff so her children helped at the factory after school. During this whole period, the one thing that kept her going was the determination, "Malti's daughter is not a 'poor thing.'

She told me,'I wanted to prove to myself and others that I could succeed and make something out of my life. I wanted my children to be wealthy. I wanted them to give salaries to others and not work to get a salary. These thoughts kept me going even during the most difficult times."

As Nandita became more and more successful with her ice cream mix, she introduced new products such as Gulabjamun mix and Basundi mix. She now has over 40 products. Soon her sales shot up and she hired more employees. Her husband still continued to work at his job.

A crisis hits and almost wipes her out

Nandita hired a capable distributor for her products. Her sales quadrupled. She hired even more employees and moved to a bigger factory. The distributor suggested a major advertising blitz. So, She invested Rs. 6 lakhs on TV commercials, magazine and newspaper advertisements, displays, bill boards and so on.

Then one day, disaster struck. Nandita did not know that there was already a company by the name of 'Yummy Ice Creams" in Goa. Nandita had not bothered to find out if the name "Yummy Ice Cream" was already registered and trademarked by someone else. The businessman from Goa arrived with CBI officers and stormed into her factory and her home. He threatened to sue her until she was ruined. The distributor intervened and mediated and she also took legal advice. They negotiated with the Goa businessman and settled out of court. This proved so expensive that she almost gave up.

Back to square one

Now once again she had no money and nobody would give her any credit. Her accounts in the banks had been closed down. Once again she had to pay cash for everything she bought yet give credit to her retailers and customers. This was a very trying period. Once again, her determination that Malti's daughter will be a successful businesswoman, kept her going. She changed the name of her company to "Uma Food Products" after her mother-in-law and grandmother, who were both called Uma. Her packaged mixes were renamed 'Eat-me".

Nandita and her husband save the business

At about this time, Nandita's husband quit his job and joined the business. He became the distributor of their products, thereby saving payments to the distributor.

The first thing she did was to pay off the bank loan because she needed to have a bank account in order to be able to write cheques. For this, she took a loan from a private lender at extortionate rate of 24%. They worked day and night and paid off all their loans. Since that time, things have only looked up. She learned a great deal from her mistakes and felt confident to run a successful business venture. She has been successfull running her business now for the past 9 years.

Nandita's advice to new entrepreneurs:

1. *Don't give up. Keep at it to succeed.*
2. *Pay the creditors, suppliers and vendors on time. It builds credibility.*
3. *Treat employees like family. If employees are happy, one's business will be successful.*

Self Assessment of Qualities, Skills, Resources and Dreams

Identify your personality type before starting a business venture

An article by Bill Wagner answers the question as to whether personality matters in becoming a successful entrepreneur. Recent studies say yes, successful entrepreneurs share a number of common personality traits, and these traits are the predominant indicators of their success. People, who choose business ventures that are in sync with their true personalities, tend to experience the greatest level of success and fulfilment.

Every personality type, and therefore, every person, has the potential to grow a successful business. One just needs to determine the right opportunity. Self-awareness guides us in understanding what's needed to bridge the gap between who we are and what the opportunity requires.

According to him, entrepreneurs can be divided into seven types.

1. Trailblazers:

Trailblazers are very competitive, ambitious and goal-oriented—so much so that they tend to be aggressive and sometimes take a steamroller approach. They are restless and energetic, with a strong drive and a sense of urgency, regardless of the task at hand. They tend to have two speeds: fast and faster. Independent, persistent and decisive, they aren't happy unless they are in charge. Trailblazers are logical, analytical, practical and realistic—they tend to base decisions on facts rather than feelings. They are calculated risk takers.

The trailblazers business strengths could include the medical, technology, finance, legal and consulting fields. Being strong strategic thinkers, they focus easily on marketing and operations.

Their challenge is likely to be working with people—they are usually better leaders than managers and need to surround themselves with others, who can manage the people side of the business.

Trailblazers prefer being the driving force of a business. They typically wouldn't buy a franchise or distributorship, but they would start a company that competes with a franchise. They are highly innovative, especially when it comes to taking an idea to the next level.

2. Go-getters:

They have a higher-than-average level of both dominance and sociability and are very driven and independent. They are competitive, but your drive to succeed is sometimes tempered by your interest in and concern for others. Go-Getters represent the largest percentage of the founders. Their natural style lends itself to managing and leading both processes and people.

They show a great deal of initiative, coupled with a compelling sense of urgency to get things done. Go-Getters are typically good leaders and good managers, excelling at motivating themselves and those around them.

The go-getter's business strengths could include doing well in retail, but may prefer being the outside rainmaker. They work well in ambitious and unfamiliar environments. This means they can invest in, buy or start a business that's totally new to you and still make a success of it. They don't need to be an expert in the field to start the business, they are good collaborators and can learn as they go.

3. Managers:

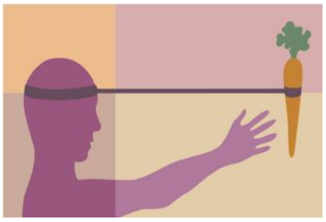
They are dominant and independent. In their case, these two characteristics feed each other, so they can appear to be even more dominant or independent than they actually are. They are also very goal-oriented and can be quite analytical, focusing more on processes and outcomes than on people. They have a tendency to look at people as vehicles for helping them accomplish their goals. Consequently, they sometimes disregard or overlook the people part of the equation or unwittingly offend people with their straightforward style of communication.

Unlike the two previous entrepreneurial types, Managers have a higher-than-average level of relaxation and know that some projects simply take more time to complete and some goals take longer to achieve than others. They are loyal, sometimes to a fault, as they consider their employees to be an extension of their family. They can deal well with customers, especially repeat customers, so they'll probably be great at growing a business.

The manager's business strengths are: Doing things on their own, as great behind-the-scene leaders who love working with systems, concepts, ideas and technologies. They excel at competitive selling because they enjoy overcoming rejection and achieving goals despite obstacles. Managers enjoy working by themselves, and managing others can be a challenge, so they need to hire employees who are better than them at listening and working well with others.

4. Motivators:

They have a high level of sociability, an above-average level of dominance, and are both driven and independent. This also gives them the ability to work well under pressure and in autonomous situations. It also means that they will be a great consensus builder, a good collaborator and a driver of change. Just like the name suggests, they are the consummate motivator who does well working by, with and through others.



The motivator's business strengths: Retail can be their game—or any environment where people are a large part of the equation. They do well in almost any business that involves people, as long as it's a somewhat non-confrontational environment.

They can be convincing and avoid most confrontations by creating a strong emotional argument. Motivators do well in the toughest of customer service roles, as they are able to see both sides of the argument. They tend to deal with even the most negative arguments by using the three F's—feel, felt and found—saying, "I understand how you are feeling. In fact, I have felt the same way, but when I learned (inserting their point), what I found was (again, insert your point)."

Motivators excel at leadership or sales. They do well in business with partners, or in a business that involves others. Motivators are good at nurturing relationships and often do best in a business that involves keeping clients for the long term. They thrive in a team environment.

5. Authoritarians:

They are the backbone of society. Authoritarians are the loyal workers who make the world function—they make their products, service their systems, and always do it right. As an Authoritarian, they may not always be the best founders of an entrepreneurial enterprise, but they can be an excellent distributor, franchisee or owner of an existing business—they can do well when they purchase an ongoing operation.

They are detail- and tactic-oriented, and motivated by doing things one- way-the right way. They are very conscientious and cooperative, following rules, procedures and policies carefully. Very thorough with details, they're cautious, deliberate, logical and analytical. They are also relaxed, patient and accommodating by nature, and are a great team player who tends to avoid confrontation.

Examples of businesses that fit this personality type would be dry cleaning stores and liquor or convenience stores, where the need for the product or service is strong. They grow their customer base, embracing them with loyalty—they see their customers as an extension of their family.

The authoritarians' business strengths: They often refer to themselves as "accidental" entrepreneurs, because they may end up running a business that was never part of their original plan. Consequently, they're best served by going into a business that embraces their level of expertise or allows them to develop a new level of expertise. Because they are accommodating, they may dislike prospecting, so they may need to be in a business where customers or clients are driven to them. Most authoritarian need a partner with a stronger natural ability to prospect or network. They can be very successful buying a franchise or business opportunity, as long as the organization is well-supported with advertising and marketing.

6. Collaborators:

The primary difference between collaborator and authoritarian is that they have a personality gift called sociability. It's this characteristic that allows them to use their influence to get what they want. It's all about people—they relish the people side of business. They typically benefit from having a partner who is more aggressive about developing new business. Collaborators usually aren't comfortable with cold calling or pitching new ideas; they like to follow prescribed rules and guidelines.

Collaborators are good at running customer service-oriented or retail businesses, or any business where being convincing is an important aspect of getting the job done, and done right. From an entrepreneurial perspective, collaborators do well within structured environments where people are an element of success. Collaborators can be great salesmen in a warm selling market because they use their sociability to sell their expertise.

'Warm selling' means they bring the prospect to them, often through a letter or advertisement enticing the prospect to contact them for more information about their product or service. Once prospects do get in touch, their expertise takes over, and they sell your heart out. On the other hand, cold selling, which generalist personalities typically do well, involves picking up the phone and dialling for dollars, or hitting the streets looking for prospects door to door.

7. Diplomats:

"The reason I'm successful is because I'm lucky. But I didn't get lucky until I started working 90 hours a week!"

They are restless and enjoy working under a certain amount of pressure. They get things done quickly and work well with deadlines. They adjust easily to change and deal well with new situations.

They have a high sense of urgency and like variety, and because of their compliance and their need to do things right, their work at their full capacity. They multitask and keep a variety of jobs going at once. Active and energetic, they vigorously attack the parts of their business that they enjoy. They can experience difficulty in delegating details, but do a great job when they can do the work themselves.

Diplomats are considered to be the best of the specialist entrepreneurs, as they have both sociability and drive in their personalities. These are two important elements to success. Like most specialists, they are not the greatest rainmaker, but once they have a client or prospect, they do a great job of keeping them.

The diplomat's excel in retail or other people-oriented environments. Both outgoing and empathetic, they tend to be well-liked, but they sometimes have a hard time asserting them self and holding others accountable. Therefore, to successfully lead a company, they typically need to hire stronger, more results-oriented personalities, to be sure that deadlines are met, commitments are kept and staff members follow through on duties.

Business Ideas

Even though research tells us newer and smaller firms are less likely to engage in formal or structured environmental research, the fact is that generating and evaluating business ideas is an important step in the entrepreneurial process. Some of you have may have fairly specific ideas about potential entrepreneurial ventures; others may now only in broad sense in what entrepreneurial direction they did like to go; and the rest may not have any clue whatsoever! No matter what the stage may be of entrepreneurial idea readiness it is important to generate and evaluate potential business ideas.

Misconceptions and realities

Entrepreneurship journals, books and available literature are filled with stories of Entrepreneurs striking it rich because they had a great idea. These, however, tend to give a false impression about great workable ideas. These misconceptions about great idea are:

1. **Great ideas just appear out of nowhere**

   The reality is that the best idea generators tend to do so in a structured systematic way. They don't wait for the things to happen but instead approach idea generation as the top priority activity by devoting sufficient period of time to it.

2. **There are no illogical ideas**

   The reality is that, many ideas may not be very good, though to prevent others from feeling that their contribution are not valued; the belief is that, all ideas should be approached as worthy. Sometimes, the most powerful ideas come from what at first glance seemed illogical.

3. **The customer will tell you what to do if you will only listen**

   The best source of ideas is the people who will purchase your products. The only problem with this belief is that, although customers can help identify unmet needs, they require more involvements in making a great idea workable than simply listening to the customers.

4. **We can generate all the ideas we will ever need if we sit down at a meeting.**

   Generating great ideas should not be restricted to a meeting. Great ideas are best shaped through an ongoing dialogue, not relegated to a specific place and time.

5. **Great ideas aren't the problem; implementing them is**

   The reality is that, problems with implementation arise from not screening carefully enough, the ideas that are generated. If this were done, a lot of frustration could be minimized as ill-thought-out ideas could be screened out before even being implemented.

Generating Ideas

After clearing some of the initial misconceptions about ideas, it's time to look at the process involved with generating ideas. Generating ideas is an innovative and creative process. Initially it seems difficult to think of many ideas and it will take some time, not only in the beginning stages of the entrepreneurial venture but also throughout the life of the business. The process of generating ideas we are going to discuss where ideas come from, ways to generate ideas and the role of structured approach, analysis and intuition.

Ways to Generate Ideas

The different structured approaches that might be adopted to generate ideas are:

1. **Environment Scanning**

   One of the important techniques that can be used to generate ideas is environment scanning, the screening of large amounts of information to detect emerging trends. A humongous amount of information from popular news magazines, reviews, government and consumer publications, trade publications, commercials, etc. will have to be scanned. The challenge in this method is not having too little information to scan, its having too much. It seems like a lot of effort to work but if you are serious about being a successful entrepreneur in action, it is energy well spent.

2. **Creativity and Creative Problem Solving**

   Creativity is the ability to combine ideas in a unique way or to make unusual associations between the ideas. It means cross thinking by seeing new angles, connections and approaches. The role of creativity and creative problem solving as a structured technique for generating ideas is that a number of specific creative approaches can be used. For instance (i) attribute listing - in which entrepreneur develops a new idea by looking at the positive or negative attributes of a product or a service and so on. (ii) free association – whereby, an entrepreneur develops a new idea through a chain of word associations etc.

3. **Brainstorming**

   A group of persons sit together and generate a number of business ideas by innovating alternative ways of meeting the needs and solving problems. It is usually an unstructured discussion in which one idea leads to another. This is a very productive method for generating as many ideas as possible.

4. **Focus Groups**

   These groups of individuals provide information about proposed products or services in a structured setting. In a typical focus group a moderator focuses the group discussion or whatever issues are being examined. For instance, a focus group might look at a proposed product and answer specific answer asked by the moderators. A focus group can provide an excellent way to generate new ideas and to screen proposed ideas and concepts.

5. **Market Research**

This is a method of gathering information about products/services that already exist in the market. A systematic and in-depth study is undertaken to obtain useful data to determine demand supply position for a particular product or service that is already available in the market. Such a research will help in getting new ideas for products and services.

The Role of Intuition

Intuition is a cognitive process whereby we subconsciously make decisions based on our cumulative knowledge and experiences. It is being called that 'Aha' feeling you get when your internal search engine hits its mark. You may have heard it called "gut feeling". Although structured, methodical approaches to generating ideas are important, intuition also can play an important role. Intuition can be a powerful source of new ideas if you learn to use it.

Evaluating ideas

Although generating ideas is an important process for entrepreneurs, it is only half the battle! Look at ideas carefully before taking action and proceeding any further with an entrepreneurial venture. When in the market for a new computer or car, does one take the first one that one sees? Most would. One shops around. One looks at each possibility in order to determine which is best to meet the needs and fit the available budget. This process is just as important in evaluating entrepreneurial ideas. After all, one wants to pursue the option that's going to allow one to best meet one's goals given the resources one has available. This section discusses why evaluation is important, and looks at different ways to evaluate ideas.

Importance of evaluating ideas

Amidst of rapidly changing environment, it may seem that evaluating ideas are a big waste of time. One may think that if one takes time to evaluate one's entrepreneurial ideas one will miss the quickly closing window of opportunity. However, there are good reasons why idea evaluation is an important step in researching the venture's feasibility.

1. **To decide what is important**

Idea evaluation is important because it forces the entrepreneur to decide what is important to the entrepreneurial venture, which the entrepreneur is pursuing. Potential ideas should be evaluated against what is important to him/her.

2. **To Identify Strengths and Weaknesses of the Idea**

Another reason that idea evaluation is important is that all ideas are not created equal some ideas that an entrepreneur comes up with will have better chances of success than others. By evaluating the strengths and weakness of each idea, the entrepreneur is forced to identify and assess the strong and weak points because in looking at the strengths and weaknesses of each alternative one is getting information to help one to make a better decision.

3. **To make the best use of limited resources**

The next reason why idea evaluation is important has to do with the reality of limited resources at disposal. Most entrepreneurs have limited amount of money, time, people or other resources that will be needed to pursue their entrepreneurial ideas by evaluating their entrepreneurial ideas, they can make sure their choices make the best use of those limited resources.

4. **To minimize risks while maximizing return**

The final reason why idea evaluation is important has to do with the desire to minimize risks while maximizing returns. Naturally, one does like to have the least uncertainty (risk) while getting the largest payback (return) from entrepreneurial decisions and actions, an entrepreneur puts in the effort to evaluate potential entrepreneurial ideas, there is an opportunity to minimize the level of risk exposure while maximizing the possible amount of payoff return.

Feasibility Study

Centre for Entrepreneurship at University of Rochester explained that *"a feasibility study can be defined as a controlled process for identifying problems and opportunities, determining objectives, describing situations, defining successful outcomes, and assessing the range of costs and benefits associated with several alternatives for solving a problem."*

The information gathered and presented in a feasibility study will help entrepreneurs to:

- List in detail all the things they need to make the business work;
- Identify logistical and other business-related problems and solutions;
- Develop marketing strategies to convince a bank or investor that their business is worth considering as an investment; and
- Serve as a solid foundation for developing their business plans.

Even if entrepreneurs have a great business idea they still have to find a cost-effective way to market and sell their products and services.

For example, most commercial spaces lease place restrictions on businesses that can have a dramatic impact on income. A lease may limit business hours/days, parking spaces, restrict the product or service that can be offered in some cases, even limit the number of customers a business can receive each day.

Types

1. **Market Feasibility:** Includes a description of the industry, current market, anticipated future market potential, competition, sales projections, potential buyers, etc.

2. **Technical Feasibility:** Details on how to deliver a product or service (i.e., materials, labour, transportation, where the business will be located, technology needed, etc.).

3. **Financial Feasibility:** Projects how much start-up capital is needed, sources of capital, returns on investment, etc.

4. **Organisational Feasibility:** Defines the legal and corporate structure of the business (may also include professional background information about the founders and what skills they can contribute to the business).

Features

- A feasibility study is a process in which an idea is studied to see if it is "feasible," that is, if and how it will work.
- A comprehensive feasibility study looks at the entire structure, needs, and operations of a business.
- A limited or project feasibility study looks at one specific task, program, idea, or problem.
- A feasibility study looks at both sides, considering advantages and disadvantages, and troubleshoots potential problems.
- A feasibility study is not a business plan, but serves as a foundation for developing a business plan.
- A market feasibility study is not a marketing plan, but studies markets and market potential, and can be used to support or develop a marketing plan.
- In addition to a business plan, an investor or lending institution may require the submission of a feasibility study before considering the request for capital.

A good outline

- Introduction
- Product or Service
- Technology
- Market Environment
- Competition
- Industry
- Business Model
- Market and Sales Strategy
- Production Operations Requirements
- Management and Personnel Requirements
- Regulations and Environmental Issues
- Critical Risk Factors

- Financial Predictions Including: Balance Sheet, Income Statement, Cash Flow Statement, Break Even Analysis, and Capital Requirements
- Conclusion

Opportunity Assessment

It is a more in-depth review of business opportunity including market research and due diligence that includes intellectual property analysis, opportunity development timing, legal liability issues, applications of the opportunity, barriers to entry, industry trends, growth potential, market positioning, competitive analysis, financial projections and pricing, resource requirement analysis and licensing etc.

Preparation of a Business Plan

A Business Plan is a written summary of various elements involved in starting a new enterprise of how the business will organize its resources to meet its goals and how it will measure progress.

A business plan serves the following purposes:

a) Provides a blueprint of actions to be taken in future
b) Guides the entrepreneur in raising the factors of production
c) Serves as a guide to organizing and directing the activities of the business venture
d) Helps in measuring the progress of the venture at successive stages
e) Communicates to investors, lenders, suppliers etc., initiating the programmes of the business

Elements of a Business Plan:

Do all business units need to prepare a business plan and will the plan vary depending on the size of the unit? Not necessarily, and yes, the plan size will vary from one unit to another. For example, for a manufacturer of computer, while entering a new market would definitely need a comprehensive business plan, whilst for an entrepreneur who will be opening a small stationery shop would not need a detailed business plan.

The plan must define the objectives, strategies, customer scenario, market segments, products and services to be offered, sales forecast and steps required to attain the objectives. The plan should describe distribution systems, promotional activities and pricing decisions.

Proposed Business Plan

1. General Introduction

a) Name and address of business
b) Name and address of entrepreneur
c) Stakeholder of business
d) Nature of business and customers

2. **Business Venture**

   a) Product (s) to be offered
   b) Service (s) to be offered
   c) Scale of business operation
   d) Type of technology used
   e) Type of skilled personnel required

3. **Organized Plan**

   a) Form of ownership, sole proprietorship, partnership or joint stock company
   b) Identification of business, associated partners/members etc.
   c) Administrative structure
   d) Identification of management team

4. **Production Plan**

   a) Details of manufacturing process
   b) Physical infrastructure required
   c) Types of plant and machinery
   d) Raw materials to be used
   e) Requirement of power, water etc.

5. **Human Resource Plan**

   a) Categories of human resources or staff required
   b) Human resource already identified
   c) Human resource required to be procured
   d) Time frame for procurement of human resource

6. **Marketing Plan**

   a) Products and services offered
   b) Pricing policies
   c) Promotional strategies
   d) Logistics for distribution
   e) Channels of distribution

7. **Financial Plan**

   a) Breakeven analysis
   b) Fixed capital requirements
   c) Working capital requirement
   d) Sources of capital
   e) Schedule of procurement of capital

f) Schedule of procurement of asset

h. Cash flow projection

8. Miscellaneous/Appendix

a) Market research report

b) Contract with venders

c) Contract with financial institutions

d) Type of business risk

e) Contingency plan

Business Plan Execution

Keys to success and why many plans fail

Companies often fail to deliver on their promises. The most frequent explanation is that the strategy was wrong. But companies that take the time and expend their energy to develop a focused strategic business plan are much more likely to have a solid understanding of their markets, their competition, and their customers than those that fail to plan or think through the issues. So then, why do many of these plans fail?

Strategies most often fail because they are not executed well. Things that are supposed to happen just don't happen. The failure to execute the plan, not the plan itself, is most often cited as the reason a strategic plan has underperformed. This creates significant frustration and cynicism within an organization. It is not surprising that business planning can get a bad name because the value of any plan lies only in the results of its execution.

The key to a successful execution is alignment. Strategy, people, and work processes need to be effectively linked. The strategic plan must be understood by the entire organization, the right people need to be in the right jobs to allow for maximum work performance, and action plans must be developed, implemented, and reviewed. A common issue is that individuals within the various departments in an organization may view the goals and objectives of the company very differently. Where a communication vacuum exists, sales, manufacturing and finance may view a singular priority very differently. To effectively align strategy, people, and the tactical action plans that lead to a successful execution, a lot of hard work and diligent communication must happen.

Although there is no singular process to manage the execution of a business plan, there are basic processes and fundamentals to be followed.

- Once the broad mission, vision and strategy for the organization have been established, focusing on its core competencies, specific quantifiable goals to support the strategy must be formulated.
- The organization must be evaluated. Do you have the right people with the right skills in the right jobs? Should human resources be reallocated? Do you have the right number of employees in the appropriate departments?

- Identify the key initiatives and broad actions that must be accomplished to achieve the strategy. Identify the transitional issues, or the "gaps", between where you are today and where you plan to be. Push the initiatives throughout the organization. They must be consistently understood in all functional departments. Every employee needs to understand his/her individual role in accomplishing some aspect of the plan.
- Develop a budget to support the plan. This may be an iterative process until the right combination of strategy, tactics, and financial prudence is achieved.
- Communicate well. Get the message out to the entire organization. Develop compensation and reward systems to support the future vision of the organization. Create decision filters that help guide the organization through a thought process for those times when the organization wrestles with a concept that may stray from its strategy.
- Establish a review process. As the markets, customers, competitors, government regulations, economy, etc evolve; some priorities, and possibly some goals, may change. Go back to the beginning, review each step, and determine if further changes are necessary.

Difference between Feasibility study and Business Plan

- **Meaning:** A feasibility study is not the same thing as a business plan. The feasibility study would be completed prior to the business plan. The feasibility study helps determine whether an idea or business is a viable option. The business plan is developed after the business opportunity is created.
- **Objective:** Before anything is invested in a new business venture, a feasibility study is carried out to know if the business venture is worth the time, effort and resources. A feasibility study is filled with calculations, analysis and estimated projections while a business plan is made up of mostly tactics and strategies to be implemented in order to grow the business.
- **Linkage:** A feasibility study can readily be converted to a business plan.
- **Benefit:** It's important to think of the business plan in terms of growth and sustainability and the feasibility study in terms of idea viability.

Role of society and family in the growth of an entrepreneur

The individual perception of what his/her family and friends think or opine about entrepreneurship has a crucial role to play. Besides, the view of the family, their support and the society with regard to failure is also a very important factor playing upon the young minds and framing their opinion. Family's support is very essential because in most cases, the youth would need to borrow initial finances from the family and friends. The family's attitude towards education and other careers in fields like medicine, engineering etc are also likely to dominate the youth's mindset towards entrepreneurship. It is quite likely that the families will be ready to take loan and fund the youth's professional education rather than funding a new business venture where risk is involved.

Surprising, but true is the fact that the society's views about business entrepreneurs as a prospective bride-groom can also become a deciding factor, promoting or inhibiting entrepreneurship. In some societies people prefer to marry their daughters to persons holding government jobs, thinking that the jobs are secure and permanent as compared to a self employed individual's. Normally professionals like lawyers, doctors and scientists are seen to be the most preferred as bridegrooms. These factors are relevant in terms of shaping entrepreneurship in the society.

Woman Entrepreneurs Need to Overcome Challenges

Women entrepreneurs face a series of problems right from the beginning till the enterprise functions. Being a woman itself poses various problems to a female entrepreneur. The problem of Indian women pertains to her responsibility towards family, society and huge workload. Women in rural areas have to suffer still further. They face tough resistance from men. They are considered as helpers. The attitude of society towards them and constraints in which they have to live and work are not very conducive.

The following are some of the limitations faced by women entrepreneurs:

1. **Patriarchal society:**

   The gender bias that exists in society is predominantly due to the patriarchal attitude that has existed over a long period of time.

2. **Lack of opportunities:**

   As in some area education still has not reached to every female, the lack of education does stand as a barrier, they are no doubt skilled which enables them to work, but more focused programes for their education would enable them to overcome this challenge.

   In the words of Gandhiji, *"Woman is the companion of man, gifted with equal mental capacity. Investing in women's education yields one of the highest returns that equip women with the skills, knowledge, and self confidence required for carrying the role of better parents, workers, and citizens which are regarded as a permanent solution to a number of economic and social problems that improve the quality of life."*

3. **Enabling technologies for women:**

   There is a need to create more opportunities regarding new methods of production, marketing and other modern technologies.

4. **Social barriers:**

   The traditions and customs prevailing in Indian society sometimes stand as an obstacle to women is to grow and prosperity. In rural areas, they face more social barriers. The can be overcome through education and positive legislation. The government policies are and should continue in a greater measure to support women entrepreneurs.

5. **Attitude of creditors towards women:**

   Women entrepreneurs suffer while raising and meeting the financial needs of their business. The society was slightly biased in their attitude towards women entrepreneurs, but the records reflect that the rate of bad debts is the least in the case of women entrepreneurs, and the self-help groups in micro finance is most successful because of them.

6. Organised sector:

The skilled women work more in the unorganised sector and hence does not get her due, if she can overcome the challenge of education and be aware of all the schemes she would not only be able to join the organised sector but be a leader in it.

Ray of Hope

In spite of all the above mentioned problems, the rate at which women entrepreneurs are growing is slowly increasing. Read the following case study of a women entrepreneur who has made a difference, not only for herself but also for the people around her.

Case Study

Leela Bordia- Jaipur Blue Pottery

She single-handedly brought prosperity and a sense of pride in craft of hundreds of villagers, made their craft famous world over and built a business worth 25 crores. Behind her worked the towering personality of Mother Teresa and her mother. It always amazed Leela how her mother Juggled her various roles of a caring wife, a loving mother of four daughters, an efficient house holder with many guests who visited frequently and above all a compassionate volunteer of Mother Teressa's orphanages.

According to Leela, it was her mother who created in her a deep sense of compassion for fellow human beings and strong social consciousness. She grew up in Calcutta and after marriage, moved to Jaipur. Leela visited a couple of villages surrounding Jaipur. She was moved to see the art work and hard labour that was involved in the pottery and ceramic of the village and yet the villagers lived in unhygienic conditions as they were extremely poor.

She discovered that the wonderful skill, an ancient craft dying away before her eyes and she did not know what she could do about it. When she asked them the reason behind their prevailing conditions as to why they were so poor their reply was nobody wanted to buy their pottery. She had never thought of starting a business alone because she wanted to do something new and concrete but her grooming and her mind set inspired of Mother Teresa and her own mother, was yet alive in her. She got involved with the artisans to save their dying craft.

She was quick to understand their problem- even though their craft was exquisite, they did not have any modern elements, so she suggested some new designs. The artisans were not ready to believe in her designs, until finally one craftsman agreed to try making her design in ceramic hand painted beads. The design was a huge success and she was able to gain the confidence of the other artisans as well. She had started her business with just Rs. 500/- and quick rotation of money set the business. She designed bead curtains which were largely accepted.

The flourishing business required a proper business set up and so Leela formed a company "Neerja International" (Neerja is her youngest sister). The unique and exquisite pottery the villagers made and

Leela sold was named "Jaipur Blue Pottery." Buyers wanted to know the history behind the products they buy and Leela told them all that she had learned from the villagers. During its 200 years of History in Jaipur, blue pottery had its period of expansion under state patronage that started from 19th century of Maharaja of Jaipur, Sawai Ram Singh II. Credit for its revival goes to Kamla Devi Chatopadya who promoted cottage industry and handicraft all over India and Raj Mata Gayatri Devi.

Then, under the guidance of Leela Bordia it received fresh lease of life. Today, she provides a livelihood to thousands of people. She had some early hardships in the export of these products but all got set with Leela's link with Faith and John who are the owners of "Anokhi". Faith is an Irish and John is an Indian. They helped Leela export her products.

Slowly as the company grew, her husband joined hands with her to help her in the business. Although married into a joint family, her mother in law was a huge support to her, encouraging her to keep doing the business.

Leela was able to revive the dying craft as well as increase the standard of living of the artisans who were associated with this traditional craft. In fact, when the former US President, Clinton visited Jaipur, all "Jaipur Blue Pottery" which was gifted to his mother in law, was from Neerja International

It is evident from the hardships and success of Leela, that persistence and perseverance will definitely bring success to women. For an Indian woman, who has to play multiple roles in her life and walk the fine line between managing her home and the work front, entrepreneurship is often the path that gives her this balance.

In fact, according to a new study commissioned by ***Dell*** in January 2012, the ideal country to be where a woman starting a business in 2012 could well be India. As a part of the survey, when asked about expectations for business growth, women entrepreneurs in India anticipate, an average of 90 percent over the next five years.

Dell announced the final results of its study in June 2012. What came out was this:

1. 71 percent of women entrepreneurs in India say their business is very successful, and eight in 10 of them say they are hiring;
2. 74 percent of them say their technology needs are getting more complex;
3. 90 percent started their business while maintaining their day job;
4. 85 percent of Indian women entrepreneurs believe it is very important that their business has a social impact.

Hina Shah, a pioneer in the space of women entrepreneurship for more than three decades, and founder of the International Centre for Entrepreneurship and Career Development (ICECD), says, "*Currently, the overall environment for women entrepreneurship in India is conducive and a series of initiatives has been taken up to encourage it. However, from a macro policy point of view, women entrepreneurship development has been a residual category.*"

Shah says that policies have been formulated for industry as a whole and have been further broken down into sector-wise policies. "The government's policy for women employment and enterprise development needs to change from a piecemeal approach to a comprehensive one, treating this emerging sector with the importance it deserves."

So we can see that there is hope that women both in the rural as well as the urban sector is sure to understand their role as entrepreneurs in their own self- development as well help in the economic development of the country.

SUMMARY

7 Personality types of Entrepreneurs:

Trailblazers:

Competitive, ambitious and goal-oriented, a strong drive and a sense of urgency, regardless of the task at hand.

Go-getters:

They have a higher-than-average level of both dominance and sociability, very driven and independent. Their natural style lends itself to managing and leading both processes and people.

Managers:

They are dominant, independent, and goal-oriented, can be quite analytical, focusing more on processes and outcomes than on people. They have a tendency to look at people as vehicles for helping them accomplish goals.

Motivators:

They have a high level of sociability, an above-average level of dominance, and are both driven and independent. This also gives the ability to work well under pressure and in autonomous situations. It also means that they will be a great consensus builder, a good collaborator and a driver of change.

The motivator's business strengths:

Retail:

or any environment where people are a large part of the equation. Motivators excel at leadership or sales.

Authoritarians:

The backbone of our society, they may not always be the best founder of an entrepreneurial enterprise, but they can be an excellent distributor, franchisee or owner of an existing business – they can do well when you purchase an ongoing operation.

Collaborators:

The primary difference between them and authoritarians is that they have a personality gift called sociability. It's this characteristic that allows them to use their influence to get what they want. It's all about people – they relish the people side of business.

Diplomats:

They are restless and enjoy working under a certain amount of pressure. They get things done quickly and work well with deadlines. They adjust easily to change and deal well with new situations.

Generating Ideas:

Personal interest and hobbies- Work experiences, skills and abilities- Familiar and unfamiliar ones- Brainstorming- External environment opportunities

Ways to Generate Ideas

Environment scanning- Creativity and creative problem solving- Brainstorming- Focus group-Doing Market Research

Feasibility Study

Rochester.edu explained that a feasibility study, "can be defined as a controlled process for identifying problems and opportunities, determining objectives, describing situations, defining successful outcomes, and assessing the range of costs and benefits associated with several alternatives for solving a problem."

Types

Market Feasibility:

initiating Includes a description of the industry, current market, anticipated future market potential, competition, sales projections, potential buyers, etc.

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Details how you will deliver a product or service (i.e., materials, labour, transportation, where your business will be located, technology needed, etc.).

Financial Feasibility:

Projects how much start-up capital is needed, sources of capital, returns on investment, etc.

Organisational Feasibility:

Defines the legal and corporate structure of the business (may also include professional background information about the founders and what skills they can contribute to the business).

A good outline for a feasibility study includes:

- *Introduction*
- *Product or Service*
- *Technology*
- *Market Environment*
- *Competition*
- *Industry*
- *Business Model*
- *Market and Sales Strategy*
- *Production Operations Requirements*
- *Management and Personnel Requirements*

- *Regulations and Environmental Issues*
- *Critical Risk Factors*
- *Financial Predictions Including: Balance Sheet, Income Statement, Cash Flow Statement, Break Even Analysis, and Capital Requirements*

Opportunity Assessment:

It is a more in-depth review of business opportunity including market research and due diligence that includes intellectual property analysis, opportunity development timing, legal liability issues, applications of the opportunity, barriers to entry, industry trends, growth potential, market positioning, competitive analysis, financial projections and pricing, resource requirement analysis and licensing etc.

Business Plan Preparation:

It is a written summary of various elements involved in starting a new enterprise of how the business will organize its resources to meet its goals and how it will measure progress.

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c. Serves as a guide to organizing and directing the activities of the business venture

d. Helps in measuring the progress of the venture at successive stages

e. Communicates to investors, lenders, suppliers etc., the programmes of the business

Challenges Faced by Woman Entrepreneurs

Patriarchal society, Lack of opportunities-enabling technologies for women, Social barriers-attitude of creditors towards women, limited mobility.

Q.1. Answer the following in about 15 words

(i) List the fields in which 'Trailblazer' has business strengths.

(ii) List the fields in which 'Motivator' has business strengths.

(iii) List the fields in which 'Collaborator' has business strengths.

(iv) List the fields in which 'Diplomat' has business strengths.

Q.2. Answer the following in about 50 words

(i) Describe the characteristics of a 'go-getter' type of personality.

(ii) What is 'Brainstorming'?

(iii) What do you mean by 'Environment Scanning'?

(iv) What are focus groups?

(v) Explain 'Feasibility Study'.

(vi) What do you think is the reason for failure of business plan Execution?

Q.3. Answer the following in about 75 words

(i) What do you mean by 'Opportunity Assessment'?

(ii) Why are feasibility studies more important?

(iii) Why do you think the role of family in an entrepreneur's life is important?

Q.4. Answer the following in about 150 words.

(i) According to Dell, what was the final outcome of the study about women entrepreneurs.

(ii) Explain in detail any four entrepreneurial types.

(iii) Explain any four main sources of ideas.

(iv) Explain the types of feasibility study.

(v) Differentiate between feasibility study and business plan.

(vi) What purposes does a business plan serve?

Q.5. Answer the following in about 250 words

(i) Explain in detail the elements of business plan

(ii) Although there is no singular process to manage the execution of a business plan, there are basic processes and fundamentals to be followed. Enlist them.

(iii) Explain in detail any six problems faced by women entrepreneurs

Q.6. HOTS: (High Order Thinking)

Application based exercise:

Activities:

1. It is fun to think of yourself as a business owner, to dream about your successes, and to talk about your ideas. But when you have to answer the specific questions of a business plan, you must make decisions about the direction your business will take decisions that may show you that this idea is not likely to be successful. But, no problem, then you can go back and make different decisions until you find a way to be successful. Think like an entrepreneur and develop a business plan for a business of your choice. After developing your business plan, you will want to discuss your ideas with the class or an advisor to improve your plan and determine what you learned in the process of preparing a business plan.

2. No one knows you or your ideas better than you do. It is the process of seeking the answers to important questions about your enterprise that are important as you try to realize the dream of owning your own business.

3. Use the following questions to make decisions about a business idea of your choice. Be sure to write out your answers...to remember your decisions and build on them.

   (i) How can you describe the business...in only one paragraph please?

   (ii) What is your product, or service?

(iii) Who will buy it?
(iv) Where should you locate the business?
(v) How can you attract customers?
(vi) What is your competition?
(vii) How much should you charge for the products or service?
(viii) What advice do you need and who can provide it?
(ix) How will you organize the managers and/or workers of the business?
(x) How will you split the profits? Who is responsible for the losses?
(xi) How much money is needed to get the business started?
(xii) How many customers will you have per month and how much will they buy per month?
(xiii) How much does it cost to make the product or provide the service?
(xiv) What are your operating costs? (Include your own salary)
(xv) How much money will your business earn each month by selling your product or service?
(xvi) How much investment will you need to keep the business going until you make a profit?
(xvii) How much money do you need to borrow to start this business?
(xviii) How will you make the business grow in the future?

4. Traditionally women were concentrated to their family life and were satisfied with 3 K's – Kitchen, Kids and Knitting. Apart from the household activities they were engaged mostly in agriculture or at the most in families trade activities. But with the development of small scale industries, there were extension of kitchen activities of women from 3 K's to 3 P's viz. pickles, *papad* and powder. With the spread of education and awareness they shifted to 3 E's engineering, electronics and energy and the journey continues… Write an article for the newspaper about the challenges faced by women entrepreneurs throughout their journey.

5. Women Entrepreneurs have braved the world and carved a niche for themselves. They have set examples for the woman power to identify their worth and prove their metal, be it Simone Tata, Indu Jain, Ela Bhatt, Jaswanti Ben Popat, Dr. Kiran M. Shaw, Mahima Mehra, Zia Modi, Anita Roddicks, Kalpana Saroj, to name a few.

Research about them and find out

- The name of their Entrepreneurial venture.
- What barriers did they face in their entrepreneurial journey?
- How did they overcome these barriers?
- What made them so strong and committed?

Also about the role played by the family as a support structure

UNIT 4

Entrepreneurship as Innovation and Problem Solving

Learning Objectives:

After reading the chapter the student would be able to:

- Understand the role of entrepreneurs as problem solvers in society
- Appreciate the role of innovations in entrepreneurial ventures
- Explain the concept and importance of social entrepreneurship
- State the meaning of entrepreneurial risk and risk management
- Differentiate between internal and external risk
- Describe the role played by technology in creation of new forms of business
- Explain the different barriers of entrepreneurship
- Identify the various support structure available for promoting entrepreneurship
- Understand the term Business Incubator

Case Study

Read the story and write a few lines what you have understood from it:

The Japanese have always loved fresh fish. But the waters close to Japan have not held many fish for decades.

So to feed the Japanese population, fishing boats got bigger and went farther than ever. The farther the fishermen went, the longer it took to bring in the fish. If the return trip took more than a few days, the fish were not fresh. The Japanese did not like the taste.

To solve this problem, fishing companies installed freezers on their boats. They would catch the fish and freeze them at sea. Freezers allowed the boats to go farther and stay longer. However, the Japanese could taste the difference between fresh and frozen and they did not like frozen fish. The frozen fish brought a lower price.

So, fishing companies installed fish tanks. They would catch the fish and store them in the tanks. After a little thrashing around, the fish stopped moving. They were tired and dull, but alive. Unfortunately, the Japanese could still taste the difference. Because the fish did not move for days, they lost their fresh-fish taste.

The Japanese preferred the lively taste of fresh fish, not sluggish fish. So how did Japanese fishing companies solve this problem? How do they get fresh-tasting fish to Japan? How do the Japanese manage to keep the fish fresh?

To keep the fish tasting fresh, the Japanese fishing companies still put the fish in the tanks. But now they add a small shark to each tank. The shark eats a few fish, but most of the fish arrive in a very lively state. The fish are challenged.

Have you realized that some of us are also living in a pond, but most of the time feel tired and dull, so we need a 'Shark' in our life to keep us awake and moving? Basically in our lives, Sharks are new challenges to keep us active.

For an entrepreneur, the main motivating factor which urges them to continue in their entrepreneurial pursuit is challenge. The more intelligent, persistent and competent they are, the more they enjoy a challenge.

- *From this story, it is clear that, to be a successful entrepreneur, one has to be a problem solver.*
- *Identify the various problems involved in the story, and the various solutions available to solve it.*

	Problem	Solution
1.	Love for fish	Led to using of Bigger boats
2.	Need for fresh fish	Installation of freezers
3.	Taste of fresh fish	Installation of fish tanks
4.	To improve taste of the fresh fish	Added shark

Who is an entrepreneur?

- He/she is the one who undertakes risks.

Why are they called problem solvers?

- Entrepreneurial actions are efforts to solve problems for others. Therefore, entrepreneurs are **Problem Solvers**. When one solves a problem a new value is created. In the business world, problem solvers take risks, but often create value by solving a customer or market problem, which is the key to creating a profitable enterprise. The more or larger problems an entrepreneurial organization solves, the more profit it can generate.

Case Study

Humble beginning of KFC

In 1930, the then 40 year old Sanders was operating a service station in Corby, Kentucky, USA and he encountered a lot of hungry travellers who stopped for gas. He saw that the travellers wanted to eat something as there was nothing available in that area. He saw and understood the problem. As a child, he used to cook for his siblings and so he knew how to cook, which instigated him to cook for the travellers. He did not even have a restaurant to serve food but his secret blend of 11 herbs and spices made his chicken recipe such a super hit among travellers that he started getting regular customers for his food, which prompted him to start a restaurant. This is the humble beginning of the world famous fast food chain "KFC- Kentucky Fried Chicken".

Solving Problems to Meet the Needs and Wants of People:

Most entrepreneurial ventures have survived when they solve problems of people, understanding their needs and accordingly changing the product to their needs. Study the following examples:

The Story of Kellogg: In 1894, Dr. John Harvey Kellogg was superintendent of a famous hospital and health spa in Battle Creek, Michigan. His younger brother, Will Keith Kellogg, was the business manager. The hospital stressed healthful living and kept its patients on a diet that eliminated caffeine, meat, alcohol and tobacco.

The brothers invented many foods that were made from grains, including a coffee substitute and a type of granola, which they forced through rollers and rolled into long sheets of dough. One day, after cooking some wheat, the men were called away. When they finally returned, the whet had become stale. They decided to force the tempered grain through the rollers anyway.

Surprisingly, the grain did not come out in long sheets of dough. Instead, each wheat berry was flattened and came out as a thin flake. The brothers baked the flakes and were delighted with their new invention. They realized that they have discovered a new and delicious cereal, but they had no way of knowing that they had accidentally invented a whole new industry. Will Keith Kellogg eventually opened his own cereal business and its most famous product is still sold today. It wasn't until 1906 that *Kellogg's Corn Flakes* were made available to the general public.

Innovations Leading to Entrepreneurial Ventures

An entrepreneur is also known to be a person who habitually creates and innovates to build something of recognised value around perceived opportunities.

Creativity and innovation are the distinguishing marks of the entrepreneur. That is why they disturb markets and can challenge large established businesses. Creativity is a continuous activity for the entrepreneur, always seeing new ways of doing things with little concern for how difficult they might be or whether the resources are available. But creativity in the entrepreneur is combined with the ability to innovate, to take the idea and make it work in practice. Once the project is accomplished, the entrepreneur seeks another 'mountain to climb' because for him or her creativity and innovation are habitual, something that he or she has to keep on doing.

Let us look into some innovations that led to successful ventures:

Penicillin

Inventor: Sir Alexander Fleming, a scientist

What he was trying to make: Ironically, Fleming was searching for a "wonder drug" that could cure diseases. However, it wasn't until Fleming threw away his experiments that he found what he was looking for.

How it was created: Fleming noticed that a contaminated Petri dish, he had discarded, contained a mold that was dissolving all the bacteria around it. When he grew the mold by itself, he learned that it contained a powerful antibiotic, penicillin.

Potato Chips

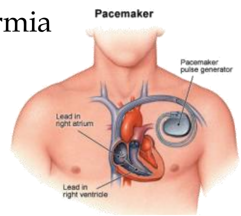
Inventor: George Crum, a chef at the Carey Moon Lake House in Saratoga Springs

What they were trying to make: A plate of fried potato.

How it was created: One day, a customer sent back his plate of potatoes many times and kept asking for them to be more fried and thinner. Crum lost his temper, sliced the potatoes insanely thin and fried them until they were hard as a rock. To the chef's surprise, the customer loved them and wanted more! And this is how potato chips came into existence.

The Pacemaker

Inventor: John Hopps, an electrical engineer



What he was trying to make: Hopps was conducting research on hypothermia and was trying to use radio frequency heating to restore body temperature.

How it was created: During his experiment, he realized that if a heart stopped beating due to cooling, it could be started again by artificial stimulation. This realization led to the pacemaker.

Microwave Ovens

Inventor: Percy Spencer, an engineer (with the Raytheon Corporation)

What he was trying to make: The engineer was conducting a radar-related research project with a new vacuum tube.

How it was created: Spencer realized that the candy bar in his pocket began to melt during his experiments. He then put popcorn into the machine, and when it started to pop, he knew he had a revolutionary device on his hands.

Ink-Jet Printers

Inventor: A Canon engineer.

How it was created: After resting his hot iron on his pen by accident, ink was ejected from the pens point a few moments later. This principle led to the creation of the inkjet printer.

X-Rays

Inventor: Wilhem Roentgen, a physicist

What he was trying to make: He was interested in investigating the properties of cathode ray tubes.

How it was created: When light through tubes he noted that sheets of fluorescent paper in his lab were illuminated even though his machine had an opaque cover.

It is clear from these examples, that the various inventions people all over the world have tried, failed and succeeded in sometimes by mistake. Utility for the invention will be developed later in life, so immediate results for all one's actions should not be expected, but keep experimenting.

Social Entrepreneurship

What is Social Entrepreneurship?

According to **J. Gregory Dees,** "*Social entrepreneurship is which combines the passion of a social mission with an image of business-like discipline, innovation, and determination*".

Who is a Social Entrepreneur?

According to **Martin & Osberg,** "*the Social Entrepreneur aims for value in the form of large-scale transformational benefit that accrues either to a significant segment of society or to society at large.*"

Moreover, the social entrepreneur targets his/her programs at the "*underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own.*"

A Case in Point: The Grameen Bank, a Model of Sustainability

Muhammad Yunus, *the founder of the Grameen Bank and winner of the 2006 Nobel Peace Prize, found a solution to the plight of poor Bangladeshis who are unable to acquire funds to start their own business – microcredit. He lent $27 of his personal funds to a group of poor women, who quickly started a sewing business that was able to generate enough income to help them pay back the loan, and more importantly, to rise above poverty. Thus the idea of the Grameen Bank was born. According to Martin & Osberg, "Grameen Bank sustained itself by charging interest on its loans and then recycling the capital to help other women." Having thus proven microcredit to be a sustainable method of combating global poverty, Yunus continues to inspire organizations worldwide to adopt the Grameen model to combat poverty in their own communities.*

Like the Grameen model, there have been instances of various self-help groups in India, which foster various models of sustainability. The success of AMUL in at Anand in Gujarat eventually led to the creation of various co-operative societies across the country.

Example: *Co-operatives;* ***Saras*** *in Rajasthan,* ***Mother Dairy*** *in Delhi and* ***Aarey*** *in Maharashtra*

What is the difference between Entrepreneurship and Social Entrepreneurship?

The entrepreneur's final objective is wealth creation. However, for the social entrepreneur, wealth creation is simply a means to an end. The social entrepreneur participates in profit-seeking business ventures if only to use the profits generated to create valuable social programs for the whole community.

Case Study

Operation Flood – The man behind Mr. Verghese Kurien

This has been the story of a young engineer who was born in Calicut and was later known as the Father of the White Revolution and was honored with some of the most prestigious Government awards like Padma Vibhushan, Ramon Magsaysay and Krushi Ratna. He breathed his last on 9th December 2012, but he will always be remembered for his immense contribution to the farmers, to the Amul Brand and to the millions of consumers of dairy products.

The year was 1964 when our Prime Minister Mr. Lal Bahadur Shastri was invited to Anand to inaugurate the new cattle-feed plant of Amul. He was supposed to return back by end of the day but after reaching Anand he insisted to stay there to learn about the success of the co-operatives. He visited almost all the co-operatives with Dr. Kurien and was impressed with the process with which Amul was sourcing the milk from farmers and at the same time helping them to improve their economic condition. Later, he returned to Delhi and asked Dr. Kurien to replicate the Amul pattern across the country. The combined effort resulted in creation of the National Dairy Development Board (NDDB) in the year 1965. Dr. Kurien took charge of NDDB and began the herculean task of replicating the overall pattern of the working at Anand to other parts of the country. By this time the demand for milk was growing at a faster rate than the supply. India could have easily become the largest importer of milk like Sri Lanka if sufficient steps not been taken at that time by the Indian government and NDDB.

Money was the biggest problem faced by NDDB during that period and was a critical resource needed to revolutionize the milk industry. To deal with it, NDDB tried to pursue the World Bank for loans and other grants with no conditions at all. When the President of the World Bank came to India in 1969, Dr. Kurien told him – "Give me money and forget about it". A few days later, World Bank approved the loan for NDDB without even a single condition. This help was part of an operation, later known as Operation Flood – which was done to replicate the Anand working pattern across India.

Operation Flood was subsequently implemented in India in three phases, adding around 0.1 million co-operatives and 5 million milk producers. Dr. Kurien also took several other measures such as developing milk powder, developing several varieties of dairy products, emphasing on the health of cattle and development of vaccines etc. In 1973, he also set up GCMMF (Gujarat co-operative Milk Marketing Federation) – an individual marketing unit of Amul to sell the Amul as a brand in India as well as abroad. He also founded IRMA – Institute of Rural Management Anand in 1979, to pass on the gained knowledge to future generations and to place rural India on the map of India.

As a result of these combined efforts, Amul currently boasts of 15 million milk producers pouring their milk in 1, 44, 246 dairy co-operative societies across the country – a huge chain that has resulted in India's being the largest milk producing country today.

Why is there a growing need for Social Entrepreneurs?

In the current economic crisis, financial pressures are exacerbating existing social problems such as poverty and unemployment. According to J. Gregory Dees, social entrepreneurship is necessary to mitigate the financial repercussions among vulnerable. With pay cuts and job losses happening all over the world, the need of the hour are ideas, innovations, creative solutions and fresh perspectives that can cater to the changing market demands, emerging economies and a new world, economic order.

Defining the Characteristics of Social Entrepreneurs

Social entrepreneurs are:

- **Social Catalysts:** Visionaries who create fundamental, social changes by reforming social systems and creating sustainable improvements. According to J. Gregory Dees, "though they may act locally, their actions have the potential to stimulate global improvements in their chosen arenas, whether that is education, health care, economic development, the environment, the arts, or any other social field."
- **Socially aware:** Social improvement, as opposed to the creation of profit, should be the ultimate goal of the social entrepreneurs. The success of their endeavours is measured by their social impact, not by the amount of profits generated.
- **Opportunity-seeking: R**elentless pursuit of their goals, seeing every obstacle as an opportunity to develop and fine-tune their business models.
- **Innovative: C**reative, willing to think outside the box and ready to apply ideas to new situations. They understand that not every innovation will be a success, and they see failures as learning opportunities even as they strive for success.
- **Resourceful:** Their visions are not limited by the resources that they have. Besides optimizing the use of existing resources, they actively expand their resource pool through collaboration with others.
- **Accountable:** Social entrepreneurs are accountable to their beneficiaries, and they often ask themselves, "Am I creating value for the people I am serving? Do I understand their needs?" This is because social entrepreneurs want to know how they are actually making an impact. They are also accountable to investors who want to know whether their contributions are indeed stimulating social improvements as promised by the social entrepreneurs.

Examples of some social entrepreneurs of India

- **Vinoba Bhave:** Founder and leader of the *Bhudaan Andolan* (Land Gift Movement), he caused the redistribution of more than 7,000,000 acres of land to aid India's untouchables and landless.

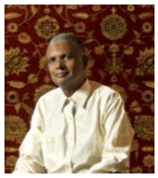
- **Ela Bhatt:** Founded in 1972, Self-Employed Women's Association (SEWA) is a rare trade union of poor, unorganised, self-employed women who work as vendors, hawkers and labourers.

- **Dr. Abraham M. George:** Founder of The George Foundation. It was established in January 1995 in Bangalore, India. Their mission is to work towards poverty eradication, promote environmental health, and strengthen democratic institutions and values in developing countries.

- **Dr. Verghese Kurien:** Founder of the AMUL Dairy Project.

- **Bunker Roy:** Founder of Barefoot College, which promotes rural development through innovative education programs.

  Nand Kishore Chaudhary: Founder of Jaipur rugs, which promotes rural development through capacity building of rural people in carpet weaving.



- **Harish Hande:** Magsaysay Award Winner 2011. Founder of Selco India, a solar electric light company in 1995, which over the years has lit up over 1,20,000 households, to emerge as India's leading solar technology firm.

Case Study

Formation of SEWA (Self Employed Women's Association)

In 1971, a few women handcart pullers approached ***Ela Bhatt,*** *head of the women's wing of the textile labor association, in Ahmadabad, with problems like low and erratic wages, poor working conditions etc., Bhatt was aware that most of the women did petty jobs, working as garment makers, vegetable vendors, handcart pullers, milkmaids, hawkers etc., to supplement their family income. About 97% of the women lived in slums and 93% were illiterate. Bhatt soon realised that the women in the informal sector were unorganised, unprotected, economically weak, and had no bargaining power.*

In 1972, the garment workers formed their own co-operative. They were the first group to be organised under SEWA. By 1977, six other groups- used garment dealers, handcart pullers, vegetable vendors, junk-smiths, milk producers and miscellaneous workers- formed their own co-operatives.

The co-operatives were formed with the share capital provided by the women. Each co-operative was run by a democratically elected executive committee of workers. Initially, *SEWA provided the required capital to the co-operatives, but once they were established, they functioned on their own.*

The members of the co-operatives shared their skills and expertise, developed new tools, designs and techniques and were engaged in joint marketing efforts. The members of SEWA has increased from 320 in 1973 to 6,94, 551 in 2002. Any self-employed woman over the age of 15 was eligible to become a member of SEWA by paying a nominal annual fee of Rs. 3/-. In 1975, the annual membership fee was increased to Rs. 5/-.

Since its inception in the early 1970s, SEWA has been working towards organizing and empowering poor, self-employed women in rural and urban areas in India. SEWA has helped them to get regular employment, easy access to credit, childcare, healthcare facilities

Case Study

Lijjat Papad

*Everyone enjoys 'rags to riches' stories and everyone likes tales of stupendous success achieved through sheer determination. The story of **Shri Mahila Griha Udyog Lijjat Papad** is all that and much more.*

Shri Mahila Griha Udyog Lijjat Papad

*Today, **Lijjat** is more than just a household name for 'papad'. Started with a modest loan of Rs 80, the cooperative now has annual sales exceeding Rs. 301 crore. What's more stunning than its stupendous success is its striking simplicity.*

Sticking to its core values for the past forty years, Lijjat has ensured that every process runs smoothly, members earn a comfortable profit, agents get their due share, consumers get the assurance of quality at a good price, and society benefits from its donations to various causes.

How has all this been possible? Its story shows how an organisation can infuse Gandhian simplicity in all its activities.

*Lijjat was the brain child of seven Gujarati women from Bombay (now Mumbai). The women lived in Lohana Niwas, a group of five buildings in Girgaum. They wanted to start a venture to create a sustainable livelihood using the only skill they had i.e. cooking. Some of their names were **Jaswantiben Jamnadas Popat, Parvatiben Ramdas Thodani, Ujamben Narandas Kundalia, Banuben. N. Tanna, Laguben Amritlar Gokani, Jayaben V. Vithalani.***

*The women borrowed R.s 80/- from **Chhaganlal Karamsi Parekh**, a member of the Servants of India Society and a social worker. They took over papad making venture which was running in loss owned by Laxmidas bhai, and bought the necessary ingredients and the basic infrastructure required to manufacture papads. On March 15, 1959, they gathered on the terrace of their building and started with the production of 4 packets of Papads. They started selling the papads to a known merchant in Bhuleshwar. From the beginning, the women had decided that they would not approach anyone for donations or help, even if the organization incurred losses.*

***Chaganlal Karamsi Parekh**, popularly known as **Chaganbapa**, became their guide. Initially, the women were making two different qualities of papads, in order to sell the inferior one at a cheaper rate.*

Chaganbapa advised them to make a standard papad and asked them never to compromise on quality. He emphasized the importance of running it as a business enterprise and maintaining proper account.

Lijjat expanded as a cooperative system. Initially, even younger girls could join, but later eighteen was fixed as the minimum age of entry. Within three months there were about 25 women making papads. Soon the women bought some equipment for the business, like utensils, cupboards, stoves, etc. In the first year, the organization's annual sales were Rs. 6196/-. The broken papads were distributed among neighbours.

During the first year, the women had to stop production for four months during the rainy season as the rains would prevent the drying of the papads. The next year, they solved the problem by buying a cot and a stove. The papads were kept on the cot and the stove below the cot so that the process of drying could take place in spite of the rains.

The group got considerable publicity through word of mouth and articles in vernacular newspapers. This publicity helped in increasing its membership. By the second year of its formation, 100 to 150 women had joined the group, and by the end of the third year it had more than 300 members. The members were called as 'Ben/Sister'. By this time, the terrace of seven founders could no longer accommodate the members and the ingredients, so the kneaded flour was distributed among the members who would take it to their homes and make papads.

Every morning a group of women go to the Lijjat branch to knead dough, which is then collected by other women who roll it into papads. When these women come to collect the dough, they also hand in the previous day's production, which is tested for quality. If the quality is not maintained then the woman would be served a warning and they might be removed from the organisation at a later stage.

They have accountants in every branch and every centre has to maintain daily accounts. Profit (or loss, if any) is shared among all the members of that branch.

They have a committee of 21, that decides how the profits are to be distributed. We generally buy gold coins - 5gm or 10 gm, depending on the profit. Everyone gets an equal share of profit, irrespective of who does what work, irrespective of seniority or responsibility.

Even a woman who has recently joined gets the same share as others who have been with the organisation longer. Each branch calculates its profit and divides it equally among all its members.

Mumbai has 12,000 members, the rest of Maharashtra has 22,000, and Gujarat has between 5,000 to 7,000 members.

Exports

Exports alone account for Rs 10 crores. They are not directly involved in exporting, but recognised professional merchant exporters (who also export other food products), place an export order.

Only on receiving the full advance through a cheque, they begin production. Because all exports are done from Mumbai, the supply also comes from there. Export production is of the same quality as daily production.

From the above two case studies, it is evident that a social entrepreneur can assess a social problem and find a solution to eradicate poverty among the masses and thus improve their standard of living.

Concept of Risk Taking

Business risk means the possibility of some unfavourable occurrence. According to B. O. Wheeler, "*Risk is the chance of loss. It is the possibility of some adverse occurrence*". There is always a possibility of loss in business even though the businessman exposed to it may not be aware of it.

Types of Risk Taking:

Business risks are of a diverse nature and arise due to innumerable factors. These risks can either be insurable or non-insurable. Insurable risks are those which can be covered through different types of insurance policies. The probability of an insurable risk can be determined, in other words such risks can be forecasted.

For example: (i) Insurable Risks are related to life and property against fire, theft, riots etc.

(ii) Non-insurable risks are those whose probability cannot be determined and which cannot be insured against.

For example: Fluctuations in price and demand.

These risks may be broadly classified into two types, depending upon their place of origin.

Internal Risks

- Internal Risks are those risks which arise from the events taking place within the business enterprise. Such risks arise during the ordinary course of a business. These risks can be forecasted and the probability of their occurrence can be determined. Hence, they can be controlled by the entrepreneur to an appreciable extent.

  The various internal factors giving rise to such risks are:-

- **Human factors** are an important cause. They may result from strikes and lock-outs by trade unions; negligence and dishonesty of an employee; accidents or deaths in the industry; incompetence of the manager or other important people in the organisation, etc. Also, failure of suppliers to supply the materials or goods on time or default in payment by debtors may adversely affect the business enterprise.

- **Technological factors** are the unforeseen changes in the techniques of production or distribution. They may result in technological obsolescence and other business risks. For example, if there is some technological advancement which results in products of higher quality, then a firm which is using the traditional technique of production might face the risk of losing the market for its inferior quality product.

  For example: The packaging industry has increased the shelf-life of various products like chips, milk etc.

- **Physical factors** are the factors which result in loss or damage to the property of the firm. They include the failure of machinery and equipment used in business; fire or theft in the industry; damages in transit of goods, etc. They also include losses to the firm arising from the compensation paid by the firm to the third parties on account of intentional or unintentional damages caused to them. External risks arise due to the events occurring outside the business organisation. Such events are generally beyond the control of an entrepreneur. Hence, the resulting risks cannot be forecasted and the probability of their occurrence cannot be determined with accuracy.

External Risks

The various external factors which may give rise to such risks:

- **Economic factors** are the most important causes of external risks. They result from the changes in the prevailing market conditions. They may be in the form of changes in demand for the product, price fluctuations, changes in tastes and preferences of the consumers and changes in income, output or trade cycles. The conditions like increased competition for the product, inflationary tendency in the economy, rising unemployment as well as the fluctuations in world economy may also adversely affect the business enterprise. Such risks which are caused by changes in the economy are known as 'dynamic risks'. These risks are generally less predictable because they do not appear at regular intervals. Also, such risks may not necessarily result in losses to the firm because they may also contain an element of gain for the firm. For instance, due to market fluctuations, a well-known product of a firm may either lose its demand or may occupy a larger market share.

  For example: Black and White TV to Flat screen, high definition TV.

Black & White TV

High Definition TV

- **Natural factors** are the unforeseen natural calamities over which an entrepreneur has very little or no control. They result from events like earthquake, flood, famine, cyclone, lightening, tornado, etc. Such events may cause loss of life and property to the firm or they may spoil its goods. For example, the Gujarat earthquake caused irreparable damage not only to the business enterprises, but also adversely affected the whole economy of the State.

  For example: The Tsunami.

- **Political factors** have an important influence on the functioning of a business, both in the long and short term. They result from political changes in a country like fall or change in the Government, communal violence or riots in the country, civil war as well as hostilities with the neighbouring countries. Besides, changes in Government policies and regulations may also affect the profitability and position of an enterprise. For instance, changes in industrial policy and trade policy annual announcement of the budget amendments to various legislations, etc. may enhance or reduce the profits of a business enterprise.

For example: War tension between any two countries. In the year 1977 with the change in the political power in the country changed the policy for MNC'S in the country.

- **Change in taste and preference:** Tastes change with the change in the dynamics of the world.

  For example: Earlier there was a preference to eat most of the time at home and fast food was unknown. But nowadays, there has been an upsurge of fast food outlets all over the country.

  Thus, business risk takes a variety of forms. In order to face such risks successfully, every businessman should understand the nature and causes of these risks as well as the various measures which must be taken in order to minimise them. Risks are present everywhere in our society; an entrepreneur should not the disappointed looking into all these risks, like a phoenix bird, which rises from its own ashes, every entrepreneur also is sure to come out successfully facing all these risks.

Role of technology and social media in creating new forms of business

Over the past 25 years, the digital revolution has changed the way we work and play almost beyond recognition. Yet the smart, interconnected world we live in now is still neither as smart, nor as connected, as we would like it to be. Consumers want more powerful devices and applications, while businesses seek more cost-effective technology to cope with increasingly complex challenges. Satisfying these demands will lead to an explosive growth in data and analytics, new competition in almost every field, disruption and realignment of many industries.

Emerging markets will create plenty of opportunities related to smart technology, and they will not be limited to for-profit enterprises. In Kenya, for example, mobile phones are being used to collect data and report on disease-specific issues from more than 175 health centres serving over 1 million people. This technology has reduced the cost of the country's health information system by 25% and cut the time needed to report the information from four weeks to one week.

Information Collection:

In this competitive world, in order to attract a customer, the entrepreneurs have to know the customer in detail so that they can assure that they are loyal to the company. Information which is collected, for example- age, regularity of customer to the shop, preference of purchase – all these factors enable a company to understand the taste and preference of the customer so that they can serve them better.

Businesses will compete on analytics to differentiate themselves. The growing number of embedded sensors collecting information about the world, and the rise of social networks that store the data people share, will generate immense quantities of information. IDC, a market research firm, suggests that the amount of digital information created each year will increase to 35 trillion gigabytes by 2020, requiring 44 times more data storage than in 2009.

For example, telemetric applications, similar to GPS (global positioning systems), will allow organizations to send, receive and store information via telecommunications devices while controlling remote objects. Although commonly associated with the automotive industry, telemetric applications are being developed for use in medical informatics, health care and other fields.

Business Intelligence:

Business intelligence is the ability of an organization to collect, maintain, and organize data.

Example: Sales data during an off season discount.

This data produces large amounts of information that can help develop new opportunities. Identifying these opportunities, and implementing an effective strategy, can provide a competitive market advantage and long-term stability.

The real payback comes when business intelligence is applied to enable companies to make better strategic decisions. Business intelligence, which enables organizations to gather quantifiable data on each area of the organization and analyse it in a way that yields information they can act on, thereby helping them enhance decision making, improve performance, mitigate risk and sometimes even create new business models , is growing in importance.

Smart Mobility:

Those devices which are mobile help in the growth of business. Smart mobility will change the way people interact. Increasingly, smart devices — portable tools that connect to the internet — have become a part of our lives. In the last quarter of 2010, sales of smart phones outpaced those of PCs for the first time, according to data from IDC. By 2014, more smart devices could be used to access the internet than traditional computers. The move to an increasingly mobile world will create new players and new opportunities for a variety of industries. We expect that new emerging market companies will be significant competitors, growing rapidly in part because a lack of legacy systems will enable them to profit more quickly from new technology as it becomes available.

For example: Smartphone's (with internet, high definition camera).

Cloud computing:

The origin of the term *cloud computing* is obscure, but it appears to derive from the practice of using drawings of stylized clouds to denote networks in diagrams of computing and communications systems. The word *cloud* is used as a metaphor for the internet, based on the standardized use of a cloud-like shape to denote a network.

Earlier when large-scale computer became available in academia and corporations; it was costly to buy a mainframe. As computers became more prevalent, scientists and technologists explored ways to make large-scale computing power available to more users through time sharing, experimenting with algorithms to provide the optimal use of the infrastructure, platform and applications with prioritized access to the CPU and efficiency for the end users. So effectively cloud computing helps an organisation to upload all its data on to a cloud and then they can use it remotely wherever it is required.

By 2016, Gartner- a consultancy firm, expects all Forbes' Global 2000 companies to use public cloud services, transforming much of the current IT hardware, software and database markets into infinitely flexible utilities. When cloud computing becomes widespread, it will transform businesses and business models, potentially reducing both initial and recurring costs for IT buyers, increasing their flexibility and lowering their risks.

Despite concerns related to data security, privacy and business continuity, its value proposition makes the success of cloud computing inevitable. Over time, cloud-based services will grow increasingly sophisticated and evolve into full-scale business processes as a service.

For example: In case of a phone and a laptop of Apple Inc., whatever photo, is clicked, it automatically gets updated on to the laptop through cloud computing.

The power of Social Media

Google, Facebook, Twitter, smart phones, tablets and e-readers — technologies that originated in the consumer space, are now reshaping the way companies communicate and collaborate with employees, partners and customers. Through the new possibilities for "social listening," businesses are able to better understand what their customers and employees need and want.

More change can be expected when the generation that has grown up with new technologies and instant information gratification joins the workforce. These changes will definitely lead to the creation of new forms of business enterprises which will surely change the way business will be conducted in the future scenario.

Barriers to Entrepreneurship

The factors which inhibit the growth of entrepreneurship may be classified under two categories.

Environmental Barriers

(i) Economic
(ii) Social
(iii) Cultural
(iv) Political

Personal Barriers

(i) Motivational
(ii) Perceptual

Environmental:

The Development of entrepreneurship is often influenced by environmental factors like economic, social, cultural and political. These conditions or factors may have both positive and negative influences on the emergence and growth of entrepreneurship.

Economic:

The factors which are responsible for economic development such as land, labour, capital, material, market etc., are equally responsible for the development of entrepreneurship. Thus, an environment, where all these factors are available to the entrepreneurs, will naturally support and promote entrepreneurship. On the other hand, if any of these factors are not available or of inadequate quality and quantity, they can become barriers to entrepreneurship.

For example: Unavailability of cash deters an entrepreneur from starting a new venture.

Social:

Sociological factors such as caste structure, mobility of labour, customer needs, cultural heritage, respect for senior citizens, values etc. might have a far reaching impact on business. In India, attitudes have changed with respect to food and clothing as a result of industrialisation, employment of women in factories and offices, and the increased level of education. This has resulted in the growth of food processing and garment manufacturing units thus the emergence and growth of a new class of entrepreneurs.

For example: Readymade shirts, instant food, vending machines for tea and eatables.

Cultural:

Every society has its own cultural values, beliefs and norms. If the culture of a society is conducive to creativity, risk-taking and adventurous spirit, in such a cultural milieu entrepreneurship will get encouragement.

For example: An entrepreneur will have to keep in mind the cultural reference of the region that he/she is going to cater to, this will enable him/her to get a quicker acceptance in that region.

Political:

It provides the legal framework within which business is to function. The viability of business depends upon the ability with which it can meet the challenges arising out of the political environment. This environment is influenced by political organisations, stability, government's intervention in business, constitutional provisions etc.

For example: War tension between two countries can also stop the trade between these countries.

Personal:

In a given society, a few people may take up the career of entrepreneurship. Even among the societies which are considered entrepreneurially progressive, only a selected few ventures to set-up their own enterprises.

Perceptual:

There are certain perceptual barriers that can hamper the progress of an entrepreneur. Lack of a clear vision and misunderstanding of a situation, can result in a faulty perception. Having pre-conceived notions and prejudices against a particular business activity will leave limited choices.

For example: One should overcome the barriers of selecting a business venture according to one's gender. There is hardly a business left where both the genders have not explored and achieved equal success.

Motivational:

Sustained motivation is an essential input in any entrepreneurial venture. Lack of motivation is a strong barrier to entrepreneurship. Many entrepreneurs start with enthusiasm, but when they face some difficulties in the execution of their plans, they lose motivation.

For example: Failure of a venture.

Business Incubation:

These are programs designed to support the successful development of entrepreneurial companies through an array of business support resources and services, developed and orchestrated by incubator management and offered both in the incubator and through its network of contacts. Incubators vary in the way they deliver their services, in their organizational structure, and in the types of clients they serve.

It is an organization designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services like providing physical space, capital, coaching, common services, and networking connections.

How do incubators help start-ups get funding?

Incubators help resident companies secure capital in a number of ways:

- Connecting companies with angel investors (high-net-worth individual investors).
- Working with companies to perfect venture capital presentations and connecting them to venture capitalists.
- Assisting companies in applying for loans.
- Assisting companies in accessing government agency (example NZTE, Technology NZ) business assistance grant programmes.

Help/support provided for entrepreneurs by the Government

Various government schemes have been implemented for entrepreneurs by the government.

1. Schemes implemented by the Ministry of MSME (Micro, Small and Medium Enterprises)
2. SIDBI (Small Industries Development Bank of India) Micro Finance programme
3. Memorandum of understanding (MOUs) with foreign countries
4. MSME National Award Scheme
5. NSIC Schemes (National Small Industries Corporation)
6. SIDBI Schemes
7. Tax Holiday Scheme
8. Composite Loan Scheme
9. Industrial Estate Scheme

10. Factoring Services
11. Small Industry Cluster Development Programme
12. National Equity Fund Scheme

There are various sector specific schemes also:

1. Schemes implemented through KVIC (Khadi and Village Industries Commission)
2. Schemes implemented through Coir board
3. Schemes for priority sector
4. Animal Husbandry Schemes
5. Dairy Development Schemes
6. Fisheries Development Schemes
7. Agriculture Development Schemes
8. Tea Board Schemes
9. Tourism Industry Schemes
10. Scientific and Engineering Research Schemes

Institutions involved in Entrepreneurship Development Program (EDP):

1. National Institute for Entrepreneurship and Small Business Development (NIESBUD)
2. Indian Institute for Entrepreneurship
3. National Institute for Micro, Small and Medium Enterprises (NIMSME)
4. National Small Industries Corporation (NSIC)
5. Rural Entrepreneurship Development Institute (REDI)
6. Training and Development Centre (TDC)
7. Centre for Entrepreneurship Development (CEI)
8. Small Industries Service Institutions (SISI)
9. Small Industries Development Organisation (SIDO)
10. Entrepreneurship Development Institution of India (EDII)
11. National Alliances of Young Entrepreneur (NAYE)

SUMMARY

Entrepreneurs as problem solvers:

*Entrepreneurial actions are efforts to solve problems for others. Therefore, entrepreneurs are **Problem Solvers**. When one solves a problem, new value is created. In the business world, problem solvers take risk but often create value by solving a customer or market problem--key to creating a profitable enterprise.*

Some innovations leading to successful ventures:

- ***Penicillin -*** *Inventor: Sir Alexander Fleming, a scientist*
- ***The Pacemaker-*** *Inventor: John Hopps, an electrical engineer*

- ***Potato Chips-****Created by: George Crum, chef*
- ***Microwave ovens-****Inventor: Percy Spencer, an engineer with the Raytheon Corporation*
- ***Ink-Jet printers-****Inventor: A Canon engineer*
- ***X-Rays-*** *Inventor: Wilhem Roentgen, a physicist*

Social Entrepreneurship:

According to J. Gregory Dees, social entrepreneurship is that which "combines the passion of a social mission with an image of business-like discipline, innovation, and determination".

Social Entrepreneur:

According to Martin and Osberg, "the Social Entrepreneur aims for value in the form of large-scale, transformational benefit that accrues either to a significant segment of society or to society at large."

Need for social entrepreneurship. To overcome:

Economic and financial crises

Social problems such as poverty and unemployment

Characteristics of Social Entrepreneurs

- *Social catalysts*
- *Socially aware*
- *Opportunity-seeking*
- *Innovative*
- *Resourceful*
- *Accountable*

Concept of risk taking*:*

Business risk means possibility of some unfavourable occurrence.

Types of risk taking:

Internal- *Human, Technological, Physical*

External*- Economic, Natural, Political, Change in tastes and Preferences of customer*

Role of technology in creating new forms of business

Information Collection:

Information which is collected, for example- age, regularity of customer to the shop, preference of purchase – all these factors enable a company to understand the taste and preference of the customer so that they can serve them better.

Business Intelligence:

It is the ability of an organization to collect, maintain, and organize data

Example: Sales data during an off season discount.

Smart Mobility:

Those devices which are mobile and help in growth of business.

Cloud computing

Cloud computing helps an organisation to upload all its data on to a cloud and then they can use it remotely wherever it is required.

Barriers to Entrepreneurship

Environmental

(i) Economic

(ii) Social

(iii) Cultural

(iv) Political

Personal

(i) Motivational

(ii) Perceptual

***Business incubators** are programs designed to support the successful development of entrepreneurial companies through an array of business support resources and services.*

Q.1. Answer each of these questions in about fifteen words:

(i) Name any two institutions involved in Entrepreneurship Development program.

(ii) Who is a social entrepreneur?

(iii) What are insurable risks?

(iv) What are non-insurable risks?

(v) What is economic barrier?

(vi) Give an example of a social entrepreneur

Q.2. Answer each of these questions in about fifty words:

(i) What is business incubation?

(ii) Explain business intelligence.

(iii) List two examples of incubation centres in India

(iv) Write about any two innovations which led to entrepreneurial ventures.

(v) Differentiate between social entrepreneurship and entrepreneurship

Q.3. Answer each of these questions in about 75 words:

(i) What is cloud computing?

(ii) How did KFC begin its operations?

(iii) Explain the various external factors which lead to business risk

(iv) Enumerate three ways as to how incubators help start-ups get funding?

Q.4. Answer each of these questions in about 150 words:

(i) Explain the various internal factors which lead to business risk

(ii) Explain in detail the personal barriers.

(iii) Explain

a) Smart Mobility,

b) Information Collection as new business forms

Q.5. Answer each of these questions in about 250 words:

(i) Enumerate the characteristics of social entrepreneurs.

(ii) Explain in detail three new forms of business which is created because of technological changes.

(iii) Explain 'barriers to entrepreneurship'.

Q.6. HOTS: (High Order Thinking)

Application based exercise:

Explain the success story of Lijjat Papad.

Q.7. Activities:

1. Starting a business takes a lot of research an entrepreneur can find information on almost any subject very rapidly by using the internet's World Wide Web. An entrepreneur must communicate with many people, suppliers, distributors and a very quick and inexpensive way is through the internet. In groups debate on the role of internet and social media for an entrepreneur from customer's point of view.

2. 'Innovation' is the word that differentiates an entrepreneur from a businessman. Tata Nano is one such innovative product. Collect articles from magazine newspaper etc. on the latest innovations bought out by a few entrepreneurs and prepare a collage or a power point presentation on these innovations.

3. A social entrepreneur most unique ability is to see a problem in the world and have the passion, interest and the belief that he or she can help solve it. Sometimes thinking that we can change the world feels impossible, but a small act of kindness add up to big changes. Make a video or a report about 10 entrepreneurs who made a change to some one's life through their efforts.

4. The barriers are not the same for all individuals in the society. Interview an entrepreneur in your locality about the barriers he/she faced in starting and developing his business, how he/she overcomes these barriers. Prepare a report and discuss it in class.

5. Entrepreneurs are the risk takers. In groups find out local entrepreneurs and list the risks they have taken while setting up their venture. Now after collecting enough information do the research from your findings, prepare a report and draw a conclusion based on the question: "Are Entrepreneurs gamblers, or calculative risk takers?"

UNIT 5

Concept of Market

Learning Objectives

After reading this unit the student will be able to:

- Understand the concept of market and its evolution over the time.
- Understand the meaning and concept E-Business and E-Commerce. Its role in the modern day business community.
- Analyze the Market Environment at Micro and Macro Level.
- Explain the techniques of Market Research and the instruments used in the same. Appreciate the role of Market Survey as a source of collecting market information.
- Understand the strategy of market expansion and development.
- Understand the elements of trade and commerce
- Explain the concept of marketing mix and the four P's of marketing.
- Understand the concept, role and importance of Price.

Market, Market, Where Are You?

Remember the days of Junior School, when the one often repeated topic for essay writing as well as for drawing and painting activity used to be a "Market Scene".

A variety of depictions shown with mostly one common opinion of holding a market area as a busy, noisy, crowded place, with several shops, hotels, cafeterias, all beautifully decorated; hawkers and peddlers shouting on the top of their voices to attract customers, some of which, were in hurry while others just go for window shopping.

With the passage of time, the difference can be now realized from words describing markets as being more sophisticated, neat and clean, with decked up showrooms piled with variety and display making choice difficult, centrally air conditioned, elegant ambience, well equipped with theatres to cafeterias and washrooms all under roof.

The markets of Dubai, Hong Kong, Singapore, Bangkok are world renowned; Bombay's Big Bazaars, Sector 17 of Chandigarh, Connaught Place or Chandni Chowk at Delhi are the places which visitors include on their sight-seeing tours. Many amongst you during school excursions or educational tours either sneak out or seek permission to have a quick "look" at the "Markets" of that place merely to do some souvenir shopping for friends and family.

World across and almost all age groups are familiar with the term 'Market' in some way or the other "Coming to the market"? "Where"?- is the immediate question. Some relate to them as shopping areas adjacent to their houses, some as Marts, Malls and Mansions, Lanes or Sectors, Big Bazaars or Super Markets etc. But question still remaining, "ARE THESE AREAS ONLY THE MARKET"? or is there something else.........

Market:

The word "market" is derived from the Latin word 'marcatus' meaning merchandise, ware, traffic, trade or a place where business is conducted.

Golden Days:

In olden days, buying and selling was done by coming together at periodical fairs held at specific places on particular dates. In the days of the 'barter system', the exchange was of goods with goods only. Then, the invention of 'money' as a means of exchange revolutionized the market system.

Markets: They are responsible for making the economy strong and stable, in itself is a very dynamic concept. Market has been steadily acquiring greater dynamism and robustness. Ever since its evolution, different authors have tried defining it differently. It has grown and changed over the period of time and still the process is in progress.

The concepts pertaining to meaning of market are broadly classified as being:

1. Traditional Markets:

The concept of a traditional market corresponds to the early production phase when there was a general scarcity of manufactured goods in the market. The phase of 'pre-industrial revolution' world was characterized by an agriculture-cum-handicraft economy, with no elaborate distribution system. The agriculturist, whether he produced corn or cotton, meat or butter disposed of the surplus in his immediate neighborhood.

According to the American Market Association:-

"At every point where a specific commodity is concentrated for sale a market is found".

The definition gives the traditional meaning of market. The emphasis is on:

(1) Place: The goods available for sale are bought to a specific place and the buyers of those goods reach those places for buying them.

(2) Different markets for different commodities such as vegetable market, food grains market etc. Traditional concept focuses that market means “a place" only, where actual buying and selling takes place.

After the Second World War, especially in the fifties and sixties, the size and character of the markets in many countries of the world changed enormously. With the passage of time, the industrial activity has intensified in terms of:

- Quantity
- Quality
- Variety of the products
- Competition
- Awareness on the part of consumers
- Emergence of laws and enactments to protect consumer’s interest.

All this, gradually compelled manufacturers/industries to produce what the consumers wanted. Thus, a new concept, a more scientific approach emerged reunite/reconstruct sent.

In the words of Carnot:-

"*The term market is not any particular place in which things are bought and sold but the whole of any region where buyers and sellers are in such free intercourse with one another that the price of the same goods tend to equality easily and quickly*".

This definition widens the area of a market by advocating:

- Market is not restricted to a particular place but to a region
- The buyers and sellers of the whole region have free access to one another
- This accessibility enables the forces of demand and supply to operate and determine competitive prices
- The whole region is taken as a place of market.

2. Market of Seventies / Eighties –Modernised Version

Every business activity is consumer oriented. According to Peter Drucker *"the purpose of business is to create customer" and customers do not have geographical boundaries".*

Thus, according to modern thinkers "market" further expanded. They stopped treating it as a place and believed strongly that the coming together of buyers and sellers living anywhere and transacting purchase and sale of goods is said to be a market'.

To support the wider view of market, Clark and Clark defined a market as:

"In fact, for most commodities, the market must not be thought as a geographical meeting place but as any getting together of buyers and sellers in person by mail, telephone, telegraph or by any other means of communication.".

Analysis of the definition:-

The market is not taken as a geographical place but a meeting of:

(i) Buyers and sellers

(ii) For a given commodity

(iii) Who remains in close contact format with each other through any means personally, by mail, phone etc.

(iv) Buyers and sellers are in competition with one another.

(v) The place or area can be regional, national or international.

Thus, based on the definition, it can be summarized that 'A market is the atmosphere of a region in which the forces of demand and supply operate directly or by means of any kind of communication that are sufficient to bring about transfer in the title of the goods and it does not necessarily mean only a place where actual buying and selling in conducted'.

3. Emerging Markets: E-Commerce

The world today is changing fast. India is no exception. Specially after the opening up of the economy, the pace of change that India and its people are experiencing in their socio-cultural milieu is mind boggling. The profile of the Indian market is vastly different from what it was ten years ago. Modern business is facing global competition due to globalization, and increased customer expectation due to changes in technology. For this, business throughout the world is changing in terms of:

- Organization
- Ways of working
- Use of technology
- Perspectives, scope and outlook

The world seems to now follow the adage "Market means people".

To quote to DYDDY:

"Markets are people with money to spend and desire to spend it"

The analysis of this definition of market brings forth the views on market as 'People Oriented'. It advocates:

- People having money and desire to spend it are taken as market.
- A market cannot exist without people willingness to buy and sell.

Though this definition absolutely ignores ' the place of activity' it seems to be more practical in today's scenario. The people, a business serves are its market.

The prime force behind this change is the advent of mass communication. The market is once again emerging as a dynamic and competitive arena, where "*the only thing that is permanent is change*". Facing a barrage of new challenges and opportunities, the definition of 'Market' seems to have once again undergone a change.

The internet has evoked unparalleled and easier ways of conducting day-to-day lives, be it business, trade or personal affairs. Business has been a major beneficiary of this boom.

E-Business: This refers to "carrying on business activities, both industrial and commercial through computer network i.e. Internet. Wherever the of internets, can reach that place has become the probable 'Market'.

Thus 'Market' is emerging as any form where the transaction between the buyer and seller is because of interacting electronically using telecommunication network the world over - so whole world is a potential Market, with no requirement of physical presence of a buyer or seller. Internet - commerce has thus broadened the definition, scope and range of markets.

Business is a wider term including both as range of activities:

(i) Industry, i.e., production and related activities

(ii) Commerce, i.e. trade and aids to trade. Trade means buying and selling

In this context, e-business and e-commerce are defined as follows:

Basis	E-Business	E-Commerce
Meaning	Defined as the conduct of Industry, trade and commerce using the computer networks.	An electronic communication among enterprises, including customers, suppliers, business partners, government organizations and financial institutions.
Scope	E-commerce and other electronically conducted business functions such as production, product development, accounting, finance human resource, management etc., it wide in scope.	Covers the interaction of the firm with its customers and suppliers, over the Internet i.e. it revolves around buying and selling products and services over the internet.

The internet users can now order goods, receive their delivery and make their payment while at home, on the internet.

Role of E-Business or E-Commerce

E-business is offering great opportunities especially to developing countries. It is helping them to enter the prosperous global markets merely at the click of the mouse. This focus on computer-to-computer interactions is helping business in discovering new cost-effective opportunities not only locally but also internationally.

E-business's growing popularity is because of the role it plays especially for the promotion of the business community. The same can be summarized as follows:

(1) **Quick Solution to Doubts:** E-business allows quick response to the queries and doubts of customers and other business houses, thus facilitating sales by increasing customer satisfaction.

(2) **Updated Information:** A company's web-site, which can be accessed anywhere in the world, provides not only the first hand but the latest information about the price, discount, quality, features, range etc. available to the consumers merely at the click of the mouse.

(3) **Extending Markets:** Because of e-business, the markets have become global. Now making sales to customers has spread over the different parts of the world. E-business has made it possible to make things available in those areas too where there are no markets around like rural areas.

(4) **Shortening of distribution channel:** Ever since e-business come into existence, producers have started having direct contact with the consumers, resulting in the reduction of middlemen and related cost. As a result, the consumers now get goods comparatively at lower prices directly from the producers.

(5) **Saving of time and cost:** Customers now do not have to physically visit the market to purchase goods. They can get information and the goods online because of e-commerce, thus saving time, cost and energy.

(6) **Less risk in payments:** Under e-business, payments can be made on the Internet through the medium of credit cards issued by the bank, thus reducing risks involved in the transfer of money.

(7) **Easy to launch new products:** Any company can launch its new product in the market through the medium of e-business much more easily. Mails, catalogues, photographs, etc. can help customers understand the product better.

(8) **Lower personnel cost:** The number of personnel required decreases with the help of e-business because a single computer is good enough to do the job of many employees more quickly and correctly. This leads to helping the entrepreneur lower cost of production and raise sales.

SUMMARY

The word 'market' is derived from the Latin word 'marcatus' meaning merchandise, ware, traffic, trade or a place where business is conducted.

'Market' – responsible for makes the economy strong and stable, in itself is a very dynamic concept. Ever since its evolution different authors have tried defining it differently.

The 'Market' has grown and changed over the period of time and still the process is in progress.

- ***'The Market' evolved as:***
- ***Traditional Markets:*** *"At every point at which a specific commodity is concentrated for sale a market is found".*
- *Over a period of time, because of intensification of industrial activity in terms of quantity, quality, variety, consumer awareness, laws, enactments, rules and regulations, the 'markets' revolutionized.*

E-Commerce: *The interaction of the firm with its customers and suppliers over the internet.*

E-Business: *The conduct of industry, trade and commercial using the computer networks.*

Role of E-Business: *The focus on computer-to-computer interactions, are helping business in discovering new cost-effective opportunities not only locally but internationally too.*

- *Markets are expanding*
- *Distributional channels are shortening*
- *Doubts are being quickly solved.*
- *Updated information available*
- *Facilitates launch of new products*
- *Less risk in payments*
- *Less cost of personnel's.*

Analysing the Market Environment

'Motorola, a few years back, dominated the mobile industry. Earlier, it had almost 50% of the cell phone handset market, which now is merely 17% 'Satyam' once ranked 4th in the top Indian IT companies list in 2008, but collapsed in 2009. Today even the most established Indian brands are facing their biggest challenge and are drawing up plans to protect their market base.

Lot of hectic activities keep happening in the "Market". Opportunities and threats keep constantly spinning around. Those enterprises that ignore or resist market forces bear the brunt. Excellent companies take an outside-inside view of the market and its forces.

'Google' and 'Yahoo' just appeared and captured, whereas solids like American Airlines and Avon are almost on the brink of winding up. Why? Because something in market was either in their favour or against them. Market comprises of innumerable components to be taken care of.

The network of "key institutions" interact to supply final markets with needed goods and services, collectively form the 'environment' of the market. The market environment refers to factors and forces that affect a firm's ability to build and maintain successful relationships with customers.

A market is thus an arrangement of establishing effective relationship between buyers and sellers of the commodities. It consist of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want. Primarily, it is the forces of demand and supply which represents the aggregate influence of self-interested buyers and sellers on price and quantity of the goods and services offered in the market.

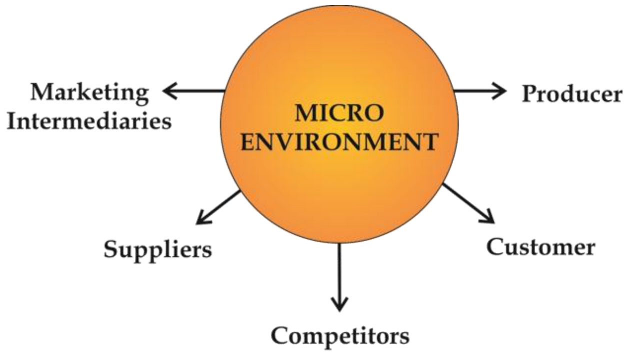
The various factors and forces governing or at play in the market can be categorized as:

a) Micro (Internal) Environment - Primary

b) Macro (External) Environment - Secondary

A) Micro Environment

The Internal Environment refers to the forces operating in the market that are close or within the organization and affect its ability to serve its customers directly. It comprises of the following forces:-



(1) Producer/Seller

The goals, objectives, policies, strategies etc. of the organization are the foremost forces which govern the market. Successful companies are those that can recognize and respond profitably to unmet needs and trends in the society. Unmet needs always exist.

> **Power to Rule**
>
> *Choose companies who could solve any of these problems. They will not only make a fortune but will rule the world market:*
>
> - *A sure shot cure for cancer.*
> - *Permanent chemical cure for mental diseases.*
> - *Desalinization of sea-water.*
> - *Non-fattening tasty nutritious food*
> - *Voice-controlled computer etc.*
>
> **"PERFORMING SELLERS" sustain and succeed in the market.**

Those enterprises rule the market, who are capable of:

- Keeping itself aware of market needs and trends
- Giving market a solution for their 'unmet' needs.
- Identifying opportunities and threats in the environment

Catering to social responsibility

If more is the number of producers, harder and healthier would be the competition. Ethics, values, principles, creativity, innovativeness of the seller helps in setting trends for market. It is the "producer" and his/her abilities that can create a 'market'. Imagine, today we have markets for things like Yoga, "*Pranic healing*", Astrology etc, all credit goes to sellers.

(2) Customers

> **Consumer is the King**
>
> *Instead of trying to market what is essential for us to make, we must find out much more about what the consumer is willing to buy...... we must apply our creativity more intelligently to people, and their wants and needs, rather than products.*
>
> ***Charles G. Mortimer.***

The most influential force which rules the market is the 'Consumer', Consumer Satisfaction is the foundation stone of a successful business.

Business has to produce goods according to the needs of the customers. But knowing customers is never simple. Enterprises have to take into consideration the following features to create, maintain and retain this force:

(a) Tradition, customs, beliefs, values of society and customers

(b) Lifestyle, standard of living, consuming habits

(c) Propensity to consume and save

(d) Education level, thinking behaviour

(e) Income level

(f) Demographic characteristics etc.

Consumer demand is the most important element as it directly affects enterprises:-

a) Profitability

b) Reputation and Goodwill

c) Expansion Plans

(3) Competitors:

Eastman Kodak, in its film business, has been worrying about the growing competition from Fuji – the Japanese film maker. But in reality, Kodak faced a much greater threat from the recent invention of the "filmless camera" sold by Canon and Sony, which takes video still pictures to be shown on a TV receiver. What greater threat is there to a film business than a filmless camera!

Normally, it would seem a simple task for a company to identify its competitors but it is not so. Coca-Cola knows, it's "Pepsi-Cola" while 'Sony' knows, its "Matsushita". But the range of a company's actual and potential competitors is much broader.

Competitors are such factors in the micro environment that provide similar offerings for goods and services. To remain competitive, an enterprise must consider who their biggest competitors are. With LPG, the level of competition is no more local or national, but international.

In the market, a correct assessment needs to be regarding:

(a) Who are our competitors?

(b) Level/size of competitors

(c) The areas of strengths/weaknesses of competitors

(d) The financial standing of competitors

(e) Overall image of competitors' products in the market

(f) Operational capacity of the competitors.

The company should develop a strategic advantage over their competitors else if it's otherwise the fate of the enterprise is doomed. Edmund Burke believes "an opponent is our helper".

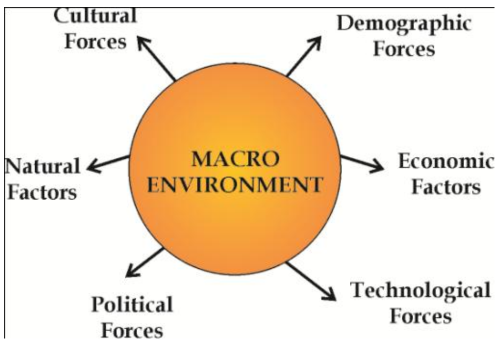
(4) **Suppliers:** Suppliers are another key component in the core system of Market. The company is essentially a resource – conversion machine that converts material, machines, labour and funds into useful products.

The necessary resources are obtained from suppliers. How well the company buys depends on how well it grasps the working of the various supply markets and how well it applies business principles in conducting its relations with suppliers. Lack or non-availability of suppliers can ruin the market for a product.

(5) **Marketing Intermediaries:** Marketing intermediaries are institutions that facilitate the flow of goods and services between the company and its final markets. They include resellers (i.e. wholesalers, retailers, agents, and brokers), transporters, warehouses, banks and promoting agencies. These all institutions come into being to facilitate the work of consummating exchanges in the market. They perform a great deal of work in bringing about transactions between the buyers and sellers, market cannot survive without these intermediaries.

(B) Macro Environment - External Forces

These macro forces refer to all forces that are part of the larger society and are the "uncontrollable" to which companies adapt through setting the "controllable" factors. These secondary factors too have bearing on the market.



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(i) **Demographic Forces:** Demographic forces refer to human populations in terms of size, density, location, age, gender, race, and occupation. They are very important factors of the market as they help to divide the population into market segments and target markets. An example of demography is classifying groups of people according to the year they were born. These classifications can be referred to as 'baby boomers', who are born between 1946 and 1964, generation X, who are born between 1965 and 1976, and generation Y, who are born between 1977 and 1994. Each classification has different characteristics and causes they find important.

(ii) **Economic Factors:** These refer to the purchasing power of potential customers and the ways in which people spend their money. Under conditions of economic growth, buyer behavior is different than his/her behavior during depression, thus affecting the market.

(iii) **Technological Forces:** The technological environment is perhaps one of the fastest changing factors in the macro environment. This includes all developments from antibiotics and surgery to nuclear missiles and chemical weapons to automobiles and credit cards. Advances in technology have provided opportunities to new products, new ways of selling, new markets & trends.

(iv) **Political Forces:** The political environment includes all laws, government agencies, and groups that influence or limit other organizations and individuals within a society. Market is regulated by these restrictions as they can be complex. It varies from place to place time to time. To a large extent, the fate of companies and markets depend upon the political conditions in areas where they are situated. As laws and regulations change often, this is a very important aspect for a marketer to monitor.

(v) **Natural Factors:** These include the natural resources that a company uses as inputs and affects their marketing activities. The concern in this area is the increased pollution, shortages of raw materials and increased governmental intervention. As raw materials become increasingly scarcer, the ability to create a company's product gets much harder. Also, pollution can go as far as negatively affecting a company's reputation if they are known for damaging the environment. The last concern, government intervention can make it increasingly harder for a company to fulfill their goals as requirements get more stringent.

(vi) **Cultural Forces:** The cultural environment, which consists of institutions and basic values and beliefs of a group of people. The values can also be further categorized into core beliefs, which passed on from generation to generation and very difficult to change, and secondary beliefs, which tend to be easier to influence. Market reflects the values of a target audience.

Every organisation and industry is in a delicate balance with the forces in its environment. As the environment changes, it calls for a creative adaptation or response on the part of the organisms interacting with it.

Nations (Assyria), Species (dinosaurs), industries (Kingfisher) have collapsed because they failed to meet environmental challenges with creative responses.

SUMMARY

The market environment refers to factors and forces that affect a firm's ability to build and maintain successful relationship with customers.

The various factors and forces governing the market can be categorized into:

- *Micro Environment – Primary Forces*
- *Macro Environment – Secondary Forces*

***Micro Environment**:*

The internal environment refers to the forces operating in the market that are close or within the organisation, comprising of:

- *Producer / seller*
- *Customer*
- *Competitors*
- *Suppliers*
- *Marketing intermediaries*

***Macro Environment – External Forces**:*

These macro forces refers to all forces that are part of the larger society and are the "uncontrollables" to which companies adopt through setting the "controllable" factors. They comprise of:

- *Demographic forces*
- *Economic forces*
- *Technological forces*
- *Political forces*
- *Natural forces*
- *Cultural forces*

Researching the Market

Market Research

Market Research is referred as the systematic study and evaluation of all factors bearing on any business operations which involves the transfer of goods from a producer to a consumer.

A.G.R. Deiens

Manufacturers, retailers, suppliers of all kinds of services and many other organisations, need certain kinds of information in order to be able to satisfy their customers' wants and needs, to design effective marketing programs and to deal with recurring decisions. Given the diversity in consumers' characteristics, a firm should be able to determine the most appropriate market/product/information so as to choose a combination of marketing programmes which could satisfy the customers.

Thus, all decisions are based upon either information or assumptions. Any information, the entrepreneur receives, tends to be seen and interpreted in the light of our existing knowledge and past experience. Before committing time and energy to preparing a business plan, the entrepreneur should do a quick feasibility study of the business concept to see whether there are any possible barriers to success.

Marketing Research is thus that versatile activity which is used by many different kinds of organisations to gather a variety of information needed to address different decisions. One of the initial, important elements of information needed by the entrepreneur is the "market potential" for the product or service.

STOP..... RESEARCH..... REACT

'Amrutanjan' *was the market leader in the balm market when* ***Vicks Vaporub*** *was launched. The company had to decide whether to position their product directly against the leader or to carve out a separate niche. After much research work, it was finalised to position the brand 'Vicks Vaporub' exclusively as a rub for colds. Later, once again, based on research, it re-launched itself with a stronger formulation for faster relief.*

In the next few years, Vicks Vaporub became the largest selling brand for cold remedies.

Dabur Chyawanprash, after some research, went in for a change in packaging and advertising in 1993 witnessing a rise in its market share to 68.5%. Similarly, "Rasna" on receiving poor response initially on its launch conducted detailed market research and thereafter incorporated the strategy of "the influence – the child", the quality of ease in preparation, along with the economy did the magic.

Advertisement campaigns reinforced all changes with a winning edge in the form of:

"Just one under-pack of Rasna makes 32 glass of delicious soft-drinks" – now, Rasna dominates 85% of soft drinks concentrate market.

Procter & Gamble calls or visits over one million people in connection with about 1000 research projects undertaken by its different product operating divisions.

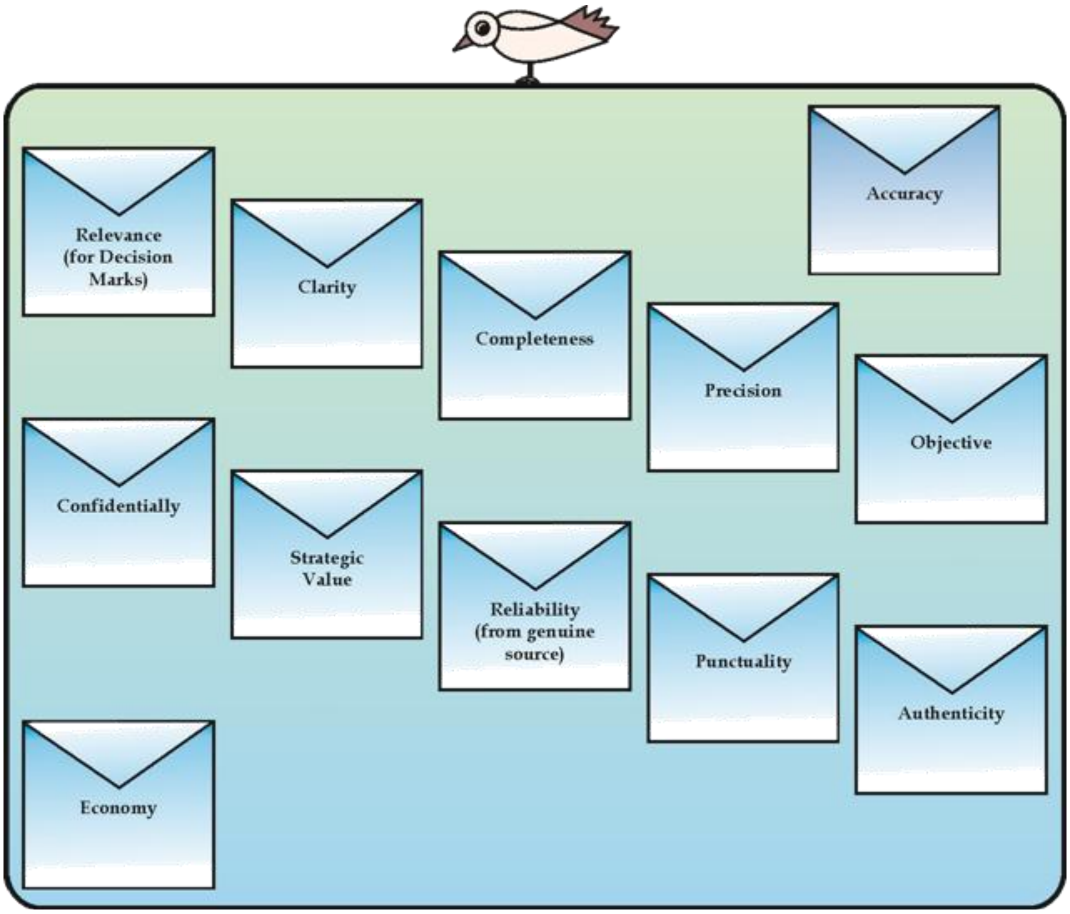
Such rejuvenations by either new formulations, or additional ingredients or improved aesthetic appeal, are normally the result of 'Market Research'.

Market research is the function which links the consumers, customer and public to the marketer through information that is use to:

- Identify and define marketing opportunities and problems.
- Generate refine and evaluate marketing actions;
- Monitor marketing performance;
- Improve understanding of marketing as a process.

Characteristics of good Marketing Information:

BASIC CHARACTERISTICS



As we know, marketing research is the systematic and objective search for an analysis of information relevant to the identification and solution of any problem in the field of marketing.

Thus, the value and usefulness of information depends on the extent to which it possesses the essential characteristics of good marketing information. An information is characterize as 'good' if it is:

The Marketing Research Process:

Research is not restricted to only finding out information about the market for a product, instead it is concerned with providing information, which will act as an aid to decision-making for a wide range of business activities from a new product development right through to after sales services. This systematic gathering, recording and analyzing of data about 'problems' is not an easy task. To help acquire valid and reliable information, a series of steps are likely to be used, which are referred collectively as the "Marketing Research Process".

Main Steps Involved in Marketing Research

Step 1	Defining the marketing problem to be tackled and identifying the marketing research problem involved in the task.
Step 2	Specifying the information requirement, i.e., preparing a list of the needed information
Step 3	Developing the research design and research produce i.e., determining whether such information is already available, either in records of the company or in outside sources.
Step 4	Information i.e., select the research instrument to be used, select sample type and size.
Step 5	Analyzing the information and interpreting it in terms of the problem being tackled.
Step 6	Summarize the findings
Step 7	Preparing the research report

Market research in a way is the application of the scientific method to marketing problems. Although no method known to man can entirely eliminate uncertainty. But, a scientific method more than any other procedure can minimize those elements of uncertainty which result from the lack of information. By so doing, it reduces the danger of making a wrong choice between alternative courses of action.

As particular emphasis is upon maintaining objectivity on the part of the investigator, emphasizing accuracy in measurement and making exhaustive investigations, which means, there should be application of valid and reliable research methods and instruments.

Research Instruments: Research instruments mean the instruments, tools methods or techniques employed in research for gathering the information/response. One such most commonly used instrument by the entrepreneurs, is Market Survey.

One of the early Japanese invaders of the American car market was the Datsun. Later it changed its name to Nissan but continued to compete successfully. In 1987 Nissan sold 753,000 cars and trucks to U.S. buyers, but this was a drop of 3 percent from the previous year. The decline was a matter of some concern to the management.

A survey among U.S. car buyers found that Nissan had to clear image in the market. When car buyers were asked to identify Nissan, many showed lingering confusion over the name change from Datsun. Some buyers thought that Nissan was part of Toyota. There was more confusion over model names such as Maxima and Sentra; consumers thought these were cameras and wristwatches.

On the basis of these findings, Nissan planed a TV advertising campaign, ".... not just trying to sell a Maxima or Sentra (but) to tell views what Nissan is." The result was the now well-known theme "built for the Human Race".

The survey mentioned above told the Nissan management they had a problem and, on the basis of that information, they committed tens of millions of dollars to an advertising campaign to rectify the problem. Clearly, the management had confidence in the SURVEY DATA.

Market Survey: To complete the present market scenario, the day to day information is essential for the organization and its long term survival. Market survey is one of the most widely used market research techniques and at times, viewed as synonymous with Market Research.

One must remember, market survey is just one method/technique of collecting information required for carrying out a given marketing research task. It is used if the required data is not available either form:

- The company's internal records, or
- The external published resources.

Market survey amounts to the original field research work for the purpose of collecting primary data, with reference to a defined problem on hand.

Thus, market survey is an organized and in-depth approach, which includes all the research activities involved with extracting out carefully the information for not only the first time, but directly from the sources.

Kraft Foods Company's Decision Model

Kraft Foods was thinking of developing a flavored rice product that would be easier to prepare than the dominant rice brand then available. Rice-A-Roni. After developing the product, Kraft Foods decided that the new product would go into a test market if the following three conditions existed.

1. *The average household ate flavored rice products several times a month.*
2. *Preparing the rice products felt that their current brands were not convenient to prepare.*
3. *Consumers generally were not satisfied with their current brands.*

The information needed was identified as: the number of times a month a family ate flavored rice; whether or not cooks thought the brands they used were convenient; and the degree of consumer satisfaction with current brands. When further marketing research showed that:

a. *About half of the flavored rice users prepared such dishes less than once a month;*

b. *Only 11 percent felt that their current brands were inconvenient to prepare; and*

c. *Almost 80 percent were satisfied with their current brands.*

The Kraft Foods managers decided not to test market with their new flavored rice product and to drop the idea completely.

Source: "Kraft's Clark Urges Testing to Avoid Mistakes, 'Bombs'," Advertising Age, November 18, 1974, p. 22.

Common Methods used for Surveying:

Where you actually speak to members of your target audience, is a survey. It can be conducted through:

(i) Personal interviews

(ii) Telephonic interviews

(iii) Direct mail interviews

(iv) Fax/E-mail interviews

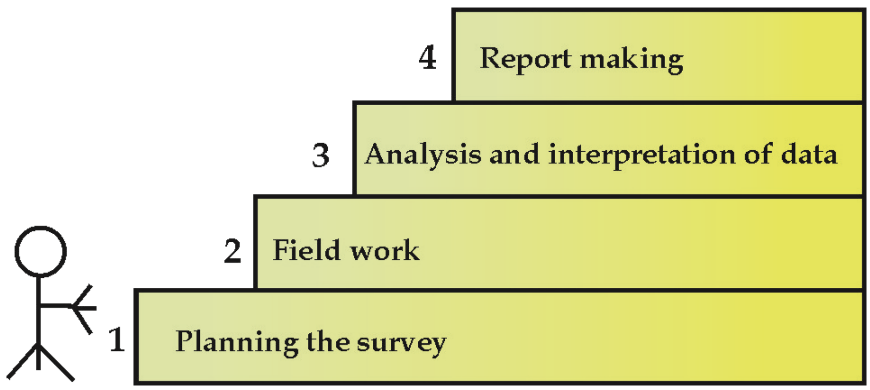
(v) Online interviews

(vi) Questionnaire Development

(vii) Field work

Steps in a Market Survey:

Survey is a customized technique. The investigator is to decide in light of his "objectives" of study that which technique is to be applied for extracting out information to the optimum from the respondent. At times, companies hire the services of professionals to conduct survey on their behalf while small entrepreneurs do it all by themselves.



A normal way of conducting a survey comprises of the following procedure:

Step 1 - Planning the Survey:

The entrepreneur must first of all decide what is it, he/she wants or needs to know about the market. Planning the survey demands on the part of entrepreneur to:

a) Define the problem clearly and accurately

b) Select the most appropriate method to conduct the survey viz. personal interview, Telephonic etc.

c) Decide the area and extent of the study: An entrepreneur must identify the magnitude of study whether he wants to survey each and every unit of the market i.e. census survey or would select variable/units for study and apply the result to the universe, i.e., sampling.

d) Questionnaire development: Questionnaire development is an important part of the market survey, demanding a lot of expertise and resourcefulness. Entrepreneur should go over it with others on the management team, making sure it provides the information he needs to know and is based on his objectives. He should make sure the questionnaire is not too complicated and is appropriately worded.

Step 2: Field Work

Field work calls for a lot of managerial and administrative skills apart from research skills. Thus, the entrepreneur should ensure that:-

a) Investigators for fieldwork are scientifically recruited or properly trained for the work.

b) It is properly supervised,

c) The time schedule is adhered to,

d) Responses are honestly and accurately recorded

e) The collection of data is done meticulously.

Step 3: Analysis and Interpretation of Data:

The raw data serves no purpose. The entrepreneur either by using software program or by hand, tabulate the collected data. Carefully he should analyze the data, working for information that standout, and the data is:-

(i) Edited

(ii) Tabulated processed and interpreted

(iii) Statistical analysis and interpretations recorded

If the entrepreneur is not able to do so himself/herself, he/she should go for expert advice. One must have the ability to analyze what the information basically conveys.

Step 4: Report Making:

Is the last step, when it is time to summarize findings and recommendations. Market research reports with key findings from the study, a summary of what the study revealed, along with a list of recommendations for the enterprise's continual growth and success in the market is done. This final report serves as the basis for taking any entrepreneurial decision.

An effective market survey uses the principles of the scientific method such as, careful observation, formulation of hypotheses, prediction and experience.

Importance:

The basic objective of a market survey is to collect information on various aspects of the business. As it involves gathering, recording and analyzing the data regarding the utility and marketability of the product, its importance can be judged from the following points:-

(i) Customer is the King:

To know accurately the customer's needs/wants, nature of demand, likes and dislikes and all other related aspects of movement of products from the stage of production to the point where they get consumed, is possible, with the help of appropriately designed survey, which can give an edge over competitions.

(ii) Risk reduction:

The systematic and intelligent use of market survey can reduce/minimize the risk of decision making under the conditions of uncertainly as results are analyzed in order to finalize a business plan.

(iii) Helps attaining objectives:

As a market survey starts with a customized design created to meet the entrepreneur's and his enterprise's specific needs and strategic objectives, the attainment of goals happen smoothly and timely.

(iv) Market Overview:

A market survey as is a systematic collection, recording, analysis and interpretation of data, relating to the existing or potential market and various forces of the market on the basis of information composed from survey.

(v) Forecast:

The market survey provides an accurate effective and timely sales forecast and promotes the soundness of marketing decisions which is key for success of any enterprise. “To manage a business well is to manage its future, and to manage its future is to manage information.".

(vi) Facilitates Decision – Making:

A customized market survey is a tool not only to collect an idea about customers, their wants, buying behavior, the new product and its acceptance, the competitors, but also helps in :

a) Short and long term forecasting

b) Comparative effectiveness studies

c) Packaging research

d) Pricing studies

e) Distribution channel strategies etc.

Thus, a survey helps in each and every decision making of an entrepreneur which is based on proper rationale and supportive date.

An important technique, most commonly followed for conducting a survey is through a questionnaire. A great deal of expertise, fact, experience and knowledge is required in drafting of a questionnaire. No relevant information should be left out from being procured. The 'annexure' contains a few samples of questionnaires. The survey is incomplete if it is not edited, tabulated, and analysed. A report or some kind of inference as a conclusion must be drawn from the whole study.

Types of Market Survey:

To harness the power of surveys, the entrepreneur needs to first learn how to do it right. It is a tool, to be used with caution, tact and expertise.

There are two types of market surveys:-

a) The census

b) The sample

Whether census or sample survey, the objective is to produce information with:

(i) Required degree of accuracy

(ii) Within the planned time span

(iii) Keeping the expenditure to the minimum

SUMMARY

Market Research is referred as the systematic study and evaluation of all factors bearing on any business operations which involves the transfer of goods from a producer to a consumer.

***Characteristics of Good Marketing Information**:*

- *Clarity*
- *Relevance*
- *Confidentiality*
- *Economy*
- *Reliability*
- *Punctuality*
- *Completeness*
- *Accuracy*
- *Authenticity*
- *Precision*
- *Objectivity*
- *Strategic Value*

Research Instruments

One of the most important and commonly used instruments by the entrepreneurs to research is 'Market Survey'.

Market Survey is an organized and in-depth approach, which includes all the research activities involved with extracting out carefully the information for not only the first time but directly from the sources.

Method used For Surveying:

- *Personal Interviews*
- *Telephonic Interviews*
- *Direct mail Interviews*
- *E-mail Interviews*
- *Online Interviews*
- *Questionnaire Development*
- *Field Work*

Process of Conducting Survey:

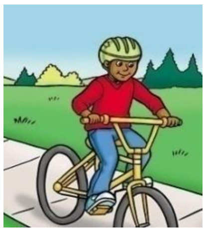
- *Planning the survey*
- *Field Work*
- *Analysis and Interpretation of Data*
- *Report Making*

Importance of Market Survey:

- *Customer is the King*
- *Risk Reduction*
- *Helps attaining Objectives*
- *Market Overview*
- *Forecast*
- *Facilitates Decision-Making*

SURVEY SAMPLE 1

Problem on Hand:



The Mayor of your city is thinking of asking the city council to vote funds for the development of a system of bicycle paths throughout the community. Before doing so, he felt that he should determine the percentage of bicycle owners and non-owners in favor of developing a system of bicycle paths. He discussed the matter with a local marketing research firm, which was asked to submit a proposal for research. Some of the highlights of that proposal are described below.

1. The purpose of the study is to determine if enough bicycle owners and non-owners are in favour of the development of bicycle paths throughout the community. (The mayor, along with the city council, will specify the percentage that constitutes "enough.")

2. The information needed is: How many people own bicycles and are they in favour of, or opposed to, the development of a system of bicycle paths? How many people don't own bicycles, and are they in favor of or opposed to, the development of a system of bicycle paths?

3. The data collection form the survey included two questions illustrated on the left side of table below.

4. After a representative sample of 600 community residents were interviewed, their responses were tabulated in the manner shown on the right side of the table given below:

City Bicycle Path Study

	Tabulations		
Questions	Bicycle Owners Who	Number	%
Do you own a bicycle? _____ Yes ____ No	Strongly agree	– –	– –
	Somewhat agree	– –	– –
Will you please indicate the degree to which you agree or disagree with the following statement: A system of bicycle paths should be developed in our community?	Undecided	– –	– –
	Somewhat disagree	– –	– –
	Strongly disagree	– –	– –
	Subtotal	– –	100%
	Non owners Who		
– – Strongly agree	Strongly agree	– –	– –
– – Somewhat agree	Somewhat agree	– –	– –
– – Undecided	Undecided	– –	– –
– – Somewhat disagree	Somewhat disagree	– –	– –
– – Strongly disagree	Strongly disagree	– –	– –
	Subtotal	– –	100%
	Total	**600**	

Source:

This illustration is adapted from William R. Wynd, "Six-Step Basic Program Can Help Volunteers Solve Research Problems." *Marketing News*, September 9, 1972, p. 12

SURVEY SAMPLE 2

Sample Questionnaire for Personal Errand Service to be launched

1. Of the following, please check the three most frequent errands that you are likely to carry out during the workweek.

– Dry cleaners – Post office

– Drugstore
– Bank
– Shopping for clothing items
– Shopping for non-clothing and non-grocery items
– Buying a gift
– Automotive service or repair
– Other___________
Please specify
– Other _____________
Please specify

2. Of the following, please indicate which items you would be willing to pay for someone to carry out for you.

– Dry cleaners
– Post Office
– Drugstore
– Bank
– Shopping for clothing items
– Shopping for non-clothing and non-grocery items
– Buying a gift
– Automotive service or repair
– Other ____________
Please specify
– Other _________________
Please specify

3. What do you consider the two most important reasons for having someone else complete an errand? (Check only two).

— Waiting in lines
— Inconvenient location
— Imposes on my relation time
— Difficult work schedule
— Traffic
— Other ___________
Please specify
— Other ____________
Please specify

4. If an errand service was conveniently available to you, how much would you be willing to pay for a standard errand such as delivering or picking up dry cleaning, going to the post office, or picking up a prescription?

— Less than 50 per earned
— 50 to 100 per earned
— 100 to 200 earned

5. Please indicate by rank ordering (1 being highest rank, 2 second highest rank, and so on) your preference for the most convenient location for a personal errand service.

— In my building

— Near my office

— Near the train station

— Prefer to have item(s) delivered to my office

6. The following information is needed for categorizing the results of the survey. Please check the appropriate box.

Sex: ______ Male — Female

Marital / household status: — Single parent

— Married, both spouses working

— Married, one spouse working

Age:______ Under 25

______ 25-34

______ 35-44

______ 45-54

______ 55 and over

Household income:

______ Under Rs. 40,000

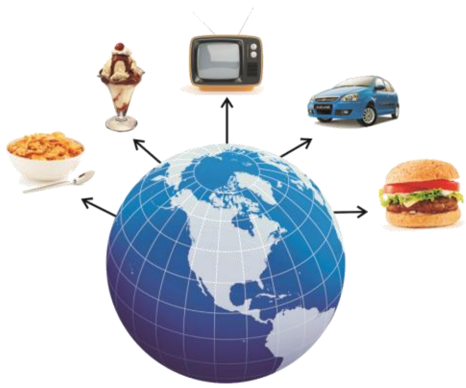
______ Rs. 40,000 - Rs. 54,000

______ Rs. 55,000- Rs. 69,000

______ Rs. 70,000 and above

Expanding Markets

*"All men can see the tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved."- **Anonymous***



World is Shrinking!

To name a few, Kellogg's in breakfast cereals, Baskin Robbins and Walls in the ice-cream market, Sony, Akai, Panasonic in electronic market, Honda, Mercedes-Benz, Volkswagen in Car Market, Nestle, Henkel, Heinz, Revlon, McDonald, Gucci etc. in FMCGs market have become household names today. It seems as if there is an invasion of foreign companies in India. So many mergers, takeover, collaborations, joint ventures happing in almost every sector and from every part of the world WHY? What is the reason for the sea level changes happening in market dynamics in the various product categories? Lets' see.

Introduction:

The Indian market is going through a period of upheavals. The winds of liberalization or the opening up of the market have brought about changes that have been unimaginable a decade ago.

As barriers come down, new players both from India as well as abroad are entering in different products. The competition is become fierce where erstwhile players are trying to protect their turf while new ones are making every effort to gain a foothold. Time and distance are rapidly shrinking with the advent of faster technology, communication, finance and transportation.

Domestic companies around the world are going global, which is not only intensifying competition but giving rise of flurry of new activities, in market.

Are You Aware.....???

Coco-Cola purchased Thums-up and Gold Spot for Rs. 180 crores while Pepsi took over Dukes, the Bombay-based owner of soft drink branded as 'Magnolia'. Colgate bought Ciba-Geigy's Cibacca range of toothpaste and brushes for Rs. 131 crores.

Brook Bond – Lipton acquired the Cadbury's Dollops ice cream business and Kissan Jam.

Citibank beautifully implanted the concept of marketing through the acceptance of Credit throughout the country.

Phenomenal changes in the car market are happening as a result of collaborations happening between many Indian companies with different foreign car makers like Ford, Peugeot, GM (Opel-Astra), Daewoo etc.

In order to survive in the changed and changing environment, a business enterprise needs to be strong enough to cope with the challenges before it. Normally, any company has only two options either—

(a) Withdraw or

(b) Fight

There is no fun in surrendering before a war. Therefore, it is better to plan:

(a) Sharper, focused, competitive strategies to face the new competition.

(b) Tone up the existing strength and leverage the first mover advantage.

(c) Realize the need for growth of business enterprises.

The manner which can help a company achieve, defend, glow, expand, diversify depends on the kind of strategy it pursues. *"Successful business strategy is about actively shaping the game you play not just playing game you find "* — **Gary Hamel.**

Strategic Alternatives before an Enterprise:

As Entrepreneurial Strategy represents the set of decisions, actions and reactions that first generates and then exploit over time, a new entry in a way that maximizes the benefits of newness with minimizing its cost. But whether associated with a new product, a new market and/or a new organisation, "Newness" is like a double-edged sword – to be used carefully and tactfully.

Various strategic alternatives are available to a firm for achieving its growth objectives. The corporate strategies a firm can adopt, have been classified into four grand categories:

(i) Stability maintain strategies

(ii) Expansion – growth strategies

(iii) Retrenchment/Divestment strategies

(iv) Combination strategies

1. Stability Strategies

Initially, the organisation continues to serve its customer with basically the same products and services "STABILITY" is what the entrepreneur is looking for in the beginning as stability strategy is:

- Less risky
- Easier and comfortable
- Unconsciously pursued
- Defensive and satisfactory
- Enhances functional efficiencies

But now, starts the quest for growth, for expansion. To do things differently than the rivals and develop a unique position for themselves, develop gradually but naturally on the enterprise.

2. Expansion Strategies:

Expansion is one of the forms of internal growth of business. Mostly, it means enlargement or increase in the same line of activity. Expansion of an enterprise can be both domestic as well as international. It can be pursued through a number of methods and many options are available, depending on the degree of growth and momentum of growth which one aspires.

Thus, an expansion strategy is a strategy that a firm pursues when -

(1) It serves the public in additional product or service or adds markets of functions to its definitions.

(2) The growth is fast in the market in which their products are sold

(3) They tend to have larger than average profit margins.

(4) A stretch rather than a fit strategy is pursued.

(5) New markets, new products, new processes and new usage for old products are regularly developed.

(6) Internal expansions, mergers and acquisitions are used to achieve expansion.

(7) Shifting from local to global markets is an expansion sign.

Desire to Grow and Expand:

All the businesses aspire to grow at one point of time or the other Hence, growth/expansion strategies are the most popular and commonly used strategies by all organisations because:

(a) A Healthy firm normally has a natural desire for growth.

(b) Growth is essential for survival because if a firm does not grow when competitors are growing, it might lose its competitiveness.

(c) A company needs growth to increase its market share.

(d) Market leadership is an objective of growth for several companies.

(e) A company needs to diversify its business to minimize risks.

(f) Growth becomes essential for full utilization of the existing resources of the company.

(g) To increase profits is the most obvious objectives of growth.

(h) People working in the organisation will be motivated only if there are challenges, opportunities and growth.

Market Expansion Grid

It is also referred as; "Ansoffs Product Grid" is very useful framework for detecting new intensive growth opportunities. It's believed that basically there are three expansion options:

A) Intensification

B) Integration

C) Diversification

Initially, enterprise pursues internal expansion strategy.

	Current Markets	New Markets
Current Products	Market Penetration	Market Development
New products	Product Development	Diversification Strategy

Source: H.I. Ans off. Corporate strategy.

A. Intensive Expansion:

Intensive expansion means the enterprise increase the sales of its existing product by enlarging the existing markets.

A profit market expansion can assume the form of:

I. Penetration Strategies:

A strategy to grow by encouraging existing customers to buy more of the firm's current product is said to be penetrating strategy. Here, the enterprise strives to increase the sale of the current products in the current markets by following approaches:

a) Encourage frequency of use:

Encourage customers for more use of the product by increasing the

(a) Frequency of use: For example, brush twice a day with x toothpaste to prevent cavities

(b) Usage per use: For example, every time you shampoo your hair, repeat it two times for better results.

b) Attract new clientele:

> The concept of sending cards in India was limited to festivals and birthdays. 'Archie's' aggressively promoted cards more as a medium of communication than as a way to merely sending Good Wishes. Archie's bloomed ever after to an extent that it is {'Archie's} recently went into collaboration with Hallmark Cards of the U.S.A. to market its cards in India.

If an enterprise is successful in making non-users of a product the users of the product, it will provide a potential opportunity for increasing the sales. It could be by using any mode of sales promotion viz.

(i) Advertising

(ii) Personal selling

(iii) Discounts

(iv) Coupons

(v) Samples

c) Attract Competitors Customers:

Hindustan Lever adopted the strategy of multi-branding with an aim of capturing the market by winning the customers of their competitors. They introduced many brands in soaps and detergents markets, so that no segment is left untouched. It has Dove – in the Ultra premium segment, Lifebuoy – in the economic segment and Rexona, Liril and Lasancy – in the intervening segments.

If the company succeeds in making the customer to switch from the competitors' brand to the company's brands while maintaining its existing customers intact, there will be an increase in the company's sales.

This is expansion at the expense of the competitors.

II. Market Development Strategy:

Market development strategies involve selling the firm's existing products to new groups of customers. It implies exploring new markets for the existing product – both nationally, internationally. The new groups of customers can be searched in terms of:

(a) New Demographic Market:

Forhan's toothpaste was steadily losing its market share to Colgate and Close-up which were coming up with gel variations of their toothpastes, with a much younger positioning. Forhan's was being viewed as fuddy-duddy, one prescribed by the doctor and meant for the older generation.

Forhan's then came up with a brand extension-'Forhan's Fluoride', with a better, tangier taste than the original, propagating it as excellent for healthy gums and teeth, for all those who are above 6 years. Forhan's got a New lease of Life.It beautifully targeted a new age group.

Demographics are used to characterize customers based upon their:

- Income
- Marital status
- Standard of living
- Education
- Age and sex

Thus, herein, the entrepreneur, who is currently selling the existing product to a specific demographic group, can now offer the same to a different demographic group.

For example: Tata Nano caters to a segment of middle income group.

(b) New Product use:

An entrepreneur might find out that people use its product in a way that was not intended or expected. This new knowledge of product use provides insight into how the product may be valuable to a new group of buyers.

Aspirin, a pain killer, has been discovered good for heart too.

(c) New Geographical Market:

This simply suggests selling the existing products in the new locations and new markets. This has the potential of increasing sales by offering the product to customers who have not previously had the chance to purchase its products. While opting for this approach an entrepreneur must be aware of:

- Customers' preferences
- Language
- Legal requirements
- Regional differences etc.

The normal practice is to first explore new markets within the country and then to move to other countries in search of better markets. Nowadays a common philosophy adopted to expand market is to go global.

Nirma, which was initially confined to local Gujarat market later expanded to regional and then to national markets.

Expansion is a very useful tool to safely increase a customer's profile. Having a large customer base is always in the interest of the company as it helps to:

(1) Achieve economies of scale;

(2) To reduce its risk;

(3) To reduce its dependence on any one market;

(4) Counter attack a global firm for snatching their customers through better products or lower prices;

(5) Might discover that some foreign markets present higher profit opportunities than the domestic market.

Whatever may be the reason, the enterprise can also plan to expand adopting the strategy of going from local to 'GLOBAL' markets.

Major Decisions in International Marketing:

Today on top but once were in sorry state of affairs……

Coca-Cola had to withdraw their 2 liter bottle in Spain after discovering later on that few Spaniards only owned refrigerators with large enough compartments to store it.

S.C. Johnson's wax floor polish initially failed in Japan. The wax made the floors too slippery and Johnson had overlooked the fact that Japanese don't wear shoes in their homes.

General Foods, "Tang" initially failed in France because it was positioned as a substitute for orange juice at Breakfast. The French drink little orange juice and almost none at Breakfast.

Before going global, the right approach is to learn how to enter foreign markets. Before making a decision to go abroad, the company must weigh several risks by deciding:

- Strategically, logically whether to go abroad or not
- Which markets to enter
- How to enter the foreign market

- The marketing program
- Marketing organisation.

Though all decisions have significant impacts and implications, the most important is 'How to Enter Foreign Market'. It can be through:

(a) Indirect Export:

The easiest and a normal way of going global is through export. Occasional exporting is a passive level of involvement where the company exports from time to time on:

(i) its own initiative,

(ii) work through independent middlemen on being approached by them,

(iii) in response to unsolicited orders from abroad.

When the company makes a commitment to expand through exports, the least change in the company's product lines, workforce organization, investments or missions are involved and thus is a convenient mode of expanding.

(b) Direct Export:

Companies eventually may decide to handle their own exports. Through this strategy of entering global market, the enterprise assumes somewhat greater risk and investment, but so is the potential return. The company can carry on direct exporting in several ways as:

- Through Domestically based Export Division or Department
- Through Overseas Sales Branch or Subsidiary Establishment.
- Nominations Foreign based agents or distributors to sell the goods on behalf of the company.

(c) Licensing:

Licensing represents a simple way for a manufacturer to become involved in international marketing. The licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade secret or other item of value for a fee or royalty.

Coca-Cola carries out its international marketing by licensing bottlers around the world–or more technically, franchising bottlers and suppliers them with the syrup and the training needed to produce, distribute and sell the coke.

This way, the licensor safely and easily can gain entry into the foreign market at:

- Little risk
- The licensee gaining production expertise or 'well-known product or name without having to start from scratch.

(d) Contract Manufacturing:

Another entry method for a local firm to go global is through contract manufacturing. Here, the firm engages local manufacturers to produce the product for them.

When **SEARS** opened departmental stores in Mexico and Spain, they found qualified local manufacturers to produce many of its products. This not only significantly reduced **SEARS** cost of production but led the company to earn envious revenue position.

Contract manufacturing offers the company a chance to start faster and with lesser risk.

(e) Joint Ventures:

Mostly, a joint venture is a restricted or a temporary partnership between two or more firms to undertake jointly to complete a specific venture. The co-ventures (parties) participate in the equality and operations of the business, sharing profits or losses in then agreed ratio. To go global, at times when one wants to take limited, calculated risk, joint ventures might serve the best interest.

Godrej-GE is a joint venture formed by spinning off the refrigerator business of Godrej and Boyee with GE (USA) with Godrej holding 60% stake & GE holding 40%. Godrej-GE plans to consolidate its refrigerators business & enter into other white goods manufacture such as ACs, dish washers etc.

(f) Direct Investment:

The ultimate form of global involvement is through direct ownership of foreign-based manufacturing facilities. No doubt, here the firm exposes its large investment to risks by buying partly or full interest in a local company or by building its own enterprise.

Electrolux AB a Swedish company and a world leader in white goods manufacturing plans to invest about $ 100 million in India in the next 3-4 years.

Heinz took over Glaxo's foods business for Rs. 210 crores.

III. Product Development Strategies:

Raymond's, a famous name in the suiting business, in early eighties, launched some ready – to wear trousers called 'Double Barrels'. The product received a lukewarm response. Aggressive advertising, naming the same now as Raymond's Leg wear with Caption "no hassles with tailors" and the promise of a "great fit" too failed.

The company, realized through research that by and large Indians were attracted to a foreign label consequently, the company decided to market their readymade garments under *a new brand name – PARK AVENUE which conveyed a 'Western' image to fit in for perfect stylish and a completely Western image from top to bottom. Park Avenue extended wallets, belts and Kerchiefs under one roof. With ease company sailed through the critical stages.*

It implies developing or modifying the existing product to meet the requirement of the customers. Product development strategies for growth involve developing and selling new products to people who are already purchasing the firm's existing products, i.e., management can consider new product possibilities in the same existing markets by:

(1) Adding new features: - a fairness cream with sunscreen component.

(2) Different Quality Levies: - Surf excel, Surf Ultra, etc.

(3) Alternative Technology: - CDMA and GPRS mobiles.

(B) Integrative Expansion:

It Involves:

I. Vertical Expansion:

Vertical integration means that, any of the activities/functions, previously performed by the firm right from sourcing of raw material to supply of finished goods, through external agencies will now be performed by the firm itself through:

(i) Backward Integration: It refers to taking a step back (up) on the value-added chain towards the raw materials, which means, that the producer also becomes a raw materials wholesaler. In essence the firm becomes its own supplier.

For example: For manufacturing of 'Nirma' detergent an important raw material used 'Linear Alkaline Benzyne (LAB) which was earlier purchased is now manufactured by Nirma itself.

(ii) Forward Integration: Forward, is taking a step forward (down) on the value-added chain towards the customers which in this case means that the firm also becomes a finished goods wholesaler In essence, the firm becomes its own buyer.

The manufacturer of a product who does not do the marketing of it, currently, starts marketing it directly through their own showroom.

II. Horizontal Integration:

Horizontal integration occurs at the same level of the value added chain but simply involves a different, but complementary, value added chain.

It may involve acquisition of one on more competitors at the same level of business.

Hindustan Lever Ltd. has been carving out newer segments. It has ensured for itself a presence in all segments using new brand launches and by strategic moves such as the acquisition of TOMCO.

This historic acquisition of TOMCO enhanced HLL's market share like anything as it bought Haman, 501, Moti, Jai and OK into HLL's brands, with already having Lifebuoy, Liril, Lux, Rexona, Dove, LeSancy as its powerful line extensions.

(C) Diversification strategy:

'Diversification' means adding new lines of business. The new lines of business may be related to the current business or may be quite unrelated.

If the new lines added, make use of the firm's existing technology, production facilities or distribution channels or it amounts to backward or forward integration, it may regarded as related diversification.

Some companies expand the business into unrelated industries. For example, Wipro which is in the business of edible oils, soaps, has also sprung its business segments in information technology etc.

A heightened ability to learn new knowledge represents an important source of competitive advantage that needs to be fostered by the entrepreneur.

It is particularly advantageous in a continuously changing environment to look out for all probabilities of growing, expanding and winning edge over competitors Entrepreneurs need to capitalize on these assets of newness, growth and diversifications, if it wants to excel and remain as trend setter.

SUMMARY

The Indian market is going through a period of upheavals. The winds of liberalization or the opening up of the market have brought about unimaginable changes.

Strategic Alternatives before the Enterprise:

For achieving growth objectives, the enterprise opts for either of the following strategic alternatives individually or in combination:

- *Stability Maintain Strategies*
- *Expansion Growth Strategies*
- *Retrenchment / Divestment Strategies*
- *Combination Strategies*

***Expansion Strategies**:*

Enlargement or increase in the same line of activity is basically referred as Expansion. To expand, three most commonly adopted frameworks comprise of:

***A. Intensification:** Intensive strategies include:*

- *Penetration Strategies*

- *Market development Strategies*
- *Product Development Strategies*

B. ***Integration:*** *Integrative Strategies Involve:*

- *Vertical Expansion*
- *Horizontal Expansion*

C. ***Diversification-*** *Strategies i.e. newlines of business are added either to the current business or may be quite unrelated.*

Know Thy Business

"*Activity is the symbol of life........*"

Human life is centered on activities which help in satisfying their diverse needs. They are performed with some objectives, i.e., either to:

- Satisfy unlimited requirement: Physical, emotional, religious, social, psychological;
- To earn for livelihood

Ancient societies were simple and satisfied. Each family managed to satisfy their food, clothing shelter needs directly and all by self. In conditions of self-sufficiency, Business did not exist. It emerged when self-sufficiency disappeared. Business evolved as a medium for exchange of goods or services for mutual benefit in absence of self-sufficiency.

Business is derived from the term "Busy-ness", indicating people are engaged in certain activities. In this context, Business is, "the state of being busy in making, distributing or providing of any goods or services which other members of the community need".

"*Business is an institution organized and operated to provide goods and services to the society under the incentive of private gain.*" ***- Wheeler***
"*Business may be defined as an activity in which different persons exchange something of value, whether goods or services, for mutual gain or profit.*" ***- Peterson and Plowman***

Thus, business is an economic activity which involves production or processing and sale or exchange of goods and services at regular basis with an aim of earning profit.

If we analyse the above paragraphs, some fundamental characteristics of business can be noticed as:

(a) An economic activity i.e. the aim of this activity is to earn money.

(b) Dealing in either production, purchase, procurement of goods or renders service or both.

(c) All the activities performed under business aims at satisfying human needs and wants.

(d) To be called as business, an activity must be done on regular basis.

(e) Profit earning is the primary goal of an business.

(f) Risk, i.e., probability of incurring losses or earning inadequate profits, is inherent in all the businesses.

The term "Business' includes all those activities which are related to the production and distribution of goods and services including all those activities even which indirectly help in production exchange of goods such as:

- Transport
- Insurance
- Banking
- Warehousing
- Advertisin

Scope of Business:

From the above discussion, one can form an idea that business activities can be divided into five categories as follows:

(1) To production of goods

(2) To rendering of services

(3) To distribution of goods.

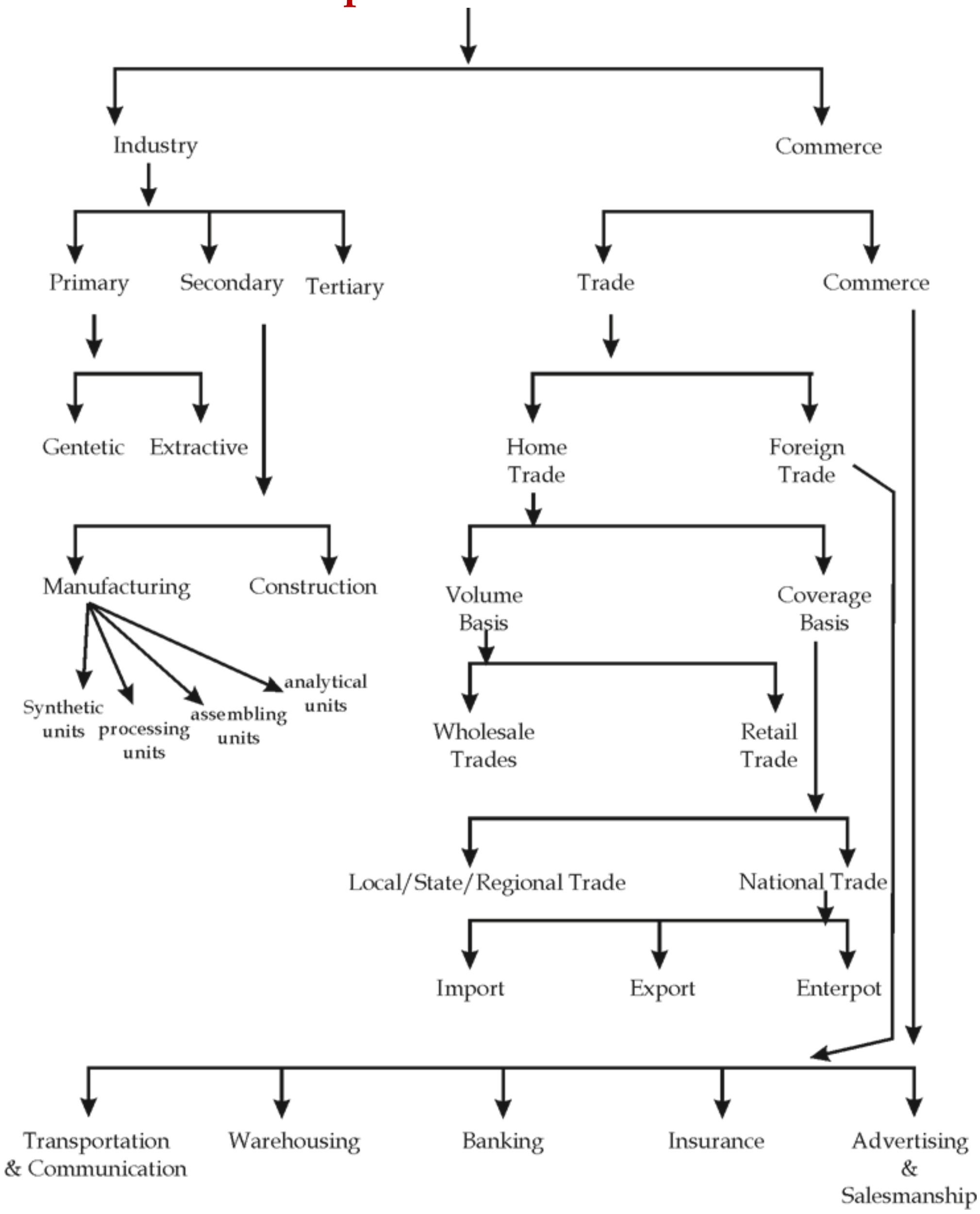
(4) Rendering distribution assistance

(5) Rendering financial assistance

Broadly speaking, the range of activities performed under 'Business' can be broadly classified under two categories:

(i) Industry (ii) Commerce

Components of Business



Industry

Industry refers to all economic activities involved in converting raw materials into finished products which are ultimately consumed by consumers, such as:

(a) The making or manufacturing of goods, i.e., connected with conversion of resources into useful goods.

(b) Growing, producing, processing, assembling, extracting, constructing, fabricating, breeding etc. of products.

(c) Imparting utility to goods using mechanical appliances and technical skills.

(d) A group of firms producing similar or related goods, e.g., textile industry, film industry etc.

Outcome of Industrial Activity:

"Goods" are the final outcome of any industrial activity which utility wise either may be:

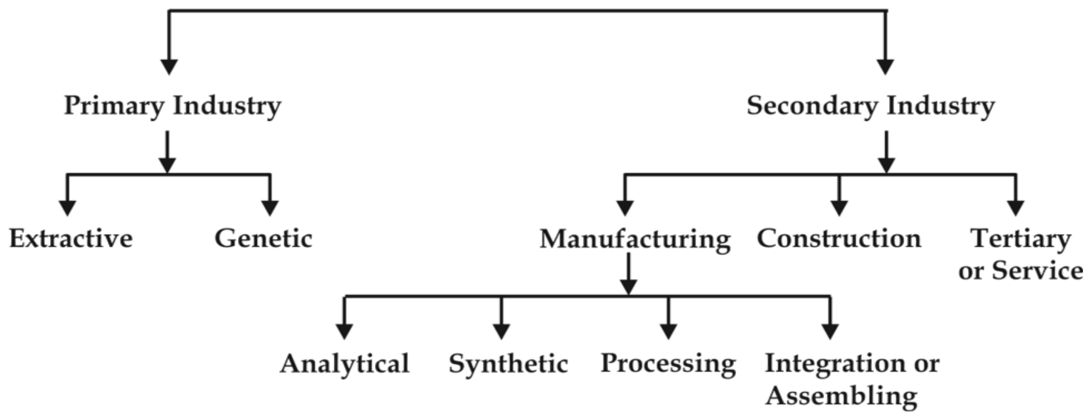
1. **Producer's Goods:** The goods produced are used by other enterprises as raw material for further production. For example, plant and machinery, equipment, tools etc.

2. **Consumer Goods:**

   The goods used by final or ultimate consumers for deriving personal satisfaction. Consumer Goods. For example; jams, clocks, edible oil etc.

Types

TYPES OF INDUSTRY



According to nature of activities performed, the industries are broadly classified as:

I. Primary

Primary industry includes those activities which are concerned with extraction, producing and processing or extraction of natural resources. The primary industry can be further classified into following types:

A. Extractive:

This industry is engaged in raising some form of wealth from the soil, climate, air, water or from beneath the surface of the earth. For example, agriculture, fishing, hunting, mining, soil exploration etc. These industries have the following distinctive features:-

(i) These industries are the oldest occupation of human beings and provide raw material to others.

(ii) Human beings only collect and cannot add to the wealth extracted from the earth or sea.

(iii) Only the location of materials is shifted.

(i) Materials once extracted, cannot be basically replaced.

B. Genetic:

Genetic industry is related to the re-producing and multiplying of certain species of animal and plants with the object of earning profits from their sale.

It is concerned with rearing and breeding of animals and birds and growing plants. Nurseries, cattle breeding fish hatcheries, poultry farms etc are a few examples of genetic industry.

II. Secondary:

Secondary industries which are concerned with the transformation of the materials provided by primary industries are referred as secondary industries. For example - the mining of gold is primary activity but manufacturing gold jewelry is secondary. They may be of:

A. Manufacturing

The industries engaged in the conversion of raw materials into semi-finished or finished goods are said to be manufacturing industry. This industry creates form utility in goods, produced by either genetic or extractive industries; thus making them suitable for human use. Most of the goods which are used by consumers are produced by manufacturing industries. Manufacturing industry may be classified as follows:-

(i) Analytical

This industry is concerned with analysing and separating basic materials for getting distinct final products. For example - separating or refining crude oil into kerosene, petrol, diesel, gasoline, lubricating oil etc.

(ii) Synthetic

This industry is concerned with grouping together or combining or synthesizing various raw materials in manufacturing process to produce a final product. Cement, paint, soap and yarn industries are examples of synthetic industry.

(iii) Processing

In this industry, a product passes through various processes to become a final product. The finished product of one process becomes the raw material of the receiving process and soon the final process produces the finished goods. In case of cotton textiles, cotton passes through ginning, weaving, dyeing to make cloth as a final product.

For example: Sugar and paper industries are other examples of processing units.

(iv) Integration or Assembling

In this industry, the final product is the outcome of assembling various parts or components together. Bicycle, automobile, television etc are typical examples of assembling units.

B. Construction:

This industry is engaged in the creation of infrastructure for the smooth development of the economy. It is concerned with the construction, erection or fabrication of products as buildings, dams, roads, bridges, canals etc.

Here engineering and architectural skills are of prime importance.

C. Tertiary or Service:

Service industry comprise of activities concerned with the rendering of services which help other businesses to perform unhindered. They serve as the back bone of modern industrial system. Tertiary units bridge the gap between the producers of goods and services and their consumers. They help in removing various hindrances which arise during the production and distribution of goods and services:-

- Transport facilitates the movement of goods from one place to another.
- Banking provides credit facilities to industrial and trading firms besides providing banking services.
- Insurance covers various kinds of business risks
- Warehousing provides storage facility to the producers and traders
- Advertising provides information to consumers.

Commerce

Commerce is concerned with all those activities which facilitate exchange of goods/services or relates to the transfer of goods from one place of production to ultimate consumes; without commerce production has no meaning.

An exhaustive, definition of commerce has been given by James Stephenson, *"commerce embraces all those processes which help to break the barriers between producers and consumers. It is the sum total of all those activities, which are engaged in the removal of hindrance of persons (trade) place (transport and insurance) and time (ware housing) in the exchange (Banking) of commodities,"*.

Thus the purpose of commerce is to ensure the supply of goods and services at the right place, in the proper quantities at right time and in right condition as and when they are needed. Time place and possession utilities are what commerce creates.

Components

Commerce can be classified into two broad range of activities:

A. Trade

B. Auxiliaries or Aids to trade

A. Trade

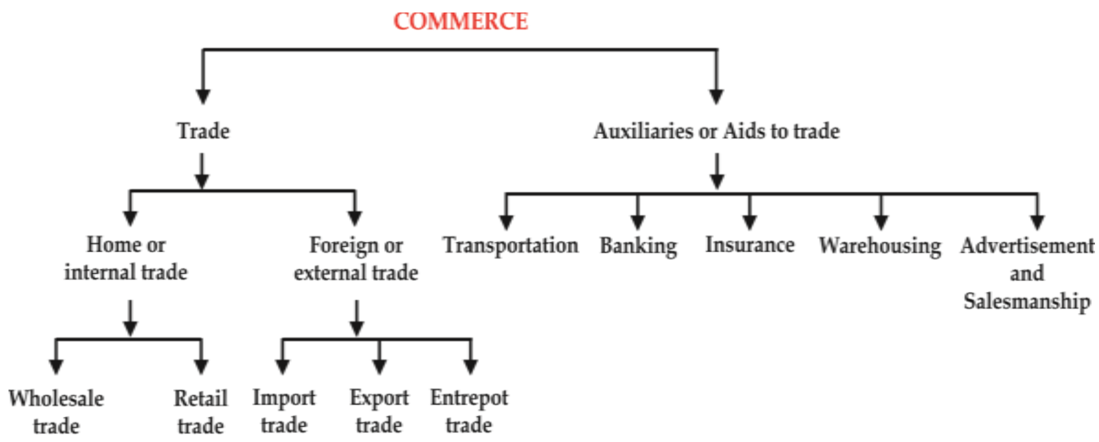
Trade is referred as the nucleus of commerce around which other aids/auxiliaries revolve. The producers cannot come into direct contact with all consumers as buyers and sellers are often situated geographically far from each other. From the producers acquiring the goods to be made available to the consumers is said to be trading.

So the channel which facilitates the smooth and timely transmission of goods from the producers to the consumers is called trade. Trading removes the hindrance of persons.

Types

(i) Home or internal trade

(ii) Foreign or external trade



I. Internal or Home

When buying and selling of goods take place within the boundaries of a country i.e. inside a Nation is called as Home, Domestic or Internal trade. Here:

- Buyer and sellers belong to the same country.
- Mode of payment is in the same legal tender approved for the country.
- The trade is done locally, regionally or inter-state wise, abiding by the same land laws.

Home trade may further be classified as:

a. Wholesale

Wholesale Trade involves the purchase of goods in large quantities from the producers and their resale in small quantities to retailers.

Features:

- Wholesale deals in bulk buying from producers to be resold to retailers in small quantities.
- Wholesale deals in a few types of product mostly.
- Wholesale is a link a channel between producer and retailer.
- Producers generally determine the specific area to be served by wholesale.
- Display of goods doesn't happen
- No direct sale to consumers.

b. Retail

The activities involved in selling directly to the ultimate consumers for personal or non-business use in said (single/small) quantities is said to be retail trade:

Features:

- Personal contacts with the customers are maintained
- Large variety of goods are appropriately displayed
- Goods are mostly sold on cash
- Retailer serves as a link between wholesalers and consumers.
- Is a direct source of providing feedback about the market.

II. Foreign

Buying and selling of goods between two or more nations is called as foreign or international or Internal Trade.

Features:

- Foreign trade involves the exchange of currencies because the currency of one country is not the legal tender in the other country.
- Land laws, rules, regulations, customs of two countries prevail as buyer and sellers belong to different nations.
- Distances involved are far and thus more time consuming.

Types:

Foreign trade transactions are classified under three categories:-

(i) Import Trade -It refers to the purchase of goods from a foreign country

(ii) Export Trade -It refers to the sale of goods to a foreign country.

(iii) Entre pot Trade: -Purchasing or importing goods from one country to be sold or exported to some other country is called as *'entre pot'* trade.

B. Auxiliaries

In course of exchange of goods, an entrepreneur may come across several problems regarding finance, knowledge, time, person, and place, requiring immediate solution. The flow of goods/services from producers to consumers is obstructed by many environmental factors. All these difficulties are overcome with the help of various agencies or support systems known as 'Aids to Trade' given as:

1. Transportation:

Transport helps in removing the hindrance of place in exchange of goods and services. Producers and purchasers are geographically scattered.

Transportation forms a link so that the commodities can be carried from their place of production to the place to the place of their consumption. The physical movement of goods or passengers from one place to another is called transportation.

Modes:

(i) Railways

(ii) Roadways

(iii) Airways

(iv) Waterways

(v) Pipelines

Similarly, to facilitate the transactions to materialize, various modes of communication traditional and modern both like telephone, telegram, e-mails, online, fax etc. are taken care of by commerce.

2. Banking:

Finance is the backbone of business; it is required from the moment when raw material is purchased till the sale of the finished product. Business needs continuous supply of finance to meet out multiple and recurring demand of:-

- Commencement
- Day to Day operation
- Expansion
- Modernization
- Diversification
- Research and Development
- Innovation

An entrepreneur is usually short of self-owned funds and needs to compensate by borrowing from outside. Banks came to the rescue and are regarded as trader in money and credit. Banks not only fulfill the fund requirement of entrepreneur, but also provide services

- Guidance and counseling
- Guarantor in foreign trade
- Underwriters for new enterprises
- Custodian of documents etc. in foreign trade.

Thus banks remove the hindrance of finance.

3. Insurance:

Business is full of risks and uncertainties. Risk in transporting goods, risk to goods due to theft, fire, damage, risk due to death of key employee etc. Insurance removes the hindrance of risk by providing cover against it. The insurance coverage has given a fillip not only to the national but also to the international trade.

4. Warehousing:

The goods are produced in anticipation of demand. They may also be produced at a time when they are not needed. So there is a need to store goods up to a time these are not required for consumption.

'The hindrance of time is overcome with the help of warehouses. Storage creates time utility,' helping producers to concentrate on non-stop production of goods. It is because of this activity that the entrepreneur can keep their stocks safe custody during the dull seasons. They can carry on production throughout the year and can sell their products whenever there is effective demand.

5. Advertisement and Salesmanship:

In today's competitive market it is not possible for a businessman to sit and wait for customer after investing heavily in business:-

To attract customers towards his product, a producer has to provide full knowledge of his product to the customer. Here comes advertisement and salesmanship which enhances:-

a) The knowledge of the customer about the products available in the market.

b) Helps customer in making a decision about the purchase of the product properly and sensibly.

In this way, advertisement eliminates the hindrance of information.

To sum up, it is commerce, the sum total of these processes of transport, communication, warehousing, advertisement, and banking and insurance that to ensures free flow of goods and services in our economy. Commerce makes our economy sail.

SUMMARY

Business is an economic activity which involves production or processing and sale or exchange of goods and services at regular basis with an aim of earning profit.

Range of Business Activities:

A. Industry:

Refers to all economic activities involved in converting raw materials into finished products which are ultimately consumed by consumers.

Types of Industry:

- *Primary industry*
- *Secondary industry*
- *Tertiary industry*

B. Commerce:

Refers to all those activities which facilitates exchange of goods / services or relates to the transfer of goods from place of production to ultimate consumers.

Components of Commerce

Trade

- *Home*
- *Foreign*

Auxiliaries

- *Transportation*
- *Banking*
- *Insurance*
- *Warehousing*
- *Advertisement and Salesmanship*

Marketing Mix

Marketing is merely a civilized form of warfare in which most battles are won with words, ideas and disciplined thinking.....- Albert W. Emery

Miraculous Marketing

"A customer came in wanting to buy a small fishing hook, I sold him a set of large ones and some bait. Then I told him, since you bought so much of fishing equipment, why don't you go up stream and catch some really big ones?"

The customer said that it was a very good idea but he did not have a boat. So I told him, "that is not a problem, we have a lovely boat and we can sell it to you". Then I told him, "Now that you have a boat, why don't you go to the woods that the river leads to and camp the night? We will even throw in some Budweiser free for you." 'The customer said he loved the idea, except that he did not have any camping equipment. So I told him not to worry that we have some wonderful over that we could sell him. He looked at all that he had shopped and said, "I have done so much shopping, how will carry all of their with me?' and I told him 'Don't you worry we have an awesome 4 x 4 truck and we would be more than happy to sell it to you."

Walton then asked him, "Are you seriously trying to tell me that a man came to buy fishing hook and you sold him a boat, camping equipment and truck"?

The boy replied, "No Sirjee, the customer came in saying he had a headache and wanted a pill for it. I told him fishing was a good way to get rid of the headache."

Marketing, an ancient art, includes all activities pertaining to creation of place, time and possession utility. It's a process of discovering and translating consumer needs and wants into products and services, creating demand for these products and services and then increasing this demand. In fact, marketing, in any economy, activates the production-consumption chain.

Marketing Mix:

There are a number of aspects involved in marketing a product or service. Some of them are controllable and others are uncontrollable. Those which are uncontrollable, least could be done about them. But some controllable aspects are:

- The features of the product,
- Its' price
- Its 'selling system i.e. through own salesmen/retailers
- Its' advertisement mode selection etc. gives entrepreneur a number of alternatives to choose from. Rational entrepreneur always tries to choose a mix of alternatives or decisions amongst the alternatives which may yield the maximum return to them.

As a result, the entrepreneur designs and carries out mostly all activities and programmes in its effect to win customers. All these attempts keep revolving around the basic task of "Total Offer" to the consumer in such a manner that:

(i) The offer fulfils the needs of the consumer

(ii) The terms and attributes of the offer are acceptable and beneficial to the consumers,

(iii) All the organizational goals, including profits, are achieved in the process.

As the foremost duty of the entrepreneur is to make this 'Total Offer', the needs to perform it very systematically, calculatedly, attentively and step by step

(a) Firstly, choosing the **PRODUCT** that would actually meet the identified needs of the chosen consumer group.

(b) Secondly, by performing various **DISTRIBUTION** functions like transportation, ware housing, channel management etc. the consumers conveniently get the desired product.

(c) Thirdly, by carrying out a number of **PROMOTIONAL** measures like advertising, sales promotion etc. with a view to communicating with the consumer and promoting the product,

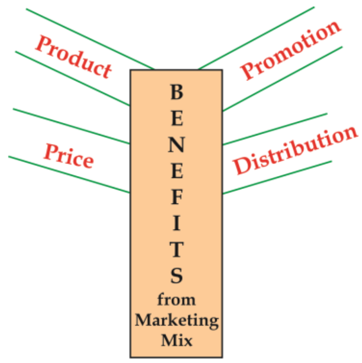
(d) Lastly, by using the **PRICING** mechanism to achieve the consummation of the marketing process, striking the balance that is acceptable to the firm as well as the consumers.

Thus, the combination of product, price, promotion and place (distribution) activities needed to meet marketing objectives is said to be marketing mix. It is a set of controllable variables that the firm can use to influence buyers 'response'.

It was James Culliton, the American marketing export who coined the expression 'Marketing Mix' and described manager as a "MIXER OF INGREDIENTS". Subsequently, Neil H. Burden of Harvard Business School popularized the concept of the marketing mix. Neil defined the mix as "the apportionment of efforts, the combination, the designing and the integration of the elements of marketing into programme or mix." Much later JEROME MC CARTHY, thewell-known American Professor of Marketing, who described the mix in terms of the Four P's viz. product, price, place and promotion.

Benefits from Marketing Mix

Marketing mix is future marketing strategy to boost sales. It is a planned activity aimed at progressive growth of the enterprise. The enterprise is benefited by the marketing mix. Benefits are summarized as under:



1. Product Oriented:

(i) According to needs of the customers

(ii) Saleable quality

(iii) Improving the quality

(iv) Attractive designing and packaging

(v) After sales services

2. Price Oriented Benefits:

(i) Determination of price according to the paying capacity of customers

(ii) Fair pricing of the product

(iii) Credit facility

(iv) Discount and allowance.

3. **Promotion Oriented:**

(i) Advertising

(ii) Sales promotion

(iii) Personal selling.

4. **Distribution Oriented:**

(i) Availability at the right place

(ii) Availability through convenient outlets.

Marketing Mix Variables:

As, marketing mix is a plan which designs marketing strategy regarding controllable variables of market mechanism, i.e., obtaining the perfect blend of marketing elements – 4 P's, in a way that there are optimum sales and optimum profits, the entrepreneur needs to have the four P's. It presents the best possible combination of basic marketing variables:

(1) Product (2) Price (3) Place (4) Promotion

Assembling the marketing mix elements into a winning marketing programme is however, not easy. It involves many crucial decisions relating to the reach of the four elements.

A word about each of these four variables will help us understand Marketing Mix better:

I. Product Mix:

We know, marketing starts with the identification of human needs and culminates with the satisfaction of the same. It is by offering "something" that the marketing man achieves this culmination and this offering is the product:

A product means something more than a physical commodity. It has many dimensions requiring due consideration to be given to each. Under product mix, the entrepreneur works out the set of all product lines and items which he would offer for sale to the buyers.

Dimensions of the Product:

Where on one hand, a sound product is acceptable to the market and satisfies the preferences of the consumers easily, there, on other hand because of being sold easily in market it fetches good price too.

Marketing of the product requires on part of the entrepreneur to carefully plan out following dimensions in reference to their proposed product.

1. Volume of output, sales growth potential
2. Shape, size, weight, colour, features
3. Quality and standard of the product
4. Design and range
5. Brand name
6. Packaging and labeling

7. Product testing
8. After sale service

Mysore Sandal Soap has a total product personality. It is presented as a combination of luxury and tradition. The unique fragrance of sandal oil, the oval shape, the sandal odour and colour, brand name, premium price, and positioning as a luxury soap – everything has gone into the product's personality build up.

The aim of preparing a product mix is to provide a product that offers a variety of satisfaction to the consumers.

Nature and Classification

Product can be classified on the basis of:

(a) Durability - perishable, non-durable, durable services

(b) Utility– capital/producer goods, consumer goods, intermediary goods

(c) Weight wise - heavy and bulky goods, voluminous goods

Standard quality products satisfy the society.

II. Place or Physical Distribution:

Asian Paints was founded in 1942 as a small Indian partnership firm at a time when the paint industry was fiercely competitive Asian Paints through its modern manufacturing facilities offers the widest range of paints among all the paint companies in India, in terms of products shades as well as pack sizes. AP captured the top position in the decorative paints segment, with around 39% shares of the organized paint market.

The story of Asian Paints (AP) is a story of 'DISTRIBUTION EXCELLENCE' sky-rocketing a company to marketing leadership.

The marketing success of AP was based on realisation that the semi-urban market was untapped and the small consumer neglected. To reach those consumers in small towns, the company built a broad distribution network across the whole country. From small towns Asian Paints moved to reach out to the metropolitan market. Today, the network with 18,000 retailers across the country, Asian Paints has achieved an enviable position.

Physical Distribution is the task of moving the goods and services from the place of production to the place of their consumption. It creates both place and time-utility to a product. A plan is devised about how the product should reach the prospective consumers.

This factor provides utility to the consumer, that is, it makes a product convenient to be purchased when it is needed. This place mix determines not only the place, where the product should be made available but also whether goods are to be marketed through wholesalers, retailers, retail outlets on any other channel. The entrepreneur generally decides upon:-

(a) Channels of distribution

(b) Modes of distribution

This variable must also be consistent with other marketing mix variables. It is the accomplishment of the guaranteed minimum service in the delivery of the product that makes the system efficient.

A. Distribution Channels:

In fact, channels of distribution are like pipelines which take the right quantities of the right product to the right location, where the target consumers want them at the right time.

These channels, in a way, refer to the methods of marketing and most common ones being:-

1. **Direct Channels/Zero-level**: Through this channel, the producers supply the products direct to the consumers. The producer, here either supplies directly to the consumer or through its retail outlets. An ordinary single bakery, Frontier Biscuits, Bata Shoe Company, etc. are the examples of this type of channel.

2. **Indirect Channels:** In this type, the producers supply their products through one or more intermediaries. According to the number of intermediaries, the following are the types of channels:

   (i) Producer-Retailer-Consumer (One level channel): Under this type, producer sells the product to retailer, who in turn sells to the consumer. The producers of refrigerators, washing machines, etc. sell their products to retailers, who then sell the same to consumers.

   (ii) Producer-Wholesaler-Retailer-Consumer (Two level channels): This is the most common channel of distribution. Under this channel, two intermediaries viz., the wholesaler and retailer are involved between the producer and the consumer. Some popular products distributed through this channel are sugar, soaps, ghee, grains, etc.

   (iii) Producer - Agent - Wholesaler - Retailer - Consumer (Three level channels): Under this type, the producers take the help of agents who, in turn, supply to wholesalers and then through the retailers, the goods ultimately reach the consumers. The channel is common where the producers have to distribute a limited product line to cover a wide market. The agents take the responsibility of covering a fixed area. Hindustan Levers, for example, appoints the agents or distributors who sell both to the wholesalers and retailers for onward distribution to consumers.

The above types of channels are shown below.

Channels of Distribution

- Direct Channel
  - Producer → Consumer
- Indirect Channel
  - Producer
    - Retailer → Consumer
    - Wholesaler → Retailer → Consumer
    - Agent → Wholesaler → Retailer → Consumer

Factors Determining the Choice of Channel

Nature of Product	**Nature of Market**	**Middlemen**	**Tendency of Producer**
Unit value	Location	Availability	Quantity of production
Perishable	Quantity and frequency of orders	Customs of the trade	
Products	Number of buyers		Control over channels

Size and weight	Consumers of industrial products market	Competence of managers	Competence of managers
Standardized products	Buying habits of consumers	Government control	Financial position
Technical products	Credit facilities		Distribution policy
Capital goods			
Introduction of newly manufactured products			

B. Modes

How the physical movement of goods from the place of production to the place of consumption will take place, is the next variable to be worked out. It includes all the activities relating to the physical movement of product from the seller to buyer – viz. (i) Transportation (ii) Warehousing (iii) Inventory control of products.

Different modes:

The common modes of Transportation are classified as follows:

(1) Railways
(2) Roadways
(3) Waterways
(4) Airways
(5) Pipelines

The entrepreneur needs to have an effective combination of modes worked out while selecting a Mode. An entrepreneur should study, compare and evaluate following variables before selecting any mode of transferring goods.

- Cost
- Flexibility
- Availability
- Nature of Commodity
- Requirement of customer
- Duration involved
- Speed and safety parameters.

III. Promotion Mix:

The advertising campaign for Onida Television will remain in the history of Indian advertising as a brilliant piece of creative work – it challenged the unwritten advertising rule that advertisement had to be pleasing.

Nirma took on the then market Leader, Surf by product's positioning through creative advertising. For many years, Amul Butter has been running a unique type of advertising campaign through hoardings in major cities of the country. These hoardings focus on current events, incorporating a catchy slogan through the clever use of words including either 'Amul', 'butter' or both often using the 'Amul' Cartoon characters.

It is usually necessary for the entrepreneur to inform potential consumers about the products, availability or to educate the consumer, using different promotional tools. Promotion mix is concerned with the activities which are undertaken to boost the sales through its sub-components tools.

A question arises how we gain knowledge of so many things. The promotion mix is that combination which tries imparting and popularizing the product / service for people. The role of Promotion Mix is:

(1) Do image building of product.

(2) Create product identity

(3) Educate consumers

(4) Boost sales and profits

(5) Ensure consumer's satisfaction

(6) Keep memory alive for a product in economy.

(7) Encourage innovation

Tools/elements of Promotion Mix:

1. **Personal Selling:** An art to induce people to buy the product. It is an effort to win the everlasting confidence of the consumers.

2. **Advertising:** An activity which establishes non-personal contact with the customers regarding the product, idea and service. It is an effort to create and sustain the demand for the product.

3. **Publicity:** Unpaid mention of the enterprise, its product, and brand by the news media in newspaper, journals, radio or television. It is an uncontrolled form of promotion.

4. **Exhibitions and Demonstration:** Promoting the product, where the enterprise may display product in fairs and exhibitions. It may also demonstrate the product and its actual working.

5. **Public Relations:** The enterprise may start public contact programmes to introduce the product in the market.

4. **Sales Promotion:** It is an effort to stimulate customers to buy more and more of particular commodities like buy one get one free, discount coupons etc.

Each promotional tool has its own unique characteristics and costs. The entrepreneur should carefully evaluate each alternative medium, considering:

- Cost
- Effectiveness
- Objective
- Coverage
- Market trend
- Competitors tool
- Nature of the product
- Consumer targeted

IV. Price Mix:

Price is all around us. You pay tuition for your education, fee to your physician, fare for boarding train, the price of an executive is a salary and that of a worker is wage. The fee you pay to the school is the price for availing its services. Clubs or societies to which you belong may make a special assessment to pay unusual price. Thus, price of a product is the amount of money paid by the buyer to own the product or service.

Meaning of Price:

To put it simply, 'price' is the exchange value of a product. Basically, price revolves around two major components:-

(a) **Utility:** The generic property of the product to satisfy the need or want of the consumer.

(b) **Value:** The quantitative worth the consumer attaches to the product, for which he is willing to part with a certain quantum of money.

From the marketer's point of view, an efficient price is a price that is very close to the maximum that customers are prepared to pay. Pricing is the process of determining what company will receive in exchange for its products. It decides the preferences of the buyer too in the market.

Pricing is undoubtedly one of the most important decision areas of marketing. Price and sales volume together decide the revenue of any business. Determination of a perfect price by a firm decides not only the marketing strategy but it may act as a boon or a bane for the product's future. Thus, Price Mix is the determination of Money Value of any product or service.

Factors Influencing Pricing

The factors that influence the pricing decisions of any enterprise can be categorized into two:-

(i) Internal Factors

(ii) External Factors

I. Internal

"Every enterprise believes strongly in the basic philosophy on pricing that certain costs of manufacturing and marketing must be recovered through the price.

Thus the entrepreneur's pricing decisions have to be consistent with this philosophy. The pricing strategy usually gets affected by following internal factors:-

(i) Corporate and marketing objectives of the firm

(ii) The image sought by the firm through pricing

(iii) Cost of manufacturing and marketing

(iv) The uniqueness' & utility of the product i.e. the extent of distinctiveness of the product and extent of product difference practiced by the firm.

(v) Price elasticity of demand of the product.

(vi) Other elements of the marketing mix of the firm and their interaction with pricing.

(vii) Use pattern and turn around rate of the product.

(viii) Composition of the product line of the firm.

II. External

Business does not live in isolation. The environment in the form of sum total of all forces and things external to business firms viz. (legal, technological, political, economic, social etc forms the external crust,) government, consumers, competitors, society, suppliers etc effects the survival, growth and enterprises functioning. All these factors either appreciate or disapprove the acts, policies, objectives and functioning of the enterprises. Thus enterprise cannot dare to either ignore or defy them.

Thus, external factors which exercise influence on pricing are:-

(i) Market characteristics

(ii) Nature of economy

(iii) Nature of competition

(iv) Bargaining power of major consumers

(v) Bargaining power of major suppliers

(vi) Competitors pricing policy

(vii) Government controls/regulations on pricing

(viii) Societal or social considerations

Therefore, before finalizing the price, the entrepreneur must work out in detail the following factors:

a) Cost of the product

b) Demand for the product

c) Competition in the market

d) Government regulations related to pricing

e) Consumer behaviour

f) Objectives of the enterprise

g) Terms of credit

Importance of Pricing:

Price is the only element in the marketing mix that produces revenue, the other elements produce cost. Thus, it is essential that we get a good picture of the significance of pricing.

(a) Key to Revenue:

Price and sales volume together decide the revenue of any business. As the sales volume in itself is dependent on price, "pricing really becomes the key to revenue of the business".

(b) Attract Customers:

Pricing's power to break customer's brand loyalty by a lower price in the market needs no evidence or elaboration.

(c) Edge Over Competition:

Consumers want the maximum quantity at minimum prices. Good quality but at reasonable price is their demand. So it is competition that contributes the maximum to the importance of pricing. It is competition again, that makes pricing a highly dynamic function. And in meeting competition, pricing decisions acquire their real importance.

(d) Crucial to Profits:

Pricing is crucial to profits. It is risky area of decision in marketing management. Mistakes in pricing decisions seriously affect the firm's, profits, growth and future.

(e) Platform for Achieving other Objectives:

A business firm may have a number of objectives, some short term, some long term, some primary, and some secondary to be attained. This is one of the reasons, why today corporate go in for profit optimization rather than profit maximization (i.e. an optimum level of profit over a long period as a sounder objective of pricing than maximum profit in the short-term).

The various objectives sought to be realised through pricing are listed below:-

(i) Profit maximization in the short term

(ii) Profit optimization in the long term.

(iii) A minimum return on investment

(iv) A minimum return on sales turnover

(v) Target sales volume

(vi) Target market share

(vii) Deeper penetration of the market

(viii) Entering new markets

(ix) Keeping competition out, keeping it under check.

(x) Keeping parity with competition

(xi) Fast turn around and early cash recovery

(xii) Providing commodities at price affordable by weaker sections

A multiplicity or mix objectives is inevitably involved in pricing. Each firm seeks to meet a community of interests through its price policy only, the significance of pricing for the corporate can be well judged and understood.

Methods used for Pricing:

Price is Magical

In the early nineties, growth in newspaper demand had slowed down considerably. Television had started making a dent into the print medium. Bennett Coleman, owner of the Times of India (TOI) group of newspaper introduced an innovative pricing strategy with the objective of increasing their sales and market shares. Traditionally, newspaper in India have been sold on a monthly basis through they are a daily product. TOI altered this long standard practice.

It announced that an all "Wednesdays" the newspaper would cost only Rs. 2 against the price of Rs. 5 on all the other days.

Subsequently, Rs. 2/- was extended to all days of the week except Saturdays and Sundays.

The aim was to gain a larger chunk of the existing market as also to enlarge the market by tempting the readers with reduced prices on some days of the week.

Nearly the circulation trebled in less than two years.

Some methods and policies which are individually and collectively used in pricing decisions are as follows but will be discussed in detail in higher classes.

a) Cost Plus Pricing Method

b) Variable Price Method

c) Base Price and Discounts Method

d) Market Rate Method

e) Skimming Price Method

f) Penetrating Pricing Method

Thus, as marketing mix is a future marketing strategy, to boost sales and capture the major market area, it should be

- Properly Planned Aiming at Progressive Growth of Enterprise
- Realistic and Attainable
- Flexible but Deterministic
- Effective and Efficient.

The entrepreneur should not hesitate to take expert opinion before compiling a marketing mix.

Critical Decisions for Marketing Mix: An Overview

Marketing Mix Variables	Critical Decisions
Product Variables	Qualify of components of materials, style, features, options, brand name, sizes, packaging, service availability warranties, pre - sale and after sale
Price Variables	Pricing policies, levels of prices, level of margins, discounts/ rebates. Terms of delivery, payment terms, credit terms and installment facilities resale price, maintenance, cost, quality image
Place (Distribution) Variables	Channel of distribution, types of intermediaries, channel design, location of outlets, channel remuneration and dealer - principal relations, length of channel. physical distribution, transportation, ware housing, inventory levels, order processing
Promotion Variables	Personal selling: objectives, level of efforts, qualify of sales force, cost level, level of motivation, advertising: media mix, budgets, allocations and programmes sales promotional effects, display, contests, trade promotions publicity and public relations.

Obviously, it is possible to combine the four Ps in several different ways. Each of the combinations will vary from the others in its impact on the market and in cost-effectiveness.

The impact of the mix would be best when the correct weightage is assigned to the difficult elements of the mix and they are integrated very well with one another so as it is able to harmonies and synthesis all elements into a unified entity.

Factors Affecting Marketing Mix:

While determining suitable marketing mix following factors must be taken consideration regarding consumers', dealers', competitors' and government behaviour. These behaviours are enumerated herewith:

A. Consumers' buying Behaviour

(i) Buying habits

(ii) Living habits

(iii) Purchasing power

(iv) Attitude and preferences

(v) Local environment, situations

(vi) Number of consumers of the product

B. Dealers' Behaviour:

The behaviour of wholesalers and retailers is studied:

(i) Motivation

(ii) Structure, practice and attitude of dealers

(iii) Financial strength of dealers

(iv) Expected change in the behaviour

C. Competitors Behaviour

(i) Size and strength of competing units

(ii) Number of competitors

(iii) Practices and attitudes of the competitors

(iv) Motives

(v) Trends in demand and supply

D. Government Behaviour:

It implies government controls regarding:

(i) Products

(ii) Prices

(iii) Competitive practices

(iv) Restrictive Trade Practices

(v) Advertising and Promotion

James Culliton, the American marketing expert, described the marketing manager as "Mixer of Ingredients"

To quote James,

"The marketing man is a decider and an artist - a mixer of ingredients, who sometimes follows a recipe prepared by others, sometimes prepares his own recipe as he goes along; sometimes adapts a recipe to the ingredients immediately available; sometimes invests some new ingredients and sometimes experiments with ingredients as no one else has tried before."

Constant Juggling:

Blending the marketing mix elements into a winning combination is a continuous task and not a one shot' assignment. The mix may require constant changes due to:

(i) Changing environmental variables

(ii) Internal changes happening, within the enterprise.

(iii) Ever changing preferences, likings trends of customers.

Thus, there is no for-ever-valid marketing mix. Within a certain durable framework, the elements of the mix have to be very carefully and minutely worked out. Moreover, there is no marketing mix like a strait jacket to fit in every enterprise due to:

(i) Difference in the nature of business undertaken

(ii) Difference in size of operation

(iii) Difference in type and nature of product

(iv) Legal requirements

(v) Technological specifications

SUMMARY

Marketing mix is the combination of Product, Price, Promotion and Place activities needed to meet marketing objectives.

Marketing Mix Variables:

1. Product:

A product is anything that can be offered to a market for attention, acquisition, use or consumption. It includes objects, services, personalities, places, organisations and ideas.

Classification of Products:

- *Consumer Products*
- *Industrial Products*

Important Attributes of a Product:

- *Size, ingredients, range, colour, weight, quality, shape etc.*
- *Packing, Packaging, Branding, Labeling, Grading etc.*

2. Place:

Place or physical distribution includes all those activities that are needed to make the product available to the target consumers.

Place Mix: *Two important decisions relating to place are required to be made:*

(a) Decisions regarding Channels of Distribution i.e.

- *Direct Channel – Manufacturer sells the product directly to consumer without any intermediary.*
- *Indirect Channel – Manufacturer sells the product through intermediaries like wholesaler and retailers.*

(b) Decisions Regarding Physical Movement of Goods:

The process of physical movement of goods involves four managerial decisions or components.

(a) Transportation	*(c) Insurance*
(b) Warehousing	*(d) Inventory Management*

3. Promotion:

Promotion refers to all such activities which intend to inform customers about the products of the company and persuade them to buy these products.

Elements of Promotion Mix:

(1) ***Advertising:*** *Refers to any paid form of non-personal presentation and promotion of goods and services by an identified sponsor.*

(2) ***Personal Selling:*** *Refers to the process of informing customers and persuading them to purchase products through personal communication.*

(3) ***Sales Promotion****: Refers to short-term incentives, which are offered to encourage the buyers to make immediate purchase of a product or service.*

(4) ***Publicity:*** *Refers to a non-paid form of impersonal communication.*

4. Price:

Price refers to the amount of money, which a customer has to pay to buy a product.

Factors Affecting Price Determination:

1. *Product Cost*
2. *Utility and Demand for the Product*
3. *Extent of Competition in the Market*
4. *Government and Legal Regulations*
5. *Pricing Objectives*

6. *Marketing Methods Used*
7. *Terms of Credit etc.*

Importance of Pricing:

1. *Key to Revenue*
2. *Attract Customers*
3. *Edge Over in Competition*
4. *Crucial to Profits*
5. *Platform for Achieving other Objectives.*

Methods used for Pricing:

1. *Cost Plus Pricing Method*
2. *Variable Price Method*
3. *Base price and Discount Method*
4. *Market Rate Method*
5. *Skimming Price Method*
6. *Penetrating Pricing Method*

Market, Market, Where Are You!(A)

Q.1. Answer each of these questions in about fifteen words:

(i) What is meant by E-Commerce?

Q.2. Answer each of these questions in about fifty words:

(i) Define 'Market'?

(ii) Define 'Traditional Markets'?

(iii) In what terms, with passage of time, did the industrial activity intensified?

(iv) What range of activities business comprise of?

Q.3. Answer each of these questions in about seventy five words:

(i) Give 3 points of difference between the Traditional Market and Modern Markets.

(ii) Discuss the role of E-Business in promoting the business community.

Q.4. Answer each of these questions in about one hundred and fifty words:

(i) Differentiate between E-Commerce and E-Business.

Analysing Market Environment (B)

Q.1. Answer each of these questions in about fifteen words:

(i) What is Micro Environment?

(ii) Give one point of difference between the Primary forces and secondary forces.

(iii) Who is a producer?

(iv) What is meant by the term Demographic Forces.

Q.2. Answer each of these questions in about fifty words:

(i) Define 'Market Environment'.

(ii) Define 'Macro Environment'?

(iii) Define customers.

Q.3. Answer each of these questions in about seventy five words:

(i) 'Performing Sellers' sustain and succeed in the market. How?

Q.4. Answer each of these questions in about one hundred and fifty words:

(i) Differentiate between competitors and suppliers as primary forces of market.

(ii) 'Customer is the King'. Do you agree? Justify your answer.

Q.5. Answer each of these questions in about two hundred and fifty words:

(i) Discuss the primary forces that comprise the internal environment of the market.

(ii) Explain the term Secondary Forces. What all external environment comprise of? Explain with suitable examples.

(iii) Differentiate between the Micro and Macro environment.

Researching the Market (C)

Q.1. Answer each of these questions in about fifteen words:

(i) What is 'Market research'?

(ii) What is 'Market Survey'?

Q.2. Answer each of these questions in about fifty words:

(i) To be characterized as 'good' market information, enlist any four essential characteristics to be possessed by it.

(ii) Define 'Research Instruments'.

(iii) Give one major difference between 'Market Research and Market Survey'.

(iv) List the types of market survey conducted to extent information.

Q.3. Answer each of these questions in about one hundred and fifty words:

(i) State the main steps involved in Marketing Research.

(ii) Explain Marketing survey along with the methods of conducting the same.

(iii) What role is played by 'Marketing Research'?

(iv) Market survey can be used as a tool for betterment of Society. To conduct a fair survey, list 4 strong values of a surveyor.

Q.4. Answer each of these questions in about two hundred and fifty words:

(i) Discuss the steps involved in conducting the market survey.

(ii) "Market Survey" is an useless expensive tool". – Do you agree with the statement? Should it be dispense away with? Support you answer with reasons.

(iii) Lalit Mesgs is planning to launch a new female clothing store. Draft a survey, not exceeding 10 questions as to collect some information that will be helpful in launching of this store.

(iv) “'Survey is a customized technique.” Which technique is generally used for it? Throw some light on the importance and precautions of these techniques.

Expanding Markets (D)

Q.1. Answer each of these questions in about fifteen words:

(i) Define 'Strategy'.

(ii) Give another name for "Market Expansion Grid".

Q.2. Answer each of these questions in about fifty words:

(i) Changing environment needs a strategic planning on part of business enterprises. What should there plan contain?

(ii) Enlist the options available to a business enterprise in this fast changing environment.

(iii) State the categories into which a corporate strategies can be divided.

Q.3. Answer each of these questions in about seventy five words:

(i) When an entrepreneur selects to follow stability strategies?

(ii) When does a firm opts to pursue expansion strategy?

(iii) When does a firm opts to pursue expansion strategy?

(iv) Define diversification strategy with help of an example.

Q.4. Answer each of these questions in about one hundred and fifty words:

(i) 'Desire to grow and expand comes naturally to an entrepreneur". Do you agree? Give reasons for your answer.

(ii) What is intensive expansion. Explain with help of an example?

(iii) Differentiate between backward integration and forward integration.

Q.5.Answer each of these questions in about two hundred and fifty words:

(i) List the different forms of Intensive Expansion. Explain the forms of Penetration strategies available to the firm. 666

(ii) Discuss the forms available to an entrepreneur to go in for Integrative expansion along with examples.

(iii) What is 'Market Development Strategy'. How can the same be applied by the entrepreneur.

(iv) How can an entrepreneur enter a foreign market?

Know Thy Business (E)

Q.1. Answer each of these questions in about fifteen words:

(i) Define the term 'Business'.

(ii) What is the epicenter of human life?

(iii) Enlist any four characteristics of Business.

(iv) What is the final outcome of an industrial activity.

(v) Name the various types of trade.

(vi) What is 'Commerce'

Q.2. Answer each of these questions in about fifty words:

(i) State the range of activities performed under Business.

(ii) Explain any two business activities which are auxiliaries to trade.

(iii) Define 'construction industry'.

(iv) Define 'tertiary industry'.

Q.3. Answer each of these questions in about seventy five words:

(i) Define 'Trade' and its types.

(ii) What is 'Business'? State its characteristics?

(iii) Explain 'Transportation'. State the modes of transportation and communication.

Q.4. Answer each of these questions in about two hundred and fifty words:

(i) State briefly the various types of Primary industries.

(ii) Rahul, an owner of a huge Departmental Store, charges exorbitantly due to no competition around, and he misses out on no opportunity to earn profit. He finds nothing wrong as the main goal of business is to earn 'Profit'. Discuss any four values which you find are lacking in him as a rational businessman.

(iii) Define commerce and discuss its functions.

(iv) Differentiate between Industry Commerce and Trade, explaining the main characteristics of each.

(v) What do you understand by the term Industry? Explain the various types of industries?

(vi) Mohan Pvt. Ltd. just commenced with the business of Blue Pottery. Explain the auxiliaries required for the smooth functioning of their newly set enterprise.

(vii) What are secondary industries? Discuss briefly the different types of secondary industries.

Marketing Mix (F)

Q.1. Answer each of these questions in about fifteen words:

(i) What is 'Marketing'?

(ii) What is ‘Commerce’?

(iii) To which tool of the marketing mix does 'Brand Name' pertain?

(iv) What is meant by Price Mix?

(v) What is done under place mix?

(vi) Give one point of difference between Personal Selling and Sales Promotion

Q.2.Answer each of these questions in about fifty words:

(i) Define the term 'Marketing Mix'.

(ii) Enlist any four product oriented benefits from marketing mix.

(iii) Arvind, the manufacturer of footwear sells the same to different retailers, who then sell to the consumers. Name the channel and level of distribution involved.

(iv) List any four factors that influence the pricing decisions.

Q.3. Answer each of these questions in about seventy five words:

(i) What is pricing? Discuss the various factors that determine the price of a product.

(ii) Define product mix. What dimensions of the product are to be considered by the entrepreneur herein?

Q.4. Answer each of these questions in about one hundred and fifty words:

(i) What is meant by indirect channels of distribution? Explain any two indirect channels of distribution.

(ii) "Buy one get one free" is an example of one of the techniques of Promotion Mix. Name the technique. Explain any two other techniques of promotion mix.

(iii) State the importance of pricing.

Q.5. Answer each of these questions in about two hundred and fifty words:

(i) Of what help is a marketing mix for an entrepreneurs?

(ii) You are the marketing manager of a company manufacturing toy car. Explain briefly, the factors to be considered by you before finalizing the price of the toy car.

(iii) Explain briefly the place mix and its components.

(iv) Determination of the price of a product is a very crucial decision' Why? Support your answer with reasons

(v) Name the methods used for pricing. Define marketing mix. Draw a chart showing the components and sub-components of the mix.

(vi) What is meant by market intermediaries? Can market survive without these intermediaries? Support your answer with the help of two reasons.

(vii) Of what help is a marketing mix for an entrepreneurs?

(viii) Explain briefly the place mix and its components.

(ix) 'Determination of the price of a product is a very crucial decision' Why? Support your answer with reasons.

(x) Enlist the different forms of Intensive Expansion. Explain the forms of Penetration strategies available to the firm.

(xi) Discuss the forms available to an entrepreneur to go in for Integrative expansion along with examples.

(xii) What is 'Market Development Strategy'? How can the same be applied by the entrepreneur?

(xiii) Define commerce and discuss its functions.

(xiv) What do you understand by the term 'Industry'? Explain the various types of industries?

(xv) Mohan Pvt. Ltd. just commenced with the Business of Blue Pottery. Explain the auxiliaries required for the smooth functioning of their newly set enterprise.

(xvi) What are secondary industries? Discuss briefly the different types of secondary industries.

Q.6. HOTS: (Higher Order Thinking)

(i) "A scientific method more than any other procedure can minimize elements of uncertainty which result from lack of information". Do you agree? Give reasons.

(ii) " Economic factors refer to the purchasing power of the potential customers." Explain. What is meant by the terms 'purchasing power' & 'potential customers'?

(iii) Give one point of difference between the Primary forces and secondary forces.

(iv) Define customers. Are customer and consumer synonyms? If no, write the differences between them.

(v) You are the marketing manager of a company manufacturing toy car. Explain briefly, the factors to be considered by you before finalizing the price of the toy car.

(vi) 'Customer is the King'. Do you agree? Justify giving reasons for your answer.

(vii) Market survey can be used as a tool for betterment of Society. To conduct a fair survey, enlist 4 strong values of a surveyor.

(viii) "Market Survey" is a useless expensive tool". – Do you agree with the statement? Should it be dispense away with? Support you answer with reasons.

(ix) Rahul, an owner of a huge Departmental Store, charges exorbitantly due of no competition around to the misses out on no opportunity to earn profit. He finds nothing wrong as the main goal of business is to earn 'Profit'. Discuss any four values which you find are lacking in him as a rational businessman.

Application Based Exercise:

(i) Anuj opens a grocery store. To advertise his shop in the local market he announces free coupons worth Rs 100/- and 200/- on a purchase of goods Rs. 1000/- and above. Which element of promotion mix is being used by Anuj? Explain with two more relevant examples.

(ii) Lalit Mesgs are planning to launch a new female clothing store. Draft a survey, not exceeding 10 questions as to collect some information that will be helpful in launching of this store.

(iii) “'Survey is a customized technique.” which technique is generally used for it? Throw some light on the importance and precautions of this techniques.

Activities:

(i) We often identify a company or any product by its punch line and its logo". Designing a logo and a punch line for a product is a very creative job which attracts the customer. List any 10 products their punch line and their logo. Think of any business you would like to set up , mention the product you will manufacture give a name to it and make a logo for the same.

(ii) Did you ever been to any trade fair? Isn’t it fun going to trade fair looking at all beautiful and specialized products of different states or different countries? In groups of 5 organize a trade show for any 10 states of India, through power point presentation. List all the products those states are famous for.

(iii) Taking franchise of any already successful business is very common these days. McDonald’s, KFC, Wimpy, Domino’s and so on and the list is long. List any ten Big business whose Franchise are running successfully in your state. Divide the class into small groups. Each group should pick a local franchise and brainstorm the advantages and disadvantages of owning it versus a similar local business.

(iv) As time has changed so is the market, right from small shops to big malls, from teleshopping to E- commerce. New ways of market not only attract the customers but also make the world more closer. Write a newspaper article analyzing the current and traditional market conditions.

(v) E-commerce has taken on! The technology has reached us in some way or the other and E-commerce is one such example. Right from traditional market to e-commerce is a big change in the business world. As every invention has their pros and cons so does E-com. In groups organize a workshop for the class discussing the Role of E-commerce and the precautions while using it also give your ideas for future economic and market conditions.

(vi) The three C's of any business are "Consumers, Customers and Competitors". These are the three pillars who bring change in the market. List any 5 products of different purpose, for example - car, chocolate, laptop etc and write the consumers, potential customers and competitors for the same. Also, in groups make a poster discussing the role of Consumers, customers and competitors.

(vii) Advertisement is one of the biggest ways to reach and convince customers to buy product. An advertisement in any form does make an impact on customers. In groups prepare an ad-mad show for a product of your choice.

UNIT 6

Business Finance and Arithmetic

Learning Objectives

After reading this unit the student will be able to:

- Understand the importance and technique of preparing a Cash Register.
- Understand the meaning and concept of the term Cash Inflow and Cash Outflow.
- Understand the concept of COST and its components- Start-up, Fixed and Variable Costs.
- Explain the terms- Unit Cost, Unit of Sale, Unit Price
- Calculate Per Unit Cost of a single product.
- Explain the concept of Profit, its calculation and the impact of direct and indirect expenses on the profit.
- Understand the importance and preparation of Income Statement.
- Appreciate the importance of Cash Flow Projections in the smooth flow of finances in the business.
- Understand the concept of Break Even Analysis.
- Understand the meaning and importance of Taxes.

'Accounting is all about counting - adding sales and subtracting costs. So arithmetical ability is crucial for running a business.' ***- Anonymous***

Most people freeze in on their tracks the moment they hear the word "accounting". That is because accounting has been made into a "complex subject". However, we are not trying to create accountants but entrepreneurs and successful entrepreneurs need to understand the basic accounting concepts in a simple manner. For that, they need to have very simple and basic arithmetic abilities – addition, subtraction, multiplication, division and basic concept of percentage. This will help the entrepreneurs understand the fundamentals of business – numerically. Anything beyond this would be the accountant's job.

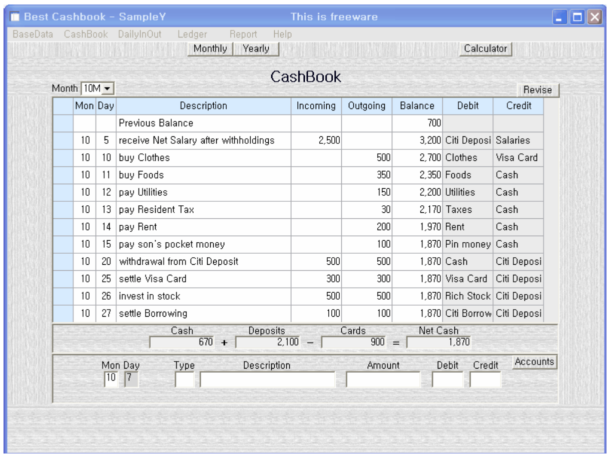
Cash Register

*"Never spend your money before you have earned it". **- Thomas Jefferson***

The importance of cash (money) in business is similar to that of blood in the human or any other living being. In business, all transactions are made by paying or receiving money (except in barter trade) or equivalent of cash such as cheques. Sometimes when the businesses have trust in people, cash does not cross hands immediately but instead they are given what is called "credit' or "loan" with an understanding that money will be paid at some later date and loan considered paid.

All cash transactions are to be recorded in a book called a cash book or cash register. In accounting language, the cash book is a book of original entry. The term entry simply means making a note of the cash received or given.

Maintaining a cash book or register is very essential for every business. Without the entries from the cash Book, no further analysis of expenses, costs, revenues, profit etc. can be made. Hence maintaining a cash book is very critical for the success of a business.



Mon	Day	Description	Incoming	Outgoing	Balance	Debit	Credit
		Previous Balance			700		
10	5	receive Net Salary after withholdings	2,500		3,200	Citi Deposi	Salaries
10	10	buy Clothes		500	2,700	Clothes	Visa Card
10	11	buy Foods		350	2,350	Foods	Cash
10	12	pay Utilities		150	2,200	Utilities	Cash
10	13	pay Resident Tax		30	2,170	Taxes	Cash
10	14	pay Rent		200	1,970	Rent	Cash
10	15	pay son's pocket money		100	1,870	Pin money	Cash
10	20	withdrawal from Citi Deposit	500	500	1,870	Cash	Citi Deposi
10	25	settle Visa Card	300	300	1,870	Visa Card	Citi Deposi
10	26	invest in stock	500	500	1,870	Rich Stock	Citi Deposi
10	27	settle Borrowing	100	100	1,870	Citi Borrow	Citi Deposi

Writing a cash book in business is similar to maintaining household expense by a home maker or noting how pocket money is spent by a student. Examples are:

- List and value all grocery items purchased.
- Amounts of all the bills paid such as, electricity, telephone, water, rent etc.
- Money spent on purchasing vegetables and fruits.
- Money spent on cinema tickets.
- Recharging of a mobile phone.
- Money spent on a bus ticket.

Inflow and Outflow:

We can call receipts of money as **inflow**, and payments made as **outflow**

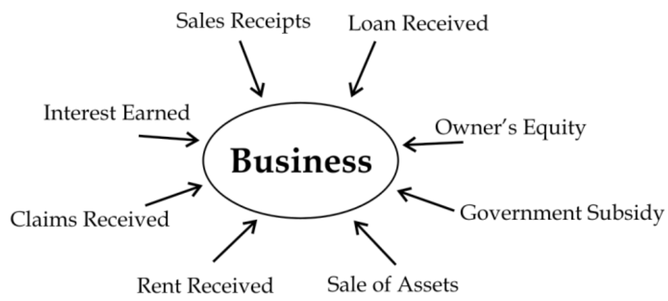
In the case of a housewife, money coming from salary is inflow and money being spent on various items as listed above is outflow. For a student pocket money received from parents is inflow and various outflow items are listed.

Now let us understand some of the ways by which money comes in to the business and reasons for spending the money by the business.

Inflow:

Following is a list of some of the ways in which money comes into the business:

- **Owners' Equity:** own money invested in the business.



Inflow

- **Loan Received:** money borrowed from friends, family, relatives, bank etc.
- **Sales Receipts:** money coming in by selling your products or service.
- **Interest Earned:** money coming in the form of interest on the deposits made in the bank.
- **Rent Received :** Money coming in by renting out building or room.
- **Sale of Assets:** Money coming in by selling surplus property like furniture, machinery, old car etc.
- **Claims Received:** Money coming in the form of insurance claims like accident claims, fire claims, maturity of insurance policies, etc.
- **Government Subsidy Received:** Money coming in the form of grant paid by the government. It is a form of financial assistance paid to an individual starting a business.
- **Sale of Scrap:** Money coming in by selling scrap and waste material, selling rejects etc.

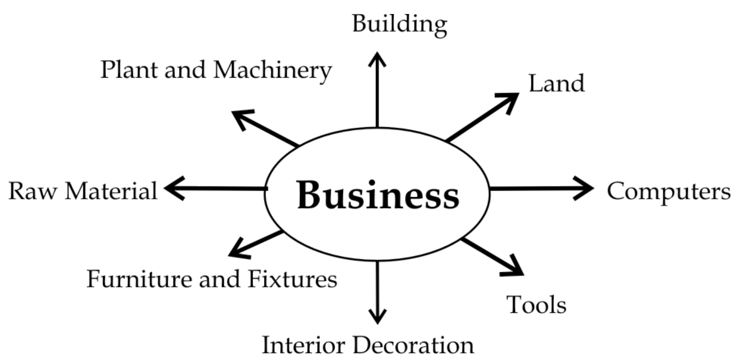
This list is not exhaustive. Think of some more ways in which money comes in to the business and enhance this list.

Note:

Please remember that profit is not to be considered as inflow. Nobody gives money as "profit". Profit is being generated in the business. Hence **profit** is not to be included as "inflow".

Outflow:

Following is a list of some of the ways in which money goes out of the business



Outflow

- **Land:** Purchasing land to start business.
- **Building:** Constructing a building or purchasing a building to start business.
- **Plant and Machinery:** Investing money in Plant and Machinery to start business.
- **Furniture and Fixtures:** Purchasing furniture and fixtures.
- **Interior Decoration:** Investing money in hiring an interior decorator.
- **Tools**: Purchasing tools for the business which will be utilized in the business.
- **Computers:** Purchasing computers.
- **Raw Material:** Buying of raw materials.
- **Packing Material:** Money required to buy packing material for products.
- **Transportation:** Purchasing a vehicle to be used for transporting raw materials, transporting your products to the customer's premises.
- **Salary and Bonus:** The money paid to employees.
- **Employee Benefits:** The perks given to employees like travel allowance, medical benefits etc.
- **Incentives:** Payment of incentives to employees based on their performance.
- **Advertising:** Money spent on publicizing the products through newspaper, television, pamphlets, brochures, public hoardings, etc.
- **Rent at Premises:** Money being spent on paying the rent for the premises used for the business.
- **Interest on Loan:** Borrowed money on which interest is to be paid.
- **Insurance Premium:** Money paid as premium to the insurance company for covering various risks.
- **Travel:** Money spent on travelling for the owners and the employees.
- **Sales Commission:** Money given to the employees or agents as commission on sales.

These are some of the ways in which money gets spent out. Think of some more and enhance this list.

Note:

When items are used with longer life in business (furniture, machinery etc), a part of its original value is computed as the cost for a given period – say a month, year etc. This is known as depreciation. However, money is not paid for "depreciation". So **depreciation** is not a cash outflow. It is a non-cash expenditure.

Recording Cash Inflows and Outflows

Now let's take a look at the format in which a cash book or register is written for only cash transactions. This is a simplified version (compared to what an accountant would use for cash book) in which we have 6 columns as shown below**:**

Cash Register format for Cash only

Date	Description	Ref No.(Voucher/ Bill)	Cash Received (in Rs.)	Cash Paid (in Rs.)	Cash Balance (in Rs.)
1	2	3	4	5	6

- In the above format, the first column is the date on which either received cash or paid cash is entered.
- The second column is the description in which the details for which either received cash or paid cash is entered. For example: monthly tea expenses paid or purchase of furniture, etc.
- The third column is where the bill or voucher details are entered.
- The fourth column is where the amount of cash received is entered.
- The fifth column is the where the amount of cash paid is entered.
- The sixth and last column is where the left over balance is entered.

Let us consider the following example:

- Opening balance of Rs 40,000/-
- Spent Rs 10,000/- for purchasing furniture, then in the fifth column enter Rs. 10,000/- and in the sixth column enter Rs. 30,000/- (Rs. 40,000 – Rs. 10,000).
- Sold products on the next day for Rs. 5,000/-. Then in the fourth column enter Rs. 5,000/- and in the sixth column, enter Rs. 35,000/- (Rs. 30,000 + Rs. 5,000).

Exercise 1 – Cash Transactions Only

Ratan Singh is an owner of a shop in a three-star hotel at Ranthambore. He sells T-shirts and mementos to the tourists at that shop. He also takes a stall on rent at crowded places on a daily basis. Details of daily transactions for the month of July are given below. Let us suppose that he started his business with an opening balance of Rs. 30,000/-

(i) On July 01, to start his business, he buys some furniture and basic supplies that cost him Rs. 15000/-

(ii) On July 2, he buys 3 dozens of T-shirts at Rs. 1200/- per dozen.

(iii) On July 6, he decides to sell T-shirts at the temple area on the forthcoming Sundays. And for that he paid an advance rent of Rs. 100/- per day. Apart from that he spent Rs. 200/- for the banners and Rs. 50/-for handbills.

(iv) On July 7, he sold all the T-shirts at Rs. 200/- per piece.

(v) On July 10, he again purchased five dozens of T-shirts at Rs. 1200/- per dozen.

(vi) On July 14, he sold four dozens of T-shirts at Rs. 200/- per piece and the remaining T-Shirts, he sold at Rs.190/- per piece.

(vii) On July 16, Ratan Singh again purchased five dozens T-shirts for Rs. 1200/- per dozen. He spent Rs. 500/- on commissions and Rs. 300/- more on pamphlets and Rs. 100/- on another banner.

(viii) On July 21 Mr. Singh sells 3 dozens of T-shirts at Rs 200/- per T-shirt.

(ix) On July 25, he purchased 3 dozens of T-shirts at Rs. 1200/- per dozen and manages to sell all his T-shirts at Rs. 200/- per piece on that same day.

(x) He pays the tea expenses of Rs. 300/- for the current month on July 31.

Cash Book format for Cash only

Date	Description	Ref No.(Voucher/Bill)	Cash Received (in Rs.)	Cash Paid (in Rs.)	Cash Balance (in Rs.)
July 1	Opening Balance				30,000/-
July 1	Purchase of Furniture	No: 3675 and Date: 1/07/2012		15,000/-	15,000/-
July 2	Purchase 3 Dozen T-shirts	No: 863 and Date: 2/07/2012		3,600/-	11,400/-
July 6	Rent, Banner and Handbill	No:5640 and Date: 6/07/2012		350/-	11,050/-
July 7	Sale of 3 Dozen T- shirts	No: 6012 and Date: 7/07/2012	7,200/-		18,250/-
July 10	Purchase 5 Dozen T- shirts	No: 887 and Date: 10/07/2012		6,000/-	12,250/-
July 14	Sale of 5 Dozen T- shirts	No: 6087 and Date: 14/07/2012	11,880/-		24,130/-
July 16	Purchase 5 Dozen T- shirts	No: 906 and Date: 16/07/2012		6,000/-	18,130/-

July 16	Commission Paid	No: 1294 and Date: 16/07/2012		500/-	17.630/-
July 16	Banner and pamphlets	No: 765 and Date: 16/07/2012		400/-	17.230/-
July 21	Sale of 3 Dozen T- shirts	No: 6127 and Date: 21/07/2012	7,200/-		24,430/-
July 25	Purchase 3 Dozen T- shirts	No: 918 and Date:25/07/2012		3,600/-	20,830/-
July 25	Sale of 5 Dozen T- shirts	No: 6159 and Date: 25/07/2012	12,000/-		32,830/-
July 31	Monthly Tea Expenses paid	No: 189 and Date: 31/07/2012		300/-	32,530/-
	TOTAL		**38,280/-**	**35,750/-**	

The balance in the cash register (or the cash box) does not represent the profit. It only shows the cash balance of the firm.

It is important to write the cash register regularly (daily or even more frequently) to ensure no transaction is missed out. Every transaction, however small, must be recorded immediately.

Cash Register Format for Cash and Bank Transactions:

Now the cash register format for both cash and bank is as shown below. Here we have 9 columns:

Date	Description	Ref No.(Voucher /Bill)	CASH			BANK		
			Cash Recd. (in Rs.)	Cash Paid (in Rs.)	Cash Balance (in Rs.)	Cheque Received (in Rs.)	Cheque Issued (in Rs.)	Bank Balance (in Rs.)
1	2	3	4	5	6	7	8	9

- In the above format we have 3 more additional columns pertaining to the bank transactions. So here the first 6 columns remain the same as the previous format, which was for only cash.
- In the 7thcolumn enter the amount of money received through cheque.

- In the 8th column enter the amount of money paid through cheque.
- In the 9th column enter the amount of money in the bank either after receiving or paying the money.

Let us consider the following example:

- Opening balance in bank account is Rs. 1,00,000/-.
- Purchase raw material for Rs. 5,000/- and paid the amount through cheque; Column 8 will be Rs. 5,000/- and column 9 (bank balance) would be Rs. 1,00,000/-Rs. 5,000/- = Rs. 95,000/- . So enter Rs. 95,000/- in bank balance (column 9).
- Sold product for Rs. 20,000/- on the next day, received this amount by cheque; Column 7 will be Rs. 20,000/- and column 9 would be Rs. 95,000 + Rs. 20,000/- = Rs. 1, 15,000/-.

Exercise 2 – Cash and Bank Transactions

Ms. Laxmi, who runs a stationary store, has the following transactions. Please help her with the Cashbook for her operations.

(i) On 1st of January, she has Rs. 12, 500/- in cash and Rs. 25,000/-in bank account.

(ii) On 3rd January, she makes a cash sale of Rs. 9, 500/-.

(iii) On 4th January, she receives a check for Rs. 6,000/- from Excel Company for sales made in December.

(iv) On 6th January, she buys filing cabinets and makes a check payment of Rs. 5,000/-

(v) On 6h January, she makes cash payment of Rs. 15,000/- for various stationary purchased.

(vi) On 7th January, she withdraws cash of Rs. 5,000/- from her checking account.

(vii) On 8th January, she pays salary of Rs. 5,000/- to her sales staff.

(viii) On 9th January, she pays the monthly rent of Rs. 2,500/- by check.

(ix) On 10th January, she deposits Rs. 5,000/-in her bank account.

Cash Register format for Cash and Bank

Date	Description	Ref No.(Voucher/ Bill)	CASH			BANK		
			Cash Recd (in Rs.)	Cash Paid (in Rs.)	Cash Balance (in Rs.)	Cheque Received (in Rs.)	Cheque Issued (in Rs.)	Bank Balance (in Rs.)
Jan 1	Opening Balance				12,500/-			25,000/-

Jan 3	Sale	No:682 and Date: 1/01/2012	9,500/-		22,000/-			25,000/-
Jan 4	Paid by Excel	No: 1752 and Date: 4/01/2012			22,000/-	6,000/-		31,000/-
Jan 6	Filing Cabinet Purchase	No: 546 and Date: 6/01/2012			22,000/-		5,000/-	26,000/-
Jan 6	Purchase of Stationary	No: 3784 and Date: 6/01/2012		15,000/-	7,000/-			26,000/-
Jan 7	Cash Withdrawal	No: 1821 and Date: 7/01/2012	5,000/-		12,000/-		5,000/-	21,000/-
Jan 8	Salary Paid	No: 236 and Date: 8/01/2012		5,000/-	7,000/-			21,000/-
Jan 9	Rent Paid	No: 107 and Date: 9/01/2012			7,000/-		2,500/-	18,500/-
Jan 10	Deposit to Bank	No: 3481 and Date: 10/01/2012		5,000/-	2,000/-	5,000/-		23,500/-
	Total		**14,500/-**	**25,000/-**		**11,000/-**	**12,500/-**	

Now we observe in the above exercise that, only the transactions on 7th January and 10th January have two entries; others have only one entry.

Let's look at the transaction taken place on January 7th.

- As soon as a cash withdrawal is done from the checking account, then there is an entry made both in the cash and bank accounts.
- In the above exercise, on January 7th, Ms. Laxmi withdraws Rs. 5,000/- from her checking account. So immediately there has to be an entry in the Bank account. i.e you have to enter Rs. 5,000/- in the cheque issued column and immediately the bank balance will be Rs. 26,000 – Rs. 5,000 = Rs. 21,000/-.
- This Rs. 21,000/- must be entered in the bank balance column, on January 7th.

- Here we have observed that there is money outflow from the bank account and money inflow into the cash box.
- Now, since Ms. Laxmi has withdrawn Rs. 5,000/- from her checking account this money has to be entered in the cash received column because money is coming into the cash box.
- Immediately you will have to add Rs. 5,000/ to the cash balance. i.e it will be Rs. 7,000/+Rs. 5,000/= Rs. 12,000/-.
- This Rs. 12,000/- will have to be entered in the cash balance on January 7th.

Let's look at the transaction taken place on January 10th.

- As soon as a deposit is done in the bank account, there will be an entry made both in the cash as well as bank account.
- In the above exercise, on January 10th, Ms. Laxmi deposits Rs. 5,000/- to her bank account.
- So immediately you have to enter Rs. 5,000/- in the cheque received and subsequently the bank balance will be Rs. 18,500 + Rs. 5,000 = Rs. 23,500/-.
- This Rs. 23,500/- will be entered in the bank balance.
- Now since Ms. Laxmi has deposited Rs. 5,000/- to her bank account, make an entry of Rs. 5,000/- in the cash paid column because she has taken theRs5,000/- from her cash box.
- So this means that the cash balance will be Rs. 7,000/- Rs. 5,000/- =Rs. 2,000/-.
- Hence this Rs. 2,000/- has to be entered in the cash balance column.
- There is money outflow from cash box and money inflow into the bank account.

Note:

Money being withdrawn from ATM is like cheque issued and there will be two entries – cheque issued (hence out flow from bank) and similar amount received as cash (inflow into the cash box).

It is also to be noted that when money is withdrawn from bank or deposited in the bank – there are two entries; one in cash column and the other in cheque column. These are known as "contra" entry. It is like taking money from the left pocket and putting it in the right pocket. Money does not go out to anyone else; it just changes pocket (cash box or bank account) but still remains with the owner.

Credit Transactions:

Sometimes in business, products are sold on credit which means that the buyer does not pay the money immediately. The buyer will pay at a later date. This is called selling on credit.

Buying on credit means that the buyer will purchase a product from a seller but will not pay the seller immediately. The buyer makes the payment at a later date. This is called buying on credit.

While credit (whether given or taken) transactions do not get entered in the cash book, it is very important for the entrepreneur to keep track of these and make appropriate entries in the cash book. To help achieve this, a simple format like the one below would be helpful. It will also ensure that tallying or reconciliation becomes easy.

Also, note that entrepreneurs must try to keep all transactions as cash and not give too much credit. This is sometimes difficult but must be kept to a very minimal. Otherwise, the entrepreneur often ends of spending more time in collecting credit and losing money when the creditors don't pay.

Format for keeping track of credit transactions

Sold on Credit					Bought on Credit				
Date	Amount (in Rs.)	Descr-iption	Date money received	Date Entry made in Cash Book	Dat	Amount (in Rs.)	Descri-ption	Date money paid	Date Entry made in Cash Book

Worksheet:

Fill in the blanks using the options given below:

(i) The importance of -----------------in business is similar to that of blood in the human body.

(ii) A notebook in which we write to keep track of all the daily transactions which happens in the business is called as the -------------------.

(iii) Sometimes when the businesses have trust in people, cash does not cross hands but instead they are given what is called ----------------or -----------------.

(iv) The money which comes into the business is called -------------- and the money which goes out of the business is called -------------------------.

(v) When the buyer pays the money to the seller at a later date it is called -------------.

(vi) Balance in the cashbook (or the cash box) does not represent the --------------. (outflow, profit, credit transactions, cashbook, credit or loan, inflow, cash flow, cash, expenses)

Unit of Sale, Unit Cost and Unit Price

(For a single product or service)

"Without a standard, there is no logical basis for making a decision or taking action"

Joseph Juran

Unit of Sale

Measurement is essential and crucial in any business. It is important to measure sales, costs and profits. Without a common standard or yard stick, it would be difficult, if not impossible, to manage meaningfully. So "Unit of Sale" is an important concept and it is the heart of any business.

Unit of sales can be defined as the measure of what products are sold. Think of a Unit of Sale as the unit you would use to bill a customer. So how does a lawyer bill his client- mostly by the number of hours he/she has worked for the client. So, for the lawyer, "time" (one hr or part thereof) is the unit of sale. In the example of selling shoes, a pair of shoes will be the unit of sale. To understand this further, look at some of businesses with their respective unit of sale. It is as shown below:

Business	Item being Sold/ Serviced	Unit of Sale
Fruit Vendor	Apple	Kilogram
Grocer	Rice	Kilogram
Dairy	Milk	Litre
Grocer	Oil	Litre
Garment Shop	T-Shirt	Piece or Number
Textile Shop	Fabric	Meter (of fixed width)
Real Estate Developer	Apartment	Square Feet (Area)
Plumber	Plumbing Service	Time: Hour
Lawyer	Legal advice	Time: Hour
Consultant	Special advice	Time: Hour
Coaching Class	Tuition	Time: Hour
Baker	Cake	Kilogram/pound
Baker	Vegetable Puffs	Piece or Dozen

Unit of sale is required to understand the **economics of the business** in an easy and standardized manner and for tracking the past with the future and to be able to take corrective action.

Unit Cost

Cost of unit can be defined as the cost incurred by a company to produce, store and sell one unit of sale of a particular product or service. Here the unit cost refers to the variable cost like raw material, packing material, sales commission, freight, etc. (More about variable costs is covered in another section).

Let's take the example of a tea vendor:

For the tea vendor the sum of **cost (per cup)** of milk, sugar, tea leaves as well as cooking fuel used and disposable cups make up the **Variable Cost / Unit Cost**. While calculating the unit cost, the wastage aspect must be counted. In this example, 1 liter milk and 2litres water may not give 30 cups of 100 ml, but less, say 28 or so, due to evaporation, spillage etc.

For the tea vendor, one cup (of 100 ml) is the **unit of sale** and the total of the variable costs (such as milk, sugar, tea powder, etc) per cup is the unit cost.

In order to calculate per unit cost, calculate the cost of milk, sugar, tea leaves as well as cooking fuel used and disposable cups for, say 100 cups, and divide by the total quantity.

Sometimes add the labor of the person making the tea to the unit cost (if it is variable in nature).

Unit Price

Unit Price is the price at which one unit of sale is sold. In the case of the tea vendor, it is the amount charged for a cup of tea (100 ml). There are many factors that influence the price one fixes for the product or service (more about it in another chapter).

Ultimately, it is the consumer (market place) that determines the price at which transaction takes place. Consider the example of the same tea vendor.

If the unit cost (i.e. the cost to prepare one cup of tea) is Rs. 3/-, then obviously the unit price has to be more than the unit cost i.e. more than Rs. 3/-. The tea vendor may have his unit priced at Rs. 4/-.

Gross Profit

Excess of Unit Price over Unit Cost is known as the Unit Gross Profit or Unit Gross Margin. This represents the business's profit from selling a product or providing service before deducting fixed expenses such as salaries, rent, and other expenses. Unit Cost (or variable cost) is also known as Cost of Goods Sold.

$$\textit{Unit Price} - \textit{Unit Cost} = \textit{Gross Profit Per Unit}$$

Consider the example further:

The unit price is Rs. 4/- per cup.

Unit Cost, which includes milk, sugar, tea powder, etc for one cup is Rs. 3/-.

The Gross Profit per unit (one cup) would be Rs. 1/- = (Rs. 4 – Rs. 3).

Conclusion:

For any business it is very essential to know what one unit of sale is. Unit of sale will aid the business in determining the direction in which it is heading. For example if the number of units sold in the first 3 months is 9,000 units and the number in the next 3 months is 10,000 units then it indicates that the business is doing better in terms of sales.

Worksheet:

Fill in the blanks using the options given below:

1. --------------- can be defined as individual item that a company sells.
2. The cost incurred by a company to produce, store and sell one unit of a particular product is referred to as --------------.
3. Unit cost refers to the ------------ cost.
4. Gross profit equals -------------- minus the -----------------.

(Variable, cost of goods sold, unit of sale, net sales, unit cost, unit price)

Match the following:

(a)	Garment Shop	(i)	Kilogram
(b)	Plumber	(ii)	Litre
(c)	Real Estate/Apartment	(iii)	Piece/Dozen
(d)	Consultant	(iv)	Meter (of fixed width)
(e)	Fruit Vendor	(v)	Time: Hour
(f)	Textile	(vi)	Square feet
(g)	Dairy	(vii)	Time: Hour

Types of Cost

"Pricing is a policy, cost is a concept but expenses are real!" **- *Anonymus***

Cost, Expense and Expenditure

You have learnt that in running a business one of the most important components is managing money. We saw in the Cash Register chapter, some of the ways of inflow and outflow of money. Now the question is how we treat all these flows to arrive at our profit and various other information we need for knowing the health of our business.

Before we get in to it, there should be some clarity about the three terms very often used interchangeably by entrepreneurs or business people (not their accountants!).

These terms are **expenditure, expense and cost.**

Expenditure:

Expenditure is a payment or disbursement. The expenditure may be for the purchase of an asset like buying machinery, paying dues for items bought on credit, a distribution to the owners, buying raw material, paying for advertising, salaries, etc.

In simple terms, expenditure can be equated to outflow of money (not just cash but including cheque payment).

Expense:

An expense is the value of the resource that was used up, or was necessary in order to earn the revenues during the time period. For example, the cost of the goods that were sold during the period are considered to be expenses along with other items such as advertising, salaries, interest, commissions, rent, and so on.

Distinction between expenses and expenditure can best be understood with couple of examples:

Here's one example to illustrate the difference between an expense and expenditure. A company makes an ***expenditure* of Rs. 5,00,000/-** (five lakhs) to purchase equipment. The expenditure occurs on a single day and the equipment is placed in service. Assuming the equipment will be used for ten years; part of the original expenditure in buying the equipment will be reported as depreciation ***expense* of Rs. 50,000 per year** for the next 10 years.

Another example is in the area of buying of raw materials. Because of price consideration, minimum order quantity or economic order lot etc, the company buys and pays for say 1,000 tons of raw material at Rs. 6,000/- per ton. Thus the **expenditure on that particular day is Rs. 60,00,000/- (Rs. 60 lakhs).** During the month 400 tons of raw material was used up to produce and sell company products. Thus **Rs. 24,00,000/- (Rs. 24 lakhs) was the expense (or cost as you will see it later)** for producing the saleable end product which generates revenue. Balance of Rs. 36 lakhs stays in the inventory.

So the distinction between expenditure and expense can be summarized as:

Expenditure is the outflow of money for the purpose of making various payments. Although expenditure and expenses are used synonymously, there is a thin line of difference. Expenses are a subset of expenditures or payments made specifically for consuming goods and services, while expenditure includes payments made to buy assets. For instance, when a business acquires a machine, it would be called expenditure, while when the business pays for electricity for running the machine, this would be called an expense.

Cost:

"Cost" and "Expense". What is the difference?

These terms are not clearly defined by the Financial Accounting Standards Board. So the explanations given here are derived from common usage. We should keep in mind that many people use these terms interchangeably and will not make the distinction.

So then what is an **expense** and what is **cost**?

Expenses are incurred. Technically, an expense is a specific accounting event related to the outflow of cash. Expense simply records the event and is used to understand 'what happened' from an accounting perspective.

Costs are derived. A cost is a derived value of money consumed to produce a current or future outcome; hence, costs provide management a decision supporting view to improve business economics. Costs are expressed as a value measured in relationship to a causal volume of consumption.

Couple of examples may help in understanding the difference.

1. In a factory there are three products being manufactured. Production unit of each is separate – occupying 50%, 30% and 20% space respectively. The rent of Rs. 50,000/- per month being paid for the factory is an **expense**. This amount is then allocated between the three products in proportion to the area occupied–Rs. 25,000/-, Rs. 15,000/- and Rs. 10,000/-. These amounts represent the **space cost** for each of the products to be used in determining what it costs to produce the product.(Here cost is allocated).

2. A business pays Rs. 1,20,000/- at the beginning of the year as the insurance premium. This is an **expense**. (Accounting jargon is pre-paid expense). Every month Rs. 10,000/- is charged as insurance premium before arriving at the business profitability. This is the **cost of insurance** per month. (Cost is derived)

   It is quite likely that we will be using the words "expense" and "cost" interchangeably as they are quite closely linked. All expenses ultimately end up as cost – either directly and immediately or indirectly (through allocation and derivation) and with a lag time.

Types of Expenses or Costs

Expenses or costs incurred to start and run a business can be classified in to two broad categories – **(1) Start-up** and **(2) Operational** (which will include **fixed** and **variable costs**)

1. Start-up cost

Start-up cost is the cost which is incurred initially a business is started. It consists of expenses for (a) acquiring assets as well as (b) for acquiring initial raw material and other related items of initial expenses, till such time the cash flow (i.e money coming in and money going out) from the business can provide for these. This part of the Start-up expenses is known as working capital. All these expenses occur from the time you start the planning and preparation (i.e. many months before the actual operation beginning).

Quite often the terms "Start-up" and "One time" are used interchangeably. We prefer "start-up" to "one time" as some of the items in the "start-up" phase may again be purchased in the near future.

For example: Computer, furniture, machines etc. So the "one time" label creates some confusion

The following is a list of some of the items to be bought to start your business:

- Land: Acquiring land to set up your business.
- Building: Constructing building to start your business.
- Computers: Purchasing computers.
- Equipments: Investing money in purchasing equipments.
- Machinery: Buying and installing machine.
- Vehicles: Buying vehicles used for transportation purposes.

- Vessels: The vessels which will be used in case of catering business.
- Software: The software needed to be installed in computer.
- Registration: For registering the company.
- Inauguration Ceremony.
- Raw Materials: Purchasing raw materials for a manufacturing business
- Salary during initial period.
- Rent Advance: Money to be paid as advance to the landlord.

Based on your business idea, you can compile a list of your own Start-up expenses or costs.

2. **Operational Costs**, as the name suggests, are for carrying out the day-to-day operations of the business or enterprise. These can be broadly categorized in to **Fixed and Variable Costs.**

Fixed Cost

Fixed costs are the ones one has to incur by virtue of the fact that one has started a business and are operating it. These are ongoing costs not affected by changing sales volume. In other words, whether a business is producing and selling or not, one has to spend money for these items. This is the reason it is called as fixed cost. The fixed costs are not dependent upon the level of output. They take place in a time frame or over a period of time.

It is important to remember that these costs are "fixed in nature" and not necessarily "fixed in amount". For example, telephone bill may vary slightly month to month, depending on the usage. However, this variation is not linked to the sales volume directly. Rent is fixed per month, till it is revised by negotiation. Thus, it may be different in different years, but not because of sales increase or decrease.

The following is a list of some of the items on which expenses will remain fixed in nature:

- Consultancy Charges
- Travel
- Salary
- Wages
- Rent
- Telephone
- Water
- Office lighting
- Office stationary
- Employee welfare
- Advertising
- Insurance premium

Think of others, depending on the business and business model.

Variable Cost

Variable costs are those which vary as a total cost to the organization when output (number of items -goods or services- produced) varies. In fact, a true variable cost will vary in exactly the same proportion as the output. In other words, as sales doubles the variable costs (total) will double.

An example of a variable cost for a bakery would be the cost of flour, sugar, baking powder etc.

In a service business, there are often fewer variable costs. Often the main variable cost in providing a service is the cost of wages for an employee working directly in providing the service. Other variable costs in a service business would be anything directly 'used up' during the provision of the service.

For example: Washing detergent in a laundry or a car wash unit, polishing material in a polishing unit, hair shampoo in a saloon.

The following is a list of some of the items for which the costs incurred are variable:

- Raw Materials
- Packing Material
- Freight inward and outbound
- Sales Commission
- Royalty
- Factory Power
- Piece rate: Wages paid based on production

For all the above items, the cost incurred will be more if the sales are more and will be less if the sales are less.

List more variable cost items.

Note:

For classifying a particular expense/cost as either fixed or variable, it is important to know for which industry or type of business is it related to. For example:

- Telephone bill is generally a fixed expense, except when it relates to a "Call Center".
- Paper bill in an office or shop would be fixed but in a printing business it would be variable cost (like raw material).
- Fodder to the cows is variable, because more cows means more milk
- Water in the office is fixed; water in a soft drink factory is variable.
- Stationary in a coaching class is variable because more students mean more but stationary in an office is fixed.

The most important point to remember is, not to get trapped in classifying an expense in one or the other category, **without knowing which business it refers to.**

Why we need to know the classification of Costs?

The purpose and objective of every business is to earn profit, which in simple term means getting back more than what you have spent. For doing this, you need to price your product or service appropriately after treating different costs in appropriate manner. What you have spent on machinery cannot be recovered from the production in one month. Raw material used in a product must be recovered from that product. There are more examples which will be discussed in subsequent chapters. But to understand those, we must have a good command of the classification of costs as explained here.

In this chapter, we have seen the types of costs, which are: Start-up Costs and Operational Costs. Operational cost is further sub-divided into fixed and variable cost. One has to know what type of business one is doing, in order to classify an expense as fixed or variable.

Worksheet:

Fill in the blanks using the options given below:

1. The two types of costs are --------- and -----------------.
2. Quite often the terms "Start-up" and "---------------"are used interchangeably.
3. It is important to remember that fixed costs are "fixed in ----------" and not necessarily "fixed in -----------------."
4. Do not fall in to the trap of classifying an expense in one or the other category, without knowing which -------------- it refers to.

(one time cost, fixed, amount, Start-up cost, business, operational cost, nature, variable)

Income Statement

"Do what you love, but be damned sure it's profitable". - **Steve Pavlina**

The reason one is in business is to **earn profit**. So, what is profit and how is it determined?

Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity.

Statement that enables us to determine the profit over a period of time is known as ***Profit and Loss Statement or Income Statement.*** *It is also very often known as Statement of Operations*

This is a statement which shows revenues, expenses, gains, and losses; it does not show cash receipts (money you receive) nor cash disbursements (money you pay out).

The income statement is important because it shows the profitability of a company during the time interval specified in its heading. The period of time that the statement covers is chosen by the business and will vary.

For example, the heading may state: "For the **Three Months Ended December 31, 2011**" (The period of October 1 through December 31, 2011) or "**The Four Weeks Ended December 27, 2011**" (The period of November 29 through December 27, 2011.)"**The Fiscal Year Ended June 30, 2012**" (The period of July 1, 2011 through June 30, 2012). From this it is clear that Income Statement can be prepared for a day, week, month etc based on the need of the business owner.

$$\boldsymbol{Profit = Total\ Sales\ Revenue - Total\ Sales\ Expenses}$$

Look at the following examples:

Example 1:

Suman has started selling bed sheets from her own house. She purchases 25 bed sheets from a wholesale dealer @ Rs. 100/- per bed sheet and selling @ Rs. 200/- per bed sheet. She spent Rs. 500/- for advertisement. You have to calculate her income by preparing an income statement.

Example 2:

If Suman sells only 20 bed sheets out of 25 bed sheets purchased, what will her income statement look like?

The Income Statement for the above two examples are as shown below:

			Example 1			Example 2	
		Qty	**Rate**	**Total**	**Qty**	**Rate**	**Total**
Sales	A	25	200	5,000	20	200	4,000
Cost of Goods Sold (Variable Cost)	B	25	100	2,500	20	100	2,000
Gross Profit	C=A-B		100	2,500		100	2,000
Fixed Cost	D			500			500
Profit Before Tax	E=C-D			2,000			1,500

In example 1:

Suman purchases 25 bed sheets at a rate of Rs. 100/- per bed sheet. So in the "Quantity" column and "Cost of Goods Sold" row we have to enter 25 and enter 100 in the "Rate" column.

Hence the total cost of goods sold for 25 bed sheets is 25 x Rs. 100 = Rs. 2,500/-. So enter Rs. 2,500/- in the "Total" Column for cost of goods sold.

Now she is selling all the bed sheets at a price of Rs. 200/- for one bed sheet. So in the "Rate" column and "Sales" row enter 200 in the "Rate" column and 25 in the 'Quantity" column.

Hence the total Sales will be 25 x Rs.200 = Rs. 5,000/-. So enter 5,000 in the "Total" column.

$$\boldsymbol{Gross\ Profit = Total\ Sales - Total\ Cost\ of\ Goods\ Sold}$$

$$= Rs. 5{,}000 - Rs. 2{,}500$$

$$= Rs. 2{,}500/-$$

Enter Rs. 2,500/- in the "Total Gross Profit" column.

Now, observe that Suman has spent Rs. 500/- for advertisement. This falls under Fixed Cost. This is the cost for running the business. So in the Fixed Cost row and "Total" column, enter 500.

Now to see what her profit before tax is, we have to subtract the fixed cost from the Total Gross profit.

$$\boldsymbol{Profit\ Before\ Tax = Gross\ Profit - Fixed\ Cost}$$

$$PBT = 2{,}500/-500/-$$

$$PBT = 2{,}000/-$$

Hence her Profit Before tax will be Rs. 2,000/-.

Let's consider example 2:

Here Suman sells only 20 bed sheets for Rs. 200/- per bed sheet.

So in the "Cost of Goods Sold' row and in "Quantity" column enter 20 and in the "Rate" column enter 100. So the total cost of goods sold will be 20 x 100 = 2000. In the "Total" column enter 2,000.

In the "Sales" row and in the "Quantity" column enter 20 and in the "Rate' column enter 200. So the total sales will be 20 x 200 = 400. So enter 400 in the "Total Sales" column.

Fixed cost remains the same as Rs 500/-

Now the Gross Profit will be (Total Sales) - (Total Cost of Goods Sold)

= Rs. 4000 - Rs. 2000

= Rs. 2,000/-

So enter 2,000 in the "Total Gross Profit" column

Now, her income will be the (Total Gross Profit) – (Total Fixed Cost)

=Rs. 2000 - Rs 500

= Rs. 1500/-.

Hence her Profit before Tax will be Rs. 1500/-.

Income statement is also called as Profit and Loss statement. It describes the various expenses, revenues, gains and losses of a particular duration. By looking at the Income Statement one can find out whether the organization is making profit or running at a loss. Income Statement does not show you the cash transactions or cash flow.

Worksheet:

1) Fill in the blanks using the options given below:

a) Income Statement is also referred as ------------------.

b) Income Statement does not show -------------- transactions

c) It shows the ------------------of the company for a specified duration.

d) Profit is a financial benefit that is realized when the amount of ------------ gained from a business activity exceeds the -----------, ----------- and ------------ needed to sustain the activity.

e) Profit is calculated as the difference between ------------ and ---------------.

(cash, taxes, revenue, costs, expenses, Profit and Loss Statement, profitability, total expenses, total revenue)

2) **Following story "Savitha Sari Shop" can be used as exercise both for Income Statement and Cash Flow Projections.**

Savitha Sari Shop

Savitha conducted a survey in her neighborhood and was convinced that there was an opportunity to start a Sari Shop.

She plans to bring saris from Surat and sell it to her clients.

She has decided on the types of saris that could sell for Rs. 250/- per piece. She will be able to get these saris at Rs. 125/- per piece. The packing of each sari will cost Rs. 12.50/-.

She wants to employ two sales staff (shop sale as well as door to door and office sale) at a salary of Rs. 1,000/- each per month. She will also be working in the business and take salary of 1,000/- per month. The sales staff will earn commission @ 10% on sales. The freight for saris from Surat works out to Rs. 12.50/- per sari.

The front portion of her house, which was rented at Rs. 1,500/- per month is now vacant. She will do this up with proper lighting, painting etc. She also wants to put proper seating, cupboards and show –cases to exhibit her products.

Cost of all the furniture, painting, lighting etc is Rs. 90,000/- (Quotations from vendors). She has Rs. 20,000/- of her savings, which she will invest in this business. Besides, she has convinced her bankers about the profitability of the business and has been assured of a loan of Rs. 100,000/- at 12% interest per annum. For the first 12 months, only interest will be payable. Repayment will start thereafter.

Supplier from Surat sends goods once a month. Savitha has to forecast her sale for the following month and buy the goods by paying cash.

Savitha knows very well that cash is the blood in business and hence plans to be very cautious about credit sales.

Monthly utility bill is expected to be the average of Rs. 500/-, phone bill Rs. 500/- and various other office expenses (including publicity) estimated around Rs. 1,000/- per month.

Projected Sales for six months are as shown:

Month	1	2	3	4	5	6	7
Total saris sold in quantity	72	84	100	120	152	192	192
Cash sale in quantity	60	68	80	100	128	160	160
Credit sale in quantity	12	16	20	20	24	32	32

Cash sale rupees	15,000	17,000	20,000	25,000	32,000	40,000	
Credit sale rupees	3,000	4,000	5,000	5,000	6,000	8,000	

Money from Credit Sales comes in the following month.
Please prepare a projected monthly Income Statement for Savitha Sari Shop in the format shown here:

Savitha sari shop	**Income Statement**							
		Mth 1	**Mth 2**	**Mth 3**	**Mth 4**	**Mth 5**	**Mth 6**	**Total**
Sales revenue (rs.)								
Cash								
Credit								
Total sales	**A**							
Cost of goods sold								
Raw material								
Packing material								
Sales commission								
Freight								
Total cog (variable cost)	**B**							
Gross profit	**C=A-B**							
Fixed expenses								
Salary								
Rent								
Utilities								
Interest								
Phone								
Office exp								
Depreciation								
Total fixed expenses	**D**							
Profit/(loss) b4 tax	**E=C-D**							
Cumulative profit/loss								

Cash Flow Projections

"Profits are an opinion, cash is a fact". – ***Unknown***

Cash Flow

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 company's inflows and outflows. Cash inflow is the movement of money into a business and cash outflow is the movement of money out of a business.

A **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 outlays are too high or when you might want to arrange short term investments to deal with a cash surplus. A Cash Flow Projection will give a much better idea of how much capital investment a business idea needs.

The difference between Cash Flow Projection and Cash Flow Statement: One is for the future and another is historical.

The historical Cash Flow Statement shows how cash has flowed in and out of a business. In other words, it describes the cash inflow and outflow 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.

The easy and simple way of understanding how to prepare a Cash Flow Projection is by actually preparing one and for this, we can use the "Savitha Sari Shop", story given in the previous section.

Preparing a Cash Flow Projection

Summarizing the points from the story to help prepare the Cash Flow Projection:

- Savitha conducted a survey in her neighborhood and was convinced that there was an opportunity to start a Sari shop.
- She plans to bring saris from Surat and sell it to her clients.
- She has decided on the types of saris, that could sell for Rs. 250/- per piece. She will be able to get the saris at Rs.125/- per piece. The packing of each sari will cost her Rs. 12.50/- each.
- She wants to employ two sales girls (shop sale as well as door to door and office sale) at a salary of Rs. 1,000/- each per month. She will also be working in the business and takes salary of Rs. 1,000/- per month. These sales girls will earn commission of 10% on sales.
- The freight for saris from Surat works out to Rs.12.50/- per sari.
- Front portion of her house, which was rented at Rs. 1,500/- per month is now vacant. She will do this up with proper lighting, painting etc. She also wants to put proper seating, cupboards and showcases to exhibit her products.

- Cost of all the furniture, painting, lighting etc is Rs. 90,000/- (quotations from vendors).This expenditure is to be recovered over 5 years. She has Rs. 20,000/- of her savings, which she will invest in this business. Besides, she has convinced her bankers about the profitability of the business and has been assured of a loan of Rs.100,000/- at 12% interest per annum. For the first 12 months, only interest will be payable. Repayment will start thereafter.
- Supplier from Surat sends goods once a month. Savitha has to forecast her sale for the following month and buy the goods by paying cash.
- Savitha knows very well that cash is the blood in business and hence plans to be very cautious about credit sales.
- Monthly utility bill is expected to be average of Rs. 500/=, phone bill 500/- = and various other office expense (including publicity) estimated around Rs.1,000/- per month.

Projected Sales for six months are as under:

Month	1	2	3	4	5	6	7
Total saris sold	72	84	100	120	152	192	192
Cash sales of saris	60	68	80	100	128	160	160
Credit sales of saris	12	16	20	20	24	32	32
Cash sale rupees	15,000	17,000	20,000	25,000	32,000	40,000	
Credit sale rupees	3,000	4,000	5,000	5,000	6,000	8,000	

- Money from Credit Sales comes in the following month.

These are the facts (or assumptions as the case may be).

Now, Savitha is ready with the following before **starting** the business:

- She has her own money which amounts to Rs. 20,000/-
- She has borrowed a loan of Rs. 1,00,000/- from the bank.
- The front portion of her house, which was rented at Rs. 1,500/- per month is now vacant. She will do this up with proper lighting, painting etc. She also wants to put proper seating, cup boards and show cases to exhibit her products. Cost of all the furniture, painting, lighting etc is Rs. 90,000/-.
- She purchases 72 saris at the rate of Rs. 125/-, which will amount to Rs. 9,000/-.
- She is purchasing packing material for 72 saris at the rate of Rs. 12.50/ per sari, which amounts to Rs. 900/-.
- The freight for saris from Surat works out to Rs.12.50/- per sari.

The Cash Flow Projection for the next six months is to be done using the following format. Solution is provided at the end of the lesson. Try doing it step by step as explained here.

	Mth0	Mth1	Mth2	Mth3	Mth4	Mth5	Mth6
Cash in flow							
Owners equity							
Loan from friends							
Bank loan							
Cash sale receipt							
Credit sale receipt							
Total inflow							
Cash out flow							
Start-up exp							
Assets (tangible and intangible)							
Working capital							
Raw material							
Packing material							
Sales commission							
Freight							
Salary							
Rent							
Utilities							
Interest							
Phone							
Office exp.							
Loan repayment							
Total outflow							
Surplus/(deficit)							
Cumulative surplus/(deficit) or Closing balance							

In the above cash flow projection format, observe that the first column is Month 0. This is all the months put together prior to the actual commencement of the business. Hence it is termed as Month 0.

In this month all the arrangements are done to start the business.

Look at Month 0:

Inflow (money coming into the business)

- Savitha's own money = Rs. 20,0000/-
- Bank Loan = Rs. 1,00,000/-
- Hence Total inflow = Rs. 20,000 + Rs. 1,00,000 = Rs. 1,20,000/-

Outflow (i.e. money going out of the business)

- Expenses for painting, furniture, lighting etc = Rs. 90,000/-
- Purchasing 72 saris = Rs. 9,000/-
- Purchasing packing material for 72 saris = Rs. 900/-
- Freight charges for saris from Surat = Rs. 900/ -
- Total outflow = 9,000 + 900 + 900 = Rs. 10,800/-
- Total inflow was Rs. 1,20,000/- and total outflow is Rs. 1,00,800/-.
- Hence the closing balance = Rs. 1,20,000- 1,00,800 = Rs. 19,200/-

For Month 1:

- Opening balance on the starting of the first month is Rs. 19,200/-

Inflow:

- By selling 60 saris on cash at the rate of Rs. 250/- per sari, which is 60 x 250 = Rs. 15,000/-. Hence the total inflow for Month 1 = Rs. 15,000/-
- The money for the saris sold on credit (125 x 12 = 2,000) will be received in the following month. This **must not be** entered in Month 1.

Outflow:

- Savitha purchases 84 saris at the rate of Rs. 125/- per sari which amounts to 84 x Rs. 125= Rs. 10,500/-.
- She purchase packing material for 84 saris at the rate of 12.5 per sari, which amounts to 84 x Rs. 12.5 = Rs. 1,050/-.
- Now Savitha has to pay sales staff commission on the sales made. In Month 1, the total sales (Cash and Credit) is Rs.18,000/-. Hence, 10% of Rs. 18,000 is Rs.1,800/-.
- The freight for 84 saris will be at the rate of Rs. 12.50 per sari, which will amount to 84 x 12.50= Rs. 1,050/-.

- Now the salary she has fixed is Rs.1,000/ for each sales girl and she also has to pay herself Rs.1,000/- Hence the total salary = Rs. 3,000/-.
- Rent= Rs. 1,000/-
- Utilities=Rs. 500/-
- Interest= Rs. 1,000/- (loan of Rs.1,00,000/- = at 12% interest per annum. For the first 12 months, only interest will be payable).
- Phone = Rs. 500/-
- Other Office expenses= Rs. 1,000/-
- Hence the total outflow for Month 1 will be the sum of all the above

  Rs. 10,500 + Rs. 1,050 + Rs. 1,800 + Rs. 1,050 + Rs. 3,000 + Rs. 500 + Rs. 500 + Rs. 1,000 + Rs. 500 + Rs. 1,000 = Rs. 21,900/-.
- Hence the surplus/deficit for Month 1will be :Total Inflow- Total Outflow

  = Rs. 15,000 – Rs. 21,900 = - Rs. 6,900/-
- Hence there is a deficit of Rs. 6,900/ i.e the outflow is more than the inflow for Month 1.
- Hence the closing balance = Rs. 19,200 - Rs. 6,900= Rs. 12,300/-

Now look at Month 2:

- Opening Balance = Rs. 12,300/-

Inflow:

- Cash received by selling 68 saris at the rate of Rs. 250/- per sari amounts to 68 x Rs. 250 = Rs. 17,000/-
- Cash received in this month from previous month for credit sales= Rs. 3,000/-
- Hence the total inflow = 17,000 + 3,000 = Rs. 20,000/-

Outflow:

- Savitha purchases 100 saris at the rate of Rs. 125/ per sari, which will amount to (100 x 125=12500) Rs. 12,500/-
- She purchases packing material for 100 saris at the rate of Rs.12.50 per sari which will amount to Rs. 1,250/-.
- Now Savitha has to pay the sales commission of 10% of Rs. 21,000/- which will amount to Rs. 2,100/-.
- The freight of 100 saris from Surat at the rate of Rs. 12.50 per sari will amount to 100 x Rs. 12.50 = Rs. 1,250/-.
- The remaining expenses which includes the salary, rent, utilities, interest, phone and office expenses will amount to Rs. 7,500/- (as in the previous month)

- Hence the Total Outflow for Month 2 will be the sum of all the above
- Rs. 12,500 + Rs. 1, 250 + Rs. 2,100 + Rs. 1,250 + Rs. 7,500 = Rs. 24,600/-.
- Hence the surplus/deficit for Month 2 will be = Rs. 20,000 – Rs. 24,600= - Rs. 4,600/-
- Closing balance at the end of month 2 = Rs. 12,300 - Rs. 4,600 = Rs. 7,700/-.

Now look at Month 3

- Opening Balance = Rs. 7,700/-

Inflow:

- Cash received by selling 80 saris at the rate of Rs. 250/- per sari which amounts to 80 x Rs. 250 = Rs. 20,000/-
- Cash received through credit sales from previous month = Rs. 4,000/-.
- Hence Total Inflow for Month 3 = Rs. 20,000 + 4,000 = Rs. 24,000/-

Outflow:

- Savitha purchases 120 saris at the rate of Rs. 125/- per sari, which will amount to 120 x Rs. 125 = Rs. 15,000/-.
- She purchases packing material for 120 saris at the rate of Rs. 12.50 per sari which will amount to Rs. 1,500/-.
- Now Savitha has to pay the sales commission of 10% of Rs. 25,000/- which will amount to Rs. 2,500/-.
- The freight of 120 saris from Surat at the rate of Rs. 12.50/- per sari will amount to 120 x Rs. 12.50 = Rs. 1,500/-.
- The remaining expenses which includes the salary, rent, utilities, interest, phone and office expenses will amount to Rs. 7,500/-
- Hence the Total Outflow for Month 3 will be the sum of all the above
- 15,000 + 1,500 + 2,500 + 1,500 + 7,500 = Rs. 28,000/-
- Month 3 surplus/deficit will be = 24,000 - 28,000 = -4,000/-
- Hence there is a deficit of Rs. 4,000/
- Closing Balance = 7,700 – 4000 = Rs. 3,700/-

Now look at Month 4:

- Opening Balance = Rs. 3,700/-

Inflow:

- Cash received by selling 100 saris at the rate of Rs. 250/ per sari which amounts to 100 x Rs. 250= Rs. 25,000/
- Cash received through credit sales from previous month= Rs. 5,000/-
- Hence Total Inflow for Month 4= Rs. 25,000 + Rs. 5,000 = Rs. 30,000/-

Outflow:

- Savitha purchases 152 saris at the rate of Rs. 125/ per sari, which will amount to 152 x Rs. 125 = Rs. 19,000/-
- She purchases packing material for 152 saris at the rate of Rs.12,50/- per sari which will amount to Rs. 1,900/-.
- Now Savitha has to pay the sales commission of 10% of Rs. 30,000/- which will amount to Rs. 3,000/-
- The freight of 152 saris from Surat at the rate of Rs. Rs. 12.50/- per sari will amount to 152 x Rs. 12.50 = Rs. 1,900/-
- The remaining expenses which includes the salary, rent, utilities, interest, phone and office expenses will amount to Rs. 7,500/-
- Hence the Total Outflow for Month 3 will be the sum of all the above
- Rs. 19,000 + Rs. 1,900 + Rs. 3,000 + Rs. 1,900 + Rs. 7,500 = Rs. 33,300/-
- Surplus/Deficit for Month 4 will be = Rs. 30,000/- Rs. 33,300/- = Rs. 3,300/-
- Hence there is a deficit of Rs. 3,300/- for Month 4.
- Closing Balance = 3,700- 3,300= Rs. 400/-.

Now look at Month 5:

- Opening Balance= Rs. 400/- .

Inflow:

- Cash received by selling 128 saris at the rate of Rs. 250/ per sari which amounts to 128 x Rs. 250= Rs. 32,000/-.
- Cash received through credit sales from previous month= Rs. 5,000/-.
- Hence Inflow for Month 5 = 32,000 + 5,000 = Rs. 37,000/-.

Outflow:

- Savitha purchases 192 saris at the rate of Rs. 125/ per sari, which will amount to 192 x Rs. 125 = Rs. 24,000/-
- She purchases packing material for 192 saris at the rate of Rs.12, 50 per sari which will amount to Rs. 2,400/-.
- Now Savitha has to pay the sales commission of 10% of Rs. 38,000/- which will amount to Rs. 3,800/-
- The freight of 192 saris from Surat at the rate of Rs. 12.50 per sari will amount to 192 x 12.50 = Rs. 2,400/-
- The remaining expenses which includes the salary, rent, utilities, interest, phone and office expenses will amount to Rs. 7,500/-

- Hence the Total Outflow for Month 3 will be the sum of all the above
- Rs. 24,000 + Rs. 2,400 + Rs. 3,800 + Rs. 2,400 + Rs. 7,500 = Rs. 40,100/-
- Month 5 surplus/deficit will be = Rs. 37,000 - Rs. 40,100 = - Rs. 3,100/-
- Hence, there is a deficit of Rs. 3,100/- Month 5.
- Closing Balance = (400 - 3,100= – 2,700) = Rs. 27,00/-.

This means that there will be no money available at the end of month, but complete the projection to see what the total picture is like.

Now look at Month 6:

- Opening Balance (Rs. -2,700/-) i.e. there is deficit of Rs. 2,700/- in opening balance

Inflow:

- Cash received by selling 160 saris at the rate of Rs. 250/- per sari which amounts to 160 x Rs. 250 = Rs. 40,000/-
- Cash received through credit sales from previous month= Rs. 6,000/-
- Hence the total inflow for Month 6= Rs. 40,000 + Rs. 6,000 = Rs. 46,000/-

Outflow:

- Savitha purchases 192 saris at the rate of Rs. 125/- per sari, which will amount to (192 x 125 = 24,000) Rs. 24,000/-.
- She purchases packing material for 192 saris at the rate of Rs.12.50/- per sari which will amount to Rs. 2,400/-.
- Now Savitha has to pay the sales commission of 10% of Rs. 48,000/- which will amount to Rs. 4,800/-.
- The freight of 192 saris from Surat at the rate of Rs. 12.50/- per saris 192 x Rs. 12.50 = Rs. 2,400/-.
- The remaining expenses which includes the salary, rent, utilities, interest, phone and office expenses will amount to Rs. 7,500/-.
- Hence the Total Outflow for Month 3 will be the sum of all of the above
- Rs. 24,000 + Rs. 2,400 + Rs. 4,800 + Rs. 2,400 + Rs. 7,500 = Rs. 41,100/-.
- Hence the surplus/deficit for Month 6 will be = 46,000 - 41,100 = Rs.4,900
- There is a surplus of Rs. 4,900/ for Month 6.
- Closing Balance = (-2,700) + (4,900) = Rs. 2,200/-.

Discussion:

- Preparing a projection, using assumptions and facts, gives Savitha in insight in to what is likely to happen in her business in terms of cash management.
- In this case, she is aware well in advance that during month 5 she is likely to run out of money. She has a better chance of making arrangements for the month 5 now rather than wake-up at the end of month 5 and find out that there is no money to run the business.
- Savitha can handle the projected cash deficit in Month 5 by taking one or more of the following actions- faster collection, requesting credit from sari supplier, postponing her own salary and/or rent, requesting short term loan from friends etc.

6 Month Cash Flow Projections

Savith's Sari Shop	**Cash Flow**						
	Mth0	**Mth1**	**Mth2**	**Mth3**	**Mth4**	**Mth5**	**Mth6**
CASHINFLOW							
Owner's Equity	20,000						
Loan from Friends							
Bank Loan	100,000						
Cash Sale Receipt		15,000	17,000	20,000	25,000	32,000	40,000
Credit Sale Receipt			3,000	4,000	5,000	5,000	6,000
Total In flow	**120,000**	**15,000**	**20,000**	**24,000**	**30,000**	**37,000**	**46,000**
CASH OUT FLOW							
Start-up Exp							
Assets (Tangible and Intangible) Working Capital	90,000						
Raw Material	9,000	10,500	12,500	15,000	19,000	24,000	24,000
Packing Material	900	1,050	1,250	1,500	1,900	2,400	2,400
Sales Commission		1,800	2,100	2,500	3,000	3,800	4,800
Freight	900	1,050	1,250	1,500	1,900	2,400	2,400

Salary		3,000	3,000	3,000	3,000	3,000	3,000
Rent		1,500	1,500	1,500	1,500	1,500	1,500
Utilities		500	500	500	500	500	500
Interest		1,000	1,000	1,000	1,000	1,000	1,000
Phone		500	500	500	500	500	500
Office Exp		1,000	1,000	1,000	1,000	1,000	1,000
Loan Repayment							
Total Out flow	**100,800**	**21,900**	**24,600**	**28,000**	**33,300**	**40,100**	**41,100**
Surplus/(Deficit)	**19,200**	**(6,900)**	**(4,600)**	**(4,000)**	**(3,300)**	**(3,100)**	**4,900**
Cumulative Surplus/(Deficit) or Closing Balance	**19,200**	**12,300**	**7,700**	**3,700**	**400**	**(2,700)**	**2,200**

SUMMARY

- *Cash Flow Projection helps an entrepreneur manage the money better.*
- *It gives a much better idea of how much capital investment the business idea needs.*
- *The best way to manage money is to develop the habit of doing weekly cash flow projections for the business.*

Break Even Analysis – for a single product or service

"The worst crime against working people is a company which fails to operate at a profit" - **Samuel Gompers**

Why are we in Business?

Main economic motive for starting a business is to earn profit. That is the objective. Now, one needs to have a goal in mind in achieving this objective – How much profit do I need to make and by when should I make it?

Majority of the businesses do not make profit from day one. Some take longer while others do it quicker – all depends on the business model, type of industry and many other factors. This period of not making any profit is known as the gestation period.

Everyone understands that, generally speaking, more sales (quantity) means more revenue and hence chances of profit or higher profit. However, certain quantification is needed for this to be useful information. How much should one sell if one needs to avoid losses, how much to sell for making "**X**" amount of profit etc are all important questions.

Break Even Point

A business's break-even point is the amount or level of sales or revenues that it must generate in order to equal its expenses. In other words, it is the point at which the company neither makes a profit nor suffers a loss. Calculating the break-even point (through break-even analysis) can provide a simple, yet powerful quantitative tool for managers. In its simplest form, break-even analysis provides insight into whether or not revenue from a product or service has the ability to cover the relevant costs of production of that product or service. Entrepreneurs can use this information in making a wide range of business decisions, including setting prices, preparing competitive bids, and applying for loans. It also helps in Profit Planning and Goal setting.

At the break even level,

Total Revenue= Total Expenses

The formula for calculating break even level is:

$$\textbf{Break Even Volume (Per Month)} = \frac{\textbf{Fixed Cost (Per month)}}{\textbf{Gross Margin Per Unit}}$$

Let us understand this further through a simple example of Ram and his tea vending business considering the following facts or assumptions:

- Ram, who was earlier working in a restaurant, has now decided to start a tea vending business. He was getting Rs. 300/- per day as his wages, while working in the restaurant.
- Ram is thinking in terms of a mobile hand cart for his tea vending business, which he will take around to the various construction sites in the given locality and during day light only.
- Before starting the business he needs to buy vessels, cart, stove, fuel, strainer, thermos flask etc. for which he needs Rs. 12,000/-.
- He will need to buy the initial supply of milk, sugar, cups, tea leaves for which he will need around Rs. 1,000/-.
- Ram had Rs. 1,000/- which he used for buying various consumable items. He borrowed Rs. 12,000/- from a friend and agreed to pay him Rs. 4/- per day as interest. (approximately 12% per annum).
- The cost of producing tea from one litre milk for Ram is as shown below:

One Litre Milk	=	Rs. 30/-
Two Litre Water	=	Rs. 2 /-
Sugar (300 gms)	=	Rs. 30 /-
Tea leaves (100 gms)	=	Rs. 20 /-
Fuel	=	Rs. 2 /-
Total	**=**	**Rs. 84 /-**

- From this, Ram will be able to get 30 cups of 100ml quantity. Now we also have to consider the wastage aspect where there will be evaporation while boiling water and milk, there may be spillage etc. Hence, the actual number of cups of tea, which can be made from one litre of milk will come down to 28 cups. Which means it costs Rs. 3/- per cup (84 divided by 28)
- Each disposable cup costs 50 paise.
- So, the unit cost will be Rs. 3.50/- per cup.
- Ram has surveyed the place and finds that all similar vendors are charging Rs.5/- per cup. He also decides to sell his tea at Rs.5/- per cup.
- The Gross Profit or Margin per cup is Rs.1.5/- (= 5.00- 3.50).
- Ram employs a helper on a daily wage of Rs. 99/-. He pays no rent but Rs. 10/- per day of protection money to be able to do business in that area. He pays interest of Rs. 4/- per day. Also his own wages of Rs. 300/- per day.
- Ram knows that he needs to recover the initial investment of Rs. 12,000/- over a period of time. He decides to do this over 5 years or 60 months. This translates to approximately Rs. 7/- per day.
- Total fixed costs per day for Ram are: (Rs. 300 + Rs. 99 + Rs. 10 + Rs. 4 + Rs. 7) = Rs. 420/-.

The following is the Income Statement of Ram's Tea Vending Business:

Ram's Tea Vending Business: Income Statement

		Day 1	Day 2	Day 3	Day 4
Number of Cups Sold		200	280	500	1,000
Sales Revenue at Rs.5/- a cup	A	1,000	1,400	2,500	5,000
Cost of Goods Sold (Variable Cost) at Rs. 3.5/ a cup	B	700	980	1,750	3,500
Gross Margin	C=A-B	300	420	750	1,500
Fixed Expenses					
Helper Wage		99	99	99	99
Own Wage		300	300	300	300
Interest		4	4	4	4
Rent (Protection Money)		10	10	10	10
Depreciation		7	7	7	7

Total Fixed Expenses	**D**	**420**	**420**	**420**	**420**
Profit/(Loss) before tax	**E= C-D**	**(120)**	**0**	**330**	**1,080**

In the above Income Statement we observe that:

- On Day 1, Ram sells 200 cups, the Gross Margin is Rs 300/- and Total Fixed Expenses is Rs. 420/-. So on the first day there is a loss of Rs. 120/.
- On Day 2 , Ram sells 280 cups, the Gross Margin is 420 and Total Fixed Expenses is Rs. 420/-. So on the second day, there is neither a loss nor profit, because total revenue is equal to the total expenses.
- At the level of sales of Day 2, Ram breaks even (no profit or loss). **This is 280 cups per day.**

To calculate the breakeven point:

$$\textbf{Break even volume (per day)} = \frac{\textbf{Fixed Cost (per day)}}{\textbf{Gross Margin per Unit}}$$

$$\textbf{Break even volume (per day)} = \frac{420}{1.50}$$

$$= 280$$

Break even level for Ram is 280 cups per day.

Target Setting:

Let us assume that Ram has a goal of achieving a daily profit of Rs.600/-. What should his sales target be?

- Expected Profit per day = Rs. 600/-
- Fixed Cost per day = Rs. 420/-

Total = Rs. 1,020/-

Gross Margin per Cup = Rs. 1.50/-

$$\textbf{Sales Target/Day} = \frac{\textbf{Fixed Cost (per day) + Expected Profit (per day)}}{\textbf{Gross Margin per Unit}}$$

Number of cups to be sold = Rs. 1,020/1.50 = **680 cups per day**

SUMMARY

- *In this chapter we have learnt about Break Even Point.*
- *For an entrepreneur, Break Even Point is very critical because by knowing the Break Even Point you can begin to set targets.*
- *Break Even Point is expressed as quantity for a period (day, week, month etc)*

Worksheet

Fill in the blanks using the options below

1. A business's break-even point is the amount or level of ---------------- that it must generate in order to equal its ------------------.
2. At the break-even level -------------- is equal to the total expenses.
3. Break even volume per month is equal to -------------------/-------------------.
4. The business is at neither------------- nor ---------------, when it is at break even point.

(Fixed cost per month, profit, sales or revenues, loss, expenses, total revenue, gross margin per unit, income, fixed cost)**.**

Taxes

In this world nothing is certain but death and taxes. - Benjamin Franklin

What are Taxes and who levies them?

A **tax** (from the Latin *taxo*; "I estimate") is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law. It can also be explained as a fee charged or ("levied") by a government on a product, income, or activity.

The government needs money to operate, and taxes are a way for it to get this money. This money goes to fund many different types of programs. It may be used to fix roads and bridges. It may be used to pay for the military. It may be used to help your own education!

Why do Governments levy taxes?

The Governments levy and collect taxes so as to later spend it for social welfare in the form of public expenditure like laying roads, providing social service, paying government workers, and providing other social amenities.

Why and How Much to Learn about Taxes?

The purpose of the lesson is not to make you an expert on taxation. That is totally a different field of expertise. However, as an entrepreneur, one needs to know some fundamentals and what the obligations are:

1. In business one might be required to act as a collection agent for the government and collect taxes from employees, service providers, vendors, customers/clients etc.
2. As a businessman/women one might have to pay taxes on purchases, sales and services (sales tax or Vat, service tax, excise or etc). If one is importing raw material, then Customs duty and related items need to be paid and included in the cost of goods sold.
3. For an export house the duty paid on any imported material may be eligible for Duty Draw Back. In this case, one does not include the custom duty in the cost of goods sold.

The details (quantum, exemption, exceptions etc) of the taxes levied by the government are too many and they keep changing every year based on the government budget. So as an entrepreneur, one should take expert guidance on these matters. One should however be clear in mind as to which taxes one is collecting on behalf of the government, which ones form part of the cost (whether variable or fixed) and which ones come out of the profit.

Types of Tax:

There are fundamentally two types of taxes: **Direct Tax** and **Indirect Tax.**

Direct Tax:

- A Direct tax is a kind of charge, which is imposed directly on the taxpayer and paid directly to the government by the persons (legal or natural) on whom it is imposed.
- A direct tax is one that cannot be shifted by the taxpayer to someone else.
- Direct Taxes are levied directly on income, capital value, wealth, corporate assets.

The following are some Direct Taxes:

Income Tax:

Income tax is an annual tax on income (profit). Rates and other details vary based on whether sole proprietor, partnership or corporation. This is charge on the profit and cannot be included in your costs. That is why we have "income before tax" and "income after tax" terms in the income statement.

Corporation Tax:

Corporation tax is a tax levied on the Income (Profit) of the Domestic Company or Foreign Company.

Property Tax:

Property tax or 'house tax' is a local tax on buildings, along with the belonging land, and imposed on owners.

Indirect Tax:

- If tax is levied on the **price** of a good or **service**, then it is called an **indirect tax**, like service tax, sales tax or VAT, central excise tax, custom duty etc.

- An indirect tax is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the customer).
- An indirect tax is one that can be shifted by the taxpayer to someone else. In other words, it can be included as a cost element in computation.

Some important indirect taxes imposed in India are as under:

- Customs Duty
- Central Excise Duty
- Service Tax
- Sales Tax or VAT (Value Added Tax)

SUMMARY

- *In this chapter we learnt about the two types of taxes and the purpose for which the government levies taxes.*
- *There are Direct Taxes and Indirect Taxes*
- *Direct Taxes are paid directly by the person to the government (The entrepreneur may be collection agent)*
- *Indirect taxes are the taxes paid indirectly like while purchasing a product etc.*
- *The government mainly collects taxes in order to provide public welfare.*

Worksheet

Fill in the blanks using the options given below:

1. A ----------------is one that cannot be shifted by the taxpayer to someone else, whereas an --------------------- can be.
2. -------------------- or ---------------------- is a local tax on buildings, along with the belonging land, and imposed on owners.
3. If tax is levied on the price of a good or service, then it is called an ------------------
4. Governments collect taxes so as to collect revenue and later spend it for --------------
5. Income tax, Wealth tax and Corporate Assets tax are examples of ----------

(Property tax, indirect tax, direct tax, revenue, social welfare, income tax)

Q.1. Answer the following in about 15 words.

(i) What do you mean by Unit of Sale?

(ii) What do you mean by Gross Profit?

(iii) "*When you sell your product but the buyer does not pay your money immediately*" It is known as?

Q.2. Answer the following in about 50 words

(i) Give 4 examples of Fixed Costs.

(ii) Give 2 examples of Start-up Cost.

(iii) Give four examples of Inflow and Outflow of cash.

(iv) What do you mean by Cash Inflow and Cash Outflow?

Q.3. Answer the following in about 75 words

(i) Give one difference between Direct Tax and Indirect tax.

(ii) Why motive of Business is to learn profit and not Loss?

(iii) Give one different between Cash flow and Income statement.

(iv) What do you mean by Non Cash Expenses?

(v) What do you mean by Startup Cost?

(vi) Explain Cost, Expenses and Expenditure.

(vii) What is a Cash Register? Why is it important for any business?

Q.4. Answer the following in about 150 words.

(i) Why do we pay taxes?

(ii) What do you mean by Break Even Point?

(iii) How much profit can we earn? Is there any policy of the Government for Maximum Profit earning?

(iv) A company makes a product with a selling price of Rs.20 per unit and variable costs of Rs. 12 per unit. The fixed costs for the period are Rs. 40,000/. What is the required output level to make a target profit of Rs. 0,000/-.

(v) Identify the following items as inflow/outflow. Also give reason for your choice.

a. raw material
b. depreciation
c. machinery purchased
d. loan from bank
e. equity shares issued
f. excise duty paid
g. profit on sale of asset
h. interest received on investments

vi) What is 'Startup Cost'? Identify the areas for requirement of Startup Cost.

Q.5. Answer the following in about 250 words

(i) Define the term 'break-even'.

(ii) Explain why break-even analysis is of reduced value to a multi-product firm?

Analyse the factors that any business should take into consideration before using break-even analysis as a basis for decision making.

Q.6. HOTS: (High Order Thinking)

i). The following information relates to a company, which produces a single product.

Direct labour per unit	Rs. 22/-
Direct materials per unit	Rs.12/-
Variable overheads per unit	Rs.6/-
Fixed costs	Rs. 4, 00,000/-
Selling price per unit	Rs. 60/-

Use the figures above to show the minimum number of units that must be sold for the company to break even.

ii). Distinguish between:

(i) Unit Cost and Unit Price

(ii) Expenses and Expenditure

(iii) Fixed Cost and Variable Cost

(iv) 'Profit is not to be considered as inflow'. Comment with apt reason.

Q.7. Application based exercise:

i) Take a business of your choice, now list the all things under Start-up, variable and fixed cost for it. Is it possible to make a change in anything from a variable cost to fixed cost, if yes list it.

Activities:

1. Finance is one of the most important factor of any business, managing finances is also an important life skill. Planning for managing finance and taking right decision while investing the money is winning half the battle. Take a business of your choice, now list the all things under Start-up, variable and fixed cost for it. Is it possible to make a change in anything from a variable cost to fixed cost, if it is possible, list it.
2. Until fifty years ago, farmers around the world tended to grow the crops they wanted to eat, and enough extra to sell for the things they needed. Then science and farming mixed to create this thing called the Green Revolution which helped to increase the production and hence the export of items. Prepare a presentation on how revolutions or inventions helped in trade.
3. There are 3 components of cost of any product, namely; Startup cost, Variable cost and Fixed cost. Given here are items required to start and run a chocolate factory. Tabulate the given costs in three basic types and also give reason for qualifying a particular item in that category.

Chocolate Bar (Raw)	Nuts and dry fruits; Rice crisps	Moulds	Gas stove	Gas Cylinder
Refrigerator	Double Boiler	Spoons and Cutlery	Water	Packing Material
Kitchen Accessories	Staff	Electricity	Working Space	Labour
Advertisement	Selling Expenses	Washing area	Working Table	Vehicle for delivery

(On the same lines, the students can be asked to make a list of any Business of their choice)

5. Given below are some economic activities. Segregate these as Manufacturing, Trading, Services provided.

Coaching Institute	Beauty Parlor	Tiffin Service	Dabbawallas of Mumbai	A florist
Dairy Farms	Legal Consultancy	Doctor	School	KFC outlet
Banquet Halls	SPA and Gyms	Poultry Farms	Rent a Costume	Bakery

UNIT 7

Resource Mobilization

Learning Objectives:

After studying the chapter you should be able to:

- Identify the different types of resources
- Understand the selection process of human resources
- Describe the role and importance of a mentor
- State the meaning of fixed and working capital
- Explain the factors of affecting working capital
- Describe the meaning of capital structure
- Explain the different sources of finance
- Understand the concept of mentorship
- Highlight the role and importance of mentor
- Classify the business and industry
- Identify the various sources for an entrepreneur

Case Study

Interesting Realization

Rahul Sharma, founder-owner a five store hotel, engineer from Benaras Hindu University has come a long way. Hailing from a family which had three generations of businessman, Rahul, had to virtually start from scratch to struggle his way up in life. His forefathers were well settled at Batala in Punjab, where they had Foundries non-ferrous rolling mills and machine tool Units. In 1957, Rahul's father decided to separate from his family and shift to Bhandara, near Nagpur to start ametal unit, in partnership with a local businessman for manufacturing of non-ferrous utensils.

In 1968, Rahul took over his father's business, only to find that the income from the business was barely enough to sustain his large family of four brothers and two sisters.

Rahul critically reviewed the whole business situation the companies structure, overheads, raw-materials, suppliers, etc. to evaluate where the things were going wrong.

It was here he realized, that, on one hand, their basic raw-material like brass scrap, copper and zinc, was not only costly but the transportation cost heavily affected their working capital as this all came from the western region of Maharashtra, mainly from Mumbai and Pune and on other hand, the major chunk of their finished products i.e., brass utensils were also sold in these regions. This fact came as the turning point.

Easy availability of raw-material and closeness to the market acted as the key agents to make him shift to Pune. Since then, there was no looking back. This not only resulted in saving the transportation cost but brought down; significantly, their overall cost of production.

Could you understand the reason for Rahul Sharma's success? Yes, Resource availability.

Introduction

A very important function of entrepreneurs is the arranging and procuring proper resources."THINK" is an important word for entrepreneurs, because cows do not give milk, milk has to be extracted-meaning entrepreneur's first job is to arrange, in a constructive way, the resources that are required for the enterprise's working.

An economic or productive factor required to accomplish an activity, or as a means to undertake an enterprise and achieve the desired outcome is referred as 'Resource'. Therefore, 'resource' refers to "anything or means (physical tangible/non-physical-tangible) required or required to support the activities of organisation to achieve pre-determined organizational goals."

These 'resources' are life blood of any economic activity. Their successful and timely identification, procurement and utilization ensure the success of an organisation. Human, financial, physical and knowledge are the basic factors that provide a firm, the means to perform its business processes and are referred as 'Business Resources'.

Procurement of Resources: Mobilisation

Resource mobilization is the process of getting resource from resource provider, using different mechanisms, to implement the organization's work for achieving the pre-determined organizational goals. It deals in acquiring the needed resources in a 'timely-cost effective manner'. Resource mobilization advocates upon having the right type of resource, at the right time, at right price with making right use of acquired resources thus ensuring optimum utilization of the same.

The most basic resources, for any enterprise are:

a) Land

b) Labour

c) Capital

Though 'other resources' required vary from enterprise to enterprise, but commonly comprise of:

a) Entrepreneurship

b) Energy

c) Expertise

d) Information

e) Management

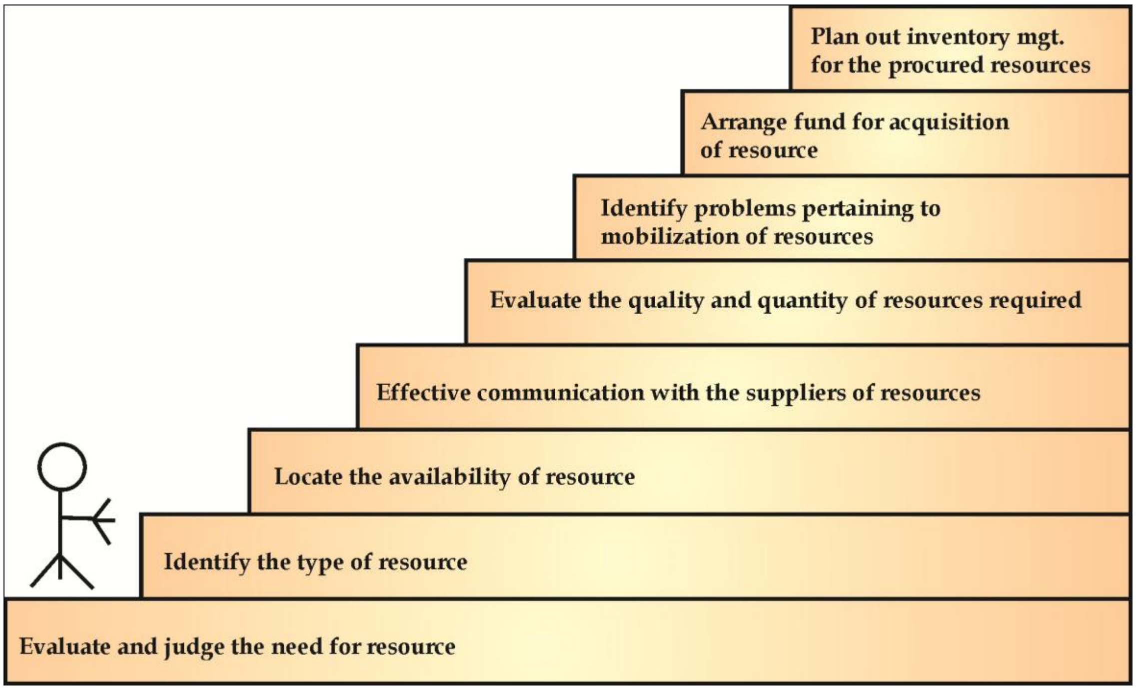
f) Machines

g) Materials and Methods

Planning Effective "Resource Mobilization"

Very often, we equate the term 'resource mobilization' with fund raising. But it goes beyond the liquid money. It includes building valuable contacts and networks and garnering the interest, support and in-kind contributions, important to organisation. Organisations should make adequate preparations for resource mobilization to be effective and to ensure they are maximizing all opportunities.

An organization's resource mobilization plan should be tightly integrated with organizational goals and be chalked out step-by-step as follows:



A resource mobilization plan must follow closely, the vision, mission and goals of the organisation.

Thus, the success of any enterprise lies in the capacity and ability of the entrepreneur to:

(1) Mobilize the resources

(2) Organize the resources

(3) Manage them efficiently and effectively as they are always scarce with reference to their demand.

Types of Resources:

A firm's resources are the basic inputs into the production process, combined in different ways so as to provide firm capacity to achieve superior performance. Different firms need different resources. The requirement of resources depends upon:

(a) Nature of activity (b) Size of activity

(c) Product specification (d) Type of business activity

"*Strategy is the direction and scope of an organisation over the long-term; which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations*", Johnson and Scholes.

Thus, the question arises: What are these "Resources" that an enterprise needs to put in place to pursue its chosen strategy?

Business resources can usefully be grouped as following:

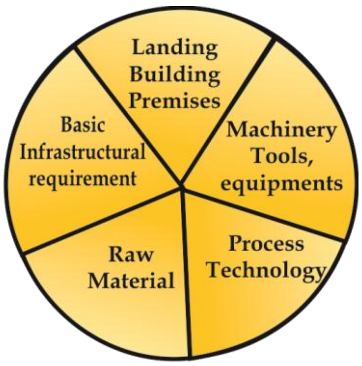
I. Physical
II. Human
III. Financial
IV. Material
V. Intangible

I. Physical

Physical resources are those that are made by human through his abilities and skills. They are available to an organisation in the form of buildings, plants, machineries etc. required for running of an enterprise.

So, the foremost concern for the entrepreneur is to assess the 'place' where the enterprise is going to be established. The basic infrastructure required to be constructed is all part of physical resources.

The category of physical resources covers a wide range of operational resources concerned with the physical capability of the enterprise, encompassing mainly:



A careful selection of physical resources is essential because many allied issues are influenced by the 'place', selected, such as:

(1) Capital Cost
(2) Access to other resources
(3) Transport and Communication Cost
(4) Availability of manpower and its cost (wages, salaries)
(5) Cost of production
(6) Availability of other utilities like water, gas, fuel etc.
(7) Access to market for both raw material and finished goods
(8) Pollution concerns involved

(9) Degree of legal requirements like taxes etc.

Next, the other physical resources like machinery, tools, equipments, process technology, raw material etc. too require a thorough investigation as they will have bearing on:

a) Short and long term cost of the project.

b) Durability and utility (usefulness) expected from these assets.

c) Possibility of growth potential.

d) 'Market needs' helps to decide the range of products and the type of technology.

e) Market size to be covered will indirectly help to assess the size/capacity of plant.

f) Quality concerns.

g) Feasibility for transfer of technology i.e. is it possible to acquire and implement the technology/technique so selected.

h) Feasibility for training of manpower, i.e., is it possible to provide the required training to the workers on the selected technology?

Outdated, obsolete, worn-out machinery, or sick plants, if acquired, will not only result in bad capital budgeting decisions but also hamper the innovation and creativity of an entrepreneur.

Thus, current, valid technology backed by effective support service arrangements and maintenance be preferred.

II. Human

"The people working in a firm make it what it is."

Herbert G. Hicks and C. Ray Gullet.

The most important assets that a firm must have and that management must be most concerned with, are the human assets of the enterprises, in whose absence all other non-living resources are useless. An organization's performance and resulting productivity are directly proportional to the quantity and quality of its human resource. A rich and continuing supply of qualified people/personnel is the best assurance an enterprise can have that it will flourish. 'Right man at right job at the right time'— is the mantra for successful enterprises because it ensures:

(1) Benefits of specialization to the firm

(2) Minimizes wastages of resources

(3) Reduces inefficiencies

(4) Reduces labour turnover ratio and rate of absenteeism

(5) Saves cost of production

Human resources may be thought of as "the total knowledge skills, creative abilities, talents and aptitudes of an organizations workforce as well as the values, attitudes & benefits of an individual involved."

Therefore, in order to build up loyal, efficient and dedicated personnel, the entrepreneur needs to assess:

(A) What kind of people does he/she need?

(B) How many people does he/she need?

An entrepreneur should never forget that he/she is the most important human resource in the SSI unit as he/she is both an employer and an employee.

(a) What kind of people does he/she need?

To carry on its work, each organisation needs personnel with the necessary qualifications, skills, knowledge, work experience and aptitude for work.Entrepreneur must clearly know what kind of ''person should be selected. ''Kind/Type'' refers to specific qualifications, skills, experience, age etc. to be possessed by the proposed employees. To an extent, nature of business activity helps entrepreneur to decide the type of manpower required.

The type of personnel required to fill the vacant position demands a careful planning, persistence and control .This process demands first of all the determination of the tasks which comprise the job and the skills, knowledge, abilities, responsibilities, duties required of the worker for a successful performance of the job. It is like preparing of a statement of the minimum acceptable human qualities necessary for the proper performance of a job.

Larger the unit, more diversified is the nature of jobs to be performed and thus different types of personnel required and vice-versa. The type of human resources required may vary from organisation to organisation. While assessing the kind/type of manpower required, entrepreneur should not forget to make a policy to appoint women, persons from backward communities and people with special abilities.

Manning Table:

Hindustan Lever had for themselves drafted exemplary "Organisation Charts", to determine: How many people, at what level, in what positions and what kind of experience and training would be required to meet its objectives.

To develop manpower for the whole organisation is not an easy job. This important economic resource is required to create, design, develop, manage and operate the enterprise. Keeping in mind the importance of human assets, an enterprise dare not go wrong in their selection.

To begin with, the total work to be done is divided and grouped into packages; we call it a "job". A job may include many positions, for a position is job performed by, related to a particular employee. In an organization, each person would have a different position, duties, responsibilities, making it imperative for an organisation to have a wide range of personnel ranging from managers, owners, supervisors, administrators, engineers, technical, skilled and unskilled workers. What kind of person to recruit and for what qualities that person should be tested needs a very careful, systematic, scientific and organized planning.

The human resources required by an enterprise can be broadly classified as follows:

1. Managerial Manpower
2. Non-Managerial Manpower
3. Professionals and Others

Larger the enterprises, more complicated is the classification.

MANNING TABLE

Larger the enterprise complicated is the classification, while smaller the unit restricted manpower is required.

TOP	MIDDLE	LOWER
BOARD OF DIRECTOR		
PRESIDENT	**Marketing Manager**	
CHAIR PERSON	**Production Manager**	**First Line Inspectors Superintendents**
GENERAL DIRECTOR	**Human Resource Manager**	**Supervisors**
CEO	**Financial Manager**	**Foremen**

(A) MANAGERIAL STAFF

(B) NON-MANAGERIAL STAFF **(C) OTHERS**

(B) How many of people does he/she need?

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) Finding out the total amount of works to be done and then dividing it into different sets of activities.

(b) The total number of tasks and jobs required to be accomplished under different activities.

(c) How much work can the average person do in a specified period of time?

(d) Level of absenteeism expected.

(e) Level of labour turnover.

(f) The present number of employees.

(g) The future plans for expansions, diversification and growth.

Efficient Utilization of Human Resource:

1. **Managerial Staff:** This category is like brain box of the enterprise. Framing policies, objectives goals etc. for the enterprise, ensuring their implementation and finally getting the work done from workers is the field area of this category.

2. **Non-managerial staff:** The real group which effectively converts the raw material into finished goods is 'workers'. Nature of job decides the quality and quantity of workers to be assigned.

3. **Trained Technical Manpower**: This constitutes of people who have technological expertise and are frequently required for machinery selection, installation, supervision and operation.

4. **Administrative Manpower**: To run the enterprise, the entrepreneur needs a group of staff which gives support services to managerial, professional and trained staff. They do not contribute to production directly but only provide assisting services in the maintenance of the enterprise.

5. **Professional Manpower**: Chartered accountants, auditors, bankers, lawyers, who are professional experts can be outsourced by the entrepreneur if required. Small enterprises cannot afford them on their regular payrolls.

Thus efficient utilization of human resources is only possible if the entrepreneur is able to decide:

(i) The total work to be done

(ii) The right type of people who can do the work.

(iii) Employing Right man at right job.

Selection of Personnel:

Selecting the right number of people and 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, needs on the part of entrepreneur, a careful, comprehensive, in-depth, and scientifically evolved strategy for selection of personnel comprising of:

(1) Efficient tapping and scientific selection.

(2) Appropriate and cost effective training.

(3) Proper induction, orientation and familiarization with the organisation and its climate.

(4) Periodic performance appraisal.

(5) Feedback and scope for development.

(6) Proper motivation and remuneration schemes.

(7) Ensuring scope for the participation in management.

(8) Ensuring adherence to certain statutory requirements governing the compensation and welfare of measures of employees, such as Factories Act, Provident Fund and Miscellaneous Provision Act, etc.

Expert Professional Assistance

Today is an era of specialization. Competitive advantage can be realized only when businesses become more efficient in their operations and reduce the cost of their inefficiencies.

Even the most successful companies have realized that:

(a) They cannot do justice to all aspect of business – production, distribution, marketing, legal, researching etc.

(b) They do not have ample expertise, resources, time and energy in their hands to meet out the never ending requirements of the enterprise. Thus, either outsourcing or availing of professional services from outside the firm, has become a major trend in human resources over the past decade.

Although there is no single, standard legal definition of Professional Services, most courts agree the phrase refers broadly to a calling, occupation or business that:

- Involves specialized education, knowledge, labour, judgment and skill
- Is predominantly mental or intellectual
- Has professional workforce
- Good capital resources intensity
- Has proven expertise in the field
- Expects compensation in return for the work done.

Thus, professional service is an industry of technical or unique functions performed by independent contractors and consultants, whose occupation is the rendering of such service. Availing professional expertise, either, as and when the need arises or on regular basis, will assist the entrepreneur to have:

A better cost efficiency

a) Reduced wastages.

b) Savings of time, cost and energy.

c) Higher efficiency and effectiveness because of professional proven expertise in the concerned field.

d) Focus on the core areas/activities of the enterprise.

e) Avail of qualified quality service in time bound frame and at fraction of cost.

f) Lower the chance of risks.

g) Save on additional fixed investment required in the creating infrastructure for providing these facilities on one's own.

h) Enhance business due to others expertise and experience in the defined field.

i) Access to new and growing markets.

This emerging trend of contracting "non-core" and at times core functions has been driven by the need to improve flexibility, increase responsiveness, decrease labour costs and allow the organization to focus on what it does best.

Therefore, in order to achieve specialization in work, the entrepreneurs should try procuring/arranging for following types of qualified resources as per their requirement:

(1) Professional accountants

(2) Lawyers

(3) Auditors

(4) Bankers

(5) Transporters

(11) Warehouses

(12) Advertisers

(13) Couriers

(14) Customer support services

(15) Financial accounting services

(6)	Public relation professionals	(16)	Business consultants
(7)	Researchers	(17)	Law firms
(8)	Copywriters	(18)	Architects
(9)	Appraisers	(19)	Attorneys
(10)	Copywriters	(20)	Business development managers

How to Procure:

Nowadays, these services are not limited to licentiates (i.e. individuals holding professionals licenses), they may run to partnership, firms, or corporations as well as to individuals.

It is for the entrepreneur to analyse and evaluate the extent, nature and type of resource required. Commonly, one can arrange for these through:

- Contractual arrangements
- Third party arrangement
- Lease basis
- Captive Unit arrangement
- Part time arrangement
- Regular basis

The selection of an independent contractor or consultant providing professional services usually depends on skill, knowledge, reputation, ethics and creativity and price. Some of them charge fixed rates for projects while other define the price only after assessing the work involved. It is quite common to hire professionals nowadays on the basis of an hourly fee or estimated length of project.

III. Financial

Finance is one of the important prerequisites to start an enterprise. It is the availability of finance that facilities an entrepreneur to bring together, personnel, machines, materials, methods, land and convert a dream into reality.

It will not be incorrect to elucidate finance as "lubricant to the process of production" or "lifeblood of enterprise" or "whoever has the gold makes the rule".

As a part of financial resourcing, an entrepreneur must work out following:

(1) How much finance is needed?

At first, an assessment is to be made regarding the right amount of capital required. Neither should there be paucity of funds, nor should there be any excess, as finance is raised against a cost.

(2) Terms for which finance is required

Finance, is required for:

(a) **Long term:** It is generally a period of 5 or more years for:

(i) Procuring Fixed assets

(ii) Meeting out Expansion or Diversification plans

(iii) Conduct research work

(b) **Short term:** It is generally a period of up to 1 year. To meet working capital requirement short term finance is to be raised.

(c) **Medium term:** A period, where finance is required for more than one year but less than 5 years, is called medium term requirement. To meet especially modernization requirements, finance is required for medium term.

(3) Sources of Generating Finance: There are various sources from where finance can be arranged. Most entrepreneurs invest small capital from their own funds and remaining from outside.

Thus, selecting a proper balance between owners' funds and borrowed funds is the next step.

(a) **Owner's Fund:** This is that part of capital that belongs entirely to the entrepreneur in the form of:

(i) Equity capital

(ii) Preference capital

(iii) Margin money/seed money

(b) **Borrowed Funds**: Entrepreneur can if required raise capital from outside through:

(i) Issue of debentures

(ii) Loan from financial institutions

(iii) Loan from banks

(iv) Private lenders of money

Except certain government schemes, banks and financial institutions require physical (asset) security to release loans. The assets mortgaged with the institution for the sanction of a loan is called collateral security. Thus, loans are either:

(a) Secured

(b) Unsecured

IV. Material

Whether a business enterprise markets a product or a service, certain operations are essentially carried out combining raw material, processing and assembling, machines, tools, power etc. A deep insight into the production processes is essential for effective handling of the enterprise. To successfully convert raw material into finished products with value addition, a wide arrange of arrangements need to be worked out by entrepreneur. Some of the important decisions are regarding:

(1) Size of the unit and its installed capacity.

(2) Identifying machinery and the technical know-how required.

(3) Technical training involved.

(4) Quality control systems required.

(5) Type of technical staff required.

(6) Maintenance cost

(7) Availability of spares parts and support services (after sale services)

(8) Wear and tear rate of assets.

(9) Type of raw materials required.

(10) Supplies of the raw material, their number and location.

V. Intangible

A much ignored resource, which is otherwise quite crucial, is intangible resources. These resources are neither felt nor seen, far from being touched or preserved but helps immensely in providing a strong foothold to enterprise. The intangible possession is a resource which enables a business to continue to earn a profit that is in excess of the normal basic rate of profit earned by other business of similar type. This category generally comprises of:

(a) Goodwill: The difference between the value of the tangible assets of the business and the actual value of the business (what someone would be prepared to pay for it). Though it is generally not present in case of new entrepreneurs. But if he is acquiring or entering into a partnership or some alliance, he may benefit from the goodwill of his associate, if any.

(b) Reputation: Does the business have a track record of delivering on its strategic objectives? If so, this could help gather the necessary support from employees and suppliers.

(c) Brands: Strong brands are often the key factor in whether a growth strategy is a success or failure. An entrepreneur needs to assess the same. Being associated with strong brand, an entrepreneur can command and sustain higher margin.

(d) Intellectual Property: Key commercial rights protected by patents and trademarks may be an important factor to be worked out by the entrepreneur.

Summary

Resources are the life blood of any economic activity. "Anything or means (physical tangible/non-physical-tangible) required or required to support the activities of organisation to achieve pre-determined organizational goals are referred as Resources."

Planning out effective "Resource Mobilization":

- *Evaluate and judge the need for Resource.*
- *Identify the type of Resource required.*
- *Locate the availability of Resource.*
- *Effective Communication with the suppliers of Resources.*
- *Evaluate the quality and quantity of Resources required.*
- *Identify problems pertaining to mobilization of Resources.*
- *Arrange funds for acquisition of Resources.*
- *Plan out Inventory management for the procured resources.*

Types:

(1)	*Physical*	*(4)*	*Technical*
(2)	*Financial*	*(5)*	*Material*
(3)	*Human*	*(6)*	*Intangible*

Estimating Financial Requirements

One of the most critical problems which every entrepreneur faces is securing financing for the venture. Although, this is a problem throughout the life of any enterprise, it is particularly acute at start-up.

The scarcest of all resources being finance is referred as "life blood of enterprise", having persistent demand. The demand for finance is not only recurring but ever mounting to meet out ever increasing requirements of capital for:

- Commencement
- Day to day operation
- Modernization activities
- Expansion
- Diversification
- Research and development activities

Thus, in the money oriented economy of today, finance is one of the basic foundations of all kinds of economic activities. It is the master key which provides access to all the other sources for being employed in manufacturing and merchandising activities.

Meaning of Business Finance:

In general, finance may be defined as the provision of money at the time it's wanted. However, as a management function it has a special meaning. In order to establish any business, small or big, finance is required. In the case of small enterprises, people can contribute from their own savings or raise loans from relatives, friends or some financial institutions while big enterprises may use other sources to procure finance.

Thus, business finance may be defined as the acquisition and utilization of capital funds in meeting the financial needs and overall objectives of a business enterprise.

Commencement, sustenance and growth of the business all depends on timely procurement and optimum utilization of finance, which is available only against the 'cost' i.e. 'interest' if we make use of borrowed capital or 'dividend' if an entrepreneur uses equity capital. Business finance is that activity which is concerned with the planning, raising, controlling and administering of the funds to be used in the business.

Financial Planning:

Business finance, mainly involves raising of funds and their effective utilization, keeping in view the overall objectives of the firm. This requires great caution and wisdom on the part of the entrepreneur. The two major areas of financial decision making, requires on part of entrepreneur to take the:

(a) Funds requirement decision

(b) Financing decisions

Funds requirement decision is concerned with the estimation about the total funds or capital requirements for the enterprise, while financing decision is concerned with the sources from which the funds are to be raised.

Big companies are not always good companies

SUBHIKSHA

Subhiksha was started in 1997, having 1600 retail outlets selling grocery, fruits, vegetables, medicines, mobile phones etc. But it was closed down in 2009 due to severe cash crunch and financial mismanagement.

The proper planning for procurement and disbursement of funds makes it mandatory for the entrepreneur to explore in detail, the following three aspects:

(a) The total amount of finance required for implementing the business plans (How much money is needed?)

(b) The forms and proportion of various securities to be used for collecting the desired amount, such as, where the money will come from.

(c) The policies of utilization and administration of capital. (How can the firm utilize these funds in the best possible manner?)

This decision making by the entrepreneur, well in advance regarding the future financial aspects of the enterprise, is called "Financial Planning". It is the process of estimating the fund requirement, specifying the sources of funds and utilizing them in an optimum manner.

Sound financial planning is necessary for the success of any business enterprise. It entails policies and procedures for proper coordination between the various functional areas of business, involving proper allocation of resources amongst the various departments. Without an accurate plan, embodying the financial needs of the company in the present and future, the enterprise may have to face frequent difficulties that hamper it's growth.

Objectives

Financial planning being an intellectual process of formulating a financial plan, is devised to achieve the following objectives:

(a) To assess the different types of financial requirements, viz. long, medium and short-term funds, i.e. capitalization.

(b) To procure the funds from the suitable sources, keeping in view the principles of economy, convenience, financial commitments, ownership etc. i.e. capital structure.

(c) To allocate the funds to various departments to achieve the predetermined objectives.

(d) To establish effective control on financial matters.

(e) To provide optimum amount of working capital requirement of the enterprise.

(f) To build up reserves for future contingencies.

Financial Planning is a Tough Job

Nagarjuna Finance, a large company (based out of Hyderabad), got into a controversy for failing to return crores of rupees to depositors.

Started in 1982, Nagarjuna Finance Limited was a large company with lakhs of investors. But since early 2000, the company started defaulting on repayment of matured deposits.

In spite of having good financial collection, it couldn't avoid failure and protect the depositors' money.

Procurement of funds is not only the issue, but planning out its effective deployment and utilization is even more essential. Through proper financial planning, an entrepreneur can easily predetermine, the amount and type of capital required by the enterprise and at the same time ensure its optimum utilization, because if arranging for funds is a problem, returning the procured amount as and when due is threatening . Thus, the financial plan must:

(a) Estimate the capital requirement and the capitalization

(b) Decide the capital structure of the enterprise

Estimate Capital Requirement

Pacific Sunwear, a reputed company in California, known world over for offering High-style accessories, primarily Sunglasses, shoes, and swimwear, no longer has the capital to compete in the market now. It's said that one of Pacific Sunwear's biggest risks ***was running low on capital*** *and* ***not meeting financial obligations****. Thus,* ***right capital assessment*** *is one such factor which is responsible for organisations sustenance and success in the market in good or bad times.*

The capital requirement of a business enterprise can broadly be classified into two main categories. They are:

(i) Fixed capital requirements

(ii) Working capital requirements

I. Fixed Capital

Fixed capital is the funds required for the acquisition of those assets that are to be used over and over for a long period. – ***Shubin***

The capital which is required for meeting the permanent or long term needs of the business is referred as fixed capital. It is that part of the total capital of an enterprise which is invested for the purchase of fixed assets like land and building, plant and machinery etc.

Features

Fixed capital exhibits following characteristics:

- Not easy to withdraw this capital from the business, as it's more like a permanent capital.
- Generally procured through long term financial resources.
- Invested in procuring fixed assets.
- Forms the basis for income generation capacity of the enterprise.

The assessment of fixed capital requirement for a business can be made by preparing a list of fixed assets required. At the same time, an entrepreneur should keep in mind the following factors too:

(a) **Nature of his/her business:** viz. trading, manufacturing, services

(b) **Size of the business:** small business needs less fixed capital in comparison to large scale enterprises.

(c) **Technology to be used in production:** i.e. whether capital intensive or labour intensive.

(d) **Range of production:** If more diversified products are manufactured, more is fixed capital requirement in comparison to those who deal in single type of product range.

(e) **Type of product to be manufactured:** It may range from being simple (e.g. soap) to a highly complicated machinery, thus demanding more investment in fixed assets.

(f) **Method of acquisition of fixed assets:** The option of buying a fixed asset demands more capital in comparison to acquiring an asset on lease or hire purchase system.

Arrangement

The fixed capital requirement should be correctly assessed and financed carefully for the smooth running of enterprise. These needs are generally financed from permanent sources as:

(1) Issue of shares

(2) Issue of debentures

(3) Inviting public deposits

(4) Ploughing back of profits (in case of existing firms)

(5) Long term borrowings from banks and financial institutions.

II. Working Capital

> *Working capital is descriptive of that capital which is not fixed. But the more common use of working capital is to consider it as the difference between the book value of the current assets and the current liabilities. -* ***Hoagland***

Working capital refers to that part of the capital which is needed for the financing of the working or current requirements of the enterprises and for meeting out day-to-day operational expenses.

Factors determining the amount of working capital:

The requirement of working capital is not uniform in all enterprises. It varies from one enterprise to another because of following factors playing the lead role.

(i) **Nature and size of business:** The business that is engaged in production process requires more working capital in comparison to the one rending trade services. Similarly enterprises working on large demands for higher working capital than small scale units.

(ii) **Business Cycle:** Boom period is marked by more demand, more production and thus more working capital as compared to depression phase having declaimed demands.

(iii) **Gestation Period:** Longer the time gap between commencement and end of manufacturing process, more is requirement working capital as compared to industries having shorter gestation period.

(iv) **Volume and procurement of raw material:** If amount to be spent on raw material is more in total investment, automatically, the requirement for working capital will be higher as compared to those enterprises where the raw material cost involved is smaller.

(v) **Manual v/s automation:** In labour intensive industries, large working capital will be required than in the highly mechanized ones.

(vi) **Need to stock up inventories:** The larger the stocks of whether raw material or finished goods required to be kept, more will be the need for working capital and vice-versa.

(vii) **Turnover of working capital:** Turnover means the rate at which the working capital is recovered by the sale of finished goods enterprises where the rate is higher less working capital is required as compared to enterprises having lesser slow rate.

(viii) **Terms of Credit:** Those enterprises who believe in selling goods on credit, needs more working capital than the ones selling goods against cash.

Arrangement:

A part of working capital is permanently locked up in a company, it should be financed by the use of long term sources of funds and the variable working capital requirement can be met by using:

(i) Short/medium term borrowing from commercial banks/financial institutions.

(ii) Public deposits

(iii) Other finance companies

(iv) Form internal sources

As financial planning is the projection of key financial data that determines economic feasibility and necessary financial investment commitment of the enterprise, a financial plan, after estimating capital requirements, will still be incomplete without a constituent's capitalization.

Capitalization

"Capitalisation of a corporation comprises the ownership capital and the borrowed capital as represented by long-term indebtness. It may also mean the total accounting value of capital stock surplus in whatever form it may appear and funded long-term debt." - ***Lillin Doris***

Capitalization is the total amount of long-term funds received by a business from its shareholders and creditors. It includes shares, debentures, long-term loans and free reserves. Capitalization determines the optimum amount of funds required in different situations by the enterprise. It helps to avoid the situations of both the surplus and shortage of funds i.e. being either:

(a) Over capitalized

(b) Under capitalized

Both situations are never in the interest of an enterprise. So, if the capital employed by an enterprise is earning in accordance with the prevailing rate of return on its outstanding securities by other similar companies in the same industry, its capitalization will be considered as proper and appropriate.

Capital Structure:

*"The makeup of a firm's capitalization" is capital structure. - **Gerstenberg***

Capital structure is the composition or mix of different types of long-term capital whether owned or borrowed. It includes all the long term funds consisting of share capital, debentures, bonds, loans and reserves.

The patterns of financing i.e. deciding about the types of securities to be issued for raising the necessary funds is what capital structure determines.

Patterns

In case of a new company, the capital structure may be of any of the following patterns with:

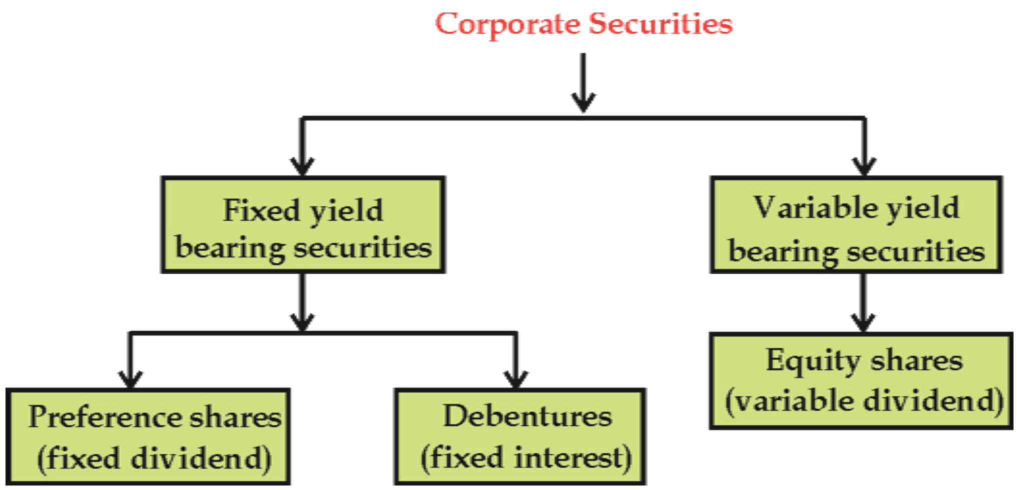
(1) Equity shares only

(2) Both equity and preference shares

(3) Equity and debentures

(4) Equity, preference and debentures.

A proper proportion between fixed and variable yield-bearing securities is very necessary for the liquidity and solvency of the company.



To find out an ideal debt-equity mix is a difficult task. Every entrepreneur should try developing that relationship of debt and equity securities which maximum the value of a company's shares in the market. There are many factors which are to be considered while designing an appropriate capital structure of a company (which will be discussed later in higher classes). The relative weightage assigned to each of these factors will vary widely from company to company depending upon the:

(a) Characteristics of the company

(b) General economic conditions prevailing

(c) Circumstances under which the company is operating.

Conclusion:

Many companies have crumbled down for want of a sound financial plan. Both the situation of surplus and shortage of funds are injurious to the financial health of the enterprise. Thus, it is through financial planning that an enterprise can:

(a) Ensure solvency and liquidity.

(b) Ensure sufficient funds availability.

(c) Ensure optimum use of the various sources of finance.

(d) Prepare for future challenges and growth.

(e) Control and manage financial uncertainties and eliminate wasteful efforts.

Summary

One of the most critical problem which each entrepreneur faces is securing financing for the venture. Business finance may be defined as the acquisition and utilization of Capital funds in meeting the financial needs and overall objectives of a business enterprise.

Financial Planning:

Financial planning is the process of determining objectives, policies, procedures, programmes and budgets to deal with financial activities of an organisation.

Objectives:

- *Raising of funds*
- *Deployment of surplus funds.*

Importance:

- *Availability of funds at right time*
- *Cost effectiveness*
- *Optimum use of funds*
- *Coordination among different business functions*
- *Avoidance of wastages of resources*

Types of Capital Requirement:

- *Fixed Capital requirement i.e. capital required to be invested in fixed assets.*
- *Working Capital requirement i.e. capital required to be invested in current assets for day-to-day operations.*

Capitalization:

Capitalization is the total amount of long-term funds received by a business from its shareholders and creditors.

Capital Structure:

Capital structure refers to proportion between owned funds and borrowed funds.

Sources of Finance

Opening Profile

Where does an entrepreneur get the funds to turn his or her dreams into reality? Funds come from a variety of sources, but in the case of WALT DISNEY – World's one of the most renowned entrepreneur, it all started with a clandestine paper route.

*At 10, Walt Disney worked without pay, delivering newspaper for his father's circulation franchise, whenever Walt found a new customer, he bypassed his father and bought the additional papers directly from the newspaper office, thereby, establishing his own route, with the profits from his **private venture**, which was mere enough to satisfy his sweet tooth, Disney's entrepreneurial career branched out. He started **working** as a newspaper cartoonist after trying his hands on selling German steel helmets he collected from the battlefield as "genuine war souvenirs"; soon he entered into **partnership** with "Iweiks", ending the same after giving him half of the partnership later on.*

*When he founded his own production company, he sold its **shares** to a number of local citizens. Even though Walt's cartoons were extremely popular, he didn't receive any payments for his work and was soon broke. Disney productions went through cycles of feast and famine. The turning point came in 1937, with Snow White and the Seven Dwarfs – a full length cartoon feature becoming a box office success.*

*Over budgeted on one hand and with the outbreak of World War-II, his three new movies – Pinocchio, Bambki and Fantasia, left the only financing alternative open–going public. Becoming a **public corporation** was even not the ultimate salvation for Disney Productions. Since all other sources of revenue were blocked, Disney entered into a **Joint Venture** with ABC, the newest and smallest of the broadcasting companies.*

By 2002, the Walt Disney Company had grown to 112,000 employees then over $ 25 billion in revenue.

Today, around the world, the company has leveraged its brand name across various entertainment avenues.

As was the case with The Walt Disney Company different sources of capital are generally used at different times in the life of the venture. Financing an enterprise–whether large or small–is a critical element for success in business. Financing is the use and manipulation of money. Raising money for a business is one aspect of financing.

One of the most difficult problems in the new venture creation process is obtaining finance. While capital is needed throughout the life of business, the new entrepreneur faces significant difficulties in acquiring capital at start-up.

Act Wisely

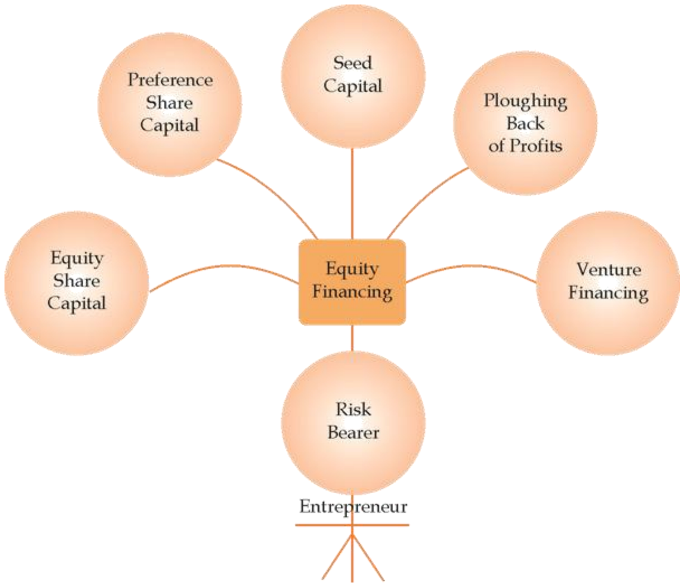
The entrepreneur needs to consider all possible sources of capital and select the one that will provide the needed funds at minimal:

- Cost
- Loss of control

Usually, different sources of funds are used at various stages in the growth and development of the venture.

If an entrepreneur cannot personally supply the necessary amount of money, another option is 'OTHER PEOPLE'S MONEY (OPM)' No doubt, before seeking outside financing; an entrepreneur should first explore all methods of internal financing.

Types of Sources:



Sources of Fund Raising

I. Equity Financing/Ownership Financing:

For the entrepreneur, the financing needs should be considered, compared and evaluated from the perspective of:

A) Debt versus equity

B) Internal versus external funds.

Any of the above may be the basis; the problem is that the success of a new venture often depends on an entrepreneur's ability to: (a) establish a network of finance generating support system, (b) intelligently compare and evaluate the various sources so as to select the best combination of the same.

Equity refers to the capital invested in an enterprise by its owners. Equity means that, in return for money, the inventor receives a percentage of ownership in the company. The entrepreneur is under no obligation to repay the equity, to that extent, it is a 'risk' of the investor on the enterprise.

Features:

1. Equity results in sharing of the ownership with the investors.
2. It's a permanent source of raising finance.
3. No fixed obligation in the form of dividend payment.
4. No charge over assets.
5. Maximum controlling rights through voting power.

Relying Heavily on Equity

Relying too heavily on equity can be the downfall of a business owner. Steve Jobs, co-founder of Apple Computer, made that mistake. Because Jobs and his partner, Stephen Wozniak, were young men with very little money debt financing was out of their reach. To raise money, they sold off chunks of the company.

By the late 1980's, 'Apple' was very successful – so successful that Jobs was able to hire a prominent 'Pepsico executive, John Sculley, to take over as Apple's Chief Executive.

Unfortunately for Jobs, Sculley set out to persuade Apple's Board of Directors that Jobs was a disruptive influence on the company. Eventually, a vote was taken. The number of votes each shareholder had was related to the number of shares he or she owned.

Jobs didn't own enough of Apple's equity to fight off Sculley's effort to fire him. He was outvoted and thrown out of the company he had started.

Methods of Equity Financing:

(a) Retained Profits/Ploughing Back of Profits:

Retained profits is a technique of financial management, under which all profits of a company are not distributed amongst the shareholders as dividend, but a part of the profits is retained and reinvested in the business.

This process of retaining profits year after year and their utilization back into the business is called ploughing back of profits. This is not a source to be used by new entrepreneurs.

(b) Equity Shares:

Equity shares are those shares which are not preference shares. Equity shareholders are the virtual owners of the company. Thus, company is under no obligation to pay them either the principal amount or dividend and that's make them true risk bearers. The management vest with them as they enjoy maximum voting rights.

(c) **Preference Shares:**

Preference shares are those shares which are entitled to a priority in:

(1) the payment of a dividend at a fixed before any dividend is paid on equity shares;

(2) the return of capital in the event of winding up of the company.

Preference shares may be:

(i) Cumulative or non-cumulative

(ii) Participating or non-participating

(iii) Convertible or non-convertible

(d) **Seed Capital**:

The basic initial capital which is like the 'start-up' capital of the enterprise is said to be Seed Capital. Seed Capital is the financing of the internal product development or the capital provided to an entrepreneur to prove the feasibility of a project or qualify for start-up capital. (Discuss in detail with topic 'Venture Capital Finance')

How to procure?

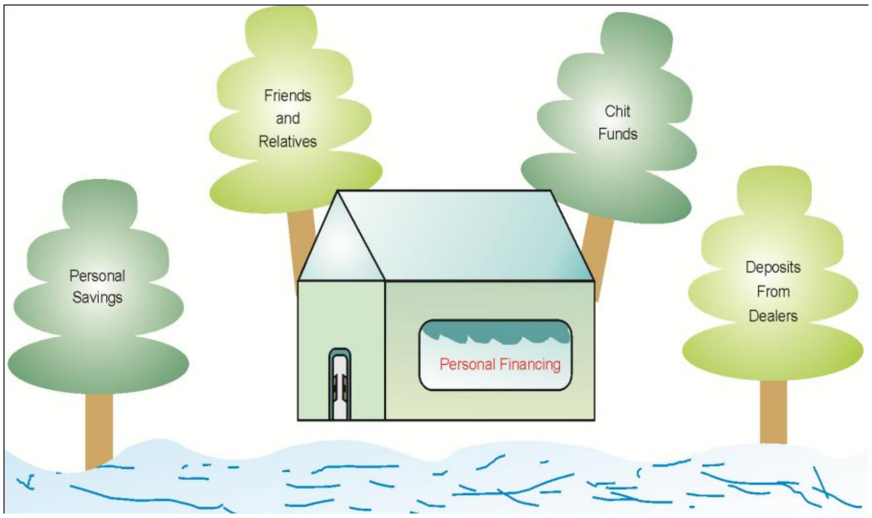
For the purpose of availing it, the entrepreneur:

a) May contact some specialized agencies/organisations.

b) May himself/herself provide the same

c) Request some specialized banks to subscribe for it.

II. Personal Financing:



The entrepreneur always makes the initial investment capital available. Either he invests his personal cash or converts his assets into cash for investment.

Generally, the entrepreneur very often mobilizes his personal resources for enterprise development using his private assets or from his members of the family, dear and the near ones. The investors from the family may not have a legal hold on the enterprise. They tend to remains as silent partners extending informal assistance.

Sources

a) **Personal Savings:** Past savings, if any, is the most conventional source of financing, dependable, readily available and without incurring any liability. This accumulated from of minor or major savings done by entrepreneur is an internal source and meets out small, short term requirements.

b) **Friends and Relatives:** Arranging finance from near and dear ones viz. (a) friends (b) relatives (c) known persons, in informal manner is even a popular source of financing.

c) **Chit Funds** : This customary source where in some members who might be friends, or known etc, form a type of club, committee, party, association, etc., keep paying monthly deposits privately and can claim the 'chit' if his sudden demand for money i.e. like 'kitty'. This premature encashing of the deposited amount is like an internal source of financing and personal.

d) **Deposits from Dealers**: When the dealers or distributors are appointed by the business firm, the dealers selected are required to give "security deposits" to the entrepreneurs, depending upon the reputation, goodwill and creditability of the enterprise. This can be used as a short term source of financing.

III. Venture Capital Finance:

The most important and little understood area in entrepreneurship having its emergence in United States in venture capital finance. It's an alternative form of equity financing for small enterprises.

New entrepreneurs, conventional small businesses and privately held middle market companies tend to have a difficult time obtaining external equity capital. It is advocated that these enterprises require 3 types of funding as their business develops (refer to Table A).

(a) Early stage financing

(b) Expansion or Development financing

(c) Acquisitions and Leveraged Buyout financing (Diversifying)

These three stages are at times funded by two strong groups of capitalists / investors, referred to as:

(a) Angel Investors

(b) Venture Capitalist

(A) Angel Investors:

The early-stage financing is usually the most difficult and costly to obtain, if the entrepreneur fails to do it himself/herself. Two types of financial requirements arise during this stage:

(i) **Seed Capital**: Seed Capital is usually a relatively small amount of funds needed to prove concepts and to finance feasibility studies. This is normally provided by the entrepreneur himself/herself, as it's most difficult financing to obtain through outside funds at this stage.

(ii) **Start-up Capital**: As name implies, start up financing is involved in developing and selling some initial products to determine if commercial sales are feasible. Again if entrepreneur fails to finance, it's difficult to arrange from outside because market doesn't have creditability of entrepreneur recognized yet.

Here, the Angel investors are active in financing specifically these two types of requirements, though they are not restricted even to financing second or third stages.

Stages of Business Development Funding

Early-Stage Financing:

- ***Seed Capital:*** *Relatively small amounts to prove concepts and to finance feasibility studies.*
- ***Start up:*** *Product development and initial marketing, but with no commercial sales yet: funding to actually get company operations started.*

Stages of Expansion or Development Financing:

- ***Second:*** *Working capital for initial growth phase, but no clear profitability or cash flow yet.*
- ***Third:*** *Major expansion for company with rapid sales growth at break even or positive profit levels.*
- ***Fourth:*** *Bridge financing to prepare company for public offering.*

Acquisitions and Leveraged Buyout Financing

(Diversification, Research Development)

- ***Traditional acquisitions:*** *Assuming ownership and control of another company.*
- ***Leveraged Buyouts (LBOs):*** *Management of a company acquiring company control by buying out the present owners.*
- ***Going Global/Private:*** *Some of the owners/managers of a company buying all the outstanding stock, making the company, privately held again, franchising, foreign collaborations, joint ventures, merges etc.*

Angel Investors or Business Angels are individuals or virtually invisible group of wealthy investors, in the informal risk capital market, who are looking for equity type investment opportunities in a wide variety of entrepreneurial ventures, big or small. These angels provide the funds needed for all stages of financing, particularly the first stage financing.

(B) Venture Capitalists:

> *Henry Ford, turned to venture capitalists to finance the Ford Motor Company, giving by 75% of his business for $ 28000 of badly needed capital.*
>
> *It took him years to regain control of his company.*

These are investors and investment companies whose specialty is financing new, high potential, high-technology oriented entrepreneurial ventures. Venture capitalists exhibit following characteristics:

(i) They are more interested in financing ventures which are in their second or third stage of development (refer to Table A)

(ii) They often provide initial equity investment to start up a business too, provided such ventures are pertaining to software, biotechnology, high-potential ventures, high-technology ventures or are venture having high potential prospects and returns expected.

(iii) Venture capitalists look for a high rate of return. Thus, they want equity, or some share of ownership in return for their capital.

(iv) They are willing to take the higher risk of losing their capital for a chance of profit from the business's success.

(v) The venture capitalist sells his or her percentage of the business to either another investor or back to the entrepreneur after specific number of years association or when he finds returns lowering down.

(vi) Mostly small business resort to venture capitalists when they want to start or grow a business but couldn't persuade banks to lend money.

(vii) Though, these investors have a deep insight about the fields in which they make their investment, but they behave like more or less as non-working partners i.e. do not meddle or interfere in the management of the enterprise.

IV. Debt Financing:

Debt-financing is a financing method involving an interest-bearing instruments, usually a loan, the payment of which is only indirectly related to the sales and profits of the venture. Typically, debt financing called as asset-based financing requires that some asset e.g. car, house, etc. be used as a collateral. Here, the entrepreneur is to pay back the amount of funds borrowed as well as a fee expressed in terms of the interest rate.

The entrepreneur needs to be careful that the debt is not so large that regular interest payments become difficult if not impossible to make, a situation that will inhibit growth and development, and possibly end in bankruptcy.

> *Relying solely on debt is very dangerous for a company. Real estate Tycoon, Donald Trump, made exactly this mistake in 1980's.*
>
> *Trump invested millions of dollars in revitalization of Atlantic City's gambling strip, buying New York's landmark Plaza Hotel, building Trump Tower a skyscraper of ultra luxurious apartments purchased by oil sheikhs and actors, buying some other very valuable properties, all through debt financing.*
>
> *Trump did not want to give up managerial control by selling stock even when he needed to raise money to build a new casino and a hotel. Because of his reputation, banks were willing to lend him a great deal of money against his properties.*
>
> *But when the economy took a downturn in the late 1980's he couldn't make his loan payments, which forced him to sell off his Airline – Trump Shuttle, some casinos and some good properties.*
>
> *The risk of debt is that failure to make loan payment can destroy the business before it lets the chance to prove itself.*

Sources of Raising Debt:

Debt

- Debentures
- Public Deposits
- Loan from Bank
- Loan from Financial Institution
- Loan from specialized Financial Institution
- Grants
- Private Money Lenders
- Trade Credit

(1) Debentures: A debenture is a written instrument acknowledging a debt and containing provisions as regards the repayment of principal amount and the payment of interest at a fixed rate.

Thus, a certificate or a document issued by a company under its seal as an acknowledgement of it debt to be repaid back after the expiry of said period is a debenture. It's a long term arrangement of raising funds from outside.

(2) Public Deposits: When an entrepreneur invests the general public to deposit their savings with his company, for a period not exceeding 36 months at the rate of return (interest) which is generally higher than the rate applicable on bank deposits is called to raise funds through public deposits. The depositors have no rights in management and are like creditors of the company.

(3) Loan from Bank: Commercial banks, generally extends short term to medium term loans to firms of all sizes and in many ways like:

(a) Overdraft: A temporary arrangement in the form of a permission granted to the customers to withdraw more than the amount standing to his/her credit.

How it works:

(i) Under overdraft, the bank permits the customer to overdraw his account up to a certain limit for an agreed period.

(ii) To avail of this facility, a customer should have a current account with that bank.

(iii) Interest is charged on the amount actually overdrawn.

(iv) Overdraft may be allowed on the security of assets or customer's personal security.

(b) Cash Credit: This facility is like overdraft arrangement with it's features being:

(i) The bank allows the borrower to borrow up to a specified limit.

(ii) The amount is credited to the account of the borrower.

(iii) The customer can withdraw this amount as and when he requires.

(iv) Interest is charged on the amount actually withdrawn.

(v) Cash Credit is usually granted on a bond or some other security.

(c) Discounting of bills/Factoring: Discounting of bills, is an arrangement, where in the bank encashes the customer's bills before they become due for payment.

For this, the bank charges a nominal amount called discounting charges. In case the bill is dishonored on due date, the bank can recover the amount from the customer. Similarly, factoring is a financial service which is rendered by the specialized person known as a 'factor', who deals in realizing the book debts, bills receivables, managing sundry debtors and sales registers of the commercial and trading firms in the capacity of agent for a commission called commercial charges or discount. Thus, it is the sale of accounts receivables to a bank or finance company or anyone else.

(d) Loans and Advances: A loan is a lump sum advance made for a specified period. Here, the entire amount is paid to the borrower in lump sum either in cash or by way of transfer to his account. In this:

(i) The borrower may withdraw the entire amount in a lump sum or in installments as per his/her needs.

(ii) The interest is charged on full amount of loan irrespective of how much had been actually withdraw.

(iii) Loans are generally granted against the security of certain assets.

(e) **Term Loan**: These loans are extended by the banks to their customers for fixed period to purchase:

(i) Machinery

(ii) Trucks, Scooters

(iii) Houses, etc.

The borrower repays these back in monthly/quarterly/half yearly/ annual installments.

(f) **Demand Loans**: These loans are provided by the banks against the security of Fixed Deposits Receipts (FDR), Government Securities, Life Insurance Policies, etc.

These loans are called demand loans because bank can demand them at any time, by giving notice to the customer.

(4) **Loans from Financial Institutions:** Institutional finance refers to institutional sources of finance to Industry, other than commercial banks. These institutions are established by the Central/State Government, aiming at:

(i) Promoting the industrial development of a country.

(ii) Providing both owned capital and land capital for long and medium term requirements.

(iii) Supplement the traditional financial agencies like commercial banks.

(iv) To encourage setting up of industries in backward areas.

(v) To provide technical assistance to industrial units.

(vi) To develop investment markets.

(5) **Loans from specialized Financial Institutions:** Specialized Financial Institutions provide mainly the long term financial assistance to the Industrial Undertakings.

These specialized institutions provide three basic ingredients to industries:

(a) Capital

(b) Knowledge and Technical Help

(c) Entrepreneur guidance.

(6) **Grants**: All publicity funded schemes are designed to encourage new and growing businesses to bring wealth and ultimately create jobs. To help achieve this, government makes available a portion of the tax payer's money to help and encourage enterprise.

This cash gets distributed through a variety of ministers, departments and agencies on a national and local, most businesses are eligible at any one time to apply for a number of different grants and support which are distributed in a wide variety of grant form.

(7) **Private Money Lenders:** Borrowing funds from the Private Money lenders is one of the oldest practice of availing finance. It's more prevalent in rural India where some capitalist member of society, on their own terms and conditions, privately lend money to others. Where, entrepreneur has no other choice left and some emergency be falls, even at a very high rate of interest he avails of this source.

(8) **Trade Credits:** Credits extended by one trader to another, for the purchase of goods/services from one another.

Customarily, a credit period of 180 days is extended on purchase of supplies. Thus, it facilitates the entrepreneur's working capital.

Another Perspective of Financing: Internal Versus External Funds:

Internal or External Funds:

Financing is also available from both internal and external funds. The type of funds most frequently employed is internally generated funds, coming from several sources as follows:

(a) Past savings, help from family members

(b) Retained profits

(c) Sale of assets

(d) Squeezing (reducing) working capital

(e) Chasing up debtors or delaying payments to creditors

(f) Sales of little-used assets

(g) Procuring assets on rental basis/ lease rather than buying

(h) Sale of redundant assets

(i) Reducing short-term assets viz. inventory, cash etc.

The other general source of funds is external to the venture. This is money from outside the firm's own resources. Mostly the debt financing is all referred as external source of raising funds.

Each source has its own merits and demerits. No one form can be termed as 'the Best'. It's always better for the entrepreneur to compare, evaluate and conclude 'a combination' of sources which is capable of giving an entrepreneur:

(1) Minimum cost

(2) Maximum benefit

Summary

Financing an enterprise – whether large or small – is a critical element for success in business. The entrepreneur must consider all possible sources of capital and select the one or a combination which will provide the needed funds at minimal cost and minimal loss of control.

Types of Financing Sources:

(1) *Ownership Financing / Equity based financing ownership / equity refers to the capital invested in an enterprise by its owners, Equity participation can be through:*

- (a) *Ploughing back of profits*
- (b) *Equity Shares*
- (c) *Preference Shares*
- (d) *Seed Capital*

(2) *Personal:*

- (a) *Personal Savings*
- (b) *Friends and relatives*
- (c) *Chit Funds*
- (d) *Deposits from Dealers*

(3) *Public*

(4) *Venture Capital:*

- (a) *Angel Investors*
- (b) *Venture Capitalist*

(5) *Debt:*

- (a) *Debentures*
- (b) *Public Deposits*
- (c) *Loan from Bank viz.....*
  - *Overdraft*
  - *Cash Credit*
  - *Discounting of bills / factoring*
  - *Loans and advances*
  - *Term Loan*
  - *Demand Loan*
- (d) *Loan from financial institutions*
- (e) *Loan from specialized financial institutions*
- (f) *Grants*

(g) Private Money Lenders

(h) Trade Credit

Finance is also available:

- *Internally i.e. finance is availability from within the firm.*
- *Externally i.e. finance from outside the firm's own resources.*

Mentorship

'Mentorship is a developmental partnership through which one person shares knowledge, skills, information and perspective to foster the personal and professional growth of someone else."

The original Mentor is a character in Homer's epic poem. 'Odyssey. When Odysseus, King of Ithaca went to fight in the Trojan War, he entrusted the care of his Kingdom to a Mentor. The Mentor served as the teacher and overseer of Odysseus's son, Telemachus. Thereafter, the word popularized for all those who acted as a trusted counselor or guide or as a wise, loyal advisor to someone else.

Mentoring is about a person helping another to achieve something. Where in, a faithful, wise advisor, creates an informal environment, in which the other person feels encouraged to discuss their needs and circumstances openly and in confidence is said to be mentoring. Mentoring is a powerful personal development and empowerment tool.

In other words, providing help and support in a non-threatening way, in a manner that the recipient appreciates and values is mentoring. It involves to support and encourage people to manage their own learning in order that may maximize their potential develop their skills, improve performance and become the person they want to do.

Who is a Mentor:

The much awaited TV Show "Kaun Banega Crorepati (KBC)" gives the contestant four life lines – Phone a friend, Audience Poll, Expert Opinion and Double Dip.

Ever thought what makes the contestant choose three "friends" in priority order, to look for help when in trouble. "Audience" present will not be sharing the "booty", but still provides unconditional support, which the contestant in most cases believes in and follows.

Why? "Expert opinion" – yes, surely given by an expert from the concerned field but still not a God, then what makes the participant take his advice so constructively.

Are all these people – mentors for the contestant that particular venture/game.

A friend, philosopher, guide, coach, teacher, adviser, tutor, instructor, counselor, guru – all are terms, used interchangeably to denote 'Mentor'.

A mentor is a trusted guide, advisor, wise intellect person who uses the mind creatively especially in occupational settings.

What does a mentor do?

- Teaches the mentee about a specific issue
- Coaches the mentee on a particular skill
- Facilitates the mentee growth by sharing resources and networks
- Challenges the mentee to move beyond his or her comfort zone
- Creates a safe learning environment for taking risks
- Focuses on the mentee total development.

Who is a Business Mentor:

When setting up or developing a business, a support network is crucial. Whether it is family or friends or your career advisor giving out advice, the power of this cannot be underestimated. Thus, there may be a person who has the experience of successfully setting up and running a business.

This established person who is capable and willing to offer invaluable advice, support and guidance to a new entrepreneur is referred as Business mentor. The person who gives advice is called mentor and recipient as 'Mentee'.

It is important for a mentee to develop relationship with a mentor by meeting and communicating consistently, regularly and in confidence.

Characteristics:

A mentor-mentee relationship focuses on developing the mentee professionally and personally. As such, the mentor does not evaluate the mentee with respect to his or her current job, does not conduct performance reviews of the mentee and does not provide input about salary increase and promotions.

Thus, mentoring is the process through which someone who is perceived as a facilitator, listener, coalition builder, trustworthy, creates a safe learning environment, without making the mentee worry about negative consequences.

Rendering of mentoring services exhibits the following features:

1. Takes place outside of a line manager-employee relationship, at the mutual consent of a mentor and the person being mentored.
2. Is career-focused or focuses on professional development that may be outside a mentee's area of work.
3. Relationship is personal–a mentor provides both professional and personal support
4. Relationship may be initiated by a mentor through a match initiated by the organization.
5. Relationship crosses job boundaries.
6. Relationship may last for a specific period of time (nine months to a year) in a formal program, at which point the pair may continue in an informal mentoring relationship.

Types:

Generally, a mentor does not get involved in the daily activities of the business. But they will stay in contact with the new business owner, and make themselves available when questions arise.

At the start, the person being mentored may need more frequent meetings but as the mentee grows confident, they will need fewer contacts with the mentor. It is for the mentee to select the type of mentoring required.

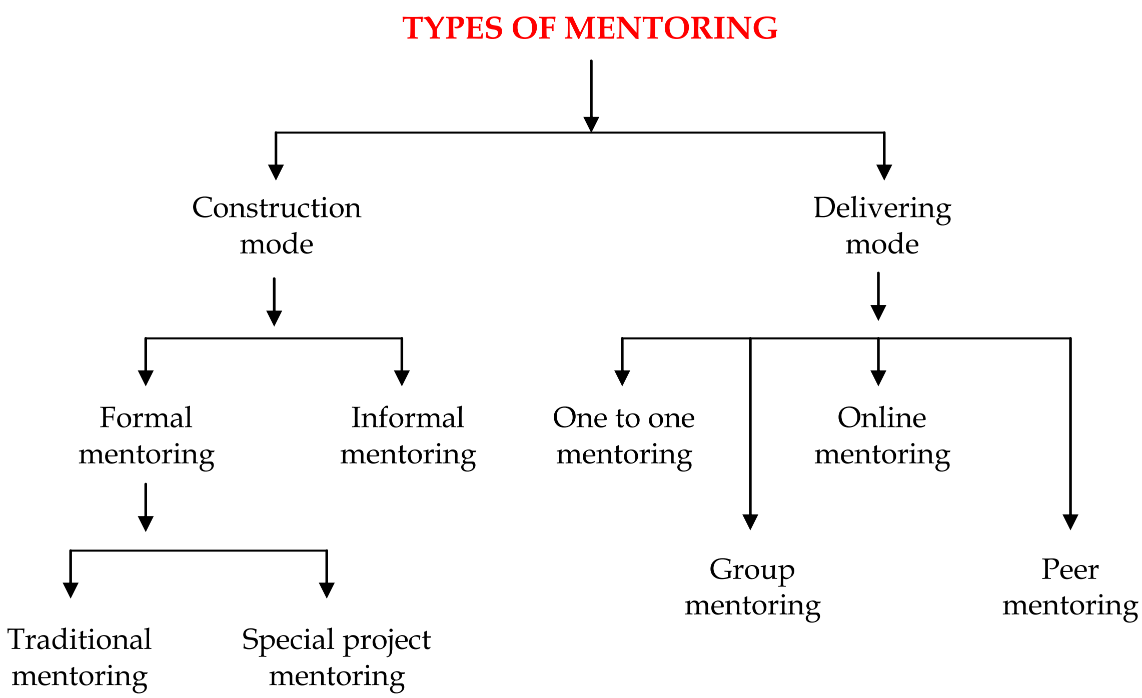
Mentoring thus may be classified on two grounds:

(A) Mode of construction (in which way mentorship is structured)

(B) Mode of delivering (in which manner mentorship is rendered)

Informal:

- Goals of the relationship are not specified
- Outcomes are not measured
- Mentor and mentee self-select on the basis of personal chemistry.



Formal:

- Mentor and mentee are paired based on compatibility
- Goals are established from the beginning by the organization
- Outcomes are measured.

*One-on-one: This mentoring matches one mentor with one mentee.

***Group mentoring:** This requires a mentor to work with 4-6 mentees at one time.

***Online mentoring:** Mentoring relations through computerized programmes.

***Peer mentoring:** Mentoring relations, formally or informally with colleagues.

Role and Importance

Mentors are there to provide support, identify strengths and weaknesses and help mentee to deal with them effectively.

For giving a strong foothold to the venture and ensuring its growth, the role of the mentor is very wide, crucial and significant. This long-term guidance support, enabling someone who is less experienced to develop and grow in their chosen role can be summarized as follows:

(a) Help in diagnosing in order, to define and understand the current situations in the enterprise.

(b) Help a mentee to assess his/her areas of shortcomings and strengths, giving critical feedback to him in key areas.

(c) Provide assistance in finding the necessary information.

(d) Provide assistance in preparation of documentation for the enterprise and enterprise support programmes.

(e) Provides guidance and support in preparation and implementation of development activities/plans/projects, in order to achieve the best possible business results.

(f) Helps in identification, procurement and utilization of resources required for the proposed venture.

(g) Provides assistance in finding business partners.

(h) Provides consultation, and help in coordinating activities aimed at accessing funds, new technologies etc.

(i) Introduce the mentee to relevant consultants, trainers, suppliers, lawyers, accountants etc. for that will help him boost confidence.

(j) As the mentor has the experience of witnessing 'highs' and 'lows' during his venture starting, he/she can be a great source of introducing mentee to threats, can risks of market.

(k) Helps mentee in learning, specific skills, knowledge, unspoken rules critical for success of Business.

Mentoring benefits the enterprise, mentors and mentees.

Mentors enjoy many benefits:

- Gains insights from the mentee's background and history that can be used in the mentor's professional and personal development.
- Gains satisfaction in sharing expertise with others.
- Re-energizes the mentor's career.
- Gains an ally in promoting the organization's well-being.
- Learns more about other areas within the organization.

Mentoring in itself benefits the organisation through:

- Enhancing strategic business initiatives
- Encouraging retention
- Reducing turnover costs
- Improving productivity
- Breaking down the "silo" mentality that hinders cooperation among company departments or divisions.
- Elevating knowledge transfer from just getting information and to retaining the practical experience and wisdom gained from long-term employees.
- Enhancing professional development.
- Linking employees with valuable knowledge and information to other employees in need of such information.
- Using own employees, instead of outside consultants, as internal experts for professional development.
- Supporting the creation or a multicultural workforce by creating relationships among diverse employees and allowing equal access to mentoring.
- Creating a mentoring culture, which continuously promotes individual employee growth and development.

Summary

A mentor is a trusted guide, advisor, wise, intellect person who uses his mind creatively especially in occupational settings.

Mentorship is a developmental partnership through which one person shares knowledge, skills, information and perspective to foster the personal and professional growth of someone else.

The person, well established, capable and willing to offer invaluable advice, support and guidance to a new entrepreneur is referred as 'Business Mentor'.

Types of Mentoring:

(A) On basis of construction mode :

(1) Formal mentoring

(2) Informal mentoring

(B) On basis of Delivering mode :

(1) One to one mentoring

(2) Group Mentoring

(3) Online Mentoring

(4) Peer Mentoring

Benefits / Importance of Mentoring to the:

- *Mentee*
- *Mentor*
- *Organisation*

Size and capital based classification of Business Enterprises

The etymology of "business" relates to the state of being busy either as an individual or society as a whole doing commercially viable and profitable work.

*"Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods". **— L.H. Haney***

An economic activity which is conducted on regular basis to earn profit through of sale, exchange or transfer of goods and services, is referred as business.

Characteristics:

The above description of business brings to light the following characteristics :

(1) Business is an economic activity.

(2) It deals with exchange, sale, transfer of goods and/or services.

(3) There is regularity in dealings.

(4) Business is conducted with profit motive.

(5) Every business has an element of risk.

(6) Business deals with creation of utility.

(7) To be business the activity should be capable of consumer satisfaction.

Classification:

All the activities which are undertaken in connection with the place of production to the place of consumption is said to be business.

The activities connected with the production are called 'Industry' and the activities connected with the distribution of goods produced from the factories to the consumers are called commerce. This is one of the common modes of classifying business activities.

Just like "the exact definition of business" is a matter of debate and has a complexity of meanings, "the classification of business" varies from country to country, region to region, author to author.

Business activities can be also classified according to size or ownership on the following grounds/basis:

(i) activity

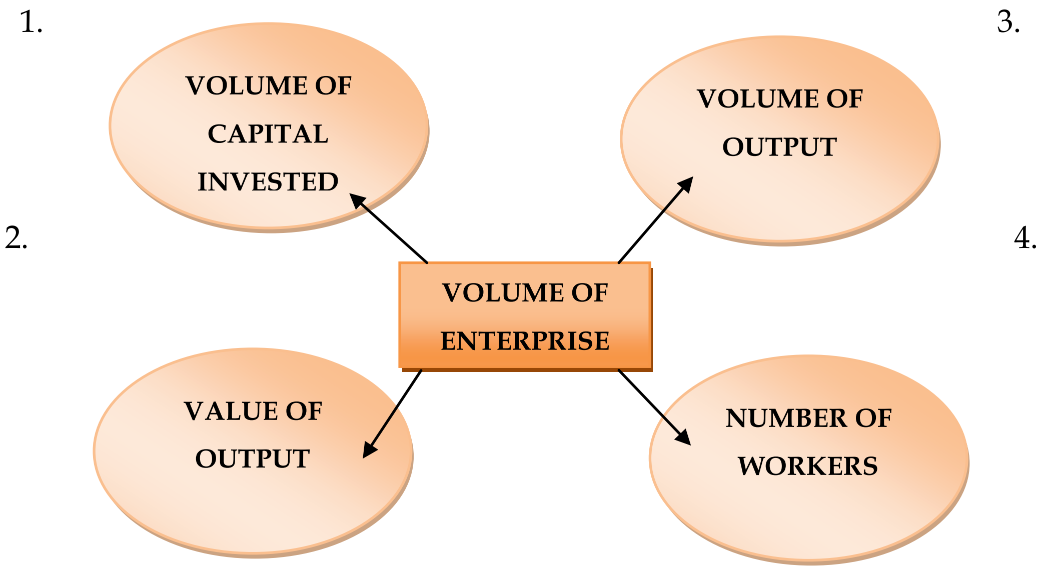
(ii) size

(iii) ownership

A better way of classifying business is size-wise.

Size:

How to find out the size of the business? Whether a business enterprise is small or large depends upon its volume. Some of the prevalent parameters for measuring the volume are as follows:



In India, often, it is adjudged on the basis of the volume of the capital invested whether an enterprise is large or small.

Thus, according to volume of capital invested, industries are categorized as:

(a) Small Scale

(b) Medium Scale

(c) Large Scale

A. Small-Scale (SSI):

It means that Industrial Unit whose investment in plant and machinery does not exceed Rs. 5 crore. The main features of these industries are as follows:

(i) Labour is kept on wages (thus unlike cottage industry, employers themselves do not do the work but get the work done with the help of labourers).

(ii) Machines are used.

(iii) Machines are run with electricity.

(iv) The following are the main examples of SSI units:

(a) Hosiery factories in Ludhiana.

(b) Scientific instruments making factories in Ambala.

(c) Carpet making factories in Panipat.

(d) Radio, TV, etc. manufacturing factories in Delhi.

(2) Tiny Sector: Only those business enterprises are constituted under the tiny sector whose investment in plant and machinery is up to Rs. 25 lakhs, but would shortly be raised irrespective of location of the unit.

What are Micro, Small and Medium Enterprises?

Definitions of Micro, Small & Medium Enterprises

In accordance with the provision of Micro, Small and Medium Enterprises Development

(MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

(a) Manufacturing Enterprises- The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951). The Manufacturing Enterprises are defined in terms of investment in Plant and Machinery.

(b) Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Manufacturing Sector	
Enterprises	Investment in plant and machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees, but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees, but does not exceed five core rupees

A separate package has been launched for the development of the tiny sector. These industries can continuously avail privileges of many kinds. Land allotment, electricity connection, technology, etc. are included among these privileges. Monetary help from financial institutions and getting priority in the list of government purchase are also among the privileges enjoyed by the tiny sector. On the other hand, other small industries can avail these privileges only once.

(3) **Ancillary/Auxiliary Small Units:** A small-scale industry unit can be known as ancillary (auxiliary) small industrial unit if it supplies not less than 50% of its production to another unit, referred to as the parent unit. Such type of units manufacture components, etc. for the parent units. These units have he benefit of a certain demand from the parent units. They also have the technical and financial help from their respective parent units.

(4) **Micro-business:** A unit is known as micro business enterprise if it has an investment in plant and machinery (their original cost excluding/and building & items specified by Ministry of SSI in its notification No. S.O. 1722 (E) dated Oct. 5, 2006) does not exceed Rs. 25 lakh.

(5) **Small-scale Service and Business (Industry Related) Enterprise:**

The definition of MSME's (Ministry of Micro, Small and Medium Enterprises) in the service sector is:

- Micro-enterprise: Investment in equipment does not exceed Rs. 10 lakh.
- Small enterprise: Investment in equipment is more than Rs. 10 lakh but does not exceed Rs. 2 crore.
- Medium enterprise: Investment in equipment is more than Rs. 2 crore and less than 5crores.

(6) **Small-Scale Industries Owned and Managed by Women Entrepreneurs:** A small-scale industry can be known as a 'Women Enterprise' if a woman or a group of women individually or jointly, have share capital of not less than 51%. Such type of enterprises can avail of the concession offered by the government, e.g. low rate of interest on loans, etc.

(7) **Export-oriented**: A small scale industry unit can be known as export-oriented unit if it exports more than 50% of its production. Such type of units have the benefit like subsidy offered by the government.

The Ministry of MSME & ARI will bring out a specific list of hi-tech and export oriented industries which would require the investment limit to be raised upto Rs. 5 crores to admit of suitable technology up gradation and to enable them to maintain their competitive edge.

(8) **Cottage and Rural:** According to the Fiscal Commission, "*Cottage industry is an industry which is run either as whole-time or part-time occupation with the full or partial help of the members of the family.*"

The main features of these industries are as follows:

(i) Run only by the members of the family.

(ii) Mainly run by the artisans at their homes.

(iii) Involve very little capital.

(iv) Often fulfill the requirement of a local region.

(v) Involve rare use of machines.

(vi) The main examples are khadi and handicrafts industries. Traditional items are manufactured in these industries like mats, shoes, pottery etc.

B. Medium:

A medium enterprise is one where the investment in plant & machinery is more than Rs. 5 crore but does not exceed Rs. 10 Crore.

C. Large:

The industrial units whose investment in plant and machinery exceeds 10 crores are said to be large units.

The Indian micro and small enterprise (MSE) sector, therefore, plays a pivotal role in the country's industrial economy. It is estimated that in value, the sector accounts for about 45 percent of manufacturing output and about 40 percent of total exports. In recent years, the MSE sector has consistently registered a higher growth rate than the overall industrial sector. The major advantage of the MSE sector is its employment potential at a law capital cost. According to available statistics (4th Census of MMSE Sector), the sector employs an estimated 59.7 million people in 26.1 million enterprises; labour intensity in the MSE sector is estimated to be nearly four times that of large enterprises. In most economies, smaller enterprises outnumber large companies by a wide margin. SMEs are said to be responsible for driving innovation and competition in many economic sectors.

Summary

Business is defined as an human activity directed towards producing or acquiring wealth through buying and selling of goods.

Classification of Business:

Though classification of Business varies from country to country, author to author, in general it can be classified on following grounds:

- *Activity*
- *Size*
- *Ownership*

On the basis of size, volume of the capital invested is a strong parameter to categories enterprises as:

- ***Small Scale:** The individual unit whose investment in plant & machinery does not exceed Rs. 5 crores.*
- ***Medium Scale:** The unit where the investment in plant & machinery is more than Rs. 5 crore but doesn't exceed Rs. 10 crore.*
- ***Large Scale:** The unit where the investment in plant & machinery exceeds Rs. 10 crores is said to be a large scale industry.*

The Indian micro and small enterprise (MSEs) sector plays a pivotal role in the country's industrial economy.

A Small-Scale Services and Business (industry related) Enterprises are ones as follows :

- ***Micro-enterprises:** Investment in equipment does not exceed Rs. 10 lakhs.*
- ***Small enterprises:** Investment in equipment is more than Rs. 10 lakh but does not exceed Rs. 2 crore.*
- ***Medium enterprises:** Investment in equipment is more than Rs. 2 crore and less than 5 crores.*

Sources of Information

Information is power and an essential ingredient in decision-making. Timely, relevant and quality information for undertaking is too significant in making right choice.

Definition:

Information is nothing but a processed data. An information source is where you got your information from; this can be a book or a Website. Information sources are the various means by which information is recorded for use by an individual or an organization. It is the means by which a person is informed about something or knowledge is availed to someone, a group of people or an organization. Information sources can be observations, people, speeches, documents, pictures, organizations. Information sources can be in print, non-print and electronic media in format.

Area of Assistance	Institutions available
1. Selection of Project	DTC (District Industrial Centre), ITC (Indian Investment Centre, SFC (State Finance Corporation)
2. Registration	NSIC (National Small Industrial Corporation CCIE (Chief Controller of Import and Export) STC (State Trading Corporation)
3. Finance	SFC (State Finance Corporation). IIC, IDC (Industrial Development Corporation) IDBI (Industrial Development Bank of India etc.)
4. Technical know how	DDCA (Directorate of Drug Control Association) CIPET (Central Institute of Plastic and Engineer Tool)
5. Training	EDI (Entrepreneurship Development Institution of India) NISIET (National Institute of small Industry Extension Training)
6. Infrastructure facility	DIC (District Industries Centre), EB (Electricity Board) LA (Local Authority)
7. Raw Material	MDC (Mineral Development Corporation) MMTC (Mineral and Metal Trading Corporation) STC (Small Industrial Corporation etc.)
8. Plant and Machinery	SFC (State Finance Corporation) CCIE (Chief Controller of Import and Export)
9. Marketing information	TCO (Technical Consultancy Organisation) DEP (Directorate of Export Promotion)
10. Product Standardisation and Quality of Mark	ISI (India Standards Institute), RT (Register of Trade Mark)

Producers/Originators of Information:

There are 3 main producers/originators of information. These are the:

a) Government Agencies

b) Academic Institutions

c) Private sector

d) Individuals

Importance of Information for an Entrepreneur:

Entrepreneur is a person who conceives an idea, or who discovers the opportunity in the environment. This ability of an entrepreneur of perceiving and sensing an opportunity, makes him always, search "for knowledge/need/problem" in the environment.

He needs to, in depth scan "inquiry/idea"/"quest" so as to evaluate its feasibility and viability. A detailed investigation is a must, before an entrepreneur converts the idea into enterprise. The most common parameters to be investigated are:

(1) Feasibility, viability, application and utility of the idea.

(2) Prevailing market conditions viz. demand, supply, competitors.

(3) Types of resources required and their supplies.

(4) Expected profitability.

(5) Prevailing environmental factors and their impact on idea's feasibility.

Thus, before any decision is taken an entrepreneur needs accurate, authentic and relevant information.

Information Resource Centre:

Information can come from virtually anywhere. An entrepreneur must have the ability to harness different sources of knowledge and information. Starting a business requires assembling an electric range of data and keeping it up to date. Though, not an easy task but, with the sources mentioned in Appendix-One, it becomes possible for the entrepreneur to keep himself/herself well informed, supported and abreast of key business issues.

These are the principal sources of help and advice for anyone starting a business in India. Right from personal experiences, books, articles, expert opinions to encyclopedias, the web to drawing first hand experience of others, the choice of the source to be consulted is usually determined by the type of information sought.

The three types of information sources are:

1) Primary

2) Secondary

3) Tertiary

A. Primary:

Primary sources are original materials on which other research studies are based. To be a primary source:

(i) The data is collected by the investigator himself/herself, for the first time.

(ii) Primary source report, a discovery or share new information.

(iii) They present first hand accounts and information relevant to an event.

(iv) They present information in its original form, not interpreted, condensed or evaluated by other writers.

(v) They are usually evidence or accounts of the events, practices being researched and created by a person who directly experienced that event.

(vi) Primary sources are the first formal appearance of results in print or electronic formats.

Methods of Collection:

The different methods of collecting data are as follows:

(1) **Direct personal investigation:** Here, the investigator collects the information personally from the source concerned.

(2) **Indirect oral investigation:** The investigator approaches certain sources which are connected with the information directly or indirectly.

(3) **Local Correspondents:** The investigator appoints local agents or correspondents in different parts of the area under investigation.

(4) **Mailed Questionnaire:** The investigator prepares a questionnaire keeping in view the objective of the inquiry and sends it to informants by post.

(5) **Questionnaire through Enumerators:** Here, the enumerators go to informants along with the questionnaire to help them record thelatter's answer.

B. Secondary: Information about primary, or original information, which usually has been modified, selected or rearranged for a specific purpose or audience.

Secondary sources:

(1) One that was created by someone who did not have firsthand experience or did not participate in the events/situations being researched.

(2) Secondary sources describe, analyse, interpret, evaluate, comment on and discuss the evidence given by primary sources.

Methods of Collection:

(i) **Published:** Government publications, International Publications, Reports of Commission and Committees, Publications of Research Institute Magazines, Reports of Trade Associations, Publications of Personnel Investigation.

(ii) **Unpublished**: Not published, but available in office records like some research work, etc.

C. Tertiary:

Definition: Information which is a distillation and collection of primary and secondary sources:

(1) Not considered to be acceptable material on which to base academic research

(2) Are usually not credited to a particular author

(3) Are intended only to provide an overview of what the topic includes, its basic terminology, and often references for further reading

(4) Are materials in which the information from secondary sources has been "digested" reformatted and condensed, to put it into a convenient, easy-to-read form.

(5) Are once removed in time from secondary sources

(6) some reference materials and textbooks where their chief purpose is to list, summarize or repackage ideas or other information.

SOURCES OF INFORMATION

Primary Sources	Secondary Sources	Tertiary Sources
• Autobiographies	• Biographies, Encyclopedia, dictionaries, handbooks	• Chronologies
• Correspondence: email, letters	• Textbooks and monographs on a topic	• Classifications
• Travelogues	• Literary criticism and interpretation	• Dictionaries
• Diaries	• History and historical criticism	• Encyclopedia
• Eyewitnesses	• Political analyses	• Directories
• Oral histories	• Reviews of law and legislation	• Guide books and manuals

• Literary works	• Essays on morals and ethics	• Population registers statistics
• Interviews	• Analyses of social policy	• Fact books
• Personal narratives	• Study and teaching material	• Abstracts
• First-hand newspaper and magazine accounts	• Articles, such as literature reviews	• Indexes
• Legal cases, treaties	• Commentaries, research articles in all subject disciplines	• Bibliographies
• Statistics, surveys, opinion polls	• Criticism of works of literature, art and music	• Guide books and manuals
• Scientific data, transcripts		
• Journal articles		
• Paintings, Photographs		
• Films, Map		

Methods of Collecting Data:

Whether, an entrepreneur goes by primary, secondary or tertiary sources, he is to decide simultaneously whether the information to be collected is from all the units of a problem or any selected number of units are to be observed and conclusions drawn about the whole problem.

For example: just a handful no. of students might be interviewed to know, if they want remedial class or entire class of 45 be interviewed.

Thus, techniques of collecting data are:

1) Census Method

2) Sample Method

1. Census:

When all the units associated with a particular problem are studied, its called census method or complete enumeration survey method.

2. Samples:

In sample technique data is collected about the sample on a group of items taken from the population for examination and conclusions are drawn on their basis.

Here a sample is considered to be a representative of the whole. It is for the entrepreneur to decide which method will serve his interest the best. His decisions generally is after comparing, analyzing & evaluating the:

(1) Cost involved

(2) Accuracy required

(3) Time involved

(4) Type of information required

(5) Type of informants from whom the information is required.

Summary

"Information" is a processed data. An information source is where you got your information from. This source can be imprint, non-print and electronic media of format.

Producers of Information:

Information normally comes from:

- *Government Agencies*
- *Academic Institutions*
- *The private sector*
- *Individuals*

Importance of Information for an Entrepreneur :

- *Helps to evaluate the feasibility, viability, application and utility of the idea.*
- *Helps understand the prevailing market conditions and market forces governing the environment.*
- *Top timely, conveniently and in cost effective manner the resources and their suppliers.*
- *Know about one's competitors, their strengths and weaknesses.*

Types of Information Sources:

- *Primary*
- *Secondary*
- *Tertiary*

Methods of Collecting Data:

- *Census*
- *Sample*

Mobilisation of Resources

Q.1. Answer in not more than 15 words:

(i) Define the term 'resources'.

(ii) Why do entrepreneurs need resources?

(iii) What do you mean by 'mobilisation of resources'?

(iv) Name two state level organisations, which provide information about the infrastructural facilities.

v) How can an entrepreneur procure professional assistance.

Q.2. Answer in not more than 50 words:

(i) What are physical resources? Give two examples.

(ii) What factors help in determining the resources required?

(iii) What basic resources are required to commence any enterprise?

(iv) Enlist any four expert professional assistance required to start a school.

(v) Name any four factors to be kept in mind while selecting physical resources.

Q.3. Answer in not more than 75 words:

(i) Why does an Entrepreneur need expert professional services?

(ii) What is said to be an "efficient utilization of human resources'?

(iii) Why should entrepreneurs ensure that there is a "right individual at the right job"?

Q.4. Answer in not more than 150 words:

(i) Define 'intangible resources'. What do they generally comprise of?

(ii) With reference to utilization of resources, state any four moral responsibilities of the entrepreneur.

Q.5. Answer in not more than 250 words:

(i) What are material resources? While planning state the important decisions to be made by the entrepreneur.

(ii) "Procurement of physical resources is not easy". Giving reasons, state what is required to be planned for this procurement.

Estimating Financial Requirement

Q.1. Answer in not more than 15 words:

(i) Define 'Capitalisation'.

(ii) Define the term "Business Finance".

(iii) What is meant by 'Capital Structure'?

(iv) Name the plan that shows the inflows and utilization of funds.

Q.2. Answer in not more than 50 words:

(i) Why is finance required for business?

(ii) Enlist the major areas of financial decision-making by the entrepreneur.

(iii) The nature of business affects the requirement of fixed capital. Give two examples to support this observations.

Q.3. Answer in not more than 75 words:

(i) How is "Capitalisation" different from "Capital Structure"?

Q.4. Answer in not more than 150 words:

(i) What are the objectives of financial planning?

(ii) Differentiate between the Fixed Capital Requirement and Working Capital Requirement on the following basis:

(a) Meaning and scope

(b) Nature

(c) Duration

(d) Sources of procurement used.

(iii) State whether the following require small or large working capital. Answer should be supported by a valid reason:

(a) selling ice-creams

(b) following a liberal credit policy

(c) dealing in stainless steel wares

(d) using capital intensive technology.

Q.5. Answer in not more than 250 words:

(i) Discuss the factors that determine the amount of working capital required by an enterprise.

(ii) Explain the term 'Fixed Capital Requirement'. Discuss the factors to be kept in mind while planning for fixed capital.

(iii) 'An ideal capital structure is the result of great, planning and team work'. What factors are required to be planned and paid attention at this time.

(iv) Explain the meaning of 'Working Capital'. Briefly state any four factors that help determining the working capital requirement of a company.

Sources of Finance

Q.1. Answer in not more than 15 words:

(i) What is public financing?

(ii) Define debentures as a source of finance.

(iii) Why is Equity Share capital called "Risk Capital'?

(iv) From which type of capital are raw-materials purchased?

Q.2. Answer in not more than 50 words:

(i) On the basis of duration, classify the sources of finance.

(ii) What are the major sources of capital of a Public Limited Company?

(iii) In terms of tax benefits, which of the two-preference shares or debentures will be preferred by the organization? Give reasons.

Q.3. Answer in not more than 75 words:

(i) Define 'personal financing'. Give its sources.

(ii) Differentiate between 'equity shares' and 'preference shares'.

(iii) Differentiate between 'owner's funds' and 'borrowed funds'.

Q.4. Answer in not more than 150 words:

(i) Public deposits are a good source of raising medium term finance. How?

(ii) When is it appropriate to use financial institutions as a source of financing?

(iii) Name the following:

(a) The persons who are given preference in payment of dividend and repayment of capital.

(b) The person who are owners of a company.

(c) The secured creditors of a company.

(d) The source of finance in which the right to use assets for a specific period is worked out.

Q.5. Answer in not more than 250 words:

(i) What is 'venture capital'? Explain the mode of raising funds?

(ii) Discuss the various sources of financing capital through ownership.

(iii) Explain the term 'debt financing'. How are Banks' an important source of debt financing?

Mentorship

Q.1. Answer in not more than 15 words:

(i) Who is a 'Mentor'?

(ii) Define the term 'Business Mentor'.

(iii) Give one difference between Group mentoring and Peer mentoring.

Q.2. Answer in not more than 50 words:

(i) What is informal mentoring?

(ii) Enumerate the role played by the Mentor.

Q.3. Answer in not more than 75 words:

(i) What benefits do Mentors gain from their function?

(ii) Explain the concept of mentoring. Give 2 examples to support your answer.

Q.4. Answer in not more than 150 words:

(i) Briefly state the different types of mentoring.

(ii) "Not only the entrepreneur but also the entire organization benefits from mentoring". Explain?

Q.5. Answer in not more than 250 words:

(i) Discuss the role and importance of mentoring.

(ii) Explain mentoring. What are the characteristics?

Sources of Information

Q.1. Answer in not more than 15 words:

(i) Define Census Method of collecting data.

(ii) Name the main producers of information.

(iii) Name the sources available to an entrepreneur at state and central level, to seek information regarding plant and machinery.

Q.2. Answer in not more than 75 words:

(i) Identify any six major small scale industry groups in India.

(ii) What purpose does 'information' serve for an entrepreneur.

Q.3. Answer in not more than 150 words:

(i) Identify the information resource centre at the State and Central levels available in India to the entrepreneur regarding:

(a) Product standardization and quality mark

(b) Technical know-how

(c) Selection of Project

(d) Registration

Q.4. Answer in not more than 250 words:

(i) Differentiate between Primary, Secondary and tertiary source of information.

(ii) What is meant by Primary source of information? Explain the method of collecting primary data.

Size and Capital Based

Classification of Business Enterprises

Q.1. Answer in not more than 15 words:

(i) Define a 'Tiny enterprise.'

(ii) Define a Large Scale Enterprise.

(iii) When is a unit said to be a "Medium Scale Enterprise"?

(iv) When is a unit referred to as a' Micro-Business enterprise'?

Q.2. Answer in not more than 50 words:

(i) List the parameters used to measure the volume of the business.

(ii) How would you differentiate between an ancillary unit and a tiny unit?

(iii) When is any activity referred as a 'Business Activity'?

Q.3. Answer in not more than 75 words:

(i) Classify, on the basis of size, the business enterprises.

(ii) Explain the characteristics of a Cottage and Rural industry.

(iii) Discuss the enterprises which comes under the category of being an SSI units.

Q.4. HOTS: (High Order Thinking)

(i) Anurag, a textile industrialist, wants to buy a new printing machinery and its allied tools. Suggest for him, that before any finalising the same, what he should investigate first.

(ii) Procurement of Physical resources is not an easy job. Do you agree? Give reasons.

(iii) How is "Capitalisation" different from "Capital Structure"?

(iv) 'An ideal capital structure is a result of great, planning and team work'. What factors are required to be planned and paid attention to at this time?

(v) Anjali Ltd. had decided to expand its production capacity by modernizing its plant and machinery at an estimated cost of Rs. 2 crores. The company doesn't have enough reserves to finance modernization. Suggest 2 sources to the company from where they can raise finance.

Application based exercise:

(i) Shraddha wants to start an Agro based unit in Solan. What is she required to do to acquire a competent workforce for her proposed plant?

(ii) Suruchi is planning to establish a small scale export factory. To ensure that she is neither short of or in excess of capital, guide her how to go about for financial resources.

(iii) Mr. Nair, while planning for the "financial requirement, overlooked the use of 'Technology in Production'. What loss can befall on society because of his act of ignorance.

(iv) Mukesh is planning to establish a Restaurant at Cannaught Place, Delhi. What patterns of capital structure are available to him. Give reasons.

(v) Shalini plans to set up a Printing Press in Ludhiana. She looks upto her cousin Amit, who is successfully running a similar unit in Jaipur, for all possible help, guidance and suggestions. What kind of mentoring is this?

(vi) Malti, wants to commence a Blue Pottery Enterprise. Before starting, multiple information is required as a part of her systematic planning. Discuss the methods available to her to collect the required data.

Activities:

i) In our life, in some or the other point we do have mentors and we cannot undermine their importance in our lives. In groups organize a radio talk show discussing the role and importance of mentor of any entrepreneur of your choice.

ii) In small groups, pick a business franchise to use as the basis for creating a franchise contract. Make a list of the items that would need to be included in all parts of the franchise contract. Be specific in estimating all necessary details. Next, try selling your business as franchise to any other class mate. See what items you can both negotiate to your advantage and prepare a report on it.

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