BBA II YEAR

DJB2B: ENTREPRENEURSHIP

SYLLABUS

Unit – I:

Entrepreneurship – Meaning – Importance, Types – Roles of Entrepreneurs in Economic Development – Qualities of an Entrepreneur – Entrepreneurship as a career.

Unit – II:

How to start Business – Product selection – Form of ownership – plant location – Land, Building. Water and Power – Raw Materials – Machinery – Man Power – Other – Infrastructural facilities – Licensing Registration and local byelaws.

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Unit – V:

Entrepreneurship Development in India – Women Entrepreneurship in India – Sickness in Small scale industries and their remedial measures.

Reference Books:

1. Entrepreneurship Development in India – Dr. C.B. Gupta, Dr. N.P. Srinivasan Sultan Chand and Sons.

2. Entrepreneurial Development Principles, Policies and Programmes – P. Saravanavel, Kay, Ess, Pee, Kay

3. Dynamics of Entrepreneurial Development in India – Vasant Desai, Himalaya Publishing House.

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Unit – I

Entrepreneurship – Meaning – Importance, Types – Roles of Entrepreneurs in Economic Development – Qualities of an Entrepreneur – Entrepreneurship as a career.

CONCEPT OF ENTREPRENEURSHIP: The word 'Entrepreneur' is derived from the French word 'Entrepreneur' meaning to undertake. In fact, in the 16th century, the Frenchmen who undertook military expeditions were referred to as 'Entrepreneur'. Later on, in the 18th century, this term got associated with persons who started their own enterprises. Richard Cantillon, an Irish man living in France, was economist who introduced the term 'entrepreneur' referring to the risk-taking of establishing a new venture. An enterprise is created by an entrepreneur. The process of creation is called "entrepreneurship".

ENTREPRENEURSHIP: MEANING: It is the process of designing, launching and running a new business, i.e. a startup company offering a product, process or service. It is the "capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit."

ENTREPRENEURSHIP: DEFINITIONS: Various experts have different words. Some of the definitions are as follows;

According to Collins Cobuild English Language Dictionary, 1987, "An entrepreneur is a person who sets up business deals in order to make a profit."

According to J.B. Say, "An entrepreneur is the economic agent who unites all means of production".

Richard Cantillon says, "All persons engaged in economic activity are entrepreneurs."

In the word of Quesnay, "A rich farmer is an entrepreneur who manages and makes his business profitable by his intelligence and wealth.

J.A. Schumpeter is of the view that, "A person who introduces innovative changes is an entrepreneur and he is an integral part of economic growth."

According to Webster, "Entrepreneur is one who assumes risk and management of business."
In the words of Walker, "True entrepreneur is one who is endowed with more than

average capacities in the risk of organizing and coordinating various factors of production."

Peter Drucker says, "Entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity. Innovation is a specific tool of entrepreneurs, the means by which they exploits change as an opportunity for different business or service."

Dewing has rightly put it as follows: "The function of entrepreneur is one that promotes ideas into business."

Thus, an entrepreneur is always action- oriented. He has the ability to visualize the necessary steps involved from idea generation to its actualization. He is both a thinker and worker. He accepts risk and manages it. All the above definitions portray an entrepreneur as an initiator of action, stimulator of social economic change and a harnesser of resources.

IMPORTANCE OF ENTREPRENEURSHIP: The importance's of entrepreneurship are as follows:

1. Development of managerial capabilities: The biggest significance of entrepreneurship lies in the fact that it helps in identifying and developing managerial capabilities of entrepreneurs. An entrepreneur studies a problem, identifies its alternatives, compares the alternatives in terms of cost and benefits implications, and finally chooses the best alternative. This exercise helps in sharpening the decision making skills of an entrepreneur. Besides, these managerial capabilities are used by entrepreneurs in creating new technologies and products in place of older technologies and products resulting in higher performance.

2. Creation of organisations: Entrepreneurship results into creation of organisations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills.

3. Improving standards of living: By creating productive organisations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people. Possession of luxury cars, computers, mobile phones, rapid

growth of shopping malls, etc. are pointers to the rising living standards of people, and all this is due to the efforts of entrepreneurs.

4. Means of economic development: Entrepreneurship involves creation and use of innovative ideas, maximisation of output from given resources, development of managerial skills, etc., and all these factors are so essential for the economic development of a country.

TYPES OF ENTREPRENEURS: There are various ways by which Entrepreneurs have been classified. Different authorities have classified Entrepreneurs differently at different times. The most popular classification has been given by Clarence Dash of on the basis of his study of the American agriculture. According to him, Entrepreneurs may be classified as follows:

1. **Innovative Entrepreneur:** An innovative entrepreneur is one who is able to foresee potentially visible and profitable opportunities through innovation. This type of Entrepreneur is highly motivated and talented and innovation is his key function. According to PETER F. DRUCKER, an innovating Entrepreneur is one "who always searches for change, responds to it, and exploits it as an opportunity". He creates new values or increases the value of what already exists. An innovation Entrepreneur may exhibits his talents of innovation in any one of the following Introduction forms:

- Introduction of a new product or introduction of a new quality of an existing product.
- Introduction of a new method of production.
- Opening of a new market.
- Discovery of a new source of supply of raw materials or semi-finished goods.
- Reorganizations of the enterprise so as to achieve monopoly or to break up the monopoly positions.

One should not confuse the terms 'innovator' and 'inventor' at this juncture. An Entrepreneur is not an inventor. An inventor discovers new methods and new materials. But an innovator commercializes these inventions to produce new and better goods. Thus' an innovating Entrepreneur implements the inventor's ideas.

2. Adoptive or Imitative Entrepreneur: Imitative Entrepreneur is one who is ready to adopt the successful innovations already introduced by innovating Entrepreneurs. In other words, an imitative Entrepreneur does not innovate anything by himself, but he only imitates techniques and technology innovated by others. He follows the innovators after carefully observing the extent to which innovation has been successful. For example, the Cochin shipyards has been constructed by using the innovative technology provided by the Mitsubishi heavy industries ltd., of Japan. This type of Entrepreneur has a vital role to play in developing countries. Innovative Entrepreneurs are scarce in developing countries. To add fuel to fire, there is also a problem of scarcity of capital and skilled labour in these countries, which hinder innovative Entrepreneurship. In this context, the imitative Entrepreneur fills up this gap admirably by simply imitating the technology, skill and technique already developed by innovative Entrepreneurs in developed countries. Hence, developing countries need imitators who are responsible for the development of their countries with the limited resources available in these countries.

3. Fabian Entrepreneur: Fabian Entrepreneur is one who adopts a great caution and skepticism in introducing any change in the business. Normally, he has neither the will to introduce any new changes nor the desire to adopt new methods. He is ready to imitate only when it becomes perfectly clear that failure to do so would definitely result in heavy loss for him. He is dominated more by customs, religious, traditions, & past practices and he is not ready to take any risk at all.

4. Drone Entrepreneur: Drone Entrepreneur is one who blindly follows the traditions methods of production even when it causes loss to him. He is not prepared to introduce any change under any circumstances in the method of production he has already introduced. He continuous to carry out his business in the tradition way even when he suffers losses. For example, the coir industry in Kerala is dominated by drone Entrepreneurs.

Cleo's Classification: Arthur H. Cole classifies Entrepreneurs as follows:

1. **Empirical Entrepreneur:** An empirical Entrepreneur is one who never introduces anything evolutionary in this method of production or business. He simply follows the principle of rule of thumb. He is similar to a drone Entrepreneur.

2. Rational Entrepreneur: A rational Entrepreneur is one who is ready to introduce even revolutionary changes on the basis of the general economic conditions prevailing in that area. He takes rational decisions by himself depending upon the situation.

3. Cognitive Entrepreneur: A cognitive Entrepreneur is one who takes the advices and services of experts and introduces changes. Since he acts on the advice of experts, he is called a cognitive Entrepreneur.

ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT: The entrepreneur is the key to the creation of new enterprises that energise the economy and rejuvenate the established enterprises that make up the economic structure. Entrepreneurs initiate and sustain the process of economic development in the following ways:

i. **Capital formation:** Entrepreneurs mobilize the idle savings of the public through the issues of industrial securities. Investment of public savings in industry results in productive utilization of national resources. Rate of capital formation increases which is essential for rapid economic growth. Thus, an entrepreneur is the creator of wealth.

ii. **Improvement in per capita income:** Entrepreneurs locate and exploit opportunities. They convert the latest and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help to increase. Net National Product and per capita income in the country, which are important yardsticks for measuring economic growth.

iii. **Generation of employment:** Entrepreneurs generate employment both directly and indirectly. Directly, self-employment as an entrepreneur offers the best way for independent and honorable life. Indirect, by setting up large and small scale business units they offer jobs to millions. Thus, entrepreneurship helps to reduce the unemployment problem in the country.

iv. **Balanced regional development:** Entrepreneurs in the public and private sectors help to remove regional disparities in economic development. They set up industries in backward areas to avail of the various concessions and subsidies offered by the Central and State Governments. Public sector steel plants and private sector industries by Modis, Tatas, Birlas and other have put the hitherto unknown places on the international map.

v. **Improvement in living standards:** Entrepreneurs set up industries which remove scarcity of essential commodities and introduce new products. Production of good on mass scale and manufacture of handicrafts, etc., in the small scale sector help to improve the standard of life of a common man. These offer goods at lower costs and increase variety in consumption.

vi. **Economic independence:** Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture indigenous substitutes of hitherto imported products thereby reducing dependence on foreign countries. Businessmen also export goods and services on a large scale and thereby earn the scarce foreign exchange for the country. Such import sub-situation and export promotion help to ensure the economic independence of the country without which political independence has little meaning.

vii. **Backward and forward linkages:** An entrepreneur initiates change which has a chain reaction. Setting up of an enterprise has several backward and forward linkages. For example, the establishment of a steel plant generates several ancillary units and expands the demand for iron ore, coal, etc. these are backward linkages. By increasing the supply of steel, the plant facilitates the growth of machine building, tube making, utensil manufacturing and such other units.

ROLE OF ENTREPRENEURS IN ECONOMIC DEVELOPMENT: Every country is very keen in promoting its economic development. Economic development implies development of agriculture and industry resulting in an increase in the per capita income of the country. It is clear that economic development cannot occur spontaneously. The economic development largely depends on human resources. Again, human resources alone cannot produce economic development. It requires an agent who is nothing but a dynamic entrepreneur. The entrepreneur

really acts as a hero in the drama of economic development. The crucial role being played by entrepreneurs in the economic development of a country can be studied under the following heads.

1 .Coordinating Role: The essential function of an entrepreneur is to coordinate the various factors of production. Coordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technology, division of labour, etc. He must also see that the best combination of factors is made available for the production process. Schumpeter feels that economic development will be a reality if new combinations of factors of production are undertaken. In the absence of this coordinating role, the factors of production will remain idle in the country. Thus, entrepreneurs enhance economic growth by coordinating and integrating the resources available in the country.

2. Agent's Role: Entrepreneurs are aptly called 'Agents of change.' Entrepreneurs act as catalyst or agent of economic development by perceiving opportunities and putting them into action. Entrepreneurs, seizing opportunities, set up business undertakings and industries and thereby make economic transformation. Thus, economic development is an effect for which entrepreneurship is the cause.

3. Role of Innovation: Innovation is a key to entrepreneurship. Innovation implies the commercial application of an invention. As an innovator, the entrepreneur assumes the role of a pioneer and an industrial leader. Entrepreneurs have contributed many innovations in developing new products and in the existing products and services. All these have resulted in economic development by providing more employment, more income, etc. In fact, the innovational activity raises the productive efficiency of the economy resulting in greater output and income. Schumpeter finds the secret of economic development in this rising productivity. Thus, innovative entrepreneurship can alter the production function of nations and bring about rapid development. In their absence, many scientist inventions would have remained as they were.

4. Risk Assumption Role: The most important function of an entrepreneur is the assumption of risk. Every productive venture involves risks and production cannot take place if people do not

come forward to bear risks. The economic rewarded for risk bearing is profit. The quantum of profit depends upon the quantum of risks undertaken. Profit leads to saving of wealth which ultimately goes to capital formation which is the basic ingredient for economic development. Thus entrepreneurs promote economic development by coming forward to assume risks of productive ventures.

5. Imitating Role: Entrepreneurs in developing countries take the role of "imitators" who generally copy the innovations introduced by the "innovative "entrepreneurs of the developed countries. They copy the organization, technology and the products of innovation from other developed regions. They are capable of adopting the innovative technology to the local conditions prevailing in the country and establish business enterprises. Imitative entrepreneurship seems to be the best medicine for underdeveloped countries to overcome their entrepreneurial ills and bring about substantial economic development. They constitute the main spring of development of underdeveloped regions.

QUALITIES OF AN ENTREPRENEUR: An entrepreneur is a person who initiates a business venture. The characteristics or some special qualities and strengths which make an entrepreneur different from a business person. It is important for us to note that a successful entrepreneur possesses the following characteristics. There are some essential features of an entrepreneur which are describing below.

a) **Initiative:** An entrepreneur takes an action that goes beyond job requirements or the demand of the situation. They Create ideas that bring about phenomenal changes.
b) **Opportunity seeking:** An entrepreneur is quick to see and seize opportunities. He/she does things before he/she is asked to work by people or forced by situation.
c) **Persistence:** An entrepreneur is not discouraged by difficulties and problems that come up in the business or his/her personal life. Once she sets a goal she is committed to the goal and will become completely absorbed in it.
d) **Information seeking:** An entrepreneur undertakes personal research on how to satisfy customers and solve problems. He/she knows that different people have different

capabilities that can be of help to them. He/she seeks relevant information from his/her clients, suppliers, competitors and others. He/she always wants to learn things which will help the business to grow.

e) **Demand for quality and efficiency:** An entrepreneur is always competing with others to do things better, faster, and at less cost he/she strives to achieve excellence.

f) **Risk taking:** Are you afraid of uncertainties? Then you cannot be an entrepreneur. Entrepreneurs are not high risk takers. They are also not gamblers; they calculate their risks before taking action. They place themselves in situations involving moderate risk so they are moderate risk takers.

g) Goal setting: An entrepreneur sets meaningful and challenging goals for him/herself. An entrepreneur does not just dream. Him/she thinks and plans what he/she does. He/she is certain or has hope about the future.

h) **Commitment to work:** An entrepreneur will work long hours after into the night just to be able to keep his/her promise to his/her client. He/she does the work together with his/her workers to get a job done. He/she knows how to make people happy to work for him/her due his/her dynamic leadership.

i) **Systematic planning and monitoring:** An entrepreneur plans for whatever he/she expects in the business. He/she does not leave things to luck. He/she plans by breaking large tasks down into small once and puts time limits against them. Since and entrepreneur knows what to expect at anytime he/she is able to change plans and strategies to achieve what he/she aims at.

j) **Persuasion and networking:** An entrepreneur acts to develop and maintain business contacts by establishing good working relationship. Uses deliberate strategies to influence others.

k) **Independence and self confidence:** Most entrepreneurs start business because they like to be their own boss. They are responsible for their own decisions.

ENTREPRENEURSHIP AS A CAREER: Entrepreneurship is not limited to any class, community or religion. There is no age bar also. Any person who possesses certain behavioural

traits and attitudes can become an entrepreneur irrespective of his age. The charms of becoming an entrepreneur are many. At the same time, there are certain limitations also.

Positive Aspects of Entrepreneurship: Indeed it is an exhilarating feeling to own and run one's own enterprise. The advantages of becoming an entrepreneur are:

Being the boss of his own business, he enjoys unlimited powers. He can do things in his own way and he need not take orders from someone else. He can make his own decisions and act on them. There are numerous opportunities for self-development. Working on one's own and thus getting rewards yields immense satisfaction and pleasure for more than what he can get in a job. Monetary rewards can be more than commensurate with his capacity and capabilities. He can command deference and respect of his immediate family and friends. It is a kind of intangible reward. Instead of depending on others he generates employment for others. He can make significant contribution to the development of the country and be proud of taking part in nation building activities. He can be a great achiever realizing his goals and proving his achievements to the world. He can be recognized for his outstanding efforts. Thus, from a humble beginning, one can become an entrepreneur with a turnover in roles.

Negative Aspects: The disadvantages of becoming an entrepreneur are:

Through an entrepreneur is his own boss, in some respects, he is not. It is so because he is constrained by various people like his financiers, labourers, suppliers, customers and so on. He may have to face frustration since the scope of his operations is limited by his limited resources. He has to work long and hard hours from morning to dusk and his venture tends to absorb all his energy and time. This may affect his social and family life. At time, he may have to face disappointments and frustrations since everything in his venture may not always work the way he would like it to. He has to always work with tension since there are always the risks of failure. In spite of the above factors, an entrepreneur some to prefer the troubles and travails of the seas and not the security of shallow waters

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Unit – II

How to start Business – Product selection – Form of ownership – plant location – Land, Building. Water and Power – Raw Materials – Machinery – Man Power – Other – Infrastructural facilities – Licensing Registration and local byelaws.

STARTING A MICRO, SMALL AND MEDIUM INDUSTRY

HOW TO START BUSINESS?

The promotion of a new enterprise, in fact, is similar to the birth of a child with one difference that is the gestation period for a business unit varies according to the nature of work undertaken by it. The entrepreneur is both mother and midwife in this operation and as such he has to bear the birth pangs and the initial botheration up the infant.

❖ BUSINESS IDEA: GENERATION TECHNIQUES

INTRODUCTION: Researches tell us that newer and smaller firms are less likely to engage in formal or structured environmental research. However, the fact is that generating and evaluating business ideas is and an important step in the entrepreneurial process. Some people may already have fairly specific ideas about potential entrepreneurial ventures; others may know only in a broad sense in what entrepreneurial direction they would like to go; and the rest may have no clue whatsoever. Whatever may be one's stage of entrepreneurial idea readiness, it's important for him to be able to generate and evaluate potential business ideas.

MISCONCEPTIONS ABOUT AND REALITIES OF GREAT IDEAS: Before we discuss how to generate business ideas, we need to address some misconceptions that you may have about ideas and what makes them great.

Entrepreneurship books and magazines are filled with stories of entrepreneurs striking it rich because they had a good idea. These stories, however, tend give the wrong impressions about great ideas-what they are as given by **Mary Coulter** in his book **"Entrepreneurship in Action"** are summarized below:

1. Great Ideas just appear out of nowhere: The best idea generators tend to do so in a structured, systematic way. They don't wait for the bolt of lightning to hit, but instead approach idea generation as a top-priority activity by devoting set periods of time to it.

2. **There are No Stupid Ideas:** In order to avoid hurt feelings or to prevent others from feeling that their contributions are not valued, the belief is that all ideas should be approached as worthy. The reality is that many ideas are bad. However, there's nothing wrong with that. Sometimes, the most powerful ideas come from what, at first glance, seemed stupid or illogical.

3. **Customers will tell you what to do if you'll only listen:** Who better to have as a source of ideas than the people who will purchase your products? The only problem with this belief is that although customers can help identify unmet needs, there's much more involved with making a great idea workable than simply listening to your customers.

4. We can generate all the ideas we'll Every Need if we just sit down at a Meeting: Getting people together for a meeting to discuss ideas and to feed off of each other's enthusiasm and creativity seems like a great thing to do. However, generating great enthusiasm and creativity seems like a great thing to do. However, generating great ideas shouldn't be restricted to a meeting. Great ideas are best shaped through an ongoing dialogue, not simply relegated to a specific place and time.

5. Getting Ideas isn't the problem; implementing them is! There's misconception that generating ideas is the easy part of the process and that putting those ideas into action is the difficult part. However, the reality is that problems with implementation arise from not screening carefully enough the ideas that are generated. If this were done, a lot of frustration could be minimized as ill-thought-out ideas could be screened out before even being implemented.

GENERATING IDEAS: Now as we have cleared up some of the initial misconception you may have about ideas, it's time to look at the process involved with generating ideas.

Entrepreneurs need ideas to start and to grow their entrepreneurial ventures. Generating ideas is an innovative, creative process. It's also one that will take some time, not only in the beginning stages of the entrepreneurial venture but also throughout the life of the business. As we look at the process of generating ideas, we're going to discuss where ideas come from i.e. source, ways to generate ideas, and the roles of structured analysis and intuition.

SOURCES OF BUSINESS IDEAS: Various entrepreneurship researches have looked at the source of an entrepreneur's ideas. These studies have shown that the sources of their ideas are unique and varied. In one survey, 60 percent of respondents said working in the same industry was the major source of ideas for a business. The various sources of ideas as depicted below.

1. Personal Interests or Hobbies
2. Work Experience
3. Products & Services Currently Available
4. Discussion with People
5. Success of Friends & Relatives
6. Experience of Existing Entrepreneurs
7. Experience of Existing Entrepreneurs
8. Short Supply/Excess Demand for Certain Goods
9. Advertisements
10. Exhibitions & Trade Fairs
11. Research Institutions
12. Creative Thinking
13. Recycling of Waste Materials
14. Improving Existing Products

1. Personal Interests or Hobbies: An important source of ideas is personal interests or hobbies. Many entrepreneurial ventures were formed because of an entrepreneur's love of doing something such as restoring antique automobiles, banking grandma's scrumptious praline chocolate brownies, etc. A successful entrepreneurial business might be built around personal interests in a particular product or activity.

2. Entrepreneur's Work Experiences etc. Another potential source of ideas and a popular one is an entrepreneur's work experiences, knowledge, and skills. By tapping into the knowledge of a particular industry or market gained by working in it, an entrepreneur can pinpoint areas of potential opportunity.

3. Products and Services Currently Available: The third source of possible ideas is looking at products and services currently available. Home, both familiar and unfamiliar ones are to be analysed. Such analysis is to be made by finding answers to the following questions. What products do you use every day? Do they do everything that you wished they would? What about products you're not familiar with? Can you take what you're familiar with and apply it to those unfamiliar ones?

4. Discussion with people: Another source of potential entrepreneurial ideas is discussing with others. While discussing with other one may secure many useful ideas. With the help of talking with others an entrepreneur could find out as to what people want to buy? What are not readily available in the market? What improvement they expect from goods and services currently available? Is any of their requirements are not satisfactorily met? Etc. Answer to these questions will enable person with entrepreneurial qualities to think more and generate ideas for starting venture.

5. Success of Friends and Relatives: Successful stories of friends and relatives are another source of ideas. Such stories are capable of inspiring people and drive them to appraise and undertake new projects.

6. Experience of Existing Entrepreneurs: Sharing the experience of entrepreneurs in the field will give vague ideas of possible projects. Existing entrepreneurs are in a position to tell us what are all scarce materials obtained from other states? What spares are difficult to information will definitely enable an entrepreneur to generate business ideas. Such kind of ideas if converted into projects and commercialized will definitely succeed.

7. Start Supply/Excess Demand for Certain Goods: In real life, we come across short supply of certain products. It shows clearly that production of those goods will be definitely successful.

8. Advertisements: A close analysis of message give by advertisements in various media will disclose what kinds of products are commonly produced in our country. What strata of society were covered/ aimed at by those products? Is any strata has been left uncovered etc. This sort of analysis would help an entrepreneur to decide his product, its quality, cost etc.

9. Exhibitions and Trade Fairs: Visiting exhibitions, trade fairs and industrial fairs may give us lot of ideas as to products.

10. Research Institutions: Research institutions are in a position to supply a list of new products developed. These institutions may be approached to select a suitable and viable project.

11. Creative Thinking: To become a successful entrepreneur creative thinking is a must. He should look at new ways of doing old things. Analysis of old ideas is capable of revealing the modern ideas.

12. Recycling of Waste Materials: Some leading industries' waste materials are very much useful for the production of other products. The waste material of sugar factory known as biogases is an important raw material for making alcohol. Such kind of information and analysis may be used for generating new ideas.

13. Improving Existing Products: Existing products may be improved as per the requirements of the consumers. A wet grinder industry may improve its product to get rice powder rather than rice paste.

METHODS OF GENERATING IDEAS: According to **Mary Coulter**, there are four different approaches to generate ideas. There are-

1. Environmental Scanning: One technique that entrepreneurs can use to generate ideas is environmental scanning which means the screening of large amounts of information to detect

emerging trends. Some important "**Ideas**" that stimulate your own idea creation by scanning the world around you are listed down below:

1. Read your local and other major metropolitan newspapers.
2. Read business publications.
3. Read popular consumer and news magazines.
4. Review the fiction and nonfiction best-seller lists.
5. Review government and consumer publications.
6. Subscribe to relevant trade publications.
7. Pay attention to commercials.
8. Watch and review top prime-time television shows.
9. Browse through the magazine section of a bookstore.
10. Walk through a local shopping mall to see what's there; and so forth.

By scanning the environment, one should try to get as much information as possible. It requires him to be alert at things like how are you going to know what's happening in the world, what people are thinking, what people are doing. Such an approach requires a lot of effort and work and he should be serious about being a successful entrepreneur in action.

2. Creativity and Creative Problem Solving: Creativity is the ability to combine ideas in a unique way or to make unusual associations between ideas. Traditional logical thinking is like parallel railroad tracks- going on forever, but never crossing, whereas creative thinking means linking new concepts in unusual ways. It means cross thinking by seeing new angles, connections, and approaches. The whole area of creativity had been extensively researched and studied, resulting in a lot of information. Creativity and creative problem solving are a structured technique for generating ideas. A number of specific creativity approaches can be used. **For instance,** the checklist methods, in which an entrepreneur uses a list of questions or statements to develop new ideas; free association, whereby an entrepreneur develops a new idea through a chain of word association; attribute listing, in which an entrepreneur develops a new idea by looking at the positive and negative attributes of a product or service; and so on. Using any of

these structured creative problem-solving approaches can help you to open your creativity and generate potential entrepreneurial ideas.

3. Brainstorming: One of the most familiar and widely used approaches to generate ideas is brainstorming. Brainstorming is an idea-generating process for developing creative solutions that encourages as many alternatives as possible while withholding criticism. Brainstorming is a relatively simple technique. It is done with a group of people i.e. with friends or colleagues. In a brainstorming session, a group of people gets together in a room, in a relaxed environment, where everyone would be free to stretch their minds and think beyond the ordinary. A group leader narrates the issue or problem to be addressed. He ensures that all participants understand it. Members contribute as many ideas as they can in a given time by describing them verbally. Participants are encouraged to come up with as many ideas as possible and to build on each other's ideas. In brainstorming sessions, talking is often non-stop because participants suggest ideas. During the brainstorming session normally no criticism of ideas is allowed. Instead, all ideas, no matter how illogical or crazy, are recorded for later discussion and analysis. The purpose of brainstorming is to be an idea-generating process that opens up as many alternatives as possible as other people's remarks act to stimulate others in a sort of chain reaction of ideas.

4. Focus Groups: The final structured approach to generate ideas is the use of focus groups. These groups provide information as to proposed products or services in a structured setting. In a typical focus group, a moderator focuses the group discussion on whatever issues are being examined. The group might look at a proposed product and answer specific questions asked by the moderator. In other cases, the focus group might be given a more general issue to discuss and the moderator simple leads the discussion based o comments made by the group. Either way, a focus group can provide an excellent way to generate new ideas and to screen proposed ideas and concepts.

THE ROLE OF INTUITION IN IDEA GENERATION: Intuition refers to a cognitive process whereby people subconsciously make decision based on their accumulated knowledge and experiences. Researchers have shown that a person's intuition can be measured. Intuition can

be a powerful source of new ideas if you learn to use it. The best approach is to combine the structured with the intuitive because they two complement each other. Listen to the inner voice and then use more structured approaches to fine-tune your ideas. Although generating ideas is an important process for entrepreneurs, it's only half the battle. So one must look at hid keas carefully before taking action and proceeding any further with his entrepreneurial venture.

EVALUATING IDEAS: Environment is changing rapidly. So it may be seen that evaluating ideas is a big waste of time. However, to research the venture's feasibility it is important to evaluate the ideas. There are four reasons to evaluate the idea namely,

1. Decide What is Important: In order to decide what is important in the entrepreneurial venture evaluating ideas will be of a helpful process. Potential ideas should be evaluated as to what is important to the entrepreneur.

2. Identify Strengths and Weaknesses of Ideas: The second reason to evaluate the idea is that all ideas are not created equally. Some ideas that an entrepreneur comes up with will have better chances of success than others. By evaluating the strengths and weaknesses of each idea, the entrepreneur is forced to identify and assess the strong and weak points. Looking at the strengths and weaknesses of each alternative, he can get information to make a better decision. When evaluating the strengths and weaknesses of entrepreneurial ideas, we can get and use information to make better decision.

3. Make Best use of Limited Resources: The next reason for idea evaluation is making best use of limited resources. Most entrepreneurs have limited amounts of money, time, people, or other resources that will be needed to pursue their entrepreneurial ideas. By evaluating entrepreneurial ideas, one can make sure your choice(s) make the best use of those limited resources.

4. Minimise Rise While Maximising Returns: The final reason why idea evaluation is important is to minimize risk while maximising return. Risk is the uncertainty surrounding decision and actions about what will happen. Return, on the other hand, is the payback (financial or otherwise) that an entrepreneur hopes to gain from the entrepreneurial venture. Naturally, we

would like to have the least amount of uncertainty (risk) while an entrepreneur puts in the effort to evaluate potential entrepreneurial ideas, there‘s an opportunity to minimize the level of risk exposure while maximizing the possible amount of payoff.

METHODS OF EVALUATING IDEAS: Evaluating entrepreneurial ideas revolves around personal and marketplace considerations. Each of these assessments will provide the entrepreneur with key information about the ideas' potential.

In an entrepreneurial venture, the entrepreneur is the pivotal point around which all other decision and actions happen. Therefore, in evaluating potential ideas, it is important to measure them against the personal considerations of the entrepreneur. The following aspects are to be analysed:

- Capability of the entrepreneur.
- Willingness to be an entrepreneur.
- Passion.
- Prepared to face challenges.
- Prepared to face failures etc.
- Ready to work hard.
- Know the real picture of venture's potential.
- Willingness to do continual analysis.
- Know well about financial issues.

Although it is extremely important for an entrepreneur to evaluate ideas against personal considerations, it is equally important to assess them against marketplace considerations. Your decision about which entrepreneurial direction to go should not take place without considering market factors. Your ideas will have to be viable in a competitive and dynamic marketplace. Consequently, the choice you make needs to be made with an eye to the market. The more your venture is market-driven, the greater the chances of success are. Here are some general aspects to evaluate the marketplace potential:

- Identifying potential customers for your idea including who, where and how many.
- Similar or unique product features which your proposed idea have in relation to what is currently on the market.
- Place and method of purchase of your product by potential customer.
- Pricing and Breakeven point.
- Need for promotion and advertisement of your proposed entrepreneurial venture.

This kind of analysis forces an entrepreneur to a least think about the viability of the proposed entrepreneurial idea. Although the idea may appear great on paper, if there's no market for it, the chances of success are zero.

EVALUATION: The final things we want to look at in this section on evaluating entrepreneurial ideas are two specific evaluation techniques an entrepreneur might use. They are-

1. Four-questions Approach, and
2. Feasibility Study.

The four-question approach very simple suggests that evaluating entrepreneurial ideas revolves around four basic questions. They are as follows:

- Do you love the business?
- Are you skilled at the business?
- Do you have experience at the business?
- Is the business simply a fad or trend?

Each of these questions forces the potential entrepreneur to get beyond dreaming and to focus on specific issues. By answering these simple yet through-provoking questions, the entrepreneur must examine whether or not he or she really has the personal characteristics (desires, skills, abilities) and marketplace consideration (fad, trend, or relatively long-term demand) in his or her favour.

Another more thorough evaluation technique is the feasibility study. A feasibility study is a structured and systematic analysis of the various aspects of a proposes entrepreneurial venture designed to determine its workability. A well-prepared feasibility study can be effective tool to determine whether an entrepreneurial idea a potentially successful one. In addition, the feasibility study can serve as a basis for the all-important business plan. A feasibility study gives descriptions of the most important elements of the entrepreneurial venture and the entrepreneur's analysis of the viability of these elements. A feasibility study generally covers eight different sections. These eight sections include an introductory section covering historical background and brief summary of product, potential strengths and weaknesses, and other key information; accounting consideration; management consideration; marketing consideration; financial considerations; legal considerations; tax consideration; and an appendix with supporting charts, graphs, diagrams, layouts, resumes, and so forth. Hence the feasibility study covers a lot of area. It takes a significant amount of time, effort, and energy to prepare it. However, if done effectively, the feasibility study can make preparing and writing the business plan a whole lot easier.

- **PRODUCT SELECTION:**

PRODUCT PLANNING AND DEVELOPMENT: Product planning id the starting point of the overall marketing programme of a firm. The Project planning is concerned with the deviations related to the nature and other related aspects of the products produced. It is a very wide activity. It involves the innovation of new products, improvement in the existing product line or dropping the uneconomic products from the product line. In the words of **Karl H. Tietjen,** product planning is the "Act of marketing and commercialization of new products, the modification of existing lines and the discontinuance of marginal or unprofitable items". Thus product planning involves three considerations- The development and introduction of new products, The modification of existing lines to suit the changing consumer needs and preferences, The discontinuance or elimination of unprofitable products. This product planning is a wider term and embraces activities that enable a company to determine what products it will market. A product is a combination of several attributes such as colour, material, design,

features, performance abilities, qualities, etc. Product planning involves the consideration of all attributes of a product.

Stages in the New Product Development Process: When a new product is introduced it passes through various stages. In each stage, the management must decide whether to the next stage or not. It involves six stages are explained below:

1. Idea Search: New products are born form ideas. Ideas may originate from sources outside the company or from within the company. New ideas may also come from unexpected sources. The consumer can also suggest new ideas. But the particular source is not so important as the company's system for stimulating new ideas and their acknowledgment and reviving them promptly.

2. Screening of Ideas: All new ideas cannot be converted into products, as it requires heavy capital investments. They should be screened and all unworkable ideas should be deleted. Only most feasible and promising one should be selected for further processing. Some companies use "**The Concept of Testing Method"** for screening. In this method, consumer response to a description or picture is measured even before the product is actually produced. The purpose is to get an idea of the eventual reaction of the product.

3. Business Analysis: In this stage, an attempt is made to predict the economic consequences of the product for the company as a whole. Only during this stage, the new product idea is expanded into a concrete business proposal. During this stage, the management should perform the following:

- Identify product features.
- Estimate market demand and product profitability.
- Establish a programme to develop the product.
- Assign responsibility for further study of the product feasibility.

4. Product Development: Until this stage, the existence of the product is entirely the critical. Only in this stage, the idea in paper is converted into a physical product. Pilot models of the product are produced in small quantities with certain specifications. Laboratory tests and other evaluations necessary to determine the production feasibility of the product are made.

5. Market Testing: During this stage, market tests, in-use-tests and other commercial experiments in limited geographic areas are conducted to ascertain the feasibility of a full-scale marketing programme. In this stage, design and production factors may have to be readjusted as a result of test findings. At this point, the management must take a final decision regarding whether to market a particular product or not. Test marketing is generally done for consumer goods rather than for industrial goods.

6. Commercialisation: Full-scale production and marketing programmes are planned and the product is launched. Up to this point, the management has complete control over the product. Once the product is born and enters into its life cycle, the management has little control over it. Only external environmental factors began to control the product.

❖ **FORMS OF OWNERSHIP:** When organizing a new business, one of the most important decisions to be made is choosing the structure of a business.

A) SOLE PROPRIETORSHIPS: The vast majority of small business starts out as sole proprietorships are very dangerous. These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume "complete personal" responsibility for all of its liabilities or debts. In the eyes of the law, you are one in the same with the business.

Merits:

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, within the law, to make all decisions.
- Sole proprietors receive all income generated by the business to keep or reinvest.

- Profits from the business flow-through directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Demerits:

- Unlimited liability and are legally responsible for all debts against the business.
- Their business and personal assets are 100% at risk.
- Has almost been ability to raise investment funds.
- Are limited to using funds from personal savings or consumer loans.
- Have a hard time attracting high-caliber employees, or those that are motivated by the opportunity to own a part of the business.
- Employee benefits such as owner's medical insurance premiums are not directly deductible from business income (partially deductible as an adjustment to income).

B) PARTNERSHIPS: In a Partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The Partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, or what steps will be taken to dissolve the partnership when needed. They also must decide up front how much time and capital each will contribute, etc.

Merits:

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal taxes.
- Prospective employees may be attracted to the business if given the incentive to become a partner.

Demerits:

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.

- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnerships have a limited life; it may end upon a partner withdrawal or death.

C) CORPORATIONS: A corporation, chartered by the state in which it is headquartered, is considered by law to be a unique "entity", separate and apart from those who own it. A corporation can be taxed; it can be sued; it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

Merits:

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

Demerits:

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible form business income, thus this income can be taxed twice.

D) JOINT STOCK COMPANY: Limited financial resources & heavy burden of risk involved in both of the previous forms of organization has led to the formation of joint stock companies these have limited dilutives. The capital is raised by selling shares of different values. Persons who purchase the shares are called shareholder. The managing body known as; Board of Directors; is responsible for policy making important financial & technical decisions. There are two main types of joint stock Companies.

i. Private Limited Company: This type company can be formed by two or more persons. The maximum number of member ship is limited to 50. In this transfer of shares is limited to members only. The government also does not interfere in the working of the company.

ii. Public Limited Company: It is one whose membership is open to general public. The minimum number required to form such company is seven, but there is no upper limit. Such company's can advertise to offer its share to genera public through a prospectus. These public limited companies are subjected to greater control & supervision of control.

Merits:

- The liability being limited the shareholder bear no Rick& therefore more as make persons are encouraged to invest capital.
- Because of large numbers of investors, the risk of loss is divided.
- Joint stock companies are not affected by the death or the retirement of the shareholders.

Demerits:

- It is difficult to preserve secrecy in these companies.
- It requires a large number of legal formalities to be observed.
- Lack of personal interest.

E) PUBLIC CORPORATIONS: A public corporation is wholly owned by the Government centre to state. It is established usually by a Special Act of the parliament. Special statute also prescribes its management pattern power duties & jurisdictions. Though the total capital is provided by the Government, they have separate entity & enjoy independence in matters related to appointments, promotions etc.

Merits:

- These are expected to provide better working conditions to the employees & supported to be better managed.
- Quick decisions can be possible, because of absence of bureaucratic control.
- More flexibility as compared to departmental organization.
- Since the management is in the hands of experienced & capable directors & managers, these ate managed more efficiently than that of government departments.

Demerits:

- Any alteration in the power and constitution of corporation requires an amendment in the particular Act, which is difficult and time consuming.
- Public Corporations possess monopoly and in the absence of competition, these are not interested in adopting new techniques & in making improvement in their working.

F) GOVERNMENT COMPANIES: A state enterprise can also be organized in the form of a Joint stock company; A government company is any company in which of the share capital is held by the central government or partly by central government & party by one to more state governments. It is managed by the elected board of directors which may include private individuals. These are accountable for its working to the concerned ministry or department & its annual report is required to be placed ever year on the table of the parliament or state legislatures along with the comments of the government to concerned department.

Merits:

- It is easy to form.
- The directors of a government company are free to take decisions & are not bound by certain rigid rules & regulations.

Demerits:

- Misuse of excessive freedom cannot be ruled out.

- The directors are appointed by the government so they spend more time in pleasing their political masters & top government officials, which results in inefficient management.

CLASSIFICATION OF ENVIRONMENTAL FACTORS: On the basis of the extent of intimacy with the firm, the environmental factors may be classified into different types namely internal and external.

1) INTERNAL ENVIRONMENTAL FACTORS: The internal environment is the environment that has a direct impact on the business. The internal factors are generally controllable because the company has control over these factors. It can alter or modify these factors. The internal environmental factors are resources, capabilities and culture.

I) RESOURCES: A good starting point to identify company resources is to look at tangible, intangible and human resources. Tangible resources are the easiest to identify and evaluate: financial resources and physical assets are identifies and valued in the firm's financial statements. Intangible resources are largely invisible, but over time become more important to the firm than tangible assets because they can be a main source for a competitive advantage. Such intangible recourses include reputational assets (brands, image, etc.) and technological assets (proprietary technology and know-how). Human resources or human capital are the productive services human beings offer the firm in terms of their skills, knowledge, reasoning, and decision-making abilities.

II) CAPABILITIES: Resources are not productive on their own. The most productive tasks require that resources collaborate closely together within teams. The term organizational capabilities are used to refer to a firm's capacity for undertaking a particular productive activity. Our interest is not in capabilities per se, but in capabilities relative to other firms. To identify the firm's capabilities we will use the functional classification approach. A functional classification identifies organizational capabilities in relation to each of the principal functional areas.

III) CULTURE: It is the specific collection of values and norms that are shared by people and groups in an organization and that helps in achieving the organizational goals.

2) EXTERNAL ENVIRONMENT FACTORS: It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. The two types of external environment are micro environment and macro environment.

a) MICRO ENVIRONMENTAL FACTORS: These are external factors close to the company that have a direct impact on the organizations process. These factors include:

i) Shareholders: Any person or company that owns at least one share (a percentage of ownership) in a company is known as shareholder. A shareholder may also be referred to as a "stockholder". As organization requires greater inward investment for growth they face increasing pressure to move from private ownership to public. However this movement unleashes the forces of shareholder pressure on the strategy of organizations.

ii) Suppliers: An individual or an organization involved in the process of making a product or service available for use or consumption by a consumer or business user is known as supplier. Increase in raw material prices will have a knock on affect on the marketing mix strategy of an organization. Prices may be forced up as a result. A closer supplier relationship is one way of ensuring competitive and quality products for an organization.

iii) Distributors: Entity that buys non-competing products or product-lines, warehouses them, and resells them to retailers or direct to the end users or customers is known as distributor. Most distributors provide strong manpower and cash support to the supplier or manufacturer's promotional efforts. They usually also provide a range of services (such as product information, estimates, technical support, after-sales services, credit) to their customers. Often getting products to the end customers can be a major issue for firms. The distributors used will determine the final price of the product and how it is presented to the end customer. When selling via retailers, for example, the retailer has control over where the products are displayed, how they are priced and how much they are promoted in-store. You can also gain a competitive advantage by using changing distribution channels.

iv) Customers: A person, company, or other entity which buys goods and services produced by another person, company, or other entity is known as customer. Organizations survive on the basis of meeting the needs, wants and providing benefits for their customers. Failure to do so will result in a failed business strategy.

v) Competitors: A company in the same industry or a similar industry which offers a similar product or service is known as competitor. The presence of one or more competitors can reduce the prices of goods and services as the companies attempt to gain a larger market share. Competition also requires companies to become more efficient in order to reduce costs. Fast-food restaurants McDonald's and Burger King are competitors, as are Coca-Cola and Pepsi, and Wal-Mart and Target.

vi) Media: Positive or adverse media attention on an organisations product or service can in some cases make or break an organisation. Consumer programmes with a wider and more direct audience can also have a very powerful and positive impact, forcing organisations to change their tactics.

b) MACRO ENVIRONMENTAL FACTORS: An organization's macro environment consists of nonspecific aspects in the organization's surroundings that have the potential to affect the organization's strategies. When compared to a firm's task environment, the impact of macro environmental variables is less direct and the organization has a more limited impact on these elements of the environment. The macro environment consists of forces that originate outside of an organization and generally cannot be altered by actions of the organization. In other words, a firm may be influenced by changes within this element of its environment, but cannot itself influence the environment. The curved lines in Figure 1 indicate the indirect influence of the environment on the organization. Macro environment includes political, economic, social and technological factors. A firm considers these as part of its environmental scanning to better understand the threats and opportunities created by the variables and how strategic plans need to be adjusted so the firm can obtain and retain competitive advantage.

i) Political Factors: Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include tax policy, employment laws, environmental regulations, trade restrictions and tariffs and political stability.

ii) Economic Factors: Economic factors affect the purchasing power of potential customers and the firm's cost of capital. The following are examples of factors in the macro economy economic growth, interest rates, exchange rates and inflation rate.

iii) Social Factors: Social factors include the demographic and cultural aspects of the external macro environment. These factors affect customer needs and the size of potential markets. Some social factors include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety

iv) Technological Factors: Technological factors can lower barriers to entry, reduce minimum efficient production levels and influence outsourcing decisions. Some technological factors include R&D activity, automation, technology incentives and rate of technological change

❖ **PLANT LOCATION:** The science of a suitable is very important for the proper and profitable functioning of an enterprise. Proper decision as to the location of the plant enables the firm to operate with maximum efficiency at minimum cost. If any error is made in the selection of a suitable location, it is more or less permanent and cannot be rectified without further dislocation of the factory. Shifting of plant from one place to another place involves huge expenditure. Hence, the entrepreneur must be very careful while selecting the suitable area and place where the business unit is to be established.

MEANING OF LOCATION: "**Location"** refers to a large general area say a country, a state or a district where the production and distribution activities are carried out. Location should be an ideal one which means a location, which ensures the optimum results in relation to costs. According to John **A. Shubin,** "Ideal location is one that permits the lowest unit cost in the production or distribution of a product or service".

The entrepreneur is in a position to tackle the problem of location not only at the time of starting a business unit but also throughout its lifetime say at the time of its 1.Expansion, 2.Decentralisation, and 3.Deversification.

FACTORS INFLUENCING LOCATION: There are a number of factors, which pull an industry to a particular location. The entrepreneur must weigh several factors and find out the best possible location. The factors that are to be considered while selecting a suitable location can be discussed under the following two heads:

1. Primary Factors: Primary factors exert considerable influence on the selection of location, which can be further classified into five heads viz., Raw material, Market, Labour, Fuel and power, and Transport.

2. Secondary Factors: It includes financial services, climate factors, personal factors, external economies, momentum of an early start, historical factors, political stability, special concessions and benefits, and strategically considerations.

SELECTION OF SITE: "Site" refers to a smaller area, which is situated within the general area selected for the purpose of carrying out the production activities only. The site many be a city site, a country site or a sub-urban site.

FACTORS INFLUENCING THE SELECTION OF SITE: After having decided about the location in a particular area, the exact site within this area has to be selected to set up the plant. The site selected may be an urban site, a semi-urban site or a rural site. The entrepreneur must consider the following factors, which influence the selection of the site:

i. **Availability of Land:** The land available should be sufficient not only for the purpose of establishing an industrial unit at its inception but also should be adequate to allow future expansion. However, the land that is to be acquired should not be too large because such a big land, exceeding its present and future requirements will result in locking up of cash in idle assets.

ii. **Availability of Building:** Availability of building is another factor, which influence the selection of a site. The area of the building must be capable of permitting future expansion and the cost of the building must be within the limits of resources of firm and its potential earning capacity.

iii. **Availability of Raw Materials:** One of the most important considerations involved in selection of industrial location has been the availability of raw materials required. The biggest advantage of availability of raw material at the location of industry is that it involves less cost in terms of 'transportation cost. If the raw materials are perishable and to be consumed as such, then the industries always tend to locate nearer to raw material source. Steel and cement industries can be such examples. In the case of small- scale industries, these could be food and fruit processing, meat and fish canning, jams, juices and ketchups, etc.

iv. **Proximity to Market:** If the proof of pudding lies in eating, the proof of production lies in consumption. Production has no value without consumption. Consumption involves market that is, selling goods and products to the consumers. Thus, an industry cannot be thought of without market. Therefore, while considering the market an entrepreneur has not only to assess the existing segment and the region but also the potential growth, newer regions and the location of competitors.

v. **Infrastructural Facilities:** Of course, the degree of dependency upon infrastructural facilities may vary from industry to industry, yet there is no denying of the fact that availability of infrastructural facilities plays a deciding role in the location selection of an industry. The infrastructural facilities include power, transport and communication, water, banking, etc. Yes, depending upon the types of industry these could assume disproportionate priorities. Power situation should be studied with reference to its reliability, adequacy, rates (concessional, if any), own requirements, subsidy for standby arrangements etc. If power contributes substantially to your inputs costs and it is difficult to break even partly using your own standby source, entrepreneur may essentially have to locate his/her enterprise in lower surplus areas such as Maharashtra or Rajasthan. Similarly adequate water supply at low cost may become a dominant decisional factor in case of selection of industrial location for leather, chemical, rayon, food processing, chemical and alike. Just to give you an idea what gigantic proportions can water as a resource assumes.

vi. **Government Policy:** In order to promote the balanced regional development, the Government also offers several incentives, concessions, tax holidays for number of years, cheaper power supply, factory shed, etc., to attract the entrepreneurs to set up industries in less developed and backward areas. Then, other factors being comparative, these factors become the most significant in deciding the location of an industry.

vii. **Availability of Manpower:** Availability of required manpower skilled in specific trades may be yet another deciding factor for the location of skill- intensive industries. As regards the availability of skilled labour, the existence of technical training institutes in the area proves useful. Besides, an entrepreneur should also study labour relations through turnover rates, absenteeism and liveliness of trade unionism in the particular area.Such information can be obtained from existing industries working in the area. Whether the labour should be rural or urban; also assumes significance in selecting the location for one's industry. Similarly, the wage rates prevalent in the area also have an important bearing on selection of location decision. While one can get cheaper labour in industrially backward areas, higher cost of their training and fall in quality of production may not allow the entrepreneur to employ the cheap manpower and, thus, establish his/her enterprise in such areas.

viii. **Local Laws, Regulations and Taxes:** Laws prohibit the setting up of polluting industries in prone areas particularly which are environmentally sensitive. Air (Prevention and Control of Pollution) Act, 1981 is a classical example of such laws prohibiting putting up polluting industries in prone areas. Therefore, in order to control industrial growth, laws are enforced to decongest some areas while simultaneously encourage certain other areas. For example, while taxation on a higher rate may discourage some industries from setting up in an area, the same in terms of tax holidays for some years may become the dominant decisional factor for establishing some other industries in other areas. Taxation is a Centre as well as State Subject. In some highly competitive consumer products, its high quantum may turn out to be the negative factor while its relief may become the final deciding factor for some other industry.

ix. **Ecological and Environmental Factors:** In case of certain industries, the ecological and environmental factors like water and air pollution may turn out to be negative factor in deciding enterprise location. For example, manufacturing plants apart from producing solid waste can also pollute water and air. Moreover, stringent waste disposal laws, in case of such

industries, add to the manufacturing cost to exorbitant limits. In view of this, the industries which are likely to damage the ecology and environment of an area will not be established in such areas. The Government will not grant permission to the entrepreneurs to establish such industries in such ecologically and environmentally sensitive areas.

x. **Competition:** In case of some enterprises like retail stores where the revenue of a particular site depends on the degree of competition from other competitors' location nearby plays a crucial role in selecting the location of an enterprise. The areas where there is more competition among industries, the new units will not be established in these areas. On the other hand, the areas where there is either no or very less competition, new enterprises will tend to be established in such areas.

xi. **Incentives, Land Costs, and Subsidies for Backward Areas:** With an objective to foster balanced economic development in the country, the Government decentralizes industries to less developed and backward areas in the country. This is because the progress made in islands only cannot sustain for long. The reason is not difficult to seek. "Poverty anywhere is dangerous for prosperity everywhere." That many have-nots will not tolerate a few haves is evidently clear from ongoing protests leading to problems like terrorism. Therefore, the Government offers several incentives, concessions, tax holidays, cheaper lands, assured and cheaper power supply, price concessions for departmental (state) purchases, etc. to make the backward areas also conducive for setting up industries.

xii. **Climatic Conditions:** Climatic conditions vary from place to place in any country including India. And, climatic conditions affect both people and manufacturing activity. It affects human efficiency and behaviour to a great extent. Wild and cold climate is conducive to higher productivity. Likewise, certain industries require specific type of climatic conditions to produce their goods.

xiii. **Political Conditions:** Political stability is essential for industrial growth. That political stability fosters industrial activity and political upheaval derails industrial initiates is duly confirmed by political situations across the countries and regions within the same country. The reason is not difficult to seek. The political stability builds confidence and political instability causes lack of confidence among the prospective and present entrepreneurs to venture into industry which is filled with risks. Community attitudes such as the "Sons of the Soil Feeling"

also affect entrepreneurial spirits and may not be viable in every case. Besides, an entrepreneur will have also to look into the availability of community services such as housing, schools and colleges, recreational facilities and municipal services. Lack of these facilities makes people hesitant and disinterested to move to such locations for work. Very closer to political conditions is law and order situation prevalent in an area also influences selection of industrial location.

xiv. **Transport Facilities:** The site should be connected with road, rail and water transport since industries require regular and sufficient transportation facilities for delivery of materials, dispatch of finished product and for the use of employees.

xv. **Market Facilities:** The size of the local market and the extent of demand for their products should also be taken into consideration.

xvi. **Ancillary Units:** It should be seen whether the after sale services, repairing units and ancillary industries are available in the area.

xvii. **Good Surrounding:** It should be seen whether the site is located in good surroundings.

xviii. **Other Facilities:** The availability of other facilities such as banking facilities educational facilities, housing facilities, tax concession etc. must also be take into account.

CLASSIFICATION OF SITES: The site to be selected for establishing an industrial unit can be classified into three kinds' viz., urban site or city site, rural site or country site, and sub-urban site.

CHOICE OF THE SITE: The selection of specific site is the outcome of a compromise between various considerations. The entrepreneur must take into account the various economics factors such as cost of the land, labour, materials etc. as well as the cost of marketing, which have a marked effect on the smooth functioning of the business undertaking. Each type of site has its own merits and limitations. Hence the entrepreneur must consider each case individually and also make a comparative study of each of them so as to select a most suitable site.

FACTORY BUILDING: Once the plant location and site are decided upon, the next task is to procure a suitable building to house the plant. The designing of the factory building involves huge fixed capital investment the entrepreneur while designing the building must exercise proper

care in order to design the suitable building both for immediate and future needs. If any wrong decision has been made, it cannot be rectified easily which shall finally result in a heavy loss to the firm.

IMPORTANCE OF THE FACTORY BUILDING: The workers in an organisation have to pass best portion of their time within the four walls of a factory. In majority of the cases, the work is more or less monotonous. Besides, the factory building has a permanent effect on the operating cost because it constitutes fixed assets. It is an enclosure, which is required for production equipments and facilities. According to **M. More**, "The building is required to provide protection for men, machines and materials, products or even the company's secret". It enables the management to maximize economy and efficiency in le pleasant working environment. Thus the factory building requires greater importance now-a-days.

Own or Hire Decision: At this stage, entrepreneur has to decide whether to own a building or to hire. Construction of a new building involves huge money and also it is a time consuming process. The capital invested in the building can be recovered only in the long run by way of charging depreciation. Besides, it is not always feasible to construct a new building every time a new industrial unit is established. In the case of hired building, fitting an operation into a building, which constructed beforehand without any special objective, may result in operational problems. Hence the present day industrialists do not favour the hiring of factory building. There are several reasons for this trend.

- Suitable ready built factories are not available in most cases except for a small plant.
- Modern trend is in favour of an open plant lay-out. But most of the old buildings have been made of brick with side and interior walls, which carry the weight of the upper floors and roofs
- Old buildings are unsuitable for modern production techniques, which require firewalls and fire doors etc.
- A rental building will not give any reputation to the industrial unit.

Particularly, medium and large sized factories cannot be housed in a rental accommodation. Even small units can get accommodation in the industrial estates either on rental basis or on hire purchase basis. It is also beneficial for smaller units to house their plant in

the industrial estate as the estate management provides necessary infrastructure for the smooth functioning of the industrial units. Thus majority of the modern units prefer to have their own building to house the plant instead of hiring the same.

POINTS TO BE CONSIDERED WHILE CONSTRUCTING THE FACTORY BUILDING

Entrepreneur at the time of constructing the factory building has to consider the following points:

1. The design of the building.
2. The type of materials used for construction.
3. The type of building.

Entrepreneur should avail the services of exerts like architect, the structural engineers, the mechanical and electrical etc. in designing the factor building. As stated by **Douglas Haskell,** "All of them should work as a team in designing the plant". We shall now examine the utility and importance of each of these considerations in the following paragraphs.

1. The Design of the Building: Entrepreneurs generally avail the services of experts in the field of designing the building say architect, the structural engineers, the mechanical and electrical engineers etc. According to **Harold T. Amrine,** the following factors should be considered while designing a building for the purpose of carrying out manufacturing activities.

a. Nature of the production process.
b. Plant lay-out and space requirements.
c. Lighting, air conditioning, ventilation and heating.
d. Service facilities.
e. Future expansion.
f. Appearance.

Each of the considerations shall be discussed briefly below:

a. Nature of the Production Process: The factory building has to be designed mainly on the basis of the type of manufacturing process. The various machines and equipments used in the process of production dictate the type of the building to be constructed. The factory building should provide for sufficient floor loading, headspace, ventilation etc. It should also provide for sufficient space for the storage and flow of materials and adequate loading docks and railroad sidings. If the proposed manufacturing process requires considerable ventilation or humidity and controlled temperature, sufficient provision should be made for the same.

b. Plant Lay-out and Space Requirements: The plant lay-out and space requirements are the other two factors, which will have considerable influence on the kind of building to be constructed. The plant lay-out involves the allocation of space and the arrangement of equipment in such a manner the overall operating costs can be minimized. So the optimum plant lay-out should be determined and the building should be a just shell around this design. However, th element of flexibility is needed because it is not always feasible and economical to build a new building whenever there is a change in technology etc. But in practice the change supposed to occur in the future cannot be estimated precisely. Hence the buildings are to be constructed by compromising both the present ideal and the need to ensure the necessary flexibility to meet the future needs. The actual construction of the building shall be commenced only after a detailed layout of all the machines and equipments has been completed and the space requirements are estimated precisely.

c. Lighting: It the light is not proper, mistakes may be committed, accidents may occur and problems will come up. The natural light has its own merits. It is economical and has good qualities for the health. It is not possible to provide natural light in most cases due to the reasons like location of site in an overcrowded area etc. But wherever possible it is desirable to provide natural lighting. The artificial lighting shall be preferred in extra ordinary circumstances only. Artificial lighting has side effects due to glare, production of irritating flickers etc. However, in case of complex processes, use of artificial lighting cannot be avoided. When making arrangement of artificial light, care must be take to provide proper lighting for the particular nature of work. Choosing light colours on the walls and ceilings and using contrast colours on

the plant and fittings can improve effectiveness of light improved much better. All light fittings should be so designed and situated that they can be cleaned safely and easily since dirt will reduce the output from any light fittings.

d. Ventilation and Heating: The factory should b quite airy. Fresh air will reduce fatigue and avoid the irritated feelings of the labourers. Fresh air can be had only when there is proper ventilation. Now-a-days ample ventilation is provided by means of roof ventilators and exhaust fans. The cost of heating forms a substantial portion of the operating cost. So effort should be take to conserve and distribute heat and fresh air usefully. During the process of construction of the building itself, insulation, draught screens, warm air blankets and heating ducts are to be installed. If they are installed later, it is costly and also will disturb the routine work. Air conditioners also can b installed to overcome these problems. However, it is very costly. The cheaper method of getting natural and fresh air is to fix fans, exhaust fans, filters etc.

e. Service Facilities: Service facilities include maintaining plants like incinerators, fire fighting equipments, sewage treating system, emergency power equipment etc. Proper training should be given to the workers to make use of them wherever it is needed. Some of these may be installed in the factory building itself and others may be in a separate building depending upon the nature of its usefulness.

f. Future Expansion: Growth and expansion are natural in every manufacturing enterprise. They are, in fact, the indicators of the prosperity of a business. Therefore, most companies erecting new building should give due consideration to this problem Expandability does not mean to be construction of a huge building in which a major portion of the space would be idle. This, in fact, is a waste of money and would result in unnecessary locking up of capital. Therefore, the wisdom lies in the construction of a building, which is adequate enough to accommodate the present manufacturing programme and related activities and provides for expansion as well.

In order to provide necessary facilities for future expansion of the concern, the management should keep in mind the under mentioned factors:

i. The area of the land should be sufficiently large to facilitate future expansion.
ii. The building should be in rectangular shape, which facilitates expansion on all sides.
iii. If horizontal expansion is expected, the sidewalls must be made in such a manner to provide for easy removal.
iv. In case, vertical expansion is expected, it should provide for storey foundations, supporters and columns.

g. Appearance: Another important factor, which requires due consideration in selecting the style of architecture and building materials is appearance. It adds prestige and reputation not only to the industrial unit but also to the product.

2. Types of Building Materials: Building materials that are popularly used for industrial purpose are listed below:

i. Wood Frames: Construction of a wood frame building is very cheap. It involves rapid depreciation and high rate of insurance. It is least resistant to fire. So it is not suitable for an industrial building. Only in case of temporary operation, it can be used.
ii. Bricks: Buildings may also be constructed with bricks made of mud or cement depending on the requirements. This type of building depreciates very slowly when compared to wood. Alternations can be effected easily and quickly.

iii. Steel Frame: A steel frame structure is made u of materials like steel, girders, columns and roof trusses with gaps between columns, which are filled by tiles, bricks or some other materials. Alternations in this type of building also can be made very easily; Insurance rates are also low for these buildings. However, the cost of maintaining such buildings is higher due to the following reasons:

- Frequent painting of building is needed.
- In case of chemical industries, there is a possibility of adverse reactions.
- In the event of a fire, wharfing and twisting may occur.
- Rate of depreciation is high.

Reinforced Cement Concrete (RCC): One of the most popular types of construction today is Reinforced Cement Concrete. It is suitable much for multi-storied building. In this type of construction, a steel frame's encased in concrete and thereby it is reinforced. Its floors and their supporting columns are made of concrete, which is reinforced with steel. However, for the construction of sides and interior walls, bricks, sheet metal or hollow tiles used. These walls do not give structural support, as they are merely curtain walls.

Precast Concrete: Precast concrete slabs are used mainly in the construction of single storey building. There are many types of precast construction. Of them, most important are two viz.,

i) Tilt up Construction: In this type of construction, concrete walls are poured flat into a frame on the ground to light a particular wall space. After the concrete has set, it is raises to their vertical positions by using mechanical devices.

ii) Lift Slab: Another type of precast construction is lift slab in which roof and floors are poured on the ground and after the cement sets, they are hoisted into place and fastened to supporting steel columns. As the prefabricated slabs are used here, it reduces considerably the time required for constructing the building.

3. Types of Buildings: Industrial buildings are of four types. They are as follows:

i. Single Storey Building: Single storey building requires large area of land for its construction. Such a large area of land can be acquired only in rural and semi-urban areas. Hence, when large area of land is available at cheap rate it is preferable to design and construct a single storey building. The present trend also favours the semi-urban sits. Besides, Government of India and the financial institutions are also for in favour of rural and semi-urban site for establishing new industrial units for the purpose of achieving balanced regional development.

Merits of Single Storey Building: Single storey building offers several operating advantages. Some of them are given below:

- **Quicker Construction:** As it is only single storied, construction can be made very quickly. Further, in such cases, a portion of the building, the construction of which was already completed can be occupied readily though the construction of other portions is still going on.
- **Lower Building Cost:** Modern constructional techniques have reduced the cons of constructing the single storey building. Some authorities are of the view that the cost required to construct a single storey building is less than the same required for the equivalent multi storey building by 100% to 20%.
- **Natural Light:** Maximum use of natural light is possible in case of single storey building because day light can be obtained for the side windows and rood for lights. As a result, cost of electricity on lighting is reduced.
- **Easier Ventilation:** There is a possibility of ample ventilation through the roof of a single storey plant. So there is no need to make any artificial arrangements for the purpose of ventilation.
- **Lower Running Costs:** In a single story building, space is not wasted by providing for lift shafts, stair walls and escalators whereas in the case of multi storey building, this loss cannot be avoided. Besides automatic lifts should be provided, which will increase the running costs of the building.
- **Easier Location:** Single storey building is the only type, which suits the process requiring complete isolation. This is particularly true when noisy equipments are utilized.
- **Simpler Internal transport:** If entire work is performed in a single floor itself, the use of truck and trolleys can be simplified. As a result, handling costs and waste of time can be reduced.
- **Greater Flexibility:** Greater flexibility is possible in a single storey building, which aspect is absent in the case of a multi storey building. There is no restriction on the deposition of heavy loads and machines.
- **Easy Supervision:** General supervision of the entire plant can be made in a single storey building from a specially designed lace say balcony. mezzanine floor etc.

- **Free Use of Building:** No ceiling is required to support any floors above it. So the upright columns can be widely spaced, which provide flexibility of the use of the building.

Demerits of Single Storey Building: Single storey building suffers from several operating disadvantages. Some of them are given below:

- As large floor space is required for constructing a single storey building, hug capital is required and thereby unnecessary locking up of capital.
- Huge amount has to be incurred on heating, ventilation and cleaning of windows.
- Transportation cost will be high both for moving men and materials to the factory, which is generally located far from the city.

Circumstances in which a Single Storey Building is Suitable: A single storey building is suitable in the following circumstances:

- When it is difficult to handle materials, which are big or heavy,
- When land is not a problem and it is available at a cheap rate,
- When natural lighting is required,
- When the construction is required to be completed within a short period, and
- When there is possibility of frequent changes inlay-out due to technological changes.

2. High Bay and Monitor Type: High bay and monitor type of buildings are also basically single storey structured buildings only. But it differs from single storey building in only one respect that a monitor surrounds the roof truss. The monitor provides for good natural ventilation. In this type, sidewalls are built with glass, which offer natural lighting. This type of building can be so designed to give maximum overhead space, which may be used to operate a crane and other overhead facilities.

3. Multi Storey Building: Multi storey buildings are suitable for schools, colleges, shopping complexes, hotels and residence and are constructed for the said purposes in cities. Multi storey

buildings are not preferred by industrialists for the purpose of carrying out industrial activities for variety if reasons. Such type of construction has its own merits also. Thus let us see the merits and demerits of multi storey building in the following paragraphs.

Advantages of Multi Storey Buildings: When constructed for industrial uses, multi-storey buildings offer the following advantages:

- **Lower Site Cost:** The area of the site required would be less in case of multi storey building when compared to space required in case of single storey building.
- **Possibility of Service Sections:** ready accessibility of various service facilities such as toilets, canteens, maintenance departments, libraries etc. to all staff is possible in a multi storey building than in a single storey building
- **Shorter Service Runs:** Electricity, gas, water, compressed air, telephones and other service runs are shorter in a multi storey building because the access between the departments can be through the floor.
- **Less Heating Costs:** In case of multi storey building, heat rising from one floor will tend to warm the immediate floor. Thereby it reduces the cost to be incurred on heating.
- **Lower Circulation Time:** In a multi storey building, the distance between extreme points is less. Besides, lifts are used to travel between the floors. As a result, the circulation time is reduced substantially.
- **Possibility of using Gravity:** It is possible to use gravity conveyors and chutes in a multi storey building. The motive power shall also be free and up-keep of equipment shall be very simple. This can be of much useful and valuable for the plants where process of production requires the frequent movement of raw materials.
- **Better Supervision:** the floor space is small and visible in a multi storey building, which enable the management to have control over it staff.

A feeling of intimacy in the mind of employees can also be created. Employees shall have a sense of identity. This is not possible in a single storey building where large number of workers is working in a single floor.

Demerits of Multi Storey Building: Against the advantages cited above, multi storey buildings suffer from certain disadvantage, which make them less popular. The important disadvantages are as follows:

- Materials are to b moved between floors. So a lot of time is wasted and also makes the handling of materials itself a complicated one.
- It is very difficult and also costly to have effective supervision.
- Load bearing capacity of the floor is very limited.
- Very poor natural lighting in the centre of the shop especially when the width of the building is somewhat great.
- A lot of space is required to be used on elevators, stairways and fire escapes.
- Beyond a certain stage, the cost of construction per square foot of floor area rises rapidly.
- Alteration in lay-out cannot be made easily and quickly

Suitability: Multi storey buildings are suitable in the following circumstances when,

- Materials used are of light for producing light products.
- Materials can be handled by gravity feed.
- Land cannot be purchased cheaply and easily.
- The load of the floor is less.

4. Special Type: Some type of manufacturing activities requires special types of building. For instance, the sawmill requires the building with space ranges from a width of 100 ft. to 400 ft. This type of buildings is constructed for specified purposes and so they are not flexible.

IDEAL BUILDING: According to **J. Lundy,** the ideal building is one "Which is built to house the most efficient lay-out that can be devised for the process involved, yet, which is architecturally attractive and of such a standard shape and design as to be flexible in its use and inexpensive in its construction".

Characteristics of an Ideal Building: The above definition illustrates the principal attributes of an ideal building, which are as follows:

1. Building should be suitable to the process of production.
2. Building should have good looking and attractive.
3. Its shape should be standardized.
4. It should be flexible so that alterations in the lay-out can be easily made.
5. The cost of construction should be cheap.

Advantages of an Ideal Building:

- Smooth operation of manufacturing activities is ensured.
- Material handling cost is very much reduced.
- It gives protection to assets; shelter to employees also safeguards the business secrets.
- It reduces semi-finished goods, inventory and manufacturing cycle time.
- It simplifies the manufacturing process and employees control procedures.
- It reduces maintenance and service charges.
- It increases the flexibility and use of plant.
- It provides for increased employee comfort and employee morale.

PLANT LAY-OUT: It refers to the scientific arrangement of machines and tools in order t secure maximum possible output of good quality at the lowest cost of production process as designed and scheduled. The physical arrangements of machines, tools etc. and their proper handling in the course of production processes greatly influence the course of production. If the arrangement of production apparatus were unscientific or haphazard, there would be wastage of time and resources besides higher operating and maintenance costs. Thus a well thought out plant lay-out becomes essential in any industrial undertaking.

Factors necessitating Proper Plant Lay-out: Plant lay-out has become an inevitable function of entrepreneurs because of the technological development and scientific advancement, and their practical an application in the industrial and commercial activities.

According to **L.C. Sinha** and **V.N. Mugali,** the important factors, which necessitate a proper plant lay-out, are given blow:

1. Establishment of a new plant, and manufacturing newly designed and developed products.
2. Major expansion of the capacity of existing plants to meet the additional load of demand.
3. Incorporation of latest changes in technology, plant design, equipments etc.
4. Need for increasing the efficiency of operations through radical as well as routine changes in design and methods of production.

Hence, plant lay-out engineering has to be adopted while installing a new plant, revising the existing plant or expanding the existing plant and also for eliminating bottlenecks of inefficiency in the different phases of manufacturing process.

Definition of plant lay-out: Various authors have defined the term plant lay-out in so many ways. A few of these definitions are given below:

According to **J.A shubin**, "plant lay-out is the arrangement of location of production, machinery, work center and auxiliary facilities and activities for the purpose of achieving efficiency in manufacturing products or supplying consumer services"

J. Lundy says, "Plant lay-out ideally involves the allocation of space and the arrangement of equipment in such a manner that overall operating costs be minimized".

In the words of L. Morris and E. Hurley, Plant lay-out involves the development of physical relationship among building equipments and production operations which will enable the manufacturing process to be carried efficiently"

From the above definitions, it is clear that the plant lay-out is the physical arrangement of planned industrial operation. It is a floor plan for determining the location of machinery and equipments in relation to one another and for planning and co-coordinating the paths of materials and finished products. A good plant lay-out provides for placing the right equipment at the right place for achieving economy operations.

Objectives of plant lay-out

1. Providing necessary facilities to receive the materials that are used in the process of manufacture.

2. Proper arrangement of machinery and equipment in each department in order to provide enough space to place materials.
3. Near accessibility to stores and ensuring direct and regular movement of materials to various operations.
4. Access to machines and assembly lines for quick and regular movement of materials to various operations.
5. Providing adequate storage facilities for materials in process between various operations.
6. Grouping of machines and departments to provide for the movement of materials in a required proportion so that unnecessary material handling may be avoided.
7. Proper designing of stock rooms and tool cabins with facilities for storing, recording and handling of materials, tools etc. without any delay.

Benefits of Plant Lay-Out: A well-designed plant lay-out ensures complete integration between men, material and machines for economical production. It helps the industrial undertaking in many ways. The important merits that are arising out of an effective plant lay-out can be stated as below:

1. Production Planning and control: A good plant lay-out facilitates proper production planning and control. It ensures a definite volume of finished product. Production control functions like scheduling and dispatching are simplified and thereby provide for predicting the production time. Idleness of men and machinery is reduced to a considerable extent.

2. Optimum Utilization of Machinery and Men: A sound plant lay-out ensures optimum utilization of machinery and men and other productive factors.

3. Reduction in the costs of Labour: By means of multiple machine operations, a god plant lay-out reduces labour costs. A well thought out plant lay-out reduces the number of operators and also idle time between successive operations. Thereby it also reduces the cost of materials handling.

4. Reduction in the Overhead Charges: An ideal plant lay-out reduces the cost of indirect material by reducing the handling charges and also reduces the cost of indirect labour by reducing the walking time of workers. Such a reduction in the overhead charges ultimately leads to reduction in the cost of production.

5. Better Utilization of Floor Space: A well thought out plant lay out aims at securing maximum utilization of the available floor space. This leads to reduction in investment in plant buildings and working area. But at the same time, it provides for additional floor space that may be needed for future expansion.

6. Effective Supervision: A well-designed plant lay-out is a pre requisite to effective supervision. A good lay-out enables the workers to carry out their work without any need for elaborate instructions and supervision since the ideal plant lay-out involves standardized sequence of operation with greater degree of automatic movement of materials and operational processes. Thus supervisory efforts and costs can be reduced to the minimum

7. Regular Flow of work: A well-designed plant lay-out enables the regular flow of work over the shortest routes of production. It reduces unnecessary movements between work centre and allows the product to move forward automatically without unnecessary handling. In addition, it reduces the production cycle in each department by way of reduction of worker's time, efforts, movements and materials handling. Thus the length of travel of the product is reduced to the minimum.

8. Lesser Industrial Accidents: The plant lay-out reduces the number of industrial accidents and ensures safety to the workers. As it provides for necessary safety devices, the risks involved in the mechanical operations are eliminated.

9. Increase in the Efficiency of the Workers: A well-designed plant lay-out enables the workers to attain a high level of efficiency by way of reducing unnecessary movements. It also minimizes congestion, improves working conditions, and provide enough scope for better employee service facilities. As a result, smooth labour relationship is ensured.

Factors influencing the Plant lay-out: The plant lay-out has to be designed after a careful analysis of number of factors. In this connection, **Spriegal** and **Lansburg** rightly remarked as below:

"Theoretically ideal lay-out considers the type of industry, the quantity of production, the type of product, the type of operation and the type of the workers".

Thus the important factors influencing a sound plant lay-out are as follows:

1. Nature of the Industry: Lay-out of plant depends on the nature of the industry and the manufacturing process. On the basis of the nature of their manufacturing process, industries can be classified into five types as follows:

i. **Synthetic Process:** In the type of synthetic process, different component parts are assembled for the purpose of manufacturing the final product. Examples are cement, radio sets, medicines, paper, printing etc.
ii. **Conditioning Process:** Conditioning process is one, which involves separation of raw materials from other sources. E.g. sugar, textiles etc.
iii. **Analytical Process:** Analytical process refers to separation of the final product from the mass of original raw material. E.g. oil refining.
iv. **Extracting Process:** Extracting process is a process, which involves separation of raw materials from other sources. E.g. salt is extracted from seawater.
v. **Continuous Process:** Continuous process involves a sequence of processes serving as a prelude to release the finished product. Examples are printing, paper, cement etc.

2. Managerial policies: According to **John A. Shubin,** the lay-out is influenced by the managerial policies regarding the quality of products, size of the plant and the extent to which it is to be integrated, plans regarding expansion, quantity of materials that are to b stored and the employee facilities. Hence, managerial policies also play a vital role in designing the plant lay-out.

3. Location of the Industry: The geographical setting of the site where the industry is located also influences plant lay-out. The arrangement of machines must be designed only after taking into account the characteristics of power, climate, availability of labour, market etc.

4. Size of the Site: Another important factor, which influences the designing of the lay-out, is the size of the site. According to **John A. Shubin,** "The size, the shape and topography of the site will affect the spotting of the building on the plot and for receiving and shipping and for the best of production in and out of the plant".

5. Nature of the product: Nature of the product is another factor, which governs the designing of the lay-out. Its size, specification, chemical and physical qualities must also be considered at the time of designing the lay-out. In case of complex design of the product, the lay-out must be an elaborate one, whereas if the design is simple, then the lay-out may be simple process.

Types of Line Lay-out: There are three broad types of plant lay-out. They are as follows: 1. Product or Line lay-out, 2. Process or Functional Lay-out, and 3. Combined Lay-out.

1. Product or Line lay-out: Product or line lay-out refers to the arrangement of productive machine and equipments in the order of manufacturing operations. All machines that are needed to produce a product are arranged sequentially in a continuous line and the raw materials are fed into the first machine and the final product comes out of the last machine. Line lay-out is used in a number of continuous type of industries such as sugar, paper, cement etc.

In a product lay-out the whole emphasis is given to the product that is manufactured. There will be a separate production line for each type of product. The same type of machines may be arranged differently in different lines. Sometimes, the machines for each line may also be different. The object here is to arrange machines in the order of operations that are preformed. Therefore, each work station – either machine or work bench does whatever operation on the product that follows the work done at the preceding work station, and then passes the product to the next station in the line in which the next operation is performed.

Features of Product or Line Lay-out: According **to Harold T. Amrine** the features of product lay-out can be listed as follows:

- Conveyor zed movement of inventories.
- Mechanical pacing of movement either partially or completely,
- Semi-skilled operations operating two or more machines often.
- Making use of highly specialized machines, jigs and fixtures etc.
- Less need for detailed scheduling regarding production control.
- Relatively small-in process inventory of parts with most of them in temporary storage on the inventory handling system.
- Heavy investment in specialized machines, which has little flexibility.
- Integration of the points of inspection into the line.

Advantages of Product or Line Lay-out:

a. Installation of Automatic Devices: As product lay-out ensures continuous flow of work through direct lines a short distance of travel, the installation of labour-saving and low-cost mechanical movement devices is made possible. This would reduce the cost of materials handling.

b. Elimination of Delay: In a product lay-out, material after completion of one operation flows to the next operation without any delay. Because of this, time required for production is reduced considerably.

c. Reduced Accumulation of Work-in-process: In a product lay-out, there is not much accumulation of work-in-process at one particular point because as soon as an operation is completed it passes on to the next machine for the next operation. As a result the overall productivity of the undertaking is enhanced.

d. Effective Control of Production: Production is designed according to an orderly sequence, and the work-in-process automatically flows from machine to machine. So the production control will be comparatively easy and simple. There would be lesser need for further clerical and administrative work for regulating the production.

e. Lesser Need for Inspection: There is lesser need for inspection because each complete product is made on one line, which requires minimum supervision work over it. Besides, efficiency of inspection increases due to the repetitive nature of the work.

f. Maximum Utilization of the Floor Area: Under this type of lay-out, there will be a grater productive utilization of the floor space. As the work-in-process spreads over the entire production line and there is a lesser need for temporary storage of materials, the vast floor area is not jam packed with materials, work-in-process etc. This would result in a smaller floor area per unit of output and thus making the total floor area more productive.

2. Process or Functional Lay-out: A process lay-out is based on the nature of the process through which the product should move in the course of manufacture. Process lay-out is affected by way of arranging similar operations in the particular lace. So under process lay-out, similar process or equipments are grouped together. These groupings are called departments or shops. Each such group constitutes a distinct unit. For instance, Milling Department, Drilling Department, Casting Department etc. Under this type of Lay-out, the departments are divided according to their functions and the product is divided according to the sequences of operations to be performed on it. The operations performed in each department are allotted to particular machines on the basis of the capability of the machine to perform that operation, the capacity required, the precision required, the availability of the machine and so on. Process lay-out is suitable for non-repetitive or intermittent type of production where special orders are handled e.g. ship-building.

It is particularly designed for industries producing goods like furniture, tools etc. Besides, this type of lay-out is suitable only for manufacturing articles in small quantities.

Features of Process Lay-out: For the proper understanding of the concept of process lay-out, it is essential for the students to have a clear-cut idea about its features. As observed by **Harold T. Amerine and S. Oliver**, the feature of process lay-out can be summarized as follows:

- Requirement of a skilled labour force having the capacity to do a variety of operations on a machine.

- Frequent movement of inventories between operations and departments.
- Extensive space of storage n department for unprocessed inventories.
- Sufficient storage space around machines.
- Many orders in process at any time.
- High inventories of in-process materials.
- A lack of mechanical pacing or work.
- Much scheduling of and careful control of materials in process.
- General purpose materials handling equipments.

It should be remembered that some of the features are the merits of the process lay-out, while some on the other hand, and are their demerits also.

Advantages of Process Lay-out: The principal advantages of process lay-out can be stated as indicated below:

1. Lesser Investment in Machines and Equipments: Under the process lay-out, machines and equipments are not passes on to any set of sequence of operation. So variety of products in required standard can be produced without any duplication of machines. Thus, a lesser amount of capital is enough as the machines are utilized to their maximum capacity.

2. Lower Overhead Costs: Since the initial capital investment is comparatively low, risks of investments are reduced to a greater extent. Besides, there is no duplication of machines. Since the operations are similar even a single operator can operate and control a number of machines. Hence, overhead costs per unit will tend to be lower.

3. Effective Supervision: Another important merit of this type of lay-out is effective use of specialized abilities of supervisors. Only a limited range of machine operations in the respective departments are assigned to the foreman and in course of time, he shall become highly proficient in planning, directing and controlling the operations assigned to the department, which is under his charge.

4. Maximum Use of Machines: There is maximum utilization of machines, as a machine is not tied to a particular product in a lay-out by process. Even if the particular product is not produced the machine can be engaged for the manufacture of other products.

5. Greater Flexibility: Each machine can perform a wide range of similar operations. So if a machine breaks down, the same operation can be performed by other machines in the same department or by a similar machine in another department. Hence, there is greater flexibility of the production process.

6. Less Interruption in Work Schedules: since each department is having a number of machines and tools, when a machine breaks down, the work can be completed with the help of another machine. Therefore, failure of one machine will not affect the work schedule.

7. Possibility of Division of Labour and Specialization: There is maximum utilization of the skill and talent of the workers because the work is divided into different parts and each department is allotted with a particular part of the work. As a result, specialization and division of labour are encouraged.

3. Combined Lay-out: Plants, which are laid out by combining the features of both process lay-out and product lay-out are called combined lay-out. The object of combining the features of both the process and product lay-out is to attain the advantage of both. According to **Keith and Gubellini**, "Many business firms find it to their economic advantages to apply both the approaches as a solution to their production problems." In a combined lay-out, a process of department performing a specialized operation is taken as a unit and the various units are suitably combined into the product analysis. This type of lay-out is adopted in the case of firms producing a single or few lines of products on large scale and other many articles on smaller scale on specific orders. In practice, plants are generally laid out on the combined lay-out on the combined lay-out. The specimen of combined lay-out is given in Fig.9.3 below.

SIZE OF THE BUSINESS FIRM: The term "**Size of a business**" refers to the scale of its organization and operation. The size of the unit is one among the various factors, which

determine the efficiency and profitability of the business concern. The size of a business unit may either be small, medium or large: But it must be one, which suits best to the entrepreneur's capacity to raise finance and skill to manage and run the enterprise, availability of labour and raw material and marketability of the proposed product etc. While selection the size of the business fir, the entrepreneurs must be very careful and try to find out the point at which the concern is likely to get the maximum gain.

Meaning of the Terms Plant, Firm and industry:

While discussing about the size of business units, the clear understanding of the terms **"Plant", "Firm**" and **"Industry**" becomes important because very often these terms are used in a confused manner.

Plant:

The term "Plant" refers to a place where goods are produced or where from goods ate distributed or where services are rendered. According to **Prof. Florence**, the term plant denotes "A congregation or body of persons assembling together at a certain time and place". Hence, plant includes not only the equipment installed in the factory, but also the workers who are engaged in the production of goods or supply of services. The word plant is also used to refer a factory, a mill, a workshop and a shop.

Firm:

The term **"Firm**" is wider in its scope and refers to the business unit or concern, which owns controls and manages the plant. A firm may be in any form of business organization say a sole proprietorship concern, a partnership firm or a company. It many own only one factory or more than one factory which engages in the same types of activity or different types of activities. If a group of factories i.e. plants works under the single ownership, control and management, such plants are collectively called as firm.

Industry:

The term **'Industry**" is still winder in its scope than the word "Firm" as it includes all the firms, which are engaged in the production of similar products. For instance, sugar industry includes all the firms engaged in the production of sugar.

Measures of size:

The business units are of different sizes such as, Large-scale Units, Medium-scale Units, and Small-scale Units.

In order to determine the size, quantitative measurement of the firm is necessary, which in turn requires some standard or yardstick. But selection of a suitable standard is not an easy task. There are various standards with which the size of a firm can be measured. But no such standard is prices or definite. All standards are only approximate and each one is having its own limitations. Moreover, these standards vary from industry to industry depending upon the variations in the nature of product and equipment used in different industries. Hence, the size of the unit can be measured only approximately but not accurately.

Standards for measuring the size: The measure that are generally used in measuring the size of the business unit can be discussed under two heads viz.,

1. Input Measures: Input measures are those measures, which are based on the value or volume of the various factors of production employed. They are:

1. **Capital Investment:** Capital investment is one of the standards used to measure the size of the units. But this measure had the following limitations:
   - This measure shall give accurate size only when accurate data regarding the total investment is available.
   - In case of labour intensive industries, the measure shall not hold good.
   - This measure is not suitable when the units of different industries are compared.

2. Number of labourers Employed: Number of workers employed may also be used as a standard for measuring the size of a firm. This measure is suitable for comparing units producing similar type of goods and had reached the same stage of technical development. Thus it is clear that, for comparing units producing different products or capital-intensive industries, this measure is not suitable.

3. Amount of Power Used: The amount of power used per unit of output as well as annual consumption of power also constitutes a good standard. The amount of power used may be affected by various factors other than the scale of operations and may not always prove satisfactory.

4. Amount of Materials Used: The amount of raw materials may be a good measure where different concerns are engaged in the production of similar products. However, this measure is subject to the following limitations:

- This measure shall not hold good for comparing units producing wide variety of products of different qualities.
- This measure is not useful for industries, which are of labour intensive.

5. Productive Capacity of the Plant: The productive capacity of the plant shall be useful as a standard for measuring the size of the units producing wide varieties of products.

6. Value of Total Assets: Here, the relative size of a firm is measured on the basis of total value of the assets as shown in the assets as shown in the final accounts of the firm. Since the book value of the assets is taken as a standard, it cannot be taken as a reliable one because they differ from the current value of the assets. Besides, this measure is not suitable for comparing different industries.

2. Output Measures: The following are the important output measures:

- **Volume of Output:** The number of units produced can be used as a good standard for measuring the size, only for industries producing the same products. However, for comparing firms producing different products it is not suitable.
- **Value of Output:** Since the value of output is expressed in monetary terms, it is considered as the best among all for measuring the size of the business firms. However, this measure also suffers from the following limitations:
  - This measure cannot be employed during boom periods.
  - This measure is not useful for comparing the size of the firm in different periods.

To sum up, the output measures seem to be the best criteria for measurement, because whatever may be the combination of men and machines employed in a firm, finally it must be shown in the output. In case the quantity of output cannot be a measure, the value of output seems to be the best yardstick for measuring the size of a business concern.

Factors Determining the Size of the Firm:

The following are the factors that determine the size of the firm:

1. **Managerial Ability:** The ultimate success of any business depends upon the ability of the entrepreneur to manage to manage the firm. Hence, he should first estimate his managerial ability while determining the size of the proposed fir. He should not over estimate his own capacity. He must be practical and well acquainted with all aspects of the proposed business.
2. **Capacity to Raise Finance:** Another factor, which determines the size of the firm, is the capacity of an entrepreneur to raise finance. Finance is the lifeblood of every business. The stability and growth of firms depend largely on the ability of the entrepreneurs to obtain financial requirements also very. For instance, if the proposed industry is large, capital requirements will also be large and vice versa. Thus, the entrepreneur must be very careful and select a size that will best suit his financial ability.
3. **Nature of the Industry:** Another factor, which requires a careful consideration in determining the size, is nature of the industry. There are certain industries, which can be

organized on a large-scale. For example, Iron and Steel or Railways can be operated more profitably on a large-scale. Likewise, there are certain industries, which will have to be started and run on a small-scale basis because of the

4. **Production Process:** Process of production is another factor, which decides the size of the firm. If the production process requires the installation of costly machines and equipments, a high degree of specialization and division of the process is highly complicated. Such industries are economically workable only on large-scale.
5. **Nature of the Product:** Nature of the product is another vital factor, which influences the size of the units. If the proposed product is perishable in nature, it cannot be transported to faraway place. Hence, it can be run only on small scale. Similarly if the proposed product is of mere luxurious one, there may not be any steady market. So it is desirable to start the unit on a small scale.
6. **Nature of Demand:** If the demand for the proposed product is sporadic, small size is preferable. If the demand is expected to increase in future more and more, then big size can be suggested. Hence, the nature of demand is another factor, which exerts greater influence on the selection of the size.

❖ **Registration:**

The entrepreneur should obtain a provisional SSI Registration Certificate. The entrepreneur has to apply in the prescribed form to the General Manager, District Industries Centre of the respective district. The provisional certificate is valid for five years.

❖ **Trial Runs:**

On receipt of raw materials, trial runs can be started. The period of trial run depends on the nature and complexity of the project and size.

❖ **Commencement of Commercial Production:**

When the quality of the product is established in trial runs, the entrepreneur can go in for commercial production. This is the last step in setting up a small – scale industrial unit.

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Unit – III

Institutional arrangement for Entrepreneurship Development – D.I.C., I.T.C.O.T., S.I.D.C.O., N.S.I.C., M.S.M.E., – Institutional Finance to Entrepreneurs. T.I.I.C., S.I.D.B.I., Commercial Banks – Incentives to small scale Industries.

I. Institutional arrangement for Entrepreneurship Development

1. DIC – DISTRICT INDUSTRIES CENTERS:

It comes under the Department of Industries and Commerce. The primary objective of the DIC is to generate employment by way of promoting Micro, Small and Medium Enterprises(MSMEs), Cottage and Handicrafts Industries. The packages of services offered by the District Industries Centre are Multidimensional and need based for facilitating industrial growth in respect of new and graduating enterprises. The DIC is headed by General Manager who is supported by functional Managers, technical and non-technical Officers.

All the schemes of the Department, especially MSMED Act 2006, MSMI Policy 2008 Subsidy schemes- Capital Subsidy, LTPT Subsidy, VAT subsidy, and Back ended Interest Subsidy, Generator Subsidy Single Window clearances, Micro Small Enterprises Facilitation council (MSEFC) etc. New Entrepreneur-cum-Enterprise Development Scheme (NEEDS), Unemployed Youth Employment Generation Programme (UYEGP), Prime Ministers Employment Generation Programme (PMEGP), Quality Control Order, EDI Training Programmes etc. are implemented through this DIC.

Functions:

- Employment Generation.
- Motivating and guiding the entrepreneur.
- Rendering escort services to set up an Enterprise (effectively thru single window committee).
- Conducting of motivation camps and dissemination meetings.
- Implementation of Central / State Government Schemes for setting up of Enterprises.

- Implementation of subsidy schemes.
- Testing facilities.
- Project Profiles.
- Technical Feasibility report to Banks
- Issue of Production / Capacity Certificates.
- Export Guidance Cell.

✓ All the MSMEs are offered various services and support under the single roof of the District Industries Centre.

✓ This Centre caters to Promotion of MSMEs as also Registration and Development of Industrial Cooperatives.

Administration: The General Manager is the head of the District Industries Centre. The post of General Manager is of Joint / Deputy Director Level. The General Manager is assisted by the Project Manager, Manager (Credit), Manager (Economic Investigation)/ Manger (Village Administration) and an office Superintendent.

Monitoring of DICs: The functioning of DICs and their achievement is monitored by the Principal Secretary/ Industries Commissioner & Director Of Industries & Commerce. The Review of the General Managers is organized frequently to evaluate the performance and also help in resolving difficulties in implementation of different schemes. To resolve the problems of industries/industrialists, there are two types of committee at the district level viz.

a) **Single Window Clearance Committee (SWCC):** Entrepreneurs face many difficulties when they start new industries. They have to deal with many government agencies and get many clearances. SWCC helps them in guiding solving their problems at a Single Window. This committee is chaired by the District Collector. The General Manager of DIC is the Member Secretary and the connected line departments such as District Fire officer, Deputy Director (Health), Deputy Director (Town & Country Planning) are members of this committee.

b) **District Enterprises Development Consultative Committee (DEDCC):** Government have recently Constituted the District Enterprises Clearance Committee Vide G.O Ms No 53 MSME (D2) Department dated 27.12.2012 The Committee is Chaired by the District Collector as the Chairman of this Committee and General Manager of DIC is the Member Secretary. The other members of the DIEC are President of District Panchayat, DDO, MP, MLAs, Prominent persons active in Industries in the district and members of all district level industries associations.

Activities of DICs

A. Registration

- EM Part-I acknowledgement
- EM Part-II acknowledgement
- Cottage & Handicrafts Registration

B. Incentive schemes: The following incentives are being extended to Micro, Small and Medium Enterprises in the State:- Subsidy schemes for micro manufacturing enterprises, Subsidy schemes for Industrially Backward Blocks and Agro Based Enterprises, Special Capital Subsidy for Thrust Sector Enterprises, Generator Subsidy, Back-ended Interest Subsidy and Value Added Tax Reimbursement Subsidy.

C. Implementation of Self Employment schemes: The following Schemes are being implemented in the State:-

- Prime Minister's Employment Generation Programme (PMEGP)
- Unemployed Youth Employment Generation Programme.
- New Entrepreneur-Cum- Enterprise Development Scheme (NEEDS)

D. Co-operative.

E. Enforcement of Quality Control orders.

The Quality Control Order Enforcement Centre for Domestic Electrical Appliances functioning under the Commissionerate of Industries and Commerce is engaged in creating awareness among consumers in Tamilnadu to use quality electrical products. The electrical and electronic wing of the Commissionerate implements the Household Electrical Appliances (Quality Control) Order, 1981 and the Electrical Wires, Cables, Appliances, and Protection Devices and Accessories (Quality Control) Order, 2003. Contravention of the first Order is punishable under the Essential Commodities Act, 1955. The second Order prohibits manufacture/storage for sale or distribution of specified items without the Bureau of Indian Standard marking. Contravention of this order attracts penal action under Bureau of Indian Standards Act.

The General Manager, District Industries Centre of the concerned District and the Deputy Director (E&E), Quality Control Order Enforcement Centre, Chennai has been designated as the "Appropriate Authority" for the implementation of the provisions of these Orders.

To create better awareness among the general public, advertisement and press releases are issued from the offices of Deputy Director (E&E), Quality Control Order Enforcement Centre, Chennai and various other regional offices.

F. Steel & Steel Products (Quality Control) Order 2012. The Ministry of Steel, Government of India have notified Steel and Steel Products (Quality Control) Order, 2012 and Steel and Steel Products (Quality Control) Second Order, 2012 to ensure that quality steel products reach the consumers. These orders cover 16 Steel products under Mandatory Bureau of Indian Standards Certification. As per these orders "No person shall by himself or through any person on his behalf manufacture or Store for sale, Sell or Distribute any Steel and Steel Products specified in the schedule which do not conform to the specified standards and do not bear standard mark of the Bureau of Indian Standards. In the said order, the General Managers, District Industries Centres have been designated as the "Appropriate Authority" for implementation of the provisions of these orders. In order to create awareness among the Manufacturers and Consumers about the notification issued by the Government of India for implementation of Steel and Steel

Products Quality Control Order, the General Managers of District Industries Centres are taking action by giving wide publicity through Newspaper and also through Association Magazines.

G. Rehabilitation of Sick MSMEs. The Rehabilitation of Sick Micro, Small and Medium Enterprises envisages assistance for conducting a diagnostic study of sick enterprises, scrutiny of the above study report by a sub-committee of the State Level Inter-Institutional Committee (SLIIC) constituted by the Reserve Bank of India and chaired by the Secretary, Micro, Small and Medium Enterprises Department for rendering rehabilitation assistance to sick Micro, Small and Medium enterprises, which meets on every quarter. The Reserve Bank of India conducts the study on viability of sick units and the Banks provide financial assistance wherever possible along with other hand-holding steps like counseling the borrowers, analyzing the problems faced by the units etc. The Government has constituted the State Level Rehabilitation Committee (SLRC) under the Chairmanship of the Secretary to Government, Micro, Small and Medium Enterprises Department to look into the problems and the extent of sickness of MSMEs so as to suggest measures for their rehabilitation. The above Committee has to meet on quarterly basis to review and monitor the implementation of the Rehabilitation Scheme of sick MSMEs in the State.

H. Micro Small Enterprises Facilitation Council: The Government of Tamilnadu have constituted four Regional Micro and Small Enterprises Facilitation Councils at Chennai, Tiruchirappalli, Madurai and Coimbatore to facilitate speedy settlement of the payments of dues with respect to the goods supplied to major industrial undertakings by the micro and small enterprises in accordance with the Micro, Small and Medium Enterprises Development Act 2006.

2. ITCOT: INDUSTRIAL AND TECHNICAL CONSULTANCY ORGANIZATION OF TAMILNADU LIMITED

Industrial and Technical Consultancy Organization of Tamilnadu Limited (ITCOT), was incorporated as a company under the Companies Act, 1956, on 17th July 1979 as a joint venture of leading financial institutions, State Development Corporations, and Commercial Banks. The

Registered Office of the company is located at 50-A, Greams Rd, Chennai, Tamilnadu 600 006. The name of the company was changed to ITCOT Consultancy and Services Ltd. with effect from 4th October 2004 to offer services as an adjunct to consultancy. The company still continues to be known by its popular name of ITCOT.

OBJECTIVES: ITCOT Consultancy and Services Limited is a premier management consulting organisation has over 30 years experience in providing entrepreneurship, skill development and several other capacity building programmes for various targets groups. A special project for Skill Development of Rural BPL youths under SGSY is designed to equip the unemployed rural youth from the BPL households with marketable skills, which would enable them either to secure placement in the industry. ITCOT is the project implementing agency and it intends to deliver short-term job-oriented skill development programmes in the states of Andhra Pradesh and Karnataka. Ministry of Rural Development, Government of India is supporting this ITCOT led initiative and National Institute of Rural Development is the Project Monitoring Agency.

The project Specific objectives of the project are:

a) To identify and select rural BPL youth in the age group of 18 -35 years who are in need of employment

b) To provide job-oriented training programmes in different market driven skills and enhance their skills to make them employable

c) Providing job-employment to the suitable trained manpower

d) To ensure participation of women and provide 40 per cent women in the fold of job – employment through training and development

e) To provide support and handholding services to the trained beneficiaries after placement for a period of at least one year for appreciable sustained level of income.

Training Programmes: The ITCOT has conducted over 500 training programs, seminars, and workshops in major cities and towns in India addressed to Corporate, business persons, executives, financial institutions, Banks, and development agencies.

- Entrepreneurship Development
- Faculty Development Programmes
- Seminars

ITCOT also design and conduct objective-oriented corporate in-house training programs tailor-made to suit specific corporate needs.

Entrepreneurship Development Programmes (EDPs): The organisation has played a catalyst's role in the development of entrepreneurs in a number of ways. It has conducted more than 500 training programmes in Tamil Nadu such as:

- Entrepreneurship development programmes for science & technology graduates, women, ex-servicemen, PMRY beneficiaries, and voluntary retired persons.
- Entrepreneurship development programmes on renewable energy technologies
- Entrepreneurship development programmes for women self help groups (SHGs)
- Income generation training programme for urban slum dwellers and fishermen
- Skill-cum-technology up-gradation programmes in readymade garments/apparels, leather, plastics, handicrafts, and gem cutting
- Training programmes in medicinal and aromatic plants
- Manpower development in emerging areas

The programmes have so far covered over 10,000 persons from different socio-economic strata in Tamilnadu. According to an assessment of the Entrepreneurship Development Institute of India at Ahmedabad, around 35 percent of the trainees have set up own enterprises.

Faculty Development Programmes: Entrepreneurship education is a lifelong learning process, starting as early as elementary school and progressing through all levels of education, including

adult education. The standards and their supporting performance indicators are a framework for teachers to use in building appropriate objectives, learning activities, and assessments for their target audience, namely, students of science and engineering colleges, polytechnics, and entrepreneurship.

Faculty Development Programmes (FDPs) are designed to train and develop professionals in entrepreneurship development so that they can act as resource persons in guiding and motivating young S&T persons to take up entrepreneurship as their career. Faculty development programmes provide the necessary knowledge, tools, and skills to help develop entrepreneurs in their respective institutions. ITCOT conducts faculty development programmes with the support of sponsoring agencies. We also help institutions in organizing specific in-house programmes for institutions and its faculty members to foster entrepreneurial culture.

Seminars: ITCOT conducts seminars on topics of contemporary industry and business topics regularly to promote investment ideas among Banks, financial institutions, research institutions, corporate, entrepreneurs, equipment suppliers, and consultants. A number of seminars have been conducted in different centres in India on wide ranging topics such as:

- Project Financing and Appraisal
- Non Performing Assets (NPAs)
- Opportunities in Insurance Industry
- Opportunities in Herbal Industry
- Opportunities in ITES
- Opportunities in Call Centre Business
- Opportunities in Multiplex Business

Business Meets: Business meets provide opportunities for one-to-one interaction among participants to facilitate seller-buyer interaction, explore investment and business opportunities, to enable technology transfer or tie-up, to select the right plant and equipment, to evolve market entry strategies, and so on. These events are organized for the benefit of producers, sellers,

buyers, exporters, importers, technology providers, equipment suppliers, consultants, institutions, and such other.

The promoters of ITCOT are: All India Financial Institutions

- ICICI Bank Ltd.
- Industrial Development Bank of India Ltd.
- IFCI Ltd.

State Development Corporations

- State Industries Promotion Corporation of Tamilnadu Ltd. SIPCOT)
- Tamilnadu Industrial Investment Corporation Ltd. (TIIC)
- Tamilnadu Small Industries Development Corporation Ltd. (SIDCO)

Commercial Banks

- State Bank of India
- Indian Bank
- Indian Overseas Bank
- Canara Bank
- Central Bank of India
- Union Bank of India
- Syndicate Bank
- Bank of Baroda
- The Lakshmi Vilas Bank Ltd.
- The Karur Vysya Bank Ltd.

3. SIDCO - SMALL INDUSTRIES DEVELOPMENT CORPORATION:

Need for Small Industries Development Corporation (SIDCO): In many state governments, for the promotion of small scale industries, a separate corporation has been set up which is

known as Small Industries Development Corporation. They undertake all kinds of activities for the promotion of small scale industries. Right from the stage of installation, to the stage of commencing production, these Corporations help small scale industries (SSI) in many ways. In short, they provide infrastructure facilities to small scale industries. Due to the assistance provided by SIDCO, many backward areas in most of the states have been developed. So, SIDCO has also been responsible in spreading the industrial activity throughout several states.

Objectives of SIDCO: The following are the **main objectives of SIDCO**

1. The main objective of SIDCO is to stimulate the growth of industries in the small scale sector
2. To provide infrastructure facilities like roads, drainage, electricity, water supply, etc is one of the primary objectives of SIDCO.
3. To promote industrial estates which will provide industrial sheds of different sizes with all basic infrastructure facilities.
4. To provide technical assistance through training facilities to the entrepreneurs.
5. To promote skilled labor through the setting up of industrial training institutes.

Small Industries Development Corporation, Tamilnadu: In Tamilnadu, India, Small Industries Development Corporation (SIDCO) was set up in 1971. The prime function of SIDCO was to identify potential growth centres in various parts of Tamilnadu. There is a network of 76 industrial estates in the State which are maintained by SIDCO. 32 of these were formed by the government initially and subsequently handed over to SIDCO. The remaining 44 estates were set up by SIDCO itself. Source (*SIDCO – TAMILNADU SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED***)** It has set up these estates in rural and most backward areas to ensure balanced industrial development.

Functions of SIDCO

- ✓ **SIDCO supplies scarce raw materials:** Some of the scarce raw materials are procured by the corporation either from the domestic market or from abroad and are provided to the needy small scale industries. For this purpose, SIDCO has a number of raw material

depots and these depots are procuring various scarce raw materials, as per the requirements of small scale industries in the state.

- ✓ **SIDCO provides marketing assistance:** In order to provide an efficient marketing support to small scale industries, the corporation has taken up various schemes. In fact, the corporation participates in the tenders floated by the state government departments and also with the DGS & D (Director General of Supplies and Disposal). SIDCO makes advance payments for obtaining orders and distribute them among the various small scale units. SIDCO also arranges for buyer — seller meets frequently.
- ✓ **SIDCO assists in Bills discounting:** When small scale units supply goods to government departments, there is a delay in receiving payments. In such a situation, the bills drawn on government departments will be discounted by SIDCO and up to 80% of the bill value is given to the supplier. This helps the SSI units in solving their working capital crisis.
- ✓ **SIDCO provides Export marketing assistance:** To promote export marketing among the small scale industries, SIDCO has developed websites because of which it is able to display the products of the small scale industries in foreign markets and obtain export orders. Once an export order is obtained, the Common export manager of SIDCO will make arrangements for extending various services for export of the product. SIDCO also helps in the small scale units taking part in the international trade fair at New Delhi, Pragati Maidan so that the products of small scale industries of Tamilnadu are displayed.
- ✓ **SIDCO set up Captive power plants:** In order to provide uninterrupted and good quality power supply, SIDCO has taken up a plan to set up captive power plants in major industrial estates. It is now planning to set up these plants in 10 industrial estates.
- ✓ **SIDCO promotes skill development centres:** In an effort to supply skilled laborers to various small scale industries, skill development centers are being set up in various industrial estates which will be training workers in varied industrial activities and they will be trained in modern skill.
- ✓ **SIDCO promotes women entrepreneurs:** In addition to the above, in order to promote women entrepreneurs, a separate industrial estate for women has been set up at

Tirumullaivoyal, near Chennai, where women entrepreneurs are trained in various fields of small scale industries.

In addition to SIDCO, there are various corporations that assist in the promotion of small scale industries such as, Small Industries Promotion Corporation of Tamilnadu (SIPCOT), Tamilnadu Small Industries Corporation (TANSI), Industrial and Technical Consultancy Organisation of Tamilnadu (ITCOT) and Tamilnadu Industries Investment Corporation (TIIC).

4. NATIONAL SMALL INDUSTRIES CORPORATION LIMITED (NSIC):

It is a PSU established by the Government of India in 1955. It falls under Ministry of Micro, Small & Medium Enterprises of India. It was established in 1955 to promote and develop micro and smalls scale industries and enterprises in the country. It was originally founded as a Government of India agency later made into a fully owned government corporation. National Small Industries Corporation Ltd. (NSIC) is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC operates through countrywide network of offices and Technical Centres in the Country. To manage operations in African countries, NSIC operates from its office in Johannesburg, South Africa. In addition, NSIC has set up Training cum Incubation Centre & with a large professional manpower; NSIC provides a package of services as per the needs of MSME sector. Government of India in order to promote small and budding entrepreneurs of post independent India decided to establish a government agency which can mediate and provide help to small scale industries (SSI). As such they established *National Small Industries Corporation* with objectives to provide machinery on hire purchase basis and assisting and marketing in exports. Further, SSI's registered with NSIC were exempted from paying Earnest money and provided facility of free participation in government tendered purchases. Also for training persons the training facilities centers and for providing assistance in modernizing the small industries several branches of NSIC were opened up by government over the years in several big and small towns, where small industries were growing.

NSIC also helps in organizing supply of raw materials like coal, iron, steel and other materials and even machines needed by small scale private industries by mediating with other government companies like Coal India Limited, Steel Authority of India Limited, Hindustan Copper Limited and many others, who produce this materials to provide same at concessional rates to SSIs. Further, it also provides assistance to small scale industries by taking orders from Government of India owned enterprises and procures these machineries from SSI units registered with them, thus providing a complete assistance right from financing, training, providing raw materials for manufacturing and marketing of finished products of small scale industries, which would otherwise not be able to survive in face of competition from large and big business conglomerates. It also helps SSI by mediating with government owned banks to provide cheap finance and loans to budding small private industries of India. Nowadays, it is also providing assistance by setting up incubation centers in other continents and also international technology fairs to provide aspiring entrepreneurs and emerging small enterprises a platform to develop skills, identify appropriate technology, provide hands-on experience on the working projects, manage funds through banks, and practical knowledge on how to set up an enterprise. NSIC Technical Services Centres are located at the following places

Name of the Centre	**Focus area**
Chennai	Leather & Footwear
Howrah	General Engineering
Hyderabad	Electronics & Computer Application
New Delhi	Machine Tools & related activities
Rajkot	Energy Audit & Energy Conservation activities
Rajpura (Pb)	Domestic Electrical Appliances
Ramnagar (UK)	Electronics & computer Hardware and application
Aligarh (UP)	Lock Cluster & Die and Tool making

5. MSME - MICRO, SMALL AND MEDIUM ENTERPRISES

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of services sector in the definition of Micro, Small and Medium Enterprises, apart from extending the scope to Medium Enterprises.

Definition of Micro, Small and Medium Enterprises:

The MSMED Act, 2006 defines the Micro, Small and Medium Enterprises based (i) on the investment in plant and machinery for those engaged in manufacturing or production, processing or preservation of goods and (ii) on the investment in equipment for enterprises engaged in providing or rendering of Services.

The investment in plant and machinery is the original cost excluding land and building and other items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated 05.10.2006.

The guidelines with regard to investment in plant and machinery or equipment as defined in the MSMED Act, 2006 are:

Nature of activity of the Enterprise	Investment in plant and machinery excluding land and building for enterprises engaged in manufacturing or production, processing or preservation of goods	Investment in equipment excluding land and building for enterprises engaged in providing or rendering of services (loans up to Rs. 1 crore)
Micro	Not exceeding Rs.25.00 Lakhs	Not exceeding Rs.10.00 Lakhs
Small	More than Rs.25.00 lakhs but does not exceed Rs.500.00 lakhs	More than Rs.10.00 lakhs but does not exceed Rs.200.00 lakhs
Medium	More than Rs.500.00 lakhs but does not exceed Rs.1000.00 lakhs	More than Rs.200.00 lakhs but does not exceed Rs.500.00 lakhs

The investment in plant and machinery is the original cost excluding land and building and other items specified by the Ministry of Small Scale Industries vide its notification.

The illustrative lists of enterprises that are engaged in providing or rendering services are:

- Small road and water transport operators (original investment in vehicles upto Rs.200.00 lacs under Priority sector)
- Retail trade (with credit limits not exceeding Rs.20.00 lakhs)
- Small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20.00 lakhs
- Professional and self-employed persons (whose borrowing limits do not exceed Rs.10.00 lakhs of which not more than Rs.2.00 lakhs should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15.00 lakhs with a sub-ceiling of Rs.3 lakhs for working capital requirements)

MSME OBJECTIVES:

"Imparting greater vitality and growth impetus to the small, tiny and village enterprises in terms of output, employment and exports and instilling a competitive culture based on heightened technology awareness."

The Office of Development Commissioner (MSME) also known as Small Industries Development Organisation (MSME) functions as the Nodal Development Agency for small industries. MSME functions under the Ministry of Micro, Small & Medium Enterprises.

Consequent to the increased globalization of the Indian economy and changed industrial environment, MSME is currently focusing on providing support in the fields of credit, marketing, technology and infrastructure to MSMEs. Global trends and national developments have accentuated MSME's role as a catalyst of growth of small enterprises in the country.

The main services rendered by DC MSME office are:

1. Advising the Government in policy formulation for the promotion and development of small scale industries.
2. Providing techno-economic and managerial consultancy, common facilities and extension services to small scale units.

3. Providing facilities for technology upgradation, modernisation, quality improvement and infrastructure.
4. Developing Human Resources through training and skill upgradation.
5. Providing economic information services.
6. Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of Small Scale Industries.
7. Evolving and coordinating Policies and Programmes for development of Small Scale Industries as ancillaries to large and medium scale industries.
8. Monitoring of PMRY Scheme.

The process of liberalization and market reforms has created wide-ranging opportunities of the development of small scale industries. Changing world scenario has thrown up new challenges to the very existence of the sector. In order to focus on the issues facing the sector, the Ministry of Small Scale Industries & Agro and rural Industries was created on the 14th October 1999 for overseeing the formulation and implementation of the policies and programmes for the development of the small scale industries through support agencies and specialised services.

The Ministry of Small Scale Industries designs and implements the polices through its field organisations for promotion and growth of small and tiny enterprises. The Ministry also coordinates with other Ministers/Departments on behalf of the Small Scale Industries (SSI) sector.

MSME Board:

The Micro, Small & Medium Enterprises Board is the apex advisory body constituted to render advice to the Government on all issues pertaining to the small scale sector. The Board is reconstituted every two years and is headed by the Minister In charge of Small Scale Industries in the Government of India. The Board comprises among others State Industry Ministers, some Members of Parliament, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

The Additional Secretary and Development Commissioner (MSME) is the Member Secretary of the Board. The Board is serviced by the Board and Policy Division in the office of the DC (MSME).

II. INSTITUTIONAL FINANCE TO ENTREPRENEURS

1. TAMIL NADU INDUSTRIAL INVESTMENT CORPORATION LIMITED (TIIC):

It is an institution owned by the government of Tamil Nadu and is intended as a catalyst for the development of small, medium and large scale industries in Tamil Nadu. It was established in 1949. The Tamil Nadu Industrial Investment Corporation Limited (TIIC), a government company incorporated under the Companies Act 1913 and continues to be a government company under The Companies Act, 1956. The authorised share capital of the company is Rs.300 Crores and the paid up capital of the company is Rs.283.4956 Crores.

TIIC as a State Level Financial Institution, offers long and medium term financial assistance to various industries including service sector in the following forms:

- Term Loans
- Term Loan and Working Capital Term Loans under the Single Window Scheme.
- Special types of assistance like Bill Financing Scheme, etc.

2. SIDBI - SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA:

Small Industries Development Bank of India is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSME) in India. Set up on April 2, 1990 through an act of parliament, it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India. Currently the ownership is held by 33 Government of India owned / controlled institutions. Beginning as a refinancing agency to banks and state level financial institutions for their credit to small industries, it has expanded its activities, including direct credit to the SME through 100 branches in all major industrial clusters in India. Besides, it has been playing the development role in several ways such as support to micro-finance institutions for capacity building and on lending. Recently it has

opened seven branches christened as Micro Finance branches, aimed especially at dispensing loans up to 5 lakh.

It is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

SIDBI has also floated several other entities for related activities. Credit Guarantee Fund Trust for Micro and Small Enterprises provides guarantees to banks for collateral-free loans extended to SME. SIDBI Venture Capital Ltd. is a venture capital company focused at SME. SME Rating Agency of India Ltd. (SMERA - provides composite ratings to SME. Another entity founded by SIDBI is ISARC - India SME Asset Reconstruction Company in 2009, as specialized entities for NPA resolution for SME.

The purpose is to provide refinance facilities and short term lending to industries. It is headquartered in Lucknow. Former Deputy Managing Director is Shri N.K. Maini. Dr. Kshatrapati Shivaji is the new Chairman and Managing Director of the organisation.

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under small industries development bank of India act, is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. The Charter establishing it, The Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be "the principal financial institution for the promotion, financing and development of industry in the small scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected therewith or incidental thereto.

SIDBI retained its position in the top 30 Development Banks of the World in the latest ranking of The Banker, London. As per the May 2001 issue of The Banker, London, SIDBI ranked 25th both in terms of Capital and Assets.

Credit Guarantee Fund Trust for Micro and Small Enterprises popularly known as CGTMSE is widely being used by many PSU Banks and Private sector banks to fund MSME

sector. During the year 2002-03 the aggregate sanction and disbursements of SIDBI amounted to 10,904 crore and 6,789 crore respectively. SIDBI has been permitted to raise finances up to 2,730 crore the year 2013 onward by the Reserve Bank of India.

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 3 crore units, creating employment of about 7 crore, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. In addition, SIDBI's assistance also flows to the service sector including transport, health care, tourism sectors etc.

SIDBI among Top 30 Development Banks of the World: SIDBI retained its position in the top 30 Development Banks of the World in the ranking of The Banker, London. As per the May 2001 issue of The Banker, London, SIDBI ranked 25th both in terms of Capital and Assets.

In its endeavour towards holistic development of the MSME sector, SIDBI adopts a 'Credit Plus' approach wherein, besides credit, the Bank also provides grant support for the Promotion and Development (P&D) of the sector to make it strong, vibrant and competitive. The P&D activities of the bank include Micro Enterprise Promotion, Entrepreneurship Development, Cluster Development, Capacity Building of the MSME Sector, promoting Responsible Finance among Micro Finance Institutions, Sustainable Finance to MSMEs including Energy Efficiency, Environment Protection, etc.

Cumulative disbursements as at end March 2014 have crossed ` 3260 trillion (€ 40.75 trillion) benefiting more than 32 million persons in the MSME sector. The total outstanding portfolio as at end March 2014 aggregated ` 612.71 billion (€7.66 billion).

SIDBI also functions as a Nodal/ Implementing Agency to various ministries of Government of India viz., Ministry of MSME, Ministry of Textiles, Ministry of Commerce and Industry, Ministry of Food Processing and Industry, etc.

SIDBI has taken the initiative to promote several institutions viz., Credit Guarantee Fund Trust for Micro and Small Enterprises, SIDBI Venture Capital, SME Rating Agency of India Ltd and India SME Technology Services Ltd., for the benefit of the MSME sector.

Micro Units Development & Refinance Agency (MUDRA) Bank, an initiative by Government of India to support non-corporate small business, is proposed to initiate it as a unit of SIDBI to benefit from SIDBI's initiatives and expertise.

Small Industries Development Bank of India (SIDBI) was established as wholly owned subsidiary of Industrial Development Bank of India (IDBI) under the small Industries Development of India Act 1989. It is the principal institution for promotion, financing and development of industries in the small-scale sector. It also coordinates the functions of institutions engaged in similar activities. For this purpose, SIDBI has taken over the responsibility of administrating Small Industries Development Fund and National Equity Fund from IDBI.

Capital: SIDBI started its operations from April 1990 with an initial authorised capital of Rs. 250 crore, which could be increased to Rs. 1000 crore. It also took over the outstanding portfolio of IDBI relating to small scale sector held under Small Industries Development Fund as on March 31,1990 worth over Rs. 4000 crore.

What are the objectives of SIDBI? In the setting up of SIDBI, the main purpose of the government was to ensure larger flow of assistance to the small-scale units. To meet this objective, the immediate thrust of the SIDBI was on the following measures:

(i) Initiating steps for technological up gradation and modernisation of existing units;

(ii) Expanding the channels for marketing the products of the small scale sector; and

(iii) Promotion of employment-oriented industries, especially in semi- urban areas to create more employment opportunities and thereby checking migration of population to urban areas.

What are the functions of SIDBI? SIDBI provides assistance to the small-scale industries sector in the country through the existing banking and other financial institutions, such as, State

Financial Corporations, State Industrial Development Corporations, commercial banks, cooperative banks and RRBs. etc. The major functions of SIDBI are given below:

(i) It refinances loans and advances provided by the existing lending institutions to the small-scale units.

(ii) It discounts and rediscounts bills arising from sale of machinery to and manufactured by small-scale industrial units.

(iii) It extends seed capital/soft loan assistance under National Equity Fund, Mahila Udyam Nidhi and Mahila Vikas Nidhi and seed capital schemes.

(iv) It grants direct assistance and refinance loans extended by primary lending institutions for financing exports of products manufactured by small-scale units.

(v) It provides services like factoring, leasing, etc. to small units.

(vi) It extends financial support to State Small Industries Corporations for providing scarce raw materials to and marketing the products of the small-scale units.

(vii) It provides financial support to National Small Industries Corporation for providing; leasing, hire purchase and marketing help to the small-scale units.

3. COMMERCIAL BANKS:

A **commercial bank** is a type of financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products. Commercial bank can also refer to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/middle-sized business - as opposed to individual members of the public/small business - retail banking, or merchant banks.

Role: The general role of commercial banks is to provide financial services to general public and business and companies, ensuring economic and social stability and sustainable growth of the economy. In this respect, "credit creation" is the most significant function of commercial banks. While sanctioning a loan to a customer, they do not provide cash to the borrower. Instead, they

open a deposit account from which the borrower can withdraw. In other words, while sanctioning a loan, they automatically create deposits, known as a "credit creation from commercial banks".

- Commercial banks accept various types of deposits from public especially from its clients, including saving account deposits, recurring account deposits, and fixed deposits. These deposits are returned whenever the customer demands it or after a certain time period
- Commercial banks provide loans and advances of various forms, including an overdraft facility, cash credit, bill discounting, money at call etc. They also give demand and term loans to all types of clients against proper security.....

Core products and services

- Accepting money on various types of Deposit accounts
- Lending money in the form of Cash: by overdraft, installment loan etc.
- Lending money in Documentary form: Letters of Credit, Guarantees, Performance bonds, securities, underwriting commitments, issuing Bank drafts and Bank cheques, and other forms of off-balance sheet exposure.
- Inter- Financial Institutions relationship
- Cash management
- Treasury management
- Private Equity financing
- Processing payments via telegraphic transfer, EFTPOS, internet banking, or other payment methods.

Other functions: Along with core products and services, commercial banks perform several secondary functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

Agency functions include:

- To collect and clear cheques, dividends and interest warrant.
- To make payments of rent, insurance premium, etc.

- To deal in foreign exchange transactions.
- To purchase and sell securities.
- To act as trustee, attorney, correspondent and executor.
- To accept tax proceeds and tax returns.

Utility functions include:

- To provide safety locker facility to customers.
- To provide money transfer facility.
- To issue traveler's cheque.
- To act as referees.
- To accept various bills for payment: phone bills, gas bills, water bills, etc.
- To provide merchant banking facility.
- To provide various cards: credit cards, debit cards, smart cards, etc.
- To Make payment to my Clients through online payments

4. INCENTIVES TO SMALL SCALE INDUSTRIES (SSI):

Many incentives are provided both by the Central and State Governments to promote the growth of small-scale industries and also to protect them from the onslaught of the large-scale sector. Among the various incentives given to small-scale industries the following deserve special mention:

1. Reservation: To protect the small-scale industries from the competition posed by large-scale industries, the Government has reserved the production of certain items exclusively for the small-scale sector. The number of items exclusively reserved for the small-scale sector has been considerably increased during the Five Year Plan Periods and now stands at 822. However, prior to the 1997 – 98 Budget the number of items reserved for the small-scale sector stood at 836. The Finance Minister de-reserved 14 items in the 1997 – 98 Budget.

2. Preference in Government purchases: The Government as well as Government organisations shows preference in procuring their requirements from the small-scale sector. For

instance, the Director General of Supplies and Disposals purchases 400 items exclusively from the small-scale sector. The National Small-Scale Industries Corporation assists the SSI units in obtaining a greater share of Government and defense purchases.

3. Price preference: The SSI units are given price preference up to a maximum of 15 per cent in respect of certain items purchased both from small-scale and large-scale units.

4. Supply of raw materials: In order to ensure regular supply of raw materials, imported components and equipment's, the Government gives priority allocation to the small-scale sector as compared to the large-scale sector. Further, the Government has liberalised the import policy and streamlined the distribution of scarce raw materials.

5. Excise duty: In respect of SSI units excise duty concessions are granted to both registered and unregistered units on a graded scale depending upon their production value. Full exemption is granted up to a production value of Rs.30 lakhs in a year and 75 % of normal duty is levied for production value exceeding Rs.30 lakhs but not exceeding Rs.75 lakhs. If the production value exceeds Rs.75 lakhs, normal rate of duty will be levied.

6. RBI's credit guarantee scheme: In 1960, the RBI introduced a Credit Guarantee Scheme for small-scale industries. As per the Scheme, the RBI takes upon itself the role of a guarantee organisation for the advances which are left unpaid, including interest overdue and recoverable charges. This scheme covers not only working capital but also advances provided for the creation of fixed capital.

7. Financial assistance: Small-scale industries are brought under the priority sector. As a result, financial assistance is provided to SSI units at concessional terms by commercial banks and other financial institutions. With a view to providing more financial assistance to the small-scale sector, several schemes have been introduced in the recent past the Small Industries Development Fund (SIDF) in 1986, National Equity Fund (NEF) in 1987 and the Single Window Scheme (SWS) in 1988. SIDF provides refinance assistance to small-scale and cottage and village industries and the tiny sector in rural areas. NEF provides equity type support to small entrepreneurs for setting up new projects in the tiny/small-scale sector. In 1996, the small-scale sector received 42.3 per cent of the total priority sector advances from public sector banks.

8. Technical consultancy services: The Small Industries Development Organisation, through its network of service and branch institutes, provides technical consultancy services to SSI units. In order to provide the necessary technical input to rural industries, a Council for Advancement of Rural Technology was set up in October, 1982. The Technical Consultancy Organisation renders consultancy services to SSI units at a subsidised rate.

9. Machinery on hire purchase basis: NSIC arranges supply of machinery on hire purchase basis to SSI units, including ancillaries located in backward areas which qualify for investment subsidy. The rate of interest charged in respect of technically qualified persons and entrepreneurs coming from backward areas are less than the amount charged to others. The earnest money payable by technically qualified persons and entrepreneurs from backward areas is 10% as against 15% in other cases.

10. Transport subsidy: The Transport Subsidy Scheme, 1971 envisages grant of a transport subsidy to small-scale units in selected areas to the extent of 75 % of the transport cost of raw materials which are brought into and finished goods which are taken out of the selected areas.

11. Training facilities: The Entrepreneurship Development Institute of India, financial institutions, commercial banks, technical consultancy organisations, and NSIC provide training to existing and potential entrepreneurs.

12. Marketing assistance: The National Small Industries Corporation (NSIC), the Small Industries Development Organisation (SIDO) and the various Export Promotion Councils help SSI units in marketing their products in the domestic as well as foreign markets. The SIDO conducts training programmes on export marketing and organises meetings and seminars on export promotion.

13. District Industries Centres (DICs): The 1977 Industrial Policy Statement introduced the concept of DICs. Accordingly a DIC is set up in each district. The DIC provides and arranges a package of assistance and facilities for credit guidance, supply of raw materials, marketing etc..

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Unit – IV

Project Report – Meaning and Importance – Project Identification – Contents of Project Report – Formulation of a project report – Project appraisal – Market Feasibility – Technical Feasibility – Financial Feasibility and Economic Feasibility.

PROJECT REPORT

INTRODUCTION: Most of the entrepreneurs are of the opinion that writing a project report/business plan is a daunting task. But a good business plan is essential because it pulls together all the elements of the entrepreneur's vision into a single document. In this chapter we shall look at its meaning, purpose and contents.

MEANING OF PROJECT REPORT: Project report is a written document that summarizes a business opportunity and defines how the identified opportunity is to be seized and exploited. It is a scheme, design, a proposal of something intended or devised. It helps in identifying and clarifying many of the issues that need to be addressed as an entrepreneurial venture organized, launched, and managed. To quote **Mary Coulter,** the process of business planning involves deciding where you want to go, how to get there, and what to do to reduce (as much as possible) any uncertainties. It's a way of thinking about the future in which planning serves as the bridge between the present and the future – that is, where we currently are and where we would like to be. It acts as a blueprint and road map for operating the ongoing business. It severs as a living document that guides the entrepreneur as he makes decision throughout the life of the entrepreneurial venture.

IMPORTANCES OF A PROJECT REPORT: The business plan is an important document for entrepreneurs. It serves five main purposes. They are detailed below:

1. Development Tool: Business plan acts as a development tool for entrepreneurs. It forces entrepreneurs to address important issues. It provides a check and balance for the entrepreneurs.

2. Helps to Clarify the Venture's Vision and Mission: Organization's vision and mission statements are important elements in planning the entrepreneurial venture. They describe and

explain to the others what the entrepreneurial venture is about. It forces the entrepreneurs to consider their purpose, values and expectations.

3. Defines Planning Evaluation Guidelines: Business plan is a working document that should be used beyond the start-up phase. It guides the decision maker, on planning and evaluating issues throughout the life of the business. It clarifies what are the goals and plans. It also defines how goal attainment is going to be measured. Through plan attempts to define a desirable future path for the venture, uncertainties even better than in an unplanned situation.

4. Help Entrepreneurs to Secure Financial Resources: Another important purpose, which a plan serves to an entrepreneur, is helping to secure needed finance. Potential lenders never provide finance to business ventures especially for a new venture without some type of analysis of financial data both current as well as future. Hence, it enables entrepreneurs to secure needed finance easily. Planning a venture itself involves in it as one of its steps the financial analysis and projections, which is a must for getting finance from outside sources.

5. Guides Growth: Planning the venture serves as a tool for guiding growth. It provides the road map for pursuing the opportunities that wait. A well-designed business plan can lay the foundation for growth. An entrepreneur to succeed in his venture, need to develop a strong business plan so that it provide for the future growth of the venture

PROJECT IDENTIFICATION

IDENTIFICATION OF BUSINESS OPPORTUNITIES

INTRODUCTION: The ability to identify, pursue and capture and capture the value from business opportunities is accepted by the eminent scholars on entrepreneurship as the key to entrepreneurship. No one can call a person an entrepreneur until they have identified and opportunity. It is very hard to generalize what makes a good opportunity and also where entrepreneurs find opportunity. Some entrepreneurs find opportunity as a result of extended thought and exploration. Other fined them due to a fortunate set of circumstance and by

responding to a phone call from a desperate potential customer. Hence it is not so easy to generalize from the experiences of successful and unsuccessful entrepreneurs regarding opportunity. However, we will make an attempt to summarize what we know about identification of business opportunities.

MEANING OF BUSINESS OPPORTUNITY: Opportunities are ideas. They may be referred to as something that exists on paper. Opportunities that turned by individuals into profitable and functioning businesses are referred to as realized opportunities. Therefore in practical terms, opportunities may be defined, as business concept that, if turned into a tangible product or service may arise that what do opportunities in business really mean. Do they differ from business ideas?

As we know, business ideas and business opportunities very often are used interchangeably. Opportunity is considered as a viable business idea, which the entrepreneur selects from several ideas suited to his own capabilities and subsequently he takes it up as a good investment proposition.

The following points are worth mentioning to know well about opportunity:

1. Opportunities Relate to the Creation of Value: Entrepreneurs should communicate the value of the product i.e. they have to come in at the right cost. It is not necessary that the cost should be lowered. Lowering the cost may sometimes lead to failure of the product. It is very simple that if it is worth it, people pay.

2. Opportunities are not similar to all: Opportunities are not the same to all. The reason is obvious. Every one of us is not equally equipped to perceive or capture an opportunity. The experience of each individual or team makes him or her more or less able to identify and capture opportunity. In addition, each individual's perspective (Which is a product of their products, services, markets or skills) is different. It means that something which is perceived by one as an opportunity may not be perceived by others so. It depends up on whether one is capable of

implementing it or not. As capacity between individuals to implement an idea differs, opportunities seem to be different among individuals.

3. Only Some Pursues Opportunities: Every if the opportunities are obvious, only some pursues them and not all. Profit is left to those who wish to show initiative and actually pursue rather than just think about a business opportunity. Creative thought is wonderful but if it does not lead to action it is only an expenditure of energy. Mostly people and companies pursue opportunity, especially if they are not reasonably satisfied with the status quo. One must show real initiative to pursue opportunity.

4. Complex Opportunities do not work: Some opportunities involve large numerous of people and integrates number steps and components. They are referred to as complex opportunities. The more complex an opportunity is the more it is unlikely to attain. Some entrepreneurs have ideas but when they try to pursue them, they find they must involve more and more people. Sometimes entrepreneurs get caught up in the "Artistry" of the opportunity and forget how vulnerable they become when so many components must work together. Such opportunities normally do not work and so break down.

5. Opportunities Found Rarely in Well Grown Markets: Opportunities are not found always in well grown market. Once market started picking up entrepreneurs enter in many numbers to pursue the investment opportunities there. Even if it is so only a few will survive because of imbalance between demand and supply.

6. Opportunities need Not Necessarily the Outcome of Inventions made by the Entrepreneur: Entrepreneurs are not necessarily inventors. But many entrepreneurs invest their time and effort in searching for opportunities based on some kind of technological breakthrough. Though, this may be admirable and even desirable it is necessary.

SOURCES OF ENTREPRENEURIAL OPPORTUNITY: Entrepreneurial opportunities come in varied ways, shapes and forms to those who pursue them. Some individuals identify and throw off ideas for products and services at a rapid pace. Others conceive ideas from a

newspaper or hear about from a friend or acquaintance. Though creative mind is not particularly required for a person to be an entrepreneur, he should show at least a small quantity of creativity. Entrepreneurs need not be people of Ideas. However, they should be creative in structuring a business around an opportunity and then implementing their ideas. Generally, business opportunities that are identified usually related to past experience. It is a rare case that someone identifies a new opportunity in a field with which they are not familiar. Opportunities are usually related to work experience or social environment. In other words, ideas for opportunities come from within the realm of our existing knowledge and usually result from our mind connecting seemingly unrelated ideas. Therefore, if any one wants to develop a new concept in a specific, unfamiliar business, he has to go to work in that business so that he know how it functions and can see the linkages.

Peter F. Drucker denotes that an effective search requires deep knowledge of where to look for innovative opportunities and the discipline to pursue that search in a systematic manner (Drucker 1985). The systematic innovation he means monitoring seven sources of innovative opportunities. They are described below:

1 .The Unexpected Success and Failure

i. The Unexpected Success – It offers rich opportunities for successful innovation.

ii. The Unexpected Failure – Failures are seldom seen as symptoms of opportunities. They should not be rejected and left unnoticed. They should be regarded as a fertile source of innovation.

2. Incongruity: Incongruity reveals the difference between what is and what ought to be. It brings out the underlying fault and thereby invites people to innovate.

3. Process Need: Process need is quite concrete and task-focused. It perfects a process that already exists and redesigns and existing old process around newly available knowledge.

4. Industry and Market Structure: A change in the industry's structure such as –

1. Rapid growth of industry,
2. Change in the way of perceiving and servicing the market,
3. Convergence of changes, and
4. Change in the way in which it does the business etc. offers exceptional opportunities.

5. Demography: Changing demography (the study of population) offers a highly productive any dependable innovative opportunity.

6. Changes in Perception: Changes in perception create substantial innovative opportunities.

7. New Knowledge: New knowledge requires careful analysis of all the necessary factors such as knowledge itself, social, economic and perceptual factors.

Another source for identifying opportunity is trade fairs and exhibitions. They are of different types based on the items and purpose based on which they are organized. They are of general fairs, and specialized fairs. They offer opportunities for projecting new ideas on commercial publicity for promoting sales in the country and abroad. They assist the exhibitors to acquire knowledge of the latest techniques of production and marketing.

OPPORTUNITY ANALYSIS: Opportunity analysis refers to a process whereby an opportunity is identified. It is also called opportunity sensing and identification. Entrepreneur normally analyses the opportunities by considering his strengths, weaknesses, opportunities and threats and selects the product accordingly. In management philosophy, it is known as SWOT analysis. He considers the following aspects selecting his product.

1. His own experience or his partner's experience in the line.
2. Expansion or diversification plans of his own or any other ongoing business or industry.
3. Products, which are likely to have a ready demand.
4. Products whose imports are banned or controlled by the government.
5. Products showing high profitability.
6. Advantages available to product.
7. Product line guided mainly by changes in industrial policy.

8. Tax savings, subsidies, concessions etc.

Steps in Opportunity Analysis: Opportunity analysis involves the following three steps:

1. Scanning the Environment of Business.
2. Short listing the Opportunities.
3. Finalizing the Product

1. Scanning the Environment of Business: The first step in opportunity analysis is environmental scanning. It enables generation of ideas. It is always on the part of the potential entrepreneur to try and generate as many ideas as possible, which will be commercially viable. Environment scanning helps generating ideas in the following ways:

1. Discussion with friends, relatives, businessmen, industrialists and the persons associated with trade, commerce and industries.
2. Contacting promotional agencies like District Industries Centers (DICs), Small Industries Services Institutes (SISIs), entrepreneurship development institutes, Small Industries Development Corporation, chamber of commerce and industries, industry associations, etc.
3. Approaching technical consultancy cells of commercial banks, and vendor development cells of large industrial houses.
4. Observing products or services required by the society.
5. Internet browsing.

2. Short listing the Opportunities: Opportunities are unlimited in environment. So the prospective entrepreneurs generate many ideas, which necessitate the short listing of opportunities to three or four for closer analysis and observation. This analysis can be done on the basis of SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. It enables the entrepreneurs to arrive at the final product. The strengths for them include – educational or technical qualification, skills, trade-related knowledge, family connections, etc. Its weaknesses could be the nature of the entrepreneur, financial background, lack of market, etc.

Further, certain product-related factors like stability, growth, marketability, and gestation period required, etc. should also be considered. A product whose future may not be very stable may be a risky venture. Such product idea or opportunity has to be dropped.

Once the entrepreneurs finalise the opportunities he should discuss about the ideas, its pros and cons as to the techno-economic viability with the financial institutions etc. If their comments and views are negative, entrepreneurs should drop such products and go for searching of new opportunities. The reason is obvious because, if they are not convinced, the entrepreneurs may not be in a position to raise finance for such product line. If they are convinced, the entrepreneurs should go ahead with the best of opportunities and should not hesitate to set up the enterprise.

3. Finalization the Product: The next step is finalizing the product. Here it is essential to assess some parameters before deciding on the product out of two or three short-listed ones. These parameters mainly include the following:

1. Total investment required for the venture.
2. Return on investment expected from the venture.
3. Return on equity.
4. Expected sales volume.
5. Profits and profitability.

Entrepreneur selects one among the two or three short listed ones, which he feels to be the most feasible one to be taken up as a venture. Even after the selection of the idea entrepreneur should collect a variety of data or information as given below for successful establishment and profitable management of the venture.

1. Total investment to be made in plant and machinery.
2. Sources of raw materials.
3. Infrastructural facilities
4. Size of the project.
5. Requirement and availability of skilled and unskilled manpower.

6. Total financial requirement.
7. Policy of the government.
8. Procedure adopted by the government to start enterprise.
9. Incentives, subsidies, exemptions, if any, provided by the government.

Keeping in view the above things entrepreneur should select that opportunity which will be commercially viable and technically feasible. Further, the opportunity should be capable of giving adequate returns in a sustainable manner for a long period of time and can be feasible enough to be diversified in accordance with the changing needs of the time.

CONTENTS OF A PROJECT REPORT: A project report may be prepared in different ways by different entrepreneurs. There is no standard pattern for it. However, it must contain all information necessary to appraise it and take a financial decision by lending institutions. Its detailed analysis is made here under.

AREAS IN A BUSINESS PLAN

1. Executive Summary	-	Gives entire data about the proposal
2. Opportunity Analysis	-	Gives details about analysis of opportunity
3. Analysis of External Changes and Trends	-	Analysis macroeconomic environment
4. Description of the Business	-	Describes as to its establishment management
5. Financial Data and Projection	-	Gives financial information
6. Supporting Documentation	-	Gives charts, graphs, tables, photographs,
7. Capital Costs and Sources of Finance	-	Estimates both capital & revenue expenditure
8. Assessment of Working Capital etc.	-	Assesses working capital needs etc.
9. Project Implementation	-	Given about the implementation of the scheme

1. Executive Summary: The first area, which should be covered in a project report, is executive summary. It summarizes the key points, which the entrepreneur wants to make about the entrepreneurial venture. These might include brief statements of the following:

A. Vision and mission of the venture.
B. Primary goals and objectives of the venture.
C. History of the venture:
    - **i.** A time line.
    - **ii.** Key people involved in the venture.
    - **iii.** Nature of the business.
    - **iv.** Product or service descriptions.
    - **v.** Details about market niche.
    - **vi.** Competitors.
    - **vii.** Strategies.
    - **viii.** Summary of financial information.
    - **ix.** Competitive advantage which the product or service possesses.

2. Detailed of Opportunity Analysis: We have already discussed the importance of identification and analysis of opportunities. The details of analysis of the perceived opportunity are to be presented in this section. Normally this is presented in the following manner:

i. Demographics of the Target Market: It describes the size of the market. It reveals who are the customers, their number, their values and expectations, whether the product or service is capable of meeting their needs etc.

ii. Industry Trends: Describing and evaluation of industry trends is the second aspect of opportunity analysis. It describes the current status of the industry, trends in the industry, and evaluates the growth rate of industry.

iii. Identification and Evaluation of Competitors: Identification and evaluation of competitors involves determination of who they are, what competitive strengths and weaknesses they have, what they are doing currently and so forth.

3. Analysis of External Changes and Trends: External factors might include an analysis of the macroeconomic environment. It includes the following:

a. The state of economy, current and forecasted interest rates of inflation.

b. Trends in consumer spending.

c. Any other important economic trends that might have a significant impact on the entrepreneurial venture.

d. An evaluation of any current or proposed governmental rules and regulations that might potentially have an impact on the entrepreneurial venture.

e. An analysis of broad technological trends not related to the specific market or industry that might affect the entrepreneurial venture.

f. A description of global changes and trends that might have an impact on the entrepreneurial venture.

4. Description of the Business: This section describes how the venture is going to be organized, launched, and managed. It provides a thorough explanation of the following:

i. Location of enterprise, whether owned or leasehold land.
ii. Availability of the raw material and skilled labour.
iii. Requirement for power, loan sanctioned, availability of power, need for fuel items such as coal, coke, oil or gas and state of their availability, and the sources and quality or water.
iv. The aspects like scope of dumps, sewage system and sewage treatment plant should be clearly stated in case of industries producing emissions.
v. Availability of communication facilities.
vi. Requirements for transport, mode of transport, potential means of transport, distances to be covered, bottlenecks etc.

vii. Availability of common facilities like machine shops, welding shops and electrical repair shops etc.

viii. Process involved in production and period of conversion from raw material into finished goods.

ix. A complete list of items of machinery and equipments required indicating their size, type, cost and sources of their supply.

x. The installed licensed capacity of the plant along with the shifts.

xi. The selection of technology, arrangements made for acquiring it.

xii. Vision and mission statements and a description of the desired organizational culture.

xiii. Marketing plans, including overall marketing strategy, pricing, sales tactics, servive-warranty policies, and advertising and promotion tactics.

xiv. Product development plans, such as an explanation of development status (prototype availability) and tasks, difficulties and risks, and anticipated costs.

xv. Manufacturing and operations plans such as description of proposed geographic location, facilities and improvement, equipment, and work flow.

xvi. Human resource plans, including a description of key employees, composition of the board of advisers, including their background experience and skills, current and predicted future staffing needs, compensation and benefits, and training needs.

xvii. An overall schedule and timetable of events.

5. Financial Data and projections: Every effective business plan contains financial data and projections. No business plan is complete without financial information. It includes the following:

a) Three years projected income (Profit and Loss) statements.

b) Pro forma cash-flow analysis (monthly for the first year and quarterly for the next two)

c) Proforma balance sheets.

d) Break-even analysis.

e) Cost controls.

If equipment purchases or other major capital expenditures are anticipated, items costs, and collateral available etc. are to be listed. Whenever the data seem contradictory or unclear, explanatory notes should be provided. Financial projections should be made as realistic as possible. Research costs (if any research conducted), prices being charged by competitors, and any other quantitative information that will add to the validity and reliability of data also should be provided. Although much of the financial analysis is based on assumptions, back up assumptions with logical reasoning and appropriate analysis. It will minimize the inherent problems of making assumptions.

6. Supporting Documentation: Supporting documentation is an important component of an effective business plan. Charts, graphs, tables, photographs, and other visual tools also should be used to back up the descriptions made in the plan. In addition, information (personal and work-related) about the key participants in the venture also is to be provided. These supporting documents are capable of providing additional details about the information being presented in the actual business plan.

7. Capital Costs and Sources of Finance: The next major aspect, which attracts the entrepreneurs' attention, is capital costs and sources of finance. An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin for working capital etc. Should be made and given in the project report. The preset probable sources of finance should also be mentioned in the project report. The sources should indicate both the owner's funds as well as the funds raised from financial institutions and banks.

8. Assessment of Working capital Requirements and other Financial Aspects: The requirement for working capital and its sources of supply should be clearly mentioned in the project report. It requires the assessment of working capital requirements in the prescribed formats designed by limits of requirement It will reduce objections from the banker's side. The profitability of the project to be set up is necessarily to be adjudged. So a projected Profit and Loss Account specifying likely sales revenue, cost of production, and profit should be prepared.

A projected Balance Sheet and Cash Flow Statement should also be prepared in order to indicate the financial position and requirements of finance at various stages of the project. Besides, the Break-Even Analysis should also be made and presented in the project report. Break-even point refers the level of production/sales where the enterprise shall earn neither profit nor incur loss. In fact, it will just break even. Break-even level indicates the gestation period and the likely moratorium required for repayment of loans. The formula for calculating break-even point (BEP) is as follows:

$$\text{Break-even point (BEP)} = \frac{F}{S-V} \text{ x } 100$$

Where, F – Fixed Costs; S = Sales Projected; V = Variable Costs.

The break-even point so calculated will indicate at what percentage of sales, the enterprise will break even.

9. Project Implementation: The last step in any plan is drawing of its implementation scheme. Hence, every entrepreneur should draw an implementation scheme for his project for ensuring the timely completion of all activities involved in setting up an enterprise. Timely completion of the project is important because if there is any delay, it will result in project failure. In India, delays in project implementation have become a common feature. Delay in project implementation jeopardizes the financial viability of the project. It props up the entrepreneur to drop the idea to set up an enterprise. Hence, it is necessary on the part of entrepreneurs to draw up an implementation schedule for the project and then to follow it. Actually preparing a business plan entails putting it on paper. Help in writing the business plan can be found through software templates, books, and Web sites, In addition, it's important for an entrepreneur to recognize that writing a good business plan takes serious through and consideration. The time and effort that's needed are to be necessarily spent or write a complete and successful business plan.

PROJECT APPRAISAL

INTRODUCTION: Every industrial project involves risk. It should be appraises so as to analyze and measure the risk involved in it. This chapter deals with the concept of project and the concept as well as the methods of project appraisal.

DEFINITION OF PROJECT: A project may be defined as "A complex, non-routine, one-time effort limited by time budget, resources and performance specifications designed to meet customer needs".

Its major characteristics are as follows: Its major goal is to fulfill customers" needs.

1. **Established Objective:** Project should have a well-defined objective. For example, it may be to complete the writing of the nook on Entrepreneurial Development by September 2006 or to submit a company's Accounts for Audit before July 31st etc. Such a defined objective is often lacking in many organization's daily life. In most of the organization, worker performs repetitive operations every day.
2. **Defined Life-Span:** Projects should necessarily have a defined life-span with a beginning and an end. As the objective is well-defined, it is so easy to decide the life-span of it. Now-a-days, in information technology, electronics and telecom industries, it is very common that engineers are assigned with a particular project for a particular period say a year. Once they finish it, they will be assigned with another work.
3. **Involvement of Several Departments and Professionals:** Generally, projects involve several departments as well as professionals who work closely together under the guidance of a project manager. It facilitates easy completion of the project by enabling co-ordination of various activities as to finance, engineering, marketing, quality control etc. in an effective manner.
4. **Doing Non-routine and Unique work:** Projects should not be confused with everyday work. It is not a routine, repetitive work. Ordinary daily work typically requires doing the same or similar work over and over, whereas a project is done only once. A new product or a service exists when the project is completed.

Projects are non-routine and non-repetitive work. It possesses some unique elements in it. In other words, it accomplishes something that has never been done before. Even if it is of basic and routine work, the procedures to complete it may require some degree of customization, which makes them unique.

5. Specific Time, cost and Performance Requirements: Specific time, cost and performance requirements bind projects because projects are normally appraised according to accomplishment, cost and time spent. These factors only reveal how successfully the project has been implemented and completed. They impose a high degree of accountability. Balancing the tradeoffs between these three factors is the one of the main functions of project management.

PROGRAMME AND PROJECT: The terms program and project are often used interchangeably in practice, which sometimes causes confusion. Programs and projects are similar in the sense that they are directed toward goals and require plans and resources to reach their goals. Bothe use similar tools, methods, and policies. The differences lie primarily in scope and time horizon. A program is a series of coordinated, related; multiple projects that continue over extended tome intended to achieve a goal. A Program is a higher level group of projects targeted at a common goal.

STAGES IN THE PROCESS OF PROJECT OR PROJECT LIFE CYCLE: There are four stages in the process of project namely,

1. **Defining Stage:** This is the first phase in the process of project formulation. At the stage, project specifications are defined, objectives are established, terms are formed and tasks and responsibilities are assigned.
2. **Planning Stage:** Secondly, plans are developed so as to determine what to do, when to do it, which will do it, what is the level of quality to be maintained etc. It involves preparation of schedules, budgets, deciding resources, forecasting risks and estimating staffing.
3. **Executing Stage:** Under executing stage, project so planned is implemented. Whatever on the paper is converted into work; the product is produced; time, cost and specification

measures are used for control. At this stage, the following are analyzed – is the project on schedule, in budget, and meeting specifications? What are the forecast of each of these measures? What revisions/changes are necessary?

4. **Delivering Stage:** It involves two activities such as – (i) delivering the product i.e. project product is delivered to customer. It includes customer training and transferring documents, and (ii) Re-deploying project Resources. After the delivery of the product, the resources are diverted to other project and new assignments are found for team members.

CLASSFICATION OF THE PROJECT: In practice, there different kinds of projects are commonly found in the portfolio of most of the organizations. They are:

1. **Compliance and Emergency Projects:** Compliance projects are must do projects. They are typically those projects needed to meet regulatory conditions required to operate in a region. Emergency project is also of a must do project. If these are not implemented, they will be definitely subjected to penalties.
2. **Operational Projects:** Operational projects support current operation. They are normally conducted to improve efficiency of delivery system, reduce cost of goods produced, and improve the performance.
3. **Strategic Project:** Strategic project are long-term projects. They normally support the long-run objective of the organization. They are directed to increase the market share, revenue etc. These are made by developing new products, conducting research and development etc.

PROJECT APPRAISAL: Project appraisal refers to the assessment of a project. It involves the conduct of a costs and benefits analysis of different aspects of proposed project with an objective to adjudge its viability. It helps in selecting the best project among available alternative projects. Financial institutions appraise projects before lending finance to them so as to assess their credit worthiness. These institutions make an independent and objective assessment of the various aspects of an investment proposition before they take a financial decision. It aims at determining the viability of a project. Hence it is desirable on the part of an entrepreneur to understand the

appraisers thinking process so that he can formulate the project as acceptable to the financial institutions. Financial institutions appraise a project proposal by using different methods. Selection criteria are typically identified as financial and non-financial. A short description of each of which is given below:

I. Financial Criteria: For most managers financial criteria are the preferred method to evaluate projects. These models are appropriate when there is a high level of confidence associated with estimates of future cash flows.

1. **Pay Back Method:** The pay back method is one of the simplest and most frequently used methods of capital investment appraisal. It is defined as the length of time that is required for a stream of cash proceeds from an investment to recover the original cash outlay required by the investment. It measures the time it will take to recover the project investment. Shorter pay backs are more desirable. Pay back is the simplest and most widely used model. Pay back emphasizes cash flows as a key factor in business. Some managers use the payback model to eliminate unusually risky projects (those with lengthy pay back periods). The major limitations of pay back are that it ignores the time value of money, assumes cash inflows for the investment period) and not beyond), and does not consider profitability. Pay back formula is-

   Pay Back Period (yrs) = Estimated Project Cost / Annual Savings

   This method is based on the principle that every capital expenditure pays itself back over a number of years.

Suitability of Pay Back Period Method: This method of evaluation is suitable under the following circumstances:

- When the const of the project is relatively low.
- When it is expected to be completed in a short period.
- When the project is productive as soon as investment is made.
- When it carries high risk.
- When the concern is likely to suffer from a shortage of cash.

- When the industry is experiencing rapid technological development.

Limitations of Pay Back Method: It suffers from the following limitations:

- It ignores returns beyond payback period.
- It ignores time value of money.
- It ignores profitability concept and the possibility of long-term growth.
- It overlooks cost of capital, etc.

New Concepts in Pay Back Method: However, to remove the defects in the pay back method, some new concepts have been evolved recently. They are as below:

a) Post Pay Back Profitability – It considers total net flow remaining after recovering cost of unit. It enables the selection of a project on the basis of profitability after the pay-off period.

b) Pay Back Reciprocal Method – It given an idea about the time rate of return from a project and thereby it shows return as a measure of investment.

c) Pay-off Period Rate of Return – It gives the rate of return during pay-off period. It is determined by dividing 100 by the number of years in the pay-off period.

2. Return on Investment Method: It is popularly known as R.O.I. It is an accounting method. It takes into consideration the rate of return likely to be obtained from the project. It reveals the ration of profit (net of depreciation and taxes) to initial capital outlay. The ratio so obtained is compared to the cost of capital. Projects, which did not yield the desired Return on Investment, are rejected. Acceptable projects are ranked as per the Return on Investment and the project, which yields a highest Return on Investment, is selected.

Different practices are adopted while calculating Return on Investment because investment as well as earnings/return is interpreted in different manner. Further, Return on Investment is calculated depending on the data available. For example, investment may be either (i) original cost of the project, or (ii) average investment. Likewise, return may be – (i) total earnings, (ii) average annual earnings, (iii) average annual net earnings, or (iv) average additional earnings per annum.

i. Total Income method: Under the total income method, total earnings are ascertained (after depreciation and taxes) and them it is divided by the total investment. This gives the average rate of return per rupee invested in the project. The higher the earnings per rupee or the higher the percentage, the project deserves to be selected.

$$\textbf{Earnings per Unit of Investments} = \frac{\textbf{Total Earning}}{\textbf{Project Outlay}}$$

ii. Average Rate of Return on Investment: In the case of average rate of return on investment, all the earnings after taxes and depreciation are added and then, it is divided by the project's effective economic life. This gives the figure of average earnings over the period, which is again divided by original investment. The project, which gives the highest rate or return, is normally selected.

$$\textbf{Average Rate of Return on Investment} = \frac{\textit{Net Profit (after depreciation and taxes)}}{\textit{Life of Asset x Capital Outlay}} \textbf{ x 100}$$

iii. Additional Earnings on investment Method: Additional profit is the excess of profit of one asset over the other. To calculate the additional profit, the profit of earning for two alternatives under consideration should be calculated. Then, the return on investment is calculated as under:

$$\textbf{Return on Investment} = \frac{\textit{Average Additional Profit Per Annum}}{\textit{Average Amount Invested}} \textbf{ x 100}$$

3. Discounted Cash Flow Method: Pay back method and Return on Investment method do not take into account the time factor of income, which is fundamental for evaluating investments. This is because money has a time value. Hence, cash flows received in different periods should not be treated to have uniform value. The nominal value of rupee received today is more valuable than a rupee to be received in the next year. The Discounted Cash Flow Method removes this defect by considering the time factor of income. The Discounted Cash Flow has nothing to do with inflation. It relates to the fact that a person who invests money expects a return/reward form the same, which normally takes the form of interest. The process of converting cash to be received in the future into a value at the present time by the use of an

interest rate is termed discounting and the resulting present value is the discounted present value. Compounding is the opposite of discounting, since it is future value of present value cash flows.

The future value is arrived at by using the following formula:

$$\textbf{Future Value} = \textbf{P x } (1 + i)^{n}$$

P = Principal or present value, I = the rate of interest per period, N = the number of periods.

Likewise, the present value of a future sum (i.e. the present value for payment of Re.1 to be received inn years hence at any rate of return i) can be calculated by using the following formula:

$$\textbf{Present Value of Re.1} = \frac{1}{(1+i)^{n}}$$

$$\textbf{Present Value} = \textbf{Factor x Amount}$$

$$\textbf{Present Value} = \frac{Future\ Sum}{(1+i)^{n}} = \frac{100}{(100+10\%)} = \frac{100}{110} = 0.909$$

Where 'I' is the applicable interest (discount) rate and 'n' is the number (discount) of periods.

The present value for all the cash inflows for a number of years is thus found as follows:

$$\textbf{Present Value} = \frac{A1}{(1+r)^{1}} + \frac{A2}{(1+r)^{2}} + \frac{A3}{(1+r)^{3}} + \ldots \frac{An}{(1+r)^{n}}$$

Where A1, A2, A3… An = Future net cash flows (profit after tax but before depreciation),

r = rate of interest, 2, 3… and

n = number of years. Present value can also be found by the use of present value tables.

i. Internal Rate of Return Method (IRR): The Internal Rate of Return Method (IRR) is an alternative technique for use in making capital investment decisions that also takes into account the time value of money. The internal rate of return represents the true interest rate earned on an

investment over the course of its economic life. This measure is sometimes referred to as the discounted rate of return. The internal rate of return is the interest rate K that when used to discount all cash flows resulting from an investment, will equate the present value of the cash receipts to the present value of the cash outlays. In other words, it is the discount rate that will cause the net present value of an investment to be zero. Alternatively, the internal rate of return can be described as the maximum cost of capital that can be applied to finance a project without causing harm to the shareholders. The internal rate of return is found by solving for the value of K from the following formula:

$$\textbf{IRR} = \frac{FV1}{(1+K\}^1} + \frac{FV2}{(1+K)^2} + \frac{FV3}{(1+K\}^3} + \ldots \frac{FVn}{(1+K\}^n}$$

The IRR can be found by trial and error by using a number of discount factors until the NPV equals zero.

It is claimed that the calculation of the IRR does not require the prior specification of the cost of capital. The decision rule is that if the IRR is greater than the opportunity cost of capital, the investment is profitable and will yield a positive NPV. Alternatively, if the IRR is less than the cost of capital, the investment is unprofitable and will result in a negative NPV. Therefore any interpretation of the significance of the IRR will still required that we estimate the cost of capital.

ii. Net Present Value Method (NPV): The most straightforward way of determining whether a project yields a return in excess of the alternative equal risk investment in traded securities is to calculate the net present value (NPC). This is the present value of the net cash inflows less the project's initial investment outlay. If the rate of return from the project is greater than the return from an equivalent risk investment in securities traded in the financial market, the NPV will be positive. Alternatively, if the rate of return is ~~lower~~, the NPV will be negative. A positive NPV therefore indicates that an investment should be accepted, while a negative value indicates that it should be rejected. A zero NPV calculation indicates that the firm should be indifferent to whether the project is accepted or rejected.

The NPV can be expressed as:

$$\textbf{NPV} = \frac{FV1}{(1+K)^1} + \frac{FV2}{(1+K)^2} + \frac{FV3}{(1+K)^3} + \ldots + \frac{FVn}{(1+K)^n} - \textbf{Io}$$

Where Io represents the investment outlay and FV represents the future value received in years 1 to n. The rate of return K used is the return available on an equivalent risk security in the financial market.

The positive net present value from the investment indicate the increase in the market value of the shareholders funds, which should occur once the stock market, becomes aware of the acceptance of the project. Hence the acceptance of all available projects with a positive net present value should lead to the maximization of shareholders wealth.

iii. Profitability Index: The profitability index is the third method of evaluating capital investment proposals that taken into account the time value of money. The method is simply a variation of the NPV method, and it is computed by dividing the present value of the cash proceeds by the initial cost of the investment. In other words, it is the relation between the present value of future net cash inflows and the initial cash outlay. If the profitability index is less than 1, the investment should be rejected. Conversely, if it is greater than 1, the investment should be accepted. This method is consistent with NPV method, since the index can only be less than 1 when the NPV is negative. Similarly, an index greater than 1 only arises when the NPV is positive.

In the case of independent projects and where the company is not restricted from accepting profitable projects because of the shortage of funds the profitability index will yield the same acceptance – rejection decision as the NPV method. For mutually exclusive investments the profitability index will not always result in the same rankings as the NPV method.

It is calculated by the following formula:

$$\textbf{Profitability index} = \frac{\textit{Present Value of Gross Cash Inflows}}{\textit{Initial Cash Outlay}}$$

Some accountants prefer to use the net or excess present value of cash inflows instead of the gross present value, as used above. Hence,

$$\textbf{Present Value Index} = \frac{\textit{Present Value of Operating Inflows}}{\textit{Present Value of Net Investment}} \textbf{ x 100}$$

Hence, $\textbf{Profitability Index} = \frac{NPV}{1} \textbf{ X 100}$

The latter view seems to be more appropriate and reasonable.

II. Non-Financial Criteria: Financial return, while important, does not always reflect strategic importance. A firm may support projects that do not have profit margins for other strategic reasons such as:

- To capture larger market share.
- To make it difficult for competitors to enter the market.
- To develop and enabler product, which by its introduction will increase sales in more profitable products.
- To develop core technology that will be used in next generation products.
- To reduce dependency on unreliable suppliers.
- To prevent government intervention and regulation.

Less tangible criteria may also apply. Organizations may support projects to restore corporate image or enhance brand recognition. Many organizations are committed to corporate citizenship and support community development projects.

Since no single criterion can reflect strategic, portfolio management requires multi-criteria screening models. These models typically weight individual criteria so those projects that contribute to the most important strategic objectives are given higher consideration.

MANAGING RISK: Herodotus, a Greek Historian says, **"Great deeds are usually wrought at great risk".** Risks are inherent in projects. No amount of planning can overcome risk. As far as projects are concerned, risk is an uncertain event. If it occurs will have either a positive or

negative effect on the goals of the project. It will also impact the cost, schedule and quality of the project. Though risks can have positive consequences, only negative impact cause damage to the project, the focus is made only on negative impact of it.

Process of Risk Management: Risk management tries to recognize and manage potential and unforeseen risk, which may arise at the time of implementation of the project. It identifies as many risk events as possible. It minimizes their impact, and provides contingency funds to cover risk events that actually materialize. Risk management is a proactive approach rather than reactive. It is preventive process and designed in such a manner to reduce the surprises and minimize the negative consequence associated with undesirable events. However, when a time, cost and technical advantage is possible, it encourages the project manager to assume risk. It enables the project manager to have better control over the future.

Clifford F. Gray and **Erik W. Larson** in their book "**Project Management – The Managerial Process**" has stated that the risk management possesses four steps are described here under.

1. Risk Identification: The first step in the process of risk management is risk identification. It involves generating a list of all possible risks that could affect the project. During the planning phase, a risk management team, which consist core team members, identifies potential problems. They use techniques like brainstorming etc. to identify the potential problems. In the beginning macro risks have identified. Specific risks are identified only at a later stage.

Work Breakdown Structure (WBS) is an effective tool for identifying specific risks. A risk profile is another tool to identify and analyze risks. It is a list of questions that address traditional areas of uncertainty on a project. These questions are developed and refined from previous projects, which are of similar natured.

Sometime it is possible to acquire good risk profiles. Some consulting firms may come forward to sell them as part of their project management services. Historical records can be

referred when formal risk profiles are not available. Project teams can investigate similar projects in the past to identify potential risks.

The risk identification process should not be restricted to just the core team. Input from customers, sponsors, subcontractors, vendors, and other shareholders should be solicited. Relevant shareholders can be formally interviewed.

One of the keys to success in risk identification process is attitude. Project managers should encourage critical thinking when it comes to risk identification.

2. Risk Assessment: Risk identification reveals list potential risks. Of them all the risks do not deserve attention. Some risks, which are trivial, can be ignored, whereas others, which poise serious threats to the welfare of the project, should be considered. Manager should develop methods for sifting through the list of risks eliminating redundant ones and stratifying worthy ones by considering their importance and need for attention.

Scenario analysis is considered as the easiest and most commonly used technique for analyzing risks. Team members normally assess each risk in terms of the following:

- The undesirable event.
- Outcomes of the event's occurrence.
- Severity of the event's impact.
- Probability of the event happening.
- The time at which event might occur in the project.
- Interaction with other parts of this project.

Often organization finds it useful to categories the severity of different risks into some form of risk assessment matrix. The typically structured around the impact and likelihood of the risk event. It is divided into red, yellow, and green zones representing major, moderate, and minor risks, respectively.

The risk severity matrix provides a basis for prioritizing which risks to address. Red zone risks receive first priority followed by yellow zone risks. Green zone risk are typically considered inconsequential and ignored unless their status changes.

3. Risk Response Development: When a risk event is identified and assessed, a decision must be made concerning which response is appropriate for the specific event. Responses to risk can be classified into five as below:

i. Mitigating Risk: Reducing risk is usually the firs alternative to be considered. There are basically two strategies to reduce risk. They are: 1. Reducing the likelihood that the event will occur, and 2. reducing the impact that the adverse event would have on the project.

ii. Avoiding Risk: Risk avoidance is changing the project plan to eliminate the risk or condition. Although it is impossible to eliminate all risk events, some specific risks may be avoided before you launch the project.

iii. Transferring Risk: It refers to passing risk to another party. It is common. However, this transfer does not change risk. Passing risk to another party almost always results in paying a premium for this exemption. Fixed-price contracts are the classic example of transferring risk from an owner to a contractor.

iv. Sharing Risk: Risk sharing allocates proportions of risk to different parties. Sharing risk has drawn more attention in recent years as a motivation for reducing risk and, in some cases, cutting project cost.

v. Retaining Risk: In some cases a conscious decision is made to accept the risk of an event occurring. Some risks are so large that it is not feasible to consider transferring or reducing the event (e.g., an earthquake or flood). The project owner assumes the risk because the chance of such an event occurring is slim. In other cases risks identified in the budget reserve can simply be absorbed if they materialize. The risk is retained by developing a contingency

plan to implement if the risk materializes. In a few cases a risk event can be ignored and a cost overrun accepted should the event occur.

4. Risk Response Control: The last step in the risk management process is risk control i.e. executing the risk response strategy, monitoring triggering events, initiating contingency plans, and watching for new risks. Establishing a change management system to deal with events that require formal changes in the scope, budget, and /or schedule of the project is an essential element or risk control.

Project managers need to monitor risks just they track project progress. Risk assessment and updating needs to be part of every status meeting and progress report system. The project team needs to be on constant alert for new, unforeseen risks.

Project managers need to establish an environment in which participants feel comfortable raising concerns and admitting mistakes. The norm should be that mistakes are acceptable and hiding mistakes is intolerable. Problems should be embraced not denied. Participants should be encouraged to identify problems and new risks. Here a positive attitude by the project manager toward risks is a key.

A second key for controlling the cost of risks is documenting responsibility. Each identified risk should be assigned (or shared) by mutual agreement of the owner, project manager, and the contractor or person having line responsibility for the work package of segment of the project.

The bottom line is that project managers and team members need to be vigilant in monitoring potential risks and identify new land mines that could serial a project. Risk assessment has to be part of the working agenda of status meetings and when new risks emerge they need to be analyzed and incorporated into the risk management process.

Third major element of the risk control process is change management. Every detail of a project plan will not materialize as expected. Coping with and controlling project changes present a formidable challenge for most project managers. Changes come from many sources

such as the project customer, owner, project manager, team members, and occurrence of risk events.

Because change is inevitable, a well-defined change review and control process should be set up early in the project planning cycle.

FEASIBILITY STUDY

Feasibility study refers to a structured and systematic analysis of the various aspects of a proposed entrepreneurial venture designed to determine its workability. A well-prepared feasibility study can be an effective evaluation tool to determine whether an entrepreneurial idea is a potentially successful one. It can also serve as a basis for the all-important business plan.

Feasibility study is the first stage in the project formulation process. It is the appraisal of a project within the limitations of internal and external constraints. This is conducted to determine the desirability of making an investment. The study may give us three alternatives as given in Fig. They are explained as below.

ALTERNATIVES OF FEASIBILITY STUDY

- **Rejection of the idea**
- **Accepting the idea**
- **Inadequate Date to take Decision**

1. Rejection of the Idea: The feasibility analysis may result in the rejection of the project idea. Under such a circumstance as the idea is not feasible, no further investigation is found desirable.

2. Accepting the Idea: The project idea is accepted when it is positive and feasible. In such a case, the project idea deserves further studies and analysis from various angles. Enough to take a decision. In such a case the final decision is deferred for more information.

Phases of Feasibility Study: Project feasibility investigation is divided into three phases namely,

1. Pre-feasibility Study.
2. Feasibility Study.
3. Project Report Study.

Of the above said phases, the first two are discussed here under and the third one is discussed in a subsequent chapter.

1. Pre–feasibility Study: Pre-feasibility study is conducted before one starts conducting feasibility study. Here actually only the groundwork is carried on. It is conducted to analyse whether-

1. The investment is worth making.
2. The project idea requires a detailed study such as market surveys, tests and pilot plant test etc., and
3. The project idea is a viable proposition or not.

Pre-feasibility study covers the following factors also:

1. The market for the product.
2. The plant capacity.
3. The necessary inputs.
4. The technology and project engineering.
5. The overheads.
6. The manpower and staff needed.
7. Profitability.

These factors are broadly analysed and in-depth study is made at a later date.

2. Feasibility Study: Feasibility study includes the most important elements of the entrepreneurial venture and entrepreneur's analysis of the viability of these elements. These elements include the following:

1. Marketing Considerations.
2. Financial Considerations.
3. Economic Considerations.
4. Technical Considerations.
5. Legal Considerations.
6. Managerial Considerations.
7. Locational Considerations.
8. Organisational Considerations.

Of these angles, marketing considerations are discussed in this chapter elaborately and all the other angles are elaborated in subsequent chapters.

MARKETING FEASIBILITY: Marketing feasibility involves testing of business idea as to its marketing viability. It is done by conducting marketing studies. Various marketing considerations that are to be considered include – detailed product description, identifying the target market place where products distributed (location, size, channels etc.), price determination (competition, price, list, etc.), promotion plans (role of personal selling, advertising, sales promotions etc.) etc.

PRODUCT: According to **Philip Kotler,** "A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objectives, services, persons, places, organizations and ideas."

In the words or **W. Anderson**, "A product should be considered as a bundle of utilities consisting of various product features and accompanying services".

William J. Stanton had defined the term product "As a set if tangible and intangible attributes, including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which the buyer may accept as offering want satisfaction".

Marketing Characteristics of a Product: A careful analysis of the above stated definitions clearly reveals the important characteristics of a product in the context of modern marketing.

1. Goods and Products: In marketing, the term goods is used as synonym for product. This is in line both with the long-standing business usage and well-established academic practice. But the product is not mere goods. It is not confined to mere tangible goods. The term product covers even intangible goods like services, ideas, etc.

2. Buyers buy the Benefit: The key idea of all the definitions referred above is that consumers are buying more than a set of physical attributes. Fundamentally, they are buying want satisfaction. Thus, a wise firm sells product benefits than just products.

3. Each brand is a Separate Product: Any change introduced in its physical feature (design, colour, size, packaging) however minor it may be, creates another product. In other words, if a minor change is made in the existing product, a new product is created. For example, some time ago the Lux soap was in white colour. Subsequently, the soap company changed the colour and introduced Lux soap in four different colours. Recently, power soap followed the same tactics. According to this concept, it is not a minor variation. Each colour constitutes a new product as such four new products have come into existence.

4. Inclusive of all Services Accompanying the Product: The product includes all services rendered by the marketer along with the sales. For instance, the term product covers the credit facility offered to a customer, after sales services, and the advice given by the seller in selecting the goods. Thus the term product has many and varied implications in the study of marketing.

Classification or Goods or Products: The nature and characteristics of the product affect the marketing programme to a larger extent. Hence, the marketer should know his product well. The

two major categories of goods are consumer goods and industrial goods. Depending on the purpose for which it is primarily intended to be used, any product may be classified as a consumer product or as an industrial product. But all the goods cannot be classified as exclusively industrial goods or consumer goods. The same product may under one set of circumstances be an industrial product and under other conditions be a consumer product.

1. Consumer Goods: Consumer goods are those goods, which are designed for final consumption by individuals (ultimate consumers) and households. Television sets, radio, cigarettes, shoes, etc., are examples of consumer goods. Consumer goods can again be classified into three kind's viz., A) Convenience goods. B) Shopping goods, and C) specialty goods.

A. Convenience Goods: Goods which consumer buys frequently, immediately and with Minimum shopping effort are classified as convenience goods. Examples: Cigarettes, newspapers, magazines, and grocery products etc.

B. Shopping Goods: Goods which consumer selects and buy only after making comparisons on such bases as suitability, quality, price and style are called as shopping goods. Examples: Furniture, ready-made garments, etc.

C. Specialty Goods: Goods which significant number of buyers is habitually willing to make a special purchasing effort are known as specialty goods. They should possess unique features or have a high degree of brand identification or both.

2. Industrial Goods: Goods, which are for use in the commercial production or other goods or for use in connection with carrying on of some business or institutional activity, are known as industrial goods. Industrial goods can again be classified into four categories viz., i) Equipments and physical facilities used in producing used in producing goods or services, ii) Materials entering into product, iii) Manufacturing or service supplies, and iv) management materials.

i) Equipments and Physical Facilities: Major capital assets such as plant, machinery, building, etc., come under this category.

ii) Materials entering into the Product: This category of industrial goods includes raw materials, semi-manufactured goods and fabricating parts.

iii) Manufacturing or Service Supplies: These are products that are essential to the business operations of the industrial users but do not become part of the finished product. Examples: Fuel, oil, coal, etc.

iv) Management Materials: This category covers both office equipments and office supplies. Examples: Stationery, typewriters, calculators, etc.

CLASSIFICATION OF GOODS

I. Consumer Goods	II. Industrial Goods
1. Convenience Goods	1.Equipments and Physical Facilities
2. Shopping Goods	2.Materials
3. Specialty Goods	3.Manufacturing or Service Supplies
	4. Management Materials

PRODUCT PLANNING AND DEVELOPMENT: Product planning is the starting point of the overall marketing programme of a firm. The Project planning is concerned with the deviations related to the nature and other related aspects of the products produced. It is a very wide activity. It involves the innovation of new products, improvement in the existing product line or dropping the uneconomic products from the product line. In the words of **Karl H. Tietjen,** product planning is the "Act of marketing and commercialization of new products, the modification of existing lines and the discontinuance of marginal or unprofitable items". Thus product planning involves three considerations-

1. The development and introduction of new products.
2. The modification of existing lines to suit the changing consumer needs and preferences.
3. The discontinuance or elimination of unprofitable products.

This product planning is a wider term and embraces activities that enable a company to determine what products it will market. A product is a combination of several attributes such as colour, material, design, features, performance abilities, qualities, etc. Product planning involves the consideration of all attributes of a product.

Scope of product planning and Development: As stated by **William J. Stanton**, the combined scope of product planning and product development includes making decision in the following areas:

1. Which product should the firm make and which it should buy?
2. Should the company market more or fewer products?
3. What new uses are there for each product?
4. What brand, package and level should be used for each product?
5. How should the product be styled and designed and what sizes, colours and material should it is produced?
6. In what quantities each item should be produced?
7. How should the product be priced?

Thus, product planning is a term of much wider implications and covers other areas also. Now we shall discuss product life cycle and product innovation.

PRODUCT LIFE CYCLE: Each product, like a human being has a certain length of life, during which they pass through different stages. For some products, the life cycle may be very short, while for some other products their life may be sufficiently long. /consequently, consumers may not buy such products and go out of the market. The reason is clear. The quick changes in the testes and preference of the customers, developments of science and technology, shall certainly compel the consumers to switch over to some other products which can more effectively satisfy their wants. For instance, transistors replaced radios and two in ones and so on replaced the transistors. This is the case in all convenience goods. Each product, therefore, has a certain life and thereafter it shall abandon. But the period of life depends on various factors. In

case of fashion goods, the life is very short and in case of basic necessaries and branded goods, the life is very long.

Stages in the Product Life Cycle: From birth to death each product passes four different stages – 1 Introduction, 2.Growth, 3.Maturity, 4.Decline. **William J. Stanton** has specified one more stage known as abandonment. Another stage known as saturation stage is also specified before declining, by some notable authors. We shall now discuss these stages in detail.

1. Introduction or Market Pioneering: Introduction stage starts when the new product is first distributed and made available to the consumers. In this stage, profits are negative or low because of the low sales and heavy distribution and promotion expenses. More money is needed to attract the distributors as well as consumers. As stated by **Phillp Kotler,** promotional expenditure is at its highest ration to sales because of the need for a high levels promotional effort to-

1. Inform potential consumers of new and unknown product.

2. Induce trial of the product, and

3. Secure distribution in retail outlets.

During this stage, the price of the new product shall be high because of the high costs, etc. Thus, introduction stages are a period of heavy promotion, demand creation and market capturing.

2. Growth or Market Acceptance Stage: Growth is a period of rapid market acceptance and increasing profits because promotion costs are spread over a large volume. The main problem in this stage is to produce the product in sufficient quantities and market the output with minimum delay. Competitors also enter into this field during this stage. Therefore, the promotional expenditure also tends to be high during this stage.

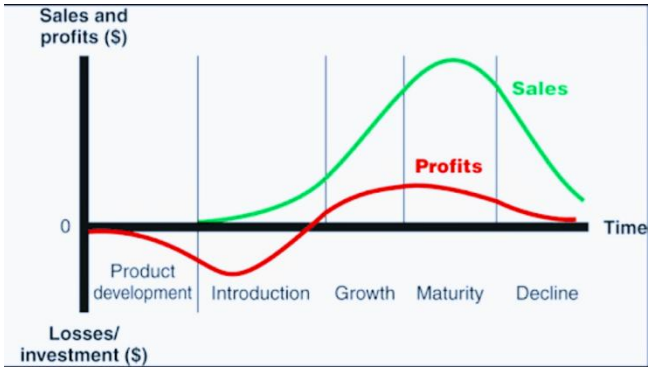
3. Maturity Stage: During this stage, competition becomes more acute. Sales continue to increase but as a deceasing rate. Therefore, the producers spend more on advertising and other sales promotion measure to capture the market. Only firms with extremely effective marketing should make necessary modifications in the marketing mix and also in the product mix. The existing products should be improved; prices can also be cut with a view to attract more customers and to compete with other competitors.

4. Saturation Stage: This is a period of stability. The sales of the product reach the peak and there is no further possibility to increase it. During this stage, other competitors shall also become popular and invade the market.

5. Decline: During this stage, sale began to decline. The decline in sales may be due to technological advances, consumer's shifts in test and increased competition both domestic and foreign. As sales and profit decline, some firms may withdraw from the market. Those remaining may reduce the number of their products.

6. Abandonment: The last stage is abandonment or obsolescence. At this stage, there is no chance for profitable sales of the product. The product becomes totally out of date. Hence, the management must drop it from the product line.

Product Life Cycle Curve: The product life cycle can be graphically represented in the form of a curve. The curve is generally S-shaped. The curve shown in the picture given below is the basic model of the product life cycle.



Benefits of Product Life Cycle Concept

The product life cycle is an important concept in the modern marketing. The benefits of the concept are the following:

1. The product life cycle concept is useful to chart individual item, brands, product forms and product classes.
2. This concept can also be used to chart styles, fashions and fads.
3. The management can understand what typically happens at different stage in a product life. Therefore, it can improve its forward planning.
4. It also enables the management to try new products in order to equalize the profit or return.
5. Different suitable price policies can be formulated for different products passing through different stages.

Stages in the New Product Development Process: When a new product is introduced it passes through various stages. In each stage, the management must decide whether to the next stage or not. It involves six stages are explained below:

1. Idea Search: New products are born form ideas. Ideas may originate from sources outside the company or from within the company. New ideas may also come from unexpected sources. The consumer can also suggest new ideas. But the particular source is not so important as the company's system for stimulating new ideas and their acknowledgment and reviving them promptly.

2. Screening of Ideas: All new ideas cannot be converted into products, as it requires heavy capital investments. They should be screened and all unworkable ideas should be deleted. Only most feasible and promising one should be selected for further processing. Some companies use "**The Concept of Testing Method"** for screening. In this method, consumer response to a description or picture is measured even before the product is actually produced. The purpose is to get an idea of the eventual reaction of the product.

3. Business Analysis: In this stage, an attempt is made to predict the economic consequences of the product for the company as a whole. Only during this stage, the new product idea is expanded into a concrete business proposal. During this stage, the management should perform the following:

i. Identify product features.

ii. Estimate market demand and product profitability.

iii. Establish a programme to develop the product.

iv. Assign responsibility for further study of the product feasibility.

4. Product Development: Until this stage, the existence of the product is entirely the critical. Only in this stage, the idea in paper is converted into a physical product. Pilot models of the product are produced in small quantities with certain specifications. Laboratory tests and other evaluations necessary to determine the production feasibility of the product are made.

STAGES IN THE NEW PRODUCT DEVELOPMENT PROCESS

1. Idea search – Sources

    -Insiders

    -Outsiders

    -Customers

    -Unexpected Sources

2. Screening of Ideas

    -Deleting all unworkable Ideas

-Selecting most feasible Ideas

3. Business Analysis

-Identification of Product Features

-Estimating Market Demand

-Estimating Product Profitability

-Establishing Programme to Develop Product

-Further Study about Product Feasibility

4. Product Development

-Production of Pilot Models

-Conduct of Lab Tests etc.

5. Market Testing

-Commercial Experiments

-Test Marketing

6. Commercialisation

-Launching of Production & Marketing Programmes

-Launching of Product

5. Market Testing: During this stage, market tests, in-use-tests and other commercial experiments in limited geographic areas are conducted to ascertain the feasibility of a full-scale marketing programme. In this stage, design and production factors may have to be readjusted as

a result of test findings. At this point, the management must take a final decision regarding whether to market a particular product or not. Test marketing is generally done for consumer goods rather than for industrial goods.

6. Commercialisation: Full-scale production and marketing programmes are planned and the product is launched. Up to this point, the management has complete control over the product. Once the product is born and enters into its life cycle, the management has little control over it. Only external environmental factors began to control the product.

I these six stages of evolution, the first three stages are the critical once. However, they are least expensive. The subsequent three stages are also very important because they swallow sizable revenue of the company.

DIFFERENT MARKETING STRATEGIES: Based on their objectives, resources and their share in the target market, firms formulate a suitable marketing strategy to achieve their ultimate objectives. Hence, there are different marketing strategies so formulated can be broadly classified into two as shown in Fig. 7.5. They are discussed below in a reasonable length.

Strategies at Different Stages of Product Life Cycle: Each product has a certain length of life, during which they pass through different stages. From birth to death, each product passes six different stages, namely – 1. Introduction, 2. Growth, 3. Maturity, 4. Saturation, 5. Decline, and 6. Abandonment.

The different stages in product life cycle together have been explained in detail with the chart in the earlier part of the chapter. So for a detailed answer please refer the relevant part.

We shall now discuss the strategies at different stages of product life cycle.

1. Strategies at Introduction Stage: At the introduction stages of a product, the market is likely to be characterized by fewer competitors, his cost and prices, little or no variation in product design or style, and heavy promotional efforts. At this stage, the strategy that is likely to be effective would aim at getting as wide a trail for the product as possible. Promotional effort

should attempt to create awareness among the target customers and distribution effort should ensure wide availability. In launching a new product, marketing management can set a high or low level for each marketing variable, such as price, promotion, distribution, and product quality. Considering only price and promotion, management can pursue one of the following four strategies.

i. Rapid-Skimming strategy: It consists of launching the new product at a high price and a high promotional level. The firm charges a high price so as to recover as much gross profit per unit as possible. In order to convince the market of the product's benefits even at the high price, it spends heavily on promotional activities. The main assumptions of this strategy are –

- A large part of the potential market is unaware of the product,
- Those who become aware of the product, are enthusiastic to buy the product and can pay the asking price, and
- The firm faces potential competition and wants to build up brand preference.

ii. Slow Skimming Strategy: It consists of launching the new product at a high price and low promotion. The high price assists to get back as much profit as possible, and the low level of promotion expenses keeps marketing expenses down. This strategy is expected to give a lot of profit from the market. This strategy is possible when-

- The size of the market is limited.
- Market is aware of the product,
- Consumers are desirous of paying a high price, and
- Hidden competition is not likely to happen immediately.

iii. Rapid Penetration Strategy: It consists of launching the product at a low price and high promotion. It promises to bring about the largest share in the market and fastest market penetration. This strategy is applied when- The size of the market is large, the market is not aware of the product, Consumers are price sensitive, and There exists strong hidden competition.

iv. Slow Penetration Strategy: This strategy consists of launching the new product at a low price and low promotion. The low price will induce rapid product acceptance and low promotion will help to realise more net profit. This strategy is possible when- 1. The market is large, 2. The market is aware of the product very well, 3. The market is price sensitive, and 4. There is some potential competition.

2. Strategies at Growth Stage: Under this stage, the product gains popularity among the customers. The demand and sales go up tremendously due to promotional efforts. Consequently, profits of the firm start going up and up because of two primary reasons:

A. Firms get economies of large scale production and sales, and
B. Per unit const is reduced. High profits attract the competitors to enter the market. In order to sustain rapid market growth as long as possible, the firm adopts several.
   - It improves the quality of the product and adds new product features and improves styling.
   - It adds new models.
   - It enters new market segments.
   - It enters new distribution channels.
   - It reduces the prices so as to attract the next layer of price-sensitive consumers.
   - It adopts product-preferences advertising rather product-awareness advertising.

Adoption of above said strategies helps the firm to strengthen its competitive position. But such an improvement can be made at an extra cost.

3. Strategies at Maturity Stage: The next is maturity stage. In this stage, competition increases. Sales of the product continue to go up but at a lower speed. The advertisement and distribution costs increase in or make the product survive. The profit rate begins to decline. Various strategies that can be adopted at this stage are:

- Abandoning the weaker product.
- Concentrating on existing profitable products and on new products.

- Improving the quality of the existing products.
- Reducing the prices of the product.
- Making modifications in the market, marketing and product mixtures.

4. **Strategies at Saturation Stage:** Next comes the saturation stage. The sales volume comes to standstill despite best efforts. The competition is also its peak in this period. Competition brings the distribution cost and promotional efforts at new high; prices begin to fall and therefore profits come down. Strategies that are to be adopted at this stage are- Improving the product, and Entering new markets.

5. Strategies at Decline Stage: This stage is the result of displacement of product by some new invention or change in consumer behavior. The competitors market new product. Sales go down in spite of all best efforts of picking it up. Cost control becomes necessary to reduce the price in order to complete. When a product moves into the decline stage of its life cycle, very different type of strategies is required. At this stage, constant review is required to judge when and from which markets the product should be withdrawn. In some cases, it may be possible to recycle the product and stretch its life cycle. In others, effective strategies of withdrawing from the market are devised.

6. Strategies at Abandonment Stage: As new products are developed and introduced by the competitors, the company's product dies out. Its demand and sales are likely to tap off. Profit is reduced to a negligible point. At this stage, it is advisable to stop the production of the product and switch off other products.

II. Strategies Based on the Firm's Share in Target Market: Based on the role they play in the target market, firms can be classified into four viz., 1.Market Leader, 2.Market Challenger, 3.Market Follower, and 4.Market Nicher. This can be explained with the help of the following chart.

40%Market	30% Market	20% Market	10% Market
Leader	Challenger	Follower	Nicher

I. Market Leader Strategies: Most of the industries have one firm as the market leader. This firm has the largest share in the market of the relevant product. In the above chart, the share of the leader firm is 40%, which is the highest of all the other firms. Usually, such a firm leads the other firms in price changes, product introductions, distribution coverage and promotional severity. The other firms acknowledge its dominance. Some of the examples for market leaders are Kodak for photography. Procter & Gample for consumer packaged goods and Coco-cola for soft drinks, etc.

If the dominant firm does not enjoy a legal monopoly, its life will become a difficult task. It must be vigilant. Other firms may challenge its strengths or try to take advantage of its weaknesses. Product innovation may come along and affect the market leader. The leader might spend conservatively, expecting hard times. In order to retain its current position in the market, it has to take necessary action for the following:

1. Expansion of the total market demand.
2. Protection of its current market share.
3. Increase of its market share further.

We shall now examine them briefly.

1. Expanding the Total Market: The market leader seeks to expand the total market because if the total market expands, he will benefit considerably. In order to expand the market, the market leader should look for new users, new uses, and more usage to its products. That is these are the three market strategies at the market expansion stage.

A) New User's Strategy: Looking for the new users for its products is the first market expansion strategy. Every product class has the potential of attracting consumers who are unaware of the product or who are resisting it due to its price or lack of certain features. A manufacturer can make use of three strategies to find out new users. They are-

(i) Market Penetration Strategy: It consists of convincing the buyers to buy the leader firm's product. For example, a perfume manufacturer can try to convince women who do not use perfume, to use perfume.

(ii) New-market Strategy: This strategy involves convincing of new segment of women who do not use perfume, to use perfume.

(iii) Geographical Expansion Strategy: Under this strategy, leader firm can try to sell its product in other countries.

B. New Uses Strategy: Buy means of discovering and promotion new uses for the product, market can be expanded. Each new use started the product on a new life cycle. The firm has to monitor customers' uses of the product. This applies to industrial products as well as consumer products. Customer needs and suggestions to guide new-product development should ne collected systematically so as to find out new uses for its products.

C. More Usage Strategy: A third market-expansion strategy is to convince people to use more of the product each time. If a cereal manufacturer convinces consumers to eat a full bowl of cereal instead of half a bowl, total sales will increase. Producers of Mediker shampoo advises the users that it will be more effective with three applications instead of one (earlier it was only two times instead of three).

2. Defending Market Share: while trying to expand total market size, the development firm must continuously defend its current business against rival attacks. To protect its existing market share, the market leader has several defenses, namely position defense, flanking defense, pre-emptive defense, counter offensive defense, mobile defense, and contraction defense.

a) Position Defense: The most basic idea of this defense is to strengthen one's territory. But in practice, this defense is not considered as a successful one to protect the firm's existing market share.

b) Flanking Defense: the market leader should not only guard its territory but also set up outposts to protect a weak part. This defense is of little. Value unless it is erected seriously. A careful assessment of any potential threat must be made, and if warranted, a relatively serious commitment should be made to a flanking defense.

c) Pre-emptive Defense: A more aggressive defense is to launch an attack on the enemy before it starts its offence against the company. Pre-emptive defense assumes that an ounce of prevention is worth more than a pound of cure.

d) Counter Offensive Defense: Most market leaders, when stacked will respond with a counter attack. The leader cannot continue to be inactive against the competitor's price cut, product improvement, or sales territory invasion, etc. The leader has the strategic choice of meeting the attacker frontally. Sometimes, the leader's market share erosion is so rapid that counter arrack is necessary. But a leader enjoying some strategic depth can often endure the initial attack and counter attack effectively at the suitable time. In many situations, it may be worth to allow the offensive to develop fully before counteracting. This may seem a dangerous strategy of **"Wait and See",** but there are sound reasons for such strategy.

A better response to an attack is to pause (wait in the middle) and identify a segment gap in which a viable counter offensive can be launched. When a market leader's territory is attacked, an effective counter attack is to invade the attacker's main territory so that it will have to pull back some of its troops to defend its territory.

e) Mobile Defense: In mobile defense, the leader stretches its domain over new territories that can serve as future centers for defense and offense. It spreads to these new territories not so much through normal brand proliferation but through some innovation activities namely, market broadening and market diversification. These moves generate strategy depth for the firm, enabling it to endure continual attacks and launch retaliatory (revenge) strikes.

f) Contraction Defense: Large companies sometimes recognize that they can no longer defend all of their territories. Their forces are spread too thin, and consolidate are nibbling away

on various fronts. The best course of action then appears to be planned contraction. Planned contraction involves giving up the weaker territories and re-assigning resources to stronger territories. It is a move to consolidate one's competitive strength in the market and concentrate mass at pivotal positions.

3. Expanding Market Share: Market leaders can improve their profitability further through increasing their market share. However, companies must not think that gaining increased market share in their served market will automatically improve their profitability. Much depends on their strategy for gaining increased market share. The cost of buying higher market share may exceed its revenue value. The company should consider the following three factors before blindly pursuing increased market share.

i. Firstly, there is a possibility of provoking anti-trust action. Jealous competitors are likely to cry "**Monopolisation**". If a dominant firm makes further encroachment on market share. This rise in risk would cut down the attractiveness of pushing market-share gains too far.

ii. The second factor is economic cost. Company should ensure that such an expansion in market share would not lead to downward trend in the profitability level.

iii. The third factor is that companies might pursue the wrong marketing-mix strategy in their bid for higher market higher and therefore not increase their profit. While certain marketing-mix variables are effective in building market share, not all lead to higher profits under two conditions. They are-

- If the unit costs fall with increased market share.
- If the company offers a superior-quality product and charges a premium price that more than covers the cost of offering higher quality.

II. Market Challenger Strategies: A market challenger is a firm that aggressively tries to expand its market share by attacking the leader, other runner-up firms, or smaller firms in the industry. The various attack strategies that are available to challengers are:

i. Price-Discount Strategy: Offering goods t the public at the price less than the prevailing

market price is called price-discount strategy. For the successful operation of this strategy, the following three conditions are to be fulfilled:

- The challenger must convince buyers that its product and service are comparable to the leader's product and service.
- The buyers must be sensitive to the price difference and feel comfortable about turning their back on existing suppliers.
- The market leader must refuse to cut its price in spite of the competitor's attack.

ii. Cheaper-Goods Strategy: Another strategy available to challengers is offering an average or low-quality product at a much lower price. This strategy works when there is a sufficient segment of buyers who are in price. Firms that adopt this strategy, can however by attacked by **"Cheaper-goods"** firms whose prices are ever lower. In defense, they can try to improve their

iii. Prestige-Goods Strategy: A market challenger can launch a higher-quality product and charge a higher price than the leader. This type of product is called prestige goods. Normally, this type of strategy is adopted to retain the lost images.

iv. Product-Proliferation Strategies: The challenger can attack the leader by launching a large product variety, thus giving buyers more choice.

v. Product-Innovation Strategy: The challenger might pursue product innovation to attack the leader's position. The public often gains most from challenger strategies oriented toward product innovation.

vi. Improved-Service Strategy: The challenger can try to offer new or better services to customers.

vii. Distribution-Innovation Strategy: A challenger might discover or develop a new channel of distribution.

viii. Manufacturing-cost – Reduction Strategy: The challenger might pursue lore manufacturing costs than its competitors through more efficient purchasing, lower labour costs, and more modern production equipment. The company can use its lower costs to price more aggressively to gain market share.

ix. Intensive Advertising Promotion: some challengers attack the leader by increasing their expenditures on advertising and promotion. Substantial promotional spending, however, is usually not a sensible strategy unless the challenger's product or advertising message exhibits superiority over competition.

A challenger rarely improves its market share by relying on only one strategy. Its success depends on combining principles to improve its position over time.

III. Market-Follower Strategies: Market-follower strategy is nothing but a strategy of product imitation. After a new product has been developed and introduced successfully into the market, another firm can come along, copy or improve the new product and launch it. Such a firm is called market-follower. A market follower is also a runner-up firm. It will not attack the leader firm or the challenger on account of fear. Such a firm believes that it can earn more without a conflict. Most of the follower firms present similar offers to buyers, usually by copying the leader. This is not to say that market followers lack strategies. A market follower must know how to hold current customers and win a fair share of new customers. Each follower tries to bring distinctive advantages to its target market – location, services, financing. The follower is major target of attack by challengers. Therefore, the market follower must keep its manufacturing costs low and its product quality and services high. It must also enter new markets as they open up. **Philip Kotler** in his book "**Marketing Management"** has classified the followership strategies into three as shown below:

i. **Cloner:** The cloner imitates with enthusiasm the leader's products, distribution, advertising, and so on. He doesn't originate anything but lives on the market leader's investments. In the extreme, the cloner is a pretender who collapses the leader's product.

ii. **Imitator:** The imitator copies some things from the leader but maintains differentiation in terms of packaging, advertising, pricing, and so on. The leader doesn't mind the imitator, as long as the imitator doesn't attack the leader aggressively. The imitator even helps the leader to avoid the charge of monopoly.

iii. **Adapter:** The adapter takes the leader's products and adapts and often improves them. The adapter may choose to sell to different markets to avoid direct confrontation with the leader. But often the adapter grows into the future challenger.

IV. Market-nicher Strategies: A market nicher is a smaller firm that chooses to operate in some specialized part of the market that is unlikely to attack larger firms. Through smart niching, nicher firms with low shares of the total market can work highly profitably. The main reson for that is the market nicher as he can know about their customers very well, meet their needs better than firms that are casually selling to this riche. As a result, the nicher can charge a substantial mark up over costs because of the added value. The nicher achieves high margin whereas, the mass marketer achieves high volume.

An ideal market niche would have the following characteristics:

- The niche is of sufficient size and purchasing power to be profitable.
- The niche had growth potential.
- The niche is of negligible interest to major competitors.
- The firm has the required skills and resources to serve the niche in a superior fashion.
- The firm can defend itself against an attacking major competitor through the customer goodwill it had built up.

Specialist Roles Open to Market Nichers: The key idea in nichemanship is specialization. Following are the several specialist roles open to nichers:

a. **End-User Specialist:** The firm specializes in serving one type of end-use customer. For example, a law firm can specialize in the criminal, civil, or business-law markets.

b.**Vertical-Level Specialist:** The firm specializes at some vertical level of the production-distribution value chain. For example, a copper firm may concentrate on producing raw copper, copper components, or finished copper products.

c.**Customer-Size Specialist:** The firm concentrates on selling to small, medium-size, or large customers. Many nichers specialize in serving small customers who are neglected by the majors.

d.**Specific-Customer Specialist:** The firm limits it's selling to one or a few major customers. Many firms sell their entire output to a single company.

e.**Geographic Specialist:** The firm sells only in a certain locality, region, or area of the world.

f. **Product or Product-Line Specialist:** The firm produces only one product line or product. For example, firms that produce only microscopes, or even more narrowly, only lenses for microscopes.

g.**Product-Feature Specialist:** The firm specializes in producing a certain type of product or product feature. Prasanna Publishers in Chennai, which is publishing books only for commerce oriented course in various universities can be cited an example here.

h.**Job-Shop Specialist:** The firm customizes is products for individual customers.

i. **Quality/Price Specialist:** The firm operates t the low or high end of the market.

j. **Channel Specialist:** The firm specializes in serving only one channel of distribution.

Nichers have three tasks namely.

- **Creating Niches –** i.e. Creation of new niches by designing special varieties of products to suit different needs of customers.
- **Expanding Niches –** i.e. expansion of niches by designing different versions and brands within each category of product newly created.
- **Protecting Niches –** i.e. protection of its leadership position when new competitors enter the niche.

TECHNICAL FEASIBILITIES

INTRODUTION:

After having studied the financial and economic feasibilities of a project and satisfied as to their feasibilities, the next step is to ascertain its technical feasibilities.

TECHNICAL FEASIBILITY:

Technical feasibility is conducted to find out whether a business is feasible from the angle of technical aspects. It ascertains whether the idea can be converted into a product. The assessment of technical feasibility requires a thorough examination as to the requirements of the actual production process and the choice of technology. The assessment of production process includes a detailed estimate of the goods and services needed for the project such as land, machineries, manpower, materials, transportation, fuel, power, water etc. The success of the project should be given recognition in relevance to technical feasibility. Suppose these resource factors are to be imported from a foreign country, conditions in the foreign market and the Government policy at home are to be reviewed. Another important feature of technical feasibility relates to the types of technology to be adopted for the project. If new technical processes are adopted from abroad attention is to be paid to the differences in conditions.

TECHNOLOGY ANALYSIS:

The term technology refers to the science of the industrial art. It is an applied science and an aid to convert basic science and research into performance i.e. production. Same product may be produced by different methods. Each method may require different set of machines and tools. Therefore production methods differ from one another. Hence one must have information about the type, size and capacity of machines needed. Further, entrepreneurs should have information as to how the machines are to be used efficiently. He should train his works to use the machines effectively. He must have the rough knowledge about the method of production, sequence of activities, importance of activities etc. Technology gives an entrepreneur all sorts of information.

It provides information in detail about the production process, the proportion of the inputs, the qualities of the inputs, the temperature and pressure at which the mixing is to be done etc.

Technology tells us what type of machines is required in the production process. It tells what is the optimum size of th machine, taking into consideration the total annual requirements. The information on the machines necessary for maintaining the temperature, pressure etc. To suit the method of production also comes under this head.

It also gives information as to how the machines are to be operated. Further the entrepreneur must know the dos and don'ts for maintaining the machinery intact.

Technology includes training the personnel to use the machines efficiently. The entrepreneur is not the person operating the machine. The workers operate the machines and therefore the workers must be trained properly to use the machines. Imparting practical training to employees as to how to operate the machines efficiently is part of what we call technology. Why a machine is used in a specific manner also must be made known to them.

Technology and its environment play a predominant role in entrepreneurial development. It affects the business environment in variety of ways and, therefore, due consideration is to be given to technology dimension while establishing and running an enterprise. Especially, its impact is more on small scale units, which is affected greatly by the technological change that occurs continuously. Small enterprises confront competition in each sphere due to technological change. It implies the up-to-date knowledge also helps the entrepreneur to produce qualitative products or to deliver qualitative services.

The impact of technological environment on entrepreneurial activities is discusses below:

1. Choice of Technology: Selection of proper technology is a critical element for success of the business. The quality, price etc. of a product depends very much upon the choice of the technology.

2. Managerial Aspects: Management of certain aspects such as human resources, plant and materials, capacity of the operation system, volume and quality of goods depends much upon the technology.

3. Competitors: Technology also influences competitors in the market.

4. Increase of Profit: Technology advancement upgradation, and the use of advanced technology may lead to higher productivity and reduction of costs, which ultimately result in increase of profit.

Our Union Government has created a number of industrial promotion organisations and launched different schemes of modernization and upgradation of technology to encourage entrepreneurs to cope up with the changing needs of the time, to produce good quality products with competitive edge. Hence an entrepreneur should consider entire technological environment while choosing the technology. Technological feasibility is a critical input for the success of any kind of enterprise.

CHOICE OF TECHNOLOGY:

Technology is the soul of an enterprise. It is the most essential requirement of an enterprise. Without it an organisation has no life because without technology no production takes place and nothing is supplied to the market. Choosing the right technology is the most important factor, which should not be lost sight of while setting up an enterprise. The success of an enterprise depends to a greater extent upon the judicious selection of technology. Selection of a technology involves many steps. They are as follows:

1. Identification of Possible Alternative Technologies.
2. Access to the Technology.
3. Assessing Technology.

We shall detail these steps briefly as below.

1. Identification of Alternatives: Identifying the possible alternatives to technology is the first step in the selection of technology. In our country, our government both central and state is taking initiative and established many institutions to enable entrepreneurs to have access to technologies in varied fields. Prospective entrepreneurs can approach these institutions and collect information as to various technologies available of the product in which they have interest. Further, frequently governments organize trade fairs and exhibitions i.e. industrial fairs to motivate the young and promising entrepreneurs to start their venture.

2. Access to the Technology: The second step in the choice of technology is accessing the technology identified. At this stage, entrepreneur should contact the concerned agency, which would give him the necessary information as well as transfer of technology. He should collect details as to the cost of obtaining technology, total investment required for establishing the unit, type of raw materials required, quality of products that could be produced etc. This kind of information will enable an entrepreneur to make a right choice of technology.

3. Assessing Technology: The technology, which an entrepreneur proposed to choose, should be assessed as to his needs. His financial and managerial strength must match with the technology selected. It is not an easy task. Hence assistance from experts must be obtained for the purpose. In particular the technology should be assessed as to whether- 1. The product, which can be produced with it, agrees with the business idea of the entrepreneur. 2. The product is capable of enjoying good market. 3. Skilled labour is available. 4. The raw materials are easily available. 5. The infrastructural facilities are available.

If the entrepreneur is satisfied as to the above said aspects, he can very well select the technology for his proposed project.

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ENTREPRENEURSHIP DEVELOPMENT IN INDIA

When thinking about entrepreneurship in India, it is hard not to focus on names like Tata, Ambani, Premji, and Murthy. These pioneers of Indian industry have not only globalized Indian business firms, but they have also helped to pave the way for a new generation of entrepreneurs. Their examples, along with a very deliberate effort by new networks of professionals, are slowly but surely leading to a growing number of start-ups across a range of industries.

Entrepreneurship is vital to a vibrant, growth-oriented economy, and this is no less true in India, where the economy has grown sharply since the reforms of the early 1990s. India has two distinct advantages in terms of creating new entrepreneurs and start-ups at this particular time: it is facing a surge in its working-age population, when the rest of the world is confronting an aging citizenry; and it is able to leapfrog entire decades because of technology.

India's high rate of economic growth (averaging over 7 percent annually) can only be sustained if approximately 1 million jobs are created per month. If India can, in the next decade, provide its next generation with the education and training for entrepreneurial ventures, it will not only create the jobs necessary to stay on a growth trajectory, it will foster more start-ups, accelerate growth, and spawn creative industries for the benefit of millions, including for many residing outside India.

Proposed Scheme on Entrepreneurship Development: An entrepreneurship development scheme is currently being developed by Ministry of Skill Development and Entrepreneurship. The scheme will be designed around the following major elements:

1. **Educate and equip potential and early stage entrepreneurs across India*:***

In partnership with experts, a world class entrepreneurship education curriculum will be developed. This curriculum will be delivered to all aspiring entrepreneurs at no cost. Leveraging online learning, entrepreneurship courses can be taken as and when needed by students and

business people alike through Massively Open Online Courses (MOOCs). In addition, entrepreneurship education will be integrated into the mainstream curriculum in 3,000 colleges around India. Entrepreneurship education courses will also be delivered in approximately 325 industrial clusters across the nation. Through 50 nodal Entrepreneurship Hubs (E-Hubs) set up across all states, existing and potential entrepreneurs will be targeted for entrepreneurship education modules that suit their need.

2. **Connect entrepreneurs to peers, mentors, incubators:**

To support young entrepreneurs, a web and mobile based platform connecting the entire entrepreneurial ecosystem will be established. Platform members will access content online, including information on government services and special packages offered by service providers.

The creation of new incubators will be encouraged and a national network of incubators and accelerators established to support young entrepreneurs. A national network of high quality, screened mentors will also be created, leveraging existing networks and successful local entrepreneurs where possible.

Entrepreneurship activities in innovative and cutting edge technology areas will be aligned with initiatives such as Atal Innovation Mission (AIM) and Self Employment Talent Utilisation (SETU).

3. Support entrepreneurs through Entrepreneurship Hubs (E-Hubs):

Support to entrepreneurs, including coordinated delivery of national and state government entrepreneurship programs and access to enabling resources, a national network of Entrepreneurship Hubs (E-Hubs) will be established. One national, 30 states, 50 Nodal and 3,000 colleges based E-Hubs will be set up to deliver support. These E-Hubs will, collectively, cover the entire nation.

4. **Catalyse a culture shift to encourage entrepreneurship:**

To promote entrepreneurship, state and national level interactions with stakeholders will be convened. International linkages will be established through internship opportunities and exchange trips to global entrepreneurship hubs such as Silicon Valley and Israel. To build awareness, national brand ambassadors will be created to champion entrepreneurial culture in

India. Awards will be instituted for young achievers and a National Entrepreneurship Day will be celebrated.

5. Encourage entrepreneurship among underrepresented groups:

Special focus will be given to the inclusion of scheduled castes & scheduled tribes, minorities, differently abled, etc., and regionally under-represented areas including large part of Eastern and North Eastern India in entrepreneurship programs. Special efforts will also be made to enrol incubators and mentors catering to these groups will in the national entrepreneurial ecosystem.

6. Promote Entrepreneurship amongst Women:

Focus will also be placed on encouraging women entrepreneurs through appropriate incentives for women owned businesses under the public procurement process. It will also be ensured that gender neutral incubation/ accelerator, network of mentors, industry, resource centres and credit institutes are developed to facilitate Women Entrepreneurs. Priority will be given for mentorship and support system for women entrepreneurs in existing business centres and incubators. Steps will also be taken to assemble gender disaggregated data.

Foster social entrepreneurship and grassroots innovations:

Universities and academic institutions will be encouraged to launch a course on 'Social Entrepreneurship', including through online distance education, to actively promote social entrepreneurship in the country. Additional support, including through fiscal incentives and incubation, will also be considered.

To foster grass-roots innovation, a focus on innovations in hubs, collaborations with organisations such as the National Innovation Foundation and promotion of Intellectual Property Rights will also be encouraged.

WOMEN ENTREPRENEURSHIP IN INDIA

Women Entrepreneurship

Women entrepreneurship has been recognized as an important source of economic growth. Women entrepreneurs create new jobs for themselves and others and also provide society with different solutions to management, organisation and business problems. However, they still represent a minority of all entrepreneurs. Women entrepreneurs often face gender-based

barriers to starting and growing their businesses, like discriminatory property, matrimonial and inheritance laws and/or cultural practices; lack of access to formal finance mechanisms; limited mobility and access to information and networks, etc.

Women's entrepreneurship can make a particularly strong contribution to the economic well-being of the family and communities, poverty reduction and women's empowerment, thus contributing to the Millennium Development Goals (MDGs). Thus, governments across the world as well as various developmental organizations are actively undertaking promotion of women entrepreneurs through various schemes, incentives and promotional measures.

Women entrepreneurs in the four southern states and Maharashtra account for over 50% of all women-led small-scale industrial units in India.

Policies and Schemes for Women Entrepreneurs in India

In India, the Micro, Small & Medium Enterprises development organisations, various State Small Industries Development Corporations, the Nationalised banks and even NGOs are conducting various programmes including Entrepreneurship Development Programmes (EDPs) to cater to the needs of potential women entrepreneurs, who may not have adequate educational background and skills. The Office of DC (MSME) has also opened a Women Cell to provide coordination and assistance to women entrepreneurs facing specific problems.

There are also several other schemes of the government at central and state level, which provide assistance for setting up training-cum-income generating activities for needy women to make them economically independent. Small Industries Development Bank of India (SIDBI) has also been implementing special schemes for women entrepreneurs.

In addition to the special schemes for women entrepreneurs, various government schemes for MSMEs also provide certain special incentives and concessions for women entrepreneurs. For instance, under **Prime Minister's Rozgar Yojana (PMRY)**, preference is given to women beneficiaries. The government has also made several relaxations for women to facilitate the participation of women beneficiaries in this scheme. Similarly, under the **MSE Cluster**

Development Programme by Ministry of MSME, the contribution from the Ministry of MSME varies between 30-80% of the total project in case of hard intervention, but in the case of clusters owned and managed by women entrepreneurs, contribution of the M/o MSME could be upto 90% of the project cost. Similarly, under the **Credit Guarantee Fund Scheme for Micro and Small Enterprises**, the guarantee cover is generally available upto 75% of the loans extended; however the extent of guarantee cover is 80% for MSEs operated and/ or owned by women.

Some of the special schemes for women entrepreneurs implemented by the government bodies and allied institutions are provided below.

- Schemes of Ministry of MSME
  - Trade related entrepreneurship assistance and development (TREAD) scheme for women
  - Mahila Coir Yojana
- Schemes of Ministry of Women and Child Development
  - Support to Training and Employment Programme for Women (STEP)
  - Swayam Siddha
- Schemes of Kerala State Women's Development Corporation
  - Self employment loan programmes
  - Educational loan schemes
  - Single women benefit schemes
  - Job oriented training programmes
  - Marketing support for women entrepreneurs
  - Auto rickshaw / school van's driver scheme
- Kerala Government's Women Industries Programme
- Delhi Government's Stree Shakti Project
- Schemes of Delhi Commission for Women (Related to Skill development and training)
- Incentives to Women Entrepreneurs Scheme, 2008, Government of Goa
- Magalir Udavi Scheme, Pudhucherry Government

- Financing Schemes by Banks/ Financial Institution's

Concept of Women Entrepreneurs

Women entrepreneurs may be defined as, "the women or group of women who initiate, organize and operate a business enterprise."

The Government of India has defined women entrepreneurs as "an enterprise owned and controlled by a woman having a minimum financial interest of 51 per cent of capital and giving at least 51 per cent of the employment generated in the enterprise to women."

Factors Influencing the Women Entrepreneurs:

Several studies reveal that two factors are influence the women entrepreneurs in India.

1. **Pull Factors:** Pull factors are those which compel women to become entrepreneurs. These include desire to do something new in life, need for independence, availability of finance, concessions and subsidies.
2. **Push Factors:** Push factors are those which compel women to become entrepreneurs. These include unfortunate family circumstances like death of husband or father, financial difficulties, responsibility in the family, etc.

Type of Women Entrepreneurs:

Women entrepreneurs can be classified into the following categories:

1. **Chance Entrepreneurs:** These entrepreneurs start business without any reparation, clear goals or plans. They happen to grab the opportunities which they come across.
2. **Natural Entrepreneurs:** The entrepreneurs take business as a profession on their own by self-planning or motivated through profit factor and also keeping themselves busy.
3. **Created Entrepreneurs:** These entrepreneurs are encouraged and trained through specialized training programmes such as Entrepreneurship Development Programme to set up their own industrial units.

4. **Forced Entrepreneurs:** The women who compelled by circumstances such as the death of father or husband to take over the existing business are called forced entrepreneurs.
5. **Binami Entrepreneurs:** Those who act as facade for business of their husband or brother.

Problems of Women Entrepreneurs:

The problems faced by women at various stages beginning from their initial commencement of enterprise, in running their enterprise. Their various problems are as follows:

1. Patriarchal Society:

Entrepreneurship has been traditionally seen a male preserve and idea of women taking up entrepreneurial activities considered as a distant dream. Any deviation from the norm is frowned and if possible, immediately curbed. Women also have to face role conflict as soon as they initiate any entrepreneurial activity. It is an uphill task for women to face such conflicts and cope with the twin role.

2. Absence of Entrepreneurial Aptitude:

Many women take the training by attending the Entrepreneurship Development Programmes without entrepreneurial bent of mind. As per a study, involvement of women in small scale sector as owners stands at mere 7 percent. Women who are imparted training by various institutes must be verified on account of aptitude through the tests, interviews etc.

3. Quality of EDPs:

All women entrepreneurs are given the same training through EDPs, 2nd generation women entrepreneurs don't need such training as they already have the previous exposure to business.

4. Marketing Problems:

Women entrepreneurs continuously face the problems in marketing their products. It is one of the core problems as this area is mainly dominated by males and even women with adequate experience fail to make a dent. For marketing the products women entrepreneurs have to be at the mercy of middlemen who pocket the chunk of profit. Although the middlemen exploit the women entrepreneurs, the elimination of middlemen is difficult, because it involves a lot of running about. Women entrepreneurs also find it difficult to capture the market and make their products popular.

5. Financial Problems:

Obtaining the support of bankers, managing the working capital, lack of credit resources are the problems which still remain in the males domain. Women are yet to make significant mark in quantitative terms. Marketing and financial problems are such obstacles where even training doesn't significantly help the women. Some problems are structural in nature and beyond the control of entrepreneurs.

6. Family Conflicts:

Women also face the conflict of performing of home role as they are not available to spend enough time with their families. They spend long hours in business and as a result, they find it difficult to meet the demands of their family members and society as well. Their inability to attend to domestic work, time for education of children, personal hobbies, and entertainment adds to their conflicts.

7. Credit Facilities:

Though women constitute about 50 per cent of population, the percentage of small scale enterprise where women own 51 percent of share capital is less than 5 percent. Women are often denied credit by bankers on the ground of lack of collateral security. Therefore, women's access to risk capital is limited. The complicated procedure of bank loans, the inordinate delay in obtaining the loans and running about involved do deter many women from venturing out. At the same time, a good deal of self- employment programme has been promoted by the govt. and commercial banks.

8. Shortage of raw-materials:

Women entrepreneurs encounter the problems of shortage of raw-materials. The failure of many women co-operations in 1971 such as these engaged in basket making were mainly because of the inadequate availability of forest-based raw materials.

9. Heavy Competition:

Many of the women enterprises have imperfect organizational set up. But they have to face severe competition from organized industries.

10. High cost of production:

It undermines the efficiency and stands in the way of development and expansion of women's enterprises, government assistance in the form of grant and subsidies to some

extent enables them to tide over the difficult situations. However, in the long run, it would be necessary to increase efficiency and expand productive capacity and thereby reduce cost to make their ultimate survival possible, other than these, women entrepreneurs so face the problems of labour, human resources, infrastructure, legal formalities, overload of work, lack of family support, etc.

Male Entrepreneurs Vs Women Entrepreneurs

The characteristics of both male and female entrepreneurs are generally very similar. However, women entrepreneurs differ in terms of motivations, business skills and occupational backgrounds.

The major differences between male and female entrepreneurs are given the following Table.

	Characteristics	Male Entrepreneurs	Women Entrepreneurs
1.	**Motivation**	**Achievement:** Drive to control their own destinies, to make things happen-drive stems from disagreement with their bosses or a feeling that they can run things better.	**Achievement:** Need for achievement arising from frustrations in not being allowed to perform and grow in previous situation.
2	**Occupational Background**	**Experience in a line of work:** Recognized specialists competent in a variety of business functions.	**Experience in area of business:** Service related background-Middle management or Administrative level experience.
3.	**Personal Characteristics**	**Goal - oriented:** Persuasive - High level Self - confidence - Enthusiastic - Innovative.	**Goal - oriented:** Flexible – Tolerant – Creative – Medium level of confidence.
4.	**Support Group**	Friends – Professional Acquaintance – Business Associates – Spouse.	Close friends – Spouse – Family – Women Professional Groups.
5.	**Type of business started**	Manufacturing or Construction – High technology field.	Service related – Educations' Consultancy – Public Relations.

SICKNESS IN SMALL SCALE INDUSTRIES AND THEIR REMEDIAL MEASURES:

Industrial sickness is defined in the India as "an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year". According to companies (second Amendment) Act, 2002 "sick industrial company" means an industrial company which has The accumulated losses in any financial year equal to 50 percent or more its average net worth during four years immediately preceding such financial year or Failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by a creditor or creditors of such company. Industrial sickness especially in small-scale industry has been always a demerit for the Indian economy, because more and more industries like cotton, Jute, Sugar, Textile small steel and engineering industries are being affected by this sickness problem. The problem of sickness has adversely affected the 'health' of the industrial sector in PARTICULAR and economy in GENERAL.MIndustrial sickness specially in small-scale Industry has been always a demerit for the Indian economy, because more and more industries like – cotton, Jute, Sugar, Textiles small steel and engineering industries are being affected by this sickness problem. As per an estimate 300 units in the medium and large scale sector were either closed or were on the stage of closing in the year 1976. About 10% of 4 lakhs unit were also reported to be ailing. And these positions also remain same in the next decades. At the end of year 1986, the member of sick units in the portfolio of scheduled commercial banks stood at 1.47,740 involving an outstanding bank credit of Rs. 4874 crores.

- Where the total numbers of large Industries which are sick were 637 units at the end of year 1985 increased to 714 units in the end of next year 1986.
- Likewise on the other hand the number of sick small scale units was also increased 1.18 lakhs at the end of 1985 to 1.46 lakhs at the end of 1986.
- The bank amount which was outstanding in case of large industries for the same period also increased from Rs.2,900 crores to Rs. 3287 crores at the end of year 1986

- Dues of Small Scale sector also increased from Rs.1071 crores to Rs.1306 crores at the end of the year 1986.
- Of the 147, 740 sick industrial units which contains large medium as well as small scale involving the total bank loan (credit) of Rs. 4874 at the end of the year 1986.

SIGNALS OF INDUSTRIALSICKNESS

- Decline in capacity utilization
- shortage of liquid funds
- inventories in excessive quantities
- irregular in maintaining the Bank Account
- Frequent Break Down In Plant and Equipments
- Decline in the Quality of Products
- frequent Turnover of personnel
- Technical Deficiency

Causes of sickness in small industry: The reasons for industrial sickness in India are found mainly can be divided into two categories:

Internal causes for sickness: We can say pertaining to the factors which are within the control of management. This sickness arises due to internal disorder in the areas justified as following:

a) Lack of Finance: This including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.

b) Bad Production Policies: Another very important reason for sickness is wrong selection of site which is related to production, inappropriate plant & machinery, bad maintenance of Plant & Machinery, lack of quality control, lack of standard research & development and so on.

c) Marketing and Sickness : This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate product mix, absence of product planning, wrong market research methods, and bad sales promotions.

d) Inappropriate Personnel Management: Another internal reason for the sickness of SSIs is inappropriate personnel management policies which includes bad wages and salary administration, bad labour relations, lack of behavioural approach causes dissatisfaction among the employees and workers.

e) Ineffective Corporate Management: Another reason for the sickness of SSIs is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of coordination and control etc.

External causes for sickness

a) Personnel Constraint: The first for most important reason for the sickness of small scale industries are non availability of skilled labour or manpower wages disparity in similar industry and general labour invested in the area.

b) Marketing Constraints: The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restrain of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by govt. and market recession.

c) Production Constraints: This is another reason for the sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions.

d) Finance Constraints: Another external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, fear of nationalization.

e)credit squeeze initiated by the government policies.

A. Internal causes for sickness: We can say pertaining to the factors which are within the control of management. This sickness arises due to internal disorder in the areas justified as following:

1. Power cuts:

- Lack of power electricity support
- shortage in electricity

2. Erratic supply of inputs:

- shortage of raw material
- Lack of transportation facility
- High price

3. Demand abd credit restraints:

- No equal balance of demand and supply
- Lack of credit facility
- Sortage expanses
- Change of out of fashion

4. Government policy.

- Change in government policy
- Lack of government support.
- High authority to large unit

B. External causes for sickness

1. Fault at the planning and construction stage

- Wrong location Area
- Absence of market analysis
- Unbalance capital structure

2. Financial problem

- Unable to repay

- Lack of financial support from banks and other financial institutions

3. Defective plant and machinery

- Lack of technical and professional skills
- Lack of technology
- Lack of efficient machinery
- High maintenance

4. Entrepreneurial incompetence

- Lack of market knowledge
- Lack of efficient professional skills
- Lack of innovation

5. Management problem

- Inefficiency of management
- Lack of expertise

6. Labour problem

- Lack of inefficient labour
- Lack of coordination in work
- Unsatisfied Labour

Remedial measures: Some of the effective measures which may be taken for revival of sick units are technical help, professional counselling and improved management. Also, the role of professionals and experienced management becomes more important in times of sickness. In addition to technical and professional consultants, no sick industry will ever be able to recuperate without sufficient, timely and soft finance. Bankers are the key to the problem. The role of the bankers needs to be redefined and a new direction needs to be given to support aid and lift sick industrial units from the situations that befall them. It is also the level of service and support in

terms of financial advice, assistance in related matters of insurance, release of hypothecated assets and timely finance. The Sick Industrial Companies (Special Provisions) Bill, 1997, passed by Lok Sabha, introduced encouraging changes. It suggested that a time-bound procedure was to be adopted within which the scheme has to be sanctioned and BIFR would play the role of a mediator and not a court. Technical obsolescence and financial mismanagement are also important factors that lead to industrial sickness. As per the new provisions, an opportunity will be given to get a unanimous consent to a scheme from all concerned, failing which secured creditors will attempt to form a scheme and, if all this fails, the undertaking would be sold off. Only if it is not possible to do that, the BIFR may order winding up of the company.

Remedial measures Steps taken by banks

- Giving adequate working capital when there is shortage, Recovery of interest reduced rate, Defining the special cell in the RBI, Arrange the special Committee of state level in the local branch for link between agency

Policy framework of the Government

- SWOT analysis of industry & Liberalization of sick industrial

Concessions by the Government

- Giving high facilities to large industries to take over the small sector for revival
- High liberalization in terms of financial rather than intervention
- Introduce the scheme for sick industry

Steps for detecting sickness early

- Corrective actions taken by RBI

The industrial investment bank of India

- Set up the IRCI(Industrial Reconstruction Corporation of India)
- Convert IRCI into IRBI in March 20,1985
- Convert IRBI in to IIBI March 27,1997

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BBA DEGREE EXAMINATION, MAY 2017.

Second Year/Non-Semester

Business Administration – Main (DD & CE)

ENTREPRENEURSHIP

Time: Three hours **Maximum: 100 marks**

SECTION A – (5 x 5 = 25 marks)

Answer any FIVE out of Eight questions.

1. What are the characteristics of an entrepreneur?
2. Explain the basic elements of entrepreneurship.
3. What are the main features of industrial estates?
4. What are the various sources of project ideas?
5. Write a note on product life cycle.
6. What are the functions of women entrepreneurs?
7. Explain the problems of rural entrepreneurship.
8. What are the consequences of industrial sickness?

SECTION B – (5 x 15 = 75 marks)

Answer any FIVE out of Eight questions.

9. Explain the various types of entrepreneurs.
10. Explain the importance of women entrepreneurship.
11. Explain the merits and demerits of sole proprietorship organization.
12. Explain the objectives of seed capital assistance.
13. Explain the contents of a project report.
14. Explain the various elements of project formulation.
15. Explain the various problems faced by the entrepreneurs who are new to the field.
16. Suggest some preventive measures to avoid industrial sickness.

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