CONTENTS

Rationale, General Learning Objectives, Methodology and Syllabus

For The Academic Year 2017-18: Entrepreneurship (Code No. 066)

Rationale

Development of school curriculum is a dynamic process responsive to the society and reflecting the needs and aspiration of its learners. Fast changing society deserves changes in educational curriculum particularly to establish relevance to emerging socio-economic environment; to ensure equity of opportunity and participation and finally promoting concern for excellence. In this context the course on entrepreneurship aims at instilling and stimulating human urge for excellence by realizing individual potential for generating and putting to use the inputs, relevant to social prosperity and thereby ensure decent means of living for every individual.

Objectives:

- Acquiring Entrepreneurial spirit and resourcefulness
- Familiarization with various uses of human resource for earning dignified means of living
- Understanding the concept and process of entrepreneurship - its contribution in and role in the growth and development of individual and the nation
- Acquiring entrepreneurial quality, competency and motivation
- Learning the process and skills of creation and management of entrepreneurial venture

Unit	**Marks**	**Periods**
1. Entrepreneurial Opportunities	**30**	**40**
2. Enterprise Planning		**40**
3. Enterprise Marketing	**20**	**40**
4. Enterprise Growth Strategies		**20**
5. Business Arithmetic	**20**	**40**
6. Resource Mobilization		**20**
7. Project Work	**30**	**Data 40**
TOTAL	**100**	**150**

Design of the Question Paper for Annual Examination

Question Wise Division of Marks

S.No	Particulars	Question Wise Division of Marks					Total
1.	Marks For Each Question	1 Mark	2 Marks	3 Marks	4 Marks	6 Marks	
2.	Number Of Questions in Theory Paper	5	5	7	4	3	24 Questions
Total Marks allocated for Written Paper		5*1=5	5*2=10	7*3=21	4*4=16	3*6=18	70 Marks
Total Marks allocated for Unit Tests		3*1=3	3*2=6	4*3=12	2*4=8	1*6=6	35 Marks

Methodology

- ✓ Topics will be discussed in class.
- ✓ A handout to cover topics not given adequately in the text will be given wherever required.
- ✓ Flow charts to facilitate quick recap will be used for revision.
- ✓ Assignments to cover previous year Board questions will be given for writing practice.
- ✓ Extra question covering HOTS questions for the chapter will be discussed in class.
- ✓ A monthly class test will be given to assess learning of students.
- ✓ Any other method used for a topic in addition to what is mentioned above will be given in the details given below.

Assessment

- ✓ All questions in the Smart Skills will be discussed in class and attempted by students in their note books.
- ✓ Worksheets containing application based questions will be given at the end of every chapter.

S. No	Typology of questions	Question Paper Design					Total Marks	% weigh
		VSA	SA	LA I	LA II	ESSAY TYPE		
1.	**Remembering**: (knowledge based simple recall questions to know specific facts, terms, concepts, principles of theories. Identify, define recite or information.)	**2**	**1**	**2**	**1**	**-**	**14**	**20**
2.	**Understanding: (** comprehension based – to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase or interpret information)	**1**	**1**	**1**	**1**	**-**	**10**	**14**
3.	**Application:** (use abstract information in concrete situation, to apply knowledge to new situations, use given content to interpret a situation, provide an example or solve a problem)	**1**	**2**	**1**	**-**	**2**	**20**	**29%**
4.	**High Order Thinking Skills:** (analysis and syntheses – classify, compare, contrast or differentiate between different pieces of information. Organize and / or integrate unique pieces of information from a variety of sources.)	**1**	**1**	**2**	**-**	**1**	**15**	**21%**
5.	**Evaluation and Multi disciplinary:** (appraise, judge and/or justify the value or worth of a decision or outcome or to predict outcomes based on values)	**-**	**-**	**1**	**1+1 (Value Based)**		**11**	**16%**

- **VSA = very short answer carrying 1 mark**
- **SA = short answer I carrying 2 marks**
- **LA I = short answer II carrying 3 marks**
- **LA = long answer carrying 4 marks**
- **ESSAY = carrying 6 marks**

Topic and Objectives

Unit 1 Entrepreneurial Opportunities & Enterprise Creation

- ✓ Sensing Entrepreneurial Opportunities
- ✓ Environment Scanning
- ✓ Problem Identification
- ✓ Spotting Trends
- ✓ Creativity and Innovation
- ✓ Selecting the Right Opportunity
  - *Understand the concept and elements of business opportunity*
  - *Understand the process involved in sensing opportunities*
  - *Give the meaning of environment scanning - To understand the need to see the*
  - *environment*
  - *Enlist the various forces affecting business environment*
  - *Understand the different fields of ideas*
  - *Enlist the various sources of idea fields*
  - *Understand the process of transformation of ideas into opportunities*
  - *Explain the meaning of trend spotting*
  - *Understand the concept of opportunity assessment*
  - *Explain the meaning of trend spotting*
  - *Identify the different ways of spotting trends*
  - *Differentiate the process of creativity and innovation*

Unit 2 Enterprise Planning

- ✓ Forms of Business Entities – Sole proprietorship, Joint Stock Company, etc.
- ✓ Business Plan
- ✓ Organizational
- ✓ Operational and production
- ✓ Financial
- ✓ Marketing Plan
- ✓ Human Resource Planning
- ✓ Creating the Plan
- ✓ Formalities for starting a business
  - *Understand the concept of entrepreneurial planning*
  - *Understand the forms of business enterprise*
  - *Distinguish among the various forms of Business enterprise*
  - *Explain the concept of Business plan*
  - *Appreciate the importance of a Business Plan*
  - *Describe the various components of Business plan*
  - *Differentiate among the various components of Business plan*

Unit3: Enterprise Marketing

- ✓ Goals of Business; Goal Setting. SMART Goals
- ✓ Marketing and Sales strategy
- ✓ Branding - Business name, logo, tag line
- ✓ Promotion strategy
- ✓ Negotiations - Importance and methods
- ✓ Customer Relations
- ✓ Employee and Vendor Management
- ✓ Quality, Timeliness and Customer Satisfaction
- ✓ Business Failure – Reasons
  - *Understand the goal setting and SMART goals*
  - *Enlist the various marketing strategies used in a firm*

- *Explain the concepts of Product, Price, Place and Promotion*
- *Understand the concept of Branding, Packaging and Labelling*
- *Describe the various methods of pricing.*
- *Explain the various channels of distribution*
- *Appreciate and discuss the various factors affecting the channels of distribution*
- *Understand the sales strategy*
- *State the different types of components of sales strategy*
- *Enumerate the different tools of promotion*
- *Understand the meaning and objectives of Advertising*
- *Able to discuss the various modes of Advertising*
- *Will be able to understand the concept of personal selling and sales promotion*
- *Discuss the various techniques of sales promotion*
- *Understand the meaning and methods of negotiation*
- *Understand the concept of customer relationship management*
- *State the importance of Customer Relationship Management*
- *Explain the concept of management in a firm*
- *Explain the concept and importance of vendor management in a firm*
- *Explain the factors for effective employee relationship*
- *Explain the various reasons for business failure*

Unit 4: Enterprise Growth Strategies

✓ Franchising
✓ Merger and Acquisition
✓ Moving up the Value Chain and Value Addition

- Understand the concept of growth & development of an enterprise
- Explain the concept of franchise
- Explain the different types of franchise
- Explain the advantages and limitations of franchise
- Understand growth of a firm is possible through mergers and acquisitions
- Explain the different types of mergers
- State the meaning and types of acquisitions
- Understand the reasons for mergers and acquisitions
- Understand the reasons for failure of mergers and acquisitions
- Explain the concept of value addition
- Describe the different types of Value Addition
- State the meaning of value chain
- Discuss the Porters Model of Value Chain
- Understand the requirements for value chain management

Unit 5: Business Arithmetic

✓ Unit of Sale, Unit Cost, Unit Price for multiple products or services
✓ Break Even Analysis for multiple products or services
✓ Importance and use of cash flow projections
✓ Budgeting and managing the finances
✓ Computation of working capital
✓ Inventory control and EOQ
✓ Return on Investment (ROI) and Return on Equity (ROE)

- Understand the concept of Unit Cost
- Understand the concept of unit price
- Calculate Break-even point for Multiple products
- Understand the meaning of inventory control
- Understand the meaning of Economic Order Quantity
- Enumerate the meaning of cash flow projection

- Explain the concept of working capital
- Understand the terminologies- financial management and budgets
- Calculate Return on Investment
- Explain the concept of Return on Equity

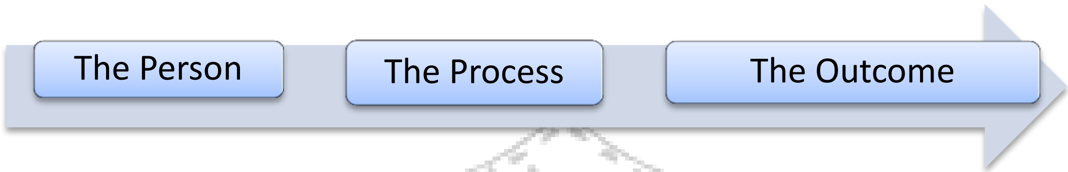
Unit 6: Resource Mobilization

✓ Angel Investor
✓ Venture Capital Funds
✓ Stock Market - raising funds
✓ Institutions
✓ Specialized Financial Institutions

- Understand the need of finance in the Business
- Understand the various sources of funds required for a firm
- Understand the methods of raising finance in primary market
- Understand the importance of secondary market for mobilization or resources
- Give the meaning of stock exchange
- Raising funds through financial markets
- Understand the relevance of stock exchange as a medium through which funds can be raised
- Understand the role of SEBI
- Explain the concept of angel investors
- Explain the concept of venture capital
- Explain the role played by IDBI, SIDBI, IFCI,NABARD, IIBI, SFC, TFCI, SIDC

Unit 1: Entrepreneurial Opportunity

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



What is a Business Opportunity?

- Business opportunity can be described as an economic idea which can be implemented to create a business enterprise and earn profits.
- A business opportunity may be described as an attractive economic idea which could be implemented to create a business, earn profits and ensure further growth.

- Before selecting an opportunity, the entrepreneur has to ensure two things in order to be successful -
  - There is a good market for the product he is going to produce
  - The rate of return on the investment is attractive to be accepted by him

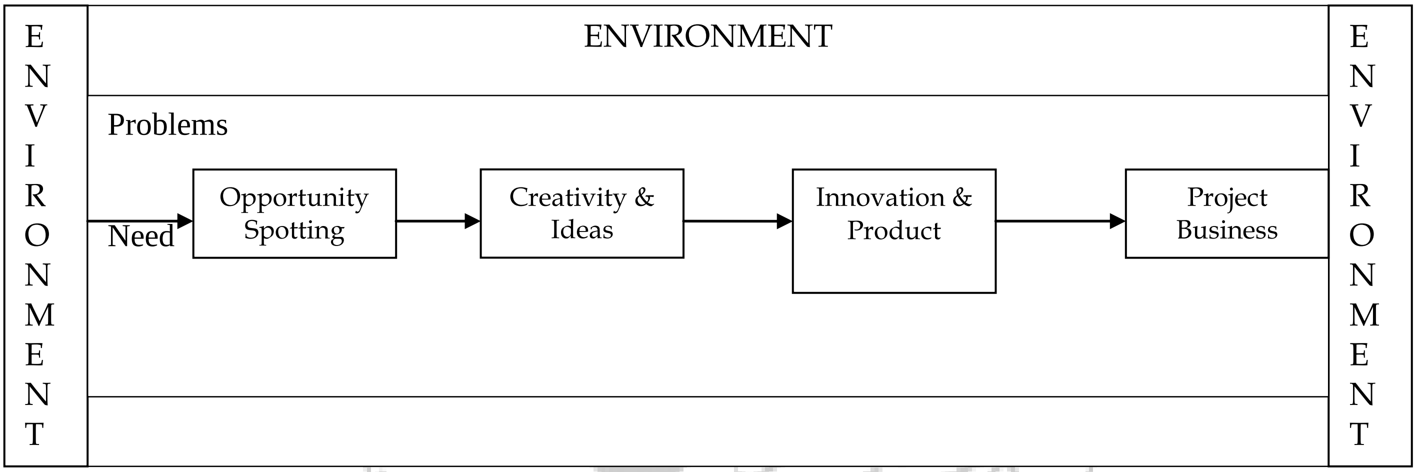
- Can all ideas be converted into opportunities?
  - If the entrepreneurs conceive an idea and start their business without even analysing the market, they launch a product that has very few customers.

Elements of a business opportunity:
A business opportunity has five elements which are as follows:
- Assured market scope
- An attractive and acceptable rate of return on investment
- Practicability of the idea
- Competence of the entrepreneur to encash it
- Potential of future growth

Exploring Opportunities in the Environment:

- Opportunity should be suitable for him in terms of customers to be served and profits expected. An opportunity may be derived from the needs and problems of the society.

- Sensing entrepreneurial opportunities is a process of converting an idea into an opportunity into an enterprise. The first stage is to spot the needs by looking into the needs and problems that exist.



This diagram shows the following stages:

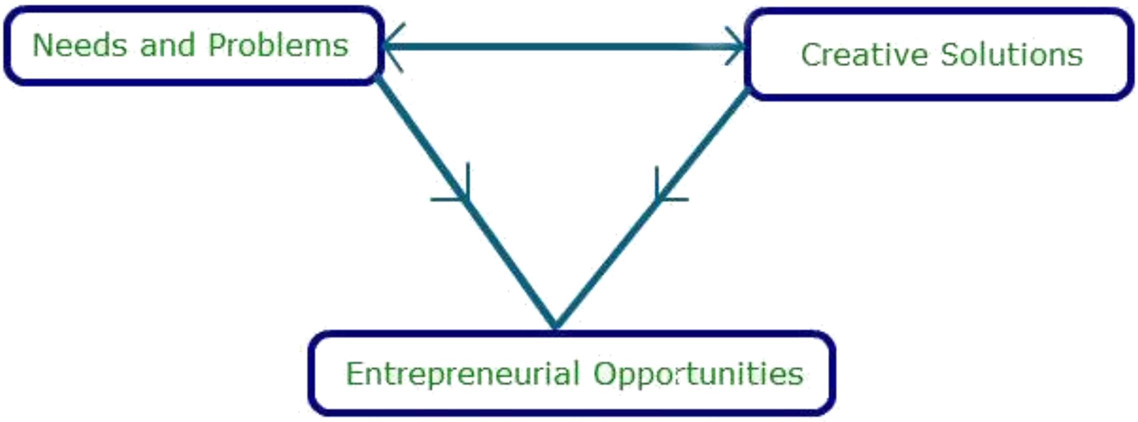
i. **Opportunity spotting** by analysing the needs and problems that exist in the environment
ii. Evaluating the ideas received from different sources to find a **creative solution**
iii. Identifying a product or service through **innovation**
iv. Setting up a **project** and nurturing it to success

Perceiving and Sensing Opportunities:

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

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

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



1. **Ability to perceive and preserve basic ideas:**
   - Spotting of an idea often triggers the process of sensing an opportunity.
     The following are the various sources which lead to the emergence of basic ideas.
     i. **Problems:** When a problem exists and an idea leads to a solution to resolve that problem, it emerges as a business opportunity.
     ii. **Change:** A change in social, legal, technological aspects etc. leads to new opportunities to start a business.
     iii. **Inventions:** Invention of new products or services leads to new business opportunities.
     iv. **Competition:** Competition often results in emergence of new and better ideas that result in new business opportunities.
     v. **Inventions:** It includes creating new things of value as well as new and creative processes that add value to the existing products or services. Eg., computers to tablets

2. **Ability to harness different sources of information:**
   ➔ Various sources like magazines, journals, books, seminars, trade shows, family members, customers, friends etchelp in getting information that helps in evolution of basic ideas.
   ➔ The entrepreneur brings together various sources of information and knowledge, and analyzes it to the best possible extent to identify of the right opportunity to start a new business.

3. **Vision and creativity**
   ➔ Creativity in innovating a solution and vision. The entrepreneur should be able to creatively identify an idea to generate a valuable solution to a problem. Once the solution is identified their vision to convert the solution into business opportunity helps them to move forward, overcoming all the obstacles. They constantly-
      a. Overcome the adversity
      b. Will be able to exercise control over the business
      c. Will be capable of making significant difference.

Environment Scanning:

- Business environment may be defined as all those conditions and forces external to a business unit under which it operates.

- Entrepreneurship does not emerge and grow spontaneously. Rather it is dependent upon several economic, social, political, legal and other factors.

- **What is environment scanning?** Careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans.

- **Why do we need to scan our environment?**In rapidly changing environments, the right information, combined with the right adaptations, can determine an organization's future viability. If an entrepreneur is not aware of what the environment surrounding his business he is sure to fail. Eg., HMT watches lost its market to Titan;

- **Importance of environment:**Sensitivity to environmental factors is crucial for an entrepreneur. If a company is able to adapt to its environment, it would succeed in the long run. Eg.,Sony failing to understand the changing trends in mobile phones and therefore losing its market share. The benefits of understanding the relevant environment of business are:
  i. **Identification of opportunities to get first mover advantage:**an enterprise can identify opportunities and find strategies to capitalise on the opportunities at the earliest.

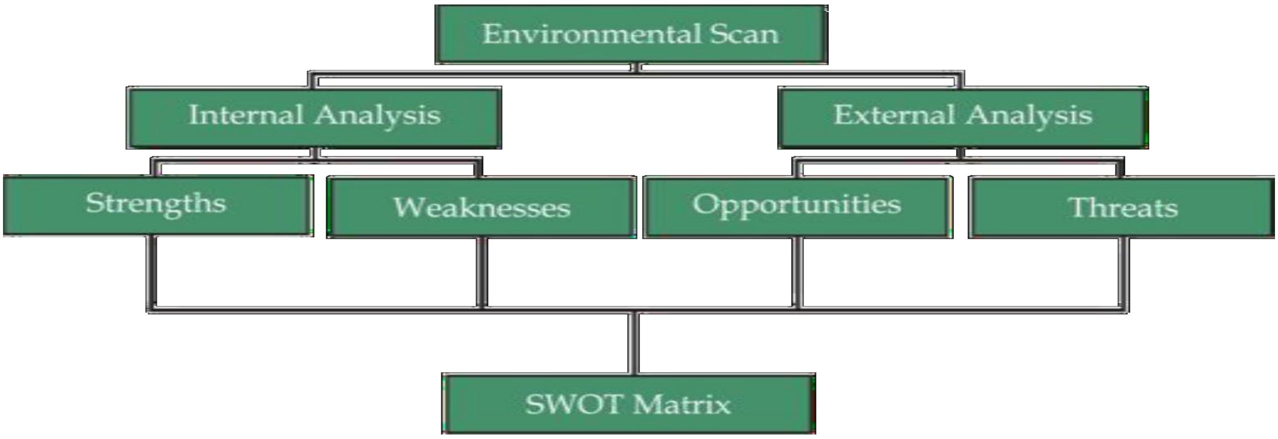
  ii. **Formulation of strategies and policies:**It helps in identifying threats and opportunities in the market. These can serve as the basis of formulation of strategies to counter threats and capitalise on opportunities in the market.

  iii. **Tapping useful resources:** It can tap raw materials, technology and even financial resources from the market at economical prices at the right time.

  iv. **Better performance:**Proper take timely action to deal with the threats and avail opportunities for the purpose of improvement in the performance of the firm.

  v. **Sensitisation of entrepreneurs to cope up with rapid changes:**sensitise the entrepreneur to the changing technology, competition, government policies and changing needs of the customers. Eg., changing trends in clothing.

  vi. **Image building:** It will come out with new products and services to meet the requirements of the customers. This would build the image or reputation of the firm in the eyes of the general public.



Analysis of Environment:

- Environment analysis is the process of monitoring the economic and non-economic environment to determine the opportunities and threats to an organisation.

- Such an analysis involves
  - Data collection,
  - Information processing and
  - Forecasting to provide a rational basis for developing goals and strategies for business survival and growth.

- Information for environmental scanning can be collected from several sources. These include
  a. verbal information from customers, wholesalers, retailers, distributors, consultants., etc
  b. records of companies
  c. government publications
  d. publications by various financial institutions
  e. formal studies conducted by strategic planners

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

Opportunity – Project Interface

Interface

Spotting an Opportunity → Scanning of Environment → Identification of product/service → Starting Project

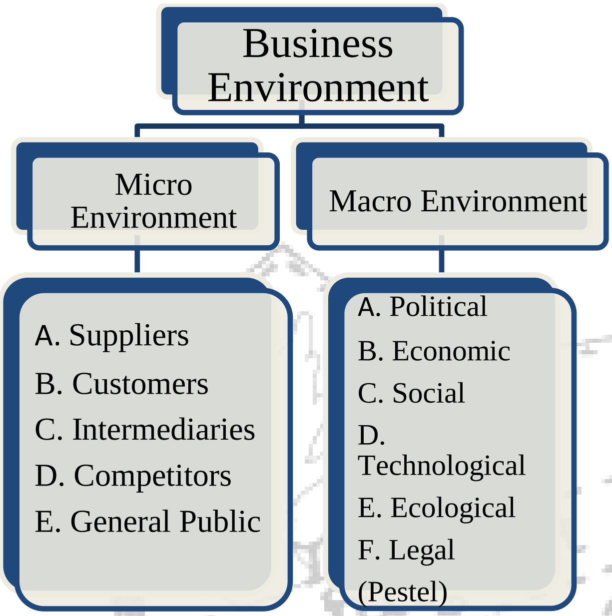
An opportunity received by the entrepreneur should be tested against important environmental parameters to arrive at a sound business choice. This interface is basically an evaluative process leading to a judgement. Is it a viable idea? Does it make sound business sense? If yes, the entrepreneur can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

Environmental Factors:

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

The external environment consists of two levels,

- Micro environment and
- Macro environment.



The PESTEL Model:

a) **Political:**
The political environment includes taxation policy, government stability and foreign trade regulations

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

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

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

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

f) **Legal:**
It covers influences such as taxation, employment law, monopoly legislation and environmental protection laws.

Idea Generation:

What is idea generation?

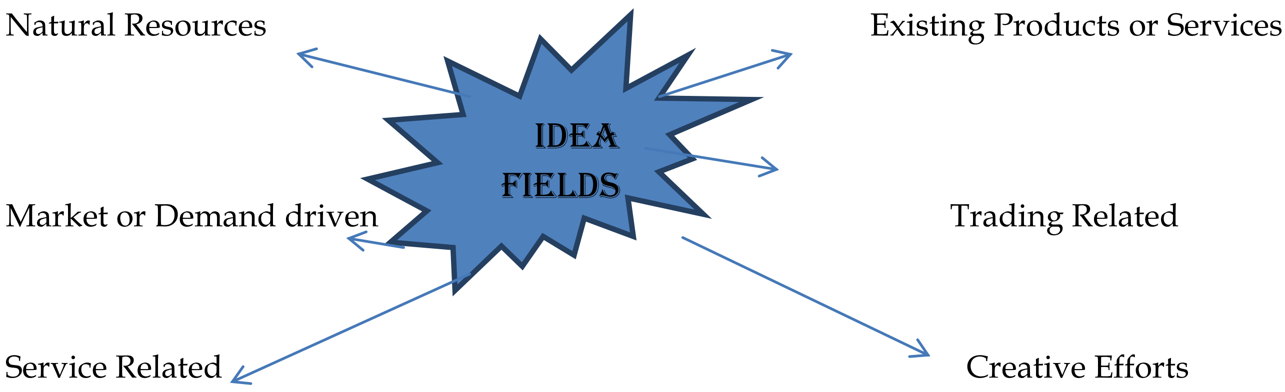
- Idea generation refers to the process of creating, developing, and communicating ideas which are abstract, concrete, or visual.
- The process includes
  - The process of constructing through the idea,
  - Innovating the concept,
  - Developing the process, and
  - Bringing the concept to reality.
- Business ideas come from
  - a careful analysis of market trends and consumer needs;
  - Others come from serendipity.
- If you are interested in starting a business, but don't know what product or service you might sell, exploring these ways of getting business ideas flowing will help you choose.

Idea Fields

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

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

Various Sources of Idea Fields



a) Natural Resources:

- Ideas can be generated based on natural resources.
- A product or service may be derived from
  - forest resources, agriculture, horticulture,
  - mineral,
  - animal husbandry,
  - wind, sun, and
  - human resource

b) Existing products or services:

- Thinking about existing products and services can generate a number of ideas to
  - Improve existing products or services
  - To provide a cheaper substitute
  - Bring about an improvement in the production process so as to reduce the prices.
- A great business idea combines skills with imagination and market demand.

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

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

- There is a constant and consistent effort on the part of all entrepreneurs to improve the products and services already existing in the markets.
- Oftentimes, a company will improve or change their existing products. There are many reasons for doing this. It can make a substantial difference in the success of your company and even take it in a whole new direction. However, it can also spell disaster if not done correctly.
- Change or improvement in an existing product can come about in many ways. Perhaps you sell a skincare line and would like to change the ingredients around a little. Or maybe you run a math tutoring business and would like to expand into other subjects, like science or reading.

c) Market driven or demand driven ideas:

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

- Market research can be defined as 'any organized effort to gather information about target markets or customers. It includes social and opinion research is the systematic gathering and interpretation of information about individuals or organizations using statistical and analytical methods and techniques of the applied social sciences to gain insight or support decision making.

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

- It is a very important component ofbusiness strategy. The term is commonly interchanged with marketing research; however, expert practitioners may wish to draw a distinction, in that
  - Marketing research is concerned specifically about marketing processes,
  - While market research is concerned specifically with markets.

- Whatever the source of information about the market, it is a promising field for generation of ideas.Idea generation is knowledgeable, creative and systematic.

- Market research develops from knowledge of the consumer, the market, the technology and the general environment,
    - It creates newness in product, production and marketing.
    - It systematically develops product ideas to satisfy the aim of the project and therefore the business strategy.

d) Trading related ideas:

- Trade in simple terms is <u>buying goods and services and selling them to consumers</u> at a profit. One big advantage that trading has over other types of businesses is that it is <u>easier to launch and less risky</u>.
- Trading these days is <u>not limited to ordinary grocer or distributor outlets</u>. With increasing consumerism, the scope and nature of trade has enlarged; local trade , import and export, e-commerce are all making trading a very wide area of enterprise.
- It is however, necessary for a prospective trader to be aware of the trends in an economy.
    - With the opening of the market to International Companies, large size departmental stores, chain shops and umbrella markets have become omnipresent;
    - Competition has become intense and
    - To survive in the market new entrants will have to acquire skills, competencies and knowledge required to launch, manage and expand business opportunities.

e) Service Sector Ideas:

- Entrepreneurial opportunities are not restricted only to the manufacturing field. <u>Service sector is the most growing fields these days</u> the world over, thanks to emerging knowledge societies and advances in Information and Technology. So new opportunities can be identified by understanding the linkages to different business activities.

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

- ***<u>Case Study of Food Sector in India.</u>***
- The list of opportunities ready for the taking in the food and other service areas is rather long. Amongst the most interesting ones in the food sector are the following:
    - **Indian fast food/finger food:** While pizzas and burgers and popcorn may find a lot of favour from Indians across India, and across all age and income groups, the fact remains that almost all regions of India still have their own local fast food options and outsell the "imports" by a mile.
    - MacDonald's and Pizza Hut can be the role models in terms of efficiency of service, hygiene, quality, and overall value but the menu should be "Indian" rather than Indianised version of American food.
    - **Family diners:** These can be based on the ubiquitous American Diner concept or even the Indian version like Nirula's offering Indian style "Plated or Combo" meals with table service and overall good price-value equation.

- **Sandwich & salad parlours:** Subway's success in select locations, despite somewhat inconsistent product quality, poor service, and high prices, indicates the tremendous opportunity in this segment. Prêt a Manger (A Macdonald business, operating largely in the UK) seems like an interesting format for India.
- **Ice-cream and juice/beverage parlours:** Sadly, there have been many start-ups and some continue to do well such as Nirula's. However, there is a glaring gap between the appropriate price/value need and the available options if one were to note that Nirula's is largely Delhi-based and the only other choice is perhaps Baskin Robbins.

- Lack of success in the recent past of some of the start-ups only highlights the need for a better conceptualisation and execution of the format, rather than a lack of market opportunity.

  - **Indian "desserts" and "snack food" chains:** Lastly, in the genre of food and food service chains, one of the biggest opportunities remains in starting national or at least regional chains offering Indian mithai, namkeen/farsaans, and snack-foods such as pakodas and samosas. Haldiram's success should certainly put any doubt on this opportunity to rest. What is needed is a belief that the Haldiram business model can be replicated (and certainly improved upon from the customer service perspective) by even large business houses such as ITC and others.

- ***Case Study of Tourism Industry in India.***
  - **Specialty tourism:** India is incredibly blessed with one of the most diverse set of options when it comes to tourism. Fortunately, the perception of India as a tourist destination is also undergoing a very positive change outside India.
  - Creating specialised options for high-end tourists from the West offers a tremendous potential, with many segmentation possibilities based on the target market as well as special interests. Role models can be the likes of Abercrombie & Kent.

- ***Case Study of Other Industries in India.***
  - **Personal grooming salons:** It may surprise some that the biggest organisedplayer for personal grooming, with focus on hair care, example, Habib's to talk about.
  - **Career counselling centres:** With over 25 million births per year, and at least 3 million of these likely to go for studies beyond the 12th grade but having little idea about the job and vocation trends in India and beyond, this is one sector that is poised for rapid growth.
  - **Chain of repair and maintenance services for electrical/electronic products:**
    - India is seeing massive increase in the penetration of electrical/information technology products.
    - Yet, the ambient infrastructure, as well as relatively low income levels, requires most of these gadgets to be given for repair unlike the more affluent countries where many faulty appliances/gadgets may just be "written off" by the consumer in view of high cost of repairs.

f) **Creative Efforts:**

- We have seen elsewhere that creativity is an important and key component of the talents and abilities needed for an entrepreneur.

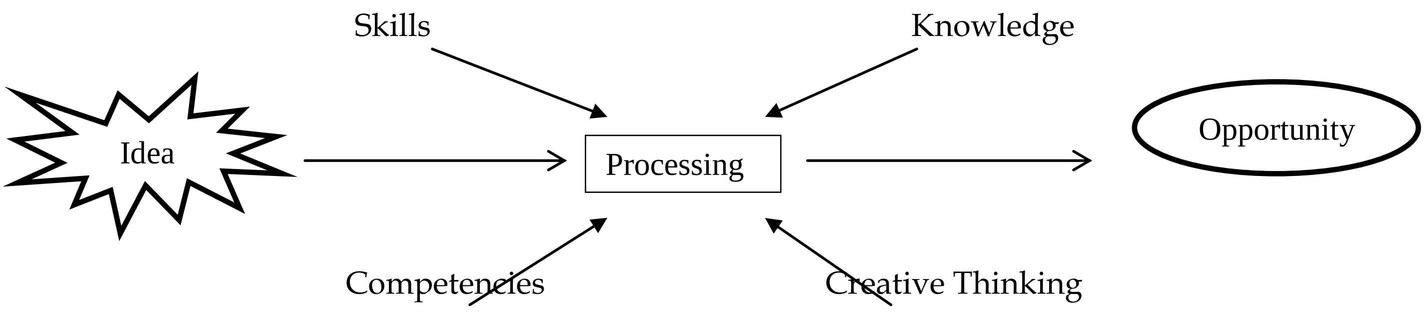
- Apart from applying creativity to spot and harness opportunities, it can also be applied to develop new products and services.
- **There are basically five ways in which creative ideas can be generated:**
    1. Develop a new product or service.
    2. Improve an existing product or service
    3. Find a new process or resource for manufacturing a product.
    4. Find new markets for existing products or services.
    5. Find a new use for a product or service.
- A very useful concept to bear in mind is that most often creative products and services are born as results of problem solving.
    - Someone found that while tightening screws, over tightening often resulted in damage to the fixtures. Here was a problem and the solution came in the form of a self-adjusting screwdriver which prevented over tightening. Similarly when doctors found monitoring of dosage of medicine to be administered to patients on a regular basis through traditional methods using a syringe cumbersome, a pharmaceutical firm developed a new process of implanting the required medicine in the patient for constant discharge of regulated and required dosage in to the blood stream.

g) Other considerations: An entrepreneur while selecting projects choose to go for employment generation, area development, community upliftment, environment preservation, empowerment of women. It is necessary for the entrepreneurs to follow a path of sustainable development that is in consonance with the values, environment protection and judicious management of natural resources.

Transformation of Ideas into Opportunities

- While the initial spotting of ideas is of a random nature, the development of ideas after scanning the environment is a more purposeful activity.
- The former is an experiential process while the latter is a strategic process.
- All basic ideas have to undergo a vigorous process to identify valuable opportunities. This process includes:
    - Examination,
    - Evaluation,
    - Analysis And
    - Synthesis.

This **process of a basic idea becoming an opportunity** is shown in the diagram below:



Conversion of idea into opportunity

- The above figure shows that a strategic positioning is required to convert an idea into opportunity.

- Knowledge, skills, competencies and creative thinking needed to develop an idea are backed by factors critical for market success. When knowledge, skills, competencies and creativity are strategically applied or market orientation, a viable venture is born.

Idea and Opportunity Assessment

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

1. **Product identification:**
   - An idea should lead the entrepreneur to a definite product/service which he can sell.
   - The steps involved in this process are:
     - obtain a concept of the product or service suggested by one idea
     - See whether this product is already available in the market or not. If it is, then we should identify the reason for introducing the same product or service in the market.eg.Innovating a new pen drive especially for teachers which will have a built in antivirus and which can be worn like a watch so it minimises the problem of losing the pen drive.
2. **Application and use:**
   - Ideas should be examined for their real life use and application.
   - If it already exists in the market we will have to find out its present use. Then we may think of modifying it for better use. In the above mentioned example we can clearly see that even though there are lot of companies manufacturing pen drives, the latest will be in consonance with the latest trends.
3. **Level of operation:**
   - Depending on the use of the product/service, that is, the amount that is expected to be consumed, the entrepreneur will produce it in cottage industry or a small scale industry or a large scale industry.
4. **Cost:**
   - What is the per unit costof the product at particular level of operation?
   - Whether this cost is comparable with that of other competitive products?
   - This will ultimately decide the sale price.
5. **Competition:**
   - Any product or service will face market competition at some stage.
   - So market competition should be assessed through a study of the trends in demand and supply.
6. **Technical complexity:**
   - What type of technology is required to produce the product?
   - Whether training and application of such technology will be locally available or will it have to be supported from other places?
   - What would be the position of supply of plant and machinery for such a technology? These are important issues that have to be resolved.

7. **Annual turnover and profit margin:**
    - Ideas should also have to be examined on the basis of expected annual turnover. This will also indicate the market share of the product or service.

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

Market Assessment

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

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

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

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

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

Trend Spotting

- It means identification of new trends. This will help the entrepreneur to understand the market and produce goods or provide services in sync with the market trends.

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

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

Ways in Which an Entrepreneur Spots Trends:

1. **Read trends.**
   - Regularly read the leading publications and websites affecting their business. This could include industry publications, trade association sites, major newspapers, key business magazines, thought leaders and influential bloggers.
   - They use tech tools like RSS feeds, e-mail newsletters or Twitter to keep on top of it all and get the info they want.
   - So many trends start overseas (London, Paris, and Tokyo), so they make sure that they read about what's going on in those cities.
     - ✓ At first, they scan information from a wide variety of sources -- from international news on down to niche bloggers focused on specific aspects of their industry. Obviously, there's a tsunami of information available.
     - ✓ They understand quickly which sources are valuable and which should be avoided
2. **Talk trends.**
   - Talking to people is an equally important trend-spotting tactic. They get involved in specific industry's trade association and attending events both online and offline.
   - They also take advantage of social networking tools like LinkedIn and Facebook.
   - They even start or join groups on the networks and see what people are buzzing about and about the latest trends.
   - It's also important to talk to customers and prospective customers, both online and offline.
   - They use social media or online surveys to get input on what customers are thinking, buying, craving and doing.
   - They also use Facebook and Twitter to identify key influencers and trendsetters in their target markets.
   - In addition, they pay attention to ratings and review sites -- not just what customers are saying about the business, but what they're saying about the competitor's business.
3. **Watch trends.**
   - There's no substitute for getting out in the marketplace. They make it a point to regularly go where their target customers hang out.
     - ✓ If the customers are teenagers, that might be the local mall.
     - ✓ If they're businesspeople, it might be the region's "power lunch" restaurant or office park restaurant center.
   - The entrepreneur spends some time simply watching and observing. What are people eating, doing, wearing, using? What stores or restaurants draw crowds and which sit empty?
   - Trade shows are a great place to get trend ideas, too -- even if they are not looking to buy product, they attend many shows simply to see what's hot.

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

Creativity:

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

The Creative Process:

The process of creativity involves five steps:

1. Idea germination,
2. Preparation,
3. Incubation,
4. Illumination and,
5. Verification.

1. **Idea germination:**
   a. This is the seeding stage of a new idea. It is the stage where the entrepreneur recognises that an opportunity exists.
   b. The idea germination taken place according to interest, curiosity of the entrepreneur according to which opportunity is explored and exploited to its best potential.
   c. Besides the interest, the need of a specific problem or area of study can also be sources of Idea germination.
2. **Preparation :**
   a. On the basis of the idea, interest and curiosity, the need is adjudged by the entrepreneur and he starts looking for the answer to implement the idea.
   b. If the idea is to launch a new product or service then market research is conducted.
   c. That happens because the seed of curiosity has taken form of anidea; the entrepreneurs foresee the future of the product.
3. **Incubation:**
   a. This is the subconscious assimilation of information. This is the transition period.
   b. The entrepreneur starts thinking about the idea and its implementation in his sub-conscious mind.
4. **Illumination:**
   a. In this period of illumination the idea re-surfaces in realistic way and entrepreneur comes out with viable plan to give practical shape by:
      i. Collecting raw-material,
      ii. Arranging funds,
      iii. Policy making for implementation of idea.
5. **Verification :**
   a. Also called the validation or testing stage.
   b. This is where the idea is verified to prove that it has value.
   c. This is the most difficult phase of creativity as obstacles begin to appear.
   d. This is the developing stage in which knowledge is developed into application.

Innovation:

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

Elements in the Innovation Process:

- **Analytical planning** – Carefully identifying the product or service features, design as well as the resources that will be needed.
- **Resource organization** – Obtaining the required resources, materials, technology, human or capital resources.
- **Implementation** – Applying the resources in order to accomplish the plans and delivering results.
- **Commercial application** – The provision of value to customers, reward employees, and satisfy the stake holders.

Selecting the Right Opportunity:

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

Questions for Revision:

1. What is the basic test of a successful entrepreneur?
2. Define Business Opportunity
3. What should an entrepreneur ensure before selecting an opportunity?
4. Can all ideas be converted into an opportunity?
5. Elements of Business opportunity
6. Draw the enterprise process diagram and explain it. (6 marks)
7. Factors involved in securing opportunities
8. Various sources which lead to the basic ideas
9. What is Business Environment?
10. Define environment scanning.
11. Why do we need to scan the environment? (3 marks)
12. Importance of environment
13. Name the sources from which information for environmental scanning can be collected.
14. What is analysis of environment?
15. Draw the flowchart for opportunity project interface-Opportunity – Project Interface
16. Define entrepreneurial environment.
17. What are the levels of external entrepreneurship environment?
18. Give examples of Internal factors (Micro environment)
19. Explain the PESTEL model explaining environmental factors
20. What is problem identification?
21. What is Idea Generation:
22. Explain the process of idea generation.
23. Explain the Sources of business ideas
24. Explain the sources of Ideas fields
25. Examine the food sector in India as a source of service sector ideas.
26. What is speciality tourism?
27. What is the process that needs to be undertaken to identify valuable opportunities?
28. What kind of investigations is needed for opportunity assessment? (6 marks)
29. On what lines should an entrepreneur assess the market? (4 marks)
30. Define trends. (1 mark)
31. Explain the ways in which entrepreneur spots trends.
32. Name the steps in creative process. (5 marks)
33. Define innovation. (1 mark)
34. Name the elements in the innovation process.
35. What is meant by Selecting the Right Opportunity:

Unit 2: Enterprise Planning

Activity is thus, a symbol of human life and may broadly be categorized into:

(a) Economic Activities:

(b) Non-Economic activities:

TYPES OF ECONOMIC ACTIVITIES:

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

(1) Profession

(2) Employment

(3) Business

All Entrepreneurial activities can be divided into three major categories: Manufacturing, Trading and Service.

1) Manufacturing

- Production of merchandise for use or sale using labour and machines, tools, chemical and biological processing, or formulation. most commonly applied to industrial production,
- The term is used in all economic systems:
  - In a *free market economy*, directed toward the mass production of products for sale to consumers at a profit.
  - In a *collectivist economy*, directed by the state to supply a centrally planned economy.
  - In *mixed market economies*, manufacturing occurs under some degree of government regulation.

2) Service

- A **service** is intangible, is not stored and does not result in ownership.

3) Trading:

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

Business is a continuous human economic activity with objective to earn profit by producing, and buying and selling of goods and services.

- **Essential characteristics of Business :**
  - **(1)** Presence of an entrepreneur
  - **(2)** Economic Activity
  - **(3)** Production or Procurement of Goods and Services: Consumers or Producers goods ,Services
  - **(4)** Sale or Exchange of Goods and Services
  - **(5)** Regularity
  - **(6)** Utility Creation: Form Utility, Place Utility, Time Utility
  - **(7)** Profit earning
  - **(8)** Uncertainty of Return
  - **(9)** Element of Risk

FORMS OF BUSINESS ORGANISATION:

- An ***enterprise*** is a separate and distinct unit, institutionally arranged to conduct any type of business activity.
- Every business entity needs to select an appropriate legal structure or framework to work in.
- From the point of view of ownership and management, business enterprises may be broadly classified under three categories.
    - Private Sector Enterprises
    - Public Sector Enterprises
    - Joint Sector

(1) Private Sector Enterprises: owned, controlled, and managed by private individuals, with the main objective of earning profit comes under this category.

Private individuals thus could start a venture as:

(a) Sole-proprietorship
(b) Partnership
(c) Joint Hindu Family Business
(d) Co-operative Society
(e) Company

(2) Public Sector Enterprises: owned, controlled and operated by public authorities, with welfare as primary and profit as secondary goals, are called public sector enterprises.

- Either the whole or most of the investment in these undertakings is done by the Government(s). These enterprises have the following form of organization:
    (a) Departmental undertaking
    (b) Public Corporations
    (c) Government Companies

(3) Joint Sector Enterprises:

- Partnership between the private sector and the government. Here, management is generally in the hands of private sector, and with enough representation on Board of Directors by the Government too. Resources are mostly borne equally.

- Private Sector
    - Sole Proprietorship
    - Partnership
    - Joint Stock Company
    - Hindu Undivided Family
    - Co-operative Society
- Public Sector
    - Departmental Undertaking
    - Public Corporations
    - Statutory Corporation
- Joint Sector

- The first decision that an entrepreneur has to take is to select the form of ownership (or structure of business/ legal configuration) that is right for him/her or for his new venture. This will define the:
  - (a) Control,
  - (b) Personal liability,
  - (c) Rights and liabilities of participants in the business's ownership
  - (d) Life span, and
  - (e) Financial structure.
- This decision will have long-term implications so must be taken after consulting experts and professions. In making a choice of Form of ownership, entrepreneur will want to take into account the following:
  1) Vision regarding the size and nature of business.
  2) The level of control the entrepreneur wishes to have.
  3) The level of "structure" entrepreneur is willing to deal with.
  4) The business's vulnerability to lawsuits.
  5) Tax implications of the different organizational structures.
  6) Expected profit (or loss) of the business.
  - From the entrepreneur's point of view the most commonly opted out forms for starting a new venture are:
    1) Sole Proprietorship
    2) Partnership
    3) Company

I. SOLE PROPRIETORSHIP:

Definition : The most commonly used forms of business organization which is owned financed, controlled and managed by only one person is called as sole proprietorship,

Characteristics of Sole Proprietorship Form of Business:

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

1. Individual ownership
2. Individual management and control
3. Individual financing
4. No separate legal entity
5. Unlimited liability
   The proprietor is liable/responsible for all losses arising from business. In case the business assets are insufficient to pay off liabilities, his/her personal property can be called upon to pay his business debts. (*Important*)
6. Sole beneficiary
7. Easy formation and closure

Suitability of Sole Proprietorship Form of Business:

- This type of form is suitable when:
  1. Capital requirement is limited
  2. Confidentiality / secrecy is important
  3. Market is local
  4. Goods are of artistic nature or demands customized approach
  5. Quick decision making is necessary
  6. Size of venture is small.

Legal Formalities Involved Sole Proprietorship Registration Procedure

- ❖ Does not need to be registered **and** is therefore an inexpensive manner of commencing business.
- ❖ To start a sole proprietorship an entrepreneur requires certain industry specific licenses.
  1. **Business name:**
  2. **Service tax registration:** .
  3. **VAT/CST registration:**
     a. If proprietorship is selling tangible goods within a state then VAT applies, if it is inter-state then CST applies.
     b. The threshold for registration for VAT varies depending on the city in which entrepreneur commences business but a CST registration is imperative if he/she affect an inter-state transfer.
  4. **Others:** PAN Card no., Bank account no., Shops & Establishment License, Employee Provident Fund Registration or Importer Exporter Code (if in export-import business).
  5. **Payment of taxes:** Sole trader bears the state and federal taxation requirements of the business.

- ❖ **Limitations of sole proprietorship** i.e.
  a. Limited Capital
  b. Limited Managerial ability
  c. Limited Continuity.

II. PARTNERSHIP:

- ❖ Partnership form of organization has developed due to the inherent limitations of sole proprietorship.

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

Characteristics of partnership:

1. Two or more persons
2. Agreement
3. Profit sharing
4. Unlimited liability
5. Implied authority
6. Mutual agency
7. Utmost good faith
8. Restriction on transfer of shares
9. Continuity

Suitability of Partnership:

Partnership form of a business is an ideal choice for starting a new venture, if the entrepreneur's.

(1) Capital and Managerial requirements are higher as compared to that of sole proprietorship.
(2) Enterprise falls in the category of either being a small or a medium scale enterprise.
(3) Direct contact with the customers is essential.

Consequences for non–registration of a partnership firm:

- Partnership firms in India are governed by the **Indian Partnership Act, 1932**.
- While it is not compulsory to register your partnership firm as there are no penalties for non-registration, it is advisable since the following rights are denied to an unregistered firm:
    - o A partner cannot file a suit in any court against the firm or other partners for the enforcement of any right arising from a contract or right conferred by the Partnership Act.
    - o The firm cannot take any action in a court of law against any other party for settlement of claims.
    - o The firm cannot claim adjustments for amount payable to or receivable from any other party through a Court of law.

Drafting of partnership deed

- When the agreement is in written form, it is called '*Partnership Deed*'.
- It must be duly signed by the partners, stamped and registered.
- Any alteration in partnership deed can be made with the mutual consent of all the partners.
- A partnership deed generally contains the following:
    - i. Name of the firm.
    - ii. Nature of the businesses.
    - iii. Profit sharing ratio between the partners.
    - iv. Amount of salary and commission, if any, payable to the partners.
    - v. Settlement of accounts in the case of dissolution of the firm.

Registration procedure

- o **Step: 1 :**
    - ▪ Application for partnership registration
- o **Step: 2**
    - ▪ Every partner needs to verify and sign the application. Ensure that the necessary documents and prescribed fees are enclosed with the registration application.
- o Once the Registrar of Firms is satisfied that the application procedure has been duly complied with, he shall record an entry of the statement in the Registrar of Firms and issue a Certificate of Registration.

III. JOINT STOCK COMPANY:

- A company means an voluntary association of a person's formed for some common object with capital divisible into units of equal value called 'shares' and with limited liability.
- Thus, a company is an association of persons who contribute money in the shape of shares and the company gets a legal entity and enjoys a permanent existence.
- **Characteristics of a Company**

I. Voluntary association. II. Artificial person. III. Separate legal entity. IV. Common seal. V. Limited liability.	VI. Transferability of shares. VII. Diffusion of ownership and management. VIII. Number of members IX. Limitation of action X. Winding up.

- ✓ Number of members
  a. In case of a private company:– Minimum members required are : 2 Maximum members : 50 (excluding employees) And for a public company:– Minimum requirement is : 7 Maximum number : No Limit
- ✓ Limitation of action
  a. The scope of this artificial person is determined by the Indian Companies Act, Memorandum of Association and Articles of Association

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

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

(a) Private Company or (b) Public Company

(A) Private Company

A private company is one which:

(1) Has a minimum of 2 and a maximum of 50 members excluding its past and present employees.
(2) Restricts the right of its members to transfer shares.
(3) Prohibits an invitation to the public to subscribe for any shares in or debentures of the company, or accept any deposits from persons other than its directors, members or relatives.
(4) Has a minimum paid up capital of one lakh rupees (subject to change)
(5) Uses the word 'pvt. Ltd.' at the end of its name.

(B) Public Company

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

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

Why Private Company Is More Desirable : In spite of certain restrictions imposed on a private company, it enjoys certain privileges under the Companies Act. Because of the following important privileges being granted, a substantial number of entrepreneurs prefer to form a private company.

The privilegesgranted to a private company are:

(1) Only two members are required to form a private company.
(2) Only two directors are required to constitute the quorum to validate the proceedings of the meetings.
(3) Such company is not required to file prospectus or a statement in lieu of prospectus with the Registrar of Companies.
(4) It can commence its business immediately after incorporation.
(5) Holding of statutory neither meeting nor filing of a statutory report is required by a private company.
(6) A non-member cannot inspect the copies of the Profit and Loss A/c filed with the Registrar.
(7) Limit on payment of maximum managerial remuneration does not apply to a private company.

(8) Restrictions on appointment and reappointment of managing director does not apply.
(9) Maintaining of Index of Members is not required by a private company.
(10) Directors of the private company need not have qualification shares.

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

Legal formalities expected to be complied by the entrepreneur:

1. Obtain PAN number from Income Tax Department
    a. What is PAN?
    b. Who must have PAN?

II. Open a current account
    a. Who can open a current account
    b. Basic common documentation
        - For individuals:
        - Public or private limited companies

III. Register your company (Pvt. Ltd/Public limited Company)
IV. Register for service tax
V. Register for VAT/Sales Tax
VI. Excise duty (If applicable)
VII. Customs duty
VIII. File entrepreneurship memorandum at DIC (optional)
IX. Permissions required at the construction stage
    a. Pre construction clearances
    b. Post construction clearances

X. Employee's Provident Fund (EPF)
XI. Employee's State Insurance (ESI) scheme

Basis of Difference	**Private Limited Companies**	**Public Limited Companies**
1. Minimum Number Of Persons Required	**2**	**7**
2. Minimum Paid Up Capital	Rs. 1 lakh	Rs. 5 lakh
3. Maximum Number Of Members	Not exceed fifty	No such restriction on the maximum number of members
4. Right To Transfer Shares	Restricted	Shares are freely transferable
5. Prospectus	Cannot issue	May invite the general public to subscribe for its shares or debentures
6. Directors	At least two Directors	At least three Directors
7. Commence Business	After receiving the certificate of incorporation,	Can commence business only when it receives a certificate to commence business from the registrar of companies.
8. Statutory Meeting	Need not hold a statutory meeting	Must hold a statutory meeting and file a statutory report with the registrar.
9. Quorum	Two members personally present form the quorum	At least 5 members to be personally present form the quorum

IV. JOINT HINDU FAMILY / FIRM (HUFs):

- o Unique form of business organisation prevailing only in India Governed by Hindu law and represents a form which is owned, managed and controlled by the male members of a Joint Hindu Family.
- o **Meaning of HUFs:** a family, which consists of male lineally descended from a common ancestor and included their wives and unmarried daughters."
- o **Schools of law under HUF –** Two schools of law are there in order to create a HUF:
  - a) **Dayabhaga**
  - b) **Mitakshara** .

- There are two conditions for existence of HUFs. They are :
  - a. Minimum two members must be there in the family.
  - b. Existence of some ancestral property.

Characteristics of Hindu Undivided Family

1. **Creation:** by status or operation of Hindu Law.
2. **Membership:** A male member = member merely by his birth/adoption,
3. **Management:** The senior most male member = 'Karta' manages the affairs, having unlimited powers. The other male members = 'Coparceners' have no right to deal with outsiders or inspect accounts.
4. **Liability:** The liability of Karta is unlimited and that of coparceners is limited to the extent of their share in property.
5. **Right of Accounts:** The members other than Karta do not have right to inspect and/or copy contents of the account books.
6. **Minor as member:** A male from the time of his birth becomes the member in this form of enterprise.
7. **Dissolution:** The HUF continues to operate forever , there is no limit to its membership. But if all members want to mutually dissolve the firm, they can do so.
8. **Implied Authority:** Only the Karta has implied authority to bind the HUF by acts done in the ordinary course of the business of the firm. That's why he alone has unlimited liability.

Legal formalities involved Steps involved in creation of HUFs

1. **Capital and members**: Capital can be in the form of ancestral property, assets gifted by relatives and friends, or received by the HUF through a will. The minimum no. of members required is two.
2. **Select a suitable name**.
3. **Form a Deed**.
4. **Apply of PAN**.
5. **Open a Bank Account**.

V. CO-OPERATIVES ORGANISATIONS:

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

- **Co-operative organisation is a voluntary association of persons desirous of pursuing a common objective**.

- **Features of Co-operative societies:**
    1. **Voluntary organisation**.
    2. **Democratic management**.
    3. **Service motive**
    4. **Capital and return thereon:** A member can subscribe subject to a maximum of 10% of the total share capital or Rs. 1,000 whichever is higher. Shares cannot be transferred but surrendered to the organisation. The rate of dividends paid to the members/ shareholders is restricted to 9% as per the Co-operative Societies Act, 1912.
    5. **Government control**.
    6. **Distribution of surplus:** After giving dividends to the members, the surplus of profits, if any, is distributed among the members on the basis of goods purchased by each member from the society.

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

1) Quest for excellence
2) Drive for independence
3) Tendency to be project champion
4) Strong desire to succeed and earn profit
5) Creative and innovative nature
6) "Must be own boss", attitude.
7) Love for being a 'Leader' in the field.
8) Zeal to capture major market share.

Selection of Form of Ownership

- Selection of an appropriate form of business orgnaisation is a very difficult decision. No single factor can help to decide the form. Thus, it's a summative effect of the factors to be taken into consideration before opting the form of business ownership.
- With regards to special requirements of the enterprise if any, mostly the selection of a form is to a great extent affected by:

Criteria	Best suited	Worst suited
1. Capital requirement of the enterprise	Company	Sole Proprietorship
2. Owners' Risk and liability involved	Company, Coop Society	Sole Prop, Partnership
3. Managerial control desired	Sole Proprietorship	Co-operative Society, Company
4. Scale of operations involved	Company	Sole Proprietorship
5. Continuity and stability demanded	Company, Co-Op Soc	Sole Prop, Partnership
6. Government regulations involved	Sole Proprietorship	Co-operative Society, Company
7. Tax burden on the entrepreneur/enterprise		
8. Nature of business	Decided according to requirements	
9. Confidentiality required	Sole Proprietorship	Co-operative Society, Company

10. Flexibility desirable.	Sole Proprietorship	Company
11. Economy in formation	Sole Prop, Partnership, HUF	Co-Op Soc, Company
12. Ease of formation	Sole Prop, Partnership	Co-Op Soc, Company
13. Transfer of ownership or share in firm	Company, Sole Proprietorship	Partnership, HUF, Coop Society
14. Initial costs,	Sole proprietorship	company

BUSINESS PLAN

- Planning can be defined as "thinking in advance what is to be done when it is to be done, how it is to be done and by whom it should be done."
- The entrepreneur must make some important decisions and gather information about the external and internal factors so as to address the integration and co-ordination of effective business objectives and strategies related to his proposed venture.

WHAT IS A BUSINESS PLAN?

- The business plan is a **comprehensively written down document prepared by the entrepreneur describing formally all the relevant external and internal elements involved in starting a new venture.**
- Thus, a business plan is a comprehensive project report which not only encompasses the entire range of activities which are being planned in the business, but also:
  a) Helps to understand the feasibility and viability of the proposed venture,
  b) facilities in assessing and making provisions for the bottlenecks in the progress and implementation of the idea,
  c) Discusses the potential for the success of the project along with the risk factors involved.
- Business plan are decision-making tools:
  i. Describing all necessary inputs to the enterprise.
  ii. Explaining the mode of utilization of the resources.
  iii. Detailing the strategies for the execution of the project.
  iv. Outlining the desired goals
  v. Assessing market sensitivity and the profitability of the venture.

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

WHO CAN WRITE THE PLAN?

- A business plan represents all aspects of business planning process declaring vision and strategy alongside sub-plans to cover:
  - Marketing
  - Finance
  - Operations
  - Human resources
  - Legal compliance
  - Intellectual property rights, etc.

- Entrepreneur should consult the following while preparing it:
  i. Lawyers,
  ii. Accountants,
  iii. Marketing Consultants,
  iv. Engineers
  v. Internet Sites
  vi. Officially Appointed Or/And Set-Up Banks, Specialized Financial Institutions Or Agencies To Promote Entrepreneurship
  vii. Friends, Relatives, Mentors Etc.

IMPORTANCE OF THE BUSINESS PLAN:

- The business plan is valuable to the entrepreneur, potential investors, venture capitalists, Banks, Financial institutions, new suppliers, customers, advisors and others who are trying to familiarize themselves with the venture, its goals, and objectives.

- The business plan –
  a) Determining the viability of the venture
  b) Helps in satisfying the concerns, queries, and issues of interested groups
  c) Provides room for self-assessment and self-evaluation,
  d) Helps to realize the obstacles which cannot be avoided or overcome, suggesting to terminate the venture while still on paper without investing further time and money.
  e) Reflects the entrepreneur's credit history, the ability to meet debt and interest payments, and the amount of personal equity invested thus serving as an important tool in funds procurement.
  f) Helps in providing guidance to the entrepreneur in organizing his/or her planning activities as such:
     i. Identifying the resources required
     ii. Enabling obtaining of licenses if required etc.
     iii. Working out with legal requirements as desired by the government.

- Hence, a business plan gives adequate clarity to the entrepreneur, Investor(s) and the government of:
  - What an entrepreneur is doing,
  - Why he/she is doing it, and
  - How he/she will do that?

FORMAT OF BUSINESS PLAN:

- The depth and detail in the business plan depends on the size and scope of the proposed new venture. There is no fixed content for a business plan as it varies according to the entrepreneur's goals and audience (i.e. who are being targeted).
- Thus, it is common for especially start-ups to have three or four formats as follows for the same business plan.
  i. **Elevator pitch:**
     - It is a three minute summary.
  ii. **A pitch deck with oral narrative**:
     - slide show and oral narrative that includes the executive summary and a few key graphs showing financial trends and key decision making benchmark.
  iii. **A written presentation for external stakeholders:**
     - A detailed, well written, and pleasingly formatted plan targeted at external stakeholders.

iv. **An internal operational plan:**

- A detailed plan describing planning details that are needed by management but may not be of interest to external stakeholders.

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

I. Introductory cover page/general introduction II. Business venture III. Organisational plan	IV. Production plan V. Operational plan VI. Human resource plan	VII. Marketing plan VIII. Financial plan IX. Assessment of risk X. Miscellaneous/ appendix

I. INTRODUCTORY PROFILE /GENERAL INTRODUCTION

- This is the title or cover page - a brief summary of business plan's contents:
  i. Entrepreneur's bio-data:
  ii. Industry's profile:
  iii. Constitution and organization: i.e. the legal form of the proposed enterprise
  iv. Product details:

II. DESCRIPTION OF VENTURE/BUSINESS VENTURE

- "*Mission Statement*" by the entrepreneur and
- Description about the following key elements.
  i. Site ii. Physical infrastructure:

III. ORGANIZATIONAL PLAN

- The organizational plan is that part of the business plan that describes the proposed venture's opted form of ownership adequately mentioning necessary details. All businesses will fall into one of the four basic categories: Manufacturing, Wholesale, Retail and Service.

- Organizational plan describes the proposed venture's form of ownership. Each type of business differs significantly in terms of:
  a) Commencement procedures
  b) Legal constraints
  c) Financial requirement
  d) Accounting methods
  e) Marketing and promotional strategies
  f) Risk and liability

- The entrepreneur have access to following forms to choose from to start his/her venture: a) Sole proprietorship b) Partnership c) Joint Hindu family d) Cooperative, or e) Corporation

- Each of these forms has important implications on (i) Taxes (ii) Liability (iii) Continuity (iv) Financing (v) Ownership. No form is the best form. Entrepreneur in light of multiple factors (as already discussed) decides the legal structure, best suited to attain his dream.

- To conclude, both the entrepreneur and the potential investors stands to gain from the organizational plan as the design of the organization so opted helps even in:
  - Specifying the types of skills needed and the roles that must be filled by the member
  - Chalking out informal organization or culture.

IV. PRODUCTION PLAN

- Aims at **"Plan your work"**
- The objective of preparing a Production Plan =
  - ✓ Visualizing every step in a long series of separate operations,
  - ✓ So as to ensure that each step is to taken in the right place of the right degree, and at the right time and
  - ✓ each operation to be done at maximum efficiency",

- Hence, a production plan helps to plan the work in such a manner that one can clearly form an idea about:
  - ✓ Production schedule and/or budget
  - ✓ Machinery, equipment requirement
  - ✓ Manufacturing method and process involved
  - ✓ Plant layout

- There may be three situations before the venture viz complete manufacturing, partial manufacturing and no manufacturing.

IV. OPERATIONAL PLAN

- Operations plan ensures **"work your plan"**.
- It is actually a blue print prepared right in advance of actual operations —
  - i. Ensuing orderly flow of materials in the manufacturing process
  - ii. Facilitating continuous production, lesser work-in-progress and minimization of wastage.
  - iii. Co–ordinating the work of engineering, purchasing, production, selling and inventory management.
  - iv. Describing the flow of goods / services from production point to the consumers.
  - v. Introducing a proper system of quality control
  - vi. Undertaking the best and most economic production policies and methods.

- **Elements of operational plan:** Operation plan, in a way is planning:
  - i. For production in advance of operations.
  - ii. Establishing the exact route of each individual item, part of assembly.
  - iii. Setting starting and finishing dates for each important assignment/work.
  - iv. Regulating the orderly movement of goods through the entire manufacturing cycle i.e. right from procurement of all materials to the shipping of finished goods.
    - ✓ Nature of venture
    - ✓ Type of product/service
    - ✓ Scale of operation, and
    - ✓ Technology involved

- Thus, to obtain the above mentioned objectives, entrepreneur specifically pays attention to the following elements of the plan:
  - a) Routing
  - b) Scheduling.
  - c) Dispatching
  - d) Follow-Up
  - e) Inspection
  - f) Shipping

VII. MANPOWER PLANNING

- An organisation's performance and resulting productivity are directly proportional to the quantity and quality of its manpower.
- Manpower planning is a process by which an entrepreneur ensures that he/she has the right number of people, and the right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.
- Manpower planning thus helps to assess:
  - i. What kinds of people are required?
  - ii. How many people are required?
  - iii. How to procure personnel?

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

VIII. MARKETING PLAN

- Describes the market conditions and strategies related to how:
  - a) Products/services will be distributed,
  - b) Priced
  - c) Promoted.
- It is a guideline regarding the marketing objectives, strategies and activities to be followed by the new enterprise.
- Provides answers to three basic questions:
  - a. Where have we been?
  - b. Where do we want to go?
  - c. How do we get there?

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

- **Steps in preparing the marketing plan -** procedure for preparing the marketing plan involves following steps:
  - a) Business situation analysis
  - b) Identify the target market
  - c) Conduct SWOT analysis
  - d) Establish goals
  - e) Define marketing strategy
  - f) Implementation and monitoring of the plan

VI. FINANCIAL PLAN

- Finance brings together men, material, machines and methods to produce goods/services.
- As timely availability of funds in right volume is key to entrepreneurial success, the entrepreneur should develop a sound financial plan discussing:
  - **a)** Financial requirements
  - **b)** Sources of raising funds
  - **c)** Exact assessment of the revenue, cost, profits, cash flow dynamics, stock of inventory loans etc.

- Financial plan is a projection of key financial data about:
  - **a)** The potential investment commitment needed for the new venture, and
  - **b)** Economic feasibility of the enterprise

- The financial plan is so designed that the entrepreneur and the investors could have a clear picture of:
  - **a)** How much funds are required?
  - **b)** Where will funds come from?
  - **c)** How are they disbursed?
  - **d)** The amount of cash available
  - **e)** General financial well-being of the new venture i.e. probable revenue forecast for the first year at least.
- As the financial plan must explain to any potential investor how the entrepreneur plans to meet all financial obligations and maintain its liquidity in order to either pay off debt or provide good return on investment, several financial projection techniques and tools are made use of by the entrepreneur. In general, the financial plan will need three years of projected financial data to satisfy any outside investors.

- **Components of financial plan** Major financial items that should be included in the financial plan are:
  - a) Proforma Investment Decisions
  - b) Proforma Financing Decisions
  - c) Proforma Income Statements
  - d) Proforma Cash Flow
  - e) Proforma Balance Sheet
  - f) Break-Even Analysis
  - g) Economic And Social Variables

IX. ASSESSMENT OF RISK

- **a.** There are some hazards, risks, or/and obstacles always present in the competitive environment. In a business plan, entrepreneur should:
  - Identify potential hazards
  - Develop alternative strategies to either prevent minimize or respond to the risk.

X. APPENDIX

- **a.** contains any backup material that is not necessary in the text of the document as:
  - Letters from customers, distributors etc. , Any primary or secondary research data , Copies of contracts, agreements or any price lists if received.

Factual questions and Basic Terms Used in the Chapter

SOLE PROPRIETORSHIP

1. **When is a sole proprietor required to file for registration for service tax?**
    - Service tax = is a tax levied on the transaction of certain services.
    - These are specified by the Central Government under the Finance Act, 1994.
    - It is an *indirect tax*, which means that normally, the service provider pays the tax and recovers the amount from the person or organisation who receives such taxable service.
    - Service tax registration: Form ST 1 is to be filled if the taxable services are more than 10 lakh for a financial year.

2. **When is VAT registration mandatory for a sole proprietor?**
    - ✓ **Value added tax (VAT)** = Tax is levied at each stage of value addition.
        - The amount of tax is calculated on the amount of value added at the given stage of production. Eg, for a bakery, if they buy rew material that has already been taxed, eg wheat costing Rs 100 and convert it into bread and sell it for Rs 150, value added to wheat = Rs 50 and VAT will be calculated on Rs 50.
        - The term 'value addition' implies the increase in value of goods and services at each stage of production or transfer of goods and services. VAT is a tax on the final consumption of goods or services and is ultimately borne by the consumer.

    a. If proprietorship is selling tangible goods within a state then VAT applies.
    b. The threshold for registration for VAT varies depending on the city in which entrepreneur commences business

3. **When is CST registration mandatory for a sole proprietor?**
    a. **Sales tax =** levied on the sale of a commodity, which is produced or imported and sold for the first time. If the product is sold subsequently without being processed further, it is exempted from sales tax.
    b. It is paid by every dealer on the sale of any goods made by him in the course of inter-state trade or commerce.
    c. **Sales tax ID number :** A state Sales Tax ID number is essentially a business version of your PAN number, under which you collect and pay tax for any service or product you sell, which in turn, qualifies for taxation in your state.
    d. If proprietorship is selling tangible goods inter-state then CST applies.
    e. The threshold for registration for CST registration is imperative if he/she affect an inter-state transfer.

4. **Name the documents and licenses required for starting a sole proprietorship:**
    a. Service tax registration or VAT/CST registration
    b. PAN Card no. of the sole proprietor,
    c. Bank account no. in the name of sole proprietorship business,
    d. Shops & Establishment License,
    e. Employee Provident Fund Registration or Importer Exporter Code (if in export-import business) as and where applicable, have to be complied with.

JOINT STOCK COMPANY

1. **What is PAN?**
    a. Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued by the Income Tax Department.
    b. PAN, acts as an identifier for the person with the tax department.
    c. It is mandatory to quote PAN in all documents pertaining to financial transactions.
    d. PAN enables the department to link all transactions of the person with the department. These transactions include tax payments, TDS/TCS credits, returns of income/wealth/ gift/FBT, specified transactions, correspondence, and so on.

2. **Who must have PAN?**
    a. All existing assesses or taxpayers or persons who are required to furnish a return of income, even on behalf of others, must obtain PAN.
    b. Any person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed five lakh rupees in any previous year;
    c. Any person, who intends to enter into financial transaction where quoting PAN is mandatory, must also obtain PAN.
    d. The Assessing Officer may allot PAN to any person either on his own or on a specific request from such person.

3. **Who can open a current account**
    - Any person, competent to contract and satisfactorily introduced to the Bank may open an account in his/her own name. He/she may not open more than one such account. Accounts may be opened in the names of two or more persons and may be made payable to.
    - Accounts can be opened for sole proprietorship firms, partnership firms, private limited and public limited companies, Joint Hindu families, trusts, clubs, associates etc. satisfactorily introduced to the Bank and on fulfilling laid down procedures and tendering required credentials.
    - Accounts can be opened by minors of 14 years and above, if able to read and write, in their sole names.

4. **What is the Basic common documentation required to open a Current Account?**
    - **For individuals:**
        - Proof of Identity: PAN Card, Voter Id Card, Passport, Driving License
        - Proof of Address: Latest Telephone Bill or Electricity Bill
    - **Public or private limited companies**
        - Certificate of incorporation and commencement of business , Memorandum and Articles of Association , List of directors with residential addresses
        - Board resolution authorizing the opening and operation of the account , PAN or GIR No. or completed Form 60

5. **Name the steps required to be complied with to Register your company (Pvt. Ltd/Public limited Company)**

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

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

6. **What is TIN?**

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

7. **Excise duty (If applicable)**

- Excise duty is a tax on manufacture or production of goods.
    - Excise duty on alcohol, alcoholic preparations, and narcotic substances is collected by the State Government and is called "State Excise" duty.
    - The Excise duty on rest of goods is called "Central Excise" duty and is collected in terms of Section 3 of the Central Excise Act, 1944.
- Sales Tax = a tax on the act of sale while Excise duty = tax on the act of manufacture or production of goods.
- Generally the following categories of persons are required to get themselves registered with the central excise department:
    - Every manufacturer of dutiable excisable goods;
    - First and second stage dealers or importers desiring to issue Cenvatable invoices;
    - Persons holding bonded warehouses for storing non-duty paid goods;
    - Persons who obtain excisable goods for availing end-use based exemption.

8. **What is the procedure for obtaining Excise Duty registration?**

   a. Apply to the nearest central excise division office in form A.1 along with a self-attested copy of the PAN issued by the income tax department.

   b. After verification, a regular registration certificate in form RC is normally issued immediately, as far as possible.

9. **What is meant by Customs duty?**

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

10. **File entrepreneurship memorandum at DIC (optional)**
- Although not mandatory, you may file part I of entrepreneurs memorandum to the district industries centre.
- This may be necessary for claiming certain incentives / subsidies and for certain formalities at the state level.

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

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

13. **What are the Permissions that are required to be obtained from the Government by a company at the construction stage?**
    a. These are some permissions which are required to be obtained from the government:
    - ✓ **Pre-construction clearances**
        - Application for plot/shed, offer letter, payment of earnest money deposit
        - Allotment of plot/shed, payment of balance occupancy price, taking over possession thereof
        - Application for issuance of NOC/SSI registration
        - Execution of lease agreement
        - Application for grant of connection for construction water
        - Application for grant of connection for construction power
    - ✓ **Post construction clearances**
        - Building completion/drainage completion/tree plantation certificate
        - Permission for mortgage
        - NOC from Pollution Control Board
        - Final fire clearance
        - NOC from environment department
        - Industrial safety permit
        - Sanction of permanent power
        - Sanction of permanent water and sewerage connection

14. **When does a firm require registration for Employee's Provident Fund (EPF) account?**
- Applicable for establishments employing 20 or more persons and engaged in industry.

15. **When is Employee's State Insurance (ESI) scheme applicable to a firm?**
- The Act is applicable to non-seasonal factories employing 10 or more persons.
- The scheme has been extended to shops, hotels, and restaurants, cinemas including preview theatres, road-motor transport undertakings and newspaper establishments employing 20 or more persons.

Unit 3: Enterprise Marketing

What Is The Goal Of Business?

– Fundamental goal of business is to make **profit;** this always need not be in terms of money but improved customer relations, goodwill etc.,
– **What is goal setting?**
    ✓ "Establishing short or long term objectives, usually incorporating deadlines and quantifiable measures."
– **Why is goal setting important?**
    ✓ For ensuring the appropriate performance.
    ✓ Ensures clarity of vision, alignment to the organizational goals, clarity of purpose and higher probability of achieving the goals.
    ✓ Allows us to be proactive, instead of just being reactive.
– **Goals need action**
    ✓ Goal setting strategy.
    ✓ Provides us with direction and motivation.
    ✓ Set the right goals, that is, goals that will keep our business on track rather than derail it.
- **Rules for goal setting:**
    i. Business goals need to be relevant.
    ii. Business goals need to be actionable.
    iii. Business goals need to be achievable stretches.

- **What are smart goals?** Specific, Measurable, Attainable, Relevant, Time-Based

Marketing Strategy

– **Marketing strategy** is defined by David Aaker as "a process that can allow an organization to concentrate its resources on the optimal opportunities with the goals of increasing sales and achieving a sustainable competitive advantage."
– **What does the Marketing strategy of a company include?**
    ✓ All basic and long-term activities in the field of marketing.
    ✓ Analysis of the strategic initial situation of a company.
    ✓ Formulation, evaluation and selection of market-oriented strategies that contributes to the goals of the company and its marketing objectives.
    ✓ Strategies for growth as well as interrelated components called the marketing mix.

Components of Marketing Mix:

– **Definition –**
– According to Philip Kotler, "*A Marketing mix is the mixture of controllable marketing variables that the firm uses to pursue the sought level of sales in the target market.*"
– The 4Ps that make up a typical marketing mix are –
    i. Price, Product, Promotion and Place.
    ii. May also include several other Ps like Packaging, Positioning, People and even Politics as vital mix elements. We will be concentrating only on the typical 4P's.

Product Mix

- **Product:**
  - Refers to the item actually being sold. The product must deliver a minimum level of performances; otherwise even the best work on the other elements of the marketing mix won't do any good.

- Product Mix involves the following decision areas:
  i. What does the customer want from the product/service? What needs does it satisfy?
  ii. What features does it have to meet these needs?
  iii. Are there any features you've missed out?
  iv. Are you including costly features that the customer won't actually use?
  v. How and where will the customer use it?
  vi. What does it look like? How will customers experience it?
  vii. What size(s), color(s), and so on, should it be?
  viii. What is it to be called?
  ix. How is it branded?
  x. How is it differentiated from the competitors?
  xi. The components of Product mix are: Branding, Labeling and Packaging.

- The product mix has four crucial components.
  i. Branding
  ii. Logo and tagline
  iii. Labeling
  iv. Packaging

– *Branding*:

- A product is
  - It includes physical objects, services, personalities, places, organizations and ideas.
  - As a product is any tangible and/or intangible offering that is required to satisfy the needs or aspirations of a consumer,
- It is important to understand:
  - the "underlying motives" behind "buying" of the product,
  - To ascertain whether the buyer is really satisfied by having the same product.

- Every product satisfies a ***'generic' requirement***, = the core benefit, a product offers to the customer.
- If products were sold by generic names, it would be very difficult for the marketers to distinguish their products from that of competitors.

- Branding is an effective differentiation strategy commonly adopted by marketers when dealing with the products which cannot be easily distinguished in terms of tangible features.

- **Branding as a Concept** - A brand is "a name, term, sign, symbol, or design or a combination of them which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of the competitors."

– **Common terms related to branding are:**

1. **Brand =** denotes a name, term, sign, symbol, design or combination of them to:
   - Identify the products of one firm, and
   - Differentiate them from those of the competitors.

✓ **Brand has three components**

- Brand name.
- Brand mark.
- Trade mark.

– **Qualities of a good brand**

1. Short, simple and easy to pronounce.
2. Noticeable, easy to recognize and remember.
3. Pleasing, impressive when uttered.
4. Neither obscene, negative, offensive or vulgar.
5. Adaptable to packaging, labelling requirements, to different advertising media and languages.
6. Linked to product, symbolically eye catching.
7. Contemporary, capable of being registered and protected legally.

✓ **Entrepreneur's perspective on brand name**

i. <u>Different policies can be followed</u> while choosing a brand name.
ii. It helps a new product to <u>get public attention</u>.
iii. The entrepreneur <u>should legally protect his/her brand name</u> or mark through trade mark. Trade mark is meant to guard against ditto imitations.
iv. An entrepreneur <u>should be very careful in deciding/in choosing its brand strategy</u>
v. Various types of brands available are:
   - Individual brand name
   - Family brand name.
   - Corporate names.
   - Alpha-numeric names.

– ***<u>Logos And Tag Lines</u>***

✓ **Logo** 'Logo'

i. Short for Logotype
ii. Identifying symbol for a product or business.
iii. It is a graphic mark or emblem commonly used by commercial enterprises, organizations and even individuals to aid and promote instant public recognition.
iv. Can be either:

1. Purely graphic (symbols/icons) or
2. The name of the organization (a logotype or word mark).

✓ **Purpose**

1. <u>Anchors Company's brand</u>.
2. Are <u>the "Identity" of an enterprise</u>
3. <u>Provide essential information about a company</u> that allows customers to relate with the enterprise's core brand.
4. <u>Short path for advertising</u> and other marketing materials.
5. Act as the <u>key visual component of an enterprise's overall brand identity</u>.

– **Tagline**

- ✓ Taglines are basically simple but powerful messages that help to communicate an enterprise's goals, mission, distinct qualities and so much more.
- ✓ It is a small amount of text which serves to clarify a thought and is designed with a dramatic effect. They can come in the form of:
    i. Questions
    ii. Statements
    iii. Exclamations
- ✓ Creates a memorable dramatic phrase that will sum up the product.

– ***Packaging***

- ✓ Packaging is often the key element in assisting, mainly consumer goods companies, to achieve a comparative advantage.
- ✓ The critical decisions that must be made on the package are concerned with :
    i. The functions the product pack will perform and
    ii. The mix of packaging components best able to perform in different degrees, the particular functions of the packaging.

– ***Labeling***

- ✓ It is the display of information about a product on its container, packaging, or the product itself.

– ***Importance of Intellectual Property for an entrepreneur***

- Intellectual property (IP) rights are the legally recognized exclusive rights to creations of the mind. Under this law, owners are granted certain exclusive rights to a variety of intangible assets.
- Common types of intellectual property rights include
    - Copyrights
    - Trademark
    - Patents
    - Industrial Design Rights
    - Trade Secrets.

Price Mix

– **Price**

- = the value that is put for a product.
- It depends on
    - Cost of production, Segment targeted, Ability of the market to pay, Supply - demand and a host of other direct and indirect factors.
- There can be several types of pricing strategies, each tied in with an overall business plan.
- Pricing can also be used as a demarcation, to differentiate and enhance the image of a product.
- Price is the ***only revenue generating element*** amongst the four P's, the rest being cost centers.
- Some **Methods Of Pricing** which are used in pricing decisions are as follows: Cost Plus Pricing, Penetration Pricing, Price Skimming and Variable Pricing

a. **Cost-Plus Pricing**

- The manufacturer charges a price to cover the cost of producing a product plus a reasonable profit. The cost-plus method is simple, but it does not encourage the efficient use of resources.
- Cost-plus pricing is typically based on a manufacturing estimate.
- Estimates are made of the resources required, the cost of those resources and the time for which they will be used.

- **Advantages of cost plus pricing**
  1. A company knows exactly the amount of expenditure and therefore they can add profit margin accordingly.
  2. It is the simplest method.
  3. Easier for a company to evaluatethe reasons for escalations in expenses and therefore it can take corrective action immediately.
- **Disadvantages of cost plus pricing**
  1. This method does not take into account the future demand.
  2. It also does not take into account the competitor actions.
  3. It can result in the company overestimating the price.

b. **Penetration Pricing**

- Price is initially set at a price lower than the eventual market price, to attract new customers.
- The expectation is that customers will switch to the new brand because of the lower price.
- Penetration pricing is most commonly associated with a marketing objective of increasing market share or sales volume.
- **The advantages of penetration pricing to the firm are:**
  1. Result in fast diffusion and adoption. This can achieve high market rates quickly.
  2. It can create goodwill among the early adopters segment.
  3. It creates cost control and cost reduction pressures from the start.
  4. It discourages the entry of competitors. Low prices act as a barrier to entry
  5. It can create high stock turnover throughout the distribution channel
  6. This can create critically important enthusiasm and support in the channel.
- **Disadvantages or penetrating price method:**
  1. The main disadvantage with penetration pricing is that it establishes long–term price expectations for the product and image preconceptions for the brand and company.
  2. Another potential disadvantage is that the low profit margins may not be sustainable long enough for the strategy to be effective.

c. **Creaming or Skimming**

- Goods are sold at higher prices. Usually employed to reimburse the cost of investment of the original research into the product.
- This strategy is often used to target "early adopters" of a product or service who generally have a relatively lower price-sensitivity.
- This strategy is employed only for a limited duration.
- **Advantages of skimming price**
  - i. Helps the company recovering the research and development costs.
  - ii. If the company caters to consumers who are quality conscious rather than price conscious.

- **Disadvantages of skimming price**
  i. This strategy can backfire if there are close competitors.
  ii. Not viable when there are strict legal and government regulations.
  iii. If the company has history of price skimming then consumers will never buy a product when it is newly launched, they would rather wait for a few months and buy the product at lower price.

d. **Variable price method**
- Permits different rates to be extended to different customers for the same goods or services.
- Often employed where potential buyers are allowed to participate in a bidding situation, such as in an auction.
- Variable pricing may come into play when the customer is committing to the purchase of large volumes of goods or services. When this is the case, the customer must usually comply with specific criteria in order to enjoy pricing that varies from the standard cost.
- One of the classic examples of the use of variable pricing has to do with street vendors who sell various types of small goods. The real estate market also functions with the use of variable pricing.
- **Examples:** Difference in order size of the customers , Difference in the anticipated business from different customers.
- Variable pricing does provide some benefits, but also has the potential for drawbacks.
- Benefit = move goods that have failed to perform as originally anticipated, allowing them to earn a modest profit or at least recoup their investment in the products.
- Drawback = A it can lead to losing other customers who paid full price for their purchases, if they find out that a more recent customer was able to receive a lower price.

Place mix (Distribution)

– **Place:** Refers to the point of sale. In every industry, catching the eye of the consumer and making I it easy for her to buy is the main aim of a good distribution or 'place' strategy.

– A **channel of distribution or trade channel** is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users.
  ✓ This channel consists of:
    i. Producers, consumers or users and the various middlemen like wholesalers, selling agents and retailers (dealers) who intervene between the producers and consumers.
  ✓ Therefore, the channel serves to bridge the gap between the point of production and the point of consumption thereby creating time, place and possession utilities.

– **A channel of distribution consists of three types of flows:**
  ✓ Downward flow of goods from producers to consumers
  ✓ Upward flow of cash payments for goods from consumers to producers
  ✓ Flow of marketing information in both downward and upward direction.

– An entrepreneur has a **number of alternative channels available to him**. **These channels of distribution are broadly divided into four types.**

– **The Channels of distribution are broadly divided into four types.**
  - ✓Producer-customer (Direct channel-zero level)
  - ✓ Producer-retailer-customer (Indirect-one level)
  - ✓ Producer-wholesaler-retailer-customer (Two level)
  - ✓ Producer-agent-wholesaler-retailer-customer (Three level)

✓ **Producer-customer (Direct channel-zero level)**:
i. Simplest and shortest channel in which no middlemen is involved.
ii. It is fast and economical.
iii. The producer performs all the marketing activities and has full control over distribution.
iv. A producer may sell directly to consumers through door-to-door salesmen, direct mail or through his own retail stores.
v. Big firms adopt this channel to cut distribution costs and to sell industrial products of high value. Small producers and producers of perishable commodities also sell directly to local consumers.

✓ **Producer-retailer-customer (Indirect-one level)**:
i. This channel of distribution involves only one middleman called 'retailer'.
ii. Under it, the producer sells his product to big retailers (or retailers who buy goods in large quantities) who in turn sell to the ultimate consumers.
iii. This channel relieves the manufacturer from burden of selling the goods himself and at the same time gives him control over the process of distribution.
iv. This is often suited for distribution of consumer durables and products of high value.

✓ **Producer-wholesaler-retailer-customer (Two level)**:
i. Two middlemen i.e. wholesalers and retailers are involved.
ii. This channel is suitable for the producers having limited finance, narrow product line and who need expert services and promotional support of wholesalers.
iii. This is mostly used for the products with widely scattered market.

✓ **Producer-agent-wholesaler-retailer-customer (Three level)**:
i. This is the longest channel of distribution in which three middlemen are involved.
ii. This is used when the producer wants to be fully relieved of the problem of distribution and thus hands over his entire output to the selling agents..
iii. This channel is suitable for wider distribution of various industrial products.

– An entrepreneur has to **choose a suitable channel of distribution for his product** such that the channel chosen is
  - ✓ Flexible, Effective and Consistent with the declared marketing policies and programmes of the firm.

– While selecting a distribution channel, the entrepreneur should
  - Compare the costs, sales volume and profits expected from alternative channels of distribution and take into account the following factors.

o **Considerations Related To Product** - 1. Unit value of the product 2. Standardized or customized product 3. Perishability 4. Technical nature	o **Considerations related to market** 1. Number of buyers 2. Types of buyers 3. Buying habits 4. Buying quantity 5. Size of market
o **Considerations related to manufacturer/company** 1. Goodwill 2. Desire to control the channel of distribution 3. Financial strength	o **Others** 1. Cost 2. Availability 3. Possibilities of sales
o **Considerations related to government**	

– ***Promotion Mix***

- This refers to all the activities undertaken to make the product or service known to the user and trade.
- This can include advertising, word of mouth, press reports, incentives, commissions and awards to the trade. It can also include consumer schemes, direct marketing, contests and prizes.

C. SALES STRATEGY

- A plan that positions a company's brand or product to gain a competitive advantage.
- Help the sales force focus on target market customers and communicate with them.
- A successful sales strategy conveys how their products or services can solve customer's problems so that the sales force spends time targeting the correct customers at the right time.

- **Significance of an Effective Sales Strategy**
    1. An effective sales strategy requires looking at long-term sales goals and analyzing the business sales cycle, as well as meeting with sales people about their personal career goals.
    2. Helps gain a more intimate knowledge of the sales intervals, seasonal changes and what motivates the sales team.
    3. Creates long-term sales strategy based on which, sales managers should create monthly and weekly sales strategies. Allows for short-term performance measurement of the sales team.

- **Types** - Businesses employ one of two basic types of sales strategies to their overall plan: direct or indirect.
    - ✓ With the **direct sales strategy**, sales people attack the competition head on.
    - ✓ **Indirect sales** approaches apply more subtle techniques by demonstrating features and benefits not available with the competition's products or services without ever mentioning them by name.

- **Components = Product Placement + Promotion + Testimonials + Core Selling Strategies**

– **Function**
  - ➢ A firm many use a direct or indirect sales strategy, or a combination of the two.
  - ➢ A sales strategy lays out the steps and methods necessary for customers in different stages.
    - ✓ Potential customers - introduces the brand and product or service in ways that show how it can solve his or her problems.
    - ✓ Current customers
      1. Require more personal communication about new features or benefits.
      2. Promotions and referral discounts work to motivate current customers.

– **Considerations**
  - ✓ Requires market knowledge, awareness of competitor activities, awareness of current trends and detailed business analysis.
  - ✓ Small business owners wishing to create and implement a sales strategy for the first time may want to hire a professional business consultant to help guide the process.

D. PROMOTION STRATEGY

– Promotion is the method to spread the word about the product or service to customers, stakeholders and the broader public.

– **There are various approaches a company can use to promote its products. They are:**
  - ✓ Above-the-line
  - ✓ Below-the-line
  - ✓ Through-the-line

– **Above-the-line**
  - ✓ Uses mass media methods. Focuses on advertising to a large audience. It includes conventional media like print, online, television and cinema advertising.
  - ✓ Include advertisements in the press.
  - ✓ It is difficult to tailor a promotion to a specific group of consumers because it is viewed by a mass audience with different tastes and needs.
  - ✓ Very expensive.

– **Below-the-line**
  - ✓ Very specific, memorable activities focused on targeted groups of consumers.
  - ✓ They are under the control of the organization.
  - ✓ The purpose of these activities has been to develop the brand by creating awareness and building a brand profile.
  - – Below-the-line methods include Sponsorship, Sales Promotions , Public Relations , Personal Selling , Direct Marketing.

– **Through-the-line**
  - ✓ Refers to an advertising strategy involving both above and below the line communications in which one form of advertising points the target to another form of advertising thereby crossing the "line".

- **Difference between above the line (ATL) and below the line (BTL) Bases:** Target , Promotions - help in, Measurability , Examples

– A mix of the following can be used to promote their products or services.
  1. Advertising
  2. Personal Selling
  3. Sales Promotion
  4. Public Relations

i. Advertising

– **What is advertising?**
  - Advertising is a form of communication designed to persuade potential customers to choose the product or service over that of a competitor. Successful advertising involves making the products or services positively known by that section of the public most likely to purchase them.

– **Why advertise?**
  1. Make business and product name familiar to the public
  2. Create goodwill and build a favourable image
  3. Educate and inform the public
  4. Offer specific products or services
  5. Attract customers to find out more about your product or service

– **The rules of advertising**

There are four rules to consider when planning any advertising activity – i.e. before we prepare and book any form of advertising.

i. Aim
ii. Target
iii. Media
iv. Competitors

– **Developing effective advertising (AIDA)** Good advertising generally elicits the following four responses:
  - Attention, Interest, Desire and Action.

– **Commonly used media**
  - ✓ Which media we use will depend on who we are trying to reach, what we want to say looking into the budget.
  - ✓ Often a combination of media can be used to good effect.

i. Stationery
ii. Window display or office front
iii. Press advertising
iv. Radio
v. Television
vi. Direct mail
vii. Outdoor
viii. Ambient
ix. Cinema
x. Point of sale
xi. Online
xii. Directory listings

ii. Personal Selling

– **What is personal selling?**
  – It involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. A salesperson plays three different roles
    i. Persuasive role
    ii. Service role
    iii. Informative role

iii. Sales Promotion

– **What is sales promotion?**
  – Sales promotion relates to short term incentives or activities that encourage the purchase or sale of a product or service.

- **What are the major sales promotion activities?**
  - Sales promotion activities can be targeted toward final buyers (consumer promotions), business customers (business promotions), retailers and wholesalers (trade promotions) and members of the sales force (sales force promotions).

– **Consumer promotions**	– **Business promotions**
i. Point of purchase display material ii. In-store demonstrations, samplings and celebrity appearances iii. Competitions, coupons, sweepstakes and games iv. On-pack offers, multi-packs and bonuses v. Loyalty reward programs	i. Seminars and workshops ii. Conference presentations iii. Trade show displays iv. Telemarketing and direct mail campaigns v. Newsletters vi. Event sponsorship vii. Capability documents
– **Trade promotions** i. Reward incentives linked to purchases or sales ii. Reseller staff incentives iii. Competitions iv. Corporate entertainment v. Bonus stock	– **Sales force promotions** i. Commissions ii. Sales competitions with prizes or awards iii. Back to top

iv. Public Relations

- **What is Public Relations?**
- It is the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organization (or individual) and its (or their) public.
- Building good relations with the stakeholders (public) of the business by obtaining favorable publicity, building a good corporate image and handling or heading off unfavorable rumors, stories and events.
- **Who is a stakeholder?**
- Stakeholders are the various groups in a society which can influence or pressure your business decision making and have an impact on its marketing performance. These groups include:

i. Clients/customers	iv. Strategic partners	vii. Local community
ii. Staff	v. Media	viii. Financial institutions
iii. Shareholders	vi. Government	ix. Community groups

- **What are the main public relations tools?**
  - Typical public relations tools include:
    i. News creation and distribution (media releases)
    ii. Special events such as news conferences, grand openings and product launches
    iii. Speeches and presentations
    iv. Educational programs
    v. Annual reports, brochures, newsletters, magazines and AV presentations
    vi. Community activities and sponsorships

E. NEGOTIATION

- Negotiation is a process where two or more parties with different needs and goals discuss an issue to find a mutually acceptable solution.

- In business, negotiation skills are important in both informal day-to-day interactions and formal transactions such as negotiating conditions of sale, lease, service delivery, and other legal contracts.

- Good negotiations contribute significantly to business success, as they:
  1. Help in building better relationships
  2. Deliver lasting, quality solutions
  3. Helps in avoiding future problems and conflicts.

- Negotiation can be categorized in different ways. Below are just a few ways that we can look at negotiation:
  - ✓ Integrative negotiations, Distributive negotiations , Inductive , Deductive , Mixed

F. CUSTOMER RELATIONS

- CRM is the abbreviation for ***customer relationship management***.
- It entails all aspects of interaction that a company has with its customer, whether it is sales or service-related.
- It is the process of carefully managing detailed information about individual customers in order to manage loyalty.

- CRM is often thought of as a business strategy that enables businesses to:
  - ✓ Understand the customer
  - ✓ Retain customers through better customer experience
  - ✓ Attract new customer
  - ✓ Win new clients and contracts
  - ✓ Increase profitability
  - ✓ Decrease customer management costs

- ***How CRM is used today***
  - ➢ Enable companies to provide excellent real-time customer service through the effective use of individual account information.

- ***The impact of technology on CRM***
  - Advancement in technology have also changed consumer buying behavior and offers new ways for companies to communicate with customers and collect data about them.
  - customer relationship is being managed electronically.
  - Many aspects of CRM relies heavily on technology; however the strategies and processes of a good CRM system will collect, manage and link information about the customer with the goal of letting you market and sell services effectively.

– *The benefits of CRM*

a. Having all your business data stored and accessed from a single location.
b. Storing all the data from all departments in a central location gives management and employees immediate access to the most recent data when they need it.
c. Departments can collaborate with ease
d. Other benefits include
   – A 360-degree view of all customer information, knowledge of what customers and the general market wants and
   – Integration with your existing applications to consolidate all business information.

G. EMPLOYEE MANAGEMENT

– A process that companies use to effectively manage all interactions with employees, ultimately to achieve the goals of the organization.
– The human resources department can play a critical role in this process.
– **Factors which lead to effective employee relationship**

i. Identifying objectives
ii. Determining employee needs
iii. Balancing work and life needs
iv. Open and honest communication
v. Measuring and monitoring results
vi. Relationships are interpersonal

H. BUSINESS FAILURE

– Business failure refers to a company ceasing operations following its inability to make a profit or to bring in enough revenue to cover its expenses. A profitable business can fail if it does not generate adequate cash flow to meet expenses.

– **The 12 broad causes that lead to a business failure are summarized below.**

i. Lack of industry experience
ii. Inadequate financing
iii. Lack of adequate cash flow
iv. Poor business planning
v. Management incompetence
vi. Ignoring the competition
vii. Unworkable goals
viii. Diminished customer base
ix. Uncontrolled growth
x. Inappropriate location
xi. Poor system of control
xii. Lack of entrepreneurial skills

I. VENDOR MANAGEMENT

– Vendors are individuals or businesses that supply goods or services to other individuals or businesses.
– Vendor management is a term used to describe the process of finding, qualifying and doing business with vendors.
– Common activities include researching vendors, negotiating contracts, obtaining quotes, evaluating performance, creating and updating vendor files, and ensuring that payments are made properly.

- **How is vendor management done?**
    i. Once a business determines that it has a need that must be outsourced, vendor management begins.
    ii. The company must find one or more vendors that can supply the good or service needed and evaluate each vendor.
    iii. After vendors are selected, managing a pool of vendors, assigning jobs or contracts as needs arise, monitoring vendor performance, and ensuring that contract terms are followed.
    iv. In large companies, a vendor manager often has more than one vendor in the pool for each type of product of service.
    v. Vendor management often involves a great deal of electronic or manual paperwork.
    vi. If the vendor will have access to proprietary or private information, a non-disclosure or other such agreement must usually be signed and placed in the vendor files.
    vii. The term vendor management is usually used within the context of business operations, but individuals may also need to manage vendors from time to time.
- **Quality, timeliness and customer satisfaction**
    - ✓ Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.
    - ✓ A company that satisfies most of its customer needs most of the time is called a Quality Company.
    - ✓ Impact of quality:
        i. Product and service quality, customer satisfaction and company profitability are intimately connected.
        ii. Higher level of quality results in higher level of customer satisfaction, which supports higher prices and (often) lower costs.
        iii. Companies that have lowered costs to cut corners have paid the price when the quality of the customer experience suffers.
    - ✓ Quality is clearly the key to value creation and customer satisfaction.

Unit 4 – Enterprise Growth Strategies

A. **Growth and Development Of An Enterprise**

- Growth is always essential for the existence of abusiness concern.
- One should onlyexpand when there are untapped opportunities thatcan benefit the business.
- An entrepreneur has a dual role to play- one, that of a leader and the other of a manager.
- The expansion of a concern may be in the activities or acquisition of ownership and control ofother concerns. Thus, expansion may be:
  a. Internal Expansion
  b. External Expansion

a. Internal expansion

- Internal expansion results from the gradual increase in the activities or production capacity of the concern.
- It may be done by
  i. Adding more machines or byreplacing old machines.
  ii. Taking up other units to increase the production capacity
  iii. Entering new fields on the production and marketing sides.
- Internal expansion may befinanced by the issue of more share capital, generating funds from old profits or byissuing long–term securities.
- The net result of internal expansion is the increase inbusiness activities and broadening the present capital structure.

b. External expansion or business combination

- Business combination where two or more concerns combine and expand their business activities.
- Combination = two or more units engage in similar business or related process or stages. Sometimes stages of the same business join with a view to carry on their activities or shape their polices on common basis some other or in coordination for mutual benefit or maximum profits.
- The combination may be among competing units or units engaged in different processes. After combination, the constituted firm pursues some common objectives or goals.
- Main forms of external expansion are Franchising and Mergers and Acquisitions

Franchising

- Franchising allows entrepreneurs to be in business for themselves, but notby themselves.
  - *Franchising* is as "an arrangement whereby the manufacturer or sole distributor of atrademarked product or service gives exclusive rights of local distribution to independentretailers in return for their payment of royalties and conformance to standardized operatingprocedures".
  - The person offering the franchise =*franchisor.*
  - *Franchisee* = theperson who purchases the franchise.
  - Foundationof this relationship =*Franchise Agreement*.

- **The main ingredients of a franchise agreement:**
    a. Contract Explanation
    b. Operations Manual
    c. Proprietary Statements
    d. On-going Site Maintenance

- **Big brands make head towards for franchising**
    - Companies that have opted for this mode of expansion are Dabur,Raymond Ltd**. ,** NIIT, Mahindra & Mahindra Ltd..

- **Types of franchising**
    a. Product franchise business opportunity
    b. Manufacturing franchise opportunity
    c. Business franchise opportunity ventures
    d. Business format franchise opportunity

- **How Franchising help start-ups:**
    1. Product has an established goodwill in the market
    2. Lesser requirement for training
    3. Lower running costs
    4. Mutual interest

- **Advantages and disadvantages of franchising**

- **Advantages to the franchisee**

1. Product acceptance
2. Management expertise
3. Capital requirements
4. Knowledge of the market
5. Operating and structural control

Advantages to the franchisor

1. Quick expansion
2. Cost advantages

Disadvantages to the franchisee

1. Right and the only way of doing things:
2. Continuing cost implication:
3. A Risk of franchisor getting bought:
4. Inability to provide services:

Disadvantage to the franchisor

1. Difficulty in identifying quality franchisees.

Growth through Mergers and Acquisitions (M&A)

- There are various reasons that firms may choose to grow through M&A instead of expanding internally.
    - The company already exists in place, with its own production capacity, distribution network and clientele.
    - M&A may usually turn out to be less expensive

Mergers

- A ***merger*** is a combination of two companies into one larger company.
- This action involves stock swap or cash payment to the target. In merger, the acquiring company takes over the assets and liabilities of the merged company. All the combining companies are dissolved and only the new entity continues to operate.
    - Combination involves firms that are of similar size=*consolidation.*
    - When the two firms differ significantly bysize = *merger. It* **takes two forms**.
        - *Amalgamation* = *two* entities combine together and form a new entity.
        - A*bsorption* = *one* entity gets absorbed into another.

Types of Mergers

1. Conglomerate
2. Horizontal merger
3. Market extension mergers
4. Product extension mergers
5. Vertical merger

Acquisitions

- *Acquisition* refers to a corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm.
- . Acquisitions are often paid in cash, the acquiring company's stock or a combination of both. An acquisition, also known as a *takeover,* is the buying of one company (the target) by another.

- **Types -**There are four types of acquisitions:
    1. Friendly acquisition
    2. Reverse acquisition
    3. Back flip acquisition
    4. Hostile acquisition

- **Reasons For Mergers And Acquisitions**

1. Synergy**-** can take the following forms:
    - Operating synergy
    - Financial synergy
2. Acquiring new technology
3. Improved profitability
4. Acquiring a competency
5. Entry into new markets
6. Access to funds
7. Tax benefits

Reasons for Failure of Merger and Acquisitions

1. Unrealistic price paid for target
2. Difficulties in cultural integration
3. Overstated synergies
4. Integration difficulties
5. Poor business fit
6. Inadequate due diligence
7. High leverage
8. Boardroom split
9. Regulatory issues
10. Human resources issues

B. VALUE ADDITION

- Business adds values to goods and services by modifying them in a particular way to create a new product of greater value to customers.
- Added value,
    - From a financial point of view= difference between the value of inputs to a production process and the value of the outputs of that process.
    - From a marketing perspective, = means adding value that turns a commodity into a branded product.

- **Common examples of adding value include:**
    - Turning cotton into fabric, Turning milk into cheese, etc.

- **Adding Value is a Business Strategy for Growth (Kevinzhengli) - Types of added value**

- There are several types of added values that a business can employ to improve its products and services.
    1. Quality
    2. Environmental
    3. Cause-related
    4. Cultural

The different types of added value are <u>not mutually exclusive and can be employed at any phase of the production or service cycle.</u>

Adding value can be used as a marketing strategy to differentiate a product from competing products. Such strategies should be fully researched and included in a business plan to show the potential benefits to a business.

C. <u>MOVING-UP THE VALUE CHAIN</u>

- ✓ A value chain is the <u>whole series of activities that create and build value at every step</u>. The total value delivered by the company is the sum total of the value built up all throughout the company.
- ✓ Michael Porter developed this concept. In simple words <u>**'Value Chain'** is a high level model of how business receive raw-materials, add value to the raw-materials through various processes and sell as finished products to customers</u>. 'It looks at <u>every step of business, from raw-materials to the eventual end users, with one goal to deliver maximum value</u>.
- ✓ If they are run efficiently, <u>the value obtained should exceed the costs of running them</u>.

✓ **Primary Activities**	**Support Activities**
1. Inbound logistics: 2. Operations: 3. Outbound logistics: 4. Marketing and sales: 5. Services:	1. Procurement: 2. Technological development: 3. Human resource management: 4. Firm infrastructure:

Six Requirements for Value Chain Management

Value chain managers are always looking for ways to improve the company's processes.

1. Coordination and collaboration
2. Technology investment
3. Organizational process
4. Leadership
5. Employee/human resources
6. Organizational culture and attitudes

Unit 5 – Business Arithmetic

Unit of Sale, Unit Price and Unit Cost (Multiple Products or Services)

- Unit of sale is required for tracking progress, comparing past with the future and to be able to take corrective action. In short, it is a management tool.
- The entrepreneur can use Unit of Sale it for determining and establishing its
  - Pricing,
  - Cost per unit,
  - Gross profit per unit,
  - Sales trend,
  - Sales target etc.
- The business person some quick and easy way of checking the progress of the business or plan corrective actions.
  - Defining the unit of sale, unit price and unit cost & resultant gross profit in a meaningful way is the answer.

Business	Unit of Sale	Unit Price	Unit Price per Unit of Sale
Grocery store,	A customer	Average purchase	Average purchase made by one customer'
Restaurant	A diner	Average amount billed	Average amount billed per diner
Beauty Parlour or Saloon	A customer	Average billing	Average billing per customer

- Many industries have their unique thumb rules for the relationship between Unit Price and Unit Cost.
  - In Fast Moving Consumer Goods Industry it could be 80 or 85% (cost as percentage age of selling price).
  - In food industry, it could be 30 to 35% (COG as percentage age of selling price).
  - Electronic items may have a different thumb rule. Where none exists, you may be able to develop your own.

Some formulas:

1. Unit Price per customer $= \frac{\text{Total Billed Amount}}{\text{Number of Customers}}$

2. Unit Cost per product $= \frac{\text{Total Sale}}{\text{Number of Unit Sold}}$

3. Gross Profit = Selling price per unit-cost price per unit

Break Even Analysis - (Multiple Products or Services)

- Breakeven point is the level of sales (or revenue generated) that equals all the expenses required for generating that revenue.
- It is not more than the expenses (i.e. no profit) nor is it less than the expenses (i.e. no loss). In other words there is neither loss nor profit.

At the breakeven level

- B.E. Qty = $\dfrac{FixedExpenses}{\text{(Selling price per unit – variable cost per unit)}}$

- Thus, Break even quantity is the quantity where Total Revenue = Total Expenses, where
    - Total Revenue = Total Quantity x Price Per Unit = Qty x Unit Price
    - Total Expenses = (Total Quantity x Cost Per Unit) + Fixed Costs
      = (Qty x Unit Cost) + Fixed Exp
  - ➔ that is, at Break even quantity, (Qty x Unit Price) = (Qty x Unit Cost) + Fixed Exp
  - ➔ (Qty x Unit Price) - (Qty x Unit Cost) = Fixed Exp
  - ➔ Qty x (Unit Price – Unit Cost) = Fixed Exp
  - ➔ Qty x Gross Margin (or Profit) per Unit = Fixed Exp

B.E. Qty for a single product = $\dfrac{\text{Fixed expenses}}{\text{Selling price per unit – variable cost per unit}}$

B.E. quantity for multiple products:

= $\dfrac{\text{Fixed expenses}}{\text{Weighted Average Selling Price per Unit – Weighted Average Variable Cost per Unit}}$

*Please note: **Gross margin and gross profit are one and the same**.*

- **Usefulness of Break–Even Analysis**
    1. Forecasts
    2. Identify problem areas
    3. Cost estimation
    4. Price policy

Sales mix break-even point calculation

- Sales mix = proportion in which two or more products are sold.
- For the calculation of breakeven point for sales mix, **following assumptions** are made:
    1. The proportion of sales mix must be predetermined.
    2. The sales mix must not change within the relevant time period.
    3. All cost can be categorized as variable or fixed.
    4. Sales price per unit, variable cost per unit and total fixed cost are constant.
    5. All units produced are sold.

Calculation method for the break-even point of sales mix

- Based on the **Contribution Approach Method**.
- Since we have multiple products, they will have different contribution margin per unit.
- Thus, we calculate
    - 'Weighted average contribution margin per unit' and
    - 'Weighted contribution margin ratio'.
- These are then used to calculate the break-even point for sales mix.

Importance and Use of Cash Flow Projections

- Cash (or money, which means both currency and checks) is the lifeblood of every business. It is the most important asset for the operations of a business.

- **Cash Flow** refers to the **movement of money** in and out of a business during a specific period of time. It is a record of a company's inflows and outflows.
    a. **Cash inflow** is defined as the movement of money into a business and
    b. **Cash Outflow** is defined as the movement of money out of a business.

- **Cash Flow Projection** shows how cash is **expected to flow in and out of your business**.
    a. **It is an** important tool for cash management, as it helps one estimate i**f** outflows are too high or when you might want to arrange short term investment to deal with a cash surplus.

- Comparison of **Cash Flow Projection** and **Cash Flow Statement**.

Cash Flow Statement	Cash Flow Projection
a. Describes the past cash flow	a. Shows cash **anticipated to be generated or expended**
b. Does not manage day to day requirement.	b. Critical management tool

Why Cash Flow Projection?

- Every business must want to manage its affairs in a very efficient manner. Which means
    - It must pay its suppliers as per agreed terms,
    - Pay the employees their wages on stipulated dates,
    - Pay government levies etc as per rules,
    - Procure services and
    - Pay for the same, pay utility bills & rent etc on time.

- Similarly it must collect what is due to it also in a timely manner.
- Often, when business is expanding, your outflows can be more than in your inflows.
    - There is always a lag between your spending and your receiving the sales revenue.
    - Receipt of sales revenue may be delayed .

    In such situations, you should be equipped with sufficient information to be able to arrange for needed funds.

- Cash Flow Projections is not a static document. It must be used as a dynamic tool.
    - Calculations of cash Flow Projections are based on certain assumptions. Actual performance will be different.

    - To avoid such situations, it is important to review projections periodically and **recast the future based the current status**

    - An important question that arises is about the frequency and period (unit of time) of preparing Cash flow projections.

- The answer depends on the **purpose for which the projection will be used**.
  - If it is for a **Business Plan** (to attract investors and lenders),
    - It will be prepared at the initial stage – monthly for the first year, quarterly for the next two years and annual thereafter.
    - These projections are meant for demonstrating the fluctuating need of the short term funds (working capital or overdraft facility).
    - It takes the form of cash flow statement and because it is for the future, it is also referred to as pro-forma cash flow statement.
  - If it is for **running the day to day operations**, then
    - The projections would cover a much shorter period of say 3 to 6 months (13 to 26 weeks). The unit of time could be a month or even a week.
    - The length of the period is closely related to the volatility of the business and one's ability to forecast accurately.

- Decide the frequency and develop a format that suits your business.
- As you would be preparing this projection on periodic basis, please make sure that when one 'period' is over, it is dropped and a new period is added, keeping the length of the horizon intact.
- How accurate a *Cash Flow Projection* is depends on the period and horizon involved.

How to develop a cash flow projection?

1. Decide on the frequency & period as well as horizon .
2. Develop the format, with items appropriate for your business,.
3. A *projected* cash flow begins with the existing cash balance.
4. Where payment dates are variable, assume that you will pay suppliers as soon as possible but not receive payment from customers until the last possible date.
5. Adding all outflows then enables you arrive at the surplus or deficit for the period.

	Particulars	**April (₹)**	**May (₹)**	**June (₹)**
	Sources Of Inflow:			
A	**Total Inflows**	₹	₹	₹
	Forthcoming Expenditure			
B	**Total Expenditures**	₹	₹	₹
	Surplus Or (Deficit) (A – B)	₹	₹	₹
	Opening Balance	₹	₹	₹
	Closing balance	₹	₹	₹

Budgeting & Managing the Finances

What is financial management?

- Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise.
- It means applying general management principles to financial resources of the enterprise.

Objectives of financial management

- procurement, allocation and control of financial resources of a concern.
- The Main objective of Financial management is maximization of shareholder's wealth.
  - Here, owners are shareholders and wealth maximisation refers to increasing the market price of shares consistently in the long run.
- This may be achieved by:
  a. Ensuring regular and adequate supply of funds to the concern.
  b. Ensuring adequate returns to the shareholders.
  c. Ensuring optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
  d. Planning a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital as well as long term and short term uses and sources.

Process of financial management

1) Financial planning - ensure that enough funding is available at the right time to meet the needs of the business.

2) Financial control - addresses questions such as:

- Are assets being used efficiently?
- Are the businesses assets secure?
- Does management act in the best interest of shareholders and in accordance with business rules?

3) Financial decision-making

- The key aspects of financial decision-making relate to investment, financing and dividends:
  - Investments must be financed in some way – debt or equity
  - Whether profits earned by the business should be retained or distributed as dividends.

Budgeting

- 'Budget' = 'allocation of resources'.
- For any business, a **budget** is a quantitative expression of a **plan** for a defined period of **time**. It may include planned sales volumes and revenues, resource quantities, costs and expenses etc.
- **Essentials of budget include:**
  - To control resources
  - To communicate plans to various responsibility center managers.
  - To motivate managers to strive to achieve budget goals.
  - To evaluate the performance of managers
  - For accountability

- **Types of budgets include**

a. **Sales budget** – an estimate of future sales, in units and currency. Helps create sales goals.
b. **Production budget** – an estimate of the number of units that must be manufactured. It also estimates the various costs involved with manufacturing those units, including labour and material.
c. **Capital budget** - used to determine whether an organization's long term investments are worth pursuing.
d. **Cash flow/cash budget** – a prediction of future cash receipts and expenditures for the short term future. Helps the business determine whether the company will need to seek outside financing.
e. **Marketing budget** – an estimate of the funds needed for promotion, advertising, and public relations.
f. **Project budget** – a prediction of the costs associated with a particular company project. These costs include labour, materials, and other related expenses.

- **Budgets and budgeting**
    - budget = the final product, budgeting = the process of arriving at a budget.
    - A budget is an allocation of money for some purpose.
    - Modern formal budgets limit expenditures; predict income, profits, and returns on investment a year ahead.
    - They have evolved into tools of control and are also used as a means of determining such rewards as profit-sharing and bonuses.

- **Budgeting as a process**
    - In large corporations, budgeting is a collective process in which operating units prepare their plans in conformity with corporate goals published by top management.
    - Each Unit managers calculates and presents to a reviewing upper management panel
        - Projections of sales, operating costs, overhead costs, and capital requirements.
        - Operating profits and returns on the investment they intend to use.
    - The reviewing upper management panel and May, thereafter, make whatever changes result from instructions from or negotiations with the higher level.
    - Approved budgets then become the road-map for operations in the coming year.
    - Ideally monthly or quarterly budget reviews track performance against the budget. As part of such reviews, changes to the budget may be approved. At yearend managers are judged by their performance against the budget.

- **Benefits of budgeting**
    - For a new business, it is a <u>roadmap that can help them set goals and assess the validity of their business concept</u>.
    - For established small businesses, it <u>determining how the business is performing</u> through the years, and helping <u>identify possible future investments</u>.
    - By regularly consulting a budget, business leaders can <u>compare actual figures</u> and <u>catch potential business shortfalls or other problems</u> early.
    - Budgets can also be instrumental in <u>winning over investors</u>,.
    - It <u>ensures</u> that responsible <u>managers take time to think about their operation</u> by looking at all of its aspects.

Budgeting creates a comprehensive picture of the future and makes both opportunities and barriers conscious. This foreknowledge then helps guide day-to-day activities.

- **Cost of budgeting**
  - The chief cost of the budget processis **time**.
  - Much of the negative attitude that has developed concerning this activity has its roots in unnecessary bureaucratic bottlenecks on the one hand and unreliability because of rapid change a few months out.

- **Forms Budgeting Process**
  - The two dominant forms of budgeting processes are traditional and zero-based. Business planning is usually a combination of the two.
    1. ***Traditional* budgeting** = based on a review of historical performance and then the projection of such findings to the future with modifications..
    2. ***Zero-based* budgeting** is the creation of a completely new budget from the ground up. When using this method, the operation must justify and document every item of expenditure and income anew.

  - Budgeting is an important and integral part of running a business.
    1. Various future strategies planned in the business must be translated in to numbers.
    2. Budget and budgeting help one manage the business by numbers.

Working capital

- **Need for capital**
  - For procuring or investing in longer term assets – land, building, machinery, equipment etc. These are typically known as Fixed Assets. Once pressed in to service, they last over a reasonably longer period. These are placed in service for carrying out the main activity of the business – production and sales or service etc – and are not traded or sold to receive money (except when they have outlived their life). In other words, money invested on these items does not result in direct cash inflow for the business.

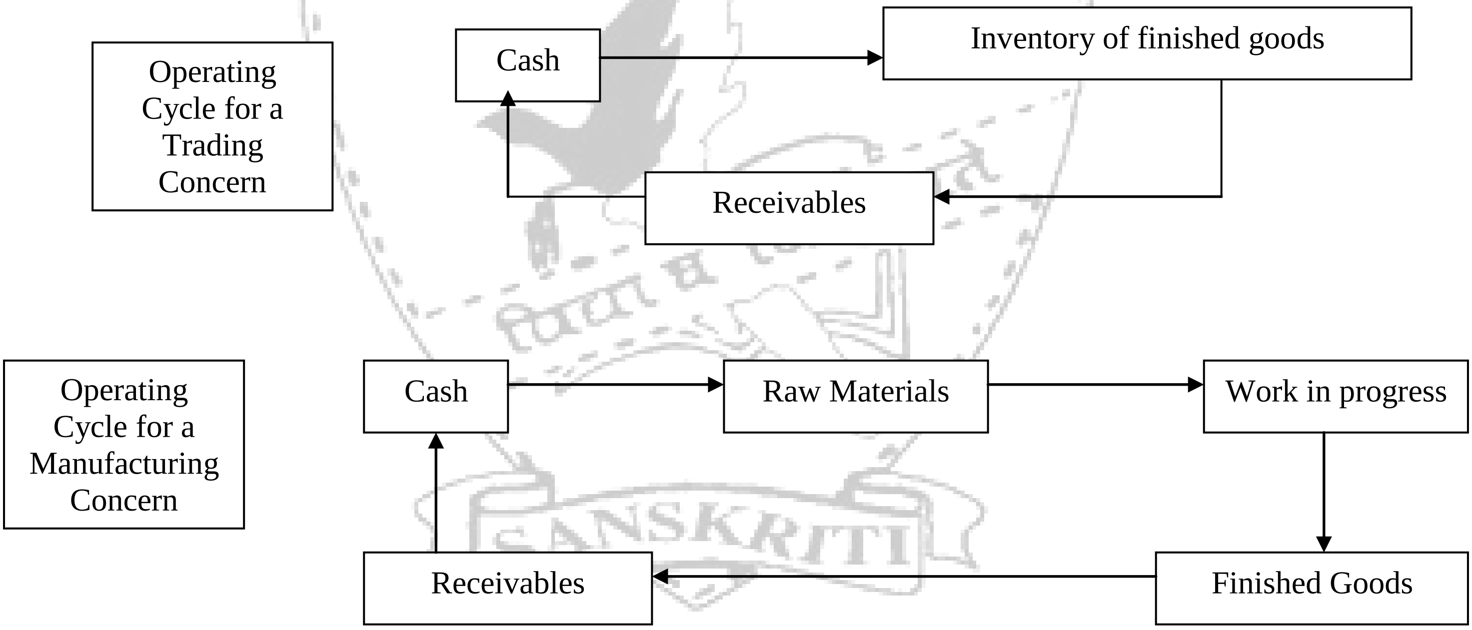
  - For buying raw materials, packing materials, paying rent, insurance premium, utility bills, wages and salaries and for many other services and/or materials used in the production or service. In other words this is the money needed for the day-to-day operations of the business.

- Money needed to fund the normal, day to day operations of a business is known as the **Working Capital**. It ensures you have enough cash to pay your debts and expenses as they fall due.

- **Need for working capital**.
  - If one is involved in manufacturing activity,
    a. buying raw materials and packing materials to be 'converted' in to the end product.
    b. During the time required to convert raw material to end product, various expenses like wages, rent, salary, utility bill, insurance etc are to be paid.

c. Once the end product is ready, for credit sale, it is received after the credit period.
d. The duration between buying the raw material and receiving the cash from the customer is known as the '**Operating Cycle'**. It is also referred to as the **Cash Conversion Cycle.**
e. **The cash conversion cycle** (**CCC** or **Operating Cycle**)
    - Length of time between a firm's purchase of inventory and the receipt of cash from accounts receivable.
    - Represents the number of days a firm's cash remains tied up within the operations of the business.
    - Different products will have different operating cycles.
        - If the conversion takes longer then the cycle will be longer. For trading, where there is no manufacturing (or conversion), the operating cycle will be shorter.
        - Longer the operating cycle, working capital quantum is more; shorter the cycle, less working capital is needed.

<u>OPERATING CYCLE</u>



- **Gross and net working capital**
    - ➢ **Gross working capital is** also known as current capital or circulating capital
    - ➢ It is the sum total of all current assets of the business. These include
        a. Cash,
        b. Inventory (raw materials, work in process, finished goods, spares etc) and
        c. Accounts receivable (or trade debtors).
    - ➢ Current assets comprise items that would get converted in to cash in the short-run, say, within the normal operating cycle (or cash conversion cycle) of the business.
    - ➢ Current liabilities represent short-term source of funds and are expected to fall due or mature for payment in a short period, generally within a year. These typically consist of payables to vendors and service providers, employees, other short term borrowings and provisions.
- Current assets: Stock Trade , Debtors , Cash, Short term investment
- Current liabilities: Trade creditors, Short term loans, Outstanding expenses

Inventory Control and Economic Order Quantity

Inventory

- The word inventory = raw materials, semi-finished goods, consumables, spare parts, finished goods etc.
- It deals with tangible items.
- We will examine two types of businesses
  - Manufacturing and
  - Trading (wholesale or retail) and not service.
- In the accounting jargon, inventory refers to the value of all the items in the inventory list that is owned by the business.

Control

- An inventory control system is expected to help achieve 'desirable behaviour' of the inventory items. Higher the conformance with the 'desirable behavior' using a system, that system can be labeled as a better system.
- Desirable behaviour of any inventory item =
  - Moment the need (demand) arises we should be able to supply the item – without losing any time.
  - The above should be at the lowest possible cost.
- A well conceived and thought through system can help in achieving the two different aspects of control – physical and fiscal (or monetary).

Items that make up the inventory

For a good inventory control system, we need to take care of both physical and fiscal aspects. But before we deal with those two, let us understand the nature of items that make up the inventory.

1. Stock keeping unit (SKU) code
2. Motley crowd
3. Space
4. Value
5. Lead time
6. Standard vs made to order
7. Seasonality of supply
8. Demand not uniform or not predictable
9. Shelf lif
10. Safety aspects
11. Obsolescence

1. **Stock keeping unit (SKU) code**
   - A **unique code** identifying inventory. May be a combination of alpha and numeric. Bar Codes and RFID (Radio Frequency Identification).
2. **Motley crowd**
   - In our stock of inventory, SKUs can be classified as Raw Materials, Packing Materials, Spare Parts, Semi Finished Goods (or WIP – Work In Progress), Finished Goods, Consumables etc.
3. **Space**
   - Space requirement for all items will not be identical; neither will it have proportionate relationship with the cost of the item.
4. **Value**
   - Not all SKUs have same value.
5. **Lead time**
   - Lead time = time taken to manufacture or procure an item.
   - It depends on many factors and the combined effect of these factors.

6. **Standard vs made to order**
    - Some of the items in the inventory could be commodity items or many suppliers produce to same specifications and hence easy to choose from.
    - Others may be specifically made to order and hence possibly limited sources to order from.
7. **Seasonality of supply**
    - If the item is an agricultural product (grains, vegetables, fruits etc.), the supply would be seasonal.
8. **Demand not uniform or not predictable**
    - Demand for an item could be seasonal. It may be easy to forecast but in others not so easy.
9. **Shelf life**
    - If items are perishable in or have expiry dates, they impose certain constraints on inventory management.
10. **Safety aspects**
    - If items are hazardous in nature and special precautions have to be taken in their storage.
11. **Obsolescence**
    - Due to advancement in technology, certain items may not be used and their demand drops off.

➢ These are the various characteristics of SKUs that have to be kept in mind while designing inventory control systems.

Pareto's Principle and ABC analysis for control

- This principle holds that in a given system, a relative handful of "causes" will produce the majority of "effects."
- The overall point still stands: **A relatively handful of things will generate the bulk of the results or in any group will have "vital few and trivial many"**

o In ABC analysis, a company reviews its inventory and sorts all SKUs into three categories. Once a company has conducted its ABC analysis, it can devise an inventory-control strategy that focuses effort where it will have the greatest effect.

	"A" Inventory	**"B" Inventory**	**"C" Inventory**
Ratios Between The Number Of Items And The Currency Value Of The Items Purchased/Consumed On A Repetitive Basis	10-20% of the items account for 70-80% of the purchase or consumption.	15-25% account for 10-20% of the purchase or consumption.	65-75% account for 5-10% of the purchase or consumption.
Degree Of Control	A - outstandingly important and so tightly controlled	B - of average importance;	C - Relatively unimportant as a basis for a control scheme.

	"A" Inventory	"B" Inventory	"C" Inventory
Strategy Used	Tightly controlled, meaning the company keeps close tabs on how much it has in stock; pays close attention to current demand and forecasts for future demand; and carefully plans its ordering so that it neither runs out nor winds up with too much excess inventory that can become obsolete.	Watched closely, but the company reviews its ordering strategy less often.	Least expensive, the company can order them in bulk and exercise minimal controls; all that really matters is that the company doesn't run out.

Differences between

	(A) items (High Consumption Value)	(B) items (Moderate Consumption Value)	(C) item (Low Consumption Value)
Degree of control	Very strict consumption control	Moderate control	Loose control
Safety stock	No/very low safety stock	Low safety stock	High safety stock
Delivery	Phased delivery (Weekly)	Once in three months	Once in 6 months
Control report	Weekly	Monthly	Quarterly report
Follow up	Maximum follow up	Periodic follow up	Exceptional
Sources of supply	As many sources as possible	Two or more reliable	Two reliable
Accuracy of forecasts	Accurate forecasts	Estimates on past data	Rough estimate
Centralized purchasing	Central purchasing /storage	Combination purchasing	Decentralised
	Max. efforts to control LT	Moderate	Min. clerical efforts
Level of management	To be handled by Sr. officers	Middle level	Can be delegated

Economic Order Quantity

- **When** to place an order =**Reorder Point** and **how much** to order = **Economic Order Quantity**.
- Reorder point takes due note of the lead time and demand during lead time.
  - Reorder formula = Average daily usage rate × Lead time in days

- Under ideal situation, the new quantity will arrive, just as the stock reaches zero. Real life is not that simple or straightforward.
  - There is variability in the rate of demand (or consumption) as well as in the supply. To cater to such variability, the concept of **safety stock** is used.
  - Thus, Reorder formula = Average daily usage rate × Lead time in days + Safety Stock

Costs

There are two costs involved:

- **One for Ordering** (which includes paperwork for placing order, receiving, inspection, warehouse handling etc) and another for holding the inventory or
- **Inventory Carrying Cost** (which includes cost of money tied up i.e. interest, space cost, insurance etc).

The following model assumes:

1. Future demand is known and is uniform throughout the period.
2. Unit price of item does not vary with qty ordered. (In real life, the price varies. We will then have to use a different model. That is not discussed here.)

Formula for calculating EOQ =

- **D =** Annual demand for the item
- **P =** Cost of placing and receiving one order (does not include purchase price)
- **C =** Inventory carrying cost per unit.
  - = unit price of the item x carrying cost expressed as percentage of the unit price.
- **S =** Safety Stock level for the item.
- **Q =** Economic order quantity

$$\boldsymbol{EOQ} = \sqrt{\frac{\mathbf{2PD}}{\mathbf{C}}}$$

Final note on inventory control and EOQ

- Inventory control has many facets – monetary, physical, safety and many others.
- It is crucial to understand these aspects in designing an inventory control system.
- ABC system is one such. There are other different system, including Just-in- time (JIT), perpetual inventory etc. These have not been elaborated here.
- Economic ordering quantity is a key factor (but not the only one) in managing any inventory.
- However, the formula we have arrived at in the earlier pages is a simplified one. There are more advanced formulae available – that take care of seasonality of demand, fluctuations in lead time as well as price breaks based on quantity ordered etc. Those are beyond the scope of current discussion.

Return on Investment and Return on Equity

Measure of profitability

- Return on Investment (ROI) and Return on Equity (ROE) are two such critical profitability ratios.

Return on investment

$$ROI = \frac{\text{Net Profit}}{\text{Total Capital Invested}} \times 100$$

Return on equity

$$ROE = \frac{\text{Net Income}}{\text{Equity}} \times 100$$

Which one to use? ROI or ROE:

EBITDA

- The acronym EBITDA stands for earnings before interest, taxes, depreciation and amortization.
- Why calculate EBITDA and what its utility is.
    - When financial statements are prepared, the results are a combination of different factors: some are managerial decisions, others entrepreneurial and some others are government policies.
    - To measure or compare true effectiveness of one operation and the managerial decisions with another one, the extraneous factors must be normalized. Let us review these.
    - **Interest**
        - Interest is an expense but it arises due to a funding decision and not because of business operations. So we must cancel back its effect. Adding back the interest to PBT, takes away the effect of this funding decision.
    - **Taxes**
        - Taxes are levied by the government.
        - If you are comparing profits of one period to another, the rates might have changed.
        - The business owner or manger has no control over these. To avoid distortion in the profit, tax component is added back to the profit.
    - **Depreciation & amortization**
        - There are different options available to write off the value or 'depreciate' (tangible asset) or 'amortize' (intangible asset).
        - One company may use a particular method and another one a totally different one. One may write off slowly and another one fast – both being allowed by the authorities.
        - So to avoid distortion due to differing practices being followed, Depreciation & Amortization is added back.
    - When one wants to assess the efficiency of operations – either for acquisition or comparison with benchmarked operations or over different time periods, ability to generate cash by business is crucial. EBITDA is one such measurement. It is one of the most widely used measures for evaluating a business for acquisition etc.

    - Price for a business is often quoted in terms of a multiple of its EBITDA – **say (*M) x (EBITDA).*** M has numerical value that varies from industry to industry.

Note:

Valuation of business for buying or selling uses EBITDA as one of the criteria. Basic philosophy in this thought process is when someone buys a business, he or she buys the "future Cash Flows" from that business. Hence they are willing to pay a "multiple" of the EBITDA. However, there are timing issues and people use concepts like DCF (Discounted Cash Flow) or IRR (Internal Rate of Return) etc. These are beyond the scope of the current topics.

Unit 6 – Resource Mobilization

Thus, 'Finance' refers to funds or monetary resources needed by individuals, business houses and the government.

- Finance assists in the formation of new businesses, and allows businesses to take advantage of opportunities to grow and expand. Right from the very beginning i.e. conceiving an idea; finance is required to:
  - a) Promote or establish the business
  - b) Acquire fixed assets
  - c) Make market investigations
  - d) Develop product
  - e) Keep men and machines at work
  - f) Encourage management to make progress and create value.
  - g) Expand, diversify, improve and grow.
  - h) Be enough to meet unexpected/unplanned business expenses.

- Before doing anything, an entrepreneur should clearly answer the following three questions:
  - a. How much money is required?
  - b. Where will money come from?
  - c. When does the money need to be available?

- The money needed can be estimated by developing a statement of various assets required by the enterprise. Integral to total amount needed is to decide about its arrangement or sources. The various sources from which an enterprise can raise the required funds could broadly be classified into 2 major categories.
  1) Internal sources
  2) External sources

- Not all of them are equally appropriate to all enterprises at all times as these different sources carry very different:
  1) Obligations
  2) Responsibilities
  3) Opportunities

- Internal sources referred to as owner's own money is also known as 'equity'.
- Particularly in the case of small entrepreneurs the owner's money is very small. Therefore, an overwhelming portion of money is arranged from the external sources.

I. CAPITAL MARKETS

- The role of transferring financial resources from the surplus units to the deficit units is what is referred to as "Financial Intermediation".
- A capital market may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the investors to the entrepreneurs.

- Capital markets are the most important source of raising finance for the entrepreneurs as this market can:
  a) Mobilize the financial resources on a nation-wide scale.
  b) Secure the required foreign capital and know-how.
  c) Ensure the most effective allocation of the mobilized financial resources.

1. **Access to capital**: a. Growth and expansion, b. Repaying existing debt, c. Corporate marketing and development d. Acquisition capital. e. An entrepreneur's financing alternatives stands greatly increased	2. **Other advantages:** a. Mergers and acquisitions. b. Higher valuations. c. Benchmark trading price. d. Capital formation. e. Incentives. f. Reduced business requirements. g. Less dilution. h. Liquidity. i. Prestige.

- The capital market satisfies the tastes of savers and the needs of investors through its various financial instruments and institutions.

a. <u>Primary Market (New Issues Market)</u>

- Primary market is basically to facilitate transfer of resources from the savers to the entrepreneurs seeking funds for:
  a) Setting new enterprises
  b) Expanding
  c) Diversifying

The 'new issues' may be issued by:

1) New companies – also called initial issues.
2) Old companies – also called further issues.

<u>Initial Issues</u>

- When for the first time, entrepreneur for the purpose of obtaining capital funds decides to issue securities to the public in the primary market for the first time; such issues of securities are referred as "<u>new money issues</u>".

- **<u>Methods Of Flotation Of New Issues -</u>** One of the most difficult problems in the new venture creation process is obtaining finance. An entrepreneur can raise the required capital in the primary market by the following methods:
  1. Public issue
  2. Rights issue
  3. Private placement
  4. Offer to the employees

1. <u>Public Issue / Going Public</u>

- When an entrepreneur offers shares to the public for subscription he/she is required to comply with all the restrictions and formalities pertaining to the initial issues, prospectus drafting and launch.

Advantages of Public Issue –

- **Drawbacks of Going Public -**:
    a. Increasing accountability
    b. Need to maintain dividend and profit growth trends
    c. vulnerable to an unwelcome takeover
    d. adhere strictly to the rules and regulations by governing bodies
    e. Increasing costs higher level of reporting requirements
    f. Relinquishing some control
    g. a loss of privacy

- Overall, going public is a complex decision that requires careful consideration and planning. Entrepreneurs should examine their current and future capital needs, and be aware of how an IPO will affect the availability of future financing.

2. Rights Issue

- Rights issue is a method of raising additional finance from existing shareholders by offering securities to them on pro-rata basis.
- In case they are not willing to subscribe, they can renounce the same in favour of another person.

3. Private Placement

- Private placement means the direct sale by a company of its securities to a limited number of sophisticated investors.
- Entrepreneurs, herein, raise funds by selling the issues mainly to the institutional investors like:
    a. Unit Trust of India
    b. Life Insurance Corporation of India
    c. General Insurance Corporation of India
- Entrepreneurs both from public limited and private limited sector, bank heavily upon raising funds through the issue of varied financial instruments under this segment as at times they do not wish to disclose information to the open market.

4. Offer to Employees

- ***Stock options*** or offering shares to the employees has gained much popularity in many countries of the world. This method enables employees to become shareholders and share the profits of the company leading to:
    a. Higher efficiency
    b. Low labour turnover
    c. Better industrial locations
    d. Low floatation cost
    e. Wider/higher generation of funds.

b. Secondary Market (Old Securities Market)

- Capital markets aid in the mobilization of individual savings to make them readily available to those who need them in:
    - Industry
    - Trade
    - Finance
    - Government

- The secondary capital market, which is also known as old securities market or stock exchange deals with buying and selling of old securities.
- From the *firm's point of view*, enhances the marketability of securities and provides liquidity to investments.
- From the *investor's point of view*, imparts liquidity to the long-term securities held by them.
- It operates through the medium of stock exchanges which regulate the trading activities in this market and ensures a measure of safety and fair dealings to the investors.

• **Features of Stock Exchange**	**Stock exchange performs a number of functions**
1. Association of persons. 2. Recognition from central government 3. Market for securities. 4. Deals in second hand securities 5. Regulates trade in securities. 6. Allow dealings only in listed securities. 7. Transactions effected only through members. 8. Working as per rules. 9. Specific location. 10. Financial barometers	1. Continuous and ready market for securities. 2. Facilitates evaluation of securities. 3. Checks on brokers. 4. Provides safety and security in dealings -. 5. Regulates company management. 6. Intensifying capital formation. 7. Facilitates raising of new capital 8. Facilitates public borrowing 9. Serves as economic barometer 10. Facilitates bank lending

- **Importance of a stock exchange –**

1. From the viewpoint of investors a. Dissemination of useful information. b. Ready market. c. Investors' interests protected. d. Genuine guidance about the securities listed. e. Barriers of distance removed. f. Knowledge of profit or loss on investments.	**2. From the viewpoint of entrepreneurs /companies** a. Recognition. b. Wide market. c. Higher share values **3. From the viewpoint of society** *a.* Rapid capital formation. *b.* Economic development. *c.* National projects.

- **Organization and Management of Stock Exchanges**
  1. Governed by the provisions of The Securities Contracts (Regulation) Act, 1956.
  2. The governing body is responsible for policy formulation and proper functioning of the exchange, having wide range of powers viz.....
    1) Elect the office bearers and set up committees.
    2) Admit and expel members
    3) Manage the properties and finance of the exchange
    4) Interpret rules, regulations and by-laws
    5) Adjudicate disputes
    6) Conduct the affairs of the exchange.

- **Securities And Exchange Board Of India (SEBI)**

1. **History –**
   - SEBI was officially established by The Government of India in the year 1988 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament.
   - SEBI has its Headquarter in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad respectively
   - Initially SEBI was a non–statutory body without any statutory power. However in 1995, SEBI was given additional statutory powers by the Government of India

2. **SEBI's establishment**
   - SEBI was established as a supervising and regulatory body to curb certain malpractices and to promote the securities markets in India.
   - SEBI is managed by its members, which consists of following:
     i. Chairman who is nominated by Union Government of India.
     ii. Two members, i.e. Officers from Union Finance Ministry.
     iii. One member from The Reserve Bank of India.
     iv. The remaining 5 members are nominated by Union Government of India, out of them at least 3 shall be whole-time members.
3. SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi executive.
   - It drafts regulations in its legislative capacity,
   - It conducts investigation and can enforce action in its executive function and
   - It passes rulings and orders in its judicial capacity.

   Though this makes it very powerful, there is an appeal process to create accountability. There is a Securities Appellate Tribunal which is three-member tribunal. A second appeal lies directly to the Supreme Court.

4. **Powers of SEBI -** For the discharge of its functions efficiently, SEBI has been vested with the following powers:
   i. To approve by-laws of stock exchanges, SEBI
   ii. To enquire the stock exchange to amend their by-laws.
   iii. Inspect the books of accounts and call for periodical returns from recognized stock exchanges.
   iv. Inspect the books of accounts of financial intermediaries.
   v. Compel certain companies to list their shares in one or more stocks exchanges.
   vi. Levy fees and other charges on the intermediaries for performing its functions.
   vii. Grant license to any person for the purpose of dealing in certain areas.
   viii. Delegate powers exercisable by it.
   ix. Prosecute and judge directly the violation of certain provisions of the Companies Act.
   x. Power to impose monetary penalties.

II. ANGEL INVESTORS

- Business angel or informal investor or an angel investor, is an affluent individual who provides capital for a business start-up and early stage companies having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.
- They fill the gap in start-up or early stage financing between "friends and family", by providing seed funding and formal venture capital.

- **Features of Angel Investors**
    1. They are current or retired executives, business owners or high net worth individuals who have the knowledge, expertise, and funds that help start-ups match up to industry standards.
    2. As angel investors bear extremely high risk and expect a very high return on investment.
    3. Apart from investing funds, most angels provide proactive advice, guidance, industry connections and mentoring start-ups in its early days.
    4. Their objective is to create great companies by providing value creation, and simultaneously helping investors realize a high return on investments.
    5. They have a sharp inclination to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs by making use of their vast experience.

III. VENTURE CAPITAL

- Venture capital is a type of private equity capital provided as seed funding to early-stage, high potential, high risk, growth up companies/entrepreneurs who lack the necessary experience and funds to give shape to their ideas.

- Thus, venture capital is an equity based investment in a growth-oriented small to medium business to enable the investors to accomplish objectives, in return for minority shareholding in the business or the irrevocable right to acquire.

- Venture capital can best be characterized as a long-term investment discipline, usually occurring over a five-year period that helps in the creation of:
    a. Early-stage companies,
    b. The expansion and revitalization of existing businesses, and
    c. The financing of leveraged buyouts of existing divisions of major or privately owned enterprises.

- **Thus, venture capital finance has the following features:**
    a. It is basically equity finance in relatively new companies.
    b. It is long-term investment in growth-oriented small or medium firms.
    c. Venture capitalists not only provide capital but also business skills to investee firms.
    d. It involves high risk-return spectrum.
    e. It is a subset of private equity.
    f. The venture capital institutions have a continuous involvement in the business after making the investment.
    g. Such institutions disinvest the holdings either to the promoters or in the market.

- **Funding –**
    - Obtaining venture capital is substantially different from raising debt or a loan from a lender as a venture capital is invested in exchange for an equity stake in the business.

- Venture capitalists are typically very selective in deciding what to invest in and as a rule of thumb:
    i. They may invest in one in four hundred opportunities presented to it,
    ii. Looks for the extremely rare, yet sought after qualities, such as :
        1. Innovative technology,
        2. Potential for rapid growth,
        3. A well-developed business model
        4. An impressive management team.
    iii. Looks for an "exit" in the time frame of typically 3-7 years.
    iv. Is inclined towards ventures with exceptionally high growth potential.

- Thus, entrepreneurs are expected to carry out detailed due diligence prior to seeking venture capital as a source of financing. As venture capitalists investments are liquid, requiring extended time frame to harvest, an entrepreneur should carefully evaluate and analyse, the stage which he/she would require venture capitalist to assist in.

- **When to seek venture capital finance**
    - Entrepreneurs can typically seek venture capital to assist at any of the following four stages in the company's development.

        1) **Early stage financing -** This stage includes:
            (a) Seed capital
            (b) Pre-start up and start up
            (c) Second-round financing.

        2) **Last stage financing/bridge/pre-public stage**

1) **Early stage financing -** This stage includes:

a) Seed capital finance

- Capital required at pre commercialization stage. During this stage, the entrepreneur has to convince the investor (VC) why his idea/product is worthwhile.
- The investor will investigate into the technical and the economical feasibility of the idea.
- As the risk element at this stage is very high, investor (VC) may deny assisting if he does not see any potential in the idea.

b) Start up finance

- At the second or start-up stage, A business plan is presented by the entrepreneur to the VC firm's management team.
- A prototype is developed and fully tested at this stage. In some cases, clients are also attracted for initial sales.
- The management-team establishes a feasible production line to produce the product.

c) Second-round financing

- At this stage, the idea is transformed into a product and is being produced and sold.
- The entrepreneur, at this stage, needs assistance from the Venture Capitalist for expansion, modernization, and diversification so that the economies of scale and stability could be attained.

2) Last stage financing /bridge /pre-public stage

- In general, this is the last stage of the venture capital financing process.
- The main goal of this stage is for the venture to go public so that investors can exit the venture with a profit. At this stage, the venture achieves a certain amount of market share. This gives the venture some opportunities for example:
  i. Merger with other companies
  ii. Keeping new competitors away from the market
  iii. Eliminate competitors
  iv. Development capital

- **Entrepreneurs to watch out**
  - Unlike public companies, information regarding an entrepreneur's business is typically confidential and proprietary. As part of the due diligence process, most venture capitalists will require significant detail with respect to a company's business plan.
  - Entrepreneurs are typically well-advised to protect truly proprietary intellectual property.
  - Mainly due to the increasing deregulation and the emergence of technocrat entrepreneurs, this source of financing which has so far not taken deep roots in India, is having enormous scope for progress.

IV. SPECIALISED FINANCIAL INSTITUTIONS

- Certain sections of the industry face greater difficulties than others in procuring long-term finance. These include
  a. Small and medium sized concerns,
  b. New concerns set up by new entrepreneurial group,
  c. Specific industries, which required funds for modernization,
  d. Enterprises involved in innovation and new technological developments,
  e. Enterprises requiring extra-ordinarily large amounts of finance with a long gestation period,
  f. Ventures in backward regions.

- **Why were SFIs established?**
  Ans:
  i. SFIs were established to meet the long-term financial requirement of such enterprises on economic and social ground.
  ii. These Specialized Financial Institutions in India are not only committed to financial services but are also devoted towards playing a role of a promotional "mentor" &technical advisor to a wide range of the upcoming and existing entrepreneurs.
  iii. Thus, these Specialized Financial Institutions (SFIs) make an important source of medium and long-term financing amongst all the financial institutions in India, to the industry.

- **Need for and Importance of Specialised Financial Institutions (SFIS)** As SFIs provide developmental finance, that is, finance for investment in fixed assets, they are also known as development banks' or 'development financial institutions'. Establishing of SFIs facilitated:
    a. Provision of sufficient long-term funds in the desired sectors.
    b. New and small entrepreneurs in setting up industry.
    c. Development of (i) small scale industry and (ii) projects in backward areas.
    d. Provision of technical and managerial advice to the entrepreneurs, facilitating thus, in identification, evaluation and execution of new investment enterprises.
    e. Underwriting of and direct subscription to the issue of shares and debentures in thecapital market of the upcoming ventures.
    f. Establishment of enterprises which require extra-ordinarily large amount of finance for their projects with a long-gestation period.

- **Types of Specialised Financial Institutions -** Entrepreneurs have access to any of the following SFIs to choose from, according to their needs and requirements:

A) At National Level/All India Development Banks

a. Industrial Development Bank of India (IDBI)
b. Small Industries Development Bank of India (SIDBI)
c. Industrial Finance Corporation of India (IFCI)
d. Industrial Credit and Investment Corporation of India (ICICI)
e. National Bank for Agriculture and Rural Development (NABARD)
f. Industrial Investment Bank of India Ltd. (IIBI)

B) At State Level

a. State Financial Corporation (SFCs)
b. Tourism Finance Corporation of India (TFCI)
c. State Industrial Development Corporations (SIDC)

C) FUNCTIONS FERFORMED BY SPECIALISED FINANCIAL INSTITUTUIONS:

i. It provides medium and long-term loans;
ii. It subscribes to new issues of shares,;
iii. It guarantees loansand deferred payment;
iv. It provides technical and managerial assistance;
v. It provides merchant banking services.
vi. To underwrite or to subscribe to shares or debentures
vii. Some may also provide assets on lease to industrial concerns. For example, assets are owned by ICICI but allowed to be used by industrial concerns for a consideration called lease rent.

BASIC OBJECTIVES OF THE INDIVIDUAL INSTITUTIONS

a. Industrial Development Bank of India (IDBI)

- The objective was to allow RBI to concentrate on its central banking function and allow IDBI to grow into a development agency.
- The main objectives of IDBI are to serve as the apex institution for term finance for industry in India.

II. Small Industries Development Bank of India (SIDBI)

- SIDBI is the principal financial institution for promotion, financing and development of small-scale industries in India.

III. Industrial Finance Corporation of India (IFCI)

Its main objects is to provide medium and long term credit to eligible industrial enterprises in corporate sectors of the economy, particularly to those industries to which banking facilities are not available.

IV) Industrial Credit and Investment Corporation of India (ICICI)

- The ICICI has been established to achieve the following objectives:
  a) To assist in the **formation, expansion and modernization of industrial units in the private sector;**
  b) To **stimulate and promote the participation of private capital (both Indian and foreign)** in such industrial units;
  c) To furnish technical and managerial aid so as to increase production and expand employment opportunities.

viii. Rs. 5 lakhs is the minimum amount sanctioned by it to a single concern and normally it does not go beyond the maximum limit of Rupees one crore.

V) National Bank for Agriculture and Rural Development (NABARD)

- NABARD was established according to the preamble to the Act, "for providing credit for the promotion of:
  i. Agriculture,
  ii. Small-scale Industries
  iii. Cottage and Village Industries
  iv. Handicrafts and other rural crafts, and
  v. Other economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas...."
- **Objectives**
  1. The bank will serve as a financing institution for institutional credit such as long-term, short-term, and for the **promotion of activities in rural areas**.
  2. To provide direct lending to any institution as may be approved by the Central Government. These include State Cooperative Banks, State Land Development Banks, Regional Rural Banks and other approved financial institutions by RBI.
- **Functions -** The primary functions of NABARD can be classified under three heads –
  1) **Credit Functions -**
  2) **Developmental Functions**
  3) **Regulatory Functions**

VI. Industrial Investment Bank of India Ltd. (IIBI)

- It was set up by IDBI at the instance of the Government of India in April 1971 for rehabilitation of sick industrial companies.

VII. State Financial Corporation's (SFCs)

- To meet the financial needs of small and medium enterprises, the government of India passed the State Financial Corporation Act in 1951, empowering the State governments to establish development banks for their respective regions.
- Objectives - The objectives of state financial corporations are as under:
  a. Provide financial assistance to small and medium industrial concerns. Provide long and medium-term loan repayment ordinarily within a period not exceeding20 years.
  b. Grant financial assistance to any single industrial concern under corporate or co-operative sector with an aggregate upper limit of rupees Sixty lakhs. In any other case (partnership, sole proprietorship or joint Hindu family) the upper limit is rupees thirty lakhs.
  c. Provide Financial assistance generally to those industrial concerns whose paid up share capital and free reserves do not exceed ` 3 crores.
  d. To lay special emphasis on the development of backward areas and small scale industries.

VIII. Tourism Finance Corporation of India (TFCI)

- T**o promote a separate all-India financial institution for providing financial assistance to tourism-related activities/projects**.
- **Functions**
  a) TFCI provides financial assistance
  b) It also provides advisory and merchant banking services in this field.
  c) **The projects with a capital cost of ` 1 crore or above are generally eligible for assistance from TFCI. Smaller projects would also be considered**.
  d) TFCI has sanctioned assistance to 2003 projects aggregating to ` 5.2 billion during the last five years, resulting in more than 12,217 hotel rooms and direct employment to 22,938people.

IX. State Industrial Development Corporation (SIDCs)

- Incorporated under the Companies Act 1956 SIDCs were **setup in different states as wholly owned companies for promoting industrial development in their respective states**.

DETAILED NOTES FOR ALL INSTITUTIONS

I. Industrial Development Bank of India (IDBI)

- **Introduction**
  - The purpose was to enable the new institution to benefit from the financial support and experience of RBI and allow IDBI to grow into a development agency.
- **Objectives:** The main objectives of IDBI are to serve as the apex institution for term finance for industry in India. Its objectives include:
  a. Co-ordination, regulation and supervision of the working of other financial institutions.
  b. Supplementing the resources of other financial institutions.
  c. Planning, promotion and development of key industries and diversifications of industrial growth.
  d. Devising and enforcing a system of industrial growth that conforms to national priorities.

II.) National Bank for Agriculture and Rural Development (NABARD)

- NABARD was established "for providing credit for the promotion of:
  vi. Agriculture,
  vii. Small-scale Industries
  viii. Cottage and Village Industries
  ix. Handicrafts and other rural crafts, and
  x. Other economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas...."

- **Objectives**
  3. The bank will serve as <u>a financing institution for institutional credit</u> such as long-term, short-term, and for the promotion of activities <u>in rural areas</u>.
  4. To provide <u>direct lending to any institution</u> as may be approved by the Central Government.

- **Functions -** The primary functions of NABARD can be classified under three heads –
  - **Credit Functions, Developmental Functions & Regulatory Functions**

1) **Credit Functions -** NABARD provides different types of refinance to eligible institutions. They assist entrepreneurs through:
   I. <u>Short-term credit</u> for the following purposes:
      i. Financing seasonal agricultural operations,
      ii. Marketing of crops,
      iii. Pisciculture activities
      iv. Production/procurement and marketing of cooperative weavers and rural artisans societies and individually,
      v. Production and marketing activities of industrial cooperatives.
   II. <u>Medium-term credit</u> for converting short-term loans to medium-term for approved agricultural purposes.
   III. <u>Long-term credit</u>.
   IV. <u>Refinance</u> to cottage/village/small-scale industries located in rural areas.

2. **Developmental Functions**
    I. NABARD coordinates the operations of rural credit institutions
    II. It develops expertise to deal with agricultural and rural problems so as to assist in rural development efforts.
    III. It acts as an agent to the Government and RBI in the transaction of business in relevant areas and provides facilities for training, research and dissemination of information in rural banking and development.
    IV. Contributes to the share capital of eligible institutions.
    V. Provides direct loans to centrally approved cases.

5. **Regulatory Functions**
    I. NABARD is empowered to undertake inspection of RRBs and Cooperative Banks, other than the Primary Cooperative Banks.
    II. A recommendation of NABARD is imperative by RRBs or Cooperative Banks before seeking permission from RBI to open a new branch,
    III. RRBs and Cooperative Banks, along with RBI, are required to file returns anddocuments with NABARD.

III. Small Industries Development Bank of India (SIDBI)

- SIDBI was established in April 1990, and is the principal financial institution for promotion, financing and development of small-scale industries in India.
- **Objectives -** SIDBI's objectives are:
    a. Initiate steps for technological up gradation, and/or modernization of existing units, marketing of SSI sector products in India and abroad.
    b. Promote employment – oriented industries.
- **Functions -** The financial assistance of SIDBI to the small scale sector is channelized through the following two routes:
    1. Indirect assistance
    2. Direct assistance

IV. Industrial Finance Corporation of India (IFCI)

- IFCI's main objects is to provide medium and long term credit to eligible industrial enterprises in corporate sectors of the economy, particularly to those industries to which banking facilities are not available.
- **Objectives -** The primary role of IFCI is to provide 'direct financial assistance' on medium and long term basis to industrial projects in the corporate and co-operative sectors. The objectives of the corporation are stated below.
    a. To provide long and medium-term credit to industrial concerns engaged in manufacturing, mining, shipping and electricity generation and distribution.
    b. The period of credit can be as long as 25 years up to a maximum amount of rupees one crore.
    c. Guarantee loans and deferred payments;
    d. Underwrite and directly subscribe to shares and debentures issued by companies;
    e. Assist in setting up new projects as well as modernization of existing industrial concerns in medium and large scale sector;
    f. Assist project under co-operatives and in backward areas.

V) Industrial Credit and Investment Corporation of India (ICICI)

- **Objectives -** The ICICI has been established to achieve the following objectives:
    - d) To assist in the formation, expansion and modernization of industrial units in the private sector;
    - e) To stimulate and promote the participation of private capital (both Indian and foreign) in such industrial units;
    - f) To furnish technical and managerial aid so as to increase production and expand employment opportunities.
- **Functions**
    - ix. It provides medium and long-term loans in Indian and foreign currency for importing capital equipment and technical services. Loans sanctioned generally go towards purchase of fixed assets like land, building and machinery;
    - x. It subscribes to new issues of shares, generally by underwriting them or directly subscribing the same;
    - xi. It guarantees loans raised from private sources including deferred payment;
    - xii. It provides technical and managerial assistance to industrial units, along with consultancy services for new projects;
    - xiii. It provides assets on lease to industrial concerns. In other words, assets are owned by ICICI but allowed to be used by industrial concerns for a consideration called lease rent.
    - xiv. It provides merchant banking services.
    - xv. Rs. 5 lakhs is the minimum amount sanctioned by it to a single concern and normally it does not go beyond the maximum limit of Rupees one crore.

VI. Industrial Investment Bank of India Ltd. (IIBI)

- The Industrial Investment Bank of India Ltd. (IIBI) was formed for rehabilitation of sick industrial companies.
- **Functions -** IIBI offers a wide range of products and services such as:
    1. Term-loan assistance for project finance.
    2. Short duration non-project asset – backed financing working capital/other short termloans to companies,
    3. Equity Subscription Asset Credit
    4. Equipment finance
    5. Investments in Capital Market and Money market instruments.

VII. State Financial Corporation (SFCs)

- To meet the financial needs of small and medium enterprises, SFCs have been established by State governments to meet the financial requirements of medium and small sized enterprises.
- There are 18 SFCs at present.

- **Objectives -** The objectives of state financial corporations are as under:
    - a. Provide financial assistance to small and medium industrial concerns. These may be from corporate or co-operative sectors as in case of IFCI or may be partnership,

individual or joint Hindu family business, engaged not only in the manufacture, preservation or processing of goods, but also mining, hotel industry, transport undertakings, generation or distribution of electricity, repairs and maintenance of machinery, setting up or development of an industrial area or industrial estate, etc.

b. Provide long and medium-term loan repayment ordinarily within a period not exceeding20 years.
c. Grant financial assistance to any single industrial concern under corporate or co-operative sector with an aggregate upper limit of rupees Sixty lakhs. In any other case (partnership, sole proprietorship or joint Hindu family) the upper limit is rupees thirty lakhs.
d. Provide Financial assistance generally to those industrial concerns whose paid up share capital and free reserves do not exceed ` 3 crore.
e. To lay special emphasis on the development of backward areas and small scale industries.

- **Functions**
  1. Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years, with option of conversion into shares or stock of the industrial concern.
  2. Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.
  3. Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.
  4. Underwriting of the issue of stock, bonds or debentures by industrial concerns.
  5. Providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.
  6. Planning and assisting in the promotion and development of industries.

VIII. Tourism Finance Corporation of India (TFCI)

- The Tourism Finance Corporation of India (TFCI) is a specialized all-India development financial institution to cater to the needs to the needs of the tourism industry.

- **Functions**
  a) TFCI provides financial assistance to enterprises for setting up or the development of tourism-related projects, facilities and services.
  b) It also provides advisory and merchant banking services in this field.
  c) The projects with a capital cost of ` 1 crore or above are generally eligible for assistance from TFCI. Smaller projects would also be considered.
  d) TFCI has sanctioned assistance to 2003 projects aggregating to ` 5.2 billion during the last five years, resulting in more than 12,217 hotel rooms and direct employment to 22,938people.

IX.State Industrial Development Corporation (SIDCs)

- The main functions of SIDCs are as follows:

a) Providing term finance to all small, medium, and large industrial enterprises set up in the state,
b) Underwriting and directly subscribing to shares, and debentures of industrial enterprises being set up in the state,

c) Preparing feasibility studies, conducting market surveys and motivating private entrepreneurs to set up their industrial ventures in the state;
d) Collaborating with private entrepreneurs to set up industrial ventures in joint and assisted sector.
e) Implementing IDBI's scheme of seed capital in the state.

Chapter Outlines

Unit 1: Entrepreneurial Opportunity

1. Business Opportunity

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

2. Elements of Business opportunity

a. Assured market scope
b. An attractive and acceptable rate of return on investment
c. Practicability of the entrepreneur to encash it
d. Competence of the entrepreneur to encash it
e. Potential of future growth

3. Exploring opportunities in the environment

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

4. Factors involved in securing opportunities

a. Ability to perceive and preserve basic ideas which could be used commercially
b. Ability to harness different sources of information
c. Vision and creativity

5. Various sources which lead to the basic ideas

a. Problem
b. Change
c. Inventions
d. Competition
e. Innovation

SWOT analysis: Strength, Weakness, Opportunity, Threat

6. Environment Scanning:

a. Definition
b. Need for environment Scanning
c. Importance of environment

i. Identification of opportunities to get first mover advantage
ii. Formulation of strategies and policies
iii. Tapping useful resources
iv. Better performance
v. Sensitization of entrepreneurs to cope up with rapid changes
vi. Image building

7. Analysis of environment

a. Verbal information from customers, wholesalers, retailers distribution, consultants, etc.
b. Record of companies
c. Government publications
d. Publications by various financial institutions
e. Formal studies conducted by strategic planners

8. **Environmental factors**
a. Internal factors (Micro environment)
b. External Factors (Macro environment)

c. **PESTEL Model**

I.	Political,	IV.	Technological,
II.	Economic,	V.	Ecological &
III.	Social,	VI.	Legal

Problem Identification – uses and objectives

9. **Idea Generation:**

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

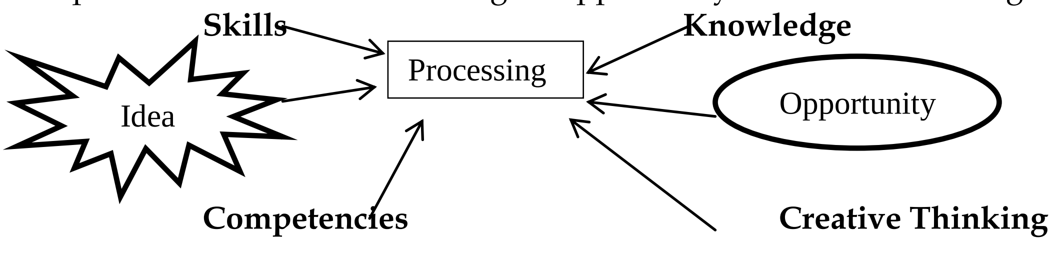
b. **Sources of business ideas**
   i. Examine your own skill set for business ideas
   ii. Keep up with current events and be ready to take advantage o business opportunities
   iii. Invent a new product or service
   iv. Add value to an existing product
   v. Investigate others markets
   vi. Improve an existing product or service
   vii. Get on the band wagon

c. **Ideas fields**
   i. Natural resources
   ii. Existing products/services
   iii. Market driven ideas/demand driven ideas
   iv. Trading related ideas
   v. Service sector ideas
   vi. Creative effort of the entrepreneur

d. **Five ways in which creative ideas can be generated:**
   i. Develop a new product or service.
   ii. Improve an existing product or service
   iii. Find a new process or resource for manufacturing a product.
   iv. Find new markets for existing products or services.
   v. Find a new use for a product or service.

10. <u>**Transformation of ideas into opportunities**</u>

The process of basic idea becoming an opportunity is shown in the diagram below:



11. <u>**Conversion of idea into opportunity**</u>

12. <u>**Idea and opportunity assessment**</u>

a. Product identification:
b. Application and use:
c. Level of operation:
d. Cost:
e. Competition:
f. Technical complexity:
g. Annual turnover and profit margin:

13. <u>**Market Assessment**</u>

a. Demand:
b. Supply and nature of competition:
c. Cost and price of product:
d. Project innovation and change:

14. <u>**Trend spotting**</u>

a. Ways in which an entrepreneur spots trends:
   i. Read trends.
   ii. Talk trends.
   iii. Watch trends.
   iv. Think trends**.**

15. **Creativity:**

a. <u>The Creative Process:</u>
   i. Idea germination:
   ii. Preparation :
   iii. Incubation:
   iv. Illumination:
   v. Verification :
   vi. Innovation:

16. **Elements in the Innovation Process:**

a. Analytical planning.
b. Resource organization
c. Implementation
d. Commercial application

<u>Unit 2: Enterprise Planning</u>

1. Activity is thus, a symbol of human life and may broadly be categorized into:
   a. Economic Activities:
   b. Non-Economic activities:

2. **Types Of Economic Activities-** which are inspired mainly by economic consideration can be classified in three broad categories:
   a. Profession
   b. Employment
   c. Business

3. **All Entrepreneurial activities can be divided into three major categories: Manufacturing, Trading and Service.**
   (1) **Manufacturing** - The term is used in all economic systems:
   - In a *<u>free market economy</u>*, directed toward the mass production of products for sale to consumers at a profit.
   - In a *<u>collectivist economy</u>*, directed by the state to supply a centrally planned economy.
   - In *<u>mixed market economies</u>*, manufacturing occurs under some degree of government regulation.

   (2) Service
   (3) Trading:

4. Business is a continuous human economic activity with objective to earn profit by producing, and buying and selling of goods and services.

5. Essential characteristics of Business

6. **FORMS OF BUSINESS ORGANISATION:** From the point of view of ownership and management, business enterprises may be broadly classified under three categories.
   a. **Private Sector Enterprises:**<u>definition and forms</u>

   b. Public Sector Enterprises: <u>definition and forms</u>
   C. Joint Sector Enterprises

7. Factors defined by the <u>decision</u> that an entrepreneur selecting the <u>form of ownership</u>

8. <u>Factors that will be taken into account while making a choice of Form of ownership</u>

9. From the entrepreneur's point of view the most commonly opted out forms for starting a new venture are:
   4) Sole Proprietorship
   5) Partnership
   6) Company

10. Sole Proprietorship:

(1) Characteristics of Sole Proprietorship Form of Business
(2) Suitability of Sole Proprietorship Form of Business
(3) Legal Formalities Involved Sole Proprietorship for Registration Procedure
(4) Limitations of sole proprietorship

11. Partnership:

(1) Meaning
(2) Characteristics of partnership
(3) Suitability of Partnership
(4) Consequences for non–registration of a partnership firm
(5) Drafting of partnership deed
(6) Registration procedure

12. **Joint Stock Company**:

(1) Definition
(2) Characteristics of a Company
(3) Choice to Be Made: Private Company vs Public Company
(4) Why Private Company Is More Desirable
(5) Legal formalities expected to be complied by the entrepreneur
(6) Differences between Private limited and Public Limited Companies

13. Joint Hindu Family / Firm (HUFs)

(1) Definition - Meaning of HUFs: Schools of law under HUF –Dayabhaga & Mitakshara .
(2) Characteristics of Hindu Undivided Family
(3) Legal formalities involved/Steps involved in creation of HUFs

14. **Co-Operatives Organizations**:

(1) Definition,
(2) Features of Co-operative societies,
(3) Reasons why Entrepreneurs does not find this form as a very desirable structure

15. Selection Of Form Of Ownership

16. **Business Plan**

(1) What Is A Business Plan?
(2) A business Plan helps a business to________
(3) Business plan are decision-making tools:
(4) Who Can Write The Plan?
(5) Importance Of The Business Plan
(6) Format Of Business Plan
(7) Parts of a business Plan

Parts of a Business Plan

(a) Introductory Profile /General Introduction

i. Biodata of entrepreneur and
ii. General report on the industry

(b) **Description Of Venture/Business Venture**

i. Mission statement
ii. Site
iii. Physical infrastructure

(c) **Organizational Plan**

i. Definition
ii. Category of Business (Manufacturing, Wholesale, Retail and Service.)
iii. Proposed Venture's Form of Ownership (Choose Between Sole Proprietorship/ Partnership/ HUF/ Cooperative, or Corporation) With Implications of Each W.R.T Taxes, Liability, Continuity, Financing and Ownership.
iv. Design of the organization to help in specifying - skills needed, roles filled by the member and chalking out informal organization or culture.

(d) **Production Plan:**

i. Aims At "Plan Your Work,
ii. Objective Of Preparing A Production Plan,
iii. Factors That Production Plan Helps Form An Idea About And
iv. 3 Situations Viz Complete Partial and No Manufacturing.

(e) **Operational Plan**

i. Definition
ii. Objectives Of An Operational Plan,
iii. Elements Of Operational Plan
iv. Areas the Entrepreneur Needs To Pay Attention To In Order To Obtain The Above Mentioned Objectives.

(f) **Manpower Planning**

i. Definition.
ii. Areas That Manpower Planning Helps To Assess.
iii. Objective of Human Resource Plan.

(g) **Marketing Plan**

i. Definition.
ii. Provides answers to three basic questions:
iii. Time period of preparation.
iv. Steps in preparing the marketing plan

(h) Financial Plan

i. Definition.
ii. The entrepreneur should develop a sound financial plan discussing
iii. Financial plan is a projection of key financial data about:
iv. The financial plan is so designed that the entrepreneur and the investors could have a clear picture of
v. Components of financial plan

(i) Assessment Of Risk

i. Definition
ii. In a business plan, entrepreneur should

(j) Appendix

i. Definition

<u>Unit 3: Enterprise Marketing</u>

1) <u>What Is The Goal Of Business?</u>

a. What is goal setting?
b. Goals need action
c. Why is goal setting important?
d. Rules for goal setting
e. What are smart goals

2) **<u>Marketing Strategy</u>**

- ✓ Marketing strategy – Definition
- ✓ What does the Marketing strategy of a company include?

i. **<u>Components of Marketing Mix:</u>**
(a) Definition
(b) The 4Ps that make up a typical marketing mix.

ii. **<u>Product Mix</u>**
(a) Product Mix: <u>definition</u>
(b) <u>Decision areas</u> involved in Product Mix.
(c) 4 crucial <u>components of product mix</u>.
(d) <u>Branding</u>**:**
  i. Define a product
  ii. What is 'generic requirement' of a product?
  iii. Branding as a Concept
    1. Definition
    2. Common terms related to branding
    3. 3 components of Brand
    4. Qualities of a good brand
    5. Entrepreneur's perspective on brand name
    6. <u>Different policies that can be followed</u> while choosing a brand name.
    7. Various types of brands available are:
(e) <u>Logos</u>
  i. Define Logo
  ii. Types of logo
  iii. **Purpose of logos**
(f) <u>Tagline</u>
  i. Define 'Taglines'
  ii. Taglines can be in the form of:
  iii. Forms that taglines can come in.
(g) <u>Packaging</u>
  i. Define Packaging.
  ii. The critical decisions that must be made on the package.
(h) <u>Labeling</u>
  i. Define 'Labeling'.
(i) <u>Importance of Intellectual Property for an entrepreneur</u>
  i. Define Intellectual property (IP) rights.
  ii. Common types of intellectual property rights include

iii. **<u>Price Mix:</u>**

  a. Definition
  b. Price mix decision depends on:
  c. Methods of Pricing Strategies.
    a. Cost-Plus Pricing
      i. Definition
      ii. Advantages of cost plus pricing
      iii. Disadvantages of cost plus pricing
    b. **PenetrationPricing**
      i. Definition
      ii. Advantages of penetration pricing
      iii. Disadvantagesof penetration pricing
    c. **Creaming or Skimming**
      i. Definition
      ii. Advantages of creaming pricing
      iii. Disadvantagesof creaming pricing
    d. **Variable price method**
      i. Definition
      ii. Advantages of variable pricing
      iii. Disadvantagesof variable pricing

iv. **<u>Place Mix (Distribution)</u>**

  a. Define Place
  b. Define channel of distribution or trade channel
  c. 3 types of flows that a channel of distribution consists of.
  d. 4 types that channels of distribution can broadly be divided into:
  e. Considerations taken into account to select distribution channels,

v. **<u>Promotion Mix</u>**

  i. Define promotion mix

vi. **<u>Sales Strategy</u>**

  i. Definition
  ii. What is a successful sales strategy
  iii. Significance of an Effective Sales Strategy
  iv. Types - direct or indirect.
  v. Components = Product Placement + Promotion + Testimonials + Core Selling Strategies
  vi. Function of a sales strategy for potential customers and current customers.
  vii. Considerations

vii. **<u>Promotion Strategy:</u>**

  i. Definition.
  ii. Approaches a company can use to promote its products.
  iii. Difference between above the line (ATL) and below the line (BTL) Bases: Target , Promotions - help in, Measurability , Examples
  iv. The 4 strategy mix that can be used to promote their products or services.

ii. **Advertising**

1. What is advertising?
2. Why advertise?
3. The rules of advertising
4. Developing effective advertising (AIDA)
5. Commonly used media
6. Combination of media that can be used.

ii. **What is personal selling?**

- Definition.
- Roles played a salesperson.

iv. Sales Promotion

1. What is sales promotion?
2. What are the major sales promotion activities?

v. Public Relations

i. What are Public Relations?
ii. Who is a stakeholder?
iii. What are the main public relations tools?
iv. Typical public relations tools include:

E. NEGOTIATION

i. Define negotiations.
ii. How do good negotiations contribute significantly to business success,
iii. Categorization of Negotiation: Integrative negotiations, Distributive negotiations , Inductive , Deductive , Mixed

F. CUSTOMER RELATIONS

i. CRM = customer relationship management.
ii. It entails all aspects of interaction that a company has with its customer, whether it is sales or service-related.
iii. It is the process of carefully managing detailed information about individual customers in order to manage loyalty.
iv. What does CRM enable businesses to?
v. How CRM is used today?
vi. The impact of technology on CRM.
vii. The benefits of CRM.

G. EMPLOYEE MANAGEMENT

i. Definition.
ii. Factors which lead to effective employee relationship

I. BUSINESS FAILURE

i. Definition
ii. The 12 broad causes that lead to a business failure are summarized below.

H. VENDOR MANAGEMENT

i. Definition
ii. Common activities included in vendor management.
iii. How is vendor management done?
iv. Quality, timeliness and customer satisfaction

Unit 4 – Enterprise Growth Strategies

Growth and Development of An Enterprise

i. Definition ii. When should a business grow **iii.** Types of expansion

1. Internal expansion:
   a. Definition
   b. How can it be done?
   c. How is it financed
   d. What is the net result of internal expansion?

2. External expansion or business combinations
   a. Definition
   b. Main forms

3. **Franchising**:
   a. Definitions of franchising, franchisor, franchisee and franchise agreement.
   b. Main ingredients or components of a franchise agreement
   c. Names of companies that have opted for franchising
   d. Types of franchising with examples
   e. How franchising helps start-ups
   f. Advantages and disadvantages of franchising for:
      i. Franchisee and
      ii. Franchisor

4. Growth through Mergers and Acquisitions.
   1. Reasons why a firm chooses Mergers and acquisitions
   2. Mergers
      iii. Definition
      iv. Difference between mergers and consolidations:
         1. Combination involves firms that are of similar size=*consolidation.*
         2. When the two firms differ significantly bysize = *merger. It* **takes two forms**:
            a. *Amalgamation* = *two* entities combine together and form a new entity.
            b. A*bsorption* = *one* entity gets absorbed into another.

v. Types of Mergers

3. Acquisitions

i. Definition

ii. Types of acquisitions

iii. Reasons for mergers and acquisitions

iv. Reasons for failure of mergers and acquisitions

<u>Value Addition</u>

1. Definition
2. Values added – financial and marketing point of view.
3. Examples of value that can be added.
4. Adding Value is a Business Strategy for Growth (Kevinzhengli) - Types of added value

<u>Moving up the Value Chain</u>

1. **Define value chain**
2. **Michael Porter's 'Value Chain' model**
   a. Definition
   b. Types of activities:
      i. Primary – definition and components
      ii. Support Activities - definition and components
   c. 6 requirements of Value Chain Management

Unit 5 – Business Arithmetic

1. **<u>Unit of Sale, Unit Price and Unit Cost (Multiple Products or Services)</u>**

   a. Why is Unit of sale required?

   b. Examples of Unit of sale.

   c. What can be determined and established by the entrepreneur using unit of sale?

   d. Unit of sale, unit price and unit price per unit of sale for a Grocery store, restaurant and a beauty parlor or salon

   e. Thumb rules for the relationship (cost as percentage age of selling price) between Unit Price and Unit Cost in Fast Moving Consumer Goods Industry, food industry, Electronic items or other industries.

   f. <u>Some formulae</u>**:**

   - Unit Price per customer = $\dfrac{\text{Total Billed Amount}}{\text{Number of Customers}}$
   - Unit Cost per product = $\dfrac{\text{Total Sale}}{\text{Number of Unit Sold}}$
   - Gross Profit = Selling price per unit-cost price per unit

2. Break Even Analysis - (Multiple Products or Services)

a. Definition

b. Usefulness of breakeven analysis

c. Sales mix breakeven point calculations –

i. Definition

ii. Assumptions

d. Steps and Formulae for calculation of breakeven point:

i. *Single Product*

- **Calculate gross margin/contribution =** Selling price per unit – variable cost per unit

- **B.E. Qty=** $\frac{FixedExpenses}{GrossMarginPerUnit}$

iii. B.E Qty x Selling price per unit **= B.E in Rupees**

ii. ***Multiple Product Business***

- Calculate Gross Margin/Contribution/Profit Per Unit
- Find Weighted Contribution For Each Product
- Total Weighted Contribution
- Calculate B.E. Quantity For Multiple Products
- Find The Proportionate Quantity Sold For Each Product

The formulae to calculate the figures given in the above steps can be been given as:

i. Gross Contribution per Unit = Selling price per unit – variable cost per unit

ii. **Find Weighted contribution for each product**by multiplying the Gross Contribution Per Unit with the proportion or the units sold for each product, that is,

Weighted contribution for Product **=** Gross Contribution per Unit x units sold

iii. Find Total Weighted contribution by adding all the Weighted contribution for Products, that is

Weighted contribution for Product A +Weighted contribution for Product B + Weighted contribution for Product **C = Total Weighted contribution**

iv. **Calculate B.E. quantity for multiple products**

$$\textbf{BE Qty} = \frac{\text{Fixed expenses}}{\text{Total Weighted contribution}}$$

v. Find the **proportionate quantity sold for each product** where

$$\text{Qty sold for A} = \frac{\text{Units sold for A}}{\text{Total Units sold}} \times \text{BE Qty}$$

$$\text{Qty sold for B} = \frac{\text{Units sold for B}}{\text{Total Units sold}} \times \text{BE Qty}$$

$$\text{Qty sold for C} = \frac{\text{Units sold for C}}{\text{Total Units sold}} \times \text{BE Qty}$$

3. Importance and Use of Cash Flow Projections

a. Define Cash
b. Define cash Flow
c. Define cash flow projections.
d. Comparison of Cash Flow Projection and Cash Flow Statement.
e. Why cash Flow Projections
   i. Types of payments made by business
   ii. Reasons why outflows may be more than inflows

f. Cash Flow Projections as a dynamic tool:
   i. Accuracy of assumptions and requirement of Review of projections
   ii. Frequency of reviews depends on purpose –
      - Business Plan OR
      - Running day to day operations
   iii. Accuracy of *Cash Flow Projection* is depends on the period and horizon involved

g. How to develop a cash flow projection

4. **Budgeting & Managing the Finances**

a. What is financial management?

b. Objectives of financial management.
   i. Define
   ii. Main objective is to maximize owners wealth.
   iii. How can the objective ne achieved?

c. Process of Financial management
   i. Financial planning
   ii. Financial control –questions addressed
   iii. Financial decision making
      - How to finance investments
      - Dividend decisions

d. Budgeting
   i. Definition
   ii. Essentials of a good budget
   iii. Types of budgets
   iv. Budgets and budgeting
   v. Budgeting as a process
   vi. Benefits of budgeting
   vii. Cost of budgeting
   viii. Forms of budgeting process
   ix. Why is Budgeting is an important and integral part of running a business

5. **<u>Working Capital</u>**
   a. Need for capital
   b. Fixed and Working Capital – Definitions
   c. Need for working capital
      i. Operating Cycle or Cash Conversion Cycle
         - In manufacturing activity and trading concern
         - Different products have different CCCs

   d. Gross and Net Working capitals
   e. Definitions and examples of Current assets and Current liabilities.

6. **<u>Inventory Control</u>**
   a. Define inventory
   b. Define inventory control systems
   c. Desirable behavior of any inventory item
   d. Items that make up inventory
      i. Stock keeping unit (SKU) code
      ii. Motley crowd
      iii. Space
      iv. Standard vs. made to order
      v. Lead time
      vi. Safety aspects
      vii. Seasonality of supply
      viii. Value
      ix. Shelf life
      x. Demand not uniform/particular
      xi. Obsolescence
      xii.

   e. Pareto's Principle and ABC analysis for control
      i. Basic principle followed
      ii. Categories of inventory
      iii. Ratio between number of items and currency value of items consumed.
      iv. Difference between A, B and C inventory

7. **<u>Economic Order Quantity</u>**
   a. Definition
   b. Reorder point = when to place an order and EOQ = how much to order
   c. Reorder formula = Average daily usage rate × Lead time in days+ Safety Stock
   d. Costs of inventory: definition
      i. Ordering Cost/ Cost of Placing an order
      ii. Carrying costs/ holding costs

   e. **Formula for calculating EOQ =**

      - **D =** Annual demand for the item
      - **P =** Cost of placing and receiving one order/ ordering costs (does not include purchase price)
      - **C =** Inventory carrying cost per unit/ holding cost per unit
         - = unit price of the item x carrying cost expressed as percentage of the unit price.
      - **S =** Safety Stock level for the item.

- **Q =** Economic order quantity

$$EOQ = \sqrt{\frac{2PD}{C}} + S$$

f. **Final note on inventory control and EOQ**
   i. Inventory control has many facets
   ii. There are other different inventory system , including Just-in- time (JIT), perpetual inventory etc. These have not been elaborated here.
   iii. Economic ordering quantity is a key factor (but not the only one) in managing any inventory.

8. **Return on Investment and Return on Equity**
   a. Definitions
   b. **Return on investment**

$$ROI = \frac{\text{Net Profit}}{\text{Total Capital Invested}} \times 100$$

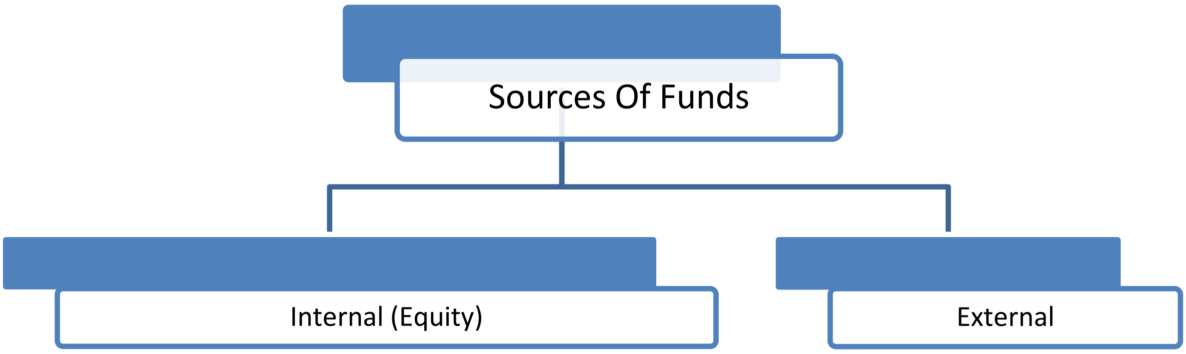
   c. **Return on equity**

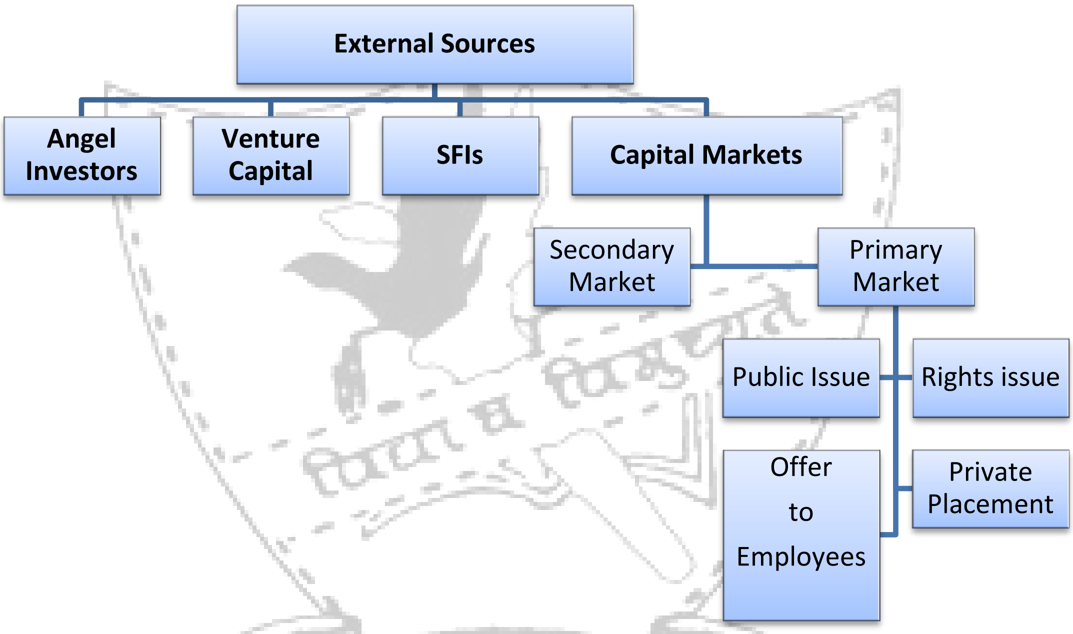
$$ROE = \frac{\text{Net Income}}{\text{Equity}} \times 100$$

   d. The acronym EBITDA stands for earnings before interest, taxes, depreciation and amortization.
   e. Why calculate EBITDA and what its utility is.
   f. The extraneous factors must be normalized to measure or compare true effectiveness of one operation and the managerial decisions with another one(interest, taxes, depreciation and amortization)
   g. Price for a business is often quoted in terms of a multiple of its EBITDA – **say *(M) x (EBITDA).*** M has numerical value that varies from industry to industry.

Unit 6 – Resource Mobilization

1. Define finance
2. Reasons why finance is needed right from the beginning.
3. 3 questions related to finance to be answered before an entrepreneur does anything.
4. Sources from which an entrepreneur can raise funds.
5. All of them have different Obligations, Responsibilities and Opportunities.
6. Sources of funds





7. **<u>Capital Markets</u>**:
    a. Definition
    b. Why is it considered to be the most important source of capital for an entrepreneur?
    c. <u>Primary (new Issues) Market</u>
        i. Used by entrepreneurs for:
        ii. May be issued by
        iii. Methods of floatation of new issues:
            5. Public issue
                a. Definition
                b. Advantages of public issue
                    i. Access to capital(uses of such funds)
                    ii. Other advantages
                c. Drawbacks of going public
            6. Rights issue
            7. Private placement
            8. Offer to the employees (leads to)

d. <u>Secondary (Old Securities) Markets</u>
    i. Definition
    ii. Importance from the firm's view and the investor's view.
    iii. Features of Stock exchange
    iv. Functions performed by a Stock Exchange
    v. Importance of Stock Exchange:
        1. From the viewpoint of investors
        2. From the viewpoint of entrepreneurs/companies
        3. From the viewpoint of society
    vi. Organization and management of Stock Exchanges
    vii. SEBI
        1. History
        2. SEBIs establishment
        3. Quasi-legislative, quasi-judicial and quasi executive functions of SEBI.
        4. Powers of SEBI.

8. <u>Angel Investors</u>
a. Definition
b. Features of Angel Investors

9. <u>Venture Capital</u>
a. Definition
b. Venture capital helps in creation of:
c. Features of venture capital
d. Funding
e. When to seek venture capital - Entrepreneurs can typically seek venture capital to assist at any of the following four stages in the company's development.
    1) **Early stage financing -** This stage includes:
        (a) Seed capital
        (b) Pre-start up and start up
        (c) Second-round financing.
    2) **Last stage financing/bridge/pre-public stage**
f. Entrepreneurs to watch out for

10. <u>Specialized Financial Institutes</u>
a. Sections of industry facing difficulty in seeking funds.
b. Need for and importance of SFIs.
c. Types of SFIs:
    i. At national level/ all India Development banks
    ii. At state level
d. General functions performed by all SFIs
    i. It provides <u>medium and long-term loans</u>;
    ii. It <u>subscribes to new issues of shares</u>,;
    iii. It <u>guarantees loans</u>and deferred payment;
    iv. It <u>provides technical and managerial assistance</u>;
    v. It provides <u>merchant banking</u> services.
    vi. To <u>underwrite</u> or to subscribe to shares or debentures
    vii. Some may also <u>provide assets on lease</u> to industrial concerns. For example, assets are owned by ICICI but allowed to be used by industrial concerns for a consideration called lease rent

e. Detailed discussion (Objectives and functions) on:
   i. Industrial Development Bank of India (IDBI)
   ii. Small Industries Development Bank of India (SIDBI)
   iii. Industrial Finance Corporation of India (IFCI)
   iv. Industrial Credit and Investment Corporation of India (ICICI)
   v. National Bank for Agriculture and Rural Development (NABARD)
      1. Credit functions
      2. Development functions
      3. Regulatory functions

   vi. Industrial Investment Bank of India Ltd. (IIBI)
   vii. State Financial Corporations (SFCs)
   viii. Tourism Finance Corporation of India (TFCI)
   ix. State Industrial Development Corporation (SIDCs)

Question Bank- Class XII- Entrepreneurship

Unit 1

1 mark questions

1. Define an entrepreneur.
2. What is a Business opportunity?
3. Can all ideas be converted into opportunity? Give reason in support of your answer
4. From where can opportunity be derived?
5. What is meant by sensing entrepreneurial opportunity?
6. What is meant by business environment?
7. What is the next level after 'opportunity spotting' and 'scanning of environment'?
8. What is meant by environment scanning?
9. In which period the idea resurfaces in a realistic way?
10. What is meant by problem identification?
11. Describe idea fields.
12. What is idea generation?
13. What is testing stage?

2 mark questions

1. State what has to be ensured by an entrepreneur before selecting an opportunity?
2. Enlist any two factors involved in sensing opportunities.
3. Why do we need to scan our environment?
4. Enlist any four micro factors in business environment.
5. Differentiate between 'marketing' and 'market research'.
6. In transformation of ideas into opportunities different processes are followed. Name and state the process.
7. Give two examples for 'service sector ideas'.
8. What is the basic test of a successful entrepreneur?

3 mark questions

1. Enlist any three elements of a business opportunity.
2. Explain vision and creativity as a factor in the process of sensing opportunities.
3. Enlist any three sources from where information for environment scanning can be obtained.
4. What is meant by perceiving and sensing opportunities?
5. Enlist the objectives of problem identification.
6. With the help of an example explain the meaning of 'Watch trends'.
7. Why is creativity important for an entrepreneur?
8. 'This is the subconscious assimilation of information'. Identify and explain the stage in creative process.
9. What is meant by analysis of environment and what does it include?

4 mark questions

1. Draw and explain the 'Enterprise Process Diagram'.
2. Draw and explain the opportunity project interface.
3. What is "Problem Identification"? State how it helps an entrepreneur.

4. Sudhalives in Solan and she was always fascinated by the abundant availability of good quality and cheap fruits in the hilly region. Influenced by this abundance she decided to starther own business of fruit juices. Identify and explain the idea field from where she had got the idea.
5. Explain how 'service-sector ideas' act as 'Ideafields'.
6. There are various ways in which an entrepreneur spots trends. Explain any two.
7. Explain the various elements involved in the innovation process.
8. When is a viable venture born?
9. Identify the various ways of spotting trends in the below mentioned situations:
   a. Arvind is an avid reader of all business newspapers and magazines
   b. Raja loves to spend time in a coffee shop or a mall all by himself.
   c. Keshav likes to assimilate all the information he has collected
   d. Ranjana is an active blogger in all social networking sites.
10. Mr.Jagat had been transferred from Delhi to Mumbai. He was disappointed because of non-availability of home cooked north Indian food in Mumbai. He found many of his colleagues and other people were facing the same problem. Sensing the need for home cooked food, Mr.Jagat tied up with a group of people who could cook a variety of dishes. Together they started 'Home cook- A tailor made meal plan outlet', providing north Indian food for `65-70 per meal. Due to meetings or some other reasons if the prepared food was not taken by any person, the same was distributed amongst underprivileged children.
    a. Identify and explain the entrepreneurial function performed by Mr.Jagat
    b. State two values conveyed by him to the society.

6 mark questions

1. Explain with the help of an example any three sources which lead to the emergence of basic ideas.
2. Explain the various factors an entrepreneur has to keep in mind while assessing the market?
3. Explain any four benefits of understanding business environment.
4. What are the various steps involved in in assessing the potentiality of an opportunity?
5. Explain PESTEL model with the help of an example.
6. Explain with the help of an example the ways in which creative ideas can be generated.
7. Isha was travelling around the country, when she realised that people tend to eat chips in all the parts of the country. She was wondering if she could introduce new variety of chips such as carrot chips, Bitter gourd chips etc., and also use a new technology which can air fry the chips without using any oil. Explain the various steps involved in assessing the potentiality of an opportunity keeping in mind the product identified.
8. The process of creativity involves various steps. Explain the steps.
9. Yash, a budding entrepreneur is planning to introduce an innovative bag which can charge cellphones using solar power which will be useful for travellers. The market assessment of this product depends on many factors. Explain the factors.

Unit 2

1 mark

1. Name the different types of economic activities.
2. What is meant by business?
3. Name the business enterprise which is owned, controlled and operated by public authorities.
4. What is TIN?
5. Define partnership.
6. What is meant by partnership deed?
7. Define a company.
8. What is PAN?
9. What is meant by state sale tax ID?
10. Differentiate between sales tax and excise duty.
11. Who must apply for TAN?
12. For which type of industries EPF is applicable?
13. Define a co-operative society.
14. Differentiate between production and operations plan.
15. What is a financial plan?

2 marks

1. Enlist any two inherent limitations because of which partnership form of business venture was formed.
2. One of the characteristic of partnership is 'It can be carried on by all the partners or any of them acting for all \. Identify the characteristic of partnership.
3. What is meant by separate legal entity?
4. What is the minimum and maximum number of members required in a company form of organisation?
5. Who all must have PAN?
6. What is service tax?
7. What is meant by VAT?
8. Differentiate between state and central excise duty.
9. Explain custom duty.
10. What is TAN?
11. Give the meaning of HUF.
12. Differentiate between mitaksara and dhayabhaga as two schools of law under HUF
13. What is a business plan?
14. Before entering into a venture an entrepreneur had to fulfil some formalities and one of them is to open a current account. Who all call open a current account?
15. What is an elevator pitch?
16. How does an organizational plan help an entrepreneur?
17. Give the meaning of Proforma financing decisions as a component of financial plan?
18. How does 'manpower planning' helps an entrepreneur?

3 marks

1. Explain the following terms:
    a. Manufacturing; b. Trading; c. Service
2. Identify the utility created by the following business activities:
    a. Process of storing goods when not required
    b. Transporting goods to the place of consumption
    c. Changing raw material into finished goods

3. Explain ‘ unlimited liability’ as a feature of partnership
4. State the situations when partnership form of business is an ideal choice
5. State the consequences for non- registering a partnership firm?
6. Give three reasons as to why entrepreneurs do not find the co-operative form of organisation attractive.
7. Enumerate business plans as decision making tools.
8. Explain the elements which should be included in the production plan in case of complete manufacturing industry.
9. How does framing an operational plan help an entrepreneur?
10. Explain proforma investment decision.
11. Explain proforma income statement.
12. What is proforma cash flow?

4 marks

1. Enlist any 4 ways in which a private individual can start a business venture.
2. Name the factors an entrepreneur has to keep in mind whilst choosing a business enterprise.
3. Differentiate between a private company and a public company.
4. State the situations when a company form of business is more suitable?
5. What categories of persons are required to obtain registration with the Central Excise Department?
6. State the various permissions required in the construction stage?
7. Explain any four features of co-operative organisations.
8. Who should write the business plan?
9. Explain the various formats of business plans.
10. Meenu was involved in partial manufacturing of wardrobes. Explain the elements which should be included in her production plan.
11. How does a production plan help an entrepreneur?
12. State the various elements involved in an organizational plan?

6 marks

1. What are the characteristics of sole proprietorship?
2. Define sole proprietorship state when this type is more suitable?
3. Explain in detail the registration procedure to be followed in sole proprietorship.
4. Elaborate on the essential features of partnership.
5. What is a partnership deed? Enlist the various contents of the deed.
6. Explain the registration procedure of a partnership concern
7. ‘Members may come, members may go ; neither the company stops nor is slow’.In the light of the given statement explain the characteristics of a company.
8. Why is a private company more desirable?
9. Explain the main features of HUF.
10. What are the legal formalities involved in formation of HUF.
11. Explain the importance of a business plan.
12. Elaborate on the various elements of operational plan.
13. Explain any four major components of financial plan.
14. What elements should be included in manpower planning?
15. Explain the various steps involved in preparing a marketing plan.

Unit 3

Mark 1

1. What is the goal of business?
2. What is goal setting?
3. Explain the term 'Logo'.
4. What is a trademark?
5. Identify the type of negotiation which is commonly referred to as 'win-win'.
6. What is meant by the term 'Promotion'?
7. What is 'Through-the-line' promotion strategy?
8. Explain the term 'personal selling' .
9. What is advertising?
10. Which negotiation is termed as 'win-lose'?
11. This negotiation method involves starting on small details and working upward until a settlement is reached. Identify.
12. What is the goal of advertising?
13. Explain the term 'sales promotion'.
14. Explain "CRM".

Mark 2

1. Define marketing strategy.
2. Explain the term 'Brand'.
3. Define branding.
4. Differentiate between trademark and brand mark.
5. What is an alpha numeric name in an industrial product?
6. Differentiate between individual brand name and family brand name.
7. Explain tagline with the help of an example.
8. What is a sales strategy?
9. Enumerate the significance of sales strategy.
10. Name any four major sales promotional activities?
11. What is meant by Public Relations?
12. Explain the term 'Negotiation'.
13. Identify the type of negotiation in the following situations:
    a. It starts with an agreed upon strategy
    b. They are most common form of negotiation.
14. How is CRM used today?
15. What is meant by vendor management?

Mark 3

1. Why is goal setting important?
2. State the rules for goal setting?
3. What does the marketing strategy of a company include?
4. Explain the components of Product mix.
5. Explain the three components of brand.
6. What is the importance of intellectual property for an entrepreneur?
7. Differentiate between patent, copyright and industrial design.
8. Explain Place mix as an element of marketing mix.
9. What considerations related to manufacturer affect the choice of channel of distribution?
10. Explain the different types of sales strategies.
11. What are the components of sales strategies?

12. Why should we advertise?
13. Enumerate the roles played by a salesperson.
14. Enlist the main public relation tools?
15. Who is a stakeholder?
16. How does CRM help an organisation?
17. What is the impact of technology on CRM?
18. What is meant by employee relationship management?

Mark 4

1. Explain the four components of marketing mix.
2. Enlist the qualities of a good brand name.
3. Enumerate the purpose of logos.
4. What are the various considerations related to a product an entrepreneur has to keep in mind while choosing channel of distribution.
5. Explain cost plus pricing method of price determination
6. Explain 'variable pricing method' of price determination with the help of an example.
7. When a manufacturer selects some channel of distribution he had to take into consideration various market related factors. Explain any four such factors.
8. Differentiate between 'above-the-line' and 'below-the-line' promotion strategies.
9. Explain the rules of advertising.
10. Enumerate the benefits of CRM.
11. Explain AIDA.
12. How is vendor management done?

Mark 6

1. Give the meaning of S.M.A.R.T goals.
2. Differentiate between 'Price skimming' and Penetration pricing' as methods of pricing with the help of examples.
3. What is meant by channels of distribution. Also state the different levels of channels of distribution.
4. Explain the various promotion strategies a company can use to promote its products.
5. Explain any six commonly used media options to advertise.
6. Explain the various ways of negotiation.
7. Explain any three factors which lead to effective employee relationship.
8. Explain any six reasons for business failure.

Unit 4

<u>1 mark</u>

1. Give the meaning 'franchising' as an enterprise growth strategy?
2. Differentiate between franchisor and franchisee.
3. What is meant by the term 'merger'?
4. What is synergy?
5. Who developed the concept of value chain?
6. Define value chain.
7. According to Michael Porter, an organisation can be divided into two activities. Name them.
8. What is back flip acquisition?

<u>2 mark</u>

1. What are the two roles that an entrepreneur needs to play?
2. Differentiate between inbound and outbound logistics.
3. Explain 'financial synergy' as a reason for merger of acquisition.
4. What is meant by franchise agreement?
5. Give the meaning of acquisition.
6. What is value addition?
7. Explain horizontal merger.
8. What does business format franchising opportunity mean?

<u>3 mark</u>

1. Explain the meaning of franchising and give two examples of franchising in India.
2. Enlist the advantages of franchising to the franchisor.
3. Enlist the advantages of franchising to the franchisee.
4. How mergers and acquisitions will help in the growth of a business?
5. Identify the type of merger:
   a. Merger between companies in the same industry
   b. Merger between two companies that deal in the same product but in separate markets
   c. Merger between two companies producing different products for one specific finished product
6. Draw the diagram of porter's generic value chain.
7. Explain the merger between firms that are involved in totally unrelated business activities.

<u>4 mark</u>

1. Explain the following terms:
   a. Internal expansion b. External expansion
2. Explain the main features of franchise agreement.
3. Rekha is planning to start a food business. How franchising help her?
4. Enlist the disadvantages of franchising to the franchisor and franchisee.
5. Explain the two forms in which mergers can take place?
6. Explain the different types of acquisitions.
7. What are the different types of value addition that a company can employ to improve its products?

6 mark

1. Explain the different types of mergers with the help of an example.
2. Explain the reasons for mergers and acquisitions.
3. Give six reasons for failure of mergers and acquisitions
4. Explain the various primary activities.
5. Explain the activities which help the primary activities.
6. Explain the requirements for value chain management.

Unit 5

1 mark

1. Give an example of a unit of sale?
2. What is meant by 'gross profit'?
3. Give the meaning of the word 'Inventory control'.
4. Explain the meaning of 'capital employed'?
5. Give the formula for calculating multiproduct breakeven point?
6. Why gross profit is calculated?
7. Explain the term 'budget'.
8. What is meant by working capital?
9. Give the formula for calculating 'Reorder quantity'.

2 mark

1. In case of multi product or services industries how unit cost is calculated?
2. Identify expenses which are not a part of gross margin?
3. Why ROI decreases if rate of tax increases?
4. Why is depreciation and amortization added back to profit?
5. Why will debit be added while calculating capital employed?
6. What is meant by financial management?
7. What is the chief cost of budgeting process?
8. State the need for working capital.
9. Give some examples of gross working capital.
10. What is meant by 'lead time'?
11. Give the formulae for calculating ROI and ROE.

3 mark

1. Give the meaning of ' EBITDA'? Why is it calculated?
2. State any three objectives of return on equity.
3. How can ROI of a company define its earning capacity of business?
4. If the cost of product is 75% of selling price. Calculate the gross margin per unit.
5. Net profit after interest but before tax 65,000; Shareholders funds 3,00,000 15% debt on 1,00,000. Calculate ROI.
6. What is contribution approach method?
7. State the objectives of financial management.
8. Differentiate between budget and budgeting.
9. What is Economic Order Quantity?

4 marks

1. What is meant by cash flow projection?
2. State the essentials of a budget.
3. Give the benefits of budgeting.
4. Explain the two forms of budgeting process.
5. Explain the 'Pareto Principle' of ABC analysis
6. How EOQ is calculated

7. Calculate ROI from the following information: (App.)

Equity share capital.	5,00,000
12% preference share capital.	1,00,000
Reserve	1,54,000
10% debentures	1,20,000
15% loan	2,40,000
Current liabilities	75,000
Preliminary expenses	10,000
Net profit (after interest and tax)	96,000
Rate of tax	50%

6 <u>Mark</u>

1. A grocery store sold in one day the following items at the prices indicated.

Products	**Price per unit (`Rs.)**	**Quantity sold**
Dal	40/Kg	35 Kgs
Chilli powder	40/Kg	4 Kgs
Salt	5/Kg	5 Kgs
Chips	15/Packet	10 packets
Juice pack	10/Pack	5 packs

The shopkeeper also found out, based on the number of bills issued by him, that there were 50customers. If customer is the unit of sale, what is the ―Unit Price‖ in this case? If the cost of each grocery item is 75% of its selling price, calculate the ―Unit Cost‖ and the ―Gross Marginperunit of sale.

2. Explain in detail as to how to develop cash flow projection.
3. Elaborate the three key elements in the process of financial management.
4. Explain in detail the different types of budget.
5. Explain cash conversion cycle with the help of a diagram.
6. Briefly explain the various items which make up the inventory.
7. What is ABC analysis and why is it required in an organization?

Unit 6

1 mark

1. Define Finance.
2. Why is finance considered as a lubricant for business
3. State why finance is required for business
4. Why is finance considered as a Pre-requisite for setting up an enterprise
5. Define Financial Markets
6. When and to which institution are sick industries referred to?
7. Enlist any two financial institutions at the national level.
8. What is the primary role of IFCI?
9. Why was NABARD established?
10. What is TFCI?

2 mark

1. Explain Initial Public Offer.
2. Differentiate between 'rights issue' and ' private placement' as methods of raising finance.
3. What is crowd funding
4. Who are angel investors?
5. What is the bridge stage?
6. List any two specialised financial institutions at national level
7. State any two objectives of IDBI.
8. Explain the role of IIBI.
9. What is SIDC?

3 mark

1. What is meant by Money Markets? State its features.
2. Who are the major participants in Money Markets ?
3. Explain the different instruments of Money Market.
4. Differentiate between commercial paper and Commercial bill.
5. Why is the capital market the most important source of finance.
6. What do these stand for.
   a) NAV
   b) SEBI
   c) ROC
7. Give the meaning of private placement.
8. Explain the features of angel investors.
9. State any three points which highlights the need for specialised financial institutions?
10. Explain the functions of SIDBI.

4 mark

1. Explain the limitations of Public Issue.
2. Company A goes for public issue of 10,000 shares @Rs.10 each. Applications were received for only 5,000 shares. Can the company proceed with the process of issuing shares? Give reason in support of your answer.

3. Company B goes for public issue of 10,000 shares @Rs.10 each. Applications were received for 12,000 shares. As a company secretary make suggestions to the board in accordance with the companies act regarding issue of shares.
4. Explain the merits of offering equity to employees.
5. Differentiate between Bulls and Bears in context with the Stock Markets.
6. Differentiate between Brokers and jobbers in context with the Stock Markets.
7. What is a demat account. Explain its importance.
8. Differentiate between Angel investors and venture capital companies.
9. Explain the importance of stock exchange from the viewpoint of investors.

6 mark

1. Explain the steps involved in issuing shares.
2. What is a Stock Exchange and explain its features.
3. Explain the role of a stock exchange in facilitating new capital and public borrowings.
4. Stock Exchange Indices' serve as an economic barometer. Explain.
5. "Stock Markets are important only for Companies" Comment.
6. Angel investors are blessings to the new/start-up enterprises. Explain. How?
7. Explain the functions of NABARD.
8. Explain the functions of SIDBI.
9. Explain the functions of IDBI.
10. Enlist the powers of SEBI.
11. Explain the features of venture capital.
12. When to seek venture capital finance?

Unit 5 – Business Arithmetic – Practice Questions

- ***CBSE Written paper – Practical Examination:***
  - *The students will get a 5 mark question from any one or a combination of the given topics:*
    - *Calculation of EOQ.*
    - *Calculation of Working capital Requirements*
    - *Calculation of Breakeven point.*
    - *Identification and calculation of start up costs/fixed costs/variable costs.*

Unit of Sale, Unit Price and Unit Cost (Multiple Products or Services)

Question 1: A stationery store sold in one day the following items at the prices indicated. The shopkeeper also found out, based on the number of bills issued by him, that there were 50 customers. If customer is the unit of sale, what is the Unit Price in this case? If the cost of each stationery item is 75% of its selling price, calculate the Unit Cost and the Gross Margin per unit of sale.

Products	Price per unit	Quantity sold
Student note book	₹ 40	35
Reynolds pens	₹ 40	40
Erasers	₹ 5	5
Scale (12′ plastic)	₹ 15	10
Flip chart	₹ 10	5
Sketch pens (one DOZEN)	₹ 25	3

Solution:

Products	**Price per unit**	**Quantity sold**	**Total Billed Amount (₹)**
Student note book	40	35	
Reynolds pens	40	40	
Erasers	5	5	
Scale (12′ plastic)	15	10	
Flip chart	10	5	
Sketch pens (one DOZEN)	25	3	
		Total Billed Amount (₹)	
		Total No. of Customers	_____ customers
Unit Price per Unit of Sale or, Unit Price per Customer = **Total Billed Amount (₹)** / Total No. of Customers = ________________ (₹) / 50			₹ _________

- Cost of each stationery item is 75% of its selling price,
    - Unit Cost = 75% of Unit Price per Customer
    - Unit Cost $= \frac{75}{100} \times 93$ = Unit Cost = ₹ 69.75

- Gross Margin per unit of sale = Unit Price Per Customer – Unit Cost Per Customer
    - Gross Margin per unit of sale = ₹ 93 – ₹ 69.75
    - Gross Margin per unit of sale = ₹ 23.25 per customer

Question 2: Beauty parlor

A Beauty parlor had varying number of customers during 5 weeks. This information and the total weekly billing are in the following table. What are the Unit of sale and the Unit Price in this case? If the cost of goods sold or variable cost is 60% of the sale price, calculate the Unit Cost and the Gross Margin per Unit of Sale.

Week	**No. Of Customers**	**Total Amount Billed (₹)**	**Average Amount Billed (₹) Per Customer**
1	10	1,000	100
2	17	1,445	85
3	13	923	71
4	22	5,082	231
5	18	3,150	175
Total	80	11,600	

Solution:

Week	**No. of customers**	**Total amount billed (₹)**	**Average amount billed (₹) per customer**
1	10		
2	17		
3	13		
4	22		
5	18		
total	80		
Total Billed Amount (₹)			
Total No. of Customers			
Unit Price per Unit of Sale or, Unit Price per Customer = $\frac{\textbf{Total Billed Amount (₹)}}{\text{Total No. of Customers}} = \frac{\textbf{11,600 (₹)}}{80}$			₹ ____________

- Cost of goods sold or variable cost is 60% of the sale price,
  - Unit Cost = 60%of Sale price
  - Unit Cost $= \frac{60}{100} \times 145$ = Unit Cost = ₹ 87

- Gross Margin per unit of sale = Unit Price Per Customer – Unit Cost Per Customer
  - Gross Margin per unit of sale = ₹ 145 – ₹ 87
  - Gross Margin per unit of sale = ₹ 58 per customer

Illustration 2: Restaurant

Number of people who took their meals and the total billing for each of the 5 weeks is in the following table. What are the Unit of sale and the Unit Price in this case? If the variable cost is 50% of the sale price, calculate the Unit Cost and the Gross Margin per Unit of Sale.

Week	No. Of Customers Taking Meals	Total Amount Billed (`)	Average Amount Billed (`) Per Customer
1	120	18,000	150
2	60	12,300	205
3	70	10,220	146
4	80	17,680	221
5	90	21,600	240
total	420	79,800	

Solution:

Week	No. of customers	Total amount billed (`)	Avg amt billedper customer
1	120	18,000	150
2	60	12,300	205
3	70	10,220	146
4	80	17,680	221
5	90	21,600	240
total	420	79,800	
Total Billed Amount (₹)		79,800	
Total No. of Customers		420	
Unit Price per Unit of Sale or, Unit Price per Customer = $\frac{\textbf{Total Billed Amount (₹)}}{\text{Total No. of Customers}} = \frac{\textbf{79,800 (₹)}}{420}$			₹ 190

- Cost of goods sold or variable cost is 50% of the sale price,
    - Unit Cost = 50% of Sale price
    - Unit Cost $= \frac{50}{100} \times 190$ = Unit Cost = ₹ 95

- Gross Margin per unit of sale = Unit Price Per Customer – Unit Cost Per Customer
    - Gross Margin per unit of sale = ₹ 190 – ₹ 95
    - Gross Margin per unit of sale = ₹ 95 per customer

Break Even Analysis - (Multiple Products or Services)

At the breakeven level

- B.E. Point in value $= \frac{FixedExpenses}{\text{(Selling price per unit – variable cost per unit)}}$
- B.E. Point in value $= \frac{FixedExpenses}{\text{Contribution per unit}}$
- B.E. Qty $= \frac{FixedExpenses}{\text{Gross Margin per Unit}}$

Question:

Calculate breakeven point expressed in amount of sales in rupees.

Selling price per unit	₹ 40
Variable manufacturing cost per unit	₹ 22
Variable selling costs per unit	₹ 3
Fixed factory overheads	₹ 1,60,000
Fixed selling costs	₹ 20,000

Solution:

- B.E. Point $= \frac{FixedExpenses}{\text{(Selling price per unit – variable cost per unit)}}$
- B.E. Point $= \frac{1,60,000 + 20,000}{40 - (22+3)}$
- B.E. Point $= \frac{1,80,000}{15}$ = 12,000 units
- B.E. Point in Value = 12,000 units x ₹40 per unit = ₹4,80,000

Question I:
Toy craft produces toy alligators and toy dolphins. Fixed costs are ₹ 12, 90,000 per year. Sales revenue and variable costs per unit are as follow:

Product	*Alligators*	*Dolphins*
Sales price per unit	*₹ 20*	*₹ 25*
Variable cost per unit	*₹ 8*	*₹ 10*
Fixed Costs	*₹12,90,000 per year*	

Questions:

A. ***Suppose the company currently sells 140,000 alligators per year and 60,000 dolphins per year (Sales Mix Percentage 14:6). Assuming the sales mix stays constant how many alligators and Dolphins must the company sell to break even?***
B. ***Suppose the company currently sells 60,000 alligators per year and 140,000 dolphins per year (Sales mix percentage 6:14). Assuming the sales mix stays constant, how many alligators and dolphins must the company sell to break even per year?***
C. ***Explain why the total number of toys needed to break even in (a) is the same as or different from the number in (b).***

Solution: 1A

Product	Alligators	Dolphins
Sales price per unit	₹ 20	₹ 25
Variable cost per unit	₹ 8	₹ 10
Contribution Margin per unit = Sales Price – Variable Costs	₹ 12	₹ 15
Number of Units Sold	1,40,000	60,000
Contribution Margin = = Contribution Margin per unit x Number of Units Sold	₹ 16,80,000	₹ 9,00,000
Total Contribution Margin = Contribution margin of Alligators and Dolphins	₹ 16,80,000 + 9,00,000 = ₹ 25,80,000	
Less :Fixed Cost	₹ (12,90,000)	
= Net Income	₹ 12,90,000	

- Weighted Average Contribution margin = $\dfrac{\textbf{Total Contribution}}{\textbf{Total units}}$

Where total units = 1, 40,000+60,000 = 2, 00,000 and **Total Contribution Margin =** ₹25,80,000

So, Weighted Average Contribution margin = $\frac{₹25{,}80{,}000}{2{,}00{,}000 \text{ Units}}$

= ₹ 12.9 per unit

- Breakeven Point = $\frac{\text{Fixed Cost}}{\text{Weighted Average Contribution}} = \frac{12{,}90{,}000}{12.9}$

- Breakeven Point = 1,00,000 units

➔ Allocating TOTAL UNITS to each product based on EXPECTED UNITS PROPORTION

➔ 2,00,000 units are sold of which 1,40,000 are alligators and 60,000 are dolphins, so the proportions of units sold are $\frac{14{,}00{,}000}{2{,}00{,}000}$ and $\frac{60{,}000}{2{,}00{,}000}$ that is, $\frac{14}{20}$ and $\frac{6}{20}$.

  - Sales Mix Percentage = 14, 00,000: 6, 00,000, that is, 14:6 = $\frac{14}{20} : \frac{6}{20}$.

  - Alligators to be produced for Breakeven = 1,00,000 x 14/20

    = 70, 000 units

  - Dolphins to be produced for Breakeven = 1,00,000 x 6/20

    = 30,000 units

Solution: 1B

Product	Alligators	Dolphins
Sales price per unit	₹ 20	₹ 25
Variable cost per unit	₹ 8	₹ 10
Contribution Margin per unit = Sales Price – Variable Costs	₹	₹
Number of Units Sold	60,000	1,40,000
Contribution Margin = = Contribution Margin per unit x Number of Units Sold	₹	₹
Total Contribution Margin = Contribution margin of Alligators and Dolphins	₹	
Less :Fixed Cost	₹	
= Net Income	₹	

- Weighted Average Contribution margin = $\frac{\textbf{Total Contribution}}{\textbf{Total units}}$

- Weighted Average Contribution margin = $\frac{₹\_\_\_\_\_\_\_\_\_\_}{2,00,000 \text{ Units}}$

= ₹ _______per unit

- Breakeven Point = $\frac{\text{Fixed Cost}}{\text{Weighted Average Contribution}}$

  - Breakeven Point in units = _______________________ Units

➔ Allocating TOTAL UNITS to each product based on EXPECTED UNITS PROPORTION

  - Sales Mix Percentage = 14, 00,000: 6, 00,000, that is, 06:14 = $\frac{06}{20} : \frac{14}{20}$

  - Alligators to be produced for Breakeven = = _______________units

  - Dolphins to be produced for Breakeven = _______________units **Solution: 1C**

The total number of toys needed to break even in (A) is different from the number in (B) and lower also. This is due to the reason as weighted contribution per unit has increased; fixed cost spreads over greater number of rupees letting the breakeven to be achieved early. Perhaps (b) sales mix is more efficient and gives the firm a hint to produce toy dolphins more as contribution per unit of a toy dolphin is also higher.

Question II:

Let us look at a manufacturing plant that produces four different types of machine tools and their cost, price and BE Qty. The fixed costs are allocated – taking in to consideration the utilization of common resources for different products. Here is the basic data:

- Products: A, B, C and D
- Selling Price: ₹100,000; ₹50,000; ₹70,000 and ₹2,00,000 respectively
- Variable Cost: ₹30,000; ₹25,000; ₹30,000 and ₹100,000 respectively
- Allocated Fixed Expenses per month: ₹350,000; ₹250,000; ₹1,000,000 and ₹1,500,000 respectively

Solution II:

Computation of Break Even Level:

Product	A	B	C	D
Sales price per unit	₹ 1,00,000	₹ 50,000	₹ 70,000	₹ 2,00,000
Variable cost per unit	₹ 30,000	₹ 25,000	₹ 30,000	₹ 1,00,000
Gross Profit per Unit	₹	₹	₹	₹
Fixed Exp Per Month	₹ 3,50,000	₹ 3,50,000	₹ 10,00,000	₹ 15,00,000
BE Qty per Month = $\dfrac{Fixed Expenses}{Gross\ Profit\ Per Unit}$				

- Each product has it‘s BE level.

- If a particular product consistently fails to move beyond the BE level, then it is a candidate for some management discussion
    - How to increase sales or
    - Reduce costs (variable as well as fixed) etc.
    - If all else fails, then dropping the product is the preferred management action.

- BE analysis helps in such decision making. Please note that such decisions are product related and not business related.

Question III:

Textile shop - please calculate breakeven point. Garments sold are silk saris, cotton saris, suit materials, kids wear.

Product	Silk Saris	Cotton Saris	Suit Material	Kids Wear
Sales Price Per Unit	₹ 3,500	₹ 900	₹ 1,800	₹ 450
Variable Cost Per Unit	₹ 1,050	₹ 270	₹ 540	₹ 135
Allocated fixed expenses	₹ 45,000	₹ 15,750	₹ 63,000	₹ 70,875

Solution III:

Product	Silk Saris	Cotton Saris	Suit Material	Kids Wear
Sales Price Per Unit	₹ 3,500	₹ 900	₹ 1,800	₹ 450
Variable Cost Per Unit	₹ 1,050	₹ 270	₹ 540	₹ 135
Gross Profit per Unit	₹	₹	₹	₹
Allocated fixed expenses	₹ 45,000	₹ 15,750	₹ 63,000	₹ 70,875
BE Qty per Month = $\frac{FixedExpenses}{GrossMarginPerUnit}$				
	=	=	=	=

<u>Inventory Control and Economic Order Quantity</u>

<u>Inventory</u>

- Reorder formula = Average daily usage rate × Lead time in days

- **The following model assumes:**
    1. Future demand is known and is uniform throughout the period.
    2. Unit price of item does not vary with qty ordered. (In real life, the price varies. We will then have to use a different model. That is not discussed here.)

Formula for calculating EOQ =

- **D =** Annual Usage or Annual demand for the item
- **P =** ordering cost per unit or Cost of placing and receiving one order (does not include purchase price)

- **C =** carrying cost of inventory (per unit)
  = unit price of the item x carrying cost expressed as percentage of the unit price.

- **S =** Safety Stock level for the item.

- **Q =** Economic order quantity

$$= EOQ = \sqrt{\frac{2PD}{C}}$$

OR

$$EOQ = \sqrt{\frac{\text{2 annual usage x ordering cost per unit}}{\text{Carrying cost per unit}}}$$

Example 1:

Annual qty of jeans sold by a shop is 1,200 at the rate of ₹100/- per month. Cost of placing an order and receiving goods is ₹500/- per order. Inventory holding cost is ₹30/- per annum. What is the economic order Qty for the shop keeper?

Here, D = 1,200; P = 500 and C = 30.

So 2 x P x D = 12, 00,000

This divided by 30 = 40,000.

Square root of which is = 200. So the EOQ is 200 jeans.

Example 2:

A book shop sells pens – 30,000 qty per year. Demand is uniform. Purchase cost is ₹6/- per pen. Holding cost per annum is 20% of purchase cost. Ordering cost is ₹500/- per order. What should be the EOQ for the shop keeper?

Here, D = 30,000; P = 500 and C = 1.2 (20% of 6)

So 2 x P x D = 3, 00,00,000

This divided by 1.2 = 2, 50,00,000

Square root of which is = 5,000

So the EOQ is 5,000 pens.

Example 3: find out EOQ from the following information:

• Annual usage	6,000 units
• Cost of material per unit	₹ 20/-
• Cost of placing and receiving one order	₹ 60/-
• Annual carrying cost of one unit	10% of inventory value

$$EOQ = \sqrt{\frac{\text{2 x annual usage x ordering cost per unit}}{\text{Carrying cost per unit}}}$$

Annual usage = 6,000 units, ordering cost = 60

Annual carrying cost of one unit = 10% of inventory that is, $\frac{20 \times 10}{100} = 2$

$$EOQ = \sqrt{\frac{2 \times 6{,}000 \times 60}{2}}$$

$$EOQ = \underline{\hspace{6em}}$$

Return on Investment and Return on Equity - Measure of Profitability

Return on investment

$$ROI = \frac{\text{Net Profit}}{\text{Total Capital Invested}} \times 100$$

If, for example, you spend ₹100,000/- to open a grocery shop and make a net profit of ₹20,000/- in one year, your annual ROI equals (20,000/100,000) x 100 = 20 percent. When calculating ROI, the investment will include not only what the investor spent out of his/her pocket, but also all borrowed funds. In the example, the owner might have invested ₹40, 000/- of his own money (equity) and secured a loan for ` 60, 000/-.

Return on equity

You can calculate ROE by dividing the net income by the equity of the investor and multiplying the result by 100. In the example, the grocery owner has an equity stake of ₹40,000/- in the business. He has borrowed ₹ 60,000/-. This will attract an interest of ₹6,000/- @ of 10% per annum. The net profit, then would be ₹14,000/- (= 20,000 – 6,000). So, ROE is (14,000 / 40,000) x 100 = 35 percent. This means that for every Rupee of own money the owner put into the business, he made 35 paisa. The ROI of 20 percent, on the other hand, means that for every Rupee of combined assets and loans invested, the business yielded a 20 paisa average profit per Rupee invested (equity plus loan).

$$ROE = \frac{\text{Net Income}}{\text{Equity}} \times 100$$

Illustration 1: Please calculate return on investment and return on equity.

You have newly started a beauty parlor business, you spend ₹`1, 50,000/- to open the parlor of which you invested ₹ 70,000/- of your own money and borrowed a loan for ₹ 80,000/-. Interest rate per annum is 7%. Sales revenue per month is ₹ 80,000/-. Cost of goods sold is ₹ 30,000/- per month. Fixed expenses is ₹ 30,000/- (salary ₹ 20,000/-, rent and utility ₹ 10,000/-), depreciation ₹ 3,000/- and tax @ 14%.

- Investment = owner’s capital + borrowed funds.
-

Illustration 2: Please calculate return on investment and return on equity.

You have newly started a restaurant business, you spend ₹ 10, 00,000/- to open the restaurant. You have invested ₹ 4, 00,000/- of your own money and borrowed a loan for ₹ 6, 00,000/-. Interest rate per annum is 10%. Monthly sales revenue is ₹ 6, 00,000/- and cost of goods sold is ₹3, 00,000/-. Fixed expenses per month ₹ 2, 00,000/- (salary ₹ 1, 50,000/-, rent and utility ₹ 50,000/-), depreciation ₹ 10,000/- and tax @ 20%.

	Illustration 1	Illustration 2
Total Investment = X		
Source Of Funds		
Equity = Y		
Loan = Z		
Total		
Income Statement For 1 Yr		
Sales Revenue (A)		
Less Cost Of Goods Sold (B)		
Gross Margin C= (A-B)		
Fixed Expenses		
Salary Etc		
Rent, Utility Etc		
Interest		
Depreciation & Amortization		
Total Fixed Expense= (D)		
Profit Before Tax = (C-D)		
Tax @ 20% =E		
Profit After Tax = F= (C-D-E)		
Some Ratios		
ROI =(F/X)		
ROE = (F/Y)		
Calculation of EBITDA		
Profit Before Tax (PBT)		
+ Interest		
+ Depreciation		
+ Amortization		
EBITDA/Investment		
EBITDA/Equity		
EBITDA – Stands For Earnings Before Interest, Tax, Depreciation And Amortization. This Is Arrived At By Adding Interest, Depreciation And Amortization To PBT.		

Practice Questions:

Breakeven Analysis

Question 1

A factory manufacturing shirts gives you the following information:

Sales	₹ 2,00,000
Direct labour costs(for 1000 units)	₹ 20,000
Direct material costs(for 1000 units)	₹ 50,000
Direct expenses(for 1000 units)	₹ 10,000
Fixed Costs	₹ 60,000

Find out

a. Variable cost per unit
b. Total cost
c. Quantity to be sold at breakeven point

Solution 1

a. Variable cost per unit = $\dfrac{\text{Direct labour costs + Direct material costs + Direct expenses}}{\text{Number of Units}}$

Variable cost per unit = $\dfrac{\text{\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_}}{\text{Units}}$

Variable cost per unit = ₹ ____________________ per unit

b. Total Costs = Fixed Costs + Total Variable Costs

Total Costs = ₹____________________ + ₹____________________

Total Costs = ₹ ____________________

c. B.E. Point = $\dfrac{\textit{Fixed Expenses}}{\text{(Selling price per unit – variable cost per unit)}}$

B.E. Point = $\dfrac{\text{\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_}}{\text{(\_\_\_\_\_\_\_\_ per unit – \_\_\_\_\_\_\_\_ per unit)}}$

B.E. Point = ________________ units

Question 2

A factory manufacturing shirts gives you the following information:

Sales	₹ 4,00,000
Direct labour costs(for 2000 units)	₹ 40,000
Direct material costs(for 2000 units)	₹ 1,00,000
Direct expenses(for 2000 units)	₹ 20,000
Fixed Costs	₹ 1,20,000

	Find out i. Variable cost per unit ii. Total cost iii. Quantity to be sold at breakeven point
Solution 2	Variable cost per unit = $\frac{\text{Direct labour costs + Direct material costs + Direct expenses}}{\text{Number of Units}}$ Variable cost per unit = $\frac{\rule{8cm}{0.4pt}}{\text{Units}}$ Variable cost per unit = ₹ ________________________per unit Total Costs = Fixed Costs + Total Variable Costs Total Costs = ₹________________________ + ₹ ________________________ Total Costs = ₹ _____________________________ B.E. Point = $\frac{FixedExpenses}{\text{(Selling price per unit – variable cost per unit)}}$ B.E. Point = $\frac{\rule{6cm}{0.4pt}}{\text{(\_\_\_\_\_\_\_\_\_\_\_\_ per unit – \_\_\_\_\_\_\_\_\_ per unit)}}$ B.E. Point = __________________ units
Question 3	Find Breakeven point if Fixed costs = ₹ 40,000; Variable Cost = ₹ 2 per unit and sales price = ₹ 4 per unit.
Solution 3	B.E. Point = $\frac{FixedExpenses}{\text{(Selling price per unit – variable cost per unit)}}$ B.E. Point = $\frac{\rule{6cm}{0.4pt}}{\text{(\_\_\_\_\_\_\_\_\_\_\_\_ per unit – \_\_\_\_\_\_\_\_\_ per unit)}}$ B.E. Point = __________________ units

Question 4	a. Find Breakeven point if Fixed costs = ₹ 1, 00,000; Variable Cost = ₹ 5 per unit and sales price = ₹ 10 per unit. b. What will happen if sales price is reduced by 10%?
Solution 4	a. When selling price = ₹ 10 per unit B.E. Point = $\frac{Fixed Expenses}{\text{(Selling price per unit – variable cost per unit)}}$ B.E. Point = ________________________________ (____________ per unit – _________ per unit) B.E. Point = __________________ units b. When selling price of ₹ 10 per unit is reducd by 10%, that is, selling price = ₹ 9 per unit B. E. Point = $\frac{Fixed Expenses}{\text{(Selling price per unit – variable cost per unit)}}$ B.E. Point = ________________________________ (____________ per unit – _________ per unit) B.E. Point = __________________ units
Question 5	a. Find Breakeven point if sales = ₹ 1,00,000 and i. Fixed costs = ₹ 30,000; ii. Direct labour costs (1000 units) = ₹ 10,000 iii. Direct material costs (1000 units) = ₹ 25,000 iv. Direct expenses (1000 units) = ₹ 5,000
Solution 5	a. Variable cost per unit = $\frac{\text{Direct labour costs + Direct material costs + Direct expenses}}{\text{Number of Units}}$ Variable cost per unit = ____ Total Costs = Fixed Costs + Total Variable Costs Total Costs = ₹________________________ + ₹ ________________________ Total Costs = ₹ _____________________________ B.E. Point = $\frac{Fixed Expenses}{\text{(Selling price per unit – variable cost per unit)}}$

	B.E. Point =______________________________________. (____________ per unit – __________ per unit) B.E. Point = ____________________ units
Question 6	A company has invested ₹20,000 on land; ₹10,000 on building and ₹10,000 on furniture. The selling price of its product is ₹10 per unit and the variable cost of the same is ₹ 2 per unit. Calculate the breakeven point.
Question 7	You are given the following information: a. Sales = ₹ 2,00,000 b. Fixed costs = ₹90,000 c. Variable costs = ₹1,40,000 How much is the sales volume to be increased by in order for the company to achieve break even sales?
Question 8	You are given the following information: a. Selling price per unit = ₹ 20 b. Fixed costs = ₹ 1,08,000 c. Variable costs per unit = ₹15 i. Calculate BEP. ii. What should the selling price per unit be if the breakeven point is 12,000 units?
Solution 8 (i)	B.E. Point = *FixedExpenses* ____________________. (Selling price per unit – variable cost per unit) B.E. Point =______________________________________. (____________ per unit – __________ per unit) B.E. Point = ____________________ units
(ii)	B.E. Point = *FixedExpenses* ____________________. (Selling price per unit – variable cost per unit) 12,000 = 1, 08,000 __________. Selling price per unit – 15

	12,000 (Selling price per unit) – (12,000 x 15) = 1,08,000 12,000 (Selling price per unit) = 1,08,000 + 1,80,000 = 2,88,000 Selling price per unit $= \frac{2,88,000}{12,000} =$ ₹ 24 per unit
	Economic Order Quantity
Question 1	Calculate EOQ from the given information: a. Annual consumption = ₹30,000 b. Cost of placing and receiving an order - ₹15 c. Annual carrying costs = 20% d. Price per unit = ₹2
	Carrying cost per unit = 20% of 2 = 40/100 $EOQ = \sqrt{\frac{\text{2 x annual usage x ordering cost per unit}}{\text{Carrying cost per unit}}}$ $EOQ = \sqrt{\frac{2 \text{ x } 30{,}000 \text{ x } 15}{40/100}}$ EOQ = 1,500 units
Question 2	The demand of an item is 3000 units. The cost of each unit is ₹ 10. Purchase price of each unit is ₹ 6 and holding charges are ₹ 10. Calculate EOQ.
Question 3	The annual usage of an item is 20,000 units, ordering costs are ₹100 per order and carrying costs are ₹ 20 per unit per year. Calculate EOQ.
Question 4	A company purchased 9,000 parts of a component for its annual requirement. Ordering cost of one component is ₹20, carrying cot is 15% of the cost of one component per year. Advise the management for procurement policy (calculate EOQ).
Question 5	Calculate EOQ if the company has to pay a carrying cost of ₹60 per unit, the monthly usage rate is 80 units and the cost to place an order is ₹10.

Assessment of Working Capital

Question 1 Calculate working capital Raja & Co. has the following items in its Balance sheet: Stock - 50,000: Trade creditors – 32,000; debtors – 75000; cash – 1,00000 Dividend payable – 50,000; Tax – 44,000; Short term loan – 61,000; Short term investments – 76,000 Calculate gross and net working capital.

Solution 1

Particulars	**Amount(₹)**	**Total Amount (₹)**
Current Assets:	₹	
Stock	₹	
Debtors	₹	
Cash	₹	
Short Term Investments	₹	
Total Current Assets		₹
Current Liabilities:	₹	
Trade Creditors	₹	
Dividend Payable	₹	
Tax	₹	
Short Term Loan	₹	
Total Current Liabilities		₹

Gross Working Capital = Total Current Assets

Gross Working Capital = ₹ ________________________

Net Working Capital = Total Current Assets + Total Current Liabilities

Net Working Capital = ₹ ________________________ + ₹ ________________________

Net Working Capital = ₹ ________________________

Question 2 Ramu is buying and selling ice-cream. Explain his working capital requirement.

Particulars	**Amount(₹)**	**Total Amount (₹)**
Current Assets:	₹	
Stock	₹	
Cash	₹	
	₹	
	₹	

	Total Current Assets ₹
Current Liabilities:	₹
Trade Creditors	₹
	₹
	₹
	₹
Total Current Liabilities	₹

Gross Working Capital = Total Current Assets

Gross Working Capital = ₹ __________________________

Net Working Capital = Total Current Assets + Total Current Liabilities

Net Working Capital = ₹ __________________________ + ₹ __________________________

Net Working Capital = ₹__________________________

Question 3 An entrepreneur proposes to produce 100 leather bags per week for which he needs ₹5,500 for purchasing raw material and ₹2,500 for payment of labor charges. Calculate the working capital requirements.

Working capital requirement = Total Expenses For The Month

Working capital requirement = _____________ + _____________

Working capital requirement = ₹____________________________________

Question 4 If the operating cycle of a product is 2 months, calculate the working capital requirements if miscellaneous expenses incurred monthly is ₹8,000; depreciation charged is 5% on the fixed assets worth ₹16,00,000 and raw material required for the month is expected to be ₹16,000.

- Operating Cycle = _______________ months

Expenses	Amount(₹)	Amt Per Month (₹)
Misc expenses		
Deprecation		
Raw material		
Total Expenses For The Month =		₹

Working capital requirement = Total Expenses For The Month x operating cycle

Working capital requirement = _____________ x _____

Working capital requirement = ₹____________________________________

Question 5 If the operating cycle of a product is 4 months, calculate the working capital required for an enterprise where monthly salaries distributed are ₹15,000; rent paid for a month is ₹20,000; miscellaneous expenses incurred is ₹ 8,000 monthly. Depreciation charged is 5 % on fixed assets worth ₹16, 00,000 and raw material required for the month is expected to be ₹16,000.

- Operating Cycle = _______________ months

Expenses	Amount(₹)	Amt Per Month (₹)
Salaries		
Rent		
Misc expenses		
Deprecation		
Raw material		
	Total Expenses For The Month =	₹

Working capital requirement = Total Expenses For The Month x operating cycle

Working capital requirement = _____________ x _____

Working capital requirement = ₹___________________________________

Question 6 Calculate working capital when raw material is ₹15,000 for 3 months; salaries = ₹10,000 (including outstanding salaries of ₹2,000) for 1 month; monthly rent to be paid ₹5,000. Bimonthly telephone bills ₹1,500; electricity charges for 1 month ₹7,500 and operating cycle of a product is 2 months.

- Operating Cycle = _______________ months

Expenses	Amount(₹)	Amt Per Month (₹)
Raw materials	15,000 for 3 months	5,000
Salaries	10,000 per month	10,000
Rent	5,000	5,000
Telephone bills	1,500 bimonthly	3,000
Electricity charges	7,500 per month	7,500
	Total Expenses For The Month =	₹

Working capital requirement = Total Expenses For The Month x operating cycle

Working capital requirement = _____________ x 2

Working capital requirement = ₹___________________________________

More Practice Questions - Break Even Analysis - (Multiple Products or Services)

Question I:

A company produces 2 products, A and B. Fixed costs are ₹ 18, 00,000 per year. Sales revenue and variable costs per unit are as follow:

Product	*A*	*B*
Sales price per unit	₹ *800*	₹ *650*
Variable cost per unit	₹ *700*	₹ *600*
Fixed Costs	₹ *18,00,000 per year*	

Suppose the company currently sells 500 units of A per year and 2,000 units of B per year. Assuming the sales mix stays constant how many A and B must the company sell to break even?

Question II:

A company produces 2 products, A and B. Fixed costs are ₹ 11, 20,000 per year. Sales revenue and variable costs per unit are as follow:

Product	*A*	*B*
Sales price per unit	₹ *265*	₹ *380*
Variable cost per unit	₹ *245*	₹ *340*
Fixed Costs	₹ *11,20,000 per year*	

Suppose the company currently sells 6,000 units of A per year and 4,000 units of B per year. Assuming the sales mix stays constant how many A and B must the company sell to break even?

Question III:

A company produces 2 products, A and B. Fixed costs are ₹ 45, 00,000 per year. Sales revenue and variable costs per unit are as follow:

Product	*A*	*B*
Sales price per unit	₹ *275*	₹ *385*
Variable cost per unit	₹ *225*	₹ *335*
Fixed Costs	₹ *45,00,000 per year*	

Suppose the company currently sells 10,000 units of A per year and 8,000 units of B per year. Assuming the sales mix stays constant how many A and B must the company sell to break even?

ENTREPRENEURSHIP PROJECT WORK XII: 2015-16- GENERAL GUIDELINES

The main objective of the course in Entrepreneurship is to generate among students the initiative, creativity, self-reliance and enthusiasm so as to empower them to become entrepreneurs, both in spirit and performance. A number of skills such as observation, evaluation, communication, resource mobilization and management, risk assessment, teams building etc. are also to be developed in the students. Leadership qualities, sensitivity to business ethics and adherence to a positive value system are the core disciplines that the course highlights while presenting different concepts related to entrepreneurship. Such a course should necessarily have a strong experiential component in the form of practical work. The objectives of the practical work for students are:

1. To introduce them to the world of business by developing in them the core skills and competencies required for an entrepreneur.

2. To develop qualities such as leadership, confidence, initiative, facing uncertainties, commitment, creativity, people and team building, integrity and reliability.

3. To acquire the skills and knowledge needed for conducting surveys, collecting, recording and interpreting data and preparing simple estimates of demand for products and services.

4. To prepare a Project Report.

5. To equip themselves with the knowledge and skills needed to plan and manage an enterprise through case studies, conducted and recorded by the students in different fields such as resource assessment, market dynamics, finance management, cost determination, calculation of profit and loss etc.

6. To instill important values and entrepreneurial discipline.

- Guidelines for assessment of Project

ASSESSMENT FOR PROJECTS :	**30 MARKS**
• **External Practical Written Paper**	• **5 marks.**
• **Viva**	• **5 marks.**
• **Business Plan**	• **10 marks**
• **Market survey report**	• **10 marks**

The student will have to prepare 2 projects and prepare 2 project files. They will also have a written paper worth 5 marks that they will have to appear for on the day of the CBSE Practical Examination

- **Written paper:**
  - The students will get a 5 mark question from any one or a combination of the given topics:
    - Calculation of EOQ.
    - Calculation of Working capital Requirements
    - Calculation of Break Even point.
    - Identification and calculation of start up costs/fixed costs/variable costs.

- **Project I: Market Survey** – Choose any **ONE** of the following Surveys:
    - Survey 1:
        - A Simple market research with the objective of estimating the demand for an existing product in the market and also gives innovative suggestion for the product's improvement.
    - Survey 2:
        - Conduct a survey for a NEW INNOVATIVE product
    - Survey 3:
        - Conduct a survey for a study on:
            - Smoking habits
            - Skill trading option in an economically backward neighborhood
            - Wearing helmets
            - Attitudes of road users
            - Conservation of electricity
            - Re-harvesting of rain water

- **Project II: Business Plan**

- The project is to be done individually by students.
- Only **white inter-leaf** sheets are to be used.. Please **avoid using coloured sheets** except for the title pages.
- The total length of the projects will be at least 25-30 pages each.
- The projects should be presented in a neat folder.
- The projects must be neat and well presented and must be completely hand-written. No whiteners to be used or written matter to be crossed out. In case of any mistakes, redo the sheet.
- Do not number sheets or write dates unless so instructed by your teacher.
- Color graphs and pie charts (if it is relevant for any aspect of your project) to make them look attractive. These may be printed with prior permission of your subject teacher.

Market Survey Project- Final Presentation

COVER PAGE	**Market Survey:** **Name of Student:** **CBSE Roll Number** **Year:2016-17**	**Certificate of Authenticity**
Acknowledgements	**Executive Summary**	**Index**
Introduction to the Topic	**Objectives**	**Profile of the Organization**
Data Analysis and Interpretation	*Blank Questionnaire*	*Analysis of questions:* ✓ *Tally-Bars* ✓ *Analysis* ✓ *Decisions* ✓ *Pie-Chart S & Bar Diagrams*
Conclusions and Recommendations	**Photographs**	**Bibliography**
Appendix	**Teacher's Observations**	

1. Cover page

- Design an attractive cover

2. Certificate of Authenticity

- Print the Certificate

3. Acknowledgements

I , ______________________, do hereby declare that this project is my original work and I would like to thank Ms ______________________, my Entrepreneurship teacher, for her wholehearted support and guidance for making it possible to complete this project on time. I would also like to thank CBSE for giving us an opportunity to widen our knowledge base by introducing this topic of study and my school for giving us this subject option.

I would also like to thank my friends and family members for their kind support and guidance without which this project could not have been completed.

4. Executive Summary

- For my Market Survey, I choose to find out the feasibility of producing a ______________ and the innovation I introduced was----------------------------------.

  OR

  For my Market Survey, I choose to find out the feasibility of providing a ______________ service and the innovation I introduced was---------------------------.
- To see whether my business would be successful or not, I prepared and administered a questionnaire containing ______ questions to 25 respondents.
- Once my respondents filled in these questionnaires, I analysed them. For every question, I prepared tally bars that summarised their responses, and I identified the least and the most favourable responses.
- On the basis of these responses, i took decisions that helped me to plan out the 4 P's for my product namely:
  i. The features that my product/service should have
  ii. The price that they will be willing to pay for my services
  iii. The distribution network they would prefer
  iv. The ,promotion techniques that I should use for my product.

5. Index

- Print or make an index in the order of presentation.

6. Introduction to the Topic

MARKETING

What is marketing?

The definition that many marketers learn as they start out in the industry is:
Putting the right product in the right place, at the right price, at the right time.

It's simple! You just need to create a product that a particular group of people want, put it on sale some place that those same people visit regularly, and price it at a level which matches the value they feel they get out of it; and do all that at a time they want to buy. Then you've got it made!
The marketing mix and the 4 Ps of marketing are often used as synonyms for each other. In fact, they are not necessarily the same thing.

Marketing Mix

There are a large number of factors that affect marketing decisions. They can be classified as:

- *Non-controllable factors and Controllable factors:*

To be successful, a firm needs to take sound decisions wrt controllable factors while keeping the environmental factors in mind.
To develop marketing tools, marketing managers use the abovementioned controllable factors and the set of marketing tools that a firm uses to pursue its marketing objectives in the target market is described as Marketing Mix.

Success of a market offer will depend upon how well these ingredients are mixed to create superior value for customers and simultaneously achieve their sales and profit objective. Thus, an ideal marketing mix would need:

- ***Producing satisfying products***
- ***Offered to buyers at a reasonable price***
- ***Conveniently available***
- ***About which communication is offered.***

Marketing mix" is a general phrase used to describe the different kinds of choices organizations have to make in the whole process of bringing a product or service to market. The 4Ps is one way – probably the best-known way – of defining the marketing mix, and was first expressed in 1960 by E J McCarthy. The 4Ps are:

- *Product (or Service), Place, Price and Promotion.*

A good way to understand the 4Ps is by the questions that you need to ask to define your marketing mix.

Here are some questions that will help you understand and define each of the four elements:

Product/Service

- *Product mix relates to decisions regarding planning, developing and producing the right type of products and services for the consumers.*
- *Product is the tangible/intangible product, which is goods/services/anything of value that is offered to the market for exchange.It relates to not only the physical product but also the benefits offered by the product from the customers' point of view.*
- *Important decisions in this area include deciding about the features and quality of the product, its packaging, labeling, trademark and branding of products.*
    - *What does the customer want from the product/service? What needs does it satisfy?*

Place Mix:

- ✓ *Set of decisions that need to be taken in order to make the product available for purchase and consumption of the target market at the right place, in the right time and at the right price.*
- ✓ *It includes all the activities involved in transferring ownership and physical possessions of the product o the consumer.*
- ✓ *It involves decisions wrt:*
    - *Channels of distribution- selection of intermediaries/dealer to reach the customers, providing support to the intermediaries etc.*
    - *Physical distribution-managing inventory, storage, warehousing and transportation of goods from the place where they are produced to the place where it is required by the buyer.*

Price Mix:

- ✓ *It is a value that a buyer passes on to the seller in lieu of the product or services provided.*
- ✓ *It is a source of revenue for the seller.*
- ✓ *Decision also includes pricing methods, pricing strategies, pricing policies, price changes, discounts to be offered, credit terms etc.*
- ✓ *Price is the cost the customers has to bear for the product and so must be set so that the customers perceive the price to be in lieu with the value of the product.*

Promotion Mix:

- ✓ *These are activities undertaken to persuade and motivate people to buy their products.*
- ✓ *It involves communicating the features, attributes, availability, merits etc of the product to both the customers and the participants in the channels of distribution in order to achieve sales goals.*
- ✓ *Tools used include advertising, sales promotion, personal selling etc.*

The 4Ps model is just one of many marketing mix lists that have been developed over the years. And, whilst the questions we have listed above are key, they are just a subset of the detailed probing that may be required to optimize your marketing mix.

The reason why I selected this product is ____

____

____

____

7. Objectives

- To identify our target market and find out their key needs.
- To find out the possibility of marketing a _____________________
- To conduct a market survey that will give an indication about whether the product that I have designed meets the needs of my target market.
- To help me get an idea about the :
    i. Price range at which I should offer my product.
    ii. What channel of distribution I should use to distribute my product.
    iii. The similarities and differences between my products and customers and my competitors' products and customers.
    iv. To understand when do customers buy and the factors that influence their buying decisions- Convenience, price, quality, reputation, location, selection, brands, impulse, etc.
    v. To find out how do customers buy - Cash, credit, etc.
    vi. To find what price they will be willing to pay for my product.
    vii. To identify the promotion schemes that will have a positive impact on their buying behaviour.

8. Profile of the Organization

Write about the product/service you have chosen:

1. Give details about
    a. The features of your product
        - *Ensure that you have highlighted the innovation that you have introduced.*
    b. The target market of your product
    - *This includes who buys the product or service. Give some details about them that may cover aspects such as where do they live, what income levels are in the market, what is the age pattern in the market,*
    - *Answers to these questions help identify target markets, specific products or services and advertising efforts. Use demographic characteristics to identify customers. Demographics include age, gender, income, race, marital status, education, occupation, home ownership, number in the household and age of the home.*

c. <u>The competitive brands</u>

- *Try to identify 3 competitive brands and their compare them with your product. One sample is given below. You can add or delete basis of comparison.*

Basis of comparison	I have	Competitor #1 has
1.Brand names		
2.Delivery		
3.Installation		
4.Warranty service		
5.Variety of selection		
6.Credit terms		
7.Return policy		
8.Convenient location		
9.Parking		
10.Appropriate atmosphere		
11.Convenient store hours		
12.Experienced personnel		
13.Concern for customers		

9. Data Analysis and Interpretation

- Give one blank questionnaire
- Analyze **each question** and for each question, give:

  i. The question

  ii. Tally bars

  iii. Analysis of responses

  iv. Conclusion drawn/ decision take.

  One example is given below:

- **Question:** What motivated you to buy this washing detergent?

- **Tally Bars:**

Options	*Tally bars*	*Total*
Quality of Detergent	IIII IIII II	12
Price	IIII	5
Brand image	III	3
Total		**20**

- **Analysis**:

  On the basis of survey conducted maximum number of consumers are motivated to buy a washing detergent by looking at the quality of detergent, as 12 respondents look at quality whereas 5 and 3 respondents focuses on price and brand image of detergent respectively.

- **Conclusion or Decision taken:**

  So we can conclude by saying that quality is the most important factor in selecting a detergent followed by Brand image and price.

10.Conclusions and Recommendations

The *Conclusion or Decision taken* for every question in the project to be presented here in points in one or two pages.

11.Photographs(if any)

12.Bibliography

Names of books used and website addresses.

13.Appendix

- Any specific terms used are to be defined here.
- ***All filled in questionnaires are to be attached here.***
- Any printed research material to be attached here.

14.Teacher's Observations

- Take a print of the market survey Evaluation form.

Business Plan- Title Pages, Format, Theory to be copied and Work Sheet

Business Plan: **Name of Student:** **CBSE Roll Number** **Year:2016-17**	**Certificate of Authenticity**	**Acknowledgements**
Index	**Objectives**	**Name of the Business, Logo and Tagline**
Competitive advantage and USP of your product/service/firm	**Marketing Plan**	**Cost Decisions**
Selling Price	**Start Up Costs**	**Risk Analysis**
Statement Of Profit And Loss	**Break Even Analysis**	**Bibliography**
Appendix	**Teacher's Observations**	

Choose Your Business idea. You can choose any one Product/Service given below or opt for any other:

Product	Services	Trading
• Chocolates • Soap • Detergent powder/ liquid soap • Sandwiches	• Tiffin service • Crèche • Pet care center	• Stationary • Flower shop

1. Cover page

- Design an attractive cover

2. Certificate of Authenticity

- Print the Certificate

3. Acknowledgement

4. Index:

(Print the index given and then copy the theory given below)

BUSINESS PLAN

- *Planning can be defined as "thinking in advance what is to be done when it is to be done, how it is to be done and by whom it should be done."*
- *The entrepreneur must make some important decisions and gather information about the external and internal factors so as to address the integration and co-ordination of effective business objectives and strategies related to his proposed venture.*

WHAT IS A BUSINESS PLAN?

- *The business plan is a* ***comprehensively written down document prepared by the entrepreneur describing formally all the relevant external and internal elements involved in starting a new venture.***
- *Thus, a business plan is a comprehensive project report which not only encompasses the entire range of activities which are being planned in the business, but also:*
  - *a) Helps to understand the feasibility and viability of the proposed venture,*
  - *b) facilities in assessing and making provisions for the bottlenecks in the progress and implementation of the idea,*
  - *c) Discusses the potential for the success of the project along with the risk factors involved.*

- *Business plan are decision-making tools:*
    i. *Describing all necessary inputs to the enterprise.*
    ii. *Explaining the mode of utilization of the resources.*
    iii. *Detailing the strategies for the execution of the project.*
    iv. *Outlining the desired goals*
    v. *Assessing market sensitivity and the profitability of the venture.*

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

WHO CAN WRITE THE PLAN?

- *A business plan represents all aspects of business planning process declaring vision and strategy alongside sub-plans to cover:*
    - *Marketing*
    - *Finance*
    - *Operations*
    - *Human resources*
    - *Legal compliance*
    - *Intellectual property rights, etc.*

- *Entrepreneur should consult the following while preparing it:*
    viii. *Lawyers,*
    ix. *Accountants,*
    x. *Marketing Consultants,*
    xi. *Engineers*
    xii. *Internet Sites*
    xiii. *Officially Appointed Or/And Set-Up Banks, Specialized Financial Institutions Or Agencies To Promote Entrepreneurship*
    xiv. *Friends, Relatives, Mentors Etc.*

IMPORTANCE OF THE BUSINESS PLAN:

- *The business plan is valuable to the entrepreneur, potential investors, venture capitalists, Banks, Financial institutions, new suppliers, customers, advisors and others who are trying to familiarize themselves with the venture, its goals, and objectives.*
- *The business plan –*
    g) *Determining the viability of the venture*
    h) *Helps in satisfying the concerns, queries, and issues of interested groups*
    i) *Provides room for self-assessment and self-evaluation,*
    j) *Helps to realize the obstacles which cannot be avoided or overcome, suggesting to terminate the venture while still on paper without investing further time and money.*
    k) *Reflects the entrepreneur's credit history, the ability to meet debt and interest payments, and the amount of personal equity invested thus serving as an important tool in funds procurement.*
    l) *Helps in providing guidance to the entrepreneur in organizing his/or her planning activities as such:*
        iv. *Identifying the resources required*
        v. *Enabling obtaining of licenses if required etc.*
        vi. *Working out with legal requirements as desired by the government.*

- *Hence, a business plan gives adequate clarity to the entrepreneur, Investor(s) and the government of:*
    - *What an entrepreneur is doing,*
    - *Why he/she is doing it, and*
    - *How he/she will do that?*

FORMAT OF BUSINESS PLAN:

- *The depth and detail in the business plan depends on the size and scope of the proposed new venture. There is no fixed content for a business plan as it varies according to the entrepreneur's goals and audience (i.e. who are being targeted).*
- *Thus, it is common for especially start-ups to have three or four formats as follows for the same business plan.*
  - i. ***Elevator pitch:***
    - a. *It is a three minute summary.*
  - ii. ***A pitch deck with oral narrative**:*
    - a. *slide show and oral narrative that includes the executive summary and a few key graphs showing financial trends and key decision making benchmark.*
  - iii. ***A written presentation for external stakeholders:***
    - a. *A detailed, well written, and pleasingly formatted plan targeted at external stakeholders.*
  - iv. ***An internal operational plan:***
    - a. *A detailed plan describing planning details that are needed by management but may not be of interest to external stakeholders.*

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

1. Introductory cover page/general introduction 2. Business venture 3. Organisational plan	4. Production plan 5. Operational plan 6. Manpower Planning	7. Marketing plan 8. Financial plan 9. Assessment of risk 10. Miscellaneous/appendix

I. INTRODUCTORY PROFILE /GENERAL INTRODUCTION

- *This is the title or cover page - a brief summary of business plan's contents:*
  - i. *Entrepreneur's bio-data:*
  - ii. *Industry's profile:*
  - iii. *Constitution and organization: i.e. the legal form of the proposed enterprise*
  - iv. *Product details:*

II. DESCRIPTION OF VENTURE/BUSINESS VENTURE

- *"Mission Statement" by the entrepreneur and*
- *Description about the following key elements.*
  - ***i.*** *Site* *ii. Physical infrastructure:*

III. ORGANIZATIONAL PLAN

- *The organizational plan is that part of the business plan that describes the proposed venture's opted form of ownership adequately mentioning necessary details. All businesses will fall into one of the four basic categories: Manufacturing, Wholesale, Retail and Service.*

- *Organizational plan describes the proposed venture's form of ownership. Each type of business differs significantly in terms of:*
  1. *Commencement procedures*
  2. *Legal constraints*
  3. *Financial requirement*
  4. *Accounting methods*
  5. *Marketing and promotional strategies*
  6. *Risk and liability*

- *The entrepreneur have access to following forms to choose from to start his/her venture: a) Sole proprietorship b) Partnership c) Joint Hindu family d) Cooperative, or e) Corporation*

- *Each of these forms has important implications on (i) Taxes (ii) Liability (iii) Continuity (iv) Financing (v) Ownership. No form is the best form. Entrepreneur in light of multiple factors (as already discussed) decides the legal structure, best suited to attain his dream.*

- *To conclude, both the entrepreneur and the potential investors stands to gain from the organizational plan as the design of the organization so opted helps even in:*
    - *Specifying the types of skills needed and the roles that must be filled by the member*
    - *Chalking out informal organization or culture.*

IV. PRODUCTION PLAN

- *Aims at **"Plan your work"***
- *The objective of preparing a Production Plan =*
    - ✓ *Visualizing every step in a long series of separate operations,*
    - ✓ *So as to ensure that each step is to taken in the right place of the right degree, and at the right time and*
    - ✓ *each operation to be done at maximum efficiency",*

- *Hence, a production plan helps to plan the work in such a manner that one can clearly form an idea about:*
    - ✓ *Production schedule and/or budget*
    - ✓ *Machinery, equipment requirement*
    - ✓ *Manufacturing method and process involved*
    - ✓ *Plant layout*
- *There may be three situations before the venture viz complete manufacturing, partial manufacturing and no manufacturing.*

V. OPERATIONAL PLAN

- *Operations plan ensures **"work your plan"**.*
- *It is actually a blue print prepared right in advance of actual operations –*
    - ii. *Ensuing orderly flow of materials in the manufacturing process*
    - iii. *Facilitating continuous production, lesser work-in-progress and minimization of wastage.*
    - iv. *Co–ordinating the work of engineering, purchasing, production, selling and inventory management.*
    - v. *Describing the flow of goods / services from production point to the consumers.*
    - vi. *Introducing a proper system of quality control*
    - vii. *Undertaking the best and most economic production policies and methods.*

- ***Elements of operational plan:** Operation plan, in a way is planning:*
    - i. *For production in advance of operations.*
    - ii. *Establishing the exact route of each individual item, part of assembly.*
    - iii. *Setting starting and finishing dates for each important assignment/work.*
    - iv. *Regulating the orderly movement of goods through the entire manufacturing cycle i.e. right from procurement of all materials to the shipping of finished goods.*

    - ✓ *Nature of venture*
    - ✓ *Scale of operation, and*
    - ✓ *Type of product/service*
    - ✓ *Technology involved*

- *Thus, to obtain the above mentioned objectives, entrepreneur specifically pays attention to the following elements of the plan:*
    a. *Routing*
    b. *Scheduling.*
    c. *Dispatching*
    d. *Follow-Up*
    e. *Inspection*
    f. *Shipping*

VI. MANPOWER PLANNING

- *An organisation's performance and resulting productivity are directly proportional to the quantity and quality of its manpower.*
- *Manpower planning is a process by which an entrepreneur ensures that he/she has the right number of people, and the right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.*
- *Manpower planning thus helps to assess:*
    i. *What kinds of people are required?*
    ii. *How many people are required?*
    iii. *How to procure personnel?*

b. *Procurement of "right man, at right job, at right time" is the objective of human resource plan.*

VII. MARKETING PLAN

- *Describes the market conditions and strategies related to how:*
    a. *Products/services will be distributed,*
    b. *Priced*
    c. *Promoted.*
- *It is a guideline regarding the marketing objectives, strategies and activities to be followed by the new enterprise.*
- *Provides answers to three basic questions:*
    a. *Where have we been?*
    b. *Where do we want to go?*
    c. *How do we get there?*

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

- ***Steps in preparing the marketing plan -** procedure for preparing the marketing plan involves following steps:*
    i. *Business situation analysis*
    ii. *Identify the target market*
    iii. *Conduct SWOT analysis*
    iv. *Establish goals*
    v. *Define marketing strategy*
    vi. *Implementation and monitoring of the plan.*

VIII. FINANCIAL PLAN

- *Finance brings together men, material, machines and methods to produce goods/services.*
- *As timely availability of funds in right volume is key to entrepreneurial success, the entrepreneur should develop a sound financial plan discussing:*

a) *Financial requirements*
b) *Sources of raising funds*

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

- *Financial plan is a projection of key financial data about:*

a) *The potential investment commitment needed for the new venture, and*
b) *Economic feasibility of the enterprise*

- *The financial plan is so designed that the entrepreneur and the investors could have a clear picture of:*

a) *How much funds are required?*
b) *Where will funds come from?*
c) *How are they disbursed?*
d) *The amount of cash available*
e) *General financial well-being of the new venture i.e. probable revenue forecast for the first year at least.*

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

- ***Components of financial plan*** *Major financial items that should be included in the financial plan are:*
    1. *Proforma Investment Decisions*
    2. *Proforma Financing Decisions*
    3. *Proforma Income Statements*
    4. *Proforma Cash Flow*
    5. *Proforma Balance Sheet*
    6. *Break-Even Analysis*
    7. *Economic And Social Variables*

IX. ASSESSMENT OF RISK

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

i. *Identify potential hazards*
ii. *Develop alternative strategies to either prevent minimize or respond to the risk.*

X. APPENDIX

a. *contains any backup material that is not necessary in the text of the document as:*

i. *Letters from customers, distributors etc. , Any primary or secondary research data , Copies of contracts, agreements or any price lists if received.*

(End here)

(Next Page)

5. <u>Objectives:</u>

- To find out the feasibility of starting a business to sell ______________

<u>OR</u>

- To find out the feasibility of starting a business to provide _____________________ services

<u>OR</u>

- To find out the feasibility of starting a business to trade in ________________.

In addition to the above, in this project, i have tried to:

- To identify my key objectives for the next three to five years and how they will be achieved.
- To work on the following areas:

- A marketing plan giving details about my competitor, my target customers and how will you reach them, my advertising and promotion idea, Packaging (if applicable), Distribution , quality certification required,
    - A financial plan to identify fixed and variable costs
    - To fix the selling price and choosing the pricing strategy to be adopted by my firm
    - To estimate my start-up costs
    - To identify possible risks that my firm may face
    - To prepare a projected Statement of profit and Loss
    - To conduct a break even analysis

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6. Name Of The Business, Logo And Tagline

*A **logo** is a graphic mark or emblem commonly used by commercial enterprises, organizations and even individuals to aid and promote instant public recognition. Logos are either purely graphic (symbols/icons) or are composed of the name of the organization (a logotype or word mark).*

In the days of hot metal typesetting, a logotype was a uniquely set and arranged typeface or colophon. At the level of mass communication and in common usage a company's logo is today often synonymous with its trademark or brand.[2] The current era of logo design began in the 1870s with the first abstract logo, the Bass red triangle. Today there are many corporations, products, brands, services, agencies and other entities using an ideogram (sign, icon) or an emblem (symbol) or a combination of sign and emblem as a logo. As a result, only a few of the thousands of ideograms people see are recognized without a name. An effective logo may consist of both an ideogram and the company name (logotype) to emphasize the name over the graphic, and employ a unique design via the use of letters, colors, and additional graphic elements.

*Tagline In entertainment, a **tagline** (or **tag line**) is a small amount of text which serves to clarify a thought for, or designed with a form of, dramatic effect. Many tagline slogans are reiterated phrases associated with an individual, social group, or product. As a variant of a branding slogan, taglines can be used in marketing materials and advertising.*

The idea behind the concept is to create a memorable phrase that will sum up the tone and premise of a audio/visual product,[note 1] or to reinforce and strengthen the audience's memory of a literary product. Some taglines are successful enough to warrant inclusion in popular culture. Consulting companies which specialize in creating taglines may be hired to create a tagline for a brand or product.

a. Name of my Business is ____________________________________.
b. The reason/s why I selected this name is:
    i. ……………………………………………………………………………………

    ……………………………………………………………………………………

    ii. ……………………………………………………………………………………

    ……………………………………………………………………………………

iii. ……………………………………………………………………………………………

……………………………………………………………………………………………

c. My logo is

d. My tagline is ____

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7. Competitive advantage and USP of your product/service/firm

Competitor analysis *in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential competitors. This analysis provides both an offensive and defensive strategic context to identify opportunities and threats. Profiling coalesces all of the relevant sources of competitor analysis into one framework in the support of efficient and effective strategy formulation, implementation, monitoring and adjustment.*

Competitor analysis is an essential component of corporate strategy.[2] It is argued that most firms do not conduct this type of analysis systematically enough. Instead, many enterprises operate on what is called "informal impressions, conjectures, and intuition gained through the tidbits of information about competitors every manager continually receives." As a result, traditional environmental scanning places many firms at risk of dangerous competitive blind spots due to a lack of robust competitor analysis.

Competitive advantage *occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources. New technologies such as robotics and information technology can provide competitive advantage, whether as a part of the product itself, as an advantage to the making of the product, or as a competitive aid in the business process (for example, better identification and understanding of customers).*

The ***unique selling proposition (USP)****, or* ***unique selling point****, or "'unique selling product"' or "' unique selling price"' is a marketing concept first proposed as a theory to explain a pattern in successful advertising campaigns of the early 1940s. The USP states that such campaigns made unique propositions to the customer that convinced them to switch brands. The term was developed by advertising pioneer Rosser Reeves of Ted Bates & Company. Theodore Levitt, a professor at Harvard Business School, suggested that, "Differentiation is one of the most important strategic and tactical activities in which companies must constantly engage." The term has been used to describe one's "personal brand" in the marketplace. Today, the term is used in other fields or just casually to refer to any aspect of an object that differentiates it from similar objects.*

Unique propositions that were pioneers when introduced include:

- *Anacin "Fast, fast, incredibly fast relief." In 1952, Rosser Reeves created a TV commercial that capitalized on Anacin's "special ingredient," caffeine, by suggesting limitations of other aspirin and repeating, three times, the differentiation proposition: fast.*[4]
- *Domino's Pizza: "You get fresh, hot pizza delivered to your door in 30 minutes or less – or it's free."*
- *FedEx: "When your package absolutely, positively has to get there overnight."*

- Competitive advantage of my product or service is:
  - ……………………………………………………………………………………………
    ……………………………………………………………………………..…………..………
  - ……………………………………………………………………………………………
    ……………………………………………………………………………..…………..………
  - ……………………………………………………………………………………………
    ……………………………………………………………………………..…………….…
- **My USP is**
  - ……………………………………………………………………………………………
    …………………………………………………………………..…………………………..……
  - ……………………………………………………………………………………………
    ………………………………………………………………………………………………

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8. Marketing Plan

A ***target market*** *is a group of customers towards which a business has decided to aim its marketing efforts and ultimately its merchandise. A well-defined target market is the first element to a marketing strategy. The marketing mix variables ofproduct, place (distribution), promotion and price are the four elements of a marketing mix strategy that determine the success of a product in the marketplace.*

Target markets are groups of individuals that are separated by distinguishable and noticeable aspects. Target markets can be separated by the following aspects:

- *Geographic segmentations - addresses (their location climate region)*
- *demographic/socioeconomic segmentation - (gender, age, income, occupation, education, household size, and stage in the family life cycle)*
- *psychographic segmentation - (similar attitudes, values, and lifestyles)*
- *behavioural segmentation - (occasions, degree of loyalty)*
- *product-related segmentation - (relationship to a product)*

In addition to these segmentations, market researchers have advocated a needs-based market segmentation approach to identify smaller and better defined target groups. Some approaches to these smaller groups are:

- *Select the target audience – the customers are grouped based on similar needs and benefits sought by them on purchase of a product.*

- *Identify clusters of similar needs – demographics, lifestyle, usage behaviour and pattern used to differentiate between segments.*
- *Apply a valuation approach – market growth, barriers to entry, market access, switching, etc. are used.*
- *Test the segments – A segment storyboard is to be created to test the attractiveness of each segment's positioning strategy.*
- *Modify marketing mix – expanding segment positioning strategy to include all aspects of marketing mix. The four lelments of Marketing Mix are:*

Product Mix:

- ✓ *Product mix relates to decisions regarding planning, developing and producing the right type of products and services for the consumers.he four elements of marketing mix are:*
- ✓
- ✓ *Product is the tangible/intangible product, which is goods/services/anything of value that is offered to the market for exchange.It relates to not only the physical product but also the benefits offered by the product from the customers' point of view.*
- ✓ *Important decisions in this area include deciding about the features and quality of the product, its packaging, labeling, trademark and branding of products.*
    - *What does the customer want from the product/service? What needs does it satisfy?*

Place Mix:

- ✓ *Set of decisions that need to be taken in order to make the product available for purchase and consumption of the target market at the right place, in the right time and at the right price.*
- ✓ *It includes all the activities involved in transferring ownership and physical possessions of the product o the consumer.*
- ✓ *Place Mix involves decisions wrt:*
    - *Channels of distribution- selection of intermediaries/dealer to reach the customers, providing support to the intermediaries etc.*
    - *Physical distribution-managing inventory, storage, warehousing and transportation of goods from the place where they are produced to the place where it is required by the buyer.*

Price Mix:

- ✓ *It is a value that a buyer passes on to the seller in lieu of the product or services provided.*
- ✓ *It is a source of revenue for the seller.*
- ✓ *Decision also includes pricing methods, pricing strategies, pricing policies, price changes, discounts to be offered, credit terms etc.*
- ✓ *Price is the cost the customers has to bear for the product and so must be set so that the customers perceive the price to be in lieu with the value of the product.*

Promotion Mix:

- ✓ *These are activities undertaken to persuade and motivate people to buy their products.*
- ✓ *It involves communicating the features, attributes, availability, merits etc of the product to both the customers and the participants in the channels of distribution in order to achieve sales goals.*
- ✓ *Tools used include advertising, sales promotion, personal selling etc.*

- ✓ *The 4Ps model is just one of many marketing mix lists that have been developed over the years. And, whilst the questions we have listed above are key, they are just a subset of the detailed probing that may be required to optimize your marketing mix.*

i.

a. My Market Research Plan.
   i. My 3 primary competitors are:
      1. ___________________________
      2. ___________________________ and
      3. ___________________________

b. Demand for my product:
   ii. There is there a demand for my product / service
   <u>OR</u>
   iii. At present there is no demand for your product / service but I think I can create it?

c. Comparison of my product with my competitor:

Basis of comparison	I have	Competitor 1 has	Competitor 2 has	Competitor 3 has
i.				
ii.				
iii.				
iv.				
v.				
vi.				

d. My target customers and how will I reach them.

(from the given table, choose any 5 that are relevant for you)

Details of target market		Reasons for my choice
i. Where do they live		
ii. What income levels are in the market,		
iii. What is the age pattern in the market,		
iv. Age,		
v. Gender,		
vi. Marital status		
vii. Education,		
viii. Occupation,		
ix. Home ownership,		
x. Number of members in the household		
xi.		
xii.		

e. My advertising and promotion idea.

Options	**Tools of promotion I would use (please tick)**	**Reasons for my choice**
– Advertising	Media available: – Stationery, Window display or office front, Press advertising, Radio , Television , Direct mail , Outdoor, Ambient , Cinema, Point of sale ,Online , Directory listings	
– Personal Selling (if used)		

– Sales Promotion	i. **Consumer promotions** 1. Point of purchase display material 2. In-store demonstrations, samplings and celebrity appearances 3. Competitions, coupons, sweepstakes and games 4. On-pack offers, multi-packs and bonuses 5. Loyalty reward programs ii. **Business promotions** 1. Seminars and workshops 2. Conference presentations 3. Trade show displays 4. Telemarketing and direct mail campaigns 5. Newsletters 6. Event sponsorship iii. **Trade promotions** 1. Reward incentives linked to purchases or sales 2. Reseller staff incentives 3. Competitions 4. Corporate entertainment iv. **Sales force promotions** 1. Commissions 2. Sales competitions with prizes or awards 3. Back to top	
– Public Relations	✓ News creation and distribution (media releases) ✓ Special events such as news conferences, grand openings and product launches ✓ Speeches and presentations ✓ Educational programs ✓ Annual reports, brochures, newsletters, magazines and AV presentations ✓ Community activities and sponsorships	

iv. Packaging used (if applicapable)

1. ……………………………………………………………………………

   ……………………………………………………………………………

2. ……………………………………………………………………………

   ……………………………………………………………………………

3. ……………………………………………………………………………

   ……………………………………………………………………………

Eco friendly packaging used if any ____________________________________

f. Distribution – I intend to reach my consumers using:

v. Channels of distribution selected –

1. Direct (zero level)

OR

2. Indirect (one/two or three levels)

vi. Explain the reasons for your choice of Channels of Distribution

1. …………………………………………………………………………………

…………………………………………………………………………………

2. …………………………………………………………………………………

…………………………………………………………………………………

3. …………………………………………………………………………………

…………………………………………………………………………………

g. What does quality mean for my product/service?

4. …………………………………………………………………………………

………………………………………………………

vii. Standardization mark applicable for my product:________________________

End here)

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9. <u>Cost Decisions</u>

Costing is a managerial accounting method that describes when all fixed and variable costs, including manufacturing costs, are used to compute the total cost per unit. Full costing includes these costs when computing the amount of money it takes to produce and distribute one unit of output.

In the early industrial age, most of the costs incurred by a business were what modern accountants call "<u>variable costs</u>" because they varied directly with the amount of production. Money was spent on labor, raw materials, power to run a factory, etc. in direct proportion to production. Managers could simply total the variable costs for a product and use this as a rough guide for decision-making processes.

Some costs tend to remain the same even during busy periods, unlike variable costs, which rise and fall with volume of work. Over time, these "<u>fixed costs</u>" have become more important to managers. Examples of fixed costs include the depreciation of plant and equipment, and the cost of departments such as maintenance, tooling, production control, purchasing, quality control, storage and handling, plant supervision and engineering.[2] In the early nineteenth century, these costs were of little importance to most businesses. However, with the growth of railroads, steel and large scale manufacturing, by the late nineteenth century these costs were often more important than the variable cost of a product, and allocating them to a broad range of products lead to bad decision making. Managers must understand fixed costs in order to make decisions about products and pricing.

In management accounting, fixed costs are defined as expenses that do not change as a function of the activity of a business, within the relevant period. For example, a retailer must pay rent and utility bills irrespective of sales.

In accounting terminology, fixed costs will broadly include almost all costs (expenses) which are not included in cost of goods sold, and variable costs are those captured in costs of goods sold. The implicit assumption required to make the equivalence between the accounting and economics terminology is that the accounting period is equal to the period in which fixed costs do not vary in relation to production. In practice, this equivalence does not always hold, and depending on the period under consideration by management, some overhead expenses (e.g., sales, general and administrative expenses) can be adjusted by management, and the specific allocation of each expense to each category will be decided under cost accounting.

h. Compute the Fixed Costs (per month)

Particulars	**Costs**
i. Consultation Charges	₹
ii. Rent	₹
iii. Insurance	₹
iv. Salaries	₹
v. Utilities(water, power etc)	₹
vi. Transport	₹
vii. Miscellaneous	₹
viii. Promotion expenses	₹
ix. Monthly Interest Amt of loan(if any) * $\frac{\text{Rate of Interest}}{100}$ * $\frac{1}{12}$	₹
____________ * $\frac{\_\_\_\_}{100}$ * $\frac{1}{12}$ =	
x.	₹
xi.	₹
Total Fixed Expenses (Cash)	₹
xii. Depreciation (non-cash expense) Total depreciable Assets * $\frac{\text{Rate of Depreciation}}{100}$ * $\frac{1}{12}$	₹
____________ * 10 * 1 =	

100 12 (assuming that assets have a useful life of ten years and so we charge 1/10th or 10% as depreciation every year)	
Total Monthly Fixed Costs(Cash and Non-Cash)	₹

i. Compute the Variable Costs per Unit - Any of the following details can be added:

Particulars	Variable costs per unit
i. Packing Charges (per unit)	₹
ii. Raw Material (per unit)	₹
iii. Power (per unit)	₹
iv. Wages (per unit)	₹
	₹
	₹
	₹
Total Variable Costs (per unit)	₹

***End** here)*

(Next Page)

10. Selling Price

- ***Price** is the value that is put for a product.*
- *It depends on*
    - *Cost of production, Segment targeted, Ability of the market to pay, Supply - demand and a host of other direct and indirect factors.*
  - *There can be several types of pricing strategies, each tied in with an overall business plan.*
  - *Pricing can also be used as a demarcation, to differentiate and enhance the image of a product.*
  - *Price is the **only revenue generating element** amongst the four P's, the rest being cost centers.*
  - *Some **Methods Of Pricing** which are used in pricing decisions are as follows: Cost Plus Pricing, Penetration Pricing, Price Skimming and Variable Pricing*

a. ***Cost-Plus Pricing***

- *The manufacturer charges a price to cover the cost of producing a product plus a reasonable profit. The cost-plus method is simple, but it does not encourage the efficient use of resources.*
- *Cost-plus pricing is typically based on a manufacturing estimate.*
- *Estimates are made of the resources required, the cost of those resources and the time for which they will be used.*

– ***Advantages of cost plus pricing***
1. *A company knows exactly the amount of expenditure and therefore they can add profit margin accordingly.*
2. *It is the simplest method.*
3. *Easier for a company to evaluate the reasons for escalations in expenses and therefore it can take corrective action immediately.*

– ***Disadvantages of cost plus pricing***
1. *This method does not take into account the future demand.*
2. *It also does not take into account the competitor actions.*
3. *It can result in the company overestimating the price.*

b. ***Penetration Pricing***
- *Price is initially set at a price lower than the eventual market price, to attract new customers.*
- *The expectation is that customers will switch to the new brand because of the lower price.*
- *Penetration pricing is most commonly associated with a marketing objective of increasing market share or sales volume.*
- ***The advantages of penetration pricing to the firm are:***
  1. *Result in fast diffusion and adoption. This can achieve high market rates quickly.*
  2. *It can create goodwill among the early adopters segment.*
  3. *It creates cost control and cost reduction pressures from the start.*
  4. *It discourages the entry of competitors. Low prices act as a barrier to entry*
  5. *It can create high stock turnover throughout the distribution channel*
  6. *This can create critically important enthusiasm and support in the channel.*
- ***Disadvantages or penetrating price method:***
  1. *The main disadvantage with penetration pricing is that it establishes long–term price expectations for the product and image preconceptions for the brand and company.*
  2. *Another potential disadvantage is that the low profit margins may not be sustainable long enough for the strategy to be effective.*

c. ***Creaming or Skimming***
- *Goods are sold at higher prices. Usually employed to reimburse the cost of investment of the original research into the product.*
- *This strategy is often used to target "early adopters" of a product or service who generally have a relatively lower price-sensitivity.*
- *This strategy is employed only for a limited duration.*
- ***Advantages of skimming price***
  i. *Helps the company recovering the research and development costs.*
  ii. *If the company caters to consumers who are quality conscious rather than price conscious.*
- ***Disadvantages of skimming price***
  i. *This strategy can backfire if there are close competitors.*
  ii. *Not viable when there are strict legal and government regulations.*

iii. *If the company has history of price skimming then consumers will never buy a product when it is newly launched, they would rather wait for a few months and buy the product at lower price.*

d. ***Variable price method***

- *Permits different rates to be extended to different customers for the same goods or services.*
- *Often employed where potential buyers are allowed to participate in a bidding situation, such as in an auction.*
- *Variable pricing may come into play when the customer is committing to the purchase of large volumes of goods or services. When this is the case, the customer must usually comply with specific criteria in order to enjoy pricing that varies from the standard cost.*
- *One of the classic examples of the use of variable pricing has to do with street vendors who sell various types of small goods. The real estate market also functions with the use of variable pricing.*
- ***Examples:*** *Difference in order size of the customers , Difference in the anticipated business from different customers.*
- *Variable pricing does provide some benefits, but also has the potential for drawbacks.*
- *Benefit = move goods that have failed to perform as originally anticipated, allowing them to earn a modest profit or at least recoup their investment in the products.*
- *Drawback = A it can lead to losing other customers who paid full price for their purchases, if they find out that a more recent customer was able to receive a lower price.*

j. My selling price is: ______________________

k. The pricing strategy I have selected is ______________________________________.

11.Start Up Costs

Start-up costs are non-recurring costs associated with setting up a business, such as accountant's fees, legal fees, registration charges, as well as advertising, promotional activities, and employee training. Also called start-up expenses, preliminary expenses, or pre-opening expenses

a. Details of my Start Up costs

Particulars	Costs
i. Land	₹
ii. Building (Depreciable)	₹
iii. Computers (Depreciable)	₹
iv. Equipments (Depreciable)	₹
v. Machinery(Depreciable)	₹
vi. Vehicles (Depreciable)	₹
vii. Vessels	₹
viii. Software	₹
ix. Hardware (Depreciable)	₹
x. Inauguration ceremony expenses (or any other promotional expense)	₹
xi. Raw materials	₹

xii. Salary	₹
xiii. Rent in advance	₹
Total Start-up Costs	₹

I would meet my start up costs by:

- Investing my own funds to the tune of ₹ ________________________ and / or
- Borrowing ₹______________________________ @ ___________% interest per annum

(End here)

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12.Risk Analysis

- *The term business risk refers to the possibility of inadequate profits or even losses due to uncertainties e.g., changes in tastes, preferences of consumers, strikes, increased competition, change in government policy, obsolesce etc .Every business organization contains various risk elements while doing the business.*
- ***Business risks** implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail.*
- *For example, an owner of a business may face different risks like in production,risks due to irregular supply of raw materials, machinery breakdown, labor unrest, etc. In marketing, risks may arise due to different market price fluctuations, changing trends and fashions, error in sales forecasting, etc. In addition, there may be loss of assets of the firm due to fire, flood, earthquakes, riots or war and political unrest which may cause unwanted interruptions in the business operations. Thus business risks may take place in different forms depending upon the nature and size of the business.*
- *Business enterprises constantly face two types of risk:*
    - *Speculative risks: involve both the possibility of gain as well as the possibility of loss.*
    - *Pure risks: involve only the possibility of loss or no loss.*
- *Business risks can be classified by the influence by two major risks: **internal risks** (risks arising from the events taking place within the organization) and **external risks** (risks arising from the events taking place outside the organization).*
    - *Internal risks arise from factors (endogenous variables, which can be controlled) such as human factors (talent management, strikes), technological factors (emerging technologies), physical factors (failure of machines, fire or theft), operational factors (access to credit, cost cutting, advertisement).*
    - *External risks arise from factors (exogenous variables, which cannot be controlled) such as economic factors (market risks, pricing pressure), natural factors (floods, earthquakes), political factors (compliance and regulations of government).*
- ***Causes Of Business Risks***
    a) *Natural causes: eg earthquake, flood, drought etc.*
    b) *Human causes: eg losses due to carelessness or dishonesty of employees.*
    c) *Economic causes: eg price fluctuation, changes in the market conditions etc*
    d) *Other causes: e.g. accidents, equipments becoming outdated or damaged.*

<u>The likely risk factors of my business and how I would meet them you meet them:</u>

Type of risk	Risk faced by my firm	How will we meet them
Speculative risks		
Pure risks		
Internal risk		
external risks		

End here)

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13.<u>Statement Of Profit And Loss</u>

- *A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year. These records provide information that shows the ability of a company to generate profit by increasing revenue and reducing costs. The P&L statement is also known as a "statement of profit and loss", an "income statement" or an "income and expense statement".*
- *It is referred to as an* ***income statement,*** *or* ***profit and loss account, revenue statement***, ***statement of financial performance***, ***earnings statement***, ***operating statement***, *or* ***statement of operations***.
- *The statement of profit and loss follows a general form as seen in this example. It begins with an entry for revenue and subtracts from revenue the costs of running the business, including cost of goods sold, operating expenses, tax expense and interest expense. The bottom line (literally and figuratively) is net income (profit). Many templates can be found online for free, that can be used in creating your profit and loss, or income statement.*
- *It is one of the <u>financial statements</u> of a company and shows the company's revenues and <u>expenses</u> during a particular period.*
  - *It indicates how the revenues (money received from the sale of products and services before expenses are taken out) are transformed into the <u>net income</u> (the result after all revenues and expenses have been accounted for, also known as "net profit").*
  - *It displays the revenues recognized for a specific period, and the <u>cost</u> and expenses charged against these revenues. The purpose of the income statement is to show <u>managers</u> and investors whether the company made or lost money during the period being reported.*

It's now a year since I started my Business. I am presenting one month's Profit and Loss Statement for the first month of the second year to cover the following main items:

		Units	Rupees	Rupees
A	Sales			₹
B	Cost Of Sales			₹
C	Gross Profit = a - b			₹
	Fixed Expenses:			
	i. Consultation Charges		₹	
	ii. Salary		₹	
	iii. Rent		₹	
	iv. Insurance		₹	
	v. Salaries		₹	
	vi. Rent		₹	
	vii. Utilities(water, power etc)		₹	
	viii. Transport		₹	
	ix. Miscellaneous		₹	
	x. Monthly Interest Amt of loan(if any) * $\frac{\text{Rate of Interest}}{100}$ * $\frac{1}{12}$.		₹	
	________________ * $\frac{\_\_\_\_}{100}$ * $\frac{1}{12}$ =		₹	
	xi. Depreciation Total depreciable Assets * $\frac{\text{Rate of Depreciation}}{100}$ * $\frac{1}{12}$.		₹	
	________________ * $\frac{10}{100}$ * $\frac{1}{12}$ = (assuming that assets have a useful life of ten years and so we charge 1/10th or 10% as depreciation every year)		₹	
	xii. Consultation Charges		₹	
	xiii. Salary		₹	

	xiv.	₹	
	xv.	₹	
D	Total Fixed Expenses (Cash)		₹
D	Total Fixed Expenses (Cash)		₹
E	xiv. Depreciation Total depreciable Assets * $\frac{\text{Rate of Depreciation}}{100}$ * $\frac{1}{12}$. ________________ * $\frac{10}{100}$ * $\frac{1}{12}$ = (assuming that assets have a useful life of ten years and so we charge 1/10th or 10% as depreciation every year)	₹	₹
F	Total Fixed Expenses (Cash And Non-Cash)	₹	₹
			₹
G	Operating Profit Or Loss = C – F		₹
H	Taxes = Use 25% On Profits Only		₹
I	Net Profit Or Net Loss = G - H		₹

End here)

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14.<u>Break Even Analysis</u>

- *Breakeven point is the level of sales (or revenue generated) that equals all the expenses required for generating that revenue.*
- *It is not more than the expenses (i.e. no profit) nor is it less than the expenses (i.e. no loss). In other words there is neither loss nor profit.*

- *At the breakeven level*
  - *B.E. Qty* = $\dfrac{\textit{Fixed Expenses}}{\textit{(Selling price per unit – variable cost per unit)}}$

- *Thus, Break even quantity is the quantity where Total Revenue = Total Expenses, where*
  - *Total Revenue = Total Quantity x Price Per Unit = Qty x Unit Price*
  - *Total Expenses = (Total Quantity x Cost Per Unit) + Fixed Costs*
    = (Qty x Unit Cost) + Fixed Exp

  That is, at Break even quantity, (Qty x Unit Price) = (Qty x Unit Cost) + Fixed Exp

  ➔ *(Qty x Unit Price) - (Qty x Unit Cost) = Fixed Exp*

  ➔ *Qty x (Unit Price – Unit Cost) = Fixed Exp*

  ➔ *Qty x Gross Margin (or Profit) per Unit = Fixed Exp*

B.E. Qty for a single product = $\dfrac{\textit{Fixed expenses}}{\textit{Selling price per unit – variable cost per unit}}$

B.E. quantity for multiple products

= $\dfrac{\textit{Fixed expenses}}{\textit{Weighted Average Selling Price per Unit – Weighted Average Variable Cost per Unit}}$

- ***Usefulness of Break–Even Analysis***
  1. *Forecasts*
  2. *Identify problem areas*
  3. *Cost estimation*
  4. *Price policy*

For my firm,

- B.E. Point in value = $\dfrac{\textit{Fixed Expenses}}{\text{(Selling price per unit – variable cost per unit)}}$

- B.E. Point in value = $\dfrac{\textit{Fixed Expenses}}{\text{Contribution per unit}}$

- B.E. Qty = $\dfrac{\textit{Fixed Expenses}}{\text{Gross Margin per Unit}}$

Calculate breakeven point expressed in amount of sales in rupees.

Selling price per unit	₹
Variable cost per unit	₹
Fixed costs	₹

Solution:

- B.E. Point = $\dfrac{\textit{Fixed Expenses}}{\text{(Selling price per unit – variable cost per unit)}}$

- B.E. Point =________________________= ________________________.
  (–   )

- B.E. Point =. = ____________________ units

- B.E. Point in Rupees = ______________ units x ₹_______ per unit = ₹______________

15. **<u>Conclusions:</u>** The complete findings of the project to be presented here in points in ½ or 1 page.

1. Name Of The Business,	
2. Logo And	
3. Tagline	
4. Competitive advantage and USP of your product/service/firm	
5. Marketing Plan • My main competitors , • My target market , • Advertising and promotion idea, • Packaging (if applicable), • Distribution, • Quality	
6. Cost Decisions • Fixed costs • Variable costs	
7. Selling Price • Selling price per unit • Pricing strategy followed	
8. Start Up Costs • Total startup costs • How will I meet them	
9. Risk Analysis • Causes of risk	
10. Statement Of Profit And Loss • Projected Profits/losses	
11. Break Even Analysis • Breakeven point in rupees • Breakeven point in units	