

DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION

Developing Business Model and Business Planning

2.1. BUSINESS MODELS

2.1.1. Meaning of Business Models

There are number of people who frequently use the terms 'business model' and 'strategy'. But still the meaning of these terms is ambiguous. In simple terms, strategy is a plan which determines company's proposed future goals. While, business model is an intellectual depiction of a strategic plan applied by a company to generate revenue and earn profits. Thus, a business model can be applicable to more than one organisation and several business models can constitute to a firm's strategy.

Magretta proposed the definition of business model- a business model is a notional or symbolic representation of a characteristic of a firm's strategy. It summarizes the necessary specifications required by a firm to successfully furnish value to the customers.

A business model is the core narration as to how and why the organisation's product line and competitive viewpoint will generate revenue. It also specifies the relation with the cost structure of the company that yields lucrative earning opportunities and return on investment. A suitable business model is required for a new and existing venture to obtain value from an innovative. These models transform new technologies into cost-effective means.

Sometimes, a well-known business models cannot be applied to new ventures; hence a new model is necessary for start-ups. It is not just the model which is solely significant at times. The importance lies in the innovative business model and not in the innovative products or services offered by the organisation.

The various complications related to the firm's products, markets and external environment is understood by few or no individuals. Technical specialists understand their field of activity and the business experts understand their work. A business model helps to associate these two fields as shown in **figure 2. 1**:

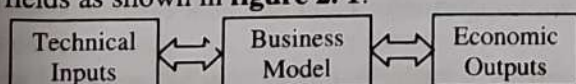


Figure 2. 1: Business Model

2.1.2. Components of an Effective Business Model

A business model is used as a resource for several business subjects like marketing, finance, economics, strategy, entrepreneurship and operations. A business model helps to predict the profits to be earned with the help of innovation.

The six important components of a business model are as follows:

- 1) **Value proposition:** It is an explanation of a customer's problem, the product which solves the problem and the customers' viewpoint towards that product value.
- 2) **Market segment:** It consists of specific set of people to be targeted and identifying different market segments having different needs and demands. At times, the potential of an innovation is revealed by considering a different market segment.
- 3) **Value chain structure:** It implies the place a firm and its activities hold in a value chain and the manner in which the firm apprehends the part of value created by it.
- 4) **Revenue generation and margins:** It explains the process of revenue generation (including sales, support, subscription, leasing, etc.) the cost structure and the targeted profit margins.
- 5) **Position in value network:** It recognises the competitors, complementors and network effects which can be used to provide added value to the customers.
- 6) **Competitive strategy:** It specifies the strategy adopted by a company to create a sustainable competitive advantage. **For example**, the company can attempt to design a strategy by means of cost, differentiation or a niche strategy.

2.1.3. Business Model and Strategy

Every company's business model has a common issue which is related to the selection of a strategy whether the strategy is sound enough or not from profit-making perspective. The idea of company's business model is

restrictively concentrated in comparison to the company's business strategy. A business strategy of a company is majorly concerned with its business approach and competitive capabilities.

Whereas, the business model is all about revenue and cost generation from the business strategy which indicates business sustainability. The leading players in the industry have a proven business models i.e. both in terms of feasibility and profitability. These proven business models have distinct strategies to earn profits and also have a realistic approach towards business. Organisations which are in the initial stages of business or which are incurring losses have a debatable business model their strategies still seek to generate high outputs which portray their ultimate intentions and this act ruptures the viability of the business enterprise.

Business model concepts are diverse from the business strategies of an enterprise. Some of these distinguishing factors are as follows:

- 1) A business model begins the process by identifying and developing value for consumers and establishes the model in a way which delivers value on a regular and reliable basis. Business strategy majorly concentrates on handling the competition faced in the industry.
- 2) A business model defines the fundamental reason of an enterprise i.e., the value that the entity offers to its customers, whereas a strategy defines the plan of action.
- 3) There is a difference between creating a value base for the company and creating value for its shareholders. Many times, the financial aspects of a business are excluded from the business model. Internal corporate resources are supposed to be financed out of the business model so that they do not feature eminently in the model. Similarly, the business model of a new entity requires venture capital financing from the initial stage of the business cycle. While, designing a business model, integration of financial domain is necessary to convert value in the business into value for the shareholder.
- 4) The intention behind the formation of a business model is based on the facts that the understanding of the consumers and other client parties is restricted and is prejudiced by the previous accomplishments of the firm. Usually, a strategy demands cautious, analytical computation and choice which is based on the presumption that a large amount of definitive data is available. It also concludes that any cognitive constraints by the firm have a restrictive significance. Thus, in the creation of a business model, it is significant to interact, share and frame new innovations with the help of external stakeholders whereas during strategy formulation these activities are primarily undertaken internally.

Both the concepts of business model and business strategy are not similar but are supportive in nature. At the same time, while designing a business model an individual has to design a strategy which is matching with the business model created. Similarly, a business model design can be affected by the strategic reasoning, enabling the model itself to be a prime distinguishing factor.

However the design of a business model has important indications for value representation. It states how value is generated with the help of suppliers, partners and customers.

The following important relationships between a business model and strategy should be considered for business organisations:

- 1) A business corporation has a varied number of business units or business divisions. Generally, all these units or businesses compete in different industry other than the parent industry.
- 2) Competing industries should always have different business model for each type of business so as to provide sustaining and unprecedented value innovations. A corporation should have a composed strategy which includes several business models for all the industries where the corporation is present (along with few new business models guiding into new industries or inducing creation of new industries in the near future).
- 3) Every business model whether new or existing should have a strategy which forces the business model towards proper implementation that gives the model a distinguishing character from present or prospective competitors.

2.1.4. Relationship between a Company's Strategy and its Business Model

The methods or techniques used by a business to attain its organisational mission and objectives are called the "business strategy". A mission defines the fundamental value system, long-term goals and the overall purpose of the business. **For example**, a grocery shop may have the goal of profit-making by offering good quality food items to customers, maintaining its environmental impact to the minimum possible level and strengthening its position in the local market. A company's strategy involves procuring of goods from the local food producers, motivating customers to carry their own grocery bags, giving advertisements in local newspapers and procuring recycled product packaging materials. A business strategy involves the method to deal with opportunities and threats it confronts.

A company's business model concept works closely in connection with the concept of business strategy. The business model outlines the basis which creates the

value; provide the value to its customers and in return collects earnings from them. Considerable variation is observed between business models from one company to another. **For example**, a business model of a grocery shop may include purchasing food items at wholesale prices and selling it to customers at a higher price to earn profit. On the other hand, a website might include a business model which provides video content to end users and earning income by showing advertisements on the website.

A business model of a company functions as a part of the overall strategy of the business. It provides the fundamentals of how a company earns profits to accomplish its organisational objectives. For instance, if a website is not earning sufficient profits by advertisements then the management may change the model by selling other goods via online store to improve the profitability level.

Basis of Difference	Company's Strategy	Business model
1) Perspective	A company's strategy mainly associated with its business view-point and competitive edge.	Company's business model has limited application in comparison to a company's business strategy.
2) Focus	The main focus of strategy is on the competition in the market.	A business model Initiates the process by finding and designing value to the customers and establishes the model in a way which delivers the designed value on a regular and reliable basis.
3) Rationale	Strategy is a plan of action to execute the business model.	A business model defines the fundamental reason of an enterprise to function as a business entity.
4) Assumption	A strategy demands cautious and analytical computation and choice which is based on the presumption that a large amount of definitive data is available.	The intention behind the formation of a business model is based on the facts that the understanding of the consumers and other client parties is restricted and is prejudiced by the previous accomplishments of the firm.
5) Orientation of activities	During the evolution of a strategy network, sharing information and framing new value innovations with external stakeholders is internalized.	In the creation of a business model, it is significant to interact; share and frame new innovations with the help of external stakeholders are externalised.

2.1.5. Importance of Business Models

Nowadays, the business models used depends on the technology levels in the organisation. Top level managers have created entirely new models that depend fully on existing or emergent technology. Using technology, businesses can reach a large number of

customers with minimal costs. Such is its importance in today's world that a properly framed business model provides clarity to any business.

To identify and create value from an innovation, a start-up needs a well-structured business model. Business models transform latest technology into outputs at the economic level.

For emerging firms in industry, established business models cannot be followed, therefore there is a need to frame a new business model. Not only is the business model important, in some situations, innovation lies not in the product or service offered but in the business model itself.

Taking into account the complexities of products, markets, and the environment in which the firm operates, very few individuals fully understand the organisation's tasks and objectives in their entirety. The technical experts and the business experts know each of their domains clearly.

2.2. DEMYSTIFYING STRATEGY USING BUSINESS MODEL CANVAS (BMC)

2.2.1. Introduction

The Business Model Canvas (BMC) is a strategic management tool to quickly and easily define and communicate a business idea or concept. It is a one page document which works through the fundamental elements of a business or product, structuring an idea in a coherent way. It is a visual chart with elements describing a firm or product's value proposition, infrastructure, customers, and finances. It assists firms in aligning their activities by illustrating potential trade-offs.

The nine "building blocks" of the business model design template that came to be called the Business Model Canvas were initially proposed in 2005 by Alexander Osterwalder based on his earlier work on business model ontology.

According to Osterwalder and Pigneur, "business model canvas allows organisations to create, deliver and capture value".

The Business Model Canvas is part of the visual and design thinking trend. This means that, through its non-linear process, it enables the creation of a visual system that is accessible, readable and easy to understand for everybody. This canvas is a medium which entrepreneurs can use to reflect on and construct their business model on a single page: they can easily organise their ideas in the boxes in the template, in

order to move more quickly — and effectively — to action. The fact that it offers an overview of the models under construction facilitates the clear definition of priorities, the creation of concrete action plans and a creative and adaptable approach, which greatly simplifies the future development of a business plan. This tool also improves interactions with customers and boosts communication between employees.

2.2.2. Osterwalder Business Model Canvas/Building Blocks of Business Model Canvas

The Business Model Canvas was proposed by **Alexander Osterwalder** based on his earlier book: *Business Model Ontology*. It outlines nine segments which form the building blocks for the business model in a nice one-page canvas.

The matrix consists of nine interrelated blocks that illustrate all the activities of a company. Clearly differentiated and identified, the boxes are carefully and precisely arranged on the canvas. This layout creates synergies between them, resulting in a unique strategy for every company that tries the exercise.

Business Model Canvas Demo				
Key Partners +	Key Activities + Key Resources +	Value Propositions +	Customer Relationships + Channels +	Customer Segments +
Cost Structure +			Revenue Streams +	

Figure 2.2: Business Model Canvas

- 1) **Key Partners of Business:** Key partners are the external companies or suppliers that will help businesses carry out their key activities. These partnerships are forged in order to reduce risks and acquire resources. Types of partnerships are:
 - i) **Strategic alliance:** partnership between non-competitors
 - ii) **Cooperation:** strategic partnership between partners
 - iii) **Joint ventures:** partners developing a new business
 - iv) **Buyer-supplier relationships:** ensure reliable supplies
- 2) **Key Activities:** What are the activities/ tasks that need to be completed to fulfil the business purpose? In this section, businesses should list down all the key activities they need to do to make their business model work.

These key activities should focus on fulfilling its value proposition, reaching customer segments and maintaining customer relationships, and generating revenue. There are 3 categories of key activities:

- i) **Production:** designing, manufacturing and delivering a product in significant quantities and/ or of superior quality.

- ii) **Problem-solving:** finding new solutions to individual problems faced by customers.
- iii) **Platform/ Network:** Creating and maintaining platforms. **For example,** Microsoft provides a reliable operating system to support third-party software products.

- 3) **Key Resources:** This is where businesses list down which key resources or the main inputs they need to carry out their key activities in order to create the value proposition.

There are several types of key resources and they are:

- i) Human (employees)
- ii) Financial (cash, lines of credit, etc.)
- iii) Intellectual (brand, patents, IP, copyright)
- iv) Physical (equipment, inventory, buildings)

- 4) **Value Propositions:** This is the building block that is at the heart of the business model canvas. And it represents the unique solution (product or service) for a problem faced by a customer segment, or that creates value for the customer segment.

A value proposition should be unique or should be different from that of the competitors. If marketer is offering a new product, it should be innovative and disruptive. And if he is offering a product that already exists in the market, it should stand out with new features and attributes. Value propositions can be either quantitative (price and speed of service) or qualitative (customer experience or design).

- 5) **Customer Relationships:** In this section, company need to establish the type of relationship it will have with each of its customer segments or how it will interact with them throughout their journey with the company.

There are several types of customer relationships

- i) Personal assistance
- ii) Dedicated personal assistance
- iii) Self-service
- iv) Automated services
- v) Communities
- vi) Co-creation

Company can understand the kind of relationship the customer has with the company through a customer journey map. It will help them identify the different stages customers go through when interacting with the company. And it will help them make sense of how to acquire, retain and grow the customers.

- 6) **Channels:** This block is to describe how the company will communicate with and reach out to the customers. Channels are the touchpoints that let company customers connect with the company. Channels play a role in raising awareness of the product or service among customers and delivering

the value propositions to them. Channels can also be used to allow customers the avenue to buy products or services and offer post-purchase support. There are two types of channels

- i) **Owned Channels:** company website, social media sites, in-house sales, etc.
 - ii) **Partner Channels:** partner-owned websites, wholesale distribution, retail, etc.
- 7) **Customer Segments:** These are the groups of people or companies that marketers are trying to target and sell their product or service to. Segmenting the customers based on similarities such as geographical area, gender, age, behaviours, interests, etc. gives company the opportunity to better serve their needs, specifically by customising the solution company is providing them.

After a thorough analysis of the customer segments, company can determine who it should serve and ignore. Then create customer personas for each of the selected customer segments. There are different customer segments a business model can target and they are;

- i) **Mass market:** A business model that focuses on mass markets does not group its customers into segments. Instead, it focuses on the general population or a large group of people with similar needs. **For example,** product likes a phone.
 - ii) **Niche market:** Here the focus is centred on a specific group of people with unique needs and traits. Here the value propositions, distribution channels, and customer relationships should be customised to meet their specific requirements. An example would be buyers of sports shoes.
 - iii) **Segmented:** Based on slightly different needs, there could be different groups within the main customer segment. Accordingly, company can create different value propositions, distribution channels, etc. to meet the different needs of these segments.
 - iv) **Diversified:** A diversified market segment includes customers with very different needs.
 - v) **Multi-sided markets:** this includes interdependent customer segments. For example, a credit card company caters to both their credit card holders as well as merchants who accept those cards.
- 8) **Cost Structure:** In this block, company identify all the costs associated with operating your business model. Company will need to focus on evaluating the cost of creating and delivering the value propositions, creating revenue streams, and maintaining customer relationships. And this will be easier to do so once company have defined its key resources, activities, and partners. Businesses

can either be cost-driven (focuses on minimising costs whenever possible) and value-driven (focuses on providing maximum value to the customer).

- 9) **Revenue Streams:** Revenues streams are the sources from which a company generates money by selling their product or service to the customers. And in this block, company should describe how it will earn revenue from the value propositions. A revenue stream can belong to one of the following revenue models,
- i) **Transaction-based Revenue:** made from customers who make a one-time payment.
 - ii) **Recurring Revenue:** made from ongoing payments for continuing services or post-sale services.

There are several ways you can generate revenue from:

- i) **Asset Sales:** By selling the rights of ownership for a product to a buyer
- ii) **Usage Fee:** By charging the customer for the use of its product or service.
- iii) **Subscription Fee:** By charging the customer for using its product regularly and consistently.
- iv) **Lending/ Leasing/ Renting:** The customer pays to get exclusive rights to use an asset for a fixed period of time.
- v) **Licensing:** Customer pays to get permission to use the company's intellectual property.
- vi) **Brokerage Fees:** Revenue generated by acting as an intermediary between two or more parties.
- vii) **Advertising:** By charging the customer to advertise a product, service or brand using company platforms.

2.2.3. Strategic Issues and the Business Model Canvas

The canvas provides an integrated and holistic view of the business model of organisations. Since the business model can be seen as the result of strategising, it provides a good starting point to document, analyse, and develop strategies.

And in order to see how this works, two strategic issues are considered:

- 1) **The Issue of Competitive Advantage:** The two schools of thought with respect to this issue are "inside out thinking" and "outside in thinking".
 - i) For an analysis of the former, one would typically start at the left side of the canvas: what are our key partners/resources/activities. From there we move to the right, and work out the value proposition that will allow us to be successful, and finally the market segment where we can make this happen.

- ii) For the latter, the argument is exactly the other way around: we start by selecting an attractive market (for example after conducting a blue ocean type analysis) and work our way back to the value proposition and required infrastructure of the organization.
- 2) **Issue With Respect to Multi-Business Organisations:** The issue that must be solved revolves around the question: strive for synergies, or market responsiveness of each business:
 - i) Start by drawing a canvas for each of the individual business units.
 - ii) Compare the canvasses, and search for synergies using the canvas to get a sense of the value of the synergy perspective (i.e. on the "left" to get synergies at the resource/activity level, or on the "right" to get synergies at the value proposition level).
 - iii) Analyse the strategic environment for each of the businesses (again, one could use the blue ocean approach, or use Porter's 5-forces / the PEST model) to get a sense of the value of the responsiveness perspective.

2.2.4. Advantages of Business Model Canvas

The advantages of business model are as follows:

- 1) **Start-up and Service Design:** A great product or service idea does not bring success instantly. Most ideas tend to come from the inside of companies, where employees feel, see and experience that team is very good at doing a certain job. The first thing to do is to think of a value proposition and potential customers. Which problem are we solving? And whose problem is this? Are customers willing to pay, or do we need an alternative revenue model? The structure of the Business Model Canvas helps businesses to add the other relevant elements necessary to turn idea into an implementable business model.
- 2) **Strategy Impact Assessment:** In larger organisations, periodically new versions of the strategy are released. Sometimes, because elements in the organisation's environment change, and often after changes in leadership. For the rest of the organisation, it can be difficult to interpret strategy, since it is on a fairly high level of abstraction.

There is a gap between strategy and the projects launched to implement this strategy. By assessing the strategic choices made, strategists can point out the places in your business model that are impacted by the strategy. Firstly, it helps them assess completeness, and fosters the discussion between those responsible for creating strategy and those responsible for executing it. This execution may lead to change in the way the enterprise does business

and/or is structured. Insight into the impact of the strategy on the business model helps strategists to allocate resources to the right places in the business.

- 3) **Innovation – In Search of New Directions:** The Business Model Canvas helps give insight into the current business model, but is at its best when applied for innovation. One effective approach is called the "epicentric-approach", in which company use one block as a starting point and sees what alternatives it can come up with. Any change will require changes in the other blocks.
- 4) **Portfolio Assessment:** Use the canvas as a background for your projects. Where do they impact your business model? What about the blank spots? How do we deal with the overlap? The most important thing here is to relate this to work done in Strategy Impact Assessment. By using the Business Model Canvas as a model to connect strategy to the project portfolio, strategists provide insight into the strategic fit of the projects. When strategists are positioned in a larger organisation, it makes sense to work way down from business model, to enterprise architecture, to project portfolio.
- 5) **Communicating more Detailed Models in a Business-Relevant Context:** Some of this may have to do with the fact that the representation of a view does not make sense to the audience. Or they just need a bit of guidance in order to feel comfortable in a world they are less familiar with, starting from a context they do understand. Once the stakeholders get used to thinking in terms of Business Model Canvases (which happens really fast), strategists can start using it as a basis for more detailed models that they are already creating. This helps architects and analysts get more traction with business management and marketing oriented people.
- 6) **Starting Point for Lean and Six Sigma Projects:** By applying the Business Model Canvas as a starting point, people get a better understanding of the context of their processes. The collaboration helps create a team experience on one of the first days of the assignment. In some practices we have seen that it fosters making choices and actually stopping some of the activities instantly. A common understanding of the value proposition is a good point of reference for assessing activities and discussing their added value.

2.3. IDENTIFYING THE RIGHT BUSINESS MODEL CANVAS

2.3.1. Introduction

The Business Model Canvas is a visual framework for describing the different elements of how a business works. It illustrates what the business does, for and with

water, employment, proper roads, other modes of transportation, banks, etc. All these amenities enhance the standard of living of rural people.

- 11) **Less Pressure of Population on Agriculture:** Rural population is largely dependent on agriculture and indirectly on land for survival. As a larger portion of population depends on these lands, they are further divided into smaller pieces. Because of which, no farming activities can be conducted on that small piece of land. There are about 30 lac people who depend on agriculture and the number further increases every year. Thus, there is an urgent need to decrease this liability or burden on land and this only possible when people will start setting up their own small scale business.
- 12) **Equitable Distribution of Income:** Generally it is observed that the income of a country is concentrated upon few businessmen and industrialists. But with the introduction of small and medium scale enterprises this concentration of income is being distributed among other industrialists from rural areas and small towns. This enables the country to reduce the gap between the rich and the poor.
- 13) **Social Advantage:** People with limited or small income get an opportunity to lead their life independently through SMEs. Industries become reachable for the rural people and operative in the rural areas making all the facilities like medical amenities, education and housing and other social overheads available at cheap rates. It inevitably increases standard of living and per capita income of the nation. A structure of ownership encourages people to participate in the economic growth and development of the country. SME acts as a basis for socialism, self-government and democracy.

2.4.4. Starting a Small Scale Industry/MSMEs

It is quite difficult for a new entrepreneur to promote a venture as it involves series of different steps. A potential entrepreneur has to follow a step-by-step approach to start a new venture.

The first milestone on which the initiation of an enterprise depends is deciding and encouraging the self. Similarly, if the correct venture is selected by the entrepreneur, his half of the job is completed.

In order to abide by various land-related laws, different types of situations have to be faced by the entrepreneur for establishing and managing a new venture or small scale enterprise.

All the governmental formalities, plans and legal policies must be followed carefully from the very conception stage of the enterprise growth so that no legal difficulties occur in future.

The different stages from which a business enterprise has to undergo during its development phase are stated in figure.

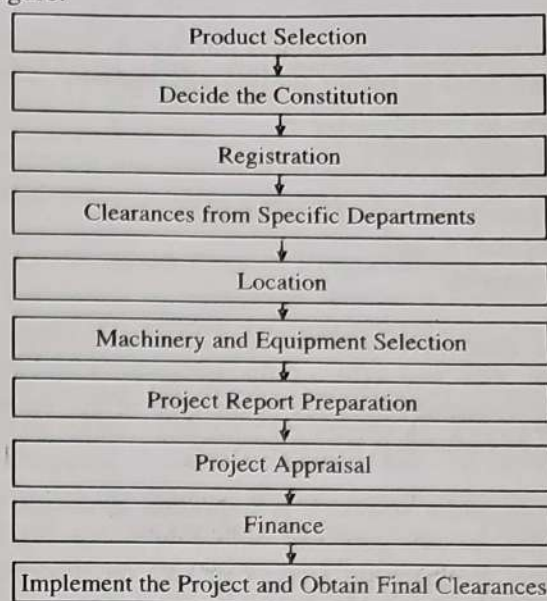


Figure 2.3: Enterprise Launching Formalities

2.4.4.1. Product Selection

Deciding the type of business, selecting the product or product range for manufacturing along with its quantity is the most vital step. The size and the type of business ownership will be decided on the basis of level of business activities. With the help of environment scanning and short listing, a number of project ideas can be developed by any entrepreneur. Every alternative can be evaluated closely with the help of opportunity analysis and then final product(s) can be decided.

The most critical facet of any successful project is a strong entrepreneur. For the entrepreneur to develop a small-scale industry, a suitable project needs to be decided, which mainly involves the selection of product or service and a perfect location for the business unit. Depending upon these choices, a project feasibility study needs to be conducted followed by preparation of a brief profile for the proposed project. Accordingly, a suitable business plan should also be made.

Thus, the first decision which an entrepreneur has to make is project selection. The following things will be included in the project selection and preliminary activities:

- 1) Selecting the product/service,
- 2) Selecting the location,
- 3) Conducting Project feasibility study,
- 4) Preparing the business plan, and
- 5) Preparing a project profile.

2.4.4.2. Decide the Constitution

Most of the new entrepreneurs do not have a clear vision related to various legal issues and other government-related factors associated with the selection

of a certain business, which could result in mistakes costing time and money. In India, most of the entrepreneurs tend to start a private limited firm.

The constitution of the business unit has to be decided by its promoter(s) before starting any industry, which are mainly of following types:

- 1) Sole proprietorship,
- 2) Partnership,
- 3) Corporation/Limited Company,
- 4) Cooperative, and
- 5) Franchising.

All these alternatives will be decided on the basis of the objective, size and type of the business. Depending upon the available resources or the type of investment, the form of ownership is also decided.

During the initial stages, it is important to decide the constitution of the unit and before applying for the Provisional Registration Certificate, all the necessary formalities must be finished.

2.4.4.3. Registration

Registration of a new venture is very important. Though not mandatory, but registration is very advantageous for a business unit as it provides a legal identification and status to the business so that it can execute all its legal rights. A registered business unit is provided with government assistance, incentives and licenses to import raw materials. Briefly, a business can ensure all its legal rights by registering itself.

Maintaining the statistics and role of different business units for providing various promotional plans and incentives is the main objective of registration. According to the guidelines of Central Government, there is a uniform registration process for the business units.

However, in some states these guidelines vary with some modifications done by the State Government. Also, similar registration schemes are used by the States for the implementation of their own policy implementation. In some states, "SIDO registration scheme" or "State registration scheme" are adopted.

Objectives of the Registration Scheme

- 1) Detailing and maintaining the role of small industries for providing support and various incentives.
- 2) Providing certificates to business units so that they can avail their statutory benefits, usually in terms of protection.
- 3) Collecting statistics.
- 4) Developing nodal centres at the Central, State and District levels for promoting Small Scale Industries (SSI).

Features of the Registration Scheme

- 1) Main registering centre is District Industries Centre (DIC).
- 2) It is not mandatory for the firm to get registered.
- 3) There are two forms of registration done under all States. First, a Provisional Registration Certificate is provided and then a Permanent Registration Certificate is given, once the production starts.
- 4) Validity of Provisional Registration Certificate is 5 years and permanent registration is provided in perpetuity.

Benefits of Registering

There is no statutory basis of registration scheme. However, it is done by the units for receiving various advantages, support or incentives from Central or State government. The various advantages are as below:

- 1) Credit prescription (priority sector lending), differential interest rates, etc.,
- 2) Scheme of excise exemption,
- 3) Exemption under direct tax laws,
- 4) Statutory support such as reservation and Interest on Delayed Payments Act,
- 5) Applying for a shed or plot in an industrial estate or a developed area,
- 6) Applying for Corporation/Municipality for other licenses,
- 7) Applying for power/water connection,
- 8) Applying for financial assistance from banks and other institutions,
- 9) Applying to the National Small Industries Corporation/State Small-Scale Industries basis,
- 10) Obtaining sales tax, excise registration, etc., wherever required,
- 11) Obtaining various approvals required to obtain license of importing capital goods and raw materials.

Different set of facilities are provided by States and UTs for SSI, which mainly deal with developing the industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other financial supports. Also, different benefits and incentives are provided by the Central and State government to the registered firms.

2.4.4.4. Clearances from Specific Departments

On the basis of nature of the industry and the location of units, various types of approvals are required from different authorities.

Specific Clearances are usually required depending on the Type of Unit

- 1) Agricultural land conversion,
- 2) Urban land ceiling clearance,
- 3) Building plan approval,
- 4) Factories Act,

- 5) Trade licence,
- 6) Pollution Control Board clearances ,
- 7) Sales tax registration,
- 8) Central excise registration,
- 9) Bureau of Indian Standards (BIS) certificate,
- 10) Fruit product order (FPO) licence,
- 11) Food Adulteration Act licence,
- 12) Power loom registration,
- 13) Electronics industries registration,
- 14) Drugs and cosmetics licence,
- 15) Approvals of hotels, and
- 16) 100 per cent export-oriented unit.

2.4.4.5. Location

Deciding the location for constructing the business unit is the next step. The entrepreneur also has to decide whether to buy or rent the business location. It is also important to decide the size of plot, covered and open areas, etc.

It is quite important to have an appropriate industrial site or a ready industrial shed for any industrial project. According to the business requirement, an industrial site can be taken and a shed can be constructed, or an already constructed shed can be owned or leased.

The land for the project can be taken from the State Industrial Areas Development Board when the decision about the business location is made. The entrepreneur can also buy private lands by fulfilling all the legal formalities related with the conversion of land use to industrial purpose.

2.4.4.6. Machinery and Equipment Selection

Depending upon the selected product, different machines and equipments required for production are selected. Also, the different suppliers and their costs are evaluated and selected. The scheme of National Small Industries Corporation (NSIC) can be used, in which different machines and equipments can be acquired on the basis of hire-purchase system. It is advisable to have a proper plan for machines and equipments in advance, particularly in cases when they are to be obtained from other city, state or nation.

It is quite important to select and order most suitable machineries. Technology and process specifications can also be provided in most of the buying incidents; however, in absence of such specifications, it is required to conduct an extensive techno-economic survey for the required machinery and equipment.

An entrepreneur can also look for such machineries in the International trade fairs and engineering fetes. Before taking the decisions related to machines and equipments, entrepreneurs should take advices from experts, dealers and suppliers. Second hand equipments and machineries are quite popular among the entrepreneurs of SSI. This is one of the major factors

that influence the growth of small scale industries. Out-dated machineries result in low and inefficient production which ultimately hinders the growth of SSI.

This is mainly due to the unavailability of funds for new machines and equipments. However, SSI entrepreneurs are often benefitted from government agencies like National Small Industries Corporation which provide machines and equipments to small scale units at longer repayment time and lower interest rates.

2.4.4.7. Project Report Preparation

Once the nature of ownership, machines, equipments and location are decided, the entrepreneur must prepare the feasibility study or project report. A project report provides a detailed understanding about the project and reveals its techno-economic feasibility. With the help of project reports, economic viability and the technical feasibility of the selected product can be ensured. This report will help in deciding the production, marketing, financial, and management plans. The project report also aids in procuring finance, shed, power connection, water connection, raw material quotas, etc.

Suitable planning is quite vital for any new project or venture which can be done with the help of detailed project reports. The report helps the entrepreneur in planning and implementing the complete project. It is also useful in obtaining clearance of finances and other legal permissions.

While preparing a project report, following points must be kept in mind:

- 1) Probable applications of the project report.
- 2) Providing details by not disclosing any confidential information.
- 3) Validation of data and information provided in the report.
- 4) Effective presentation of the data by using different charts, graphs, and pictorial formats.
- 5) Timeliness and cost minimisation.
- 6) Correct estimation of number of printed copies required.

2.4.4.8. Project Appraisal

In simple terms, evaluation of a project is called project appraisal. This mainly includes the method of conducting *ex-ante* analysis of any project or scheme. It is quite important to evaluate the project from the viewpoint of economic, financial, technical, market, managerial and social aspects, while initiating any enterprise so that the feasibility of the project can be checked.

The entrepreneur should make detailed appraisal reports including the techno-economic feasibility study in order to receive monetary support from financial institutions and banks. Thus, a fundable project is the one which has

economic feasibility and technical viability. Given below are the appraisals that can be performed at initial levels:

- 1) Economical appraisal,
- 2) Financial appraisal,
- 3) Technical appraisal,
- 4) Management appraisal,
- 5) Organisational appraisal,
- 6) Operational appraisal, and
- 7) Market appraisal.

2.4.4.9. Finance

Finance can be considered as the backbone of an organisation. Every entrepreneur needs finance to setup a new venture. One can seek capital assistance and venture capital for starting an enterprise from various financial agencies. Some specific steps and norms have to be followed by the entrepreneurs to receive financial support from financial institutions and banks.

However, these types of financial assistances can also be obtained on concessional rates from various other firms. Entrepreneurs who want to initiate their own business units can also seek financial help under PMRY (Prime Minister's Rozgar Yojana) and REFP (Rural Employment Generation Programme) schemes.

Means of Finance

- 1) Own equity,
- 2) Internal accruals,
- 3) Inter corporate deposits/investment,
- 4) State financial institutions,
- 5) Central financial institutions,
- 6) Banks,
- 7) Borrowings like ECB, CP, FDI, FCNRB,
- 8) State subsidy and seed capital,
- 9) Lease finance.

Monetary support is required by all SSIs to start their business operations. Before obtaining these funds, it is quite advisable to forecast the requirements of working capital for at least six months as a buffer. The total financial cost of these projects can be determined with the help of concerned officials in the Entrepreneurship Development Institutes. Entrepreneurs must also decide the mode of funds in which the capital is to be raised, i.e., equity finance, debt finance, loans, etc.

2.4.4.10. Implement the Project and Obtain Final Clearances

After obtaining different clearances, licenses, infrastructure facilities, etc., from the concerned departments, the entrepreneurs are required to implement the project. For this purpose, the activities required to be performed by the entrepreneurs include ordering machineries, recruiting manpower, procuring raw materials, marketing, erection and commissions, and obtaining final clearance.

Once the unit is ready for the production, different types of clearances are required to be taken. Similarly there are a number of preliminary clearances which entrepreneurs have to take from various departments/organisations for obtaining final approval.

2.4.5. Importance of SSIs

Small enterprises play an important role in the overall growth of the economy of the country. While the cost of investment in small-scale units would be comparatively low, their potential for generation of employment as a sector is relatively high. Development of small-scale units also results in dispersal of industries to backward, rural, and semi-urban areas, and this eventually leads to reduction of regional imbalances in growth.

- 1) **Large Employment Opportunities:** They are labour-intensive and hence their employment creation potential per unit of investment is higher than that of larger industries. In countries like India which carry huge mass of unemployed, small industries are a boon. Since there are more broad based and dispersed than large industrial units, they facilitate:
 - i) Decentralised regional development;
 - ii) Reduction of extreme disparities in income and wealth;
 - iii) Improvement of living standards of people; and
 - iv) Removal of poverty.
- 2) **Prevents Concentration of Economic Power:** They facilitate the creation of a wider entrepreneurial base consisting of small industrial owners and operators. They represent a diffusion of economic power among a large number of small entrepreneurs rather than concentration of economic power among a small number of large entrepreneurs.
- 3) **Mobilise Local Resources:** They permit an effective mopping-up and mobilisation of small savings, scarce capital and local materials, human resources and skills.
- 4) **Development of Some Towns:** They help in development of small- and medium-sized towns and cities which have more spread effects on regional industrial development.
- 5) **Low Capital-output Ratio:** Their capital resources are modest. They are more suitable for capital-scarce countries like India. The capital-output ratio for small industries is said to be lower than for large industries.
- 6) **Contribution to Industrial Growth:** They contribute substantially to industrial production and industrial growth.
- 7) **Facilitate Development of Large-scale Industries:** They support the development of large industries by meeting their requirements of inputs of raw materials, intermediate goods, spare parts, etc.

and by utilising their output for further production. The productivity and capacity utilisation of large units depends to some extent upon the fulfilment of their specialised requirements by small-scale units.

The small-scale units also help the large industries off-load certain manufacturing activities on them, and they, thus, act as auxiliary or ancillary units to their larger counterparts. This helps the large industries reduce price and use capital in more advanced areas.

2.4.6. Problems Faced by SSIs

Some of the main problems faced by SSIs are as given below:

- 1) **Problems of Financial Credit:** Problem of financial credit is the basis for all other problems encountered by SMEs. Financial problems in SSIs arise mainly due to poverty and lack of arrangements of credit at low interest rates. Small and medium entrepreneurs are bound to sell their products at a very low margin of price because they have to borrow money from the product dealers who compel them to do so.
Also, local creditors providing credit to these entrepreneurs charge very high rate of interest on their credit. The 14 main commercial banks after their nationalisation in July, 1969, have not been giving much financial support to the SSIs. Moreover, credit provided to the SSIs by the government is still less as compared to the share of SSIs and rural areas (40%) in the total industrial output. The credit provided to SSIs accounts for only 30% of the total credit volume provided to industries.
- 2) **Procurement of Raw Material:** There is a lack of good quantity and quality alongwith consistency in supply of raw material to the SSI sector. There are not any discounts provided on quantity of raw materials bought, as they are in lesser volume and not in bulk. Subsequently, the problems are incurred in procuring semi-finished goods. Financial instability of these sectors in such a challenging market environment hampers procurement of raw materials in large quantity.
- 3) **Lack of Infrastructure:** In the absence of proper infrastructure such as sufficient production area, electricity, safety measures, ventilation, etc., worker's well-being is continuously at stake. This also slows down the rate of production. Most of the business units are still using obsolete techniques of production. As a result, skilled individuals do not find the working conditions and wage structure of these industries attractive or promising.
- 4) **Technological Issues:** Nowadays, it is a tough task for SSIs to keep up with constantly changing technology. In SSIs, replacement of out-dated machinery with advanced machinery has appeared to be a major challenge.

- 5) **Dependency on Middlemen:** SSIs face lot of problems in marketing their products. In these sectors, the artists and workers have to purely depend on middlemen for marketing their products. There is a tough competition posed by large industries in this regard. This affects progress and consistency of SSIs as these are not capable of spending much on advertisements and sales promotion in order to boost marketing and sales of their product.
- 6) **Lack of Entrepreneurial Skills:** Another problem associated with SSIs is lack of entrepreneurial skills in taking initiatives, penetrating into new markets, and taking risks. Absence of efficient management is one of the most alarming issues faced by SSIs. These entrepreneurs also lag behind in terms of technicalities pertaining to functional areas like accounting, marketing, personnel management, production, marketing, etc.
- 7) **Sickness of SSI Sector:** Sick units tend to incur accumulated losses for consecutive years. Sickness is one of the major issues which affect the development of SSIs. Both internal and external forces cause sickness of these units. Among the main causes of sickness are inadequate raw materials, obsolete equipment, inefficient management, lack of finance, low level of effectiveness among the workforce, and high costs involved in arranging capital.

2.4.7. Difference Between Small and Large Scale Industry

Basis for Comparison	Small Scale Industry	Large Scale Industry
Meaning	Small scale industry is an industrial undertaking in which there is a definite capital investment in its plant and machinery.	Large scale industry encompasses big industrial units whose investment in their plant and machinery is beyond the limit specified by the Government.
Industry type	Labour-intensive industry	Capital intensive industry
Geographical area covered	Small	Large
Skills required	It requires semi-skilled labours.	It requires highly skilled labours.
Technology used	Indigenous technology	State-of-the-art technology
Raw materials	Procured from the local suppliers	Procured from various suppliers of raw materials are there from within and outside the country.
Objective	To generate employment opportunities with less investment.	To produce consumer goods and capital goods within the country, to make it self reliant.

2.5. BUSINESS PLAN

2.5.1. Meaning of Business Plan

A written document which explains the various important steps in initiating and performing a particular proposed business is known as a Business Plan. The business project can be started only after the preparation of this master plan. It is prepared to provide guidance to project manager and the team throughout the project. Simply, the elementary document which provides us exclusive yet accurate information of what has to be accomplished in a project is termed as a business plan and it answers the questions such as: What has to be performed? When to perform? How to perform? Who will be performing? What is the total cost?

The various principal features and the future activities of a proposed business project are explained with the help of business plan or project plan. Apart from this, it also helps in understanding vital issues which have to be addressed and resolved so that the final objective can be accomplished. Very clear facts, figures and estimates are used to prepare the business plan as it explains the whole concept of the business and its future. All the course of actions, potential of commercial success and feasibilities are described by the business plan. A well-prepared business plan removes the possibility of project failure as it helps in avoiding cost overruns and scheduling.

The preparation of the business plan should be initiated as soon as possible and should be comprehensive in nature. Commonly, it indicates that during the project proposal formulation, the project planning should be started. Once the plan is approved by the management, the project manager is offered the tactical authority so that the project can be implemented as per the plan.

2.5.2. Objectives of Business Plan/Purpose of Business Plan

A business plan is required for the following purposes:

- 1) **For Identifying Opportunities:** A business plan helps the management to obtain a common agreement on the description of a business which would include its objectives, the strategies necessary to accomplish these pre-established objectives and the market in which it will function. Testing various theories of operating the business as well as analysing the consequences of marketing, operations and financial activities would not be possible for the management without a proper business plan. Hence, in absence of a business plan, it would be difficult for the organisation to assign resources in an accurate manner.
- 2) **For Evaluating Performance:** A small business needs proper planning and control for surviving in

long-term. The financial aspect of the business plan acts as a device to make a comparison between predetermined objectives and actually achieved operating results in the initial phase of operations. Different issues like delivery delays, increase in the cost of production, etc., can be spotted by the management while analysing the success of operations. Accordingly, corrective measures to resolve such issues can be taken by the business.

- 3) **For Gauging Strategies:** Assessment of a firm's business strategy can be done by the management by comparing actual results achieved with the pre-established objectives. This helps the management to decide the future course of business. Depending on the firm's strong or weak points, the useless or ineffective aspects of these business strategies can be either terminated or substituted. **For example,** a company might take the decision of withdrawing a particular product from one market and launch it in another market. It can also plan to test a new product for a certain group of customers.
- 4) **For Obtaining Finance:** A business plan also serves as a tool to obtain funds from various sources. This business plan is studied properly by banks, financial institutions and other lenders before giving loans to a business firm. The lenders can interpret the firm's vision, methods of operation, the business owner's goal of the business, and such other important factors stated in the plan in order to analyse the financial worth of the business. This acts as the basis on which the business gets funds from the various sources of finance.

2.5.3. Business Plan as an Entrepreneurial Tool

Evaluation of the various aspects of a business is possible with the help of a business plan. It also helps in developing a strategy that enables the entrepreneur to address the issues and uncertainties arising in the business from time to time. Hence, an effective business plan can prove to be beneficial in the success of a project or an entrepreneurial venture. A proper business plan in place guides the entrepreneur in continuing or dropping the idea of a venture. Moreover, it is advised that entrepreneurs should not continue with a doomed business project than to carrying it on and learning alongside that it was meant to fail.

A business plan should be prepared by the entrepreneurs themselves. In case a group of people is involved in the entrepreneurial venture, then each individual should be contributing in writing the business plan.

In addition, the inputs given by all the individuals should be understood and appreciated by the entrepreneur. It is also necessary that entrepreneurs

remain the driving force behind the preparation of a business plan just in case the help of consultancies are sought in preparing the same.

However, it is sensible to seek the help of experts and professionals, yet each aspect of the business plan should be understood by the entrepreneurs. This is because during the inspection of the financial resources, it is the entrepreneurs who are examined.

Following are the reasons that support the fact that a business plan can serve as an entrepreneurial tool:

- 1) **Attracts Money to Project:** An effective business plan helps in gathering and raising adequate funds, capital and resources from potential investors. Much emphasis is placed by such investors on the business plan as it helps them to take decisions regarding their investment in the venture.
- 2) **Communicates Master Plan to Members of Team:** The required steps to be taken in achieving the goals of the business can be communicated to the entrepreneurial team with the help of a business plan. Coordinating meetings and conducting training sessions is possible with a business plan. Teaching the staff about their role in successfully carrying out business functions can also be done with the help of a business plan.
- 3) **Resource Planner:** A carefully prepared business plan specifies the various resources possessed by an organisation. These could be capital and funds, capacity of the manufacturing unit, inventory, new employees and staff etc.
- 4) **Sets Budget:** Tracking the performance and planning the finances of the business can be done with the help of tools like expense budgets and revenues. Potential investors can evaluate the performance of the venture by studying its budget and financial projections.
- 5) **Analyses Ideas on a Piece of Paper:** Enough time should be devoted by the entrepreneurs in determining the project's feasibility, product's quality, market survey, etc., prior to beginning with entrepreneurship. A piece of paper (business plan) should be used in recording these as it will help in rectifying the mistakes. It also enables us to determine in advance the profits earned by examining the projected sales and costs incurred.
- 6) **Provides SWOT Analysis:** A business plan helps in analysing the Strengths, Weaknesses, Opportunities and Threats (SWOT) of the business. This enables the entrepreneur to take decisions regarding venturing into entrepreneurship.

So in a sense, business plan through SWOT analysis helps an organisation to understand where it stands in the market.

- 7) **Increases Opportunity for Success:** The expected performance level of the business can be identified with a carefully prepared business plan. The modifications required to be taken for the success of the venture is also determined by a business plan. The various modifications that need to be considered could be the structure of the organisation, introduction of latest manufacturing techniques and technology, programmes and sessions to enhance the level of productivity and commitment among the subordinates, etc.

Moreover, for the success of the venture, continuous upgradation of the knowledge, skills and abilities on the part of entrepreneurs is required.

- 8) **Increases the Stakeholder's Confidence:** Individuals having a stake in the business are interested in knowing strengths of the company such as its viability, resources and finances. The return on investment can be determined by the stakeholders with the help of such information.
- 9) **Identifies Barriers to Business:** Obstacles are always faced by the entrepreneurs during the implementation of the business plan. Proper management of these obstacles is very much important otherwise they will hinder the progress of the entrepreneurial venture.
The extent to which such obstacles might affect the venture is known to the entrepreneur. Hence, identification of such obstacles and the ways to tackle and eliminate them is essential before the implementation of the business plan.
- 10) **As a Performance Tool:** Working effectively towards the success of the entrepreneurial venture is possible with the help of a properly prepared business plan. It also helps in measuring the performance of the business by enabling the entrepreneur in setting reasonable and achievable objectives.

Hence, performance of the company with reference to quality, cost and profit can be determined with the help of a business plan. Moreover, it also helps to evaluate the purchasing trends of customers, strengths of the competitors and the external and internal economic forces affecting the business.

2.5.4. Business Planning Process/Preparation

A business plan can be considered as some kind of a blueprint or plan with the help of which a business can be started, monitored and grown. It involves the tracking of achievements against the set targets and the dissemination of information to the different financial institutions during times of seeking finance.

Constructing a business plan involves the following steps:

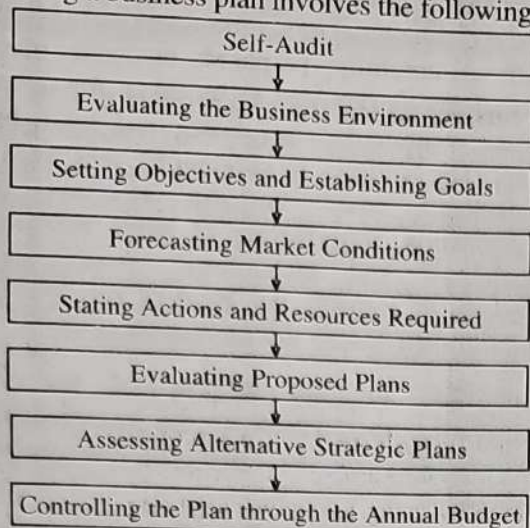


Figure 2.4: Business Planning Preparation

- 1) **Self-Audit:** To create a robust business plan, the organisation needs to be aware of its various functional qualities and the kind of opportunities it possesses which can be utilised. This is done by the management by organising a self-audit which measures all the factors critical to the working of the organisation.

The functional quality includes elements like aspects of sales and marketing (the relative market share and position, viz-a-viz, competition, the quality and service levels), aspects of production (operational factors, efficiencies, productivity, utilisation of capital and equipment alongwith their maintenance), financial parameters (the cost of capital, capital structure, cash availability, working capital requirements and management, net worth, profitability, debt obligations, etc.) and HR/personnel factors (the number and quality of employees, the organisational structure, the decision making systems and policies, etc.)

- 2) **Evaluating the Business Environment:** The management considers several factors which are critical for its success but are not confined to the organisation. It also looks at the intra-organisation co-ordination among various departments in order to develop an overall unified strength. Some of the aspects of the external environment considered by the management are:

- i) Aspects regarding demographic changes
- ii) The state of the economy
- iii) The fiscal policies and protocols of the Government
- iv) The availability of labour
- v) Competitive forces
- vi) Suppliers and vendors

- 3) **Setting Objectives and Establishing Goals:** The decision-making process of objective setting

reflects the overall goal of the organisation. The top management decides the objectives for the organisation in terms of vision and mission statements. Such statements can turn out to be the foundation for short term goals and objectives in the yearly budget of the organisation, provided, it is well-defined and communicated properly in the entire organisation. The organisation must know the sole purpose for its existence and also bear an understanding about its future profitability through its existing lines of business. Different examples of management goals are as follows:

- i) **Profitability:** The performance of the organisation is expressed in terms of profits, earnings, ROI, etc., by the profit goals. **For example**, a goal could be to increase the profitability level to 12 per cent over the next 3 years.
- ii) **Human Resources:** The HR is a comprehensive concept and its goals can include aspects like skills training, work organisation, experiences, recruitment and work related issues. **For example**, a company which is implementing an ERP package may have the goal of training a certain percentage of workers on the new software.
- iii) **Customer Service:** An organisation may also have service goals and define it in terms of fixing an amount of time for customer service or the number of customer complaints that it wants to lessen. The cost or the savings that are realised are stated in terms of dollar. Percentage method can be used to calculate the sales goals, if the organisational products are sold alongwith the service contracts.
- iv) **Social Responsibility:** Nowadays, it might be desired by the organisations to contribute meaningfully to the society in which they exist. The organisations can measure it in terms of the amount of money allocated or the time devoted to such noble activities.
- 4) **Forecasting Market Conditions:** There are many types of forecasting models and options. The significance of each method is to evaluate the impact (positive/negative) of various imminent factors on the endeavours of the organisation. Managers try to forecast the demand for the products and services that the organisation is currently producing or will produce so that there is no disruption in the supply chain. Management undertakes a variety of forecasting on demographic, economic, social and political factors in order to target lucrative and emerging markets.

The process of forecasting involves the collection and examination of data and managers utilise their

experience and intuition to analyse this data. This forecasting can also be done by individual departments like sales, manufacturing etc.

The process of sales forecasting is very important for deciding the volume of production. Production forecasting helps in determining the amount of raw materials, labour and capital that the organisation requires.

- 5) **Stating Actions and Resources Required:** Once the objectives and the forecasts are done, the next thing that management has to decide is the kind of resources and actions required so that the objectives are aligned with the forecasting done earlier.

The strategies framed are present across various levels of the organisation and are accordingly classified depending on the distribution of resources. The overall strategy is made keeping in mind the objectives that the firm has set out to achieve, given its external environment and competencies. More specific strategies can be derived from this overall strategy by the organisation.

These can be of the following types:

- i) **Corporate Strategies:** These strategies are long-term in nature. They deal with different businesses that the organisation will carry out and the way its financial, human and capital resources are utilised.
- ii) **Growth Strategies:** The growth strategies are concerned with the means through which the management plans to grow in terms of sales, products, employees, capacity, etc. In this age of active market and shorter product life cycles, growth strategies can be of importance as these can cause:
 - a) The growth in the existing lines of business of the organisation,
 - b) The vertical integration achieved with suppliers and customers, and
 - c) Diversification into other product and business areas.
- iii) **Stability Strategies:** Stability strategies are concerned with an organisation definite in maintaining the status quo as it is satisfied with its current line of work. This normally works in situations where the environment of the organisation does not change very fast. It does not involve getting operational efficiencies and productivity enhancements.
- iv) **Defensive Strategies:** Defensive strategies aim to limit the exposure of the organisation and also reduce its level of activity. These can be used where the profitability levels of the organisation is reducing which might involve

reducing the costs, divesting a part or areas of the business, turning around a loss making unit or business, liquidation, etc.

- v) **Business Strategies:** The business strategies are focussed on sales and production plans which are aimed at developing competitive pressures and increasing the revenues.
- vi) **Functional Strategies:** Functional strategies, which are addressed in the yearly budget of a business, are concerned with the day to day functioning of finance, marketing, personnel, etc.
- 6) **Evaluating Proposed Plans:** Management comprehensively reviews the proposed strategies to find out how desirable and feasible they are. This can be done by using judgment, applying common sense or by employing complex mathematical models.
- 7) **Assessing Alternative Strategic Plans:** Management often employs profit planning and control tools to evaluate the various strategic plans and alternatives as financial effects are a characteristic of resource allocation.

The significant strategies are quantified by the management in various pro forma statements exhibiting the probable financial influences of actions in the future. These can be in the form of budgets, balance sheets, profitability statements, cash flow statements, etc. Simulation models are used to gauge the impact of various long-term strategies on the finances of the company.

- 8) **Controlling the Plan through Annual Budget:** The business is controlled by the managerial and supervisory forces of the organisation. This control is exercised to see whether or not the limited resources of the organisation are employed in the right channels and in accordance with the stated goals and objectives of the organisation.

Control involves tracking the actual performance with the set standards and taking corrective measures in case of occurrence of any variances from the standards. If applied properly, control helps in avoiding probable disasters in the organisation. It also leads in generating standardised production in terms of both quantity and quality and helps the managers to keep a check on the productivity of the employees.

2.5.5. Advantages of Business Planning

Making a business plan is fruitful to the entrepreneurs because of the following reasons:

- 1) **Reduction in Emotional Bias:** The business plan helps the entrepreneurs to develop a rational judgement about the pros and cons about the business. They can, thus, take a judgment about those aspects of the business that need to be retained and those that can be discarded.

- 2) **Justify One's Ideas/Plans:** By taking a systematic approach, the entrepreneurs will be able to convert their thoughts and dreams into reality. Rational thinking about the plans and ideas of the venture will make the feasibility of the concept clear to all the stakeholders who in turn could provide support to the entrepreneur.
- 3) **Develop Consistent Strategy:** The entrepreneurs, through their business plans, help in developing an image that they want to convey to the customers. The business plans also help in expressing the related future approaches. These, in turn, determine the performance of the business. By putting all the ingredients of the plan on paper, the related components can be appraised. All the aspects of the strategy have to be analysed and discussed with all the stakeholders before taking any action.
- 4) **Achieve One's Commitment:** It is very important for a business to honour its commitment. It serves a tool to measure the level of involvement and dedication of all the partners in the business (both active and passive), before taking any action. Such dedication is displayed in the business plans that are properly planned. Many excellent ideas fail at the last hurdle because of lack of commitment and dedication on the part of the members.
- 5) **Feasibility Study:** Individual plans for marketing, operations and finance should be mentioned properly in the business plan. These three aspects form the most critical aspects of any business. The viability of the entrepreneur's concept can be evaluated if these three aspects defined distinctly. They typically talk about the means through which the business can be successful, the kind of financial resources required for the same and the different operational hazards that may prevent the business from achieving its objective.
- 6) **Action Plan:** A business plan talks about the manner in which the operations of the business will take place in the market. It mentions the product that the company is selling, the target segment, the location of the target segment and the critical success factors necessary. The business plan keeps the entrepreneurs concentrated and also channelizes the energy of the entrepreneurs during the beginning phase of the venture.
- 7) **Selling Tool:** The potential investors view the business plan as a prospectus which estimates the resources that will be required by the organisation alongwith the kind of cash flow that will accrue so that the investment of the investors is secure. It also helps the entrepreneur in attracting dependable suppliers and the right kind of talent for the business.
- 8) **Fundraising:** The main need of a business plan is to create an interest in prospective investors about the

potential of the company so that they invest in the company. This investment can be in the form of loans or through equity. However, investors will not be willing to extend money unless they see a well thought out business plan of action from the entrepreneur. It is therefore, essential that the entrepreneur makes a plan which not only answers the questions of the entrepreneur but also highlights the management team, the amount of funding required and the ROI that the business promises to the investor.

2.6. FINAL PROJECT REPORT WITH FEASIBILITY STUDY

2.6.1. Concept of Project

The word 'project' denotes a planned work which involves one-time activities. It is temporary in nature and usually varies in duration. A project is essentially initiated by a business organisation or individual with a view to meet a specific requirement of changing a particular business process/activity or developing a new product. A project undertaken by an organisation is usually diverted from its routine/ regular activities, such as production of goods and services.

Each project is undertaken by a business organisation with a definite and unambiguous objective. The time-frame within which the project needs to be completed and the sources of various resources, etc., are assessed and appraised well in advance before commencing the project.

According to the Project Management Institute's (PMI) Publication, "A Guide to the Project Management Body of Knowledge" (PMBOK), a project is defined as, "a temporary endeavour undertaken to create a unique product or service".

According to F.L. Harrison, "A project can be defined as a non-repetitive, one- off undertaking, normally with discrete time, financial and technical performance goals".

According to the British Standard, a project is defined as, "a unique set of co-ordinated activities, with definite starting and finishing points, undertaken by an individual or organization to meet specific objectives within defined schedule, cost and performance parameters".

A project may therefore be described as an assembly of an exceptional set of inter-connected activities, which are designed and implemented in a specific order with a view to create a new/exclusive product/service in accordance with parameters indicated by the client with special regard to time-frame, budget and other specifics.

2.6.2. Characteristics of Project

A project exhibits following characteristics:

- 1) **Unique Activities:** Each project involves activities that are specific to that project only. This implies that

such activities are unique in the sense that they were neither undertaken in the past projects nor they will be in any future projects. Even under similar conditions, these activities do not repeat as there is always something distinct in each activity. Moreover, even if the same activity is repeated, it will have different variables that influence the overall activity.

- 2) **Attainment of Specific Goal:** Projects are undertaken by business organisations with specific objectives in focus; they may be completion of a specific job or achieving a specific goal. Such jobs or goals are project-specific; in other words they differ from one project to another.

For example, project undertaken by an organisation may relate to specific construction activity, computerisation of a particular department, or market research with regard to the likely demand for a product/service, etc.

- 3) **Sequence of Activities:** A number of activities are involved in any project. These activities are required to take place in a specific order/sequence in order to get the desired result. Such specific orders are project-specific and depend upon factors like technical requirements, inter-dependency of project activities, etc.

- 4) **Specified Time:** Each project is undertaken with a specific timeframe, within which it needs to be started and completed. This timeframe is either decided by the organisation (i.e., self-imposed) or by a client. It is highly versatile as it can vary from few hours to few years. A project comes to an end when the specific products/services have been handed over to the client, or when it becomes apparent that the delivery of the products/services, as per the client's specification, is not possible due to the reasons beyond control.

- 5) **Interrelated Activities:** The activities involved in a project are technically interrelated with each other as the output (deliverable) of an activity becomes the input for another activity.

also desirable. Various risks associated with the project need to be taken into consideration, while assessing the project opportunities abroad.

- 2) **Industrial and Non-Industrial Projects:** National Projects mentioned above, may be divided into two categories, viz. industrial and non-industrial projects. Projects of commercial organisations launched with the sole objective of profit making and wealth creation are referred to as industrial projects. However, there are projects with the basic objective of social service and not profit making. Such projects are generally Government-funded (Central or State) and their funds are allocated out of annual budgets or five year plans. Some **examples** of non-industrial projects are related to healthcare, education, agricultural development, soil conservation, etc. Impact of such projects is subtle and cannot be measured in monetary terms.

- 3) **Projects Based on Level of Technology:** From the technological point of view, the industrial projects may be categorised into three groups, viz. (i) high technology, (ii) conventional technology, and (iii) low technology. High technological projects, for obvious reasons, require substantial amount of money. Examples of such projects are space projects, nuclear power projects, advanced electronics projects, etc. Level of investment required under conventional projects is moderate (less than the required level of investment in high technology projects). Traditional technology is used in such projects. Conventional projects are implemented by sugar industries, steel industries, cement industries, chemical industries, etc. Many of the products manufactured by such projects are used as raw materials for other industries, while some others are used by common persons directly.

- 4) **Projects Based on Size:** Projects may also be classified on the basis of plant **capacity** and size of investment, as mentioned below:

- i) **Small Scale Projects:** Projects involving an investment level of less than rupees five crore are considered as small scale projects.
- ii) **Medium Size Projects:** Projects with a capital outlay between rupees five crore and rupees hundred crore are considered as medium size projects.
- iii) **Large Scale Projects:** Projects wherein an investment of more than rupees one hundred crore are involved, are considered as large scale projects.

Large scale and medium scale projects are eligible for financial support from All India Financial Institutions (AIFIs) like IDBI, IFCI and commercial banks. For the financial support in respect of small

2.6.3. Classification of Projects

Projects may be broadly classified into following groups:

- 1) **National and International Projects:** Domestic projects may be undertaken for implementation by the companies incorporated either in India or those incorporated in other countries (National Projects). Similarly, the companies incorporated in India may also be given the job of implementation of projects of countries other than India (International Projects). A high level of competence is required for participating in international projects. In addition to the general knowledge of that country, specific knowledge with regard to the legal, geographical and other aspects of that country is

scale projects, State Financial Corporation (SFCs) and commercial banks may be approached. For the procurement of raw materials, equipments, etc. the small scale projects may have assistance from State Industrial Development Corporations also.

- 5) **Projects Based on Ownership:** Ownership of an organisation is yet another basis of classifying a project. The projects may be classified into three categories on the basis of ownership, viz. Public Sector Projects, Private Sector Projects, and Joint Sector Projects. They have been discussed in the following points:

i) **Public Sector Projects:** Projects undertaken by Central Government or State Government or jointly by both of them are termed as public sector projects. Such projects are monitored by the concerned administrative department or through Public Sector Enterprise (PSE) or Public Sector Undertakings (PSUs). Some examples of such projects are railways, airlines, state transport corporations, Public Sector Banks (PSBs), State Bank of India (SBI), Life Insurance Corporation (LIC), steel plant with Government ownership, etc.

ii) **Private Sector Projects:** Projects undertaken by the enterprises with private ownership are referred to as Private Sector Projects. Such private ownership may be in the form of a proprietorship firm, a partnership firm, a private limited company, or a public limited company (but not a PSU). The primary objective of such projects is wealth creation, which is in contrast with the objective of Public Sector Projects, where the profit making is not the main consideration.

iii) **Joint Sector Projects:** They are the projects, wherein the ownership pattern consists of a partnership between the Government and private enterprise. It is a synergy between the managerial skills of the private sector on the part of one partner and Liasoning edge with other Government departments (including rising of huge amount of required funds) on the part of another partner (Government).

Participation in such projects is beneficial for both the partners. From the Government point of view, managerial expertise and marketing skills of private sector is made available for the project, whereas from the private entrepreneur's point of view, there is no need to bother for Liasoning job with various Government departments and contribution of investment amount.

- 6) **Infrastructure Projects:** Projects, undertaken with the objective of creating infrastructure facilities such as road, power, telecommunication, port, etc.

in the country, are termed as infrastructure projects. Such projects entail huge amount of investment with a long gestation period and as such they are altogether different from the traditional projects involving production of goods and services.

- 7) **Projects Based on Need:** Basically, a project is undertaken by an organisation with an underlying objective, need, or goal specific to that project. Identification of such need is crucial for the project to succeed. Projects initiated by a business organisation may be classified on the basis of such need also. In the above backdrop, projects may be classified as under:

i) **Balancing Projects:** It is a project, which is undertaken with a view to enhance or improve the capabilities of a specific area or set of areas within the existing production arrangement. The motive behind undertaking such a project is to ensure synchronisation between various production centres of the plant. Successful implementation of balancing projects result in an increased production.

ii) **Modernisation of Project:** As the technology and business processes keep on changing at a very fast pace, it is necessary for an organisation to upgrade its systems in order to take full benefit of the latest technologies and processes available. Such projects are undertaken with the objective of reducing the production cost of a manufacturer, so that it may offer a competitive price for its products. The above objective is achieved by doing away with obsolete technologies and systems and introducing the new machineries, new technologies and new processes. However, the activities of the organisation and line of business does not undergo any change. On completion of a modernisation project, the outcome is in the form of higher output, economy in operations, and the resultant increase in profitability.

iii) **Expansion Project:** Expansion projects are undertaken with the objective of substantial enhancement in the level of products/ services, an organisation is currently engaged in.

For example, a manufacturing company engaged in the production of T.V. sets with an installed capacity of 1,00,000 sets per year, may decide to go for a project to enhance its production capacity to 1,50,000 T.V. sets per year by installing another plant, such project would be termed as expansion project of that company. Two important points, which need to be taken into consideration before going ahead with such expansion projects, are:

- a) Intention of the manufacturer to fulfil the likely increase in the market demand of the product; and

- b) Intention to have a larger share of its product in the market.
- iv) **Replacement Project:** Various parts of a plant need to be replaced from time to time, due to normal wear and tear. With their age, as the time goes by, they start creating frequent **breakdowns**. This ultimately results in increased maintenance cost and decreased production. Under such circumstances, a manufacturing concern may get the old/troublemaking parts and machineries replaced by the new ones, through a replacement project. This results in reduced maintenance cost and increased output, which ultimately leads to a better profitability.
- v) **Diversification Project:** Diversification projects envisage venturing into new activities, which are altogether different from the activities undertaken by an organisation at present. **For example**, the Tata Ltd., engaged in the production of heavy machineries, may decide to enter into the business of finance. This can be done through a diversification project.
- vi) **Rehabilitation/Reconstruction Project:** This type of project is undertaken with the sole objective of rehabilitating a sick company, so as to bring it to the normal health.
- vii) **Plant Relocation Project:** At times, due to varying reasons, an organisation is compelled to relocate its plant from one place to another. As a lot of complications are involved in such an exercise, the entire process is entrusted to a project known as Plant Relocation Project. Such a project is also undertaken in a situation, where a company buys a plant at a place other than its place of business and there is a need to re-install the plant at the place of its business.

2.6.4. Project Life Cycle

Life cycle of a project consists of a number of phases, which takes place in a particular sequence. The exact number of such phases and the order in which they take place is decided by the organisation undertaking the project on the basis of its control/monitoring requirements. Life cycle of a project may be considered a true reflection of its linear progression – from conceiving the project, planning/implementation thereof and finally closure of the project. In a project life cycle, following points are clearly spelt out:

- 1) Details of various phases and the technical aspects associated with each phase of the project; and
- 2) A list of individuals involved in various phases of the projects and the roles to be played by them.

The intensity of focus to be given is project specific and not the same throughout the entire project; it varies

from one phase of a project to another depending upon a number of factors. Some phases of a project are more important than others and as such need to be appropriately focused upon.

Project Life Cycle Phases

Although the number of phases and their significance are project specific, but there are following phases, from which normally each and every project has to go through:

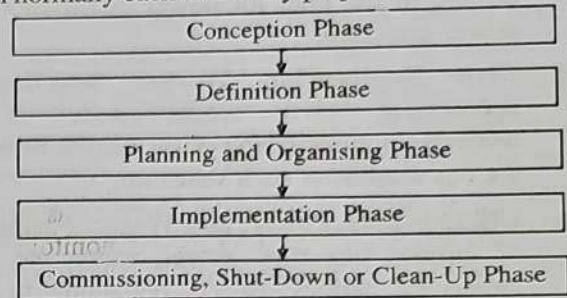


Figure 2.5: Project Life Cycle Phases

- 1) **Conception Phase:** This is the very first phase of a project, in which the idea of the project is visualised. As an old saying goes – “Necessity is the mother of invention”, the idea crops up as a solution of a problem. Such problem may relate to surplus funds lying idle, plant capacity remaining unutilised/under-utilised, desire to venture into new field (diversification), etc. The idea of a project may come to an entrepreneur’s mind on its own or it may come to him as a suggestion from other team members or professionals. Initially, the form of the idea may be vague, but with further rumination and discussions, it starts taking definite shape and becomes comparable with other similar ideas.
- 2) **Definition Phase:** During this phase, the conceived idea is given a concrete shape with regard to the availability of resources, marketability of new products, customer base, etc. Certain aspects, associated with the idea of a project need to be studied in details. **For example**, in the case of a cement plant project, following areas are required to be examined:
 - i) **Raw Materials:** Assessment of limestone reserves;
 - ii) **Plant Size/Capacity:** Elaborate information in respect of plant capacity along with the capacity of other important departments individually;
 - iii) **Location and Site:** Description of the plant location in detail with the help of a map;
 - iv) **Technology/Process Selection:** Finalisation of the affordable technology to be used in the plant; its description in details and specific reasons for finalising that particular technology;
 - v) **Project Layout:** Opting for an appropriate layout; reasons for going for such selection and suitable drawings;

vi) **Plant and Machinery:** Suitable finalisation of plants, machineries, and other equipments; detailed information with regard to their number, type, capacity, cost, source, and other specifications;

vii) **Electrical and Instrumentation Works:** Enlisting the important features of main electrical and instrumentation items and an outline of the plan for power distribution and power grid map;

viii) **Civil Engineering Works:** Selection of appropriate civil works with detailed description thereof, especially costing aspect as well as reasons of such selection;

ix) **Utilities–Fuel, Power, and Water:** Finalisation of utilities like fuel, power, water, etc. with details of various aspects pertaining to their qualities, quantities, unit costs, sources, etc.;

x) **Manpower and Organisational Pattern:** Appropriate selection of employees at various levels according to the organisational set-up, their present expertise, further training needs, and costing aspects;

xi) **Financial Analysis:** Study with regard to different aspects of project funding, viz. project viability, total funds required, sources of meeting that requirement, etc.; and

xii) **Implementation Schedule:** This is one of the most important aspects, wherein a roadmap is drawn with regard to the future course of the project. All the doubts having arisen during the conception phase are clarified. The risks associated with the going ahead of the project also become crystal clear, which facilitates taking a decision whether to continue with the project or discard it.

3) **Planning and Organising Phase:** In theory, this phase should come subsequent to the definition phase, but in practice planning and organising phase starts much before – right after the conceptual phase. In fact, there is an overlapping of this phase with that of definition and implementation phase. Due to this reason, many of the organisations do not recognise it at all, while the others go ahead with necessary documentations particular to this phase.

Followings are the various facets of this phase, which most of the organisations endeavour to follow and take appropriate action, if necessary:

- i) Project infrastructure and enabling services;
- ii) System design and basic engineering package,
- iii) Organisation and manpower,
- iv) Schedules and budgets,
- v) Licensing and governmental clearances,

vi) Finance,

vii) Systems and procedure,

viii) Identification of project manager,

ix) Design basis, general conditions for purchase and contracts,

x) Site preparation and investigations,

xi) Construction resource and materials, and

xii) Work packaging.

Despite the overlapping of this phase with others, as stated above, planning and organising phase may be considered as the backbone of a project.

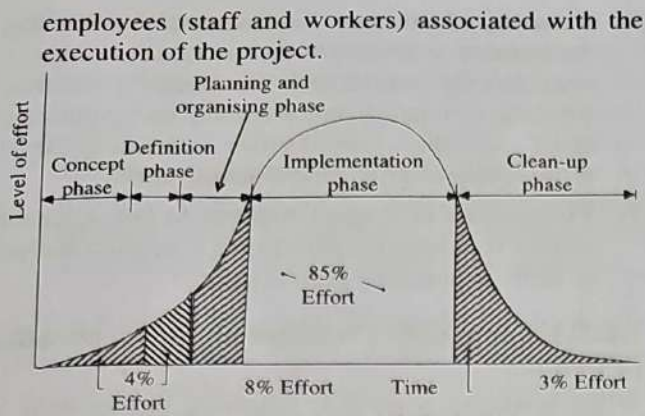
4) **Implementation Phase:** This phase represents summation of all the previous phases. Various activities start taking place and a concrete shape of the project starts emerging.

This phase is characterised by activities like procurement of plants, machineries, and other equipments as per the specifications, enlistment of contractors, finalisation of construction drawings, etc. Volume-wise, major project work (80%-85%) gets done during this phase. As this phase represents the substantial part of the project, a lot of emphasis is laid down to ensure to get it completed at a fast pace even by overlapping, as far as possible, the other sub-phases like engineering, procurement, construction, commissioning, etc.

Implementation phase begins and runs simultaneously with previous phases/sub-phases of the project, instead of waiting for one phase/sub-phase to get completed and then only moving ahead with the next phase/sub-phase.

5) **Commissioning, Shut-Down or Clean-Up Phase:** For the personnel involved in the project, this is the concluding phase of the project. The final outcome of the project in the form of a physical structure is ready to be handed over to the client, at whose instance the project was initiated, for whatever use the client intends to put it to. All the relevant documents pertaining to the project, e.g. drawings, files, operation manuals, maintenance manuals, etc. are listed out and transferred to the client.

Thereafter, the client goes ahead with the guarantee-test runs of the physical structure to ensure that the end product is as per his specifications/contract entered into between the parties. Any deviation from the provisions of the contract may be rectified during this phase and once the client is satisfied, the project stands closed. However, before the closure, necessary reconciliation exercise is carried out; all the requisite payments are made, and receivables are collected during this phase. One of the most crucial ingredients of this phase is planning for the



2.6.5. Project Report

A detailed project report is required for the establishment of small scale enterprise in order to have a clear understanding about number of years required for forfeiting the endowment. Identification of product line, target market, evaluation of skills and accuracy are also facilitated by the project report for small scale industry. Thus, the industrial project report of a small-scale industry should have 5-7 years assessments of revenues, cash inflows and outflows, assets in hand, balance sheet of legal responsibilities, reimbursement agendas of working capital and long-term loans, and so on. With the help of project reports, it is possible for the endorers to use the estimations provided by the firm and to compare them with the actual performance so that corrective measures can be taken to avoid any inconsistency.

An entrepreneur who starts the venture without the preparation of project report is prone to various risks as he does not have any tool for measuring the performance of the firm. In today's competitive market environment, no entrepreneur should initiate the establishment of a firm in a new industry or new sector in the absence of the project report. The statistical figures are quite supportive to entrepreneurs during the preparation of project report for small scale industry. Project report is prepared only when the decision of investment is taken by considering the economic, technical and financial feasibility studies. This is done in order to avoid the wastage of expensive efforts made towards the preparation of project report. While preparing the report, it is important to consider layout drawings, construction data, process designs, etc. Normally, the project report is completed within a time period of one year after the feasibility study is conducted. In this way, the early implementation of the project becomes possible without causing any extra cost resulting from inflation or unstable economic environment.

2.6.5.1. Contents of Project Report

The important contents of project report include:

- 1) **Background to the Project:** A background involves a short review or description about the layout of the project report.

- 2) **Terms of Reference:** It mainly consists of explanation about the reasons behind the selection of a certain system for analysis along with the references back to the primary analysis. The various details related with the resources, time scale and the scope of study are also included under the terms of reference. The terms of reference should clearly mention what is expected by when and the availability of resources required for the desired accomplishments. The intended results from this stage of project are predominantly significant.
- 3) **Existing System:** It mainly throws light on the description of the system(s) which are presently operating in the business unit. By using suitable method such as data flow diagram, flowcharts etc., these systems can be represented. They can also be investigated with the help of fact finding methods. In comparison to the detailed analysis, the description of the systems will be short, however, technical requirements should be given due significance. Also, particular hurdles or problems are outlined and implications are discussed.
- 4) **System Requirements:** Systems requirements are usually derived or evaluated from the existing system by discussing with operators and system users who have recognised the requirements which are not being fulfilled. It should also include the critical performance factors. **For example,** the requirement of producing 5,000 invoices per day and to simultaneously process every transaction in less than 5 seconds.
- 5) **Proposed Systems:** Along with the rough definition of inputs and outputs, a logical system design can be outlined. This design will be explained more in the content rather than in display and layout. In the explanation, the advantage of the proposed system can be explained in comparison to the old system along with its impact over other systems currently being used in the organisation. There may be certain restrictions imposed by the new systems which must be clearly defined and openly discussed. Also, the possible impact on personnel must be evaluated and strategy for staff training, reduction, or employment should be formulated.

In this section, the requirements of various equipment and software should also be mentioned. The scope of these requirements depends upon the existing resources of the enterprise. There can be the requirements of additional terminals, more secondary storage, or perhaps more memory, if there is sufficient number of large computer systems in the organisation. In fact, there can be a situation that these are not required before the actual implementation of the system and when the nature of the system is made clear by the detailed analysis and development, there can be some changes in the actual specifications.

- 6) **Risk Level:** A business project is prone to high level of risk due to uncertainty in business cycle, technological changes, governmental controls over price distribution, extent of environmental pollution, competition from substitutes, amendments in export and imports regulations, etc. It is thus important for the entrepreneur to analyse the risk level in the form of technical risk, economic risk, social risk and environmental risk.

An enterprise's long-term foundation is set by the project management. This is essential for performing business operations in the market for a longer period of time. Accelerated flows of income, continuity in income, and diversified risks are the stimulating factors which embark upon new projects/ventures.

2.6.5.4. Preparing a Model Project Report for Starting a New Venture: Specimen of a Project Report

1) Particulars of the Enterprise

- i) Name of the Product(s) _____
Product Code _____
- ii) Name of the Unit and Address _____

- iii) Telephone No. (if any),
Office _____
Factory _____
- iv) Names(s) and addresses of the Promoters in Block Letters _____

- v) Constitution of the Firm
Proprietary/Partnership Pvt. Ltd. Coop. Society _____
- vi) Qualification both Academic/Professional of the Entrepreneur(s)
Name _____
Qualification _____
- vii) Production/Working experience of the Entrepreneur(s)
Name of the Organisation _____
Items Manufactured _____
Period _____
- viii) Family background (Please give details of close relations who are in industry/business).
Name and Address of the Units and Items manufactured _____

- ix) Location/Proposed locations _____
- x) Name and Address of the bank with which you want to deal with _____

2) Economic Viability and Marketability

- i) Introduction (Basic and Presumptions)
- ii) Scope _____
- iii) Marketability (Please give proposed selling arrangements and list of places where the products will be mainly sold and likely buyers).

3) Technical Feasibility

- i) Manufacturing process (Please give process flowchart).
- ii) Please indicate the process which will get done from outside.
- iii) Specifications (whether proposed to adopt ISI specifications or some other).
- iv) Components to be purchased from outside.

	Name of the Components	No.	Specifications
a)	Installed capacity	Qty.	Value
b)	Proposed capacity to be utilised	Qty.	Value
c)	Motive power requirements (HP)		
	Approx.		

4) Financial Projections

i) Fixed Capital

- a) It includes:
 - Land, Area and Value
 - Building area, value owned/rented or leased
 - Please mention if some arrangements have been made in this respect.
- (Please append the proposed layout plan)

b) Machinery and Equipment

S. No.	Description and Specification	Indigenous/Imported	Qty.	Price	Sale Tax	Int.	Total	Name and Address of the Suppliers
1	2	3	4	5	6	7	8	9

- c) Testing equipment (with details as above)
- d) Electrification and Installation Charges and Maximum 10% of cost of Machinery and Equipment.
- e) Cost of Tools/Jigs/Fixtures/Mould/Working tables, etc.
- f) Cost of Office Equipments.
- g) Pre-operative expenses if any (cost of project preparation, technical know-how expense, royalties, etc.).
- h) Total non-recurring expenditure.
(i + ii + iii + iv + v + vi + vii)

ii) Working Capital (per Month)

Staff and Labour	Designation	No.	Salary	Total
Technical				
Office				
Sales				
Others				
Salaries per month				
Perquisites (10 to 20% of Salaries)				
Total Salary				

- a) Raw materials (per month on single shift basis including packaging materials).

Name with Specifications	Indigenous/ Imported	Qty.	Rate	Total

- b) Other items of expenditure (per month on single shift basis)

- Utility Power _____ KWH unit @ _____ per unit cost ₹ _____ Fuel (steam/furnace oil _____ tonnes @ ₹ _____ per _____ to water _____ kilolitres _____ per kl

Total _____ Cost _____ of Utilities _____

- Advertisement and Publicity
- Transport
- Commission to distributors/agents
- Consumable stores
- Rent (if anywhere cost of land building is not given)
- Taxes (other than Income tax)
- Insurance
- Stationery
- Postage and Telephone, etc.
- Repair and Maintenance
- Sales Expenses
- Other miscellaneous (not give above)
- Total overheads (a + b + c + d + e + f + g + h + i + j + k + l + m)
- Total recurring expenditure (per month) (i + ii + iii)

Working capital for two/three months (depending upon need or worked out on the bank system of assessment of working capital needs) $\frac{2}{3} \times (\text{expenditure})$

iii) **Total Investments**

- a) Fixed Capital
b) Working Capital
Total _____

iv) **Cost of Production (per Year)**

- a) Total recurring expenditure (per year)
b) Depreciation on building @ 5%
c) Depreciation on machinery and equipments @ 10%
d) Depreciation _____ on fixtures/Jigs/Tools/Moulds @ 25%
e) Depreciation on office equipments @ 20%
f) Depreciation on furnaces @ 25%
g) Interest on total investment @ _____
(Actual to be charged by Financial Institutions or Banks)

v) **Total Cost of Production**

vi) **Turnover per Year**

Sales	Qty.	Rate	Total
-------	------	------	-------

vii) **Net Profit Per Year (before Taxes)**

viii) **Financial Assessments**

- a) Net Profit Ratio:

(E - D)

$$\frac{\text{Profit (Per Year)} \times 100}{\text{Sales (Per Year)}}$$

- b) Rate of Return:

$$\frac{\text{Profit (Per Year)} \times 100}{\text{Total Investment}}$$

- c) Break-Even Point (BEP)

Total Fixed Cost (FC) Per Year

- Depreciation
- Rent
- Interest on Total Investment
- 40% of Salary and Wages
- 40% of overheads
- Insurance

BEP:

$$\frac{\text{FC} \times 100}{\text{FC} + \text{Profit}}$$

- d) Name and Addresses of Suppliers

2.7. FEASIBILITY ANALYSIS/ STUDY

2.7.1. Introduction

The process of analysing, reviewing and assessing the defined project or its alternative models is termed as Feasibility analysis/study or project appraisal. It helps the client to determine the nature and amount of investment concerning a particular project and also provides the necessary information for the implementation of the project. The theme of this process is the economic evaluation of the project where the involved costs and benefits are evaluated in monetary terms through cash flow analysis.

The evaluation is a recurring process which is carried frequently whenever there is development of a novel idea, or arrival of further information or lowering of improbability, till the point the client is able to take significant decision regarding approving the execution of the project and is ready to invest for getting the expected gains.